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## ECONOMIC AND SOCIAL DEVELOPMENT

As of September 30, 2016, the U.S. government has provided approximately \$32.8 billion to support governance and economic and social development in Afghanistan. Most of these funds—more than \$19.4 billion—were appropriated to the U.S. Agency for International Development’s (USAID) Economic Support Fund (ESF). Of this amount, \$17.9 billion has been obligated, and \$14.6 billion has been disbursed.<sup>737</sup>

U.S.-funded civilian-assistance programs in Afghanistan focus on the country’s long-term development, self-reliance, and sustainability. They aim to bolster gains in health, education, and gender equality. They also seek to increase government revenue through private-sector-led investment and growth, and stronger regional market connectivity.<sup>738</sup>

ESF investments are made in key sectors like agriculture, extractives, and information technology. ESF programs promote improved governance, rule of law, anticorruption initiatives, and alternatives to illicit narcotics production. The ESF is also being used to help the Afghan government finish and maintain major infrastructure investments to build electric-power grids in the north and south, which are critical components of the United States’ economic-growth strategy for Afghanistan.<sup>739</sup>

### KEY EVENTS

Several events this quarter are likely to affect Afghanistan’s prospects for economic and social development:

- At the October 5, 2016, Brussels Conference on Afghanistan, donors confirmed their intention to provide \$15.2 billion between 2017 and 2020 in support of Afghanistan’s development priorities.<sup>740</sup>
- Afghanistan became the World Trade Organization’s 164th member (and ninth least-developed country) on July 29, 2016.<sup>741</sup>
- Domestic revenues collected in the first nine months of FY 1395 (December 21, 2015–December 20, 2016) rose 42.5% above the same period in FY 1394, but still covered only about 51.9% of total government expenditures, which increased 6.5%.<sup>742</sup> An Afghanistan Analysts Network report said the increase partially reflects stronger government revenue-collection efforts and new taxes at higher rates, but does not generally represent an improved economy.<sup>743</sup>

- USAID authorized disbursing \$100 million to the Afghanistan Reconstruction Trust Fund for Afghanistan's fully achieving four, and partially achieving two, economic, revenue, and policy-related development results. This was the third tranche of funds from the \$800 million New Development Partnership established in March 2015.<sup>744</sup>

## ECONOMIC PROFILE

The World Bank expects slow economic recovery over the next four years with Afghan growth prospects dependent on new sources of revenues, exports, and more donor aid (or more aid delivered on budget). Past gains are eroding: poverty, unemployment, underemployment, violence, out-migration, internal displacement, and the education gender gap have all increased, while services and private investment have decreased. The Bank said high levels of crime and corruption undermine Afghanistan's delivery of public services, deter private investment, and are the by-product of weak institutions.<sup>745</sup>

Lower foreign-military spending has reduced demand for goods and services, causing the loss of tens of thousands of jobs. Meanwhile, the strength of the insurgency has caused the government to spend more on the military and less on job-creating investments.<sup>746</sup> As a result, GDP growth is lower than Afghanistan's rapid population growth, reported to be the third highest in the world. These things limit employment opportunities and put pressure on the budget. Afghanistan's labor force needs to absorb a World Bank-estimated 400,000 new workers every year. Nearly 23% of Afghanistan's labor force was unemployed in 2013–2014, almost triple the level of the 2011–2012 surge years.<sup>747</sup>

The IMF reported that Afghanistan is facing difficult challenges in its current environment and is heavily dependent on aid, which the World Bank reported would continue beyond 2030.<sup>748</sup> The IMF said Afghanistan's "perilous" security environment, political uncertainties, and endemic corruption negatively affect development spending, private investment, institutional reforms, economic efficiency, and equality.<sup>749</sup> Inadequate infrastructure and human capital, and a large illicit narcotics sector were also notable elements preventing robust and inclusive economic development.<sup>750</sup>

While the International Monetary Fund (IMF) characterized Afghanistan's economic activity as weak, it projected Afghanistan's real (net of inflation) gross domestic product (GDP), excluding opium, to grow 2.0% in 2016, higher than the estimated 0.8% in 2015. This is an improvement, but remains far below the growth necessary to increase employment and improve living standards.<sup>751</sup> In contrast, Afghanistan's FY 1395 (2016) budget estimated GDP growth at 4.4% and its target growth rate is 4.0% for the next three years.<sup>752</sup>

The IMF is no longer forecasting revenue increases from a value-added tax or the extractives sector due to the government's current capacity constraints and poor investment climate. Instead, it predicts revenue increases from strengthened tax enforcement and compliance reforms and electricity-transit fees starting in 2018.<sup>753</sup>

Consumer prices dropped by an IMF-estimated average of 1.5% in 2015, compared to a 4.7% rise in 2014.<sup>754</sup> This was attributed to declining global commodity prices and waning domestic demand. Exchange-rate depreciation would normally cause higher consumer prices for an import-dependent nation like Afghanistan, but this was offset by declining global prices.<sup>755</sup>

Agriculture has the potential to drive strong economic growth and improve livelihoods, according to the World Bank, and the Afghan government acknowledged that the country's GDP "rises and falls" with it.<sup>756</sup> Agricultural output and income fluctuate with the weather, so economic growth based on this sector is necessarily volatile.<sup>757</sup>

Industry and services, which benefited from the Coalition's large presence, security spending, and aid flows prior to 2015, have grown at the slowest pace since 2013.<sup>758</sup> Weak human capital has limited this kind of labor-productivity-driven growth. Therefore, the World Bank predicts that natural resources will continue to play a key role in the economy with new production geographically concentrated around resource locations rather than in cities.<sup>759</sup>

## Afghanistan's Fiscal Outlook

Afghanistan's fiscal vulnerability remains high, according to the World Bank, and will require a large increase in revenues, which is plausible only with mining development and sustained levels of aid. While domestic revenues have increased, the World Bank said, so have Afghanistan's security costs.<sup>760</sup> According to DOD, the Afghan National Defense and Security Forces costs in FY 2016 were \$5.01 billion, of which the United States paid \$3.65 billion. Afghanistan budgeted AFN 158.1 billion (roughly \$2.3 billion) for the Ministry of Interior and Ministry of Defense. Of that, Afghanistan planned to contribute AFN 23 billion (\$336 million), which would amount to 17% of Afghanistan's total estimated domestic revenues for the year.<sup>761</sup> Additionally, the World Bank said the government's non-security spending will need to increase rapidly just to sustain current service levels due to population growth, operations-and-maintenance requirements on existing assets, and civil service salaries.<sup>762</sup>

Afghanistan's currency has also depreciated significantly, which the World Bank attributes to a decline in aid, the preference of Afghan consumers for the dollar, and possibly capital outflows associated with emigration. The main causes of the out-migration are lack of employment opportunities, increasing poverty, and the deteriorating security environment.<sup>763</sup>

## FY 1395 Revenues and Expenditures—First Nine Months

According to Afghan treasury department data, domestic revenues and expenditures both increased on paper in the first nine months of FY 1395 compared to the same period in FY 1394. Total domestic revenues—a figure that excludes donor grants—stood at AFN 115.6 billion (\$1.76 billion in current dollars), about 42.5% above the same period last year. Afghan government expenditures, AFN 222.6 billion (\$3.38 billion), grew by about 6.5%, with big increases in student and other social benefits, employee benefits, subsidies, and municipal and capital grants.<sup>764</sup>

Although domestic revenues increased by 42.5% year-on-year, an Afghan Analysts Network (AAN) report said it does not reflect an improved economy. Taxation and customs revenues increased a more modest, yet still respectable 14%. This is partially due to stronger revenue-collection efforts and the impact of new taxes at higher rates implemented in the latter part of 2015. Sales-tax revenues increased over 50%, while income-tax revenue increased more than 20%, as shown in Table 3.19. Revenue from

TABLE 3.19

DOMESTIC REVENUES, AS OF OCTOBER 8, 2016 (AFN)				
	Category	1394 (Through Month 9)	1395 (Through Month 9)	% Change
Taxation & Customs Revenues	Fixed Taxes	7,135,247,520	7,039,608,944	-1.34%
	Income Taxes	13,848,800,636	16,628,427,225	20.07%
	Property Taxes	569,699,903	275,849,762	-51.58%
	Sales Taxes	12,585,809,473	18,941,698,178	50.50%
	Excise Taxes	0	0	—
	Other Taxes	2,767,429,199	3,178,668,358	14.86%
	Tax Penalties and Fines	0	0	—
	Customs duties	21,108,143,464	20,009,190,806	-5.21%
Social Contributions	Retirement Contributions	2,978,520,934	2,999,460,326	0.70%
Other Revenue	Income from Capital Property	1,526,391,920	1,151,736,366	-24.55%
	Sales of Goods and Services	2,338,772,991	4,238,753,234	81.24%
	Administrative Fees	8,511,377,813	16,588,064,818	94.89%
	Royalties	121,990,779	131,400,167	7.71%
	Non Tax Fines and Penalties	634,323,887	805,094,325	26.92%
	Extractive Industry	398,626,293	662,267,247	66.14%
	Miscellaneous Revenue	6,572,532,375	9,436,065,111	43.57%
	Sale of Land and Buildings	20,426,922	1,093,653,893	5253.98%
	Major One of Revenue/Dorment [sic]	0	12,397,823,365	—

Note: At the end of FY 1394 Month 9, the exchange rate was AFN 63.85 to one U.S. dollar. At the end of FY 1395 Month 9, the exchange rate was AFN 66.54 to one U.S. dollar. The other-revenue statement line "Major One of Revenue/Dorment" was unexplained, but appears to refer to a one-off revenue gain from sale of a government asset.

Source: MOF, Sunbola Financial Statements FY1395, 10/8/2016; MOF, Sunbola Financial Statements FY1394, 10/6/2015; Da Afghanistan Bank, Exchange Rates, 9/21/2016 and 9/22/2015.

administrative fees nearly doubled. Administrative fees are levied on passports and visas, vehicle registrations, professional and commercial licenses, and airspace-overflight charges, etc.<sup>765</sup>

For reasons that remain unclear, revenues from natural resources—comprising royalties and extractives-industry line items—increased 300% from the figures the Afghan treasury reported last quarter, and 52.4% compared to the same period last year, which is unexpected given the ongoing constraints in that sector. The Afghan government also received an AFN 12.4 billion revenue boost from what appears to be a one-time receipt from an unspecified sale of government property, which had an impact on the overall revenue-collection increase. Additionally, revenue from the sale of land and buildings was substantially higher than the prior period.<sup>766</sup>

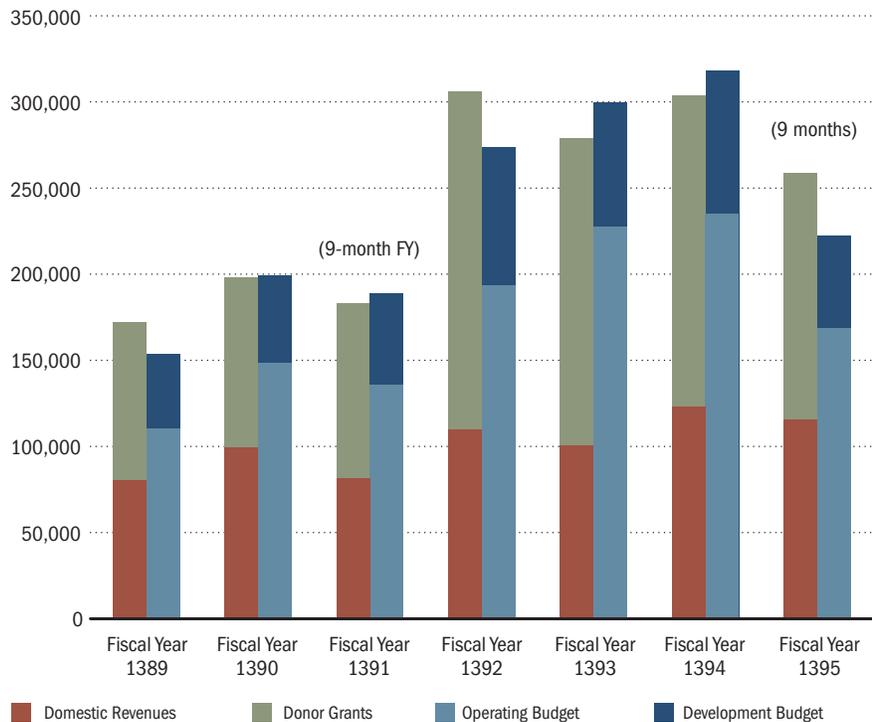
Afghanistan's currency depreciation against the U.S. dollar may affect the government's purchasing power and reduce the impact of the improved revenue collection. More than a quarter of all revenue collected in the first six months of the year was attributed to depreciation, according to the AAN report. It stated that depreciation caused the afghani value of customs duties on imports and other taxes levied on foreign-exchange flows to increase artificially. As a result, more than AFN 10 billion of total reported revenue collected in the first half of 2016 consisted of a central bank transfer of paper profits from exchange-rate changes to the budget. It was not a result of any substantial improvement in the economy, greater revenue collection, or new or higher tax rates, and should not be considered revenue because it will not be used to pay for expenditures.<sup>767</sup>

The report also said one-time revenue injections from public enterprises such as the land sale are likely unsustainable. So far in FY 1395, revenue collections include items such as AFN 2.14 billion from Kabul Bank recoveries, AFN 1 billion each from the Ministry of Urban Development and Ministry of Agriculture, Irrigation, and Livestock, proceeds from the sale of state-owned land and buildings, and passport fees. In fact, AAN argued that increased revenue from passport fees may be a sign of economic weakness and prospective human flight.<sup>768</sup>

The fiscal gap—the difference between domestic revenues and expenditures—is large.<sup>769</sup> Donor assistance reduces or closes it, as depicted in Figure 3.29 on the next page. Afghanistan's fiscal gap of 48.1% rose sharply from the 39.9% reported last quarter, but narrowed compared to 58.6% for the same period in FY 1394. Still, domestic revenues paid for only 51.9% of Afghanistan's total non-security budget expenditures so far in FY 1395, representing a net deficit of AFN 107.0 billion (\$1.6 billion). With donor contributions, the budget surplus was AFN 36.1 billion (\$549.3 million).<sup>770</sup> 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.<sup>771</sup>

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 1389 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. AFN yearly average exchange rates versus one U.S. dollar: FY 1389: 46.63, FY 1390: 47.76, FY 1391: 51.68, FY 1392: 56.53, FY1393: 57.48, FY 1394: 63.91, FY 1395: 68.26.

Source: MOF, *Sunbala Financial Statements FY 1395*, 10/8/2016; MOF, *Qaws Financial Statements FY 1394*, 2/27/2016; MOF, "Annual Fiscal Report 1393," 3/12/2015; MOF "1394 National Budget," 1/28/2015; MOF, "1393 National Budget," 2/1/2014; Da Afghanistan Bank, "Currency Hijri Monthly Average USD," accessed 10/11/2016.

The World Bank recently projected Afghanistan's revenue potential to increase from 10.2% of GDP in 2015 to 14.5% by 2030 under its baseline assumption.<sup>772</sup> In April 2016, the Bank projected expenditures to rise to 36% of GDP by 2020.<sup>773</sup> Even with a 23% improvement in actual revenue collections in FY 1394 compared to the previous year, and a 42.5% revenue increase in the first nine months of FY 1395 (year-on-year), the Bank said that it would be unrealistic to expect Afghanistan to cover the current level of expenditures, even if its revenue potential was realized in all sectors. Therefore, the government must also reduce expenditures, especially in the security sector.<sup>774</sup> This will be a difficult feat, given the continuing insurgency.

## Customs Revenue and Administration

Customs duties and fees made up 17.3% of the government's total domestic revenues in the first nine months of 2016. However, it dropped 5.2% compared to the same period last year.<sup>775</sup> It is unclear whether this is attributed to lower imports or reduced collections.<sup>776</sup> This quarter, ASYCUDA World—a Web-based customs-valuation module—was expanded from the major customs houses in Nangarhar, Kabul, and Kandahar to Herat, Aqina, and Hairatan. Afghanistan was required to implement this module in six major customs locations by December 2016 as part of the Self-Reliance through Mutual Accountability Framework (SMAF).<sup>777</sup>

This follows a nationwide expansion last quarter of a program that allows customs duties to be paid electronically from any commercial bank, rather than only at central bank offices within customs houses.<sup>778</sup> 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.<sup>779</sup>

The World Bank acknowledged Afghan government progress in its customs administration, but said improvements in operational performance—management, declaration processing, risk management, and inspections—would help the customs department realize more of its customs-revenue-collection potential.<sup>780</sup>

## Brussels Conference on Afghanistan

On October 5, 2016, the European Union and the government of Afghanistan co-hosted the Brussels Conference on Afghanistan, which brought together representatives from 75 countries and 26 international organizations and agencies. Donors confirmed their intention to provide \$15.2 billion between 2017 and 2020 in support of Afghanistan's development priorities.<sup>781</sup> Secretary of State John Kerry pledged to work with the United States Congress to provide civilian assistance “at or very near” the current levels, on average, through 2020.<sup>782</sup>

The Afghan government introduced the Afghanistan National Peace and Development Framework (ANPDF), the Afghan government's new five-year strategy for achieving self-reliance, and set out new commitments for the period 2017–2020 under a refreshed set of SMAF deliverables. Afghanistan also announced five new National Priority Programs (NPPs) that will guide budget allocations.<sup>783</sup>

## International Monetary Fund Support Agreement Reached

On July 20, 2016, the IMF executive board approved a three-year, \$45 million **Extended Credit Facility** (ECF) loan agreement with Afghanistan. Approximately \$6.2 million was available for immediate disbursement; the rest is subject to semi-annual reviews over the life of the program. The ECF, which follows the satisfactory conclusion of an informal Staff-Monitored

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

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Source: IMF, “IMF Extended Credit Facility,” Factsheet, 3/16/2016.

Program, will focus on institution building, fiscal and financial reforms, and combating corruption to lay the foundations for increased private-sector development. It aims to consolidate recent macroeconomic and structural gains and catalyze additional donor support. The IMF's deputy managing director and acting board chair wrote, "In view of the challenging circumstances, full ownership of the program and buy-in from stakeholders will help mitigate implementation risks and raise the likelihood of program success."<sup>784</sup>

Afghanistan's poor record with its two previous ECF arrangements, the most recent of which expired in November 2014, caused program reviews to be suspended. The IMF said both previous ECFs fell short of their goals.<sup>785</sup> The newly approved ECF could give the National Unity Government additional options for managing its financial affairs during the current period of economic and fiscal stress.

## New Development Partnership Update

This quarter, USAID authorized the disbursement of \$100 million to the Afghanistan Reconstruction Trust Fund for Afghanistan's fully achieving four, and partially achieving two, economic, revenue, and policy-related development results. This was the third tranche of funds from the \$800 million, New Development Partnership established in March 2015, which contain independent conditions that were negotiated bilaterally between the U.S. and Afghan governments.<sup>786</sup> The Afghan government receives \$20 million through U.S. funds for fully achieving each of 40 development results.<sup>787</sup> The four results met this quarter were:<sup>788</sup>

- approval of a multi-year IMF ECF arrangement
- an increase in non-tax revenue as a percent of total domestic revenue, from 16% in 2014 to 20% in 2015
- signing and implementing of a tax-administration law
- implementation of a computerized customs-management system in six major customs locations

Two partially completed results, for which \$10 million each was disbursed, included a completed legal amendment to the 2015 budget to increase revenues through new mobile-phone and business-receipt taxes, and an approved provincial budget policy.<sup>789</sup>

## Trade

Afghanistan's trade balance was an IMF-estimated negative \$7.2 billion (equivalent to 36.6% of GDP) in 2015 and is projected to be negative \$7.3 billion (equivalent to 39.6% of GDP) in 2016. Afghanistan's legal exports consist of goods (31.6%) and services (68.4%).<sup>790</sup> However, about 15–20% of the total value of Afghanistan's trade is said to be unrecorded, generally involving smuggled goods, according to the World Bank.<sup>791</sup>

## Export and Import Data

Although Afghanistan routinely sustains a large trade deficit, donor aid helped the country maintain an IMF-estimated current-account surplus equivalent to 4.7% of GDP (\$925 million) in 2015. This is projected to fall to 4.5% of GDP (\$825 million) in 2016. Without donor assistance, the IMF estimated Afghanistan to have a current-account deficit equivalent to 33.5% of its GDP in 2015 (\$6.6 billion) and is projected to grow the equivalent of 36.6% of GDP in 2016 (\$6.7 billion).<sup>792</sup>

During 2013–2015, Afghanistan exported \$2.1 billion to \$4.0 billion worth of goods and services annually, compared to imports ranging between \$8.9 billion and \$11.3 billion a year. The IMF projected Afghanistan's 2016 exports at \$2.1 billion, not including illicit narcotics (valued at \$2.7 billion in 2014). Afghanistan's 2016 imports were projected to be around \$9.0 billion, with more than \$6.7 billion paid for by official donor grants.<sup>793</sup>

IMF staff said that Afghanistan needs to increase and diversify its exports, which will stimulate innovation and good management.<sup>794</sup> The Afghan government pledged to reduce regulatory and operational barriers to facilitate this.<sup>795</sup> Exports are heavily dependent on agricultural outputs, which the World Bank said can increase if Afghanistan develops supply chains for higher value-added products. However, this will require investments to develop and improve irrigation and extension services, and to build downstream agro-processing capacities.<sup>796</sup> Weather and rainfall would, of course, continue to exert a significant influence on agricultural output and income potential.

## World Trade Organization Terms of Accession Implementation

Afghanistan became the World Trade Organization's (WTO) 164th—and ninth least-developed—member country on July 29, 2016.<sup>797</sup> Afghanistan's upper house of parliament approved seven trade-related laws on July 27 that were necessary for accession—Foreign Trade in Goods, Animal Health and Veterinary Public Health, Topography of Integrated Circuits, Protection of Trade and Industry Secrets, Plant Variety Protection, Food Safety, and amendments to the Copyrights Law.<sup>798</sup>

On July 27, Afghanistan's Cabinet also approved the new Trade Facility Agreement (TFA), which provides for the expedited movement, release, and clearance of goods; cooperation of trade facilitation and customs-compliance issues; and technical and capacity-building assistance. As a designated least-developed country, Afghanistan will have flexibility in determining when to implement the individual provisions and identifying provisions it will only be able to implement after receiving technical and capacity-building assistance. Afghanistan submitted to the WTO an “instrument of acceptance” and is the 90th WTO member to support the TFA so far. But the Afghan parliament must ratify the agreement before formal acceptance. The TFA will enter into force when two-thirds of WTO countries formally accept it.<sup>799</sup>

**The IMF said that improvements in storage facilities are making Afghanistan's exports of goods more resilient to disruptions in transport. Additionally, exporters were somewhat more confident due to Afghanistan's World Trade Organization membership and by the Afghan, Indian, and Iranian agreement to develop Iran's Chabahar port, which has direct ocean access.**

Source: IMF, “Islamic Republic of Afghanistan, Request for a Three-Year Arrangement Under the Extended Credit Facility,” 7/1/2016, p. 6.

## **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 WTO; (2) improve and streamline the government's ability to generate revenue by modernizing Afghanistan's customs institutions and practices; and (3) facilitate bilateral and multilateral regional-trade agreements.<sup>800</sup>

This quarter, ATAR helped the government amend its laws to comply with WTO rules and commitments, some of which were fast-tracked in the days leading up to WTO membership. ATAR then supported the Ministries of Commerce and Industry (MOCI), Justice (MOJ), and Agriculture, Irrigation, and Livestock (MAIL) in developing procedures to implement these trade laws. ATAR also took the lead in developing a technical plan, ordered by President Ashraf Ghani, to merge the Afghanistan Investment Support Agency (AISA) into MOCI. Companies will now be issued a single business license valid for three years and at a lower cost than the multiple licenses required by AISA.<sup>801</sup>

In addition, ATAR provided analytical support to aid Afghanistan's decision-making process for setting import and export duty rates that comply with its WTO commitments. ATAR's implementing partner reported that the Afghan customs department and Ministry of Finance expressed concerns that the new tariff schedule would lead to a decline in revenue collections.<sup>802</sup> Last quarter, ATAR ran baseline economic models that showed when Afghan tariffs would be lowered to comply with WTO-negotiated rates, trade would increase, consumer prices would decline, and government revenue would decrease slightly. It also concluded that potential revenue losses could be offset by other unnamed taxes; that prices of inputs and services could decrease in the long term, making Afghan producers more competitive; and that Afghan exports could double by 2021 from AFN 30 billion (approximately \$437 million in current dollars) to AFN 60 billion (\$874 million). However, this is all contingent on the Afghan government's policy decisions.<sup>803</sup>

## **BANKING AND FINANCE**

The IMF said Afghanistan's financial sector remains vulnerable with "lingering governance concerns, deteriorating asset quality, and weak profitability." Public confidence has not been fully restored in the wake of the 2010 Kabul Bank crisis. Use of bank financing remains low with an average loan-to-deposit ratio of 19.2%. For Afghanistan's three state-owned banks, that ratio was only 4.6% at the end of 2015.<sup>804</sup> In comparison, Pakistan's commercial loan-to-deposit ratio was 58.7% and India's was 78.7% (January 2016); the United States' was 107.3% (February 2016).<sup>805</sup>

The IMF reported that state-owned banks remain strategically and operationally deficient, contributing to significant fiscal risk. While the fiscal

positions of these banks are improving, IMF staff noted that Afghanistan must urgently implement a public-policy framework for them, including enhanced governance and regulatory enforcement.<sup>806</sup> The World Bank reported that the quality of commercial and state-owned bank assets has deteriorated and profitability has declined. Commercial-bank loans to the private sector grew 6.2% in 2015 and were valued at \$685 million (equivalent to 3.6% of GDP). The World Bank attributes this weak commercial lending to Afghanistan's overall economic slowdown, low investor confidence, stricter implementations of regulations governing foreign-exchange-denominated loans, and banks' risk aversion following the Kabul Bank crisis.<sup>807</sup>

This quarter, the Afghan government declared a dual strategy for financial-sector reform by addressing weaknesses and providing for more robust banking regulation and oversight. This is to include risk-based audits and reviews, establishing a unit to monitor risks from state-owned banks, ensuring government oversight regulations are appropriate and not duplicative, providing incentives for banks to lend to private enterprises, and a financial inclusion strategy to improve customer access to banking services.<sup>808</sup>

## U.S. Treasury Assistance

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

OTA assistance is focusing on:

- **Budget:** developing baseline budgets and out-year estimates, and review fiscal performance–management-improvement plans
- **Economic crimes:** developing the capacity of Afghanistan's financial-intelligence unit and evaluating the central bank's capability to supervise money-service providers for compliance with measures against money laundering and terror financing
- **Banking:** electronic reporting and risk management, and state-bank restructuring (this assistance can be provided from the U.S. Embassy-Kabul and remotely)
- **Tax (Revenue):** collaborating with the new customs and tax academy in curriculum design, course delivery, and supplying course materials<sup>809</sup>

OTA has carried out six assessment missions to Afghanistan, but has been unable to conduct any for the past two quarters due to security concerns. Treasury said security conditions continue to be a major constraint on establishing a more sustained presence in Afghanistan.<sup>810</sup>

## Kabul Bank Theft Accountability

The current basis of donor support, the Self-Reliance through Mutual Accountability Framework (SMAF), includes a general "zero-tolerance" corruption policy and calls for transparent and accountable governance,

but it does not require the Afghan government to take all possible steps to recover more of the approximately \$987 million stolen from Kabul Bank.<sup>811</sup> However, the Department of State (State) said 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 Kabul Bank's near collapse.<sup>812</sup>

Nevertheless, cases referred to the Attorney General's Office (AGO) have not progressed this quarter, according to the Kabul Bank Receivership (KBR) organization. The KBR said that neither the attorney general nor the AGO investigated, seized assets, or prosecuted cases against debtors because they maintain the court judgments to be "conditional" and only "non-conditional" judgments can be pursued. Additionally, the Kabul Bank Clearance Committee, established by presidential decree in 2015 to hasten the inquiry into the Kabul Bank theft, is said to be largely powerless and lacking a debt-recovery strategy. Most assets purchased with stolen Kabul Bank funds are located outside of Afghanistan, making it difficult for the government to have them seized and liquidated.<sup>813</sup> This quarter, the KBR presented the United Arab Emirates authorities an official request from the Ministry of Justice and AGO that identified certain properties worth \$50 million be seized and turned over to the Afghan government.<sup>814</sup>

The U.S. Departments of State and Justice (DOJ) continued to engage with the Kabul Bank Receivership and the Attorney General's Office.<sup>815</sup> However, DOJ did not conduct any training this quarter due to security-related travel restrictions, ongoing staff reorganization within attorney-general offices, and DOJ's own staffing limitations. With only one DOJ attorney in-country, it is considering training partnerships with other U.S. agencies, donor countries, and organizations.<sup>816</sup>

**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. The Afghan government said that its repayment schedule has not been adhered to since 2014 and that it will be unable to fulfill its obligation to repay the outstanding end of 2015 balance of \$415 million.**

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; IMF, "Islamic Republic of Afghanistan, Request for a Three-Year Arrangement Under the Extended Credit Facility," 7/1/2016, pp. 45–46, 58.

### Cash and Asset Recoveries

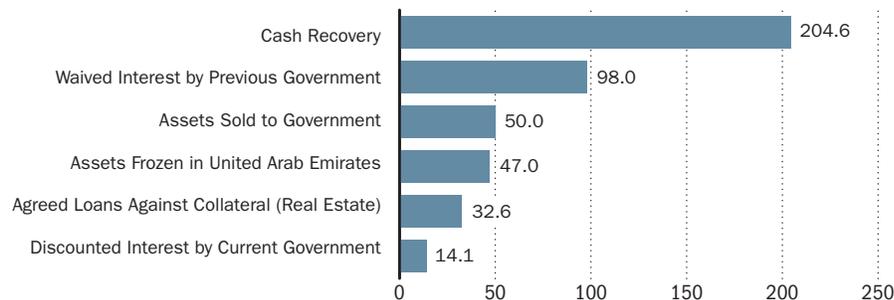
The Kabul Bank Receivership (KBR) informed the State Department that as of September 18, 2016, total recoveries—a category introduced in the last quarter of 2015—stand at \$446.3 million. It comprises cash recoveries, forgiven debts, and assets recovered or seized (but not necessarily liquidated), collateral, as well as amounts still owed by major debtors who signed loan-repayment agreements.<sup>817</sup>

Until October 2014, soon after President Ghani's presidential decree to hold accountable and recover stolen public money from those responsible for the Kabul Bank theft, a total of \$225.4 million had been recovered or obtained as assets. Since then, only an additional \$61.7 million has been recovered—\$29.1 million in cash and \$32.6 million in loan-repayment agreements, as shown in Figure 3.30.<sup>818</sup>

Amounts owed by 278 debtors have been paid off; another 33 debtors have signed repayment agreements totaling \$32.7 million. Arrangements have yet to be reached with 117 others.<sup>819</sup> The KBR reported \$540.7 million

FIGURE 3.30

KABUL BANK DEBT RECOVERIES, AS OF SEPTEMBER 18, 2016 (\$ MILLIONS)



Source: Kabul Bank Receivership, Debts Recovery Table, 9/18/2016.

remains outstanding from the original theft. Including interest, the total is approximately \$598 million.<sup>820</sup>

The Afghan government has been unable to compel full repayment from convicted ex-Kabul Bank chairman Sherkhan Farnood and CEO Khalilullah Ferozi, both of whom are believed to remain in jail full-time, as of September 2016.<sup>821</sup> According to the KBR, Farnood still owes \$336.8 million (no change since April); Ferozi owes \$175.9 million.<sup>822</sup> The DOJ reported that it has limited access to Afghan record-keeping so it cannot reconcile, verify, or contradict what it receives from its Afghan counterparts.<sup>823</sup>

Earlier this year the KBR found an increasing number of debtors defaulting on their required payments, and it continues to encounter difficulties making major debtors pay interest on their amounts owed. They said collections this quarter have declined significantly.<sup>824</sup> The IMF reported that the collections process is “losing steam” with diminishing chances of success for claims against assets located in foreign jurisdictions.<sup>825</sup>

## U.S. ECONOMIC AND DEVELOPMENT SUPPORT

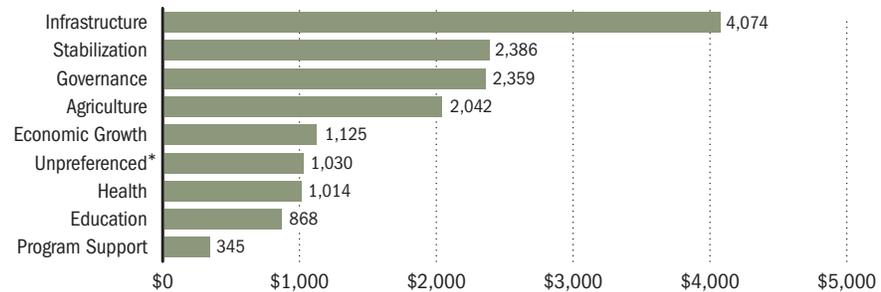
Most assistance from the Economic Support Fund goes toward USAID’s development programs. In September 2015, USAID published an updated Performance Management Plan to guide and measure its development objectives, and to articulate its development strategy through 2018. The plan will be reviewed at least annually and updated as necessary.<sup>826</sup> Figure 3.31 on the following page shows USAID assistance by sector.

### Development Of Natural Resources

Developing Afghanistan’s natural-resources sector and reforming the fiscal administration for its extractives industries are essential to strengthening

FIGURE 3.31

**USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF SEPTEMBER 30, 2016**  
(\$ MILLIONS)



Note: Numbers rounded. Agriculture programs include Alternative Development. Infrastructure programs include power, roads, extractives, and programs that build 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, 10/13/2016; SIGAR analysis of World Bank, ARTF, Administrator's Report on Financial Status, as of September 21, 2016, accessed 10/18/2016.

domestic revenue collection. The security environment, insufficient infrastructure, declining global commodities prices, and inadequate capacity at the Ministry of Mines and Petroleum (MOMP) have all hampered the development of this sector.<sup>827</sup>

USAID cited other issues contributing to investor uncertainty: regulations to support implementation of the new mining law passed in November 2014 are still being developed; amendments to the law and several mineral tenders remain unsigned by President Ghani; the vote this quarter by the Economic Council of the (president's) Cabinet to cancel four major copper and gold contracts; and, a combination of corporate income taxes, export and import duties, production royalties, and other charges that constitute an uncompetitive levy of about 80% on mineral production.<sup>828</sup> Although geological surveys show that Afghanistan has significant mineral resources, mining has so far contributed only slightly to the country's GDP.<sup>829</sup> The Afghan government estimates \$300 million is lost annually by illegal mining, which not only denies Kabul much-needed revenue, but also fuels the insurgency and drives criminality.<sup>830</sup>

Actual government receipts from minerals activity in FY 1394 (2015) were only about 38% of the budget projection.<sup>831</sup> In the first nine months of FY 1395, actual receipts were AFN 793.7 million (approximately \$12.1 million). This is a 300% increase from the AFN 198.1 million reported last quarter, and a 52.4% increase compared to the same period last year.<sup>832</sup> The Afghan government set a \$400 million revenue target for the MOMP in 2016.<sup>833</sup>

## Mining Investment and Development for Afghan Sustainability

USAID’s Mining Investment and Development for Afghan Sustainability (MIDAS) program aims to strengthen the MOMP and relevant private-sector-entity capacities to exploit Afghanistan’s natural resources in accordance with international standards.<sup>834</sup> MIDAS and USAID’s other extractives-assistance programs are listed in Table 3.20.

TABLE 3.20

USAID EXTRACTIVES-ASSISTANCE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 9/30/2016 (\$)
Mining Investment and Development for Afghan Sustainability (MIDAS)	3/31/2013	3/31/2017	\$38,718,320	\$30,783,644
Sheberghan Gas Generation Activity (SGGA)	12/21/2011	7/31/2016	30,440,958	28,049,296
Sheberghan Gas Development Project (SGDP)	5/15/2012	8/31/2016	90,000,000	23,295,875

Note: SGGA and SGDP ended this quarter.

Source: USAID, response to SIGAR data call, 10/13/2016.

USAID said the MOMP currently cannot administer the approximately 339 existing extractives contracts. This caused MIDAS to be rescoped to provide technical assistance and transaction-advisory services to the MOMP in its effort to either cancel or renegotiate some or all of these contracts.<sup>835</sup>

This quarter, MIDAS advisors submitted to the MOMP legal director draft regulations that will govern bidding, licensing, and future mineral-tender processes. After internal MOMP deliberations, they will be submitted to the Ministry of Justice (MOJ) and council of ministers for review and approval. MIDAS also continued to help modify the mining law this quarter, but said no amendments advanced because of changes to MOMP leadership—the fifth time so far in the life of the program. An amendments package submitted under then-Minister of Mines and Petroleum Daud Saba was returned to the MOMP to allow Acting Minister Ghazal Habibyar the opportunity to review it and modify as desired. Three review sessions were held in August 2016, which resulted in changes to several mining definitions. This process will continue until the revised package is approved. MIDAS expects further delays once a new permanent minister is appointed.<sup>836</sup>

## Hydrocarbons

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.<sup>837</sup> Oil and gas represent roughly one-fourth of all annual Afghan imports, or approximately \$1.5 billion.<sup>838</sup>

Afghanistan’s efforts to develop its oil and gas reserves focus on the Amu Darya Basin and Afghan-Tajik Basin, both in northern Afghanistan.<sup>839</sup> USAID’s implementing partner for helping the MOMP develop the gas fields

in Sheberghan reported that “sufficient levels of proven reserves will likely not be available to allow moving forward with large-scale power production for at least five to seven years.”<sup>840</sup>

This quarter, Acting Minister Habibyar requested MIDAS legal and transactional support to negotiate the terms of a financial settlement for a multi-billion exploration and production-sharing contract for the Amu Darya Basin. China National Petroleum Corporation International, Watan Oil and Gas Afghanistan Ltd., a Chinese majority-owned consortium that had contracted to perform the work in December 2011, failed to meet minimum annual production goals between 2013 and 2016. As a result, the Afghan government lost approximately \$65 million in revenue. MIDAS advisors met the acting minister to discuss strategy.<sup>841</sup>

## **Existing Sheberghan Programs Ended**

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.<sup>842</sup> USAID supported 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 (\$30 million) and fund a gas-gathering system and gas-processing plant (\$60 million); and (2) the \$30.4 million, off-budget Sheberghan Gas Generation Activity (SGGA) for capacity building and technical assistance to the MOMP.<sup>843</sup> Both mechanisms ended this quarter. USAID intends a follow-on program—Extractives Technical Assistance Activity—to help the MOMP develop and exploit Afghanistan’s petroleum and gas resources. A solicitation was still being developed as of September 29, 2016.<sup>844</sup>

SGDP drilling activities in the Juma and Bashikurd gas wells were completed in January 2016; core-sample testing showed better-than-predicted commercial prospects for the oil fields, if not for the wells themselves. However, repeated contractor delays by Türkiye Petrolleri AO (TPAO), the state-owned Turkish National Petroleum Corporation, caused the performance period to be pushed back by more than three times the agreed-upon duration. SGGA assisted the MOMP in dealing with TPAO noncompliance issues throughout the life of the program.<sup>845</sup>

During TPAO drilling delays, McDaniel & Associates was contracted to evaluate data and reserve estimates for seven Sheberghan-area gas fields. It found gas resources to be significantly less than one-third of what was reported in 2005. SGGA faced a “pattern of non-cooperation from almost all staff levels at MOMP” in providing data for McDaniel’s gas-field studies, even though the analyses were for the ministry. It ultimately prevailed and saved many documents that it said were in danger of being permanently lost.<sup>846</sup> USAID’s implementing partner said the McDaniel

studies may be one of the most significant contributions made by SGDP/SGGA because the Afghan government could have signed long-term gas-supply contracts based on outdated and incorrect data, and could have exposed the government to “significant financial risk” if unable to meet its gas-delivery obligations.<sup>847</sup>

The cost of constructing a gas processing plant as called for in SGDP was found to substantially exceed the \$60 million USAID allocated for it. Instead the project scope changed to develop a model for a public-private partnership to share the costs of and revenues from designing, building, and operating a gas-gathering and -processing facility, and a gas power-generation plant. An options memorandum was presented to the MOMP and MOF for comment, but despite SGGA having discussed the project with the ministries months in advance, neither commented nor expressed an option preference.<sup>848</sup>

On October 3, 2016, the Ministry of Energy and Water signed a memorandum of understanding valued at \$250 million with Bayat Power to establish a privately-financed, Sheberghan-supplied gas power plant in Jowzjan Province, which will initially be capable of producing 52 MW of electricity. The plant is to eventually expand to produce more 200 MW of electricity and operate for at least 20 years. Bayat is to present its implementation proposal within the next three months.<sup>849</sup>

## 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.<sup>850</sup>

The Afghan government said that aside from weather volatility, agricultural growth has been hampered by underinvestment in developing water resources, poor-quality inputs such as seeds and fertilizer, degrading natural resources, and weak domestic- and export-product marketing. It wants to move from an agrarian-subsistent and importing nation to an agro-industrial exporting one. This quarter, the government said it will focus on promoting agro-industry, increasing quality control, expanding cold-storage facilities, and introducing better packaging to reduce waste and spoilage—areas that show the largest potential to improve economic growth.<sup>851</sup>

USAID’s agricultural projects are designed to enhance food security, create jobs and export markets, increase incomes and productivity, and strengthen the government’s ability to promote broad-based growth. USAID aims to bolster the Ministry of Agriculture, Irrigation, and Livestock’s (MAIL) “farmer-focused” approach through the production and marketing of high-value horticultural crops and livestock products, the rehabilitation of irrigation and drainage systems, and the greater use of new technologies.<sup>852</sup>

Since 2002, USAID has disbursed more than \$2 billion to improve agricultural production, increase access to markets, and develop income alternatives to growing poppy for opium production.<sup>853</sup> USAID reported \$101.5 million worth of various Afghan agricultural commodities were sold so far in FY 2016 (October 2015 to June 2016), and \$426.3 million cumulatively from 2008 to June 2016.<sup>854</sup> Pages 138–145 of this quarterly report discuss USAID’s agriculture alternative-development programs. A list of active USAID agriculture programs is found in Table 3.21.

TABLE 3.21

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 9/30/2016 (\$)
Capacity Building and Change Management Program II (CBCMP II)	7/10/2014	7/9/2017	\$19,999,989	\$15,718,958
Afghanistan Agriculture Extension Project II (AAEP-II)	10/1/2014	9/30/2017	20,229,771	13,794,094
Strengthening Afghan Agricultural Faculties (SAAF)	3/25/2011	12/31/2016	7,824,209	6,769,718
Mothers and Under-Five Nutrition and Child Health (MUNCH)	12/16/2014	12/31/2016	5,000,000	5,000,000
Agriculture Credit Enhancement II (ACE II)	6/24/2015	6/23/2018	18,234,849	4,670,245
Texas A&M University’s Agrilife Conflict Development	11/8/2012	11/7/2017	133,976	133,976
SERVIR	9/14/2015	9/30/2020	3,100,000	0

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see pp. 138–145 of this report.

Source: USAID, response to SIGAR data call, 10/13/2016.

## USAID Agricultural Agreement Signed

On July 25, 2016, USAID and MAIL signed a memorandum of understanding to leverage science, technology, innovation, and partnership (STIP) to boost economic growth through agriculture. USAID is actively implementing STIP principles in all sectors of its development portfolio.<sup>855</sup>

USAID intends to provide technical support to MAIL, the private sector, civil society, and other partners. It also plans to facilitate partnerships with the private sector and other donors, and help publicize STIP achievements. MAIL is to integrate STIP into its strategies and policies and provide institutional support to implement STIP activities. It, too, will try to facilitate partnerships with the private sector and other donors. It will also take the lead in inter-ministerial coordination in creating or implementing STIP activities.<sup>856</sup>

## Agricultural Credit Enhancement II

The Agricultural Credit Enhancement (ACE) II project is the technical-assistance/advisory-support component of the conditions-based Agricultural Development Fund (ADF) administered by the Ministry of Agriculture, Irrigation, and Livestock. ADF extends agriculture-related credit access to



**Opening day** at the Kabul International AgFair and Farmers' Celebration on March 20, 2016. (USAID photo)

small- and medium-sized farms and agribusinesses in all regional economic zones, particularly to those that add value to agricultural products, such as distributors, producers, processors, and exporters.<sup>857</sup> USAID reported that with ACE II help, ADF has cumulatively provided more than \$79.8 million in credit to over 33,494 beneficiaries.<sup>858</sup> However, ACE II implementers reported that the continuing deterioration of both security and the economy is reducing demand for agricultural credit and negatively impacting loan repayments.<sup>859</sup>

In May 2016, ACE II reviewed ADF's credit-application process and decision-making methodology to identify ways to streamline and improve the process. It proposed an electronic credit-analysis model that would standardize applications, reduce duplicative actions, and incorporate technical and marketing information into credit decisions. Its methodology would be centered on a company's ability to repay debt, thereby reducing loan losses, instead of providing loans based on credit needs as in the past.<sup>860</sup> In July 2016, ACE II developed and posted their statement of work for the design and development of this electronic database solution, and targeted August 2016 for initial implementation. The request for proposals was subsequently modified with a decision pending as of October 11, 2016.<sup>861</sup>

ACE II also continued to engage financial institutions to provide credit financing to the agricultural sector, in part through an Innovation Grant Fund, which awards the development and testing of new and innovative ways to facilitate agriculture-related financial services. This quarter, ACE II awarded its first grant under the Innovation Grant Fund to OXUS Afghanistan, a microfinance organization, to support lending

to borrowers in remote districts. The AFN 10.5 million grant (approximately \$160,000 in current dollars) will be used to develop 10 OXUS cashless branches inside ROSHAN provincial offices using the telecommunications provider's mobile-money platform for loan disbursements and repayments.<sup>862</sup>

## 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 only an estimated 25–33% of Afghans connected to the power grid.<sup>863</sup> Most parts of urban areas like Kabul, Herat, Kandahar, and Mazar-e Sharif have 24-hour power, although power outages are not uncommon, but only 10% of the rural population have access to grid-connected power.<sup>864</sup>

Afghanistan's limited domestic electric capacity consists of hydropower and thermal sources, plus diesel generators.<sup>865</sup> It therefore imports 77% of its total electricity. Uzbekistan provides 35.2% of the imported electricity, Tajikistan 30.5%, Iran 20.9%, and Turkmenistan 13.4%. The World Bank noted that limited access to electricity is one of Afghanistan's biggest constraints to private-sector development.<sup>866</sup> Afghanistan will need regional cooperation to meet its energy demands.<sup>867</sup>

### U.S. Power Sector Assistance

USAID believes that economic expansion and increased employment depend on maintaining and improving Afghanistan's electrical infrastructure. Since 2002, USAID disbursed more than \$1.5 billion in Economic Support Funds to build power plants, substations, and transmission lines, and provide technical assistance in the sector.<sup>868</sup> It is also 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.<sup>869</sup> For its part, the Department of Defense (DOD) has disbursed approximately \$180 million for power projects through the Commander's Emergency Response Program, as of July 2015, and roughly \$373.8 million through the Afghanistan Infrastructure Fund (AIF), jointly managed by DOD and State.<sup>870</sup>

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:

**USAID, in partnership with the Ministry of Energy and Water, sponsored a conference in Dubai, September 18–19 to promote foreign investments and joint-venture opportunities in Afghanistan's energy sector.**

Source: USAID, "Afghanistan Welcomes Foreign Investors to Partner in Advancing its Energy Sector," 9/19/2016.

**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.

TABLE 3.22

USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 9/30/2016 (\$)
Contributions to the Afghanistan Infrastructure Trust Fund (AITF)	3/7/2013	3/6/2018	\$113,670,184	\$113,000,000
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2018	725,000,000	110,541,160
Engineering Support Program	7/23/2016	7/22/2019	125,000,000	3,416,461
Afghan Engineering Support Program	11/9/2009	11/8/2016	97,000,000	89,474,083
Kajaki Dam Unit 2	4/22/2013	9/28/2016	75,000,000	47,399,480
Utility Executive Exchange	9/30/2007	9/30/2017	698,555	698,555

Note: A new Engineering Support Program began this quarter. At least some of its funds will be used to purchase fuel. The Sheberghan Gas Generation Activity (SGGA), Sheberghan Gas Development Project (SGDP), both of which ended this quarter, and Mining Investment and Development for Afghan Sustainability (MIDAS) programs are listed in the extractives-sector programs subsection on p. 189 of this report.

Source: USAID, response to SIGAR data call, 10/13/2016; Tetra Tech, "Request for Quotations, RFQ#ESP-2016-002 Supply and Delivery of Diesel and Super Petrol," 7/27/2016.

(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, and (2) the now-concluded Sheberghan Gas Development Project to attract private investment to develop gas resources in Sheberghan and build power plants.<sup>871</sup> USAID's active power-infrastructure projects are listed in Table 3.22.

## Kajaki Dam–Unit 2 Turbine Installation

After a years-long effort, a third turbine, known as Unit 2, was installed in the powerhouse at Kajaki Dam and commissioned on October 1, 2016. The installation represented a major advance in DABS's efforts to increase long-term, sustainable hydropower from Kajaki Dam to Kandahar and Helmand Provinces, although it may be some time before the turbine's full capacity comes online.<sup>872</sup>

The turbine parts, transported to the power station by a British-U.S. military mission that had to fight its way to the dam site in 2008, remained unassembled in containers and under tarps until USAID transferred responsibility for installing, testing, and commissioning the third turbine to DABS, along with a \$75 million commitment, in April 2013.<sup>873</sup> The money was deobligated from a larger, \$266 million contract USAID signed with Black & Veatch in October 2010. The contract's requirements included installing the third turbine at the Kajaki Dam, but the company did not complete the task.<sup>874</sup>

Unit 2 has a power-generating capacity of 18.8 MW. Combined with the other two turbines, the powerhouse has a maximum generating capacity of 51.5 MW.<sup>875</sup> However, the Kajaki Dam reservoir is entering its seasonal low point which, coupled with "chronic" mismanagement, will not allow all three turbine units to stay online for more than a few weeks.<sup>876</sup> Unit 3 is also

## SIGAR AUDIT

A SIGAR audit is examining U.S. government efforts to increase the supply, quantity, and distribution of electric power from the Kajaki Dam.

scheduled to go offline for repairs in 2017.<sup>877</sup> No timeline was provided for when this might be completed.

USAID was funding technical support, site security, life-support services, and helicopter support to DABS.<sup>878</sup> DABS is to assume full responsibility for the Kajaki power plant, including operations and maintenance (O&M), in April 2017.<sup>879</sup> USAID's contractor, Tetra Tech, will continue to observe and advise plant O&M for six additional months until DABS operators can either work independently or hire contractors to assist.<sup>880</sup>

On October 1, 2016, the Ministry of Energy and Water and the Turkish 77 Construction Company signed a preliminary, nonbinding agreement to develop the second phase of Kajaki Dam. The agreement aims to further expand the reservoir to 2.1 billion cubic meters and adding 100 MW of electric-generating capacity through additional turbines for a total (technical) capacity of 151.5 MW.<sup>881</sup>

## 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.<sup>882</sup> PTEC's DABS commercialization and capacity-building components aim to help the utility become financially sustainable by increasing revenues using utility-management software in Kabul, Mazar-e Sharif, Herat, and Jalalabad, while reducing technical and commercial losses through training and support.<sup>883</sup> Technical losses include line heating and current leakage; commercial losses include nonpayment and energy theft.

Construction on the transmission line and substations between Arghandi and Ghazni, the first segment of the NEPS-SEPS connector, continued this quarter. Land acquisition and resettlement issues along the transmission-line path impacted timelines, but construction is scheduled to be completed in December 2016 at a cost of \$104 million. Approximately \$92 million has been disbursed as of October 11, 2016.<sup>884</sup> The Arghandi connector substation that will feed this line will not be ready until after December 2017. Alternatives to power the Arghandi-Ghazni project are under consideration.<sup>885</sup>

USAID is providing \$350 million in direct assistance to DABS in support of the second segment of the NEPS-SEPS connector, Ghazni to Kandahar—\$179.5 million was transferred to USAID through the Afghanistan Infrastructure Fund. DABS issued two requests for proposals to construct one transmission line and five substations with winning bidders selected this quarter. USAID issued an implementation letter to DABS consenting to a contract award for the substations.

According to Afghanistan's procurement process, the winning bidder was announced and the bid protest period began. Two protests were submitted

and are under review by DABS. USAID also consented to DABS negotiating with the winning bidder for the transmission lines. Awards were still pending a decision by the National Procurement Authority as of October 11, 2016. USAID said security will be a major challenge to implementing this project.<sup>886</sup>

## Power Availability in Kandahar

U.S. fuel subsidies totaling \$141.7 million for power generation at two industrial parks in Kandahar City ceased at the end of September 2015.<sup>887</sup> USAID reported that since then, power output has fallen from the diesel generators in Shorandam and Bagh-e Pol industrial parks. Five generators at Bagh-e Pol—in need of major overhauls and critical spare parts—have stopped altogether, while three generators were transferred to Shorandam to replace ones in need of scheduled maintenance. The Shorandam generators are producing between 40,000 and 48,000 kilowatt-hours (kWh) daily, running 16 hours a day, six days a week. They had been producing an average of 120,000 kWh daily on a 24-hour basis with subsidies.<sup>888</sup>

Shorandam power generation is insufficient to meet demand from the industrial park's commercial customers. For other commercial and residential customers in Kandahar, demand also greatly outstrips supply. Some additional power can be supplied from Kajaki Dam in Helmand Province and diesel generators in Breshna Kot in Kabul, but USAID said the cost per kilowatt-hour is unaffordable for most. USAID added that DABS has no business incentive to generate the necessary power if it cannot recover the costs of doing so. This results in significant load shedding—the deliberate interruption of power supply to certain areas.<sup>889</sup>

To help bridge the gap between Kandahar's electric-generation capacities and demand until the NEPS-SEPS transmission line is completed, PTEC funded a reverse auction held on July 11, 2016, whereby independent power producers competed to construct and sell power to DABS from a solar-power plant that may be able to operate at an installed capacity of 10 MW. A bidder was chosen and has successfully concluded negotiations with DABS and USAID on the provisions of the incentive contract and power-purchase agreement. The contract signing was pending as of October 10, 2016.<sup>890</sup>

## Afghanistan Infrastructure Fund Power Programs

Afghanistan Infrastructure Fund (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 still focused on implementing AIF power projects to complete its portion of the NEPS and SEPS.<sup>891</sup>

Ongoing fighting in Kandahar and Helmand Provinces, as well as bureaucratic delays in getting right-of-way approvals for NEPS and SEPS

## SIGAR AUDIT

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

# ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.23

AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS, AS OF SEPTEMBER 18, 2016 (\$ 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 to Lashkar Gah	Repair, install transmission lines; rebuild, construct power substations	130.0	66.4	51.0	Terminated due to out-of-scope security cost increases
	NEPS - SEPS Connector, Arghandi to Ghazni	Design, construct transmission lines and substations (first segment of NEPS-SEPS connection) USAID: PTEC	104.0	104.0	92.0	Substations civil works ongoing; transmission tower requirements testing concluded (completion: 12/2016)
	NEPS - Arghandi to Pul-e Alam	Design, construct transmission line, towers, and power substation	93.7	50.3	23.6	Transmission line and substation under construction; community land issues affecting some tower locations (completion: 12/2016.) <sup>a</sup>
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	11.6	Under construction; tower excavation, tower erection, civil work ongoing; security challenges (completion: 9/2017) <sup>b</sup>
	NEPS - Pul-e Alam to Gardez - Phase 2	Design, construct transmission line and power substation	77.5	69.2	58.0	Transmission line completed; substation design approved; substation under construction (completion: 2017) <sup>c</sup>
	NEPS - Charikar to Gul Bahar and Nejrab - Phase 3	Design, construct transmission lines and power substation	42.5	38.8	31.9	Transmission line and substation under construction; community issues affecting some tower locations (completion: 12/2016) <sup>d</sup>
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	24.1	22.3	Transmission line and substation under construction; community issues affecting some tower locations (completion: 12/2016) <sup>d</sup>
	SEPS Completion - Phase 1	Civil, structural, architectural improvements to substations in Tangi, Sangin North and South	15.0	63.1	26.0	Civil work ongoing (continued delays); major security challenges (completion: 6/2017) <sup>e</sup>
		Design, construct, transmission lines from Sangin North to Lashkar Gah	60.0			Survey work began in Sangin North; Durai to Lashkar Gah transmission towers, under construction; community issues affecting some tower locations; security challenges (completion: 12/2016) <sup>f</sup>
	NEPS - SEPS Connector, Ghazni to Kandahar	Design, construct transmission line and substations. Final phase of NEPS-SEPS connector. USAID: PTEC	179.5	350.0 <sup>g</sup>	0.0	TL: Final stages of procurement process; expected award: 9/2016 (Completion: 12/2018) SS: USAID consent to award contract to winning bidder; winning bidder announced; two bid protests submitted and under DABS review; expected award 9/2016 (Completion: 12/2018)
AIF FY 2014	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	4.0	3.9	3.9	Complete
	SEPS Completion - Phase 2	Design, construct transmission line, and install equipment and commission substations	55.0	55.0	0.0	Transferred to USAID for on-budget implementation through DABS; bid proposals and reference checks under evaluation; expected award: 9/2016.
	NEPS - Gardez to Khowst - Phase 4	Design, construct transmission line and substation. DOD's final contribution to NEPS.	130.0	118.9	7.7	Distribution line design descope; transmission line design, route approved; substation designs under review; right of way under review (completion: 12/2017) <sup>h</sup>

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 8/31/2016. All other information is as of 9/18/2016.

<sup>a</sup> 98 of 247 towers completed. Another 100 tower excavations and 35 foundations complete. Pul-e Alam substation 38% complete. Two of four transformers descope based on estimated electricity demand and being transferred to Gardez substation. Community land issues stalled 39 towers (15.8%). Completion date at high risk for delay.

<sup>b</sup> 87 of 114 towers completed. Another 21 tower excavations and 15 foundations complete. Pushmol and Maiwand substations 34% complete. Scheduled completion date missed. At high risk for further delays.

<sup>c</sup> Gardez substation 74% complete. Cannot test/commission this segment until NEPS, phase 1 segment is energized to Pul-e Alam. Completion date pushed into 2017.

<sup>d</sup> 35 of 44 towers completed. Another 1 tower excavation and 1 foundation complete from Charikar to Gul Bahar; Conductor lines 30% strung. 100% of transmission towers erected from Gul Bahar to Nejrab; Conductor lines 55% strung. Gul Bahar substation 95% complete. Community land issues affecting 8 tower locations putting completion date at high risk for delay.

<sup>e</sup> Tangi substation 42% complete. Sangin North substation 70% complete. Sangin South substation 60% complete. Completion date at high risk for further delays. Contract modification to replace Sangin North living quarters.

<sup>f</sup> Sangin to Durai Junction segment: 2 of 205 towers completed. Another 66 tower excavations and 16 foundations complete. Durai Junction to Lashkar Gah segment: 33 of 212 towers completed. Another 123 tower excavations and 51 foundations complete. Community land issues affecting 22.6% of tower locations; Security issues. Completion date at high risk for delay.

<sup>g</sup> Includes additional, non-AIF USAID funding.

<sup>h</sup> Contract modification to design and construct transformer bay and install one transformer.

Source: OSD-Policy, response to SIGAR data calls 6/29/2016 and 9/29/2016; OSD-Policy, response to SIGAR vetting, 7/16/2016; USACE, Garrison and Infrastructure Working Group, AIF LIR, 9/15/2016; USAID, OI, response to SIGAR data call, 9/23/2016; USAID, OI, response to SIGAR vetting, 10/11/2016.

transmission lines, continued to challenge AIF contractors and some project-completion schedules.<sup>892</sup> U.S. Forces-Afghanistan (USFOR-A) has completed four AIF power projects so far. All were phases of the now-concluded Kandahar Power Bridging Solution, which provided fuel and technical support for diesel power-generation plants in Kandahar City while turbine-installation work at Kajaki Dam was under way. USFOR-A has six other ongoing power projects, while USAID has three, as shown in Table 3.23.<sup>893</sup>

AIF projects use FY 2011–FY 2014 appropriated funds. No FY 2015 or FY 2016 AIF money was 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 projects.<sup>894</sup>

## 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. They also hold back the mining industry, whose future revenues the Afghan government and international donor community are counting on to offset declining international aid.<sup>895</sup> This quarter, 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.<sup>896</sup>

### Rail

This quarter, a freight train travelled 1,864 miles from Haimen, China, near Shanghai, through Uzbekistan and Kazakhstan, arriving for the first time at Afghanistan's Hairatan rail port on the border with Uzbekistan. This new route, the Sino-Afghan Special Transportation Railway, allows goods to bypass Pakistan, whose relations with Afghanistan are tense, and save half the time of the older route.<sup>897</sup> However, Uzbekistan reportedly is blocking Afghan goods from returning to China by rail without first being inspected by Uzbek security forces. Instead of being loaded at Hairatan, Afghan goods must detour through the Amu Darya River to the border with Uzbekistan. Once cleared, the cargo would then be permitted to be transferred to rail back to China.<sup>898</sup>

Also this quarter, construction began on a rail line in Herat Province linking Iran and Afghanistan. The rail line on the Iranian side was 90% complete.<sup>899</sup>

### Roads

Since 2002, USAID has provided approximately \$2.2 billion cumulatively for more than 1,240 miles of road construction and O&M.<sup>900</sup> Afghanistan has more than 76,400 miles of road, 28,000 of which has been rehabilitated

or improved. However, the World Bank has reported 85% are in poor shape and a majority cannot be used year-round.<sup>901</sup> 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, \$100 million less than the Asian Development Bank says they need to spend.<sup>902</sup>

## Technical Assistance for the Ministry of Public Works Project

USAID's three-year, \$25.5 million, Technical Assistance for the Ministry of Public Works (TA-MOPW) project, a component of the Road Sector Sustainability Project (RSSP), aims to improve the capacity and effectiveness of the Ministry of Public Works (MOPW) to manage Afghanistan's road network. TA-MOPW is working with Afghan authorities in establishing a road authority, road fund, and transportation institute. A final transition plan was submitted to USAID for approval on July 10, 2016; the first draft of laws to govern these new institutions were also submitted this quarter.<sup>903</sup>

As of July 31, TA-MOPW has fully reached its year-two milestones for identifying the roads it intends to fund, short- and long-term plans for road-maintenance funding, and designs for the road fund. It almost completed its targets to finish designs for the road authority and the transportation institute study.<sup>904</sup> USAID's active road-construction and O&M programs are listed in Table 3.24.

### SIGAR AUDIT

A SIGAR audit reviewed U.S. efforts to sustain roads and strengthen the Afghan government's ability to perform road maintenance. It found that most U.S.-funded roads needed repair and that corruption, inadequate funding, insecurity, and weak capacity limit the MOPW's ability to maintain Afghanistan's road infrastructure. For more information, see Section 2.

TABLE 3.24

USAID ACTIVE ROAD-CONSTRUCTION AND OPERATIONS-AND-MAINTENANCE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 9/30/2016 (\$)
Technical Assistance to Ministry of Public Works	8/3/2014	8/2/2017	\$25,486,058	\$17,251,241
Emergency Road O&M	12/1/2015	11/30/2016	5,000,000	0

Source: USAID, response to SIGAR data call, 10/13/2016.

## Afghanistan Infrastructure Fund Road Projects

DOD has obligated \$62.2 million and disbursed \$57.4 million for five road projects under the AIF, as of August 31, 2016. Four road projects, some consisting of multiple phases, have been completed. Only the final 7 km of the Ghulam Khan Transportation Corridor, Phase II remains, as shown in Table 3.25.<sup>905</sup>

## ECONOMIC GROWTH

Afghanistan ranked 177th of 189 countries in the World Bank's *Doing Business 2016* report on regulatory quality and efficiency—a six-place rise from 2015.<sup>906</sup> Beyond security challenges that make it difficult to ignite private-sector-led and inclusive growth, the IMF recommended the

# ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.25

AFGHANISTAN INFRASTRUCTURE FUND ROAD PROJECTS, AS OF SEPTEMBER 18, 2016 (\$ MILLIONS)							
AIF Project	Description	Notified Amount	Obligated	Disbursed	Status		
<b>AIF FY 11</b>	Lashkar Gah to Nawar Road	Design, construct 22.5 km road	22.0	20.5	20.5	Complete	
<b>AIF FY 12</b>	RC-East Border Transportation Corridor	Saracha Bridge	Design, construct 0.16 km bridge over Chaparhar River, along Hwy 7 in Nangarhar Province	8.0	6.8	6.8	Complete
		Ghulam Khan Corridor	Design, construct 24.1 km road, 4 bridges, culverts, switchback repairs in Khowst Province	27.6	12.7	11.8	Complete
	Parwan to Bamiyan Road - Section 6	Section 6.1	Design, construct 7 km road of Salang bypass in Bamiyan Province	3.0	3.0	3.0	Complete
		Section 6.2	Design, construct 11 km road of Salang bypass in Bamiyan Province	7.0	7.0	7.0	Complete
<b>AIF FY 14</b>	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	
<b>AIF FY 14</b>	Ghulam Khan Corridor - Phase 2	Design, construct remaining 7 km road to Khowst city and 1 bridge to complete Ghulam Khan Transportation Corridor	10.0	5.0	1.1	8 of 28 culverts placed; bridge pile foundations, post-tension beam forming in progress; repair plan for existing bridge pier and road deck submitted (Completion: 9/2017)	

Note: Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 8/31/2016. All other information is as of 9/18/2016.

Source: OSD-Policy, response to SIGAR data call 9/29/2016; USACE, Garrison and Infrastructure Working Group, AIF LIR, 6/22/2016.

government eliminate regulatory and administrative barriers for businesses, improve infrastructure, and provide key business services while simultaneously strengthening structures for macroeconomic management, the financial sector, and economic governance, not all of which requires major funding to carry out.<sup>907</sup> Toward that end, a business-simplification roadmap has been approved by Afghanistan’s High Economic Council, which was an SMAF indicator.<sup>908</sup>

USAID has cumulatively disbursed approximately \$1.1 billion for economic-growth programs in Afghanistan.<sup>909</sup> USAID active economic-growth programs have a total estimated cost of \$520 million and can be found in Table 3.26 on the next page.

## Assistance in Building Afghanistan by Developing Enterprises

USAID’s \$105 million, Assistance in Building Afghanistan by Developing Enterprises (ABADE) program aims to help small-to-medium enterprises (SMEs) add jobs, increase investment, and improve sales of domestic products and services through public-private alliances (PPAs). ABADE has three components: implementing approved PPAs; identifying, selecting, and supporting the alliances with technical-assistance and business-advisory services; and working with the government to improve the environment for business.<sup>910</sup>

# ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.26

<b>USAID ACTIVE ECONOMIC-GROWTH PROGRAMS</b>				
<b>Project Title</b>	<b>Start Date</b>	<b>End Date</b>	<b>Total Estimated Cost (\$)</b>	<b>Cumulative Disbursements, as of 9/30/2016 (\$)</b>
Financial Access for Investing in the Development of Afghanistan (FAIDA)	2/7/2011	2/5/2017	\$113,981,225	\$106,584,419
Assistance in Building Afghanistan by Developing Enterprise (ABADE)	10/16/2012	4/15/2017	104,997,656	89,076,197
Afghanistan Trade and Revenue Project (ATAR)	11/7/2013	11/6/2017	77,754,267	51,976,297
Afghanistan Workforce Development Program (AWDP)	4/5/2012	6/30/2018	44,919,458	32,192,844
Multi-Input Area Development-Global Development Alliance	3/23/2013	3/22/2018	30,481,436	13,161,819
Women in the Economy (WIE)	7/1/2015	6/30/2020	71,571,543	8,357,321
Afghanistan Public Financial Management (APFM)	7/27/2015	7/26/2018	22,130,033	5,501,049
Commercial Law Development Program	3/1/2014	9/30/2019	10,000,000	5,301,676
IFC PIO Grant - Support of Business Environment Reform	10/15/2010	10/30/2017	4,030,000	4,030,000
Strengthening the Revenue Collection Capacity of GIROA	11/30/2014	12/30/2018	4,000,000	1,308,132
Rebranding Afghanistan: Creating Jobs, Changing Perceptions, Empowering Women	11/2/2015	11/1/2018	4,800,000	1,250,000
E-Government Resource Center II	8/28/2013	12/1/2017	3,900,000	1,205,000
Afghanistan International Bank Guarantee Agreement	9/27/2012	9/27/2020	2,000,000	520,800
Afghanistan Investment Climate Program	3/27/2015	3/26/2020	13,300,000	420,200
Turquoise Mountain Smithsonian Exhibition	3/9/2015	12/31/2016	535,055	376,931
Mobile-izing Saving Study	9/11/2012	9/30/2018	50,022	50,022
Development Credit Authority (DCA) with FINCA, OXUS, and First Microfinance Banks	9/25/2014	9/24/2020	1,953,875	0
Regional Water Management	10/1/2015	9/30/2020	9,499,795	0

Note: The Mobile-izing Saving Study explores financial inclusion products to encourage Afghans to build savings. USAID's Development Credit Authority (DCA) provides partial-credit guarantees to mobilize local financing. FINCA, OXUS, and First Microfinance Banks are to use these guarantees to secure loans from larger lenders, and in turn lend to micro and small businesses in Afghanistan. Afghanistan International Bank is to use the DCA guarantee to mitigate its lending risk and facilitate lending to small- and medium-size enterprises.

Source: USAID, response to SIGAR data call, 10/13/2016; Innovations for Poverty Action, "Mobile-izing Savings with Defaults in Afghanistan," 12/8/2015; USAID, Development Credit Authority, "Overview," 2/2/2015.

From April 1 through June 30, 2016, the most recent data available, 36 PPAs worth \$42.5 million were completed and closed out, meaning that the deliverables from all parties have been completed. Of that, ABADE contributed \$4.2 million worth of equipment; the SMEs covered the rest. Two new PPAs were signed, valued at \$3.9 million, of which ABADE contributed \$819,000. As of June 30, 2016, ABADE had 132 active PPAs, valued at \$213 million, of which its contribution is \$32.3 million, with the rest invested by the SMEs—more than a 5-to-1 ratio. Also during this time, ABADE provided technical assistance and training in business planning and public relations, health and safety, hygiene, and sanitation. It trained 28 people, 11 of them women.<sup>911</sup>

## Afghanistan Workforce Development Program

USAID's \$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, funded 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.<sup>912</sup>

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.<sup>913</sup> Training areas ranged from project and financial management to construction, information technology, and marketing.

Through AWDP's off-budget component, 15,208 Afghans had been trained from April 5, 2016, through June 30, 2016 (against a target of 5,757), and 10,894 were either placed in jobs or promoted to mid-career/semi-professional jobs (against a target of 3,900). Of those, 38% of persons trained, placed, or promoted were women, exceeding the program's target of 25%. Cumulatively, 27,028 people have been trained through AWDP compared to its target of 18,571, and 17,776 have been placed and promoted compared to its 13,000 target.<sup>914</sup>

In this same reporting period, AWDP's on-budget component, working with the Ministry of Education (MOE), trained 4,887 mid-career or semi-professional job seekers and private-sector employees (36% female) in



**Afghan women** applying computer skills in USAID training program. (USAID photo)

information and communications technology, construction, financial management, program management, public-private partnerships, and master training of trainers. Of those trained, 3,630 were placed in jobs or promoted from their positions (38% female). According to USAID's implementing partner, the on-budget component faced several major impediments to reaching its original goal of increase job placements and wages of more than 24,700 Afghans. First, the MOE centralized its procurement activities causing significant delay to project review and award, which caused USAID to descope funds committed to future program tranches. Second, USAID's lengthy approval of documentation, the drawn-out presidential elections, and the resulting delay in political transition delayed the program.<sup>915</sup>

**Safe Schools Declaration:** Introduced at the Oslo Conference on Safe Schools on May 29, 2015, it expresses support for the protection and continuation of education in armed conflict. It also endorses voluntary guidelines that urge warring parties not to use schools and universities for any purpose in support of their military effort.

Source: Global Coalition to Protect Education from Attack, "Safe Schools Declaration," accessed 9/22/2016.

**Education Management Information System:** a centralized computerized network system used to gather school data to support decision making in the Ministry of Education.

Source: USAID, *Data Quality Assessment of the Ministry of Education's Education Management Information System*, 7/2016, p. 1.

## EDUCATION

This quarter, a Human Rights Watch report documented the use of schools in Baghlan Province by Afghan national security forces while fighting against the Taliban from late 2015 through May 2016. School facilities, books, and furniture were often left damaged as a result of Taliban reprisals. The Taliban have also used schools as military bases, destroyed textbooks it deemed un-Islamic, and planted explosive devices in and around schools they occupied.<sup>916</sup> In May and July 2016, the Ministry of Education (MOE) sent directives to all security-related ministries highlighting Afghanistan's commitment to the **Safe Schools Declaration** and requesting security forces stop using schools for military purposes.<sup>917</sup>

## Education Management Information System Data

According to the MOE's annual joint-sector review for FY 1394 (2015), Afghanistan reportedly has 15,249 general-education (government) schools, including 714 closed schools, with 184,024 teachers, and almost 8.7 million students enrolled.<sup>918</sup> The number of enrolled students includes both present and absent students.<sup>919</sup> The MOE counts students who have been absent for up to three years as enrolled because it says they might return to school.<sup>920</sup> The MOE acknowledged a large number of children are out of school, but is unaware of how many, who or where they are, or their backgrounds.<sup>921</sup> School administrators are not always instructed on how to fill out **Education Management Information System** (EMIS) forms, and EMIS officials lack the staff or resources for data verification and are impeded by lack of security around the country.<sup>922</sup>

## Education Management Information System Data Quality Assessment

Education has long been a concern of both the Afghan government and the international community. To better help the MOE gather school data to guide their decision making—and indirectly understand how donor

funding is benefitting Afghanistan's education system—donors funded the EMIS, which tracks critical educational statistics such as the numbers of teachers working and students enrolled. Barriers to data collection have resulted in imprecise and inaccurate EMIS data, prompting further concern from donors. To understand the scope of the problem, USAID initiated an assessment of the data-quality in EMIS to identify and address gaps in the system.<sup>923</sup> The assessment sought to answer:<sup>924</sup>

- Whether there are discrepancies between the field data and EMIS reporting, and if so, the degree of variance (i.e. are there significant numbers of ghost schools, teachers, and students?)
- How is the data being collected, processed, and reported?
- How accurate is the record-keeping and communication between schools, district education departments, provincial education directorates, and the MOE?
- What are EMIS's challenges and weaknesses that need to be addressed?
- What areas of data collection, processing, and dissemination need support and improvement?

Researchers compared national EMIS information against individual school records, similar to the MOE's 2015 assessment and verification of EMIS data.<sup>925</sup> Assessing MOE/EMIS susceptibility to corruption, arguably a more potent concern, was outside the scope of this study.

## Data Collection Challenges

The assessors were not able to physically observe how many of the students reported in EMIS actually exist and attend classes, nor could they observe how many teachers exist and engage in classroom instruction. This was mostly due to the timing of the field work. Survey data was collected from December 2015 through February 2016, when 82% of the schools visited were out of session on winter holiday schedules. Therefore, head counts could not be performed, and officials were often unavailable to be interviewed. By contrast, the data from EMIS that the survey would be compared against was from several months earlier at the end of the school year.<sup>926</sup>

The survey manager was murdered during the data-collection period. This had a profound impact on the study, affecting data management and quality, and resulting in smaller sample size. Other problems plaguing the survey included an inability to visit some schools because of security problems, including the kidnapping of a survey team. Also, assessors did not always follow protocols, leading to the rejection of data from four provinces.<sup>927</sup>

## Findings

USAID's implementing partner admitted that while the data is not nationally representative, it is still useful for understanding EMIS and identifying data-quality challenges.<sup>928</sup> Despite its shortcomings and inability to answer

key questions, the assessment found that EMIS had made “substantial” progress in the last five years. With support from the MOE and donors, EMIS has developed the capacity to manage a nationwide information system. However, there remains a gap between its actual capacity and what is needed to ensure the information is accurate and reliable. Key weaknesses were identified, including lack of oversight, inconsistent monitoring at schools, insufficient capacity and training on EMIS forms and procedures, inadequate financing and overreliance on donor-funded assistance, and lack of coordination resulting in duplicative data collection and inefficiencies.<sup>929</sup>

The survey’s inability to finally answer some key questions about Afghanistan’s education system seem to be due to poor management and planning. The data that it did collect only raises more concern. For example, the number of students recorded in EMIS was an average 37.1 students higher per school than that recorded through the survey. This was not the case for the number of teachers in EMIS, which was only 0.39 teachers higher than the survey.<sup>930</sup>

USAID designed a capacity-building project that specifically aims to reform teacher recruitment and placement, EMIS data integrity, and textbook distribution. An award and initial implementation is expected by December 31, 2016.<sup>931</sup>

## USAID Programs

USAID aims to improve equitable access to quality education in Afghanistan through community-based classes in remote regions. USAID also seeks to develop relevant, in-demand technical skills to better prepare Afghans for

TABLE 3.27

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 9/30/2016 (\$)
Increasing Access to Basic Education and Gender Equality	9/17/2014	12/31/2019	\$77,402,457	\$77,402,457
Afghanistan University Support and Workforce Development Program	1/1/2014	12/31/2018	91,927,769	33,371,745
Basic Education, Literacy, and Technical-Vocational Education (BELT), Textbooks	11/16/2011	12/31/2016	26,996,813	24,970,742
Support to American University of Afghanistan	8/1/2013	11/29/2019	45,902,538	25,630,052
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2020	44,835,920	10,405,632
Early Grade Reading Survey	7/27/2015	3/27/2017	12,487,469	6,566,780
Assessment of Learning Outcomes and Social Effects in Community-Based Education	1/1/2014	12/31/2017	7,262,016	2,753,951
Afghans Read Program (ARP)	4/4/2016	4/3/2021	69,547,810	1,556,389
PROMOTE Scholarships	3/4/2015	3/3/2020	1,247,522	1,247,522
BELT/All Children Reading and Improved Access	7/27/2015	3/27/2017	472,585	466,116
Let Girls Learn Initiative and Girls' Education Challenge Program (GEC)	N/A	N/A	25,000,000	0

Source: USAID, response to SIGAR data call, 10/13/2016.

employment. Its programs focus on early-grade reading, textbooks and other learning materials, and raising literacy rates through teacher and educator training.<sup>932</sup> USAID had disbursed approximately \$868 million for education programs in Afghanistan, as of September 30, 2016.<sup>933</sup> USAID's active education programs have a total estimated cost of \$403 million and can be found in Table 3.27.

## HEALTH

Afghanistan's health indicators have improved since 2002, though they remain 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.<sup>934</sup>

### USAID Funding and Health Programs

U.S.-funded health-sector programs aim to preserve and enhance gains made since 2002. USAID assistance to the Ministry of Public Health includes capacity-building, training, and quality-assurance activities to strengthen the ministry's management and control over healthcare delivery across Afghanistan.<sup>935</sup>

U.S. on- and off-budget assistance to Afghanistan's health sector totaled more than \$1 billion as of September 30, 2016.<sup>936</sup> 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.<sup>937</sup>

USAID believes that the MOPH's ability to deliver quality healthcare 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.<sup>938</sup> USAID's active health programs have a total estimated cost of \$326 million, and are listed in Table 3.28 on the following page.

### Helping Mothers and Children Thrive

USAID's Helping Mothers and Children Thrive (HEMAYAT) program 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.<sup>939</sup>

This quarter, HEMAYAT, in coordination with the MOPH, established a health training and resource center in Mazar-e Sharif to build the capacity of health personnel and ensure the delivery of quality health services. It also developed chlorhexidine (antiseptic) public-awareness material for

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**BPHS:** provides primary healthcare 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 healthcare 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.

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

TABLE 3.28

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 9/30/2016 (\$)
Strengthening Pharmaceutical System	8/28/2011	7/10/2017	\$34,399,936	\$30,080,836
Disease Early Warning System Plus (DEWS Plus)	1/1/2015	12/30/2020	32,728,000	17,727,468
Helping Mother and Children Thrive (HEMAYAT)	1/7/2015	1/6/2020	60,000,000	15,991,421
Central Contraceptive Procurement	3/11/2009	9/8/2022	25,000,000	13,035,571
Regional Fortification in the Central Asian Republics and Afghanistan	9/29/2014	9/29/2016	9,722,000	9,722,000
Demographic and Health Surveys	9/9/2013	9/8/2018	6,699,863	5,453,731
Weekly Iron Folic Acid Supplementation	11/7/2014	12/31/2017	5,610,012	5,408,826
Enhance Community Access, Use of Zinc, Oral Rehydration Salts for Management of Childhood Diarrhea	7/21/2015	7/7/2020	15,002,610	4,400,000
Health Sector Resiliency (HRS)	9/28/2015	9/27/2020	37,936,471	3,206,214
Challenge Tuberculosis	1/1/2015	9/29/2019	15,000,000	2,831,372
Sustaining Health Outcomes through the Private Sector (SHOPS Plus)	6/1/2016	6/1/2018	6,000,000	2,518,981
Global Health Supply Chain Quality Assessment	1/2/2015	1/1/2020	1,500,000	1,500,000
Family Planning and Assessment	5/16/2015	12/31/2016	634,833	634,833
Coordinating Comprehensive Care for Children (4 Children)	9/15/2014	9/16/2019	20,000	20,000
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/5/2016	5/4/2021	75,503,848	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, 10/13/2016; Global Alliance for Improved Nutrition, "Regional Fortification in the Central Asian Republics," accessed 1/15/2016.

## 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.

newborn umbilical-cord care, provided input on chlorhexidine use for a national scale-up plan, and helped to add chlorhexidine into community health workers' drug-supply kits.<sup>940</sup>

Also this quarter, HEMAYAT conducted family-planning methods and counseling training for 241 private healthcare providers across nine provinces; family planning and environmental- mitigation-system training for 159 private health providers in seven provinces; tested a gender- and health-training package for 26 gender- and gender-based-violence master trainers, gender experts, professional health associations, and healthcare providers; and continued to advocate for the inclusion of long-term reversible contraceptives into Afghanistan's essential-drug list.<sup>941</sup>

## Polio

Afghanistan and Pakistan are the only two countries where polio is still endemic.<sup>942</sup> Both countries, which share a 1,500-mile border, suffer from the Taliban's opposition to vaccination campaigns.<sup>943</sup>



**A community health worker** counsels an expectant mother in Balkh Province. (USAID photo)

Afghanistan reportedly had eight new polio cases in 2016, as of October 12, matching the same number of cases at this point last year. The most recent case was on August 11 in Paktika Province, close to the Pakistan border.<sup>944</sup> The United Nations estimates that 320,000 children in Afghanistan—up from 200,000 reported last quarter—have not been vaccinated, mostly due to fighting and insurgents’ preventing access to children. Almost half the children are from Kunduz Province.<sup>945</sup> USAID obligated nearly \$25 million for polio eradication in Afghanistan between FY 2003 and FY 2014, and plans an additional \$3 million in FY 2015 funds.<sup>946</sup>

