

ECONOMIC CONTENTS

| | |
|---|-----|
| Key Issues and Events | 181 |
| U.S. Reconstruction Funding for Governance and Economic and Social Development | 182 |
| Economic Profile | 183 |
| Banking and Finance | 190 |
| U.S. Economic and Development Support | 196 |
| Essential Services and Development | 200 |
| Economic Growth | 208 |
| Education | 209 |
| Health | 214 |

ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES AND EVENTS

In the July 30, 2017, quarterly report, SIGAR reported that Afghanistan's total domestic revenues for the first six months of FY 1396 (which began December 22, 2016) decreased by 25% compared to the first six months of FY 1395. Using updated data, SIGAR analysis this quarter showed that aggregate domestic revenues remained roughly the same for the first eight months of FY 1396, compared to the first eight months of FY 1395. MOF senior officials told SIGAR this quarter that they classify revenues into "one-off" and "sustainable" categories. The MOF considers certain revenues—including customs, taxes, and non-tax fees—as "sustainable." Using the Afghan government's definition of sustainable domestic revenues, these categories collectively increased by about 12%, year-on-year, for the first eight months of FY 1396, compared to the first eight months of FY 1395.⁵³⁷

This quarter, the United States and the Afghan government announced the launch of the bilateral Kabul Compact.⁵³⁸ According to the State Department, the compact outlines the Afghan government's existing commitments under the 2012 Strategic Partnership Agreement that sought to define the relationship between the U.S. and Afghanistan following the drawdown of U.S. forces.⁵³⁹

The Kabul Compact comprises four key issue areas—security, economics, governance, and peace and reconciliation—each with a set of reform benchmarks.⁵⁴⁰ Economic benchmarks were selected to promote business-climate reform, create a more permissive macroeconomic environment, drive the development of key business sectors, and strengthen infrastructure.⁵⁴¹ A joint U.S.-Afghan statement described the compact as "an Afghan-led initiative" that was an "important factor upon which the United States relied when developing key components of the U.S. South Asia Policy, launched by President Trump on August 21."⁵⁴² For more on the compact, see pages 150–151 of this report. SIGAR will track Afghanistan's progress in meeting benchmarks in future quarterly reports.

Also this quarter, International Monetary Fund (IMF) staff completed their second Extended Credit Facility (ECF) review mission to Afghanistan, and announced preliminary findings. The ECF is an IMF financing vehicle that provides assistance to countries experiencing extended balance-of-payments problems. The IMF staff found Afghanistan's performance under

the ECF program to be satisfactory, but continued support from donors remains critical. The IMF's Executive Board was expected to discuss the mission's findings in December, and if approved, Afghanistan's central bank will have access to an additional \$6.1 million in financing.⁵⁴³

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

As of September 30, 2017, the U.S. government has provided approximately \$33 billion to support governance and economic and social development in Afghanistan. Most of these funds—nearly \$19.9 billion—were appropriated to the U.S. Agency for International Development's (USAID) Economic Support Fund (ESF). Of this amount, \$18.5 billion has been obligated and \$15.6 billion has been disbursed.⁵⁴⁴

According to its FY 2018 budget request, the State Department intends for U.S.-funded civilian-assistance programs in Afghanistan to reinforce and complement the U.S. military's ongoing train, advise, and assist (TAA) and counterterrorism (CT) efforts. Programs will focus on further consolidating the political, security, developmental, and social gains achieved since 2001, and aim to grow the Afghan economy. They are to be implemented under strict monitoring conditions to mitigate corruption.⁵⁴⁵

ESF investments will be made in key sectors like agriculture and natural resources. They target small and medium-size enterprises in prioritized value chains, provide support to public-private partnerships to improve infrastructure, and promote improved government capacity, including the Afghan government's ability to generate domestic revenue. The ESF is also being used to enhance civic engagement to combat violent extremism, and to empower women through increased access to education and employment opportunities.⁵⁴⁶

Implications of the FY 2017 Consolidated Appropriations Act and the New South Asia Strategy

The FY 2017 Consolidated Appropriations Act, which became law in May 2017, specifies that ESF funds may not be obligated for projects or activities that legitimize the Taliban in areas not under the Afghan government's control. According to the law, ESF funds are also not permitted to be used for projects or activities involving Afghan individuals or organizations involved in corrupt practices, as determined by the Secretary of State.⁵⁴⁷

In his speech at Fort Myer on August 21, 2017, about the U.S. strategy in Afghanistan and South Asia, President Trump stated that “one fundamental pillar of our new strategy is the integration of all instruments of American power—diplomatic, economic, and military—toward a successful outcome.” The President also emphasized his hope that India would begin to play a larger role in economic assistance to Afghanistan, and underscored

During the Inspector General's visit to Afghanistan this quarter, USAID officials said that the agency plans to concentrate future development assistance programming in urban centers, rather than in less-secure rural areas. The majority of the Afghan population lives in rural areas, where recent increases in poverty are concentrated.

Source: SIGAR, communications with USAID officials, 10/2017; World Bank, *Afghanistan Development Update*, 5/2017, p. 5.

that the U.S. would “participate in economic development to help defray the cost of [the] war.”⁵⁴⁸

ECONOMIC PROFILE

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. The IMF said the 2016 rate remains far below that necessary to increase employment and improve living standards.⁵⁴⁹

In its first review under the Extended Credit Facility released in May 2017, the IMF projected Afghanistan’s GDP to grow 3% in 2017. However, in July the IMF adjusted its growth expectations downward to 2.5%, citing continuing governance and security challenges.⁵⁵⁰ The World Bank and Asian Development Bank (ADB) projected 2.6% and 2.5% growth for 2017, respectively. Growth outlooks remain contingent on improved security and revenue collection, political stability, investor and consumer confidence, strong donor support, successful implementation of reforms and favorable weather.⁵⁵¹

Afghanistan’s rapid population growth, estimated at 3% per year, is outpacing its licit economic growth. 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. Consequently, more than 23% of Afghanistan’s labor force was unemployed in 2016–2017, according to the most recent reporting. This is further exacerbated by deteriorating security conditions and repatriation of Afghans that adds to internal displacement. Unemployment is most severe among illiterate, low-skilled workers.⁵⁵²

Agriculture was the largest contributor to real GDP growth in 2016 due to favorable weather and greater output, according to the World Bank.⁵⁵³ However, economic growth based on this sector is volatile due to weather fluctuations.⁵⁵⁴ 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.⁵⁵⁵ 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.⁵⁵⁶

Consumer prices remain low, but inflationary pressure on the Afghan currency, the afghani, combined with increasing global food prices caused domestic prices to rise by an IMF-estimated 4.4% in 2016, compared to a decrease of 1.5% in 2015.⁵⁵⁷ For 2017, the IMF projected inflation of 5.5%.⁵⁵⁸ According to the World Bank, exchange rates and global prices exert a significant impact on import-dependent nations like Afghanistan.⁵⁵⁹

The World Bank, IMF, and others exclude the value of opium production from 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.

Additionally, indicators suggested a decline in private investment in 2016, with the number of new firm registrations—a measure of investor confidence—dropping 9%. New vehicle registrations increased by 3.9%, indicating continued low-level economic activity.⁵⁶⁰

In spite of these challenges, the World Bank said this quarter that Afghan fiscal and policy reforms could deliver an annual average growth rate of 6.5% from 2017–2030. Key reforms included improved budget execution, reducing the costs and risks of doing business, and selective promotion of import substitution and exports, among others. However, the World Bank noted that the magnitude of public investment required to achieve this higher average annual growth rate would be substantial—up to \$2.6 billion per year through 2030.⁵⁶¹

IMF-defined domestic revenues: under its Extended Credit Facility arrangement with Afghanistan, the IMF defines domestic revenues in line with the Government Finance Statistics Manual, with some exceptions. Revenues include any increase in the central government's net worth resulting from a transaction. They exclude grants and are accounted for on a cash accounting basis. Transactions include taxes and additional compulsory transfers mandated by the central government, sales of goods and services, income derived from property ownership, interest, fines, penalties, forfeitures, voluntary transfers received from nongovernment entities, and social contributions.

In addition to grants, noncompulsory contributions from international organizations and foreign governments are excluded from the IMF's definition of revenue for program monitoring purposes. Also excluded are funds collected from the sale of nonfinancial assets and transactions in financial assets and liabilities (for example, borrowing but excepting interest payments), receipts collected by the central government on behalf of non-central government units, as well as profit transfers from the Central Bank to the Treasury.

Afghanistan's Fiscal Outlook

According to the IMF, Afghanistan remains poor, fragile, and heavily aid-dependent. Afghanistan's **IMF-defined domestic revenues** totaled afghani (AFN) 141.1 billion (approximately \$2.1 billion in current dollars) in 2016. This represents a 15.4% increase over 2015, surpassing the target set under the IMF's economic-support program.⁵⁶² The World Bank attributed this success to new tax policies introduced at the end of 2015 and to improved compliance and enforcement. Taxes were the greatest contributor to overall revenue, followed by non-tax revenue and customs duties.⁵⁶³

Budget expenditures continue to be significantly larger than revenues, with security being the largest recurrent cost. Even if security improves, the World Bank projects expenditures to be at least double likely revenues by 2030.⁵⁶⁴ 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 the sustainment and operational costs of the ANDSF.⁵⁶⁵ Congress fully funded DOD's \$4.26 billion budget request for the ANDSF in FY 2017. The Afghan government and international donors are expected to help cover the rest.⁵⁶⁶ The IMF estimated Afghanistan's fiscal balance to remain balanced over the medium term, inclusive of donor contributions.⁵⁶⁷

According to the World Bank, improving Afghanistan's fiscal position 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.⁵⁶⁸

Government Revenues and Expenditures

The U.S. government in its 2015 New Development Partnership listed an increase in Afghan government domestic revenues as an important result due by December 31, 2017. Achievement of this indicator is worth

Source: IMF, *First Review Under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria*, 5/8/2017, p. 60.

\$20 million in U.S. on-budget funds.⁵⁶⁹ Since agreement on the partnership, the Afghan government has reported significant revenue increases.⁵⁷⁰ In May 2017, the IMF expressed uncertainty about the sustainability of these reported increases.⁵⁷¹ In July, SIGAR reported a nearly 25% year-on-year decrease in aggregate domestic revenues for the first six months of FY 1396, compared to the first six months of FY 1395.⁵⁷²

The July 30, 2017, quarterly report was the first time SIGAR had reported on Afghan government domestic revenues and expenditures using its own analysis of original Afghan government data exported from the Afghanistan Financial Management Information System (AFMIS). AFMIS is the MOF's government-wide accounting system. AFMIS data is entered by Afghan ministry staff, so data reliability largely depends on their diligence and accuracy in system-data entry. Following publication, SIGAR was contacted by senior MOF officials who expressed concern with the way SIGAR compared year-on-year revenues in the aggregate.⁵⁷³

The MOF officials said they categorize domestic revenue as either “sustainable” or “one-off.” They contended that SIGAR should have compared only “sustainable” domestic revenues when assessing year-on-year change, and that this conformed to the preferences of the World Bank and IMF. In subsequent conversations with IMF officials, SIGAR confirmed that the IMF does not include certain revenues, such as profit transfers from the Afghan Central Bank, in their definition of revenue when calculating year-on-year revenue changes for the purposes of its Extended Credit Facility program.⁵⁷⁴

However, SIGAR believes that providing aggregate domestic revenue figures presents a more complete picture of the Afghan government's overall fiscal position. According to our analysis, the MOF, at times, selectively includes and/or excludes one-off transfers in their own year-on-year revenue reporting. An MOF document presented at the October 2017 Senior Officials Meeting in Kabul stated, “In 2016, revenue collection improved by 26% compared to 2015, including one-off revenue.” In the same document, the MOF reported a nearly 10% increase in revenue in the first six months of 2017 that appears to exclude one-off revenue.⁵⁷⁵

AFMIS data provided to SIGAR this quarter showed sizable increases in revenues for the first six months of 1396 that were not reflected in the AFMIS data exported on July 11, 2017, which SIGAR used in the July quarterly report. Customs, for example, showed an increase from AFN 11,024,809,424 to AFN 18,339,254,349 (an increase of 66.3%). While some of this was attributable to underreporting of month six customs revenues, there were also a number of sizable increases in reported customs revenues in previous months. For example, AFN 1,113,540,048 in customs revenue for Nimroz Province in month three (representing about 45% of the province's total domestic revenue for that month and 15% of the province's total domestic revenues for the first six months) did not appear in the previous data SIGAR received (despite there being approximately four months

Why SIGAR Insists on Consistent Access to Raw Afghan Government Fiscal Data

SIGAR and others, including the World Bank and the IMF, have long reported on the Afghan government's fiscal struggles. Afghanistan has a mixed recent history with budget management: in October 2014, the MOF reported that, even with austerity measures, it was facing a substantial budget shortfall, and requested that donors provide an emergency infusion of \$537 million to cover this unfinanced deficit. Without this bailout, the government said it would have to defer bill payments, including civil servants' salaries.

Concerned about the apparently sudden request for a bailout, SIGAR asked the State Department for a U.S. government point of contact with access to the electronic Afghanistan Financial Management Information System (AFMIS), the country's government-wide accounting system, as well as a description of any efforts undertaken by the United States or the international community to independently validate the budget shortfall.

SIGAR discovered that the State Department did not have access to AFMIS, and that DOD's access was limited to information used to track Ministry of Interior and Ministry of Defense spending. When SIGAR asked USAID what the U.S. government determined Afghanistan's budget gap to actually be and how that figure was determined, USAID said the decision was based on figures publicly reported by the World Bank and IMF, rather than on analysis performed internally by the U.S. government.

As a result of these discussions, SIGAR urged State and USAID to press the MOF for complete access to AFMIS so the United States government

could independently track Afghanistan's fiscal progress, anticipate future budget needs and gaps, and hold the Afghan government accountable for its management of billions of dollars in U.S. and international donor assistance without having to rely on secondary reporting. The U.S. Embassy in Kabul made AFMIS access a condition for receiving \$25 million in U.S. funds. When access was granted in December 2014, the Afghan government received \$25 million from the State Department as a result.

SIGAR continues to emphasize the importance of U.S. government access to raw, unfiltered data for independent oversight and planning purposes. In an effort to provide more detailed fiscal reporting to Congress and the American public, SIGAR began to request and receive raw AFMIS data from USAID. SIGAR presented its first independent analysis of Afghanistan's fiscal position in the July 2017 *Quarterly Report to the United States Congress*. SIGAR has either shared, or offered to share, data used for this analysis with both the MOF and SIGAR's interagency partners, recognizing that they might benefit from the ability to conveniently analyze this data. For example, SIGAR proactively offered to share its processed spreadsheets with USAID when it began working with the agency to receive AFMIS data. Since that time SIGAR has provided analysis-friendly versions of AFMIS data to USAID and DOD officials, and is working to provide the same to our Treasury counterparts.

As long as the MOF offers full U.S.-access to AFMIS, SIGAR will continue to provide original reporting on the Afghan government's fiscal position to support its monitoring and accountability efforts.

Source: SIGAR, communications with IMF officials, 9/7/2017; GIROA, *Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership*, 10/2014, p. 4; World Bank, *Afghanistan Development Update*, 5/2017, p. 16; World Bank, *Afghanistan: Country Snapshot*, 3/2014, p. 3; IMF, *First Review Under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria*, 5/8/2017, pp. 1, 12, 23; GIROA, MOF, *Afghanistan on the Road to Self-Reliance: A Year in Progress*, 10/2017, p. 5; MOF, *Request for Assistance to Address the Fiscal Situation*, 10/17/2014; GIROA, MOF, *Request for Assistance to Address the Fiscal Situation*, 12/15/2014; SIGAR-14-101-SP, 9/26/2014; State, response to SIGAR inquiry letter SIGAR-14-101-SP 10/10/2014; SIGAR, communications with State Department officials, 10/15/2014; State, response to SIGAR vetting, 10/16/2014; DOD, CSTCA, response to SIGAR data call, 9/29/2014; USAID, response to SIGAR data call, 12/28/2014; SIGAR, *Quarterly Report to the United States Congress*, 7/30/2017, pp. 160–162; SIGAR, *Quarterly Report to the United States Congress*, 1/30/2015, pp. 148–151; SIGAR, *Quarterly Report to the United States Congress*, 1/30/2016, pp. 137–139; SIGAR-15-45-SP, 4/15/2015; U.S. Embassy, Kabul, letter from Ambassador P. Michael McKinley to Acting Minister of Finance Mustafa Mastoor, 12/14/2014.

between month three and July 11, 2017).⁵⁷⁶ SIGAR will continue to follow this matter.

This quarter, based on updated data exported from AFMIS, SIGAR assessed that the government's aggregate domestic revenues remained roughly the same for the first eight months of FY 1396, compared to the first eight months of FY 1395. However, revenue identified as "sustainable" by the MOF increased 12% for the first eight months of FY 1396, year-on-year. During the same time period, expenditures decreased by about 9%.⁵⁷⁷

Table 3.13 compares the Afghan government's domestic revenues for the first eight months of FY 1396, compared to the first eight months of FY 1395. This table differs from that which SIGAR presented in July in two important ways. First, total domestic revenue for the first eight months of 1395 and 1396 is now presented with a subtotal of what MOF considers "sustainable"

and what MOF considers “one-off.” Second, percentage change is presented for both subtotals as well as the aggregate change.

SIGAR believes that this approach—presenting aggregate revenue while identifying one-off items—more accurately reflects the Afghan government’s overall fiscal situation. Table 3.14 on the following page shows expenditures for the first eight months of FY 1396, compared to the first eight months of FY 1395.

TABLE 3.13

| DOMESTIC REVENUES, FIRST EIGHT MONTHS OF FISCAL YEARS 1395 AND 1396 COMPARED (IN AFGHANIS) | | | | |
|---|--|--------------------------------------|--------------------------------------|-------------------|
| Category | | 1395 | 1396 | % Change |
| | | (Through Month 8)^a | (Through Month 8)^b | |
| Ministry of Finance (MOF)-defined “Sustainable” Domestic Revenue | | | | |
| Taxation & Customs Revenues | Fixed Taxes | 6,084,652,810 | 8,265,215,840 | 35.84% |
| | Income Taxes | 15,147,528,165 | 18,505,618,477 | 22.17% |
| | Property Taxes | 243,307,378 | 300,344,683 | 23.44% |
| | Sales Taxes | 17,019,916,700 | 21,994,231,536 | 29.23% |
| | Excise Taxes | 0 | 0 | N/A |
| | Other Taxes ^e | 2,749,091,839 | 0 | (-100.00%) |
| | Tax Penalties and Fines | 0 | 1,823,493,976 | N/A |
| | Customs Duties and Fees | 17,543,832,180 | 24,319,279,898 | 38.62% |
| Social Contributions | Retirement contributions | 2,616,116,417 | 3,034,890,618 | 16.01% |
| Other Revenue | Income from Capital Property | 851,909,980 | 1,153,608,449 | 35.41% |
| | Sales of Goods and Services | 3,479,742,504 | 4,845,007,830 | 39.23% |
| | Administrative Fees | 14,176,414,495 | 16,625,543,808 | 17.28% |
| | Royalties | 113,012,230 | 257,517,348 | 127.87% |
| | Non-Tax Fines and Penalties | 711,502,733 | 460,438,595 | (-35.29%) |
| | Extractive Industry Fees | 642,585,456 | 1,105,729,135 | 72.08% |
| | Miscellaneous Revenue ^e | 12,570,767,752 | 2,520,290,845 | (-79.95%) |
| | Sale of Land and Buildings ^d | 6,307,465 | 36,404,145 | 477.16% |
| Revenue Collected from Sources Under Claims | 0 | 652,797 | N/A | |
| Subtotal of MOF-defined “sustainable” domestic revenues | | 93,956,688,105 | 105,248,267,981 | 12.02% |
| MOF-defined “One-off” Domestic Revenue | | | | |
| Other Revenue | Profit Transfer from Central Bank ^c | 10,256,709,000 | 0 | N/A |
| | Sale of Land and Buildings ^d | 1,085,668,448 | 0 | N/A |
| Subtotal of MOF-defined “One-off” domestic revenues | | 11,342,377,448 | 0 | (-100.00%) |
| Total Domestic Revenue | | 105,299,065,553 | 105,248,267,981 | (-0.05%) |

Note:

^a These figures are derived from data publicly reported by MOF using AFMIS data exported on 9/4/2016.

^b These figures are derived from SIGAR’s analysis of data exported from AFMIS by USAID on 10/17/2017.

^c A significant component of FY 1395 revenues was an AFN 10.3 billion transfer of profits from the Afghan central bank to the MOF. Based on SIGAR’s analysis of AFMIS data, this profit transfer was initially recorded under Miscellaneous Revenues, and later re-categorized under a different code identified by the MOF as DABS exchange-rate gains. Because the FY 1395 Month 8 financial statement does not include the code under which this profit transfer was eventually classified in AFMIS, SIGAR has deducted approximately AFN 10.3 billion from the Miscellaneous Revenue figure presented in the FY 1395 Month 8 financial statement. SIGAR does include an approximately AFN 2.1 billion revenue item identified by the MOF as collections from New Kabul Bank debtors within sustainable domestic revenues. Although the MOF considers this one-off revenue, SIGAR observed that this revenue item moved in and out of categories in FY 1395, and was eventually classified under a revenue code not identified as one-off by the MOF.

^d In communications with MOF officials, SIGAR learned that the MOF classifies the sale of state-owned buildings in FY 1395 as “one-off” revenue. Thus, SIGAR splits the broader revenue category of Sale of Land and Buildings into separate “sustainable” and “one-off” revenue items. Sustainable revenues from this category include the sale of state-owned land.

^e SIGAR inadvertently omitted this category in the July 30, 2017, quarterly report.

Source: SIGAR analysis of USAID-provided AFMIS data exported 10/17/2017; MOF, Asad Financial Statements FY 1395, 9/4/2016; SIGAR, communications with MOF officials, 8/21/2017, 8/24/2017, and 9/4/2017.

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.14

| EXPENDITURES, FIRST 8 MONTHS, FISCAL YEARS 1395 AND 1396 COMPARED (IN AFGHANIS) | | | | |
|--|--|---|---|-----------------|
| | Category | 1395 (Through Month 8)^a | 1396 (Through Month 8)^b | % Change |
| Personnel | Salaries in Cash | 86,238,059,992 | 92,812,572,679 | 7.62% |
| | Salaries in Kind | 13,502,772,726 | 14,931,670,917 | 10.58% |
| | Salaries and Wages Advance | 289,712,052 | 487,226,880 | 68.18% |
| | Social Benefits in Cash | 1,673,819,988 | 1,983,347,823 | 18.49% |
| | Social Benefits in Kind | 0 | 0 | N/A |
| Supplier Expenditures | Travel | 1,662,247,958 | 1,653,241,988 | (-0.54%) |
| | Food ^c | 1,705,310,923 | 1,619,540,341 | (-5.03%) |
| | Contracted Services | 14,395,305,861 | 10,275,707,421 | (-28.62%) |
| | Repairs and Maintenance | 2,845,012,877 | 2,049,630,124 | (-27.96%) |
| | Utilities | 2,315,284,080 | 2,282,711,389 | (-1.41%) |
| | Fuel | 14,472,339,929 | 7,221,522,570 | (-50.10%) |
| | Tools and Materials | 1,938,172,336 | 3,021,829,423 | 55.91% |
| | Other | 2,854,004,656 | 1,716,100,609 | (-39.87%) |
| | Advances and Return of Expenditure | 6,133,387,820 | 2,839,907,191 | (-53.70%) |
| Subsidies, Grants, Contributions, and Pensions | Subsidies | 1,068,550,000 | 699,201,377 | (-34.57%) |
| | Grants to Foreign Governments | 128,575,780 | 112,015,000 | (-12.88%) |
| | Current Grants - General Government Units | 0 | 52,567,000 | N/A |
| | Social Security Benefits in Cash | 14,710,488,123 | 15,111,432,971 | 2.73% |
| | Social Assistance Benefits in Cash | 8,900,000 | 9,100,000 | 2.25% |
| | Subsidies, Grants, and Social Benefits Advance | 757,639,436 | 480,410,250 | (-36.59%) |
| Capital Expenditures | Buildings and Structures | 17,094,892,378 | 13,296,340,639 | (-22.22%) |
| | Machinery and Equipment ^d | 7,210,691,418 | 864,415,448 | (-88.01%) |
| | Valuables | 820,776 | 415,600 | (-49.36%) |
| | Land | 268,300,877 | 243,580,809 | (-9.21%) |
| | Capital Advance Payments>Returns | 4,070,653,708 | 2,813,637,266 | (-30.88%) |
| Interest and Principal^e | | 343,573,728 | 1,187,998,184 | 245.78% |
| Total | | 195,688,517,421 | 177,766,123,900 | (-9.16%) |

Note: The AFMIS data SIGAR received from USAID contained expenditure information in several different currencies, including U.S. dollars, Euros, and Australian dollars. Those additional expenditures included approximately \$248 million, 2.8 million Euros, and 584,000 Australian dollars over the first eight months of FY 1396. This was the first time SIGAR had received expenditure information in other currencies. SIGAR also received this quarter's AFMIS data just as it was finalizing this report. Given limited time, SIGAR was unable to determine whether or how previous reporting from the MOF treated these expenditures, and chose to report AFN expenditures only. SIGAR will address the issue of expenditures denominated in foreign currencies in future reports.

^a Figures based on the MOF's FY 1395 Month 8 Asad financial statement, which reflects AFMIS data exported on 9/4/2016.

^b Figures based on FY 1396 AFMIS data exported by USAID on 10/17/2017.

^c The MOF's FY 1395 monthly financial reports classify expenditure code 222 as "Communications." However, after reviewing both the FY 1395 and FY 1396 charts of accounts, SIGAR observed that expenditure code 222 designates food expenditures.

^d Applies to expenditures greater than 50,000 AFN, according to the FY 1396 Chart of Accounts.

^e The MOF's FY 1395 monthly financial reports contain a line item for interest. SIGAR's assumption is that this also includes principal, based on its interpretation of the FY 1395 and FY 1396 charts of accounts.

Source: SIGAR analysis of USAID-provided AFMIS data exported 10/17/2017; MOF, Asad Financial Statements FY 1395, 9/4/2016.

Trade

Temporary border closures, some import substitution, and weaker domestic demand in 2016 contributed to Afghanistan's improved trade balance, relative to 2015. However, trade performance remained weak, according to the IMF, and increases in the export of goods were offset by a fall in exported services.⁵⁷⁸

Afghanistan's trade balance was an IMF-estimated negative \$5.5 billion—equivalent to 29.3% of GDP. Afghanistan routinely sustains a large trade deficit, but 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). The IMF estimated Afghanistan's current-account deficit at \$6.1 billion (equivalent to 32% of GDP) without donor assistance.⁵⁷⁹ The IMF said that donor grants financing Afghanistan's trade deficit helped the country maintain comfortable levels of international reserves.⁵⁸⁰

WTO membership may, over the medium term, help spur foreign direct investment by allowing Afghanistan to facilitate transit, resolve trade disputes, and gain access to global markets, according to the World Bank. The World Bank also said access to Iran's Chabahar seaport will open up a new low-cost transit route that may become the most important and cost-efficient port for Afghan trade, depending on security.⁵⁸¹

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 per 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 imports to be around \$7.9 billion, with more than \$6.3 billion paid for by official donor grants. Exports were projected at \$1.2 billion, not including illicit narcotics.⁵⁸² 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.⁵⁸³

IMF staff said that Afghanistan needs to increase and diversify its exports.⁵⁸⁴ The Afghan government pledged to reduce regulatory and operational barriers to facilitate this.⁵⁸⁵ 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.⁵⁸⁶ However, weather and rainfall would continue to exert a significant influence on agricultural output and income potential.

One business-climate benchmark targeted by the Afghan government in its recently launched compact with the United States is to become the 120th-ranked country by 2021 on the World Bank's *Doing Business* report for trading across borders (Afghanistan is currently ranked 175). To help meet this benchmark, the Afghan government also plans to reduce border compliance costs by 25% per year in 2018 and 2019. The World Bank's trading across borders indicator includes measurements for the costs and time associated with importing and exporting goods.

Source: State, "Afghanistan-United States Compact—Economic Benchmarks," 8/22/2017, p. 1; World Bank, "Trading Across Borders," <http://www.doingbusiness.org/data/exploretopics/trading-across-borders>, accessed 10/5/2017.



Boxes of the high-value spice saffron, part of a 7.4 ton shipment to Saudi Arabia, await export from Afghanistan. (USAID photo)

BANKING AND FINANCE

Afghanistan's banking sector comprises 15 banks—three state-owned, nine Afghan private-sector, and three foreign-owned commercial branches. The financial sector is only marginally profitable, and remains vulnerable to adverse shocks due to poor asset quality, capital shortfalls, and management deficiencies in several banks.⁵⁸⁷

In FY 1395 (December 22, 2015, to December 21, 2016), commercial bank loans to the private sector remained flat at AFN 46 billion (\$674 million), which may indicate a slowdown in private investments and/or a weak appetite for lending, according to the World Bank.⁵⁸⁸ Private banks dominate lending, with state-owned institutions presently 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.⁵⁸⁹

A mere 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, creditworthy borrowers are in short supply due to difficult economic and security conditions, and Afghanistan's judicial system and legislative framework, weak bank management, limited professional capacity, poor bank governance and internal controls, and low financial literacy collectively represent significant impediments to developing a robust financial sector.⁵⁹⁰

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.⁵⁹¹

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 increasing 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 preparing a financial inclusion strategy to improve customer access to banking services.⁵⁹²

Following agreement to the IMF's Extended Credit Facility program, which included a benchmark to recapitalize New Kabul Bank, President Ghani chose to also recapitalize the banking sector as a whole. Because

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.

Money service providers/businesses: individuals or entities that engage in funds transfers, and who may also provide safekeeping and check-cashing services.

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.

many Afghan banks remain undercapitalized, addressing nonperforming loans through recapitalization represented an attempt by the Afghan government to support new lending.⁵⁹³

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.⁵⁹⁴

Treasury continued to emphasize Afghanistan’s progress this quarter. Treasury said that the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), which is tasked with combating money laundering and terrorist financing, had reached satisfactory levels of operational effectiveness. Treasury noted that FinTRACA appeared to be adequately resourced, had functional policies and procedures in place, and was actively sharing information with both financial institutions and law enforcement entities.⁵⁹⁵

Department of Justice Assistance to Afghan Law Enforcement

The Department of Justice (DOJ) works with the Afghan government to help it better enforce the rule of law. This quarter, the DOJ’s Office of Justice Attaché conducted two training events for Afghan law enforcement officials. On August 1–2, 2017, DOJ hosted and moderated a series of discussions in Kabul for 45 Afghan law-enforcement officials, focusing on best practices in detecting and investigating financial crimes. On September 6, 2017, DOJ hosted a similar event for 25 Afghan law-enforcement officials focused on best practices for leveraging cooperators to help build more important cases, particularly those that are drug-related. DOJ said that it had no plans for future training.⁵⁹⁶

In addition to hosting training workshops, DOJ provides mentorship to FinTRACA, as well as to leadership within various investigative entities both within and outside the Attorney General’s Office (AGO), including the Military Anti-Corruption Unit, the Counter-Narcotics Justice Center, the Anti-Terrorism Prosecution Directorate, and the Anti-Corruption Justice Center. DOJ provides mentorship through bilateral and multilateral engagements in order to improve coordination among law enforcement organizations on common cases. However, no such meetings occurred this quarter. DOJ emphasized that both capacity issues and the current security situation were inhibiting its ability to provide mentorship and training.⁵⁹⁷

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.

Financial Supervision Department: a department established in 2003 and housed within Da Afghanistan Bank (DAB), Afghanistan's central bank, to regulate and oversee Afghanistan's financial system. FSD's 165 officials are to supervise the country's Money Service Providers, Electronic Money Institutions, Foreign Exchange Dealers, and banks.

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.

Da Afghanistan Bank, website, "Financial Supervision Department," <http://dab.gov.af/en/page/about-the-bank/departments/financial-supervision>, accessed 10/02/2017.

Financial Action Task Force Compliance Update

In June 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.⁵⁹⁸

Although FATF said Afghanistan has made significant progress in improving its AML/CFT administration, Treasury noted shortcomings in DAB's **Financial Supervision Department** (FSD), finding that its ability to provide effective oversight of money service providers remained weak. Treasury said that FSD examiners have little AML/CFT and banking experience, and were neither conducting sufficiently thorough analysis of suspicious activities nor producing detailed examination reports despite documented procedures.⁵⁹⁹

Kabul Bank Theft: Marginal Accountability

No efforts were made this quarter to seize, freeze, or investigate debtor accounts, or otherwise act on 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 in 2010 and to monitor enforcement of the courts' decisions.⁶⁰⁰

Officials from the Kabul Bank Receivership (KBR) communicated to DOJ that neither the AGO nor the Kabul Bank Clearance Committee are responding to the KBR's requests to pursue collection, and the KBR director himself may not be fully committed to recovery. 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.⁶⁰¹

Some debtors, such as associates of Balkh governor Ata Mohammad Noor, appear to be shielded by their close ties to former and current high-level government officials.⁶⁰² However, this quarter Kabul Bank debtor and former Dawi Oil Ltd. Chief Executive Abdul Ghafar Dawi was convicted in a separate case of embezzling millions of dollars through tax evasion and fuel contracts.⁶⁰³

In March 2017, KBR officials told DOJ that debt-collection efforts were directly undermined when a major debtor, with the assistance of First Vice President Dostum, successfully had his original financial judgment from the Kabul Bank Special Court dismissed, with one of three judges dissenting.⁶⁰⁴ This quarter, DOJ relayed the KBR's belief that other debtors effectively view their liabilities as dismissed, and are either challenging the original order, or have ceased making agreed-upon repayments.⁶⁰⁵

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 Afghan court decisions—particularly regarding the identification and seizure of properties and assets—as “conditional” and lacking “legal certainty or legitimacy.”⁶⁰⁶ The KBR said that although President Ghani has twice asked to meet with UAE officials to discuss this matter, those officials have yet to respond and no meeting was scheduled.⁶⁰⁷ 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.⁶⁰⁸ The former deputy receiver of KBR also told SIGAR that the AGO’s office has expressed no interest in seeking an enforceable new judgment.⁶⁰⁹

The Afghan government officially requested UAE assistance in September 2016, but has received no response.⁶¹⁰ An April 2015 Afghan request for U.S. assistance 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 last quarter.⁶¹¹

Cash and Asset Recoveries: A Story Unchanged

The Kabul Bank Receivership (KBR) reported total recoveries of \$447.4 million, as of September 16, 2017, a slight decrease from reported recoveries last quarter. As shown in Figure 3.34 on the following page, total recoveries comprise cash, assets recovered by the government, interest waived by both the Karzai and Ghani administrations, assets of debtors identified in the UAE (but as yet unrecovered), and amounts still owed by major debtors who signed loan-repayment agreements. Total recoveries have remained effectively unchanged in the last year.⁶¹²

This quarter, DOJ and State reported that \$50 million in cash was transferred to the KBR from the MOF in order to account for “assets sold to government entities” that were originally recovered by the KBR, but which were subsequently “loaned” by the Karzai government to various ministries and agencies, yet not repaid. KBR officials believe that significant pressure from the international donor community resulted in this recent transfer, finally fulfilling numerous requests the KBR has made over the years. However, the transfer had no net effect on total recoveries.⁶¹³

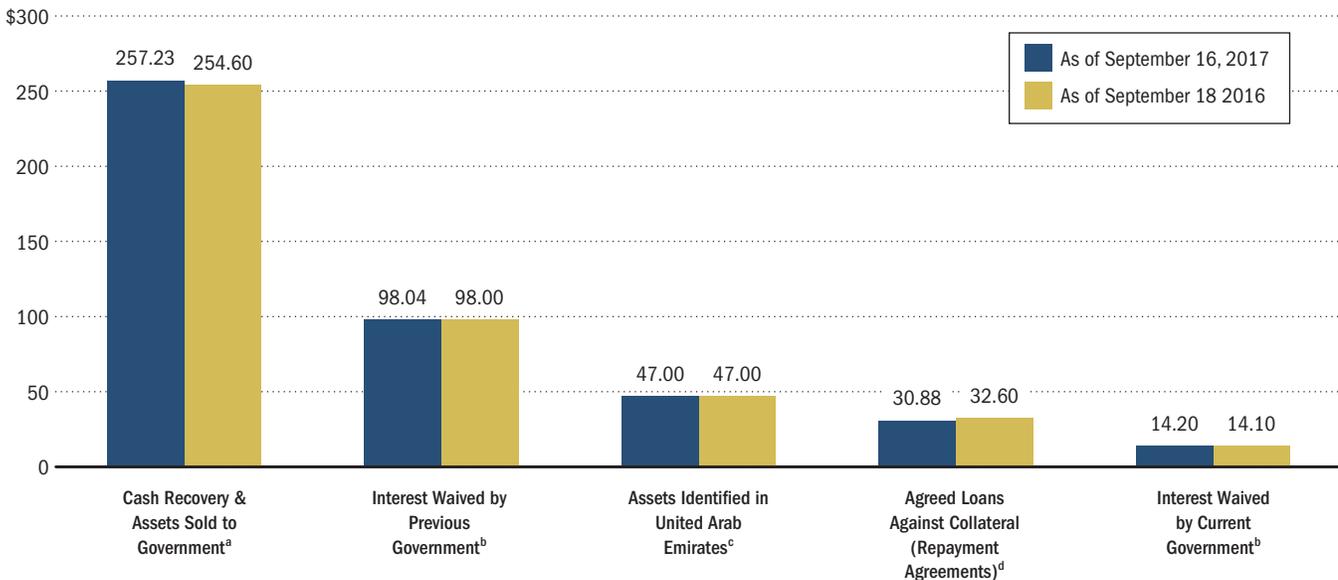
Recovery and accountability efforts are largely stalled.⁶¹⁴ The KBR reported \$596.9 million remains outstanding from 114 debtors (14 of whom owe \$578 million). Those figures remain unchanged since last quarter.⁶¹⁵ No recoveries from convicted ex-Kabul Bank chairman Sherkhan Farnood, who still owes \$272.8 million, were made this quarter; \$10,000 was collected from ex-CEO Khalilullah Ferozi, who still owes \$187.4 million, according to the KBR. 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 September 2017.⁶¹⁶

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 3.34

KBR-REPORTED RECOVERIES, SEPTEMBER 2017 VS. SEPTEMBER 2016 (\$ MILLIONS)



Note:

^a Includes both cash recoveries and \$50 million in bank “assets sold to government entities” that was originally recovered by the KBR but were transferred or “loaned” by the Karzai government to various ministries and agencies, but not paid for until this quarter, when the MOF transferred \$50 million in cash to the KBR.

^b Represents accounted-for losses, not cash recoveries. Waivers were given as an incentive to enter repayment agreements.

^c These assets 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.

^d 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.

Source: Kabul Bank Receivership, “Kabul Bank Recovery and Loan Portfolio,” 9/16/2017; Kabul Bank Receivership, “Debts Recovery Table,” 9/18/2016; DOJ, response to SIGAR data call, 9/18/2017; State, SCA, response to SIGAR data call, 12/22/2016.

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, and concluded this quarter.

Source: Treasury, response to SIGAR data call, 9/22/2017 and 6/23/2017.

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 13 program-assessment missions to Afghanistan so far, including two this quarter. Some OTA assistance to the MOF has been carried out remotely.⁶¹⁷ OTA assistance is focused on four areas:

Budgeting

Among other activities, OTA is helping the Afghan government develop baseline budgets and out-year estimates. From August 20–29, OTA worked with MOF officials in Kabul to follow up on progress made, and reported that the MOF had begun to incorporate methodological

changes recommended by OTA into its budgeting processes. MOF officials expressed their desire to implement additional inputs recommended by OTA. Treasury noted that the amount of technical assistance required to facilitate this implementation would be substantial.⁶¹⁸

OTA also said that USAID's Afghanistan Public Financial Management (APFM) project ended this quarter. As a result, USAID proposed an expansion of its \$2 million interagency agreement with OTA to continue portions of the work carried out under the APFM. OTA said that USAID's proposal would require its sustained effort and presence, and was reluctant to agree. Discussions between OTA and USAID on the nature of the proposed assistance were ongoing as this report went to press.⁶¹⁹

OTA is also reviewing the MOF's Fiscal Performance Improvement Plans (FPIP), and said that in late July, Treasury approved the development of a team to support FPIP. OTA said that while MOF officials were eager to work with Treasury, further coordination with the World Bank was required before initiating technical assistance in support of FPIP in order to avoid duplication of effort.⁶²⁰

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.⁶²¹ This quarter, an OTA advisor deployed to Afghanistan from July 23 to August 3 and, in conjunction with a DOJ representative, helped conduct a workshop on best practices in detecting and investigating financial crimes. Additionally, OTA continued previous discussions with Afghan counterparts on interagency collaboration, particularly through the Afghanistan Financial Crimes Working Group, composed of stakeholders from various Afghan law enforcement entities.⁶²²

Banking

OTA works with Da Afghanistan Bank to improve electronic reporting, risk management, and state-bank restructuring (this assistance can be provided from the U.S. Embassy-Kabul and remotely). This quarter, OTA said that its banking team had scheduled a one-month mission, planned for October 20–November 21, to further support DAB's efforts in these areas. OTA said that future missions in 2018 would likely address private-sector growth, financial stability and inclusion, payment systems, and foreclosure procedures.⁶²³

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.⁶²⁴

Treasury reported that both security conditions and the challenging political environment constrained the efficacy of OTA's mission 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.

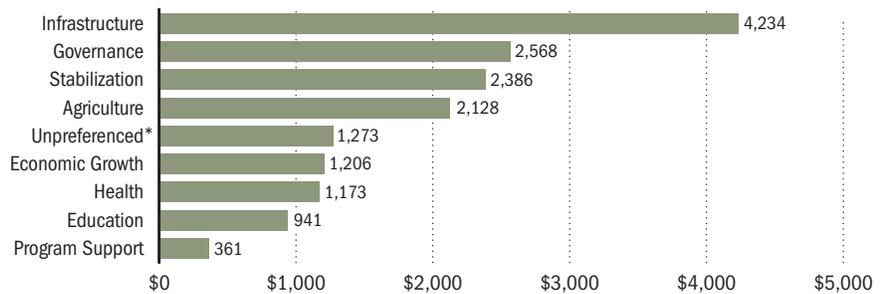
Source: Treasury, response to SIGAR data call, 9/22/2017.

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.⁶²⁵ Figure 3.35 shows USAID assistance by sector.

FIGURE 3.35

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



Note: USAID Mission-managed funds. Numbers are rounded. Agriculture programs include Alternative Development. Infrastructure programs include power, roads, extractives, and other programs that build health and education facilities. *Unpreferred funds are U.S. contributions to the ARTF that can be used for any ARTF-supported initiatives.

Source: SIGAR analysis of USAID, response to SIGAR data call, 10/15/2017; SIGAR analysis of World Bank, ARTF, Administrator’s Report on Financial Status, as of August 22, 2017.

One goal of the Afghanistan-U.S. compact launched this quarter is to develop Afghanistan’s mining and hydrocarbons sectors. The Afghan government plans to produce a roadmap for the extractive industries by December 2017 to provide a clear vision for the sustainable development of natural resources.

Source: State, “Afghanistan-United States Compact—Economic Benchmarks,” 8/22/2017, p. 1; USAID, OEG, response to SIGAR vetting, 10/10/2017.

Development of Natural Resources

Developing Afghanistan’s natural resources and reforming the fiscal administration of its extractives industries are essential to strengthening domestic revenue collection.⁶²⁶ Geological surveys show that Afghanistan is endowed with significant mineral resources, including granite, talc, nephrite, chromite, coal, gold, silver, iron, copper, and precious gemstones.⁶²⁷ Yet, mining has so far contributed little to the country’s licit GDP.⁶²⁸ Insufficient infrastructure, security conditions, declining global commodities prices, and inadequate capacity at the Ministry of Mines and Petroleum (MOMP) have all hampered the development of this sector.⁶²⁹

Moreover, illegal mining at an estimated 1,400–3,000 sites persists, curtailing Afghanistan’s economic development.⁶³⁰ 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, drives criminality, and exacerbates corruption.⁶³¹

In May 2017, the IMF reported that Afghan authorities were unable 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.⁶³² A recent Afghanistan Research and Evaluation Unit report underscored ongoing challenges at MOMP, noting that the Ministry had lost much of the capacity acquired over the last decade. MOMP continues to lack permanent leadership at the highest level: Acting Minister Nargis Nehan, reportedly a reformer seeking increased transparency at MOMP, remained unconfirmed by the Afghan parliament this quarter.⁶³³

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.⁶³⁴

Despite these challenges, the United States expressed renewed interest in developing Afghanistan's natural resources this quarter. On September 21, 2017, President Donald Trump met with President Ghani while both were attending the United Nations General Assembly in New York. Among other topics, they discussed how American companies could rapidly develop Afghanistan's rare-earth minerals to lower the costs of U.S. assistance and render Afghanistan more self-reliant.⁶³⁵ In the meeting, President Ghani said, "The economic development and prosperity of Afghanistan depend on its mining sector."⁶³⁶ According to USAID, substantial investment in exploration and development is needed to expand the Afghan extractives sector.⁶³⁷ However, whether private investors would be interested remains debatable. In an interview with *Foreign Policy* this quarter, U.S. Secretary of Commerce Wilbur Ross noted, "There are myriad questions that have to be answered for [a] project to come to fruition."⁶³⁸

USAID Assistance

USAID has no major active mining or hydrocarbon programs. Despite apparently reinvigorated U.S. interest in developing Afghanistan's natural resources, none are planned. USAID'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.⁶³⁹

However, USAID continues to fund technical services and legal advising to MOMP through interagency agreements with the U.S. Geological Survey (USGS) and the Department of Commerce. Additionally, in partnership with DOD, USAID is currently funding a USGS assessment of lithium resources at three sites in western Afghanistan.⁶⁴⁰ USAID said the World Bank, the United Kingdom's Department for International Development, and the

SIGAR AUDIT

A SIGAR audit published in January 2016 examined the effectiveness of U.S. assistance to the MOMP, specifically through the Task Force for Business and Stability Operations (TFBSO), and USAID's Mining Investment and Development for Afghan Sustainability (MIDAS) and Sheberghan Gas Generation Activity (SGGA) programs. SIGAR found that these programs had mixed results, and that MOMP's management lacked the commitment necessary to implement needed reforms. A separate SIGAR performance audit of TFBSO is also ongoing. For more information, see: SIGAR, *Afghanistan's Oil, Gas, and Minerals Industries: \$488 million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth*, SIGAR 16-11-AR.

Australian Agency for International Development are considering providing additional, unspecified assistance to MOMP. USAID added that it plans to work closely with these entities to avoid any duplication of effort.⁶⁴¹

According to USAID, the Trump Administration's recently announced South Asia strategy has reinforced a shift that emphasizes developing the private sector, with extractives viewed as an avenue for both increasing government revenue and effecting regional trade linkages. However, USAID did not specify how this shift might translate into specific programming. Overall, USAID remains concerned about MOMP's reputation for corruption.⁶⁴²

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 Afghan households that derive income from agricultural activities for their livelihoods.⁶⁴³ Within the broader agricultural sector, Afghanistan's horticultural products—for example, dried fruits and nuts—are modestly competitive: although it accounts for about one-third of agriculture's overall contribution to GDP, horticulture generates about 50% of export earnings.⁶⁴⁴

Growth in the agricultural sector has been constrained. According to the Afghan government, underinvestment in developing water resources, degrading natural resources, poor-quality inputs such as seeds and fertilizer, and weak domestic- and export-product marketing all hinder greater agricultural growth. The government hopes to transition from being an agrarian-subsistent and importing nation to an agro-industrial exporting one. To do so, the government plans to focus on areas with the largest potential to improve economic growth: promoting agro-industry, expanding cold-storage facilities, increasing quality control, and introducing better packaging to reduce waste and spoilage.⁶⁴⁵

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 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.⁶⁴⁶

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.⁶⁴⁷ Pages 227–231 of this quarterly report discuss USAID's agriculture alternative-development

TABLE 3.15

| USAID ACTIVE AGRICULTURE PROGRAMS | | | | |
|---|------------|------------|---------------------------|--|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursements, as of 9/30/2017 (\$) |
| Regional Agriculture Development Program (RADP-South) | 10/07/2013 | 10/06/2018 | \$125,075,172 | \$96,569,882 |
| Strengthening Watershed and Irrigation Management (SWIM) | 12/07/2016 | 12/06/2021 | 87,905,437 | 3,334,165 |
| Regional Agriculture Development Program (RADP-North) | 05/21/2014 | 05/20/2019 | 78,429,714 | 41,993,934 |
| Commercial Horticulture and Agriculture Marketing Program (CHAMP) | 02/01/2010 | 12/31/2019 | 61,294,444 | 50,424,711 |
| Kandahar Food Zone (KFZ) | 07/31/2013 | 08/30/2018 | 45,402,467 | 38,185,000 |
| Regional Agriculture Development Program (RADP-East) | 07/21/2016 | 07/20/2021 | 28,126,111 | 4,269,671 |
| CBCMP-II (Capacity Building and Change Management Program II) | 07/10/2014 | 07/09/2017 | 20,874,464 | 20,670,689 |
| Afghanistan Agriculture Extension Project II (AAEP - II) | 10/01/2014 | 07/31/2017 | 20,229,771 | 20,012,936 |
| Grain Research and Innovation (GRAIN) | 03/13/2017 | 09/30/2022 | 19,500,000 | 3,250,000 |
| Promoting Value Chain - West | 09/20/2017 | 09/19/2020 | 19,000,000 | - |
| ACE II (Agriculture Credit Enhancement II) | 06/24/2015 | 06/23/2018 | 18,234,849 | 9,276,554 |
| Strengthening Afghanistan Agricultural Faculties (SAAF) | 03/25/2011 | 08/31/2017 | 7,824,209 | 6,851,797 |
| SERVIR | 09/14/2015 | 09/30/2020 | 3,100,000 | 392,156 |
| Program Evaluation for Effective Learning (PEEL) | 02/16/2017 | 10/31/2017 | 1,475,177 | 382,881 |
| HESN: Texas A&M University's Agrilife ConDev | 11/08/2012 | 11/07/2017 | 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. 227–231 of this report.

Source: USAID, response to SIGAR data call, 10/15/2017.

programs. USAID's active agriculture programs have a total estimated cost of \$537 million and can be found in Table 3.15.

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 commercial farms and agribusinesses in all regional economic zones, particularly to those that add value to agricultural products, such as distributors, producers, processors, and exporters.⁶⁴⁸ USAID reported that with ACE II help, ADF has cumulatively disbursed approximately \$87.6 million in loans impacting 39,842 direct beneficiaries, as of September 2017.⁶⁴⁹

However, ACE II implementers continued to report that ongoing deterioration of both security and the economy is reducing demand for agricultural credit and negatively impacting loan repayments.⁶⁵⁰ In a draft annual report submitted to USAID on July 31, 2017, the implementers also said that security and economic challenges impacted the ADF just as weaknesses in the fund's loan evaluation criteria were emerging. Among other

factors, these circumstances have increased the time required for the ADF to achieve operating sustainability as a stand-alone entity. However, ACE II appeared to be on track to meet its FY 2017 targets for both the value of loans disbursed (\$15 million) and the percentage of loan losses (under 5%), and USAID said that no loans were written off by the ADF during the most recent reporting period (July to September 2017).⁶⁵¹

Among the business-climate reform goals included in the recently launched Kabul Compact between the United States and Afghanistan is improving the availability of electricity. The Afghan government aims to reach a rank of 120 on the World Bank's indicator for gaining access to electricity (Afghanistan is currently ranked 159). The government hopes to establish a power-sector regulator and reduce the costs of electricity installation for business consumers. The World Bank's access-to-electricity indicator measures the cost, time, and number of procedures required for a firm to gain access to a permanent electricity connection. It also accounts for the reliability of power supply and the transparency of electricity tariffs.

Source: State, "Afghanistan-United States Compact—Economic Benchmarks," 8/22/2017, p. 1; World Bank, "Getting Electricity," www.doingbusiness.org/data/exploretopics/gettingelectricity, accessed 10/5/2017.

NEPS: imports electricity from Central Asia to provide power to Kabul and the communities north of Kabul.

SEPS: draws most of its power from the Kajaki Dam and from diesel generators in Kandahar City to provide power in the Helmand and Kandahar areas.

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

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.⁶⁵² 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.⁶⁵³

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%.⁶⁵⁴ The World Bank noted that limited access to electricity is one of Afghanistan's biggest constraints to private-sector development.⁶⁵⁵ Afghanistan will need regional cooperation to meet its energy demands.⁶⁵⁶

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.⁶⁵⁷ 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.⁶⁵⁸

DOD has disbursed approximately \$180 million for power projects through the Commander's Emergency Response Program as of July 2015, and roughly \$494 million, as of August 31, 2017, through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.⁶⁵⁹

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.⁶⁶⁰ USAID’s active power-infrastructure projects have a total estimated cost of \$1 billion and are listed in Table 3.16.

TABLE 3.16

| USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS | | | | |
|---|------------|------------|---------------------------|---|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursement, as of 9/30/2017 (\$) |
| Power Transmission Expansion and Connectivity (PTEC) | 1/1/2013 | 12/31/2018 | \$725,000,000 | \$154,270,363 |
| Contributions to the Afghanistan Infrastructure Trust Fund (AITF) | 3/7/2013 | 3/6/2018 | 153,670,184 | 153,670,184 |
| Engineering Support Program | 7/23/2016 | 7/22/2019 | 125,000,000 | 24,154,669 |
| Kandahar Solar Project | 2/23/2017 | 8/26/2018 | 10,000,000 | 0 |
| Utility Executive Exchange | 9/30/2007 | 9/30/2017 | 698,555 | 698,555 |

Source: USAID, response to SIGAR data call, 10/15/2017.

Kajaki Dam Power—Operations and Maintenance

The three turbines now in service at the Kajaki powerhouse have a total generating capacity of 50.5 MW and were online this quarter, but were operating at a peak level of 41.5 MW due to seasonal reservoir-level constraints.⁶⁶¹ It is not known how long this level of power generation will last.⁶⁶² Repairs on Unit 3 initially scheduled for September 2016 have been postponed indefinitely.⁶⁶³ USAID reported this quarter that it is unaware of any near-term plans to perform repairs on any of the three turbines.⁶⁶⁴ 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.⁶⁶⁵

SIGAR AUDIT

An ongoing SIGAR audit is examining 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.⁶⁶⁶ 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.⁶⁶⁷ 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.

Although initially scheduled for completion by December 31, 2016, construction on the \$104 million transmission line and substations between Arghandi and Ghazni, the first segment of the NEPS-SEPS connector, was delayed to July 31, 2017, in order to repair and replace damage caused by fighting between Afghan security forces and the Taliban. This quarter, in response to a request from DABS, the date for construction completion was extended by an additional month to August 31, 2017, and was 98% complete by that date.⁶⁶⁸ This figure is inclusive of war-damage repairs that necessitated additional work. Although reporting from DABS indicated that the remaining work was completed in September, subsequent site visits disconfirmed this reporting, according to USAID.⁶⁶⁹

The project contractor reported that only 39% of repairs on the transmission line were complete through June 30, 2017, the most recent completion figure available to SIGAR. War-damage repairs have been complicated by both unresolved right-of-way issues and concerns related to site security.⁶⁷⁰ USAID said that DABS is responsible for remaining tasks, and has provided no estimate for when it plans to complete the project.⁶⁷¹

As of August 24, 2017, approximately \$87.8 million has been disbursed for the Arghandi-Ghazni transmission line and substations.⁶⁷² 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.⁶⁷³

USAID is providing as much as \$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, and reported the matter to USAID's Office of the Inspector General.⁶⁷⁴

On June 17, 2017, DABS officials reiterated their request for consent from USAID and on June 22, 2017, DABS provided a brief to USAID and SIGAR on its understanding of the documents and events associated with the alleged impropriety. In July, 2017, USAID's Office of the Inspector General issued an interim referral for consideration and action related to the procurement process. USAID subsequently revoked consent to DABS for any award related to the Ghazni-Kandahar substations on July 21, 2017. USAID also recommended to DABS that it reconsider all planning related to both the Ghazni-Kandahar substations and transmission lines, and that DABS provide a proposal for a way forward before the cancellation of \$179.5 million from the Afghanistan Infrastructure Fund (AIF) scheduled for September 30, 2019.⁶⁷⁵

For the SEPS Completion, Phase 2, \$55 million was transferred to USAID through the AIF 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.⁶⁷⁶ 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.⁶⁷⁷ This quarter, USAID said that contracts related to both the Kandahar-Kajaki transmission lines and substations remained in the procurement phase.⁶⁷⁸

Power Availability in Kandahar

U.S. fuel subsidies totaling \$141.7 million for power generation at two industrial parks in Kandahar City ended in September 2015.⁶⁷⁹ 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 working altogether. Three other generators were transferred to Shorandam to replace units requiring scheduled maintenance, meaning that the Bagh-e Pol diesel power plant is no longer operational.⁶⁸⁰

The Shorandam generators are currently producing 480,000 kilowatt-hours (kWh) per week. According to USAID, this production level is insufficient to meet either the maximum energy demand of the industrial park's commercial customers, estimated at 1,680,000 kWh per week, or the minimum demand of 1,344,000 kWh per week. These circumstances reportedly prompted factories to go on strike in January 2017. For other commercial and residential customers in Kandahar, the electricity supply is also inadequate.⁶⁸¹

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.⁶⁸²

To help reduce the gap between Kandahar's electric-generation capacities and demand, 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-purchase agreement and contract were signed on February 22–23, 2017.⁶⁸³ This quarter, USAID issued a notice to proceed, and construction on the solar-power plant commenced with a ceremonial groundbreaking on September 24, 2017.⁶⁸⁴

SIGAR AUDIT

A SIGAR audit published this quarter on FY 2011 Afghanistan Infrastructure Fund projects found that none of the agencies responsible for implementation—neither DOD, the State Department, and USAID—assessed whether the projects supported the U.S. counterinsurgency strategy as intended. SIGAR also found that although three of the six FY 2011 AIF projects were complete, three others remained incomplete and up to five years behind their original schedule. For more, see pp. 24–29 in Section 2 of this report.

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.⁶⁸⁵

This quarter, USFOR-A said that fighting around SEPS sites continued to negatively impact AIF project completion schedules. The fighting compelled contractors to conduct time-consuming demining of sites before commencing work, and in some cases forced them to relocate to other segments of the transmission line. Violence frequently displaced land owners, slowing the Afghan government's land-acquisition process. For example, contractors were unable to construct five towers on the Sangin to Lashkar Gar contract because landowners had fled from their homes. USFOR-A said that these issues were likely to cause additional delays during the next reporting period.⁶⁸⁶

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 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 3.17.⁶⁸⁷

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.⁶⁸⁸ On September 22, 2017, DOD notified Congress that it would use as much as \$8 million of the FY 2017 ASFF to help complete Phase one of the NEPS Arghandi to Gardez transmission line project.⁶⁸⁹

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.⁶⁹⁰

Roads

Afghanistan has more than 76,400 miles of road, 28,000 of which have been rehabilitated or improved.⁶⁹¹ 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

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.17

| AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS, AS OF SEPTEMBER 10, 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 Gar | 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) USAID: PTEC project | 101.0 | 101.0 ^e | 96.0 | Overall project 98% complete; responsibility for completion turned over to DABS (No completion date specified) |
| | NEPS - Arghandi to Pul-e Alam | Design, construct transmission line, towers, and power substation | 93.7 | 50.3 | 47.1 | Transmission line and towers complete; substation under construction. (Completion: 12/2017) ^a |
| 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 | 28.5 | 24.6 | Under construction; tower excavation, tower erection, transmission line stringing ongoing. (Completion: 2/2018) ^b |
| | NEPS - Pul-e Alam to Gardez | Design, construct transmission line, towers, and power substation | 120.0 | 68.5 | 66.7 | Towers erected; transmission line (55 km) and substation complete. (Completion: 11/2017) ^c |
| | NEPS - Charikar to Gul Bahar and Nejrab | Design, construct transmission lines, towers, and power substation | | 38.8 | 36.9 | All towers erected; transmission line and substations complete; addressing ROW issues. (Completion: 11/2017) ^d |
| 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 | 23.5 | All towers erected; transmission line and substations complete; addressing ROW issues. (Completion: 11/2017) ^d |
| | SEPS Completion - Phase 1 | Civil, structural, architectural improvements to substations in Tangi, Sangin North and South | 75.0 | 63.1 | 8.2 | Civil, structural, and architectural improvements underway. (Completion: 1/2018) ^e |
| | | Design, construct, transmission lines from Sangin North to Lashkar Gar | | | 38.3 | Transmission towers under construction; BOD shifted due to ROW issues; reroute awaiting approval; no security issues at this time. (Completion: 4/2018) ^f |
| | NEPS - SEPS Connector, Ghazni to Kandahar | Design, Construct transmission line and substations; Final phase of NEPS-SEPS connector USAID: PTEC project | 179.5 | 330.0 ^g | 0.0 | Contract signed, but USAID revoked consent for all awards related to substations in 7/2017 due to allegations of impropriety; DABS reconsidering planning for both transmission line and substations (Completion: TBD) |
| 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. 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. (Completion: TBD) |
| | NEPS - Gardez to Khowst | Design, construct transmission line and substation; DOD's final contribution to NEPS | 130.0 | 121.3 | 49.4 | Transmission towers under construction; Khowst and Waza-Khvejeh substation designs under review; currently no land issues. (Completion: 6/2018) ^h |

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, the updated completion date has 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 8/31/2017. All other information is as of either 9/10/2017, 9/21/2017, or 9/23/2017, depending on the most recent project-specific information available to SIGAR. For the purposes of this table, project completion dates are defined as the Beneficial Occupancy Date (BOD).

^a Pul-e Alam substation 90% complete. ASFF funds transferred to complete testing and turnover in FY 2018.

^b 111 of 114 towers completed. Conductor lines 87% strung. Pushmol and Maiwand substations 87% and 82% complete, respectively.

^c Cannot test/commission this segment until NEPS, Phase 1 segment is energized to Pul-e Alam. Scheduled completion extended to 11/1/2017.

^d USACE inspection complete. Coordination with Ministry of Energy and Water to resolve ROW issues ongoing.

^e Tangi substation 75% complete. Sangin North substation 75% complete. Sangin South substation 79% complete.

^f Sangin to Durai Junction segment: 125 of 205 towers completed. Durai Junction to Lashkar Gar segment: 192 of 212 towers completed. Disbursed amount includes \$2.8 million for security.

^g Includes additional, non-AIF USAID funding.

^h 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, C-JENG, FY 2011–2014 AIF Program Status Report, 9/10/2017; USACE, Garrison and Infrastructure Working Group, AIF LIR, 9/23/2017; USAID, OI, response to SIGAR data call, 9/21/2017 and 3/24/2017; USAID, response to SIGAR vetting, 10/16/2017.

maintenance.⁶⁹² The World Bank similarly reported that 85% of Afghanistan's roads are in poor condition; the majority cannot be used year-round.⁶⁹³

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.⁶⁹⁴ DOD provided at least \$847 million for 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.⁶⁹⁵

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.⁶⁹⁶ A USAID implementing partner calculated that the Ministry of Public Works (MOPW) has funds to carry out adequate O&M on only 16% of its roads in 2016, a one-percentage-point increase over 2015.⁶⁹⁷ 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.⁶⁹⁸

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. 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, and its assistance to the MOPW ended this quarter on August 2, 2017.⁶⁹⁹

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), ended on August 2, 2017. The purpose of TA-MOPW was to improve the capacity and effectiveness of the MOPW to manage Afghanistan's road network by aligning its policies and responsibilities with global best practices. Specifically, the program aimed to establish a road authority, road fund, and transportation institute.⁷⁰⁰

These objectives were not achieved. Although USAID approved a final transition plan on October 11, 2016, implementation was subject to Afghan cabinet and parliamentary approval, which is still pending.⁷⁰¹ USAID said that the Afghan government made no further progress this quarter. Because a road authority, road fund, and transportation institute have not been created, USAID decided to withhold funding from the MOPW after TA-MOPW

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.18

| AFGHANISTAN INFRASTRUCTURE FUND ROAD PROJECTS, AS OF SEPTEMBER 10, 2017 (\$ MILLIONS) | | | | | | | |
|---|--|---|--|-----------|--------|--|----------|
| AIF Project | Description | Notified Amount | Obligated | Disbursed | Status | | |
| AIF FY 11 | Lashkar Gar to Nawar Road | Design, construct 22.5 km road in Helmand Province | \$22.0 | \$20.5 | \$20.5 | Complete | |
| AIF FY 12 | RC-East Border Transportation Corridor | Saracha Bridge | Design, construct 0.16 km bridge over Chaparhar River, along Hwy 7 in Nangarhar Province | 35.6 | 6.8 | 6.8 | Complete |
| | | Ghulam Khan Corridor | Design, construct 24.1 km road, 4 bridges, culverts, switchback repairs in Khowst Province | | 12.7 | 12.7 | Complete |
| | Parwan to Bamiyan Road - Section 6 | Section 6.1 | Design, construct 7 km road of Salang bypass in Bamiyan Province | 10.0 | 3.0 | 3.0 | Complete |
| | | Section 6.2 | Design, construct 11 km road of Salang bypass in Parwan Province | | 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 a bridge to complete Ghulam Khan Transportation Corridor | 10.0 | 4.8 | 4.8 | Complete: USFOR-A coordinating property transfer with MOPW | |

Note: Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 8/31/2017. All other information is as of 9/10/2017.

Source: USFOR-A, C-JENG, FY 2011–2014 AIF Program Status Report, 9/10/2017.

ended, in line with SIGAR's recommendation.⁷⁰² A total of \$23.6 million had been disbursed for TA-MOPW as September 30, 2017.⁷⁰³

TA-MOPW's primary accomplishments included the preparation of a series of reports that collectively provided an institutional framework for better MOPW management of Afghanistan's road assets.⁷⁰⁴ These reports included a baseline assessment of the MOPW's organization and capabilities, a five-year road maintenance plan, and a ten-year maintenance budget plan. Business cases, legislative options, and high-level structures for a road authority, road fund, and transportation-infrastructure institute were also generated.⁷⁰⁵ Earlier this quarter, in its final monthly report, the implementer noted that all obligations associated with project closeout and demobilization were completed in July.⁷⁰⁶

At the completion of TA-MOPW, the implementer reported that despite substantial investment in the ministry and sustained interest in developing Afghanistan's transportation infrastructure on the part of donors, little has changed in the MOPW's capacity. The implementer underscored that due to a persistent lack of reform within the ministry, Afghanistan's Strategic Road Network, over which the MOPW has authority, was at serious risk, and in danger of losing 70% of its asset value by 2021 if current trends continue.⁷⁰⁷

According to the Afghanistan-U.S. Compact launched this quarter, the Afghan government aims, by 2021, to be the 120th-ranked country for enforcing contracts in the World Bank's *Doing Business* report (Afghanistan's current rank is 180). In support of achieving this benchmark, it also plans to reduce the amount of time required to obtain a judgement from a court system by 50% by December 2019.

Source: State, "Afghanistan-United States Compact—Economic Benchmarks," 8/22/2017, p. 1; World Bank, "Enforcing Contracts," www.doingbusiness.org/data/exploretopics/enforcing-contracts, accessed 10/5/2017.

The Afghanistan-India Air Corridor was inaugurated on June 19, 2017, with the intent of creating opportunities for Afghan exports, particularly agricultural products. Because Pakistan has strict limits on the volume of goods that Afghanistan can ship overland through its territory, the air corridor was envisioned as a way to export products directly to India. In August, multiple news reports highlighted problems with the air corridor. Some producers in Kandahar reportedly faced losses as tons of fruit rotted due to flight delays and a lack of cold-storage facilities. Both the U.S. and Afghan governments have promoted the Afghanistan-India Air Corridor as a recent trade success, and President Ashraf Ghani hopes to expand the corridor in an effort to increase trade ties with India.

Source: Reuters, "Ticket to rot for fruit stranded without flights in Afghanistan," 8/16/2017; Reuters, "India, Afghanistan plan air cargo link over Pakistan," 12/3/2017; *Wadsam*, "Afghan-India air cargo a 'failed process,'" 8/7/2017; *ToloNews*, "120 Tons Of Fruit Waiting to Reach India Markets By Air Cargo," August 6, 2017; U.S. Embassy in Afghanistan, "Statement by Ambassador Hugo Llorens on Economic Growth in Afghanistan," 8/4/2017; GIROA, Ministry of Foreign Affairs, "H.E. Salahuddin Rabbani Minister of Foreign Affairs of the Islamic Republic of Afghanistan Speech on India - Afghanistan Relationships: Recent Development and Implications," 9/12/2017; GIROA, Office of the President, "President Ghani Meets Indian Foreign Minister," 9/21/2017.

Afghanistan Infrastructure Fund Road Projects

DOD has obligated \$62 million and disbursed \$62 million for five road projects under the AIF, as of August 31, 2017. All five road projects, some consisting of multiple phases, are now complete. This quarter, the final seven km of the Ghulam Khan Transportation Corridor was finished. USFOR-A reported that as of September 10, 2017, it was coordinating with MOPW to facilitate property transfer. Table 3.18 on the previous page provides a summary of DOD's road projects executed under the AIF.⁷⁰⁸

ECONOMIC GROWTH

USAID has cumulatively disbursed over \$1.2 billion for economic-growth programs in Afghanistan.⁷⁰⁹ USAID active economic-growth programs have a total estimated cost of \$387 million and can be found in Table 3.19.

Afghanistan Trade and Revenue Project

USAID's four-year, \$77.8 million Afghanistan Trade and Revenue (ATAR) project aims to help Afghanistan realize its potential as a regional and global trading partner. ATAR is designed to promote trade-policy liberalization, enhance Afghanistan's access to regional markets, and improve its customs administration. ATAR is scheduled to end in November 2017.⁷¹⁰ As of September 30, 2017, USAID had obligated \$74 million and disbursed \$68.3 million for ATAR-related activities.⁷¹¹

This quarter, USAID implementers reported that ATAR provided support to the third WTO Inter-Ministerial Technical Committee at the Ministry of Commerce and Industries, which assessed progress in fulfilling pending WTO commitments. In support of Afghanistan's post-accession strategy, ATAR provided a completed English version of a WTO dispute-resolution manual to committee members and ministries. Among other key achievements noted this quarter, ATAR connected Afghan traders to the recently established Afghanistan-India Air Corridor initiative, working in conjunction with the Afghan Chamber of Commerce and Industries. ATAR also produced an improved customs clearance process map designed to significantly reduce the complexity of exporting products by air from Hamid Karzai International Airport in Kabul.⁷¹²

Among the challenges reported by ATAR implementers this quarter were obstacles to ratification of the Cross-Border Transit Agreement (CBTA), which aims to reduce the cost of trade among Kyrgyzstan, Tajikistan, and Afghanistan. Those obstacles included personnel turnover within the Kyrgyz government as well as its adherence to the Eurasian Economic Union (EAEU), composed of member states Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Russia.⁷¹³ USAID said that although the CBTA and EAEU are not incompatible, Kyrgyzstan's accession to the

TABLE 3.19

| USAID ACTIVE ECONOMIC-GROWTH PROGRAMS | | | | |
|---|------------|------------|---------------------------|--|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursements, as of 9/30/2017 (\$) |
| Assistance in Building Afghanistan by Developing Enterprise (ABADE) | 10/16/2012 | 10/31/2017 | \$104,997,656 | \$104,949,972 |
| Afghanistan Trade and Revenue Project (ATAR) | 11/7/2013 | 11/6/2017 | 77,754,266 | 68,266,190 |
| Women in the Economy (WIE) | 7/1/2015 | 6/30/2019 | 71,571,543 | 21,646,950 |
| Afghanistan Workforce Development Program (AWDP) | 4/5/2012 | 6/30/2018 | 44,919,458 | 37,104,288 |
| Multi-Input Area Development-Global Development Alliance | 3/23/2013 | 3/22/2018 | 30,481,436 | 19,545,256 |
| Afghanistan Public Financial Management (APFM) | 7/27/2015 | 12/26/2017 | 18,347,339 | 14,562,462 |
| Afghanistan Investment Climate Program | 3/27/2015 | 3/26/2020 | 13,300,000 | 3,634,879 |
| Commercial Law Development Program | 3/1/2014 | 9/30/2019 | 13,000,000 | 8,179,161 |
| Rebranding Afghanistan: Creating Jobs, Changing Perceptions, Empowering Women | 11/2/2015 | 11/01/2018 | 4,800,000 | 3,150,000 |
| Global Broadband and Innovation (GBI) Program | 11/1/2016 | 11/1/2017 | 3,000,000 | 250,000 |
| 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 | 49,987 |

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, 10/15/2017; USAID, Development Credit Authority, "Overview," 2/2/2015.

EAEU was a high priority for the country from 2015–16, and that as a result CBTA ratification had been delayed.⁷¹⁴

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.⁷¹⁵

Continuing security challenges have limited access to education in 2017. The United Nations Assistance Mission in Afghanistan (UNAMA) reported a total of 38 conflict-related incidents against either education facilities or education workers in the first six months of 2017, with the number of

SIGAR SPECIAL PROJECT

SIGAR's Office of Special Projects issued a report this quarter on ATAR's implementation of an e-payment system designed to provide a more efficient and effective method of collecting customs duties. ATAR implementers, in consultation with USAID, aimed to increase electronic collections to 75% of all customs collections by the end of the project in November 2017. SIGAR found that ATAR fell well short of this objective: by the end of December 2016, less than 1% of all customs duty collections were collected electronically. For more, see pp. 50–51.

incidents documented in the second quarter (24) substantially higher than the number reported in the first quarter (14). Girls' schools were the targets of six attacks.⁷¹⁶ Trends in school attendance appear to mirror trends in violence: the World Bank reported that fewer children attended primary school in 2013–2014 than in 2011–2012 due to heightened conflict. Primary school attendance rates of children in rural areas, where much of the fighting occurs, have been hit especially hard.⁷¹⁷

Girls' education, in particular, remains an ongoing challenge. Human Rights Watch (HRW) reported this quarter that due to worsening security conditions, gains in girls' education may be reversing. Citing figures from the United Nations Children's Fund, HRW estimated that two-thirds of Afghan girls ages 12–15 do not go to school. Overall, the ratio of girls to boys in every grade segment (grades 1–3, 4–6, 7–9, and 10–12) remains well below World Bank targets set for December 31, 2017. HRW observed that educational disparities between girls and boys is reflected in adolescent literacy rates: 66% of adolescent boys are literate, compared to just 37% of adolescent girls.⁷¹⁸

However, in a recent bright spot, an Afghan girls' robotics team traveled to Washington, DC, in July 2017 to compete in an international robotics competition, winning a silver medal for "courageous achievement."⁷¹⁹ Underscoring the obstacles to progress in Afghanistan, the father of the team captain was killed in a suicide attack in Herat in early August.⁷²⁰ Overall, decreases in school attendance among girls living in rural areas were particularly acute between 2011–12 and 2013–14, relative to decreases observed among other demographics.⁷²¹

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.⁷²² The number of enrolled students includes both present and absent students.⁷²³ 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.⁷²⁴ 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.⁷²⁵

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.

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.

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.⁷²⁶ 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, gaps remain between its actual capacity and what is needed to ensure accurate and reliable information. Key weaknesses were identified, including lack of oversight, inconsistent monitoring at schools, insufficient capacity and training on EMIS forms and procedures, inadequate financing and overreliance on donor-funded assistance, and lack of coordination resulting in duplicative data collection and other inefficiencies.⁷²⁷

A second assessment, released last 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.⁷²⁸

To assist USAID and the Afghan government to improve education-related data, SIGAR initiated a series of special projects to determine whether schools purportedly built or rehabilitated using U.S. funds were open and operational, and to assess their current condition. This quarter, SIGAR published its third report in this series, which detailed the findings of site visits to 23 USAID-funded schools in Khowst Province conducted from March 28 to May 1, 2017. SIGAR found that there may be problems with student and teacher absenteeism at several of the schools it visited that warrant further investigation by the Afghan government. SIGAR also observed that several schools lacked basic services, including electricity and clean water, and had structural deficiencies affecting the delivery of education.⁷²⁹ According to USAID, Khowst Province's Provincial Education Directorate emphasized that the inspections were conducted at the beginning of the school year (which began on March 22, 2017), and that higher rates of absenteeism were common at that particular time. However, USAID said that SIGAR's findings warranted follow-up with the MOE to ensure that proper monitoring and accountability mechanisms were in place.⁷³⁰

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 improving curricula quality and relevance, and increasing student enrollment and attendance though equitable access to education, and building more schools. The common goal is to “prepare skilled and competent citizens through the education system to sustain Afghanistan's

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, focusing on 23 USAID-funded schools in Khowst Province. In two previously released reports, SIGAR assessed the general usability and potential structural, operational, and maintenance issues for schools in Balkh and Herat Provinces. For more information on SIGAR's latest assessment in Khowst, see Section 2, pp. 51–52. For more information on SIGAR's previous school assessments, see: SIGAR, *Review: Schools in Balkh Province*, SIGAR 17-32-SP, 3/28/2017; SIGAR, *Schools in Herat Province: Observations from Site Visits at 25 Schools*, SIGAR 17-12-SP, 11/4/2016.



Students in a workforce-development program receive a briefing at a career center in Jowzjan. (USAID photo)

socioeconomic development and social cohesion.” To restore public trust and confidence, MOE pledged to be more transparent, develop a robust anticorruption strategy, streamline education operations both nationally and subnationally, increase efficiencies, and strengthen program management.⁷³¹

This quarter, USAID reported that the MOE, in support of the strategic plan, was working with donors to build new policies and implementation guidelines for Community Based Education (CBE).⁷³² CBE encompasses a joint effort on the part of USAID, other development partners, and the MOE to reach children who do not receive formal schooling due to geographical isolation or insecurity.⁷³³ CBE represents one component of the MOE’s plan to promote equitable access to education and is intended to reduce gaps in access between urban and rural areas.⁷³⁴ Currently supporting the CBE program in 13 provinces, USAID said that it expects new CBE policies to be completed and endorsed next quarter.⁷³⁵

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.⁷³⁶ USAID had disbursed approximately \$940 million for education programs in Afghanistan, as of June 30, 2017.⁷³⁷ USAID’s active education programs have a total estimated cost of \$443 million and can be found in Table 3.20.

TABLE 3.20

| USAID ACTIVE EDUCATION PROGRAMS | | | | |
|---|------------|------------|---------------------------|--|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursements, as of 9/30/2017 (\$) |
| Afghanistan University Support and Workforce Development Program | 1/1/2014 | 12/31/2018 | \$91,927,769 | \$54,505,006 |
| 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 | 10,342,036 |
| Support to the American University of Afghanistan (AUAF) | 8/1/2013 | 11/29/2019 | 64,400,000 | 40,680,425 |
| Strengthening Education in Afghanistan (SEA II) | 5/19/2014 | 9/30/2020 | 44,835,920 | 19,616,106 |
| 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 Programme (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 | 1,537,563 |
| Afghanistan's Global Partnership for Education | 10/11/2012 | 6/30/2018 | 10,019,464 | 3,683,414 |
| Assessment of Learning Outcomes and Social Effects in Community-Based Education | 1/01/2014 | 12/31/2017 | 7,262,016 | 4,264,210 |
| PROMOTE Scholarships | 3/04/2015 | 3/3/2020 | 1,247,522 | 1,247,522 |
| Financial and Business Management Activity with AUAF | 6/22/2017 | 12/21/2018 | 723,772 | 0 |

Source: USAID, response to SIGAR data call, 10/15/2017.

University Support and Workforce Development Program

The \$91.9 million University Support and Workforce Development Program (USWDP) is USAID's largest ongoing education initiative in Afghanistan. USWDP is a capacity-building program aimed at improving management within the Ministry of Higher Education (MOHE) and Afghanistan's 11 public universities. With the goal of increasing both the quality of higher education and its relevance to the demands of Afghanistan's labor market, USWDP is assisting the MOHE implement key strategies designed to promote high-quality education that delivers access to employment opportunities to Afghan men and women.⁷³⁸

In its latest quarterly performance report, which covered April–June 2017, USWDP implementers said that 72 students, including 14 women, graduated from three degree programs. An additional 289 individuals participated in a variety of training programs and workshops that covered topics ranging from data analysis to curriculum reform. The MOHE also received three policy documents relating to new degree programs for review and approval. These new degree programs included a master's in business administration from Herat University, a master's in public health from Kandahar University, and a bachelor's degree in communication from Balkh University.⁷³⁹

Several challenges related to the USWDP program remain. Among other obstacles, implementers reported that recent discussions regarding

the recognition of an associate-degree program piloted by USWDP have not been encouraging. USAID said that no legal framework for associate-degree programs exists and bylaws must be approved by President Ghani. Although USWDP has asked MOHE officials to address this issue with the Office of the President, these developments may set back investments made in this tier of education.⁷⁴⁰

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.⁷⁴¹ Insecurity also impacts health-delivery services. Between June 15, 2017, and August 15, 2017, UNAMA reported 26 conflict-related incidents against either health facilities or health workers, raising the total number of incidents in 2017 to 88.⁷⁴² There were 119 conflict-related incidents in 2016, with 10 killed, 13 injured, and 42 abducted.⁷⁴³

This quarter, the Taliban reportedly forced a majority of health clinics in southern Afghanistan's Uruzgan Province to shut down. The press reported different numbers of clinics and hospitals closed by the insurgency in late September, ranging from 46 to all 49 of the province's health facilities. According to the *New York Times*, provincial health officials stated that the Taliban demanded the opportunity to appoint its own health workers, to select the location of new clinics, and additional specialists and medical supplies for the treatment of wounded insurgents.⁷⁴⁴ USAID said that, according to the MOPH, efforts to re-open health facilities in Uruzgan were ongoing, and are being directed through community elders in coordination with provincial officials. According to the MOPH, 18 facilities have been reopened, including the provincial hospital.⁷⁴⁵ UNAMA reported that insurgents have forced the closure of dozens of health facilities in other provinces in 2017, including Laghman, Farah, and Badghis, in order to improve service provision for their fighters.⁷⁴⁶

Also this quarter, in response to multiple attacks on its staff members, the International Committee of the Red Cross (ICRC) announced a significant reduction in its presence in Afghanistan. The ICRC will close offices in Kunduz and Faryab Provinces while also reducing its footprint in Mazar-e Sharif. The ICRC, which provides assistance to the wounded and disabled (among other activities), has been directly targeted three times in northern Afghanistan since December 2016. In the most recent attack, in Mazar-e Sharif, a Spanish physiotherapist was killed by a long-term patient.⁷⁴⁷

Assessing the Condition of Health Facilities

This quarter, SIGAR published its first of two reviews detailing findings from site visits at CERP-funded health facilities in Afghanistan. Inspections sought to verify the locations and operating conditions at four health facilities that received CERP funds in Nangarhar Province. Working with an Afghan civil-society organization to conduct limited inspections between June and August, 2017, SIGAR found that all four facilities were open, generally well-maintained, and perceived as useful by community members. For more information, see Section 2, pages 52–53.⁷⁴⁸

In August, Integrity Watch Afghanistan (IWA) released a report assessing the conditions of 184 USAID-funded health facilities in eight provinces of Afghanistan. IWA relied on a list of facilities provided by SIGAR, but IWA produced the report independently. Overall, IWA underscored that while Afghanistan has made progress in health-care delivery, many challenges remain. IWA noted deficiencies in the physical condition, operations, and accessibility of the facilities surveyed. For example, 33% of the facilities reportedly required urgent repairs, while 20% had no electricity. Meanwhile, 64% possessed neither vehicles for staff nor ambulances for patients, precluding easy access. IWA also cited security conditions as a concern, but was unable to quantify the magnitude of the issue beyond noting that 34% of surveyed facilities were without boundary walls and gates. IWA reported that 99% of the facilities were open and operational, despite the issues noted.⁷⁴⁹

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.⁷⁵⁰ 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 public sector health-service delivery in Afghanistan—is critical to improving health outcomes for those who cannot access or afford private care.⁷⁵¹

USAID on-budget assistance to the MOPH provides basic health care and essential hospital services. Off-budget assistance includes activities to strengthen health systems, engage the private sector, reduce child and maternal deaths, reduce tuberculosis-related deaths, reduce child undernutrition, improve the use of modern family-planning methods, and eliminate polio.⁷⁵² U.S. on- and off-budget assistance to Afghanistan’s health sector totaled nearly \$1.2 billion as of September 30, 2017.⁷⁵³ USAID’s active health programs have a total estimated cost of \$310 million, and are listed in Table 3.21 on the next page.

In addition to its site inspections of CERP-funded facilities in Nangarhar Province, SIGAR previously conducted a series of reviews of USAID-supported health facilities throughout Afghanistan. Those reviews consisted of inspections of USAID-funded healthcare facilities located in Takhar, Ghazni, Baghlan, Badakhshan, Kabul, and Herat.

For more, see: SIGAR, *Review: USAID Supported Health Facilities in Takhar Province*, SIGAR 17-51-SP 7/6/2017; SIGAR, *Review: USAID Supported Health Facilities in Ghazni Province*, SIGAR 17-34-SP 3/30/2017; SIGAR, *Review Letter: USAID-Supported Health Facilities in Baghlan*, SIGAR 17-18-SP 12/12/2016; SIGAR, *Review Letter: USAID-Supported Health Facilities in Badakhshan*, SIGAR 16-40-SP 6/30/2016; SIGAR, *Review Letter: USAID-Supported Health Facilities in Kabul*, SIGAR 16-19-SP 1/5/2016; and SIGAR, *Alert Letter: USAID-Supported Health Facilities in Herat*, SIGAR 16-1-SP 10/20/2015.

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 3.21

| USAID ACTIVE HEALTH PROGRAMS | | | | |
|--|------------|------------|---------------------------|---|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursement, as of 9/30/2017 (\$) |
| Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) | 5/11/2016 | 5/10/2021 | 75,503,848 | \$4,213,592 |
| Helping Mother and Children Thrive (HEMAYAT) | 1/7/2015 | 1/6/2020 | 60,000,000 | 33,400,397 |
| Health Sector Resiliency (HSR) | 9/28/2015 | 9/27/2020 | 37,936,471 | 7,974,122 |
| Strengthening Pharmaceutical System (SPS) | 8/28/2011 | 12/28/2017 | 37,010,919 | 34,840,616 |
| Disease Early Warning System Plus (DEWS Plus) | 1/1/2015 | 12/30/2020 | 32,728,000 | 21,244,397 |
| 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 | 6,646,790 |
| 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 | 4,991,499 |
| 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 | 161,000 |
| Coordinating Comprehensive Care for Children (4 Children) | 9/15/2014 | 9/16/2019 | 20,000 | 20,000 |

Source: USAID, response to SIGAR data call, 10/15/2017; USAID, response to SIGAR data call, 7/10/2017.

Chlorhexidine: an antiseptic antibacterial agent that kills or prevents the growth of bacteria. As part of a solution or gel, it is applied topically to the skin before a surgery or injection, after an injury, or onto a newborn after birth in order to prevent infection resulting from the severing of the umbilical cord. Chlorhexidine has been proven to prevent 15% of newborn deaths.

Source: Mayo Clinic, "Chlorhexidine (Topical Application Route)." <http://www.mayoclinic.org/drugs-supplements/chlorhexidine-topical-application-route/description/drg-20070874>, accessed 9/30/17; USAID, OHN, Fact Sheet, "HEMAYAT: Helping Mothers And Children Thrive," 9/11/17, p. 3.

Helping Mothers and Children Thrive

USAID's Helping Mothers and Children Thrive (HEMAYAT) program aims to increase access to and utilization of family-planning and maternal, neonatal, and child health services through BPHS and the private sector. A second goal is to strengthen referral systems to hospitals through EPHS at the provincial level. HEMAYAT was initiated to address high child mortality rates and pregnancy-related deaths for mothers in Afghanistan.⁷⁵⁴

From April to June 2017, the HEMAYAT team continued to facilitate reproductive, maternal, and newborn interventions. Some 28,945 newborns in ten provinces received Chlorhexidine (CHX) to prevent umbilical-cord infection. A total of 839 health workers received training on the use of CHX for newborn umbilical cord care. During home births, 1,230 mothers in 20 districts of four provinces received Misoprostol, a drug used to prevent postpartum hemorrhage.⁷⁵⁵

Among the challenges listed by HEMAYAT implementers this reporting period was the deteriorating security situation, which resulted in delays of

some field activities. For example, the team was unable to conduct assessments of 33 health facilities.⁷⁵⁶

Polio

As of September 27, Afghanistan reported six new polio cases in 2017, the most recent one in Zabul Province.⁷⁵⁷ Polio cases were also reported in Kunduz, Helmand, and Kandahar Provinces.⁷⁵⁸ There were 13 polio cases in 2016.⁷⁵⁹ Afghanistan and Pakistan, which share a 1,500-mile border, are two of only three countries where polio was still endemic in 2016 (Nigeria, since removed from the list, was the third).⁷⁶⁰ Large-scale population movements between Afghanistan and Pakistan increase the risk of cross-border transmission, and a fatwa issued by the Pakistani Taliban targeting polio workers complicates vaccination outreach.⁷⁶¹

On July 25, 2017, representatives from Afghanistan's Polio High Council met in Kabul to discuss joint polio-eradication efforts, stressing that polio eradication was one of the country's top health-care priorities, and highlighting progress made in recent years.⁷⁶² The World Health Organization said that new transmission of the polio virus in 2016–2017 had been restricted both temporally and geographically, and the United Nations reported that a case from February 2017 in Kunduz Province was effectively contained.⁷⁶³

This quarter, the MOPH launched the third and fourth rounds of polio National Immunization Days (NIDs) in August and September, respectively. Over the course of a year, through four annual NID campaigns, the MOPH aimed to vaccinate 9.9 million children under the age of 5.⁷⁶⁴ However, security and access challenges continue to constrain vaccination campaigns in some areas. Access to certain parts of southern Afghanistan, where 64,000 children in Kandahar were unable to receive vaccinations in July due to a ban on immunizations, remained fragile this quarter.⁷⁶⁵ USAID reported this quarter that Islamic State-Khorasan continues to ban polio immunization in areas it controls. USAID also said that while the Taliban and the Haqqani network are not opposed to vaccination, they disrupt campaigns for other reasons.⁷⁶⁶ Recent vaccination efforts were also unable to reach 60,000 children in other areas of the country.⁷⁶⁷

As of December 31, 2016, USAID has obligated more than \$25.7 million and disbursed about \$14.5 million for polio eradication in Afghanistan since FY 2003. USAID said that it does not yet have expenditure figures for FY 2017, as it is awaiting the year-end financial report scheduled for release this month.⁷⁶⁸



A midwife disinfests a newborn's umbilical-cord stump at a health facility in Kandahar Province. (USAID photo)