

## ECONOMIC AND SOCIAL CONTENTS

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## ECONOMIC AND SOCIAL DEVELOPMENT

### KEY ISSUES AND EVENTS

The Financial Action Task Force, an intergovernmental organization established to combat money laundering and terror financing, decided on June 23, 2017, to remove Afghanistan from its list of countries with strategic anti-money-laundering/combating the financing of terrorism (AML/CFT) deficiencies. Afghanistan's compliance will no longer be subject to FATF's ongoing monitoring, although the government will continue to work with FATF to strengthen its AML/CFT administration.<sup>528</sup> If Afghanistan's international banking relationships improve as a result of this development, Afghan banks could become more profitable, as international trade and transaction fees are an important revenue source for them.<sup>529</sup>

On May 24, 2017, the International Monetary Fund's (IMF) executive board completed the first review of Afghanistan's economic-reform program—the three-year, Extended Credit Facility (ECF) arrangement. The first review assessed the implementation of five structural-reform benchmarks and eight performance criteria. The IMF deemed Afghanistan's performance through December 31, 2016, satisfactory. All quantitative performance criteria and indicator targets were met. Three of five structural benchmarks were implemented on time and one benchmark was implemented after the assessment.<sup>530</sup>

The Afghan government had trouble maintaining its improved revenue collection from the previous year. In the first six months of FY 1396 (which began December 22, 2016), domestic revenues declined nearly 25% year-on-year and covered about 40% of total government expenditures. This left a budget gap of \$1.1 billion in current dollars, which donor contributions narrowed to \$458 million.<sup>531</sup> Donors are expected to finance approximately 62% of Afghanistan's \$6.4 billion FY 1396 national budget.<sup>532</sup>

### U.S. RECONSTRUCTION FUNDING FOR GOVERNANCE AND ECONOMIC AND SOCIAL DEVELOPMENT

As of June 30, 2017, the U.S. government has provided approximately \$32.3 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 \$15.2 billion has been disbursed.<sup>533</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>534</sup>

ESF investments are made in key sectors like agriculture, power generation, education, and health. 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. Grid expansion is a critical component of the United States' economic-growth strategy for Afghanistan.<sup>535</sup>

## ECONOMIC PROFILE

The World Bank reported this quarter that past economic and social 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. Weak institutions undermine Afghanistan's delivery of public services, and along with high levels of crime and corruption, deter private investment.<sup>536</sup> The IMF pointed to Afghanistan's inadequate infrastructure and human capital, and a large illicit narcotics sector, as notable elements preventing robust and inclusive economic development.<sup>537</sup>

The IMF estimated Afghanistan's real (net of inflation) gross domestic product (GDP), excluding opium, to have grown 2% in 2016, higher than the estimated 0.8% in 2015. While an improvement, the IMF said it remains far below the growth necessary to increase employment and improve living standards.<sup>538</sup> The IMF projected GDP to grow 3% in 2017, while the World Bank and Asian Development Bank (ADB) projected 2.6% and 2.5% growth, respectively. Their collective outlooks depend on an improvement in security, political stability, investor and consumer confidence, successful implementation of reforms, continued improvement in revenue collection, continued strong donor support, and favorable weather.<sup>539</sup>

GDP growth is being outpaced by Afghanistan's rapid population growth, estimated at 3% per year. As a result, per capita GDP may be falling, employment opportunities are limited, and the budget is pressured. Afghanistan's labor market is unable to absorb what the World Bank estimates are 400,000 people entering the work force every year. As a result, nearly 24% of Afghanistan's labor force was unemployed in 2016–2017, per the most recent reporting. This is further exacerbated by deteriorating

**The World Bank, IMF, and others exclude the value from opium production in their reported GDP estimates. Afghanistan's Central Statistics Organization releases official GDP growth figures in two categories—one that includes and one that excludes opium value. Opium-related earnings boost domestic demand and are a significant source of foreign exchange.**

**The estimated net value of opium production was \$2.9 billion in 2016, representing 16% of GDP. The farm-gate value—the potential gross amount earned by farmers—was almost \$900 million, roughly 5% of GDP and a 57% increase over 2015.**

Source: World Bank, *Afghanistan Development Update*, 5/2017, p. 2; IMF, "IMF Executive Board Completes First Review Under the ECF for the Islamic Republic of Afghanistan and Approves US \$6.2 million Disbursement," Press Release No. 17/192, 5/24/2017; ADB, *Asian Development Outlook 2017*, 4/2017, p. 178; CSO, *Afghanistan Statistical Yearbook 2015–2016*; UNODC, *Afghanistan Opium Survey 2016, Sustainable Development in an Opium Production Environment*, 5/2017, pp. 44, 47.



**USAID's Afghanistan University Support and Workforce Development Program** provided assistance for this March 2017 job fair in Kandahar. (USAID photo)

security conditions and increased repatriation of Afghans that adds to internal displacement.<sup>540</sup>

Agriculture was the largest contributor to real GDP growth in 2016 due to favorable weather and greater output, according to the World Bank.<sup>541</sup> However, agricultural output and income fluctuate with the weather, so economic growth based on this sector is volatile.<sup>542</sup> Industry and services, which benefited from the Coalition's large presence, security spending, and aid flows prior to 2015, have since grown much more slowly.<sup>543</sup> Industry declined by 0.8% in 2016, largely a result of low construction activity, which had maintained strong growth in recent years. Manufacturing grew around 1% and services by 2.2%, which, according to the World Bank, was substantially lower than the historical average.<sup>544</sup>

Consumer prices remain low, but increased by an IMF-estimated 4.4% in 2016, compared to -1.5% in 2015. This was attributed to inflationary pressure on the Afghan currency, the afghani, as it depreciated against the U.S. dollar, and increasing global food prices.<sup>545</sup> For an import-dependent nation like Afghanistan, the World Bank said exchange rates and global prices usually have a significant impact on domestic prices.<sup>546</sup> Additionally, private investment declined in 2016, with the number of new firm registrations—a measure of investor confidence—dropping 9%. New vehicle registration increased by 3.9%, indicating low-level economic activity.<sup>547</sup>

**On June 19, 2017, President Ghani inaugurated an air-freight corridor with India to improve trade and create opportunities for Afghan exports. The first India-bound flight included 60 tons of Afghan agricultural products with more to follow.**

Source: GIROA, MFA, "Deputy Foreign Minister Meets with Indian Ambassador to Kabul," 6/20/2017; Associated Press, "Afghanistan President Inaugurates First Air Corridor with India," 6/19/2017.

## Afghanistan's Fiscal Outlook

Afghanistan remains poor, fragile, and heavily aid-dependent, according to the IMF. Afghanistan's domestic revenues in 2016 totaled afghani (AFN) 141.1 billion (approximately \$2.1 billion in current dollars). This represents a 15.4% increase over 2015, surpassing the target set under the IMF's economic support program.<sup>548</sup> The World Bank attributed this success to new tax policies introduced at the end of 2015 and improved compliance and enforcement. Taxes were the greatest contributor to overall revenue, followed by non-tax revenue and customs duties.<sup>549</sup>

Afghan authorities are uncertain if 2016 domestic revenue levels can be sustained. They were concerned that trade disruptions at the border with Pakistan and World Trade Organization (WTO)-mandated tariff reductions would negatively affect customs duties in the short term. Additionally, there were ongoing tensions with large taxpayers who felt unfairly targeted. The IMF said achieving sustainable revenues and expenditures would be difficult, given the government's low capacity in revenue administration and public financial management—Afghanistan has one of the lowest rates of tax collection among IMF member countries. Further revenue gains are likely to come from economic growth and an expanded tax base.<sup>550</sup>

Budget expenditures continue to outpace revenues, with security being the largest recurrent cost. The World Bank projects expenditures to be at least double what revenues should be by 2030, even if security improves.<sup>551</sup> Currently, terrorist and insurgent groups continue to present a formidable challenge to Afghan, U.S., and Coalition forces, according to the Department of Defense's (DOD) most recent assessment.<sup>552</sup> For FY 1396 (2017), Afghanistan planned to contribute AFN 26.8 billion (\$401 million)—out of what DOD anticipates to be a \$4.9 billion requirement—to help cover ANDSF sustainment and operational costs, including food for ANDSF personnel.<sup>553</sup> This quarter, Congress fully funded DOD's \$4.26 billion budget request for the ANDSF in FY 2017. International donor contributions and the Afghan government are expected to help cover the rest.<sup>554</sup>

Improving Afghanistan's fiscal position, according to the World Bank, will require a large increase in revenues, which is plausible only with mining development and with aid sustained at least at current levels. 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 for existing assets, and civil service salaries.<sup>555</sup>

## FY 1396 Afghanistan's Revenues and Expenditures—First Six Months

According to Afghanistan Financial Management Information System (AFMIS) data, total domestic revenues—a figure that excludes donor grants—stood at AFN 60.3 billion (\$881.7 million in current dollars) in the first six months of FY 1396, about 24.8% lower compared to the same period

# ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.17

| <b>DOMESTIC REVENUES, FISCAL YEARS 1395 AND 1396 COMPARED (IN AFGHANIS)</b> |                                     |                               |                               |                 |
|---|-------------------------------------|-------------------------------|-------------------------------|-----------------|
|   | <b>Category</b>                     | <b>1395 (Through Month 6)</b> | <b>1396 (Through Month 6)</b> | <b>% Change</b> |
| <b>Taxation &amp; Customs Revenues</b>                                      | Fixed Taxes                         | 4,352,135,096                 | 3,884,905,651                 | -10.74%         |
|   | Income Taxes                        | 9,701,259,891                 | 13,118,202,123                | 35.22%          |
|   | Property Taxes                      | 194,376,103                   | 161,327,278                   | -17.00%         |
|   | General Taxes on Goods and Services | 12,219,980,755                | 11,280,567,143                | -7.69%          |
|   | Tax Penalties and Fines             | 0                             | 1,167,355,749                 | -               |
|   | Customs Duties and Fees             | 13,059,083,771                | 11,024,809,424                | -15.58%         |
|   | <b>Social Contributions</b>         | Retirement Contributions      | 1,701,531,385                 | 1,805,533,759   |
| <b>Other Revenue</b>  | Income from Capital Property        | 552,720,636                   | 736,276,284                   | 33.21%          |
|   | Sales of Goods and Services         | 2,727,607,431                 | 3,505,221,399                 | 28.51%          |
|   | Administrative Fees                 | 10,275,910,992                | 9,991,069,061                 | -2.77%          |
|   | Royalties                           | 93,905,189                    | 148,566,178                   | 58.21%          |
|   | Non Tax Fines and Penalties         | 442,495,082                   | 219,082,977                   | -50.49%         |
|   | Extractive Industry Fees            | 104,240,990                   | 419,527,361                   | 302.46%         |
|   | Miscellaneous Revenue               | 21,598,155,577                | 2,814,899,988                 | -86.97%         |
|   | Sale of Land and Buildings          | 1,090,982,116                 | 32,046,179                    | -97.06%         |

Source: SIGAR analysis of USAID-provided AFMIS data exported 7/11/2017; MOF, Jawza Financial Statements FY 1395, 6/29/2016.

in FY 1395. Recurrent revenue streams like taxation and customs revenues, which made up almost 40% of the government's total domestic revenues, decreased 2.3% compared to the same period last year.<sup>556</sup>

As shown in Table 3.17, revenues from income taxes increased 35.2%, but customs duties and fees dropped 15.6%, while fixed taxes and property taxes dropped 10.7% and 17.0%, respectively. Revenue from administrative fees—levied on passports and visas, vehicle registrations, professional and commercial licenses, and airspace-overflight charges, among other items—decreased nearly 3%. Revenue from natural resources saw the greatest improvement by percentage so far in FY 1396, with royalties increasing 58.2% and fees 302.5% year-on-year. This is an unexpected gain given the ongoing constraints in that sector.<sup>557</sup>

Afghan government expenditures, AFN 137.8 billion (\$2 billion), grew overall by about 3.3% in the first six months of FY 1396. Wages and salaries, which accounted for nearly 60% of all expenditures, grew 11.6%, while subsidies, grants, and social benefits increased 11.8%, as shown in Table 3.18 on the next page. Goods and services, Afghanistan's second largest expense, declined almost 20.9%, helping offset outlays.<sup>558</sup>

Afghanistan's fiscal gap—the difference between domestic revenues and expenditures—is large.<sup>559</sup> Domestic revenues paid for only 43.8% of Afghanistan's total budget expenditures through FY 1396 month six, representing a net deficit of AFN 77.5 billion (\$1.1 billion). Donor assistance narrowed the gap to AFN 31.4 billion (\$458.5 million).<sup>560</sup>

**Donors are expected to finance approximately 62% of Afghanistan's \$6.4 billion FY 1396 national budget, mostly through grants. This covers approximately 45% of the operating budget and 86% of the development budget.**

Source: MOF, *National Budget Document, 1396 Fiscal Year*, 1/16/2017, pp. 10–11, 76.

TABLE 3.18

| <b>EXPENDITURES, FISCAL YEARS 1395 AND 1396 COMPARED (IN AFGHANIS)</b> |  |                               |                               |                 |
|--|--|-------------------------------|-------------------------------|-----------------|
| <b>Category</b>  |  | <b>1395 (Through Month 6)</b> | <b>1396 (Through Month 6)</b> | <b>% Change</b> |
| <b>Wages and Salaries</b>  | Wages and Salaries in Cash                     | 62,089,703,270                | 65,951,425,052                | 6.22%           |
|  | Wages and Salaries Advance                     | 263,549,103                   | 521,292,455                   | 97.80%          |
|  | Wages and Salaries in Kind                     | 9,045,862,206                 | 10,228,638,413                | 13.08%          |
|  | Social Benefits in Cash                        | 1,189,287,759                 | 1,514,168,023                 | 27.32%          |
|  | Social Benefits in Kind                        | 0                             | 2,791,727,631                 | -               |
| <b>Goods and Services</b>  |  | 33,190,232,271                | 26,271,215,771                | -20.85%         |
| <b>Interest</b>  |  | 191,974,609                   | 219,237,850                   | 14.20%          |
| <b>Subsidies, Grants, and Social Benefits</b>                          | Grants   | 710,650,000                   | 39,473,500                    | -94.45%         |
|  | Grants to Foreign Governments                  | 92,770,092                    | 51,520,000                    | -44.46%         |
|  | Social Assistance in Cash                      | 6,300,000                     | 5,650,000                     | -10.32%         |
|  | Social Security Benefits in Cash               | 9,358,268,565                 | 10,616,077,644                | 13.44%          |
|  | Subsidies, Grants, and Social Benefits Advance | 481,665,358                   | 490,738,290                   | 1.88%           |
| <b>Acquisition of Assets</b>   |  | 16,821,481,355                | 17,896,312,979                | 6.39%           |

Note: In FY 1396, Goods and Services includes expenditures for food, but not communications. In FY 1395, Goods and Services includes expenditures for communications, but not food. Changes also occurred in the categories for Acquisition of Assets. The inter year totals for these two entries are therefore not strictly comparable.

Source: SIGAR analysis of USAID-provided AFMIS data exported 7/11/2017; MOF, Jawza Financial Statements FY 1395, 6/29/2016.

## Trade

The temporary border closing with Pakistan, some import substitution, and weaker domestic demand in 2016 contributed to Afghanistan lowering imports and improving its trade balance, compared to 2015. However, trade performance remained weak, according to the IMF. Afghanistan exported more goods, but this was offset by a fall in exported services.<sup>561</sup>

Afghanistan's trade balance was an IMF-estimated negative \$5.5 billion—equivalent to 29.3% of GDP. Although Afghanistan routinely sustains a large trade deficit, donor aid helped the country maintain an IMF-estimated current-account surplus of \$1.3 billion in 2016 (equivalent to 7.1% of its GDP). Without donor assistance, the IMF estimated Afghanistan would have had a current-account deficit of \$6.1 billion (equivalent to 32% of GDP).<sup>562</sup>

WTO membership may potentially help Afghanistan facilitate transit, resolve trade disputes, and gain access to global markets, which could spur foreign direct investment over the medium term, according to the World Bank. One year after accession, however, Afghanistan still has not appointed a representative or sent technical/professional teams to the WTO. The World Bank also said access to Iran's Chabahar seaport will open up a new low-cost transit route in western Afghanistan that may become the most important and cost-efficient port for Afghan trade, depending on security.<sup>563</sup>

## Export and Import Data

During 2014–2016, Afghanistan exported between \$1 billion and \$2 billion worth of goods and services annually, compared to imports ranging

between \$7.4 billion and \$8.6 billion a year. Afghanistan's legal exports in 2016 consisted of goods (56.4%) and services (43.5%). Legal imports comprised goods (82.6%) and services (17.4%). The IMF projected Afghanistan's 2017 exports at \$1.2 billion, not including illicit narcotics. Imports were projected to be around \$7.9 billion, with more than \$6.3 billion paid for by official donor grants.<sup>564</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>565</sup>

IMF staff said that Afghanistan needs to increase and diversify its exports.<sup>566</sup> The Afghan government pledged to reduce regulatory and operational barriers to facilitate this.<sup>567</sup> Exports depend heavily on agricultural outputs, which the World Bank said can increase if Afghanistan develops supply chains for higher value-added products. This will require investments to develop and improve irrigation and extension services, and to build downstream agro-processing capacities.<sup>568</sup> Weather and rainfall would, of course, continue to exert a significant influence on agricultural output and income potential.

## International Monetary Fund Support Agreement Update

On May 24, 2017, the IMF's executive board completed its first review of Afghanistan's economic-reform program—the three-year, \$45 million Extended Credit Facility (ECF) arrangement—that began in July 2016. The ECF sets out an agenda for Afghanistan that focuses on institution building, fiscal and financial reforms, and measures to combat corruption in order to improve private-sector development and more inclusive growth.<sup>569</sup>

The first review assessed the implementation of five structural benchmarks on reforms to fight corruption, strengthen revenue administration, submit a sound budget to Parliament, and take measures to resolve the 2010 Kabul Bank crisis. The review also examined eight performance criteria on government revenues, foreign exchange reserves, reserve money, net credit to central government from Afghanistan's central bank, and public debt. The IMF deemed Afghanistan's performance through December 31, 2016, satisfactory, despite enduring security challenges that undermine economic confidence and growth. All quantitative performance criteria and **indicative targets** were met.<sup>570</sup>

The IMF also concluded three of five benchmarks were met on time—strengthening the Afghanistan Customs Department's revenue administration and reducing corruption by revising its risk management policy; repaying the central bank to reduce its exposure as lender of last resort to Kabul Bank; and recapitalizing New Kabul Bank and compensating it for accumulated losses. The benchmark for the Council of Ministers to approve and submit to Parliament a FY 1396 (2017) budget in line with the ECF's macroeconomic framework and Kabul Bank repayment requirements was met after the review in March 2017. The benchmark to criminalize acts of corruption was not met.<sup>571</sup>

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

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Source: IMF, "IMF Conditionality," fact sheet, 4/17/2017.

## BANKING AND FINANCE

Afghanistan's banking sector comprises 15 banks—three state-owned, nine Afghan private-sector, and three foreign-owned commercial branches. The sector is marginally profitable, according to the IMF, with few banks incurring losses in 2016. Yet Afghanistan's financial sector remains vulnerable to adverse shocks due to poor asset quality and associated lending, capital shortfalls, weak profitability, and management deficiencies in several banks.<sup>572</sup>

Commercial bank loans to the private sector remained flat at AFN 46 billion (\$674 million) in FY 1395 (December 22, 2015, to December 21, 2016), which the World Bank said may indicate a slowdown in private investments and/or a weak appetite for lending.<sup>573</sup> Lending is almost entirely done by private banks since the state-owned banks are currently focused on improving their governance structures and modernizing major bank functions and payment systems. While the state-owned banks were slightly profitable, the IMF reported that they currently lack viable business models, which the Ministry of Finance (MOF), Afghanistan's central bank, and the World Bank are addressing. Until a strategy is approved, the state-owned New Kabul Bank and Pashtany Bank will continue their no-lending policies, and Bank Millie will not issue long-term mortgages.<sup>574</sup>

Only 10% of Afghan adults use formal financial institutions, automatic teller machines are available in only eight of Afghanistan's 34 provinces, and credit cards are issued in only six. According to the IMF, impediments to greater financial participation include a shortage of credit-worthy borrowers stemming from difficult economic and security conditions, Afghanistan's judicial system and legislative framework, weak bank management, limited professional capacity, poor bank governance and internal controls, and low financial literacy.<sup>575</sup>

Some 90% of financial transactions go through the informal **money service businesses** (MSB)/**hawala** system. There is no clear division between MSBs/hawala and formal banking systems—hawaladars keep bank accounts and use wire-transfer services, while banks occasionally use hawalas to transmit funds to remote areas in Afghanistan. MSBs and hawalas, which likely account for a substantial portion of illegal proceeds moving through Afghanistan's financial system, are generally not as closely scrutinized by the Afghan government as formal financial institutions.<sup>576</sup>

In 2016, 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 that 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>577</sup>

### Money service providers/businesses:

individuals or entities that engage in funds transfers, and who may also provide safekeeping and check-cashing services.

**Hawaladars:** individuals engaged in an informal money transfer system (hawala) common in the Middle East and South Asia. Under Afghan law, all operating hawalas are required to be licensed and report their transactions periodically to the Afghan central bank, DAB. Hawaladars generally fail to file suspicious transactions reports, as legally required.

Source: SIGAR 14-16-AR, *Afghanistan's Banking Sector: The Central Bank's Capacity to Regulate Commercial Banks Remains Weak*, 1/2014, p. 4; State, *International Narcotics Control Strategy Report*, Vol. II, 3/2017, p. 28.

## Money Laundering

The State Department lists Afghanistan as a major money-laundering country whose financial institutions either engage in, or are vulnerable to, transactions involving significant criminal proceeds, all of which “continue to threaten Afghanistan’s security and development.” Narcotics, corruption, and fraud are major sources of the country’s illegal revenues and laundered funds. State found Afghanistan’s anti-money-laundering laws to be largely in line with international standards, but still deficient, and facing significant enforcement and regulatory challenges.<sup>578</sup>

Shortcomings notwithstanding, Treasury noted that Afghanistan is making progress. Since enacting laws against money laundering and terrorist financing in 2014, there have been four money-laundering and 13 terrorist-financing convictions. In January 2017, the central bank issued a moratorium on individual licenses for foreign exchange and money-service providers in certain municipal districts. Also, the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), which is tasked with combating money laundering and terrorist financing, continued to publicly list money-service providers whose licenses have been revoked.<sup>579</sup> The United Nations reported 121 licenses have been revoked, as of May 2017.<sup>580</sup>

## Financial Action Task Force Compliance Update

At its most recent plenary session in Valencia, Spain, on June 21–23, 2017, the **Financial Action Task Force (FATF)** removed Afghanistan from its “Improving Global Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Compliance” document. Countries on this list have strategic AML/CFT deficiencies, but are implementing a FATF-approved corrective action plan to address them.<sup>581</sup>

FATF said Afghanistan made significant progress in improving its AML/CFT administration and noted that Afghanistan established a legal and regulatory framework to meet the requirements of its corrective action plan. As such, Afghanistan will no longer be subject to FATF’s ongoing compliance monitoring. Afghanistan will continue to work with the Asia Pacific Group—a FATF-style regional body—on addressing its AML/CFT issues, particularly fully implementing a cross-border currency declaration system.<sup>582</sup> If Afghanistan’s international banking relationships improve as a result of this development, Afghan banks could become more profitable, as international trade and transaction fees are an important revenue source for them.<sup>583</sup>

## Kabul Bank Theft: Accountability and Other Challenges

No efforts were made this quarter to seize, freeze, or investigate debtor accounts, or otherwise carry out President Ghani’s October 2014 decree requiring the Attorney General’s Office (AGO) to indict and prosecute all those involved in the theft of approximately \$987 million from Kabul Bank

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

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Source: Financial Action Task Force, website, “Who We Are,” and “Members and Observers,” <http://www.fatf-gafi.org/about/whoweare/> and <http://www.fatf-gafi.org/about/member-sandobservers/>, accessed 1/3/2016.

and to monitor enforcement of the courts' decisions.<sup>584</sup> The AGO has still not acted on the Kabul Bank-related cases currently referred to it.<sup>585</sup>

Some debtors appear to be shielded by their close ties to former and current high-level government officials.<sup>586</sup> For example, Abdul Ghafar Dawi—former Kabul Bank shareholder and chief executive of Dawi Oil Ltd.—was arrested in Kabul last quarter and charged with embezzling millions of dollars from fuel and oil contracts, and with tax evasion.<sup>587</sup> Kabul Bank Receivership (KBR) officials said Dawi was freed this quarter without repercussion.<sup>588</sup>

The KBR—established to manage the bank's bad assets (for example, loans that are not being repaid)—is an administrative entity only, with no authority to investigate, prosecute, or recover debtor defaults. KBR said requests to the AGO and Kabul Bank Clearance Committee for assistance in recovering stolen funds have gone unanswered.<sup>589</sup> A former deputy receiver told SIGAR that additional recoveries were being impeded, in part because the presidential palace is no longer pursuing the Kabul Bank case and the central bank is not properly supervising or exercising control over the Receivership.<sup>590</sup>

In one instance detailed last quarter, debt-collection efforts were directly undermined when a major debtor successfully had his case reopened and his original financial judgment from the Kabul Bank Special Court dismissed.<sup>591</sup> KBR officials claim that their director and legal advisor have suggested other debtors use the same new panel of judges to contest their assessed liabilities.<sup>592</sup> This quarter, these officials said two other debtor cases are being reopened with the intention of undermining the higher court judgment.<sup>593</sup>

Even if the Special Appellate Court's original decision in November 2014 and the Supreme Court's final judgment in December 2014 stand, their vague language makes enforcement problematic, according to the KBR. Many of the properties and other assets purchased with stolen Kabul Bank funds are located in Dubai, United Arab Emirates (UAE). But the courts in Dubai view the language in the court decisions—particularly regarding the identification and seizure of properties and assets—as “conditional” and lacking “legal certainty or legitimacy.” A KBR representative said the entire judgment/decision is also legally unenforceable in Afghanistan. It is therefore unclear how the Afghan government can recover its stolen assets.<sup>594</sup> The former deputy receiver of KBR also told SIGAR that the AGO's office has expressed no interest in seeking an enforceable new judgment.<sup>595</sup>

Afghanistan lacks mutual legal-assistance agreements with many of the countries where assets are located, including the UAE.<sup>596</sup> The Afghan government officially requested UAE assistance in September 2016, but has received no response.<sup>597</sup> An Afghan request for assistance in April 2015 to the United States was legally deficient. Although the Department of Justice (DOJ) outlined the corrective actions needed to move forward, the Afghan government did not respond or correct the deficiencies and the case was

closed this quarter.<sup>598</sup> State said the government’s lack of follow-up reflects, in part, the multiple security crises it faces, limited resources, and technical and administrative limitations to collect debts where assets are not liquid or are located outside the country.<sup>599</sup>

## Cash and Asset Recoveries—A Closer Look

The Kabul Bank Receivership (KBR) reported total recoveries of \$447.8 million, as of May 15, 2017. As shown in Figure 3.29, total recoveries comprise cash, waived interest, assets recovered or seized (but not necessarily liquidated), and collateral, as well as amounts still owed by major debtors who signed loan-repayment agreements. Of the total recoveries, only the \$206.7 million in cash has been truly recovered, according to the State Department.<sup>600</sup>

Recovery and accountability efforts are largely stalled.<sup>601</sup> Since President Ghani’s September 2014 Kabul Bank decree, a mere \$32.6 million has been recovered in cash. Another \$32.0 million worth of loan-repayment plans have been agreed to, but are in arrears.<sup>602</sup> Amounts owed by 289 debtors have been paid off. The KBR reported \$596.9 million, including interest, remains outstanding from 114 individuals and/or corporations (fourteen of whom owe \$578 million).<sup>603</sup> These figures are not verified by the U.S. government.<sup>604</sup>

For the other, non-cash reported recoveries:<sup>605</sup>

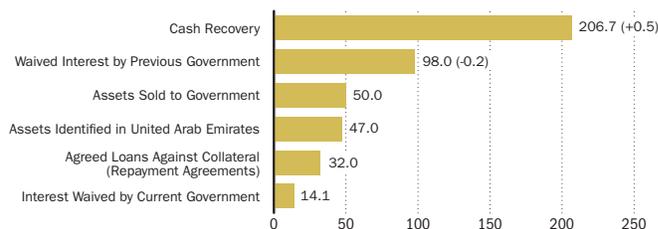
- The \$50 million in bank “assets sold to government entities” that was originally recovered by the KBR were transferred or “loaned” by the Karzai government to various ministries and agencies, but not paid for. The KBR has been unable to reclaim the value of these assets from the government, despite numerous requests. The amended FY 1396 (2017) budget submitted to parliament reportedly includes a \$50 million payment to KBR to be transferred to the central bank.

**On March 19, 2016, President Ghani signed a decree allowing SIGAR to help detect and retrieve Kabul Bank assets in foreign countries. The decree instructed the AGO, MOF, Ministry of Interior, FinTRACA, and Kabul Bank entities to provide SIGAR relevant information and documents.**

Source: GIROA, Office of the President, Presidential Decree, Serial Number 2726, 3/19/2016.

FIGURE 3.29

KABUL BANK DEBT RECOVERIES, AS OF MAY 15, 2017 (\$ MILLIONS)



Note: Figures in parenthesis represent the change from reported amounts last quarter.

Source: Kabul Bank Receivership, “Kabul Bank Debt Recovery Table,” 5/15/2017; Kabul Bank Receivership, “Kabul Bank’s Assets Recovery Brief Report,” 3/19/2017.

- The “agreed loans against collateral” merely represents an agreement by an identified group of debtors to repay their loans. Actual repayments have been limited and many debtors have not kept to the agreed-upon schedule. Of 17 repayment agreements, 13 debtors are not paying and four are in arrears. Approximately \$13.8 million of the \$31.3 million outstanding balance has been repaid. KBR leadership has reportedly not decided whether to pursue the collateral pledged against these loans.
- “Interest waived” by the previous and current governments (\$112.1 million collectively) represent accounted-for losses, not cash recoveries. Waivers were given as incentive to enter repayment agreements.
- The \$47 million in total “assets in the United Arab Emirates” were identified, but have not been recovered. The Dubai courts deem Afghanistan’s court decisions on the Kabul Bank case to have no legal merit.

Again, no recoveries from convicted ex-Kabul Bank chairman Sher Khan Farnood and CEO Khalilullah Ferozi were reported this quarter. Their assets are hidden under other people’s names, according to DOJ. This follows a pattern of the Afghan government’s failure to compel full repayment from the main architects of the fraud, both of whom are in jail, as of June 2017. According to the KBR, Farnood still owes \$336.8 million; Ferozi owes \$178.7 million.<sup>606</sup>

## U.S. Treasury Assistance to the Ministry of Finance

The U.S. Treasury’s Office of Technical Assistance (OTA) continued implementing its March 2015 agreement with Afghanistan’s MOF to develop and execute technical-assistance and capacity-building programs. OTA has carried out 11 program-assessment missions to Afghanistan so far, including three this quarter. Some OTA assistance to the MOF has been carried out remotely.<sup>607</sup> OTA assistance is focused on four areas:

### Budgeting

OTA is helping the Afghan government develop baseline budgets and out-year estimates, and is reviewing fiscal performance improvement plans (FPIP). OTA worked with MOF counterparts April 11–18, 2017, to finalize forms and training materials for a two-day workshop on estimating costs of new government activities to use in the 2018 budget process. OTA is continuing to help MOF finalize this new cost template and develop others that will guide ministries in providing more detailed activity costs in future budget requests.<sup>608</sup>

Also this quarter, OTA met with the director of the MOF’s performance management team to discuss streamlining the ministry’s FPIP and ways to improve its measurement. As a result, OTA will:

- Look into developing a team of advisors to help the Afghan government validate MOF self-evaluations of the FPIP.

- Produce a summary document to help donors better track the implementation of donor-funded reforms and identify areas for further investment.
- Help the MOF performance management team better understand performance/project management systems and public financial management best practices, preferably in coordination with USAID.
- Work with the World Bank and Treasury attaché in Kabul to organize FPIP donor meetings.<sup>609</sup>

## Economic Crimes

OTA is developing the capacity and effectiveness of Afghanistan's financial-intelligence unit, FinTRACA, and evaluating the central bank's capability to supervise money-service providers for compliance with measures against money laundering and terror financing.<sup>610</sup> This quarter, an OTA advisor deployed to Afghanistan from May 17 to 24 to help further the newly formed Afghanistan Financial Crimes Working Group (FCWG). FCWG is composed of representatives from FinTRACA, Major Crimes Task Force, Counter-Narcotics Justice Center, Anti-Corruption Justice Center, Anti-Corruption Unit, Military Anti-Corruption Unit, and Kabul Criminal Investigation Division.<sup>611</sup>

## Banking

OTA works with Da Afghanistan Bank (DAB)—Afghanistan's central bank—to improve electronic reporting and risk management, and state-bank restructuring (this assistance can be provided from the U.S. Embassy Kabul and remotely). This quarter, OTA worked with DAB's Financial Supervision Department April 29 to May 12 to begin streamlining the reporting process for financial institutions to support offsite monitoring and surveillance. OTA held two training sessions and developed a preliminary work plan for automating report collection and processing.<sup>612</sup>

## Revenue

OTA is collaborating with the new customs and tax academy to design a curriculum, deliver courses, and supply course materials. An assessment mission took place in March 2016; technical assistance has not yet begun.<sup>613</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>614</sup> Figure 3.30 on the next page shows USAID assistance by sector.

**OTA received \$2 million from USAID on April 1, 2016, to provide budget, banking, and revenue-generation assistance to the Afghan government. This agreement expires on September 30, 2019. OTA also received \$178,437 from State's Bureau of International Narcotics and Law Enforcement Affairs (INL) on September 1, 2016, to help Afghanistan combat economic crimes. This agreement, set to expire on May 30, 2017, was extended to September 30, 2017.**

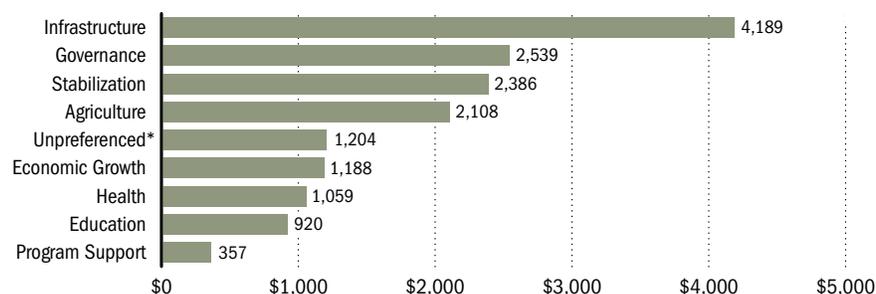
Source: Treasury, response to SIGAR data call, 6/23/2017.

**Treasury reported that security conditions continue to be a major constraint on establishing a more sustained presence in Afghanistan. Treasury said the ultimate effectiveness of its efforts will largely depend on a strong and sustained political commitment to reform by those Afghan government entities responsible for public financial management, financial-sector strength, and oversight.**

Source: Treasury, response to SIGAR data call, 6/23/2017.

FIGURE 3.30

**USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF JUNE 30, 2017**  
(\$ MILLIONS)



Note: USAID Mission-managed funds. Numbers rounded. Agriculture programs include Alternative Development. Infrastructure programs include power, roads, extractives, and other programs that build health and education facilities. \*Unpreferenced 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, 7/10/2017; SIGAR analysis of World Bank, ARTF, Administrator's Report on Financial Status, as of May 21, 2017.

## Development of Natural Resources

Developing Afghanistan's natural-resources sector and reforming the fiscal administration for its extractives industries are essential to strengthening domestic revenue collection. However, 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. In addition, the IMF reported that Afghan authorities were not able to advance an extractives reform agenda due to personnel turnover and lack of political commitment. USAID said the MOMP currently cannot administer the country's approximately 488 existing extractives contracts.<sup>615</sup>

USAID cited other issues contributing to investor uncertainty: regulations to support implementation of the new mining law enacted in November 2014 are still being developed; amendments to the law and several mineral tenders agreed to in 2010 and 2011 remain unsigned by President Ghani; and a combination of corporate income taxes, export and import duties, production royalties, and other charges constitute an uncompetitive levy of about 80% on mineral production.<sup>616</sup>

## Revenues from Natural Resources

Although geological surveys show that Afghanistan has significant mineral resources, mining has so far contributed only slightly to the country's GDP.<sup>617</sup> Actual government receipts from royalties and extractives fees in the first six months of FY 1396 (2017) were AFN 568 million (\$8.3 million); a 186.7% increase year-on-year.<sup>618</sup> Afghanistan's FY 1396 (2017) budget revenue target from extractives is \$34.8 million.<sup>619</sup>

Illegal mining at an estimated 1,400–3,000 sites represents the theft of non-renewable natural resources, damaging Afghanistan’s economic development.<sup>620</sup> The Afghan government believes \$300 million in revenue is lost annually by illegal mining, which not only denies Kabul much-needed funds, but also fuels the insurgency and drives criminality.<sup>621</sup>

## USAID Assistance

USAID has no active mining or hydrocarbon programs, and none are planned. The agency’s most recent mining and gas-generation programs ended March 31, 2017, and July 31, 2016, respectively. USAID said it needs a commitment to institutional reform from the highest levels of the Afghan government to ensure foreign assistance to the mining sector is used effectively.<sup>622</sup>

USAID helped the MOMP develop a one-year anticorruption action plan this quarter, the implementation of which will be monitored by the Joint Anticorruption Monitoring and Evaluation Committee (MEC). USAID is also exploring ways it can promote transparency in Afghanistan’s mining sector.<sup>623</sup>

## Agriculture

Agriculture is a main source of real GDP growth, employment, and subsistence for the Afghan population. It accounts for about 22% of GDP, employs 44% of the population, and affects the 61% of Afghans who depend on agricultural activities for their livelihoods.<sup>624</sup>

But growth in the sector has not been strong. The Afghan government said that aside from weather volatility, greater 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. The government wants to move from being an agrarian-subsistent and importing nation to an agro-industrial exporting one. 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>625</sup>

## USAID Assistance to the Ministry of Agriculture, Irrigation, and Livestock

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>626</sup>



**Farmers in Kabul Province** are trained in trellising through a USAID agricultural-extension program. (USAID photo)

TABLE 3.19

| USAID ACTIVE AGRICULTURE PROGRAMS                                 |            |            |                           |  |
|---|------------|------------|---------------------------|--|
| Project Title   | Start Date | End Date   | Total Estimated Cost (\$) | Cumulative Disbursements, as of 6/30/2017 (\$) |
| Regional Agriculture Development Program (RADP)-South             | 10/7/2013  | 10/6/2018  | \$125,075,172             | \$89,693,253                                   |
| Strengthening Watershed and Irrigation Management (SWIM)          | 11/15/2016 | 11/14/2021 | 87,905,437                | 1,570,165                                      |
| Regional Agriculture Development Program (RADP)-North             | 5/21/2014  | 5/20/2019  | 78,429,714                | 37,671,753                                     |
| Commercial Horticulture and Agriculture Marketing Program (CHAMP) | 2/1/2010   | 12/31/2019 | 61,294,444                | 48,996,198                                     |
| Kandahar Food Zone (KFZ)  | 7/31/2013  | 8/30/2018  | 45,402,467                | 36,148,000                                     |
| Regional Agriculture Development Program (RADP)-East              | 7/21/2016  | 7/20/2021  | 28,126,111                | 3,210,024                                      |
| Capacity Building and Change Management Program II (CBCMP II)     | 7/10/2014  | 7/9/2017   | 20,874,464                | 20,263,642                                     |
| Afghanistan Agriculture Extension Project II (AAEP-II)            | 10/1/2014  | 7/31/2017  | 20,229,771                | 19,594,756                                     |
| Grain Research and Innovation (GRAIN)                             | 3/13/2017  | 9/30/2022  | 19,500,000                | 3,250,000                                      |
| Agriculture Credit Enhancement II (ACE II)                        | 6/24/2015  | 6/23/2018  | 18,234,849                | 8,040,719                                      |
| Strengthening Afghan Agricultural Faculties (SAAF)                | 3/25/2011  | 8/31/2017  | 7,824,209                 | 6,848,511                                      |
| SERVIR  | 9/14/2015  | 9/30/2020  | 3,100,000                 | 392,156  |
| Program Evaluation for Effective Learning (PEEL)                  | 2/16/2017  | 10/31/2017 | 1,475,177                 | 382,881  |
| Texas A&M University's Agrilife Conflict Development              | 11/8/2012  | 11/7/2017  | 133,976                   | 133,976  |

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see pp. 196–197 of this report.

Source: USAID, response to SIGAR data call, 7/10/2017.

Since 2002, USAID has disbursed more than \$2.1 billion to improve agricultural production, increase access to markets, and develop income alternatives to growing poppy for opium production.<sup>627</sup> Pages 196–197 of this quarterly report discuss USAID’s agriculture alternative-development programs. USAID’s active agriculture programs have a total estimated cost of \$518 million and can be found in Table 3.19.

### Grain Innovation and Research

On March 29, 2017, USAID awarded a 54-month, \$19.5 million Grain Research and Innovation (GRAIN) project to enhance wheat productivity, profitability, and climate resilience in Afghanistan. It plans to do this through improved agronomy and wheat genetics, access to high-yield seeds, post-harvest management (to reduce losses), and better links to private seed producers and other actors along the wheat value-chain. GRAIN will work to strengthen MAIL’s capacity to research grain, particularly wheat, in order to develop and improve locally adapted grain varieties and cultivation practices. GRAIN also plans to build scientific and administrative capacities at targeted national and provincial institutions to collect, store, and analyze data to guide research and policy decisions. GRAIN will engage with farmers, agriculture officials, researchers, universities, and the private sector.<sup>628</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 MAIL. ADF extends agriculture-related credit access to 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>629</sup> USAID reported that with ACE II help, ADF has cumulatively disbursed approximately \$85.9 million in loans impacting 37,892 direct beneficiaries, as of June 2017.<sup>630</sup> However, ACE II implementers reported again that the continuing deterioration of both security and the economy is reducing demand for agricultural credit and negatively impacting loan repayments.<sup>631</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>632</sup> Over 89% of the population in large urban areas like Kabul, Herat, Kandahar, and Mazar-e Sharif has access to grid-connected power (although outages are common), in contrast to less than 11% of the rural population.<sup>633</sup>

Afghanistan's limited domestic electric generation capacity consists of hydropower and diesel sources. The country imports 77% of its total electricity. Of that imported energy, Uzbekistan provides 35.2%, Tajikistan 30.5%, Iran 20.9%, and Turkmenistan 13.4%.<sup>634</sup> The World Bank noted that limited access to electricity is one of Afghanistan's biggest constraints to private-sector development.<sup>635</sup> Afghanistan will need regional cooperation to meet its energy demands.<sup>636</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 has 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>637</sup> USAID 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>638</sup>

TABLE 3.20

| USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS                       |            |            |                           |   |
|--|------------|------------|---------------------------|---|
| Project Title  | Start Date | End Date   | Total Estimated Cost (\$) | Cumulative Disbursement, as of 6/30/2017 (\$) |
| Power Transmission Expansion and Connectivity (PTEC)             | 1/1/2013   | 12/31/2018 | \$725,000,000             | \$130,880,259                                 |
| Contributions to the Afghanistan Infrastructure Trust Fund (AIF) | 3/7/2013   | 3/6/2018   | 153,670,184               | 153,670,184                                   |
| Engineering Support Program                                      | 7/23/2016  | 7/22/2019  | 125,000,000               | 19,427,677                                    |
| Kandahar Solar Project   | 2/23/2017  | 2/22/2018  | 10,000,000                | -   |
| Utility Executive Exchange                                       | 9/30/2007  | 9/30/2017  | 698,555                   | 698,555                                       |

Source: USAID, response to SIGAR data call, 7/10/2017.

**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.

DOD has disbursed approximately \$180 million for power projects through the Commander’s Emergency Response Program as of July 2015, and roughly \$467 million, as of June 2017, through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.<sup>639</sup>

Afghanistan’s two primary power systems are the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**, which U.S. Forces-Afghanistan (USFOR-A) and USAID aim to connect, increasing the electricity supply in both systems. USAID’s Power Transmission Expansion and Connectivity (PTEC) project is constructing a transmission line connecting Kabul with Kandahar and building the capacity of DABS to sustain energy-infrastructure investments.<sup>640</sup> USAID’s active power-infrastructure projects have a total estimated cost of \$1 billion and are listed in Table 3.20.

Source: DOD, *Report on Progress Toward Security and Stability in Afghanistan*, 11/2013, p. 107.

### Kajaki Dam Power—Operations and Maintenance

After years of effort, a third turbine, known as Unit 2, was installed in the powerhouse at Kajaki Dam and commissioned on October 19, 2016. Unit 2 has a power-generating capacity of 18.5 MW. The installation represented a major advance in DABS’s efforts to increase long-term, sustainable hydro-power from Kajaki Dam to Kandahar and Helmand Provinces.<sup>641</sup>

The three turbines now in service at the Kajaki powerhouse have a total generating capacity of 50.5 MW, but were operating at a peak level of 49.5 MW this quarter due to reservoir-level constraints. All three turbines were online this quarter supplying up to 35 MW of power for the 110 kV transmission line and 10–14 MW for the 13.8 kV line.<sup>642</sup> It is not known how long this level of power generation will last.<sup>643</sup> Unit 3 is also scheduled to go offline for repairs in 2017, though no timeline for the work was scheduled.<sup>644</sup>

DABS assumed full responsibility for the Kajaki power plant, including operations and maintenance (O&M), starting in April 2017, and hired 11 operators to take charge of the powerhouse.<sup>645</sup>

### SIGAR AUDIT

An ongoing SIGAR audit examines U.S. government efforts to increase the supply, quantity, and distribution of electric power from the Kajaki Dam.

## **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>646</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>647</sup> Technical losses include energy lost to line heating and current leakage; commercial losses include customers' nonpayment of bills and energy theft, by illegally tapping into lines or bypassing meters.

Construction on the \$104 million transmission line and substations between Arghandi and Ghazni, the first segment of the NEPS-SEPS connector, was delayed this quarter to repair and replace damage caused by fighting between Afghan security forces and the Taliban. The construction completion deadline was extended by six months to July 31, 2017. Approximately \$80.8 million has been disbursed as of June 30, 2017. Subsequent disbursements are pending National Procurement Authority approval of the contract modification.<sup>648</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>649</sup>

USAID is providing \$330 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. This segment will consist of a 249-mile transmission line and five substations. USAID said security will be a major challenge to implementing this project. On February 26, 2017, DABS signed a \$113 million contract for the transmission line. The award for the substations that had been under protest since September 2016 was resolved in March 2017. However, USAID revoked its consent for the substations award on May 21, 2017, after receiving information alleging impropriety. The matter was reported to USAID's Office of the Inspector General.<sup>650</sup>

For the SEPS Completion, Phase 2, \$55 million was transferred to USAID through the Afghanistan Infrastructure Fund to design and construct a transmission line from Tangi to Sangin North and from Maiwand to Kandahar, install electrical equipment, and commission three substations. Funding will be provided on-budget and implemented by DABS.<sup>651</sup> On January 21, 2017, USAID issued its consent to execute the transmission-line contract, but Afghanistan's National Procurement Commission must approve it before the contract can be signed. On June 24, 2017, DABS submitted its bid-evaluation report for the substations to USAID for review.<sup>652</sup>

# ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.21

| AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS, AS OF JUNE 12, 2017 (\$ 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              | 57.5               | 57.5   | 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)<br>USAID: PTEC project | 101.0              | 104.0 <sup>e</sup> | 80.8   | Transmission lines 98% completed; substations 96.5% completed; six-month extension granted to repair and replace damage from ANDSF-Taliban fighting and ordering/shipping lags; no change from last quarter. (Completion: 7/2017) |  |
|   | NEPS - Arghandi to Pul-e Alam  | Design, construct transmission line, towers, and power substation   | 93.7               | 50.3               | 40.8   | Towers nearly completed; transmission line and substation under construction; community land issues affecting some tower locations. (Completion: 12/2017) <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   | Design, construct transmission line; rebuild and construct substations  | 40.0               | 28.7               | 23.0   | Under construction; tower excavation, tower erection, civil work ongoing. (Completion: 2018) <sup>b</sup>   |  |
|   | NEPS - Pul-e Alam to Gardez  | Design, construct transmission line, towers, and power substation   | 120.0              | 69.2               | 66.2   | Transmission line completed (55 km); substation nearly completed; civil work ongoing. (Completion: 7/2017) <sup>c</sup>   |  |
|   | NEPS - Charikar to Gul Bahar and Nejrab  | Design, construct transmission lines, towers, and power substation  |                    | 38.8               | 36.3   | All towers erected; transmission lines completed; substation nearly completed; no land issues at this time. (Completion: 7/2017) <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  | Design, construct transmission lines, towers, and power substation  | 33.0               | 24.1               | 23.4   | All towers erected; transmission lines completed; substation nearly completed; no land issues at this time. (Completion: 7/2017) <sup>d</sup>   |  |
|   | SEPS Completion - Phase 1  | Civil, structural, architectural improvements to substations in Tangi, Sangin North and South                       | 75.0               | 63.1               | 45.0   | Security challenges resolved; contractor dispute resolved; civil work ongoing. (Completion: 7/2017) <sup>e</sup>  |  |
|   |  | Design, construct, transmission lines from Sangin North to Lashkar Gah  |                    |                    |  | Civil work ongoing; transmission towers under construction; community issues affecting some tower locations; no land or security issues at this time. (Completion: 4/2018) <sup>f</sup>   |  |
| NEPS - SEPS Connector, Ghazni to Kandahar   | Design, Construct transmission line and substations; Final phase of NEPS-SEPS connector<br>USAID: PTEC project | 179.5   | 330.0 <sup>g</sup> | 0.0                | Transmission line contract signed; USAID revoked its consent to the substations award due to alleged impropriety. (completion: 6/2020) |   |  |
| 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.<br>USAID: PTEC project       | 55.0               | 55.0               | 0.0  | Transferred to USAID for on-budget implementation through DABS; USAID issued consent for DABS to execute contract, but not yet signed; no change from last quarter.   |  |
|   | NEPS - Gardez to Khowst  | Design, construct transmission line and substation; DOD's final contribution to NEPS                                | 130.0              | 121.3              | 33.1   | Transmission towers under construction; Khowst and Waza-Khvajeh substation designs under review; currently no land issues. (Completion: 6/2018) <sup>h</sup>  |  |

Note: Project completion dates in parentheses reflect the most recent information provided to SIGAR by USFOR-A and USAID, and are subject to change. In some cases, updated completion dates have not been determined. 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 5/31/2017. All other information is as of 6/12/2017.

<sup>a</sup> 245 of 247 towers completed. Pul-e Alam substation 74% complete. Conductor lines 92% strung. The U.S. Army Corps of Engineers (USACE) extended completion date from 7/2017 to 12/2017.

<sup>b</sup> 109 of 114 towers completed. Conductor lines 87% strung. Pushmol and Maiwand substations 75% and 77% complete, respectively. USACE extended completion date from 6/2017 (date to be determined).

<sup>c</sup> Gardez substation 99% complete. Cannot test/commission this segment until NEPS, phase 1 segment is energized to Pul-e Alam. Current completion date of 7/2017 to be extended (date to be determined).

<sup>d</sup> 100% of transmission towers erected from Charikar to Gul Bahar; Conductor lines 100% strung. 100% of transmission towers erected from Gul Bahar to Nejrab; Conductor lines 100% strung. Gul Bahar substation 99% completed. No community land issues at this time. Current completion date of 7/2017 likely to be extended (date to be determined).

<sup>e</sup> Tangi substation 73% complete. Sangin North substation 74% complete. Sangin South substation 72% complete. Completion date to be extended (date to be determined).

<sup>f</sup> Sangin to Durai Junction segment: 125 of 205 towers completed. Durai Junction to Lashkar Gah segment: 192 of 212 towers completed. Security issues currently resolved. Security issues have caused intermittent work stoppages of varying lengths. Disbursed amount includes \$2.8 million for security.

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

<sup>h</sup> 223 of 268 tower excavations completed. 123 tower foundations completed. Revised transmission line design to be submitted. Gardez substation line bay design review completed.

Source: USFOR-A, JENG, FY 2011-2014 AIF Program Status Report, 6/12/2017 and 12/9/2015; USACE, Garrison and Infrastructure Working Group, AIF LIR, 6/12/2017 and 2/22/2017; DOD, OSD-P, response to SIGAR vetting, 7/13/2017, 1/4/2017, and 7/16/2016; USAID, OI, response to SIGAR data call, 6/22/2017, 3/24/2017, 12/22/2016, and 9/23/2016; USAID, OI, response to SIGAR vetting, 7/11/2017 and 10/11/2016.

## 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>653</sup> USAID reported that since then, energy 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; three other generators were transferred to Shorandam to replace units needing scheduled maintenance.<sup>654</sup>

The Shorandam generators are currently producing 480,000 kilowatt-hours (kWh) per week, which USAID said is insufficient to meet the 1,680,000 kWh estimated weekly electricity demands of the industrial park's commercial customers. This has reportedly prompted factories to go on strike in January 2017. For other commercial and residential customers in Kandahar, the electricity supply is also inadequate.<sup>655</sup>

Some additional power is being supplied from Kajaki Dam in Helmand Province and diesel generators in Breshna Kot in Kandahar, but USAID said the cost per kilowatt-hour for diesel-generated power is unaffordable for most customers. 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 to align customer load with system output.<sup>656</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 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 power-purchasing agreement and contract were signed on February 22–23, 2017.<sup>657</sup>

## Afghanistan Infrastructure Fund Power Projects

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 completing the AIF-funded portions of the NEPS and SEPS.<sup>658</sup> Ongoing fighting in Helmand Province, as well as bureaucratic delays in getting right-of-way approvals for NEPS and SEPS transmission lines, subsided this quarter, but have challenged AIF contractors and some project-completion schedules. However, USFOR-A reported that significant progress was made on right-of-way issues this quarter.<sup>659</sup>

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 3.21.<sup>660</sup>

## 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.

AIF projects use FY 2011–FY 2014 appropriated funds. No additional AIF money was requested or appropriated in subsequent fiscal years, but up to \$50 million from the FY 2017 Afghanistan Security Forces Fund (ASFF) may be used under limited circumstances to help finish existing projects.<sup>661</sup> DOD has not used ASFF for AIF projects, as of July 2017.<sup>662</sup>

## Transportation

Afghanistan's lack of transportation infrastructure hinders domestic 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, the future revenues of which the Afghan government and international donor community are hoping will offset declining international aid.<sup>663</sup>

## Roads

Afghanistan has more than 76,400 miles of road, 28,000 of which have been rehabilitated or improved.<sup>664</sup> In 2016, SIGAR auditors assessed the conditions of approximately 1,020 miles of Afghanistan's U.S.-funded national and regional highways, and found that most were in need of repair and maintenance.<sup>665</sup> The World Bank similarly reported that 85% of Afghanistan's roads are in poor condition; the majority cannot be used year-round.<sup>666</sup>

Since 2002, USAID has provided more than \$2 billion for more than 1,240 miles of road construction, operations and maintenance (O&M), and capacity-building activities.<sup>667</sup> DOD provided at least \$847 million on 4,687 road-related projects under the Commander's Emergency Response Program. Despite these investments, SIGAR auditors determined that USAID and DOD have had only limited success in ensuring the long-term sustainability of those roads.<sup>668</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, but that is \$100 million less than the Asian Development Bank says is needed.<sup>669</sup> A USAID implementing partner calculated that the Ministry of Public Works (MOPW) could have carried out adequate O&M on 16% of its roads in 2016, a one-percentage-point increase over 2015.<sup>670</sup> Roads that go without maintenance for a long time can deteriorate to the point where they require complete rebuilding. USAID told SIGAR it would cost an estimated \$8.3 billion to replace Afghanistan's roads if they were not maintained and deteriorated beyond repair.<sup>671</sup>

Additionally, a USAID assessment from May 2015 found that MOPW needed organizational structure reforms, citing ongoing critical weaknesses, including a lack of skilled staff, poor communication, antiquated systems and processes, and a lack of will to implement necessary reforms.

TABLE 3.22

| AFGHANISTAN INFRASTRUCTURE FUND ROAD PROJECTS, AS OF JUNE 12, 2017 (\$ MILLIONS) |  |   |           |           |          |  |
|--|--|---|-----------|-----------|----------|--|
| AIF Project  | Description  | Notified Amount   | Obligated | Disbursed | Status   |  |
| AIF FY 11  | Lashkar Gah to Nawar Road                              | Design, construct 22.5 km road in Helmand Province  | \$22.0    | \$20.5    | \$20.5   | Complete   |
|  | RC-East Border Transportation Corridor                 | Saracha Bridge  | 35.6      | 6.8       | 6.8      | Complete   |
| Ghulam Khan Corridor   |  | 12.7  |           | 12.7      | Complete |  |
| AIF FY 12  | Parwan to Bamiyan Road - Section 6                     | Section 6.1   | 10.0      | 3.0       | 3.0      | Complete   |
|  |  | Section 6.2   |           | 7.0       | 7.0      | Complete   |
|  | Dahla Dam Phase 2 - Site Preparation (Route Bear Road) | Realign 4.7 km road along NW shore of Dahla Dam   | 11.2      | 7.2       | 7.2      | Complete   |
| AIF FY 14  | 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       | 4.2      | Two road segments turned over to GIROA. Bridge, approaches, and culverts still in progress. (Completion: 9/2017) |

Note: Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 5/31/2017. All other information is as of 6/12/2017.

Source: DOD, OSD-P response to SIGAR data call 12/28/2015; USFOR-A, JENG, FY 2011–2014 AIF Program Status Report, 6/12/2017; USACE, Garrison and Infrastructure Working Group, AIF LIR, 6/12/2017 and 2/22/2017.

SIGAR recommended that USAID condition future funding for its Road Sector Sustainability Project (RSSP) and for the MOPW on the successful creation of an independent road authority, road fund, and transportation institute in order to boost MOPW's capacity. USAID concurred.<sup>672</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 MOPW to manage Afghanistan's road network. TA-MOPW works with Afghan authorities in establishing a road authority, road fund, and transportation institute.<sup>673</sup> Approximately \$22 million has been disbursed for this program, as of June 30, 2017.<sup>674</sup>

Earlier this quarter, TA-MOPW provided discussion drafts of the actions needed to launch the transition plan once the top-level government leaders committed to road management reforms. The transition plan's implementation-monitoring database became operational in Dari and Pashto, and draft policy documents and manuals were readied.<sup>675</sup>

USAID approved a final transition plan on October 11, 2016, but implementation is subject to Afghan cabinet and parliamentary approval, which is still pending.<sup>676</sup> Since a road authority, road fund, and transportation institute were not created, USAID will not fund the MOPW after TA-MOPW ends in August 2017, in line with SIGAR's recommendation.<sup>677</sup>

### **Afghanistan Infrastructure Fund Road Projects**

DOD has obligated \$62.2 million and disbursed \$61.4 million for five road projects under the AIF, as of May 31, 2017. 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 3.22 on the previous page.<sup>678</sup>

## **ECONOMIC GROWTH**

Afghanistan ranked 183rd of 190 countries in the World Bank's *Doing Business 2017* report on regulatory quality and efficiency—a six-place fall from 2016.<sup>679</sup> While Afghanistan ranks high in starting a business (42nd), a doubling of the business-receipts tax rate from 2% to 4% in the latter part of 2015 made it more costly to do so. Afghanistan is nearly last in dealing with construction permits (186) and registering property (186), and is low in getting electricity (159), trading across borders (175), and enforcing contracts (180). It is considered the second-to-worst country in protecting minority investors, partly a reflection of the country's corporate-governance rules and the weakness of its legal institutions.<sup>680</sup>

In addition to addressing the security challenges that make it difficult to ignite private-sector-led and inclusive growth, the IMF recommended the 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 require major funding to carry out.<sup>681</sup>

USAID has cumulatively disbursed nearly \$1.2 billion for economic-growth programs in Afghanistan.<sup>682</sup> USAID active economic-growth programs have a total estimated cost of \$384 million and can be found in Table 3.23.

### **Afghanistan Public Financial Management Assistance**

USAID's Afghanistan Public Financial Management (APFM) program helps MOF improve its budgeting processes and implement a provincial budgeting policy. Its objective is for the Ministries of Education, Public Health, Rural Rehabilitation and Development, and Agriculture, Irrigation, and Livestock to better execute their development budgets. APFM also trains and advises the MOF to maximize revenue collection from existing and new sources.<sup>683</sup>

# ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.23

| <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 6/30/2017 (\$)</b> |
| Assistance in Building Afghanistan by Developing Enterprise (ABADE)               | 10/16/2012        | 8/15/2017       | \$104,997,656                    | \$104,247,433   |
| Afghanistan Trade and Revenue Project (ATAR)                                      | 11/7/2013         | 11/6/2017       | 77,754,266                       | 64,201,692  |
| Women in the Economy (WIE)  | 7/1/2015          | 6/30/2019       | 71,571,543                       | 16,804,134  |
| Afghanistan Workforce Development Program (AWDP)                                  | 4/5/2012          | 6/30/2018       | 44,919,458                       | 35,478,068  |
| Multi-Input Area Development-Global Development Alliance                          | 3/23/2013         | 3/22/2018       | 30,481,436                       | 17,591,917  |
| Afghanistan Public Financial Management (APFM)                                    | 7/27/2015         | 7/26/2018       | 22,130,033                       | 12,300,091  |
| Afghanistan Investment Climate Program  | 3/27/2015         | 3/26/2020       | 13,300,000                       | 2,624,374   |
| Commercial Law Development Program  | 3/1/2014          | 9/30/2019       | 10,000,000                       | 7,527,951   |
| Rebranding Afghanistan: Creating Jobs, Changing Perceptions, Empowering Women     | 11/2/2015         | 11/1/2018       | 4,800,000                        | 2,600,000   |
| Afghanistan International Bank Guarantee Agreement                                | 9/27/2012         | 9/27/2020       | 2,000,000                        | 520,800   |
| Development Credit Authority (DCA) with FINCA, OXUS, and First Microfinance Banks | 9/25/2014         | 9/24/2020       | 1,958,000                        | 0   |
| Market Assessment PIO Grant with ITC: Reconnecting Afghanistan to Global Markets  | 3/2/2017          | 7/31/2017       | 53,859                           | 0   |

Note: 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, 7/10/2017; USAID, Development Credit Authority, "Overview," 2/2/2015.

APFM will end seven months earlier than planned due to significant cuts to USAID's Office of Economic Growth budget. Program activities will cease in September 2017 and APFM will close out on December 26, 2017.<sup>684</sup>

In April 2017, APFM advisors continued to embed in line ministries, providing advice and information on budgets, planning, and asset management; developing a centralized database for planning; and creating a monitoring and evaluation framework. APFM submitted a detailed report on property taxes with several policy recommendations to consider for raising revenue. APFM also developed the requirements for an electronic, cashless transportation revenue-collection system for the five entry gates into Kabul. This would improve compliance, reduce corruption, prevent overcharges and damage to cargo, and improve efficiency.<sup>685</sup>

Additionally, APFM taught a course on the principles of non-tax revenue management for 13 members of the MOF's revenue department. APFM also provided training for mid- to high-level government officials on the Public Expenditure and Financial Accountability framework—an internationally accepted public financial management assessment tool—that was significantly revised in 2016.<sup>686</sup>

## EDUCATION

After years of upheaval in the 1980s and 1990s, Afghanistan's public education system has become one of Afghanistan's success stories since 2002, according to the World Bank. The number of boys and girls enrolled in school has increased dramatically, as has the number of teachers and schools. However, the education sector faces many challenges. The World Bank reported that only about half of all registered schools in Afghanistan have proper buildings, and only 55% of teachers meet the minimum requirements, with the rest receiving in-service training. While the sector is improving, the quality of education and administration remains weak.<sup>687</sup>

Continuing security challenges limited access to education in 2017. The United Nations Assistance Mission in Afghanistan (UNAMA) reported 14 conflict-related incidents against either education facilities or education workers between March 1, 2017, and May 24, 2017, matching 2016, year-on-year. UNAMA also documented 17 education facilities that were occupied and used for military purposes.<sup>688</sup>

### Ministry of Education Data

According to the **Education Management Information System (EMIS)** for FY 1395 (December 22, 2015–December 21, 2016), Afghanistan reportedly had 15,709 general-education (government-run, grades 1–12) schools, including 904 inactive/closed schools, with 8.4 million students enrolled.<sup>689</sup> The number of enrolled students includes both present and absent students.<sup>690</sup> The Ministry of Education (MOE) counts students who have been absent for up to three years as enrolled because, it says, they might return to school.<sup>691</sup> In December 2016, Minister of Education Assadullah Hanif Balkhi said that after adjusting school records to deduct registered but permanently absent students, only six million students were actually attending classes in Afghanistan.<sup>692</sup>

### Education Management Information System Data

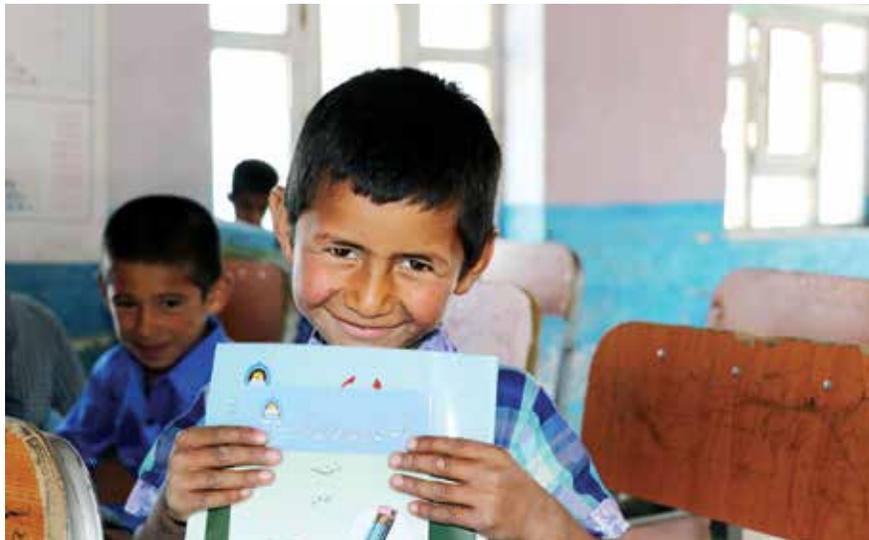
To better help the MOE gather school data to guide its decision making—and indirectly understand how donor funding is benefitting Afghanistan's education system—donors funded EMIS, which tracks critical educational statistics such as the numbers of teachers working and students enrolled. Barriers to data collection have resulted in imprecise and inaccurate EMIS data, increasing donor concerns. To understand the scope of the problem, USAID funded two assessments of EMIS data quality to identify and address gaps in the system.<sup>693</sup>

Despite its shortcomings and inability to answer key questions, the initial assessment found that EMIS provides the capacity to manage a nationwide information system. However, there remains a gap between its actual capacity and what is needed to ensure accurate and reliable information. Key weaknesses were identified, including lack of oversight, inconsistent

#### 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.



**First- and second-grade students** in a Kabul district received new books through USAID's Afghan Children Read program. (USAID photo)

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>694</sup>

A second assessment, released this quarter, focused on verifying EMIS data to assess its reliability and identifying inconsistencies at the national, provincial, and local school levels. The assessment found that EMIS data collection varied at the school-level and there was an urgent need for training. School officials lack a clear understanding of the EMIS form and how to fill it out—particularly student and teacher data—resulting in data discrepancies and inaccurate information.<sup>695</sup> For example, the assessment documented 7% more teachers marked present in attendance registers than actually found at school. Conversely, more students were present at school than were marked present in the registers. For student enrollment, the government reported 12% more students than the assessment data.<sup>696</sup>

## National Education Strategic Plan

Afghanistan's National Education Strategic Plan 2017–2021 sets out the government's priorities and goals for the next five years. These include building more schools, improving curricula quality and relevance, and increasing student enrollment and attendance though equitable access to education. The common goal is to “prepare skilled and competent citizens through the education system to sustain Afghanistan's socioeconomic development and social cohesion.” To restore public trust and confidence, MOE pledged to be more transparent, develop a robust anticorruption strategy, streamline

## SIGAR SPECIAL PROJECT

This quarter, SIGAR published its third report detailing findings from site visits at U.S.-built or U.S.-rehabilitated schools across Afghanistan. The seven schools discussed in this report were either constructed or rehabilitated using DOD's Commander's Emergency Response Program (CERP) funds in Kunar Province. SIGAR found most of the schools to be structurally sound, safe for educational use, and well attended. However, some schools faced unsanitary conditions, lacked reliable electricity, and were at risk of structural damage due to the high prevalence of earthquakes in the region. For more information, see Section 2, p. 39.

TABLE 3.24

| USAID ACTIVE EDUCATION PROGRAMS   |            |            |                           |  |
|---|------------|------------|---------------------------|--|
| Project Title   | Start Date | End Date   | Total Estimated Cost (\$) | Cumulative Disbursements, as of 6/30/2017 (\$) |
| Afghanistan University Support and Workforce Development Program                | 1/1/2014   | 12/31/2018 | \$91,927,769              | \$47,483,557                                   |
| Increasing Access to Basic Education and Gender Equality                        | 9/17/2014  | 12/31/2019 | 77,402,457                | 77,402,457                                     |
| Afghans Read Program (ARP)  | 4/4/2016   | 4/3/2021   | 69,547,810                | 7,358,375                                      |
| Support to American University of Afghanistan                                   | 8/1/2013   | 11/29/2019 | 64,400,000                | 34,395,776                                     |
| Strengthening Education in Afghanistan (SEA II)                                 | 5/19/2014  | 9/30/2020  | 44,835,920                | 17,069,996                                     |
| Basic Education, Literacy, and Technical-Vocational Education (BELT), Textbooks | 11/16/2011 | 6/30/2017  | 26,996,813                | 24,891,728                                     |
| Let Girls Learn Initiative and Girls' Education Challenge Program (GEC)         | 6/29/2016  | 6/28/2021  | 25,000,000                | 5,000,000                                      |
| Capacity Building at the Ministry of Education                                  | 2/6/2017   | 2/5/2021   | 23,212,618                | 326,524  |
| Afghanistan's Global Partnership for Education                                  | 10/11/2012 | 6/30/2018  | 10,019,464                | 3,455,947                                      |
| Assessment of Learning Outcomes and Social Effects in Community-Based Education | 1/1/2014   | 12/31/2017 | 7,262,016                 | 4,005,919                                      |
| PROMOTE Scholarships  | 3/4/2015   | 3/3/2020   | 1,247,522                 | 1,247,522                                      |

Source: USAID, response to SIGAR data call, 7/10/2017.

education operations both nationally and subnationally, increase efficiencies, and strengthen program management.<sup>697</sup>

The MOE plan will develop monitoring and evaluation capacity at all levels, to include training, and support legislative and regulatory changes that place greater responsibility for data collection at local levels. Supervisory visits from the central and provincial levels or independent third-parties will check the accuracy of the data. The evaluation process will include annual plans, checking progress against targets, and disbursements against budget allocation. National, provincial, and district data collection processes will be integrated into one information management system.<sup>698</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 employment. Its programs focus on early-grade reading, textbooks and other learning materials, and raising literacy rates through teacher and educator training.<sup>699</sup> USAID had disbursed approximately \$920 million for education programs in Afghanistan, as of June 30, 2017.<sup>700</sup> USAID's active education programs have a total estimated cost of \$442 million and can be found in Table 3.24.



**A midwife weighs** a low-birthweight infant at a provincial hospital supported by USAID's Helping Mothers and Children Thrive Program. (USAID photo)

## 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>701</sup> Insecurity also impacts health-delivery services. Between March 1, 2017, and May 24, 2017, UNAMA reported 19 conflict-related incidents against either health facilities or health workers.<sup>702</sup> There were 119 conflict-related incidents in 2016, with 10 killed, 13 injured, and 42 abducted.<sup>703</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 (MOPH) includes capacity-building, training, and quality-assurance activities to strengthen the ministry's management and control over healthcare delivery across Afghanistan.<sup>704</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 improving health outcomes.<sup>705</sup>

USAID on-budget assistance to the MOPH provides basic health care and essential hospital services. Off-budget assistance includes activities

### SIGAR SPECIAL PROJECT

This quarter, SIGAR published its sixth report detailing findings from site visits at U.S.-built or U.S.-rehabilitated health facilities across Afghanistan. Inspections sought to verify the locations and operating conditions at 35 USAID-supported public health facilities in Takhar Province that are administered through the World Bank's System Enhancement for Health Action in Transition project. SIGAR found substantial inaccuracies in the geospatial coordinates USAID previously provided for many of these 35 health facilities, including 24 facilities that were at least 10 kilometers away from reported locations. SIGAR also found that not all facilities had access to running water. For more information, see Section 2.

**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.

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 3.25

| <b>USAID ACTIVE HEALTH PROGRAMS</b>  |                   |                 |                                  |  |
|--|-------------------|-----------------|----------------------------------|--|
| <b>Project Title</b>   | <b>Start Date</b> | <b>End Date</b> | <b>Total Estimated Cost (\$)</b> | <b>Cumulative Disbursement, as of 6/30/2017 (\$)</b> |
| Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)  | 5/11/2016         | 5/10/2021       | \$75,503,848                     | \$1,870,031  |
| Helping Mother and Children Thrive (HEMAYAT)   | 1/7/2015          | 1/6/2020        | 60,000,000                       | 30,410,166   |
| Health Sector Resiliency (HSR)   | 9/28/2015         | 9/27/2020       | 37,936,471                       | 7,974,122  |
| Strengthening Pharmaceutical System (SPS)  | 8/28/2011         | 7/10/2017       | 34,399,936                       | 33,770,457   |
| Disease Early Warning System Plus (DEWS Plus)  | 1/1/2015          | 12/30/2020      | 32,728,000                       | 19,788,615   |
| Enhance Community Access, Use of Zinc, Oral Rehydration Salts for Management of Childhood Diarrhea | 7/21/2015         | 7/7/2020        | 15,002,610                       | 9,400,000  |
| Challenge Tuberculosis   | 1/1/2015          | 9/29/2019       | 15,000,000                       | 5,798,355  |
| Central Contraceptive Procurement  | 11/1/2011         | 12/31/2018      | 13,535,571                       | 13,035,571   |
| Demographic and Health Surveys   | 9/9/2013          | 9/8/2018        | 6,699,863                        | 6,699,863  |
| Sustaining Health Outcomes through the Private Sector (SHOPS Plus)                                 | 1/1/2016          | 9/30/2017       | 6,000,000                        | 4,931,022  |
| Weekly Iron Folic Acid Supplementation   | 11/7/2014         | 12/31/2017      | 5,610,012                        | 5,610,012  |
| Mothers and Under-Five Nutrition and Child Health (MUNCH)  | 12/18/2014        | 6/30/2017       | 5,000,000                        | 5,000,000  |
| 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         | 6/30/2017       | 634,833                          | 634,833  |
| Global Health Supply Chain-Procurement and Supply Management-HIV/AIDS Task Order #1                | 4/15/2015         | 9/29/2021       | 176,568                          | 176,568  |
| Coordinating Comprehensive Care for Children (4 Children)  | 9/15/2014         | 9/16/2019       | 20,000                           | 20,000   |

Source: USAID, response to SIGAR data call, 7/10/2017.

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>706</sup> U.S. on- and off-budget assistance to Afghanistan's health sector totaled more than \$1 billion as of June 30, 2017.<sup>707</sup> USAID's active health programs have a total estimated cost of \$310 million, and are listed in Table 3.25.

USAID contributions to the Maternal and Under-5 Nutrition and Child Health Program (MUNCH) and the Family Planning and Assessment project ended this quarter. Extensions for Sustaining Health Outcomes through the Private Sector (SHOPS) Plus and Strengthening Pharmaceutical Systems have been initiated.<sup>708</sup>

### **Initiative for Hygiene, Sanitation, and Nutrition**

USAID's five-year, \$75.5 million Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) project aims to reduce anemia among reproductive-age women by 10% and to decrease stunting in children less than five years old,

focusing on the first 1,000 days (conception to 24 months). It is USAID's largest active health program by dollar value and will be implemented in 10 priority provinces: Samangan, Badakhshan, Bamyan, Farah, Badghis, Ghor, Kunar, Nuristan, Nangarhar, and Paktiya.<sup>709</sup>

From October 1, 2016, through March 31, 2017, the IHSAN team continued project startup activities, including coordinating with relevant Afghan government and nongovernment stakeholders both at the national and provincial levels, and revising the year-one work plan. Nutrition counselors' manuals were developed, as were data collection tools. Staff from several ministries were trained on using data in their decision making while female mobilizers in three provinces were trained in nutrition education and rehabilitation. IHSAN began implementing community-based nutrition and water, sanitation, and hygiene interventions and also formed a technical advisory committee to help fund innovative ideas that advanced IHSAN health goals.<sup>710</sup>

## Polio

Afghanistan reported four new polio cases in 2017, as of June 28, the most recent one in Helmand Province. There were 13 polio cases in 2016.<sup>711</sup> Afghanistan and Pakistan, which share a 1,500-mile border, are two of only three countries where polio is still endemic (Nigeria is the third).<sup>712</sup> Large-scale population movements between Afghanistan and Pakistan increase the risk of cross-border transmission and complicate vaccination outreach.<sup>713</sup> Polio-eradication teams from Afghanistan and Pakistan met in Kabul May 24–25 to review existing coordination mechanisms, agree on new implementation measures, and discuss next steps on improving vaccination strategies.<sup>714</sup>

USAID, which has obligated more than \$25.7 million and disbursed about \$14.5 million for polio eradication in Afghanistan since FY 2003, said the Afghan government has strengthened polio-eradication cooperation and improved program quality.<sup>715</sup> However, security and access challenges constrain vaccination campaigns in some areas. USAID reported that Islamic State-Khorasan Province (IS-K) has completely banned immunization services, while the Haqqani Network does not oppose vaccination efforts once access is negotiated. Workers must also contend with misinformation that polio-immunization campaigns are American conspiracies, that immunization volunteers are spies, and that the polio vaccine is an anti-fertility drug or has side effects.<sup>716</sup>