

ECONOMIC AND SOCIAL CONTENTS

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ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES AND EVENTS

In November 2017, the World Bank released its semiannual *Afghanistan Development Update*, summarizing the institution's current views on the situation in Afghanistan. The Bank said persistent deterioration of the security environment appeared to be preventing the Afghan economy from recovering fully from the 2014 security transition. Economic growth was projected to continue at a pace of 2.6% in 2017, an increase of just 0.4 percentage points over 2016. The World Bank anticipated that industry and services would grow by 2.0% and 3.3%, respectively, in 2017. Growth in agricultural output was expected to decline to about 1.5% this year, following a 6.0% increase in 2016.⁵³¹

On December 8, 2017, the International Monetary Fund (IMF) completed its second review of Afghanistan under the Extended Credit Facility. The ECF is an IMF financing vehicle that provides assistance to countries experiencing extended balance-of-payments problems. The IMF said that Afghanistan had met all quantitative performance criteria and indicative targets. It continued to predict 2.5% Gross Domestic Product (GDP) growth for 2017, and projected 3.0% growth in 2018. Projections for future growth were contingent on continued donor support and implementation of reforms, among other factors. In the near term, the IMF said, growth would not be strong enough to reduce unemployment.⁵³²

The government's fiscal year (FY) 1397 budget, although approved by Afghanistan's cabinet and upper house of parliament on November 5 and November 21, 2017, respectively, was initially rejected by the lower house of parliament for the ninth consecutive year.⁵³³ Following extensive negotiations, the lower house subsequently approved the AFN 377 billion (\$5.4 billion) budget on January 17, 2018.⁵³⁴ An Integrity Watch Afghanistan (IWA) report released in December said the lower house's repeated rejection of draft national budgets has "generated a pattern of patronage where the [members of parliament] get the chance to negotiate their benefits with the Ministry of Finance and other ministries."⁵³⁵ According to the Afghanistan Analysts Network, the budget was designed to address both corruption and declining levels of donor support, and departs from previous budgets in several important respects—for example, by discontinuing the practice of carrying unspent development funds over to the next year.⁵³⁶

IWA warned that, historically, the budget process “has been riddled with incompetence, corruption, and collusion.”⁵³⁷

This quarter, USAID told SIGAR that it is currently conducting an energy-sector assessment to ensure that its power infrastructure projects are aligned with the Trump Administration’s new South Asia strategy, which was announced last quarter on August 21, 2017.⁵³⁸ USAID said two key segments of its \$725 million Power Transmission and Connectivity (PTEC) program would be on hold until the review is complete.⁵³⁹

SIGAR analysis this quarter showed that Afghan government revenue growth remained strong in FY 1396 (December 22, 2016, to December 21, 2017). The Ministry of Finance categorizes domestic revenue as either “sustainable” or “one-off.”⁵⁴⁰ While sustainable domestic revenues increased by 15%, aggregate revenues grew by 7%, year-on-year from FY 1395 to FY 1396.⁵⁴¹ Due to data limitations, SIGAR was unable to compare total FY 1396 expenditures with MOF- or USAID-supplied data for FY 1395. However, a comparison of current FY 1396 data exported from Afghanistan’s government-wide accounting system to FY 1395 figures reported by the World Bank shows that year-on-year expenditures appear to have grown by just over 4% in FY 1396.⁵⁴²

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 since 2002. 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 \$15.7 billion has been disbursed.⁵⁴³

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.⁵⁴⁴

State’s budget request indicates that ESF investments will be made in key sectors like agriculture and natural resources. They intend to 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 will also be used to enhance civic engagement to combat violent extremism, and to empower women through increased access to education and employment opportunities.⁵⁴⁵

USAID Working to Align Programming with New U.S. South Asia Strategy

On August 21, 2017, President Trump announced the new U.S. strategy in Afghanistan and South Asia. The strategy involves the “integration of all instruments of American power—diplomatic, economic, and military.” The President also emphasized his hope that India would begin to play a larger role in economic assistance to Afghanistan, and underscored that the U.S. would “participate in economic development to help defray the cost of [the] war.”⁵⁴⁶

This quarter, USAID told SIGAR that it is developing its first Country Development Cooperation Strategy (CDCS). The CDCS will articulate how USAID plans to support the new U.S. South Asia strategy. USAID expects the CDCS to be completed by the summer of 2018, but has shared with SIGAR the high-level contours of how the new strategy will affect U.S. economic and social development programming.⁵⁴⁷

USAID said it plans to help Afghanistan produce private-sector-driven, export-led growth by increasing the country’s competitiveness and export capacity. USAID expects these efforts to “bridge the massive trade deficit, improve the fiscal strength of the government, and create millions of sustainable private sector jobs.”⁵⁴⁸ The agency added that the CDCS, which will cover the years 2018–2021, will not only support President Trump’s broad vision for the region, but also U.S. military efforts and the Afghan government’s National Peace and Development Framework, which describes Afghanistan’s plan to achieve self-reliance. USAID hypothesizes that the combination of export-led economic growth; additional gains in education, health, and women’s empowerment; and increased Afghan government accountability to its citizens will create a “more inclusive, economically viable, and self-reliant country.”⁵⁴⁹

In remarks at the Center for Strategic and International Studies on November 27, 2017, Office of Afghanistan and Pakistan Affairs Assistant to the Administrator Greg Huger clarified USAID’s approach to private-sector development. USAID will focus efforts on market areas in and around Afghan cities. According to Huger, these are areas where the government has greater control, where ready workforces exist, and where Afghan businesses can establish facilities to process products from the countryside.⁵⁵⁰ About 72% of Afghans, however, do not live in urban areas.⁵⁵¹ SIGAR will continue to track and report on the developing implications of the new U.S. strategy as they become clearer.

ECONOMIC PROFILE

According to the IMF, Afghanistan remains poor, conflict-affected, and aid-dependent.⁵⁵² Near-term growth is expected to be modest: the IMF projected 2.5% GDP growth for 2017, and 3.0% for 2018.⁵⁵³ The World Bank projected

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 (in 2016, 3.6% and 2.1% respectively). Opium-related earnings boost domestic demand and are a significant source of foreign exchange. Exports of opium were valued at \$2 billion in 2015.

The estimated net value of opium production was \$2.9 billion in 2016, representing the equivalent of 16% of GDP. The United Nations Office of Drugs and Crime estimated that the farm-gate value of opium production—national potential production multiplied by the weighted average farm-gate price of dry opium at the time of harvest (which excludes money made by traffickers)—for 2017 was \$1.4 billion, a 55% increase over the 2016 figure of \$0.9 billion.

Source: World Bank, *Afghanistan Development Update*, 11/2017, p. 1; IMF, "IMF Executive Board Concludes 2017 Article IV Consultation and Completes the Second Review Under the ECF for the Islamic Republic of Afghanistan," Press Release No. 17/476, 12/8/2017; ADB, *Asian Development Outlook 2017*, 4/2017, p. 178; ADB, *Asian Development Outlook 2015*, 3/2015, p. 167; CSO, *Afghanistan Statistical Yearbook 2016-2017*, p. 163; UNODC, *Afghanistan Opium Survey 2017 Cultivation and Production*, 11/2017, p. 8; UNODC, "Afghanistan opium crop cultivation rises 36 per cent, production up 49 per cent," 11/13/2013, <http://www.unodc.org/unodc/en/frontpage/2013/November/afghanistan-opium-crop-cultivation-rises-a-record-36-per-cent-opium-production-up-49-per-cent.html>, accessed 1/15/2017.

2.6% and 3.2%, respectively.⁵⁵⁴ Growth expectations were contingent on continued substantial donor support, implementation of reforms, improvements in confidence, and no additional deterioration in security.⁵⁵⁵

The World Bank said the worsening security situation appeared to be preventing consumer and business confidence from fully recovering from the effects of the 2014 security transition. Economic activity was sluggish in the first half of 2017. Whereas about 1,700 new firms were registered in the first half of 2016, only 1,500 were registered in the first half of 2017, according to Afghanistan's Ministry of Commerce and Industries. Confidence may have improved modestly in response to the recent announcement of the new U.S. strategy, according to the World Bank, based on anecdotal evidence.⁵⁵⁶ Business sentiment rose slightly over the first half of 2017, according to survey results from the Afghan Chamber of Commerce and Industries.⁵⁵⁷

Year-on-year consumer price inflation has leveled off. The World Bank reported that a spike of 7.5% in May 2017 had subsided to 3.8% in September 2017, year-on-year. A relatively steady exchange rate, combined with stable global commodity prices, may have accounted for the slowdown in domestic food and energy price increases since May 2017, according to the World Bank. Because Afghanistan imports both fuel and cereals, its domestic prices tend to ebb and flow with global commodities markets.⁵⁵⁸

The IMF recommended that the Afghan government support growth by reducing corruption, improving the business climate, increasing human and physical capital, strengthening institutions, and increasing access to financial services. IMF directors continue to underscore the many obstacles impeding Afghanistan's development, including aid dependence, political uncertainty, and corruption, among others.⁵⁵⁹

Afghanistan's FY 1397 Budget Passed Following Initial Rejection by Lower House

On November 5, 2017, Afghanistan's cabinet, which consists of top Afghan government officials, including President Ghani, approved the Ministry of Finance's (MOF) draft FY 1397 budget.⁵⁶⁰ Afghanistan's upper house—the *Meshrano Jirga*—subsequently approved the budget on November 21, 2017.⁵⁶¹ However, three weeks later it was initially rejected by the lower house—the *Wolesi Jirga*—for the ninth consecutive year due to concerns about imbalance among provinces and cuts in the development budget.⁵⁶² Following extensive negotiations, the lower house eventually approved the AFN 377 billion (\$5.4 billion) budget on January 17, 2018.⁵⁶³

Anticipated expenditures in the version of the budget approved by the lower house were about AFN 20 billion (approximately \$288 million) higher than those in the draft initially presented by the MOF in early November, a 6% increase.⁵⁶⁴ According to Afghan news reporting, the development budget increased by AFN 17 billion, accounting for the majority of the

difference in allocations between the draft and final versions.⁵⁶⁵ Overall, however, the FY 1397 budget was about AFN 52 billion (nearly \$1 billion, accounting for the depreciating afghani)—or about 12%—lower than that of FY 1396.⁵⁶⁶ When the MOF introduced the draft budget, it expected that the Afghan government would finance 47.5% of total expenditures. Donors were expected to finance the remaining 52.5%.⁵⁶⁷

The MOF said the budget was prepared in accordance with international standards.⁵⁶⁸ According to the Afghanistan Analysts Network (AAN), this year's draft budget request represented a significant departure from previous years because it provided greater detail on anticipated expenditures at the ministry, project, and province levels, eliminated the practice of carrying unspent development funds over to the next year, and incorporated more realistic projections over a longer time horizon.⁵⁶⁹

AAN said the budget was designed to address both corruption and declining levels of donor support.⁵⁷⁰ It addressed the latter by providing projections to 2021—a year that existing donor commitments do not cover—and by jettisoning the carryover provision, the abandonment of which would decrease budgetary rigidity and allow the government to better address national priorities.⁵⁷¹ The draft budget addressed corruption not only through greater transparency, but also through reductions in so-called 'contingency' categories that, as effective "non-allocations" open to negotiation, are susceptible to rent-seeking, according to AAN.⁵⁷²

AAN had foreshadowed that shepherding the budget through parliament intact might be difficult.⁵⁷³ In a December 2017 report, Integrity Watch Afghanistan (IWA) said that, historically, the budget process had "been riddled with incompetence, corruption, and collusion." In particular, IWA underscored that the "decisions of Wolesi Jirga to reject the National Budget have generated a pattern of patronage where the parliamentarians get the chance to negotiate their benefits with the Ministry of Finance and other ministries." IWA claimed that an additional 350 projects worth \$70 million were "forced into the National Budget" last year as a result of this "patronage." These projects, according to IWA, were included "against the relevant laws" in part so that MPs could secure reelection.⁵⁷⁴

Because the FY 1397 budget was passed just before this report went to press, SIGAR has not yet seen the final version of the document. SIGAR will provide further analysis in its April quarterly report.

Fiscal Outlook: Some Improvement, But Still Fragile

The IMF said that the Afghan government's fiscal performance has generally been good. **IMF-defined domestic revenue** targets for June 2017 under the IMF's Extended Credit Facility program were exceeded by 20%. However, the IMF noted that execution of Afghanistan's **development budget** remained relatively low at about 21%—in line with recent trends. Historically, low execution rates have degraded public confidence in the

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.

Development budget: one of two components of the Afghan government's national budget—the other being the operating budget. The operating budget generally covers recurrent expenditures for government salaries and operations and maintenance, while the development budget generally covers all other government investments and projects.

Source: IMF, *First Review Under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria*, 5/8/2017, p. 60; Afghanistan Analysts Network, "The 2018 Afghan National Budget: Confronting hard realities by accelerating reforms," 12/5/2017, p. 5; Afghanistan Analysts Network, "Parliament Kicks Out Ministers Again: A multi-dimensional power struggle," 12/19/2016.

Afghan government, according to the AAN. Revenue collection, in the IMF's judgement, remained strong.⁵⁷⁵

Nevertheless, Afghanistan's overall fiscal position continues to be fragile. In the IMF's estimation, the Afghan government's revenue collection amounts to approximately 11% of GDP (reflecting marginal improvements in recent years to pre-security-transition levels), and covers only half of recurrent expenditures.

Short-term opportunities to increase revenue through taxation remain limited due to insecurity and the potential for tax measures to adversely affect economic growth. The security situation, in particular, imposes significant constraints. A study published by the IMF this quarter concluded that conflict-related violence appeared to have reduced the Afghan government's 2016 revenues by about 50%.⁵⁷⁶

Afghan authorities believe that recent efficiency gains in revenue collection are unlikely to continue, as prolonged emphasis on collection could negatively affect business activity.⁵⁷⁷ This view may account for the more modest government revenue projections reflected in the Ministry of Finance's FY 1397 budget. While Afghanistan's FY 1396 budget projected revenue growth of 8.1% in 2018 and 7.2% in 2019, the current draft budget projections are substantially lower: 4.6% in 2019 and 5.9% in 2020.⁵⁷⁸

Government Revenues and Expenditures: Strong Year-on-Year Revenue Gains in FY 1396

Afghan government revenue growth remained strong in FY 1396 (December 22, 2016, to December 21, 2017). The Ministry of Finance categorizes domestic revenue as either "sustainable" or "one-off."⁵⁷⁹ SIGAR analysis of USAID-provided data from the MOF's government-wide accounting system—the Afghanistan Financial Management Information System (AFMIS)—shows that sustainable domestic revenues increased by 15%, and aggregate revenues by 7%, year-on-year from FY 1395 to FY 1396.⁵⁸⁰

In previous quarterly reports, SIGAR compared MOF figures from FY 1395 Financial Statement Reports (FSRs) to figures derived from USAID-provided AFMIS data in presenting year-on-year analysis of revenues.⁵⁸¹ However, the MOF ceased making its FSRs publicly available in December 2016.⁵⁸²

Additionally, SIGAR observed that a large amount of revenues (AFN 15,539,328,952) were categorized as "Miscellaneous" in Month 12 AFMIS data for FY 1396. This figure was higher than both the monthly average funds categorized as Miscellaneous in FY 1396 (AFN 213,211,210 through Month 11) and funds categorized as Miscellaneous in FY 1395 Month 12 (AFN 314,140,420). SIGAR therefore assessed that the large proportion of Miscellaneous funds in Month 12 FY 1396 AFMIS data would likely be recategorized as it was reconciled, precluding a full-year category-level comparison of revenues this quarter.⁵⁸³ Instead, SIGAR provides

Sustainable Domestic Revenues:

According to Afghanistan Ministry of Finance (MOF) officials, revenues—such as customs, taxes, and non-tax fees—used by multilateral institutions such as the World Bank and the International Monetary Fund to judge the Afghan government's fiscal performance.

One-Off Domestic Revenues: Revenues arising from one-time transfers of funds, such as central bank profits, to the Afghan government. The IMF excludes central bank transfers from its definition of domestic revenues for the purpose of monitoring Afghanistan's fiscal performance under its Extended Credit Facility Arrangement.

Source: SIGAR, communications with MOF officials, 8/21/2017; SIGAR, communications with IMF officials, 9/7/2017.

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a year-over-year comparison of revenues through Month 11 (e.g. from December 21, 2016, through November 21, 2017).

Through Month 11, FY 1396, customs duties and fees constituted nearly 23% of overall revenues, continued to be the largest source of income for

TABLE 3.11

| DOMESTIC REVENUES, FISCAL YEARS 1395 AND 1396 COMPARED (IN AFGHANIS) | | | | |
|---|--|-----------------------------------|-----------------------------------|------------------|
| Category | | 1395 (Through Month 11) | 1396 (Through Month 11) | % Change |
| Ministry of Finance (MOF)-defined "Sustainable" Domestic Revenue | | | | |
| Taxation & Customs Revenues | Fixed Taxes | 9,496,106,924 | 11,253,780,418 | 18.51% |
| | Income Taxes | 21,602,729,856 | 23,947,165,420 | 10.85% |
| | Property Taxes | 385,707,248 | 408,537,518 | 5.92% |
| | Sales Taxes | 25,633,573,675 | 30,453,198,330 | 18.80% |
| | Excise Taxes | 0 | 0 | N/A |
| | Other Taxes | 4,285,704,251 | 0 | (100.00%) |
| | Tax Penalties and Fines | 0 | 2,555,127,578 | N/A |
| | Customs Duties and Fees | 28,770,417,684 | 32,512,138,112 | 13.01% |
| Social Contributions | Retirement Contributions | 4,098,406,193 | 4,505,373,888 | 9.93% |
| Other Revenue | Income from Capital Property | 1,594,221,474 | 1,717,411,866 | 7.73% |
| | Sales of Goods and Services | 5,516,197,534 | 7,303,585,706 | 32.40% |
| | Administrative Fees | 21,677,451,888 | 23,561,684,532 | 8.69% |
| | Royalties | 229,565,653 | 379,798,982 | 65.44% |
| | Non-Tax Fines and Penalties | 992,670,893 | 673,811,468 | (32.12%) |
| | Extractive Industry Fees | 1,039,437,487 | 1,561,075,927 | 50.18% |
| | Miscellaneous Revenue | 4,080,388,529 | 2,345,322,215 | (42.52%) |
| | Sale of Land and Buildings | 13,676,633 | 94,140,208 | 588.33% |
| | Revenue collected from sources under claims | 0 | 0 | N/A |
| Subtotal of MOF-defined "sustainable" domestic revenues | | 129,416,255,922 | 143,272,152,168 | 10.71% |
| MOF-defined "One-off" Domestic Revenue | | | | |
| Other Revenue | Profit Transfer from Central Bank ^a | 10,256,709,000 | 0 | (100.00%) |
| | Sale of Land and Buildings ^b | 1,085,668,448 | 0 | (100.00%) |
| Subtotal of MOF-defined "One-off" domestic revenues | | 11,342,377,448 | 0 | (100.00%) |
| Total Domestic Revenue | | 140,758,633,370 | 143,272,152,168 | 1.79% |

Note: Negative values in parentheses. In previous quarterly reports, SIGAR compared figures from Afghanistan Ministry of Finance (MOF) FY 1395 Financial Statement Reports (FSRs) to figures derived from USAID-provided AFMIS data in presenting year-on-year analysis of revenues. This quarter, SIGAR uses its analysis of USAID-provided AFMIS data exported on 3/7/2017 as the basis for FY 1395 figures. The MOF ceased making its FSRs publicly available in December 2016. As a result, SIGAR used direct AFMIS exports to present aggregate, 12-month, year-over-year revenue analysis in the text accompanying this table. For consistency, SIGAR chose to use data from direct AFMIS exports as the basis for all figures presented above. Additionally, SIGAR chose to provide a year-on-year revenues comparison for 11 months rather than 12 months. SIGAR observed that a large amount of revenues (AFN 15,539,328,952) was categorized as "Miscellaneous" in Month 12 AFMIS data for FY 1396. This figure was higher than both the monthly average of funds categorized as Miscellaneous in FY 1396 (AFN 213,211,210) and funds categorized as Miscellaneous in FY 1395 Month 12 (AFN 314,140,420). SIGAR therefore assessed that the large amount of Miscellaneous funds in Month 12 FY 1396 would likely be recategorized as they were reconciled, precluding a full-year category-level comparison of revenues.

^a A significant component of FY 1395 revenues was an approximately AFN 10.3 billion transfer of profits from the Afghan central bank to the MOF. Based on SIGAR 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. SIGAR has deducted AFN 10.3 billion from the Miscellaneous Revenue figure presented under "sustainable" revenue. Additionally, 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 that the MOF did not identify as "one-off" in communications with SIGAR.

^b 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.

Source: SIGAR analysis of USAID-provided AFMIS data exported 1/8/2018; SIGAR analysis of USAID-provided AFMIS data exported 3/7/2017; SIGAR, communications with MOF officials, 8/21/2017 and 9/4/2017.

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TABLE 3.12

| EXPENDITURES, FIRST 11 MONTHS, FISCAL YEARS 1395 AND 1396 COMPARED (IN AFGHANIS) | | | | |
|---|--|--------------------------------|--------------------------------|-----------------|
| | Category | 1395 (Through Month 11) | 1396 (Through Month 11) | % Change |
| Personnel | Salaries in Cash | 124,764,258,269 | 129,754,617,385 | 4.00% |
| | Salaries in Kind | 18,977,304,753 | 21,467,279,068 | 13.12% |
| | Salaries and Wages Advance | 397,770,316 | 143,051,173 | (64.04%) |
| | Social Benefits in Cash | 2,539,503,258 | 2,686,202,415 | 5.78% |
| | Social Benefits in Kind | 0 | 0 | N/A |
| Supplier Expenditures | Travel | 2,640,490,596 | 2,624,291,555 | (0.61%) |
| | Food ^a | 2,952,035,935 | 2,676,879,780 | (9.32%) |
| | Contracted services | 26,689,850,401 | 27,350,517,804 | 2.48% |
| | Repairs and Maintenance | 5,752,486,721 | 4,051,308,008 | (29.57%) |
| | Utilities | 3,912,975,122 | 3,703,690,838 | (5.35%) |
| | Fuel | 21,235,697,246 | 9,948,878,885 | (53.15%) |
| | Tools and Materials | 5,166,258,320 | 5,262,381,801 | 1.86% |
| | Other | 13,905,704,218 | 10,824,990,214 | (22.15%) |
| | Advances and Return of Expenditure | 5,344,558,978 | 5,272,209,335 | (1.35%) |
| Subsidies, Grants, and Social Benefits | Subsidies | 1,459,162,500 | 1,389,151,377 | (4.80%) |
| | Grants to Foreign Governments | 286,495,683 | 234,586,580 | (18.12%) |
| | Current Grants - General Government Units | 0 | 82,804,906 | N/A |
| | Social Security Benefits in Cash | 20,304,545,100 | 20,436,962,740 | 0.65% |
| | Social Assistance Benefits in Cash | 19,800,000 | 15,250,000 | (22.98%) |
| | Subsidies, Grants, and Social Benefits Advance | 1,061,121,213 | 1,240,979,240 | 16.95% |
| Capital Expenditures | Buildings and Structures | 30,203,080,483 | 29,948,448,383 | (0.84%) |
| | Machinery and Equipment ^b | 9,360,268,254 | 8,147,446,078 | (12.96%) |
| | Valuables | 1,554,316 | 1,284,600 | (17.35%) |
| | Land | 477,368,817 | 370,499,624 | (22.39%) |
| | Capital Advance Payments>Returns | 5,275,712,072 | 7,310,176,543 | 38.56% |
| Interest and Principal^c | | 678,568,360 | 1,407,122,993 | 107.37% |
| Total | | 303,406,570,929 | 296,351,011,324 | (2.33%) |

Note: Month 12 expenditures in FY 1396 (AFN 61,239,553,024) were 106% higher than average monthly expenditures for the year (AFN 29,799,213,695). Thus, increased expenditure activity in Month 12 appears to explain why expenditures decreased by 2.3%, year-on-year, for the first eleven months of FY 1396, but increased, year-on-year, over all 12 months. Negative values in parentheses. The AFMIS data SIGAR received from USAID this quarter contained expenditure information in AFN only.

^a 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.

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

^c 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. Therefore, the figure listed here combines the object codes 230 and 232.

Source: SIGAR analysis of USAID-provided AFMIS data exported 1/8/2018; MOF, Aqrah Financial Statements FY 1395, 12/4/2016.

the government, and grew by about 13% year-on-year. According to the Afghanistan Analysts Network, customs duties have increased because customs offices have reduced incidences of mis-declared (in order to pay a lower tariff rate) and under-valued goods.⁵⁸⁴

Sales taxes, the second-largest source of income for the Afghan government at 21% of overall revenues through Month 11, grew by about 19% year-on-year, as did fixed taxes. Extractive industry fees, meanwhile, posted a strong year-over-year increase of about 50%, although their contribution to overall revenues remained marginal at about 1.1%.⁵⁸⁵ On page 161, Table 3.11 compares the Afghan government's domestic revenues (excluding donor grants) for FY 1396 with those of FY 1395.

Due to data limitations, SIGAR was unable to compare FY 1396 with FY 1395 expenditures using MOF- or USAID-supplied data. For unknown reasons, aggregate FY 1395 expenditures provided to SIGAR by USAID in March 2017 (totaling AFN 177 billion) appeared to be too low relative to World Bank estimates (AFN 342.8 billion).⁵⁸⁶ Further, because the MOF did not make its FY 1396 Month 12 FSR publicly available, SIGAR could not compare recent expenditure figures to an MOF-generated FSR.⁵⁸⁷ However, a comparison of current FY 1396 data exported from Afghanistan's government-wide accounting system to FY 1395 figures reported by the World Bank showed that year-over-year expenditures appear to have grown by just over 4% in FY 1396.⁵⁸⁸ Using the most recent reliable data available, and in lieu of a full year category-level comparison, SIGAR provides an 11-month year-on-year presentation of Afghan government expenditures in Table 3.12.

Trade

Afghanistan maintains a large trade deficit that exceeds 30% of its GDP. The IMF said that Afghanistan's external trade, heavily concentrated in agriculture, does not contribute substantially to economic growth. Overall, trade flows are so low that Afghanistan's share of global trade is immaterial. The value of the country's official exports has remained below 10% of its GDP every year since 2012. Imports, the IMF said, are dominated by donor-financed security spending and foreign aid-related imports.⁵⁸⁹

Afghanistan's landlocked geography, low levels of infrastructure and institutional capacity, and persistent, decades-long conflict have stunted trade expansion. The IMF said being landlocked imposes well-documented obstacles to trade: delays and costs associated with both exporting and importing are higher for landlocked countries than for coastal countries. For Afghanistan, high energy costs and low levels of access to electricity, land, and finance also pose major challenges.⁵⁹⁰

Export and Import Data

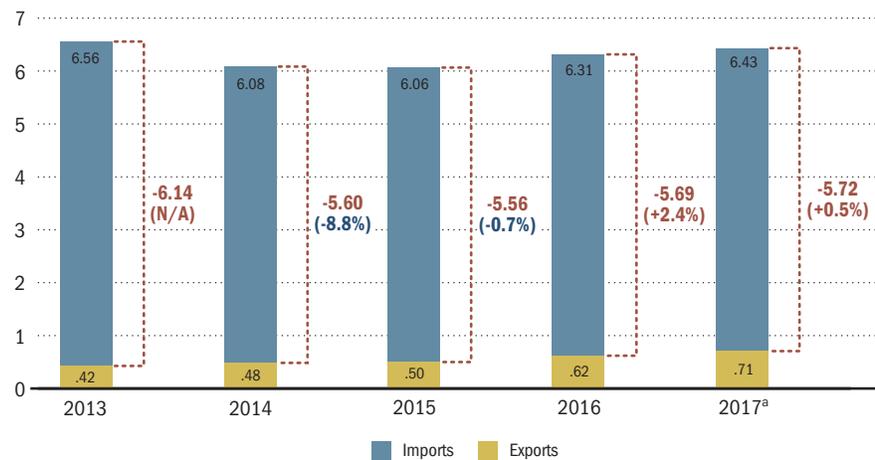
The World Bank said Afghanistan's official exports decreased marginally in the first half of 2017 by about 3%, year-on-year. Also during the first half

of the year, Afghanistan’s real effective exchange rate (REER)—a measure that adjusts a country’s nominal exchange rate by accounting for the effects of inflation—appreciated by 4.3%.⁵⁹¹ This likely decreased the competitiveness of Afghan exports, according to the World Bank, because it implies that the country’s exports became more expensive for trading partners. In contrast, the REER depreciated by about 3% annually from 2013 to 2016, a time period over which the value of Afghanistan’s exports increased by about 23% in U.S. dollars (according to World Bank figures).⁵⁹² Afghanistan’s licit export composition is dominated by horticultural products: dried fruits and nuts constituted 29% of all exports in 2016; medicinal plants composed 18% of all exports and fresh fruits 11%.⁵⁹³

Official imports increased by almost 8% in the first half of 2017, year-on-year, according to the World Bank, growing Afghanistan’s merchandise trade deficit. Inclusive of unofficial trade, the country’s trade deficit is about 33% of GDP. Including foreign aid flows, the World Bank projected a current account surplus of 3.2% of GDP in 2017.⁵⁹⁴ Figure 3.44 displays Afghanistan’s imports, exports, and trade deficit of goods over time, using data provided

FIGURE 3.44

AFGHANISTAN'S IMPORTS, EXPORTS, AND TRADE BALANCE 2013–2017 (\$ BILLIONS)



Note: Imports and exports include goods only. Data from Afghanistan Customs Department (ACD); converted from AFN to USD by SIGAR. This data was collected by implementers of USAID’s Afghanistan Trade and Revenue (ATAR) project. Import and export figures differ from those presented by the IMF and the World Bank, likely due to differences in both the exchange rate and underlying data. While the IMF cites unspecified “Afghan Authorities” in presenting trade data, the World Bank appears to use figures from Afghanistan’s Central Statistics Organization (CSO). ATAR implementers told SIGAR this quarter that they consider ACD’s data to be more reliable than CSO’s, and observed discrepancies of about 10% between data provided by the two Afghan sources. ATAR said that those discrepancies were the result of data aggregation errors on the part of CSO officers. ATAR provided trade figures to SIGAR in afghani. SIGAR converted the figures to U.S. dollars by taking the average of mean annual “Buy” and “Sell” exchange rates published by Afghanistan’s central bank, Da Afghanistan Bank.
^a Through November 21, 2017.

Source: SIGAR analysis of USAID response to SIGAR data call, 12/21/2017; USAID, response to SIGAR vetting, 1/22/2018 and 1/9/2018; SIGAR analysis of DAB, “Currency Hijri Average,” n.d., accessed 1/5/2017, <http://dab.gov.af/en/page/monetary-policy/rates-statistics/currency-hijri-average>; SIGAR analysis of IMF, “IMF Executive Board Concludes 2017 Article IV Consultation and Completes the Second Review Under the ECF for the Islamic Republic of Afghanistan,” Press Release No. 17/476, 12/8/2017; SIGAR analysis of World Bank, *Afghanistan Development Update*, 11/2017, pp. 6, 26.

by implementers of USAID’s Afghanistan Trade and Revenue project. SIGAR notes that the data presented differs from World Bank and IMF figures, likely due to discrepancies in data sources.⁵⁹⁵

Application of the New U.S. South Asia Strategy: Afghanistan Endeavors to Increase Trade Ties with India

Given Afghanistan’s landlocked position, efforts to increase trade imply that the country must cooperate closely with its neighbors to create viable export corridors.⁵⁹⁶ This cooperation takes the form of bilateral and multi-lateral trade cooperation agreements.⁵⁹⁷

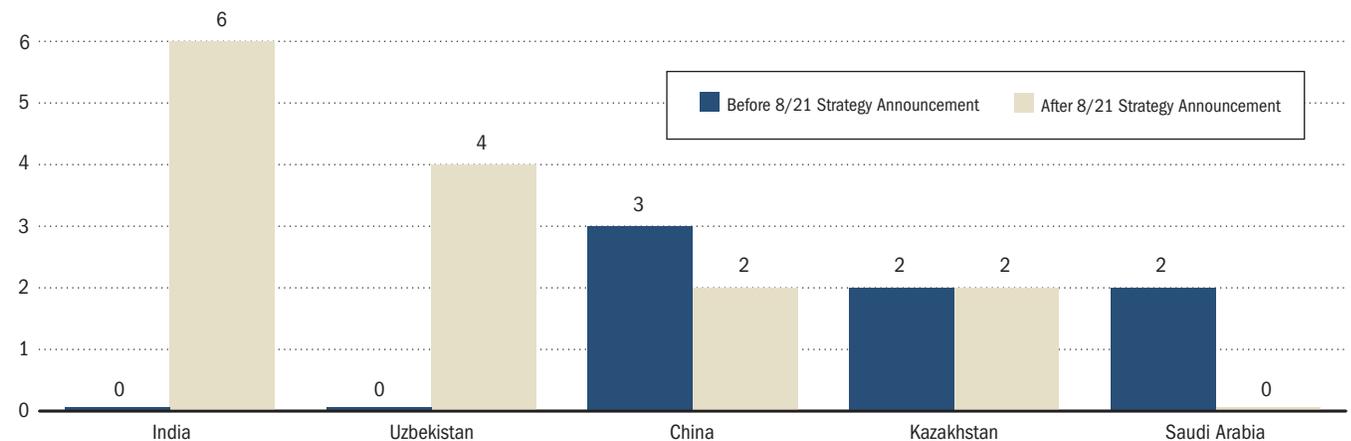
Of particular focus for the Afghan government in 2017 was its trade relationship with India. In June 2017, Afghanistan established an air-freight corridor to increase economic activity between the two countries.⁵⁹⁸

Additionally, in an apparent response to the new U.S. South Asia strategy, President Ghani and Chief Executive Abdullah Abdullah held trade-related meetings with Indian counterparts a total of six times in 2017—all after President Trump’s August 21, 2017, announcement of the new strategy (see Figure 3.45).⁵⁹⁹

President Trump has described Afghanistan’s strategic relationship with India as a “critical part” of the new strategy.⁶⁰⁰ Afghanistan’s overall goods trade volume (imports plus exports) with India increased from about \$188 million in 2012 to about \$383 million in 2016—representing an aggregate increase of 104% and a compound annual growth rate of 19.5%.⁶⁰¹ Afghanistan aims to

FIGURE 3.45

AFGHANISTAN EXECUTIVE BRANCH MEETINGS WITH REGIONAL ECONOMIC PARTNERS BEFORE AND AFTER THE TRUMP ADMINISTRATION’S SOUTH ASIA STRATEGY ANNOUNCEMENT



Note: This graph displays incidents of two or more bilateral trade meetings between Afghanistan’s executive branch (specifically President Ghani and Chief Executive Abdullah Abdullah) and representatives from regional economic partners in 2017. Assumption is that such meetings signaled Afghan emphasis on increasing trade ties. One-time meetings occurred with 11 other countries. Data are illustrative, based on English-language news write-ups in Afghan-government executive websites.

Source: Office of the President of Afghanistan and Office of the Chief Executive of Afghanistan websites, accessed periodically from November 2017 to January 2018.

continue to increase its trade ties with India in the coming years through both the air corridor and Iran's Chabahar seaport, each of which allow goods to bypass Pakistan. Political tensions between Afghanistan and Pakistan have precluded the full implementation of a transit trade agreement.⁶⁰²

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.⁶⁰³

This quarter, the World Bank reported that the total value of commercial bank loans to the private sector decreased from AFN 46 billion (about \$692 million) in December 2016 to AFN 45 billion (about \$657 million) in August 2017. The decline likely reflects both a weak appetite for lending and the unwillingness of the private sector to carry out new investments. The World Bank implied that uncertainty may underlie the apparent hesitancy to both lend and borrow. The ratio of non-performing loans to total bank assets increased from around 12% in December 2016 to almost 18% in June 2017. Overall, profitability in the commercial banking sector has declined year-on-year.⁶⁰⁴

U.S. Treasury Provides Late and Incomplete Response to SIGAR's Quarterly Data Call

In March 2015, the U.S. Treasury's Office of Technical Assistance (OTA) entered into an agreement with Afghanistan's Ministry of Finance to develop and execute technical-assistance and capacity-building programs.⁶⁰⁵ Every quarter, SIGAR asks Treasury to provide an update on its programming through its data call process by which SIGAR requests and receives periodic updates from agencies for presentation in its quarterly report. In previous quarters, Treasury has provided SIGAR with significant contextual information on issues ranging from Afghanistan's compliance with Anti-Money Laundering/Combating the Financing of Terrorism global standards, to details regarding Afghan budget reforms.⁶⁰⁶

This quarter, Treasury did not answer two of SIGAR's three questions relating to the Economic and Social Development section of this report, including a question that sought to clarify the effect of the new South Asia strategy on Treasury programs in Afghanistan. The only response that was provided to SIGAR arrived six days after the deadline for data-call responses had elapsed.⁶⁰⁷ The 2008 National Defense Authorization Act, which established SIGAR, requires federal agencies, as is practicable, to respond to SIGAR's requests for information and assistance (see Appendix A of this report for more on SIGAR's enabling legislation).⁶⁰⁸

Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT): No Significant Updates

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.⁶⁰⁹

This quarter, the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA), a financial intelligence unit with purview over Afghanistan’s AML/CFT efforts, released its annual report. FinTRACA said fines against banks (totaling AFN 3.55 million, or about \$51,300) increased by 238% in 2017, year-on-year. Fines against money service providers (totaling AFN 3.84 million, or about \$55,000) increased by 17% in 2017, compared to 2016. FinTRACA also said that it had frozen 91 bank accounts holding about \$891,000 and watch-listed 193 individuals and entities suspected of money laundering, drug trafficking, and other offenses. As a result of the watch list, which was created in 2017, FinTRACA said that financial institutions terminated business relationships with 19 individuals and entities.⁶¹⁰

Kabul Bank Theft: Accountability Remains Elusive

The September 2010 near-collapse of Kabul Bank, where nearly one million Afghans held savings, significantly strained Afghanistan’s financial system. It exposed an elaborate fraud and money-laundering scheme orchestrated by Kabul Bank founder Sherkhan Farnood and chief executive officer Khalilullah Ferozi. The crisis resulted in a run on the bank during which depositors withdrew \$500 million, compelling the Afghan government to provide \$825 million to recapitalize the bank to stave off collapse.⁶¹¹

Shortly after he took office in September 2014, President Ghani issued a 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 and to monitor enforcement of the courts’ decisions.⁶¹² The decree was intended to address comprehensively all remaining aspects of the case. However, the Afghan government has struggled to compel repayment of the stolen funds from debtors. A 2016 United States Institute of Peace report said that the “crisis continues to symbolize the pervasive corruption and impunity that have threatened the legitimacy of the Afghan government.”⁶¹³

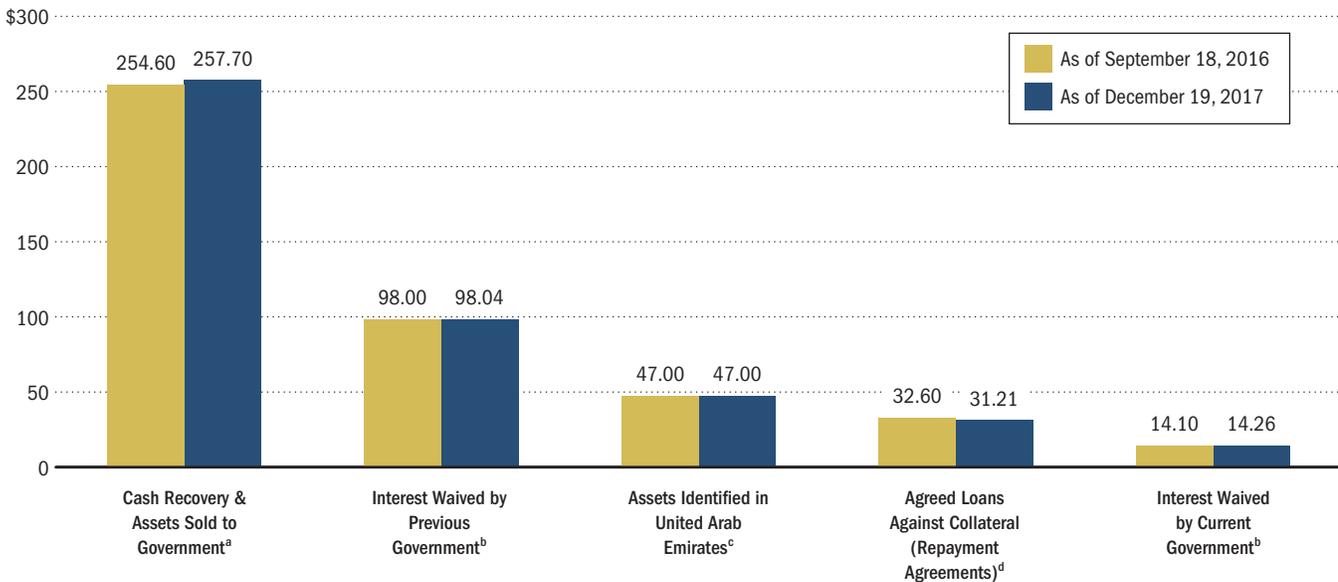
Again this quarter, no efforts were made to seize, freeze, or investigate debtor accounts, or otherwise act on President Ghani’s October 2014 decree.⁶¹⁴ Figure 3.46 on the following page shows asset recoveries since September 2016.

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 3.46

KABUL BANK RECEIVERSHIP-REPORTED RECOVERIES, SEPTEMBER 2016 VS. DECEMBER 2017 (\$ MILLIONS)



Note: Oldest, consolidated KBR recoveries data available to SIGAR is from September 18, 2016.

^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 last 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," 12/19/2017; 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.

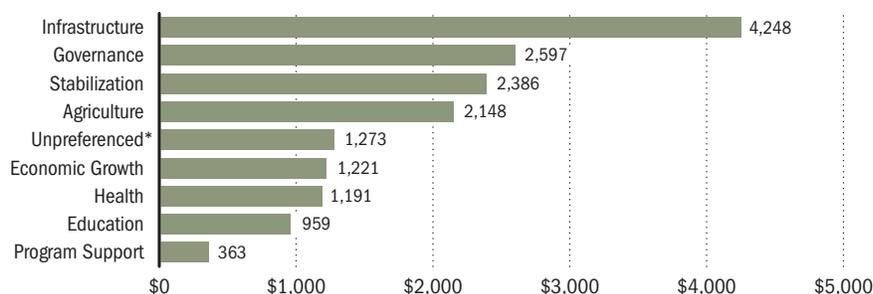
U.S. ECONOMIC AND DEVELOPMENT SUPPORT

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.⁶¹⁵

In order to inform its forthcoming Country Development Cooperation Strategy (see pages 59–60 for more on the CDSCS), USAID recently commissioned an assessment of its current 2015–2018 strategy. The assessment found that, despite sound overall goals, many key components of USAID's development approach in Afghanistan have not proven to be valid. For more on the recently released USAID assessment, see pages 59–60 of Section 3 of this report.⁶¹⁶ Figure 3.47 shows USAID assistance by sector.

FIGURE 3.47

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF DECEMBER 31, 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. * Unpreferenced funds are U.S. contributions to the ARTF that can be used for any ARTF-supported initiatives.

Source: SIGAR analysis of USAID, response to SIGAR data call, 1/17/2018; SIGAR analysis of World Bank, ARTF, Administrator's Report on Financial Status, as of November 21, 2017.

Natural Resources: Potential Source of Government Revenue Remains Untapped

Geological surveys show that Afghanistan is endowed with significant mineral resources, including granite, talc, nephrite, chromite, coal, gold, silver, iron, copper, and precious gemstones.⁶¹⁷ USAID said developing Afghanistan's extractives sector could create jobs, generate government revenue, and result in significant infrastructure investment.⁶¹⁸ Yet, mining has so far contributed little to the country's licit GDP and has attracted little private-sector development.⁶¹⁹ The many obstacles to development include a deficient mining law, lack of transparency in tendering and awarding concessions, the lack of economically feasible export corridors, lack of access to power supply, and corruption.⁶²⁰ According to DOD, these impediments "limit the willingness of international mining companies to commit risk capital to exploration and production in Afghanistan when similar resources are more efficiently extracted from other countries."⁶²¹

MOMP continued to be without permanent leadership at the highest level this quarter: Acting Minister Nargis Nehan, reportedly a reformer seeking increased transparency at MOMP and nominated by President Ghani for a permanent position, was rejected by the Afghan parliament in early December—the only one of 12 Ghani nominees who failed to secure a majority of parliamentarians' votes.⁶²² (See Section 1 of this report for more information about the possibilities for the extractive sector in Afghanistan.)

Illegal mining, which persists at an estimated 1,400–3,000 sites, remains another challenge.⁶²³ The Afghan government believes \$300 million in revenue is lost annually through unlawful mining, which not only denies Kabul

SIGAR AUDIT

A SIGAR audit released this quarter found that DOD's Task Force for Business and Stability Operations (TFBSO), which obligated approximately \$200 million toward projects designed to develop Afghanistan's extractives industries, was unable to accomplish its overall goals. For example, TFBSO obligated \$51 million to facilitate the award of between eight and 12 large-scale mining contracts to international companies. However, TFBSO officials and contractors said they overestimated the speed at which the Ministry of Mines and Petroleum could work and underestimated the resistance they would face from other ministries. As a result, after repeated delays, no contracts were signed. For more, see pp. 24–25 in Section 2 of this report.

much-needed funds, but also fuels the insurgency and exacerbates corruption.⁶²⁴ According to USAID, local powerbrokers are able to profit from illicit mining because they rely on low-cost labor and mining techniques, disregard safety and environment concerns, provide their own security to transport materials to the market, and, because they are operating illegally, do not incur tax or royalty obligations to the government. In contrast, businesses operating legally in the extractives sector must comply with safety and environmental regulations, rely on hired security contractors for transportation, and face higher infrastructure and labor costs.⁶²⁵

Extractives Sector Roadmap: Ministry of Mines and Petroleum Meets Compact Benchmark, But Numerous Obstacles to Extractives Development Remain

One goal of the Afghanistan Compact launched last quarter is to develop the country's mining and hydrocarbons sectors. The Afghan government planned to produce a roadmap for the extractive industries by December 2017 with the intent of providing a clear vision for the sustainable development of natural resources, including plans for creating a viable regulatory framework and increasing transparency.⁶²⁶

This quarter, Afghanistan's Ministry of Mines and Petroleum (MOMP) met this benchmark. A copy of the MOMP's *Roadmap for Reform* dated September 2017 described major impediments to extractives-sector development. According to the *Roadmap*, those obstacles included: significant

TABLE 3.13

| MINISTRY OF MINES AND PETROLEUM'S FIVE-PILLAR FRAMEWORK FOR EXTRACTIVES SECTOR DEVELOPMENT | | | | |
|--|---|---|---|--|
| Institutional Reform and Development | Geological Data Acquisition and Management | Contract Management and Compliance | Transparent and Accountable Governance | Growth and Enabling Environment |
| 1. Reform and restructuring of MOMP | 1. Development of a computerized and indexed information-management system for geo-data | 1. Review and resolve pending contracts and projects | 1. Development of policies and strategies for the sector | 1. Conduct value-chain studies of priority commodities and industries |
| 2. Reform and development of State-Owned Enterprises (SOEs) | 2. Engagement with international geological-survey departments | 2. Prioritize new projects based on the needs of the government | 2. Improvement of the legal and regulatory framework | 2. Ensuring implementation of medium and large projects |
| 3. Human resources development | 3. Collation and analysis of data for each commodity, and assessment of data gaps | 3. Streamlining and digitization of cadaster system | 3. Development of robust minerals and hydrocarbons fiscal regimes | 3. Implement Local Content Strategies to create jobs, promote enterprise development, and transfer knowledge to communities ^a |
| 4. Extractives sector and women | 4. Data dissemination | 4. Efficient revenue collection and reporting | 4. Compliance with transparency standards and donor benchmarks | 4. Explore potential for regional cooperation in the extractive sector |
| 5. Development of E-governance systems | 5. Capacity development of AGS in exploration and data recording | 5. Streamlining and digitization of mining inspection systems | 5. Illegal mining and formalization | 5. Conducting studies for potential collaboration in regional market development |
| 6. Effective communications | | 6. Establish credible dispute-resolution mechanism | 6. Protection of Afghan communities, environment, and heritage | 6. Develop a Corporate Social Responsibility (CSR) window |

Note: ^aThe original graphic presented by MOMP on page 5 of the Roadmap had only five points under Pillar 5. However, in response to SIGAR vetting questions, DOD noted that Points 2 and 3 were incorrectly merged. SIGAR corrected this in the table presented above.

Source: Reproduced with minor grammatical edits from GIROA, *Roadmap for Reform: Extractive Industries Sector In Afghanistan*, 9/24/2017, pp. 5, 39.

weaknesses in policy and legislative frameworks, low levels of managerial and technical capacity at MOMP, an inadequate geological information management system, the lack of a strategy to link the extractives sector to the broader economy, as well as corruption, insufficient infrastructure, the persistence of illegal mining, insecurity, and high transportation costs.⁶²⁷

To address these impediments to extractives development, MOMP presented a five-pillar framework designed to help “guide implementation.” Those pillars included: (1) institutional reform, (2) geological data collection and improved data management, (3) improved contract management, (4) increased sector transparency, and (5) an improved enabling environment.⁶²⁸ Table 3.13 provides more detail on each pillar.

USAID Assistance: No Major Active Extractives Programming

USAID has no current, major active mining or hydrocarbon programs. USAID’s most recent mining and gas-generation projects ended March 31, 2017, and July 31, 2016, respectively.⁶²⁹ Speaking at a recent event at the Center for Strategic and International Studies in November 2017, Assistant to the Administrator for USAID’s Office of Afghanistan and Pakistan Affairs Greg Huger commented that these and other previous U.S. efforts to develop Afghanistan’s extractives sector “really weren’t very successful.”⁶³⁰ Huger said that although USAID is open to further extractives programming, the agency would not “get ahead of the Afghan government . . . because it can be a huge diversion and waste of money and time.”⁶³¹

However, USAID is funding legal and technical advisory services to Afghanistan’s Ministry of Mines and Petroleum through interagency agreements with the Department of Commerce and the United States Geological Survey (USGS). USAID said that USGS is assisting MOMP with organizing and analyzing existing mineral data, and that the Department of Commerce’s Commercial Law and Development Program is helping the ministry draft regulations designed to strengthen its contracting division. USAID said that this work supports the U.S. government’s new South Asia strategy, and would help the Afghan government meet economic benchmarks presented in the Afghanistan Compact announced last quarter.⁶³²

Agriculture: A Key Sector

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.⁶³³ 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.⁶³⁴

The World Bank projected that agricultural output would grow by 1.5% in 2017, largely due to increased horticultural production. This figure is significantly less than the 6% growth rate recorded in 2016, a year in which fruit production increased to levels close to full potential due to favorable weather.⁶³⁵ Despite Afghanistan's heavy reliance on agriculture, the sector's growth has been constrained by underinvestment in developing water resources, degrading natural resources, poor-quality inputs such as seeds and fertilizer, and weak domestic- and export-product marketing.⁶³⁶

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.⁶³⁷

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.⁶³⁸ Pages 203–210 of this quarterly report discuss USAID's agriculture alternative-development programs. USAID's active agriculture programs have a total estimated cost of \$362 million and can be found in Table 3.14.

TABLE 3.14

| USAID ACTIVE AGRICULTURE PROGRAMS | | | | |
|---|------------|------------|---------------------------|---|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursements, as of 12/31/2017 (\$) |
| Strengthening Watershed and Irrigation Management (SWIM) | 12/7/2016 | 12/6/2021 | \$87,905,437 | \$4,624,900 |
| Regional Agriculture Development Program (RADP North) | 05/21/2014 | 5/20/2019 | 78,429,714 | 45,739,199 |
| Commercial Horticulture and Agriculture Marketing Program (CHAMP) | 02/1/2010 | 12/31/2019 | 61,294,444 | 51,897,706 |
| Kandahar Food Zone (KFZ) | 7/31/2013 | 8/30/2018 | 45,402,467 | 40,330,000 |
| RADP East(Regional Agriculture Development Program- East) | 7/21/2016 | 7/20/2021 | 28,126,111 | 5,471,198 |
| Grain Research and Innovation (GRAIN) | 3/13/2017 | 9/30/2022 | 19,500,000 | 3,250,000 |
| Promoting Value Chain - West | 9/20/2017 | 9/19/2020 | 19,000,000 | 515,916 |
| ACE II (Agriculture Credit Enhancement II) | 6/24/2015 | 6/23/2018 | 18,234,849 | 10,763,682 |
| SERVIR | 9/14/2015 | 9/30/2020 | 3,100,000 | 691,200 |
| Program Evaluation for Effective Learning (PEEL) | 2/16/2017 | 10/31/2017 | 1,475,177 | 382,881 |
| Total | | | \$362,468,199 | \$163,666,682 |

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see pages 203–210 of this report.

Source: USAID, response to SIGAR data call, 1/17/2018.



Development financial institution staff hold certificates for completing a five-day course on credit risk management in Kabul. (USAID photo)

Agricultural Credit Enhancement II: Higher Than Expected Delinquency Rates Result in Program Modifications

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.⁶³⁹ USAID reported that with ACE II help, ADF has cumulatively disbursed approximately \$98.1 million in loans impacting 40,149 direct beneficiaries, as of December 2017.⁶⁴⁰

Last quarter, SIGAR reported the ongoing deterioration of both security and the economy was reducing demand for agricultural credit and negatively impacting loan repayments. Combined with emerging weaknesses in the fund's loan evaluation criteria, these circumstances have increased the time required for the ADF to achieve operating sustainability as a stand-alone entity.⁶⁴¹

USAID said that no loans were written off by the ADF during last quarter's reporting period (July to September 2017).⁶⁴² However, the ADF has written off 32 loans totaling about \$3.3 million in current U.S. dollars during its lifetime.⁶⁴³ SIGAR learned this quarter that due to higher than anticipated delinquency rates, USAID modified the program to include Business Development Services (BDS). The purpose of BDS is to strengthen the

ability of potential clients to prepare accurate financial statements that the ADF can use to evaluate their ability to repay loans.⁶⁴⁴

USAID's modification to its ACE II task order noted that "low levels of financial literacy and financial management capacity of Afghan farmers and agribusinesses is a significant constraint on their ability to access credit."⁶⁴⁵ SIGAR observes that the lack of basic business and financial literacy among Afghans appears to represent a persistent and recurring obstacle to lenders and investors in Afghanistan. In its 2006 final report, implementers of the Afghanistan Renewal Fund, a venture capital fund that planned to invest 20% of its portfolio in agribusiness, said, "Afghan investee companies require substantial hands-on support" with, among other necessities, the development of business plans. This need, according to the report, resulted in a \$1.5 million investment in business-development activities to support the fund. As of its final report's publication, the Afghan Renewal Fund had made no investments, despite investigating 164 opportunities.⁶⁴⁶ It was dissolved in 2008.⁶⁴⁷

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: Access to Electricity Remains a Significant Challenge

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.⁶⁴⁸ 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.⁶⁴⁹

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%.⁶⁵⁰ The World Bank noted that limited access to electricity is one of Afghanistan's biggest constraints to private-sector development.⁶⁵¹ Afghanistan needs regional cooperation to meet its energy demands.⁶⁵²

In developments this quarter, Afghanistan's National Procurement Commission approved two contracts for power plants to be established through public-private partnerships. The Sheberghan Gas Power Plant, with a \$38.8 million contract value, was expected to have a production capacity of 40 MW. The production capacity of the \$75 million Mazar-e Sharif

Electric Power Generation Project, financed in part by the World Bank's International Finance Corporation, was expected to be 50 MW.⁶⁵³

Corruption Vulnerability at DABS: MEC Underscores Poor Asset Management

In December 2017, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) released a corruption vulnerability assessment of Da Afghanistan Breshna Sherkat (DABS), Afghanistan's government-owned power utility. Among other findings, the MEC concluded that DABS lacked a reliable fixed-assets registry. Based on its interviews with DABS employees, the MEC said as a result, "warlords" have been able to steal more than 350,000 square miles of land and nearly 100 buildings from DABS.⁶⁵⁴

Additionally, the MEC said, "DABS received AFN 12.5 billion from donors and it is shown in balance sheet in the form of assets, but the donors are claiming that they have contributed around \$4 billion which equals AFN 220 billion to the energy sector in Afghanistan, [which] means billions of AFN is missing."⁶⁵⁵ The MEC derives this figure from SIGAR's July 2014 *Quarterly Rreport to the United States Congress*.⁶⁵⁶ However, the levels of power-sector spending reported in SIGAR's July 2014 report include technical assistance, which would likely not be reflected directly in the value of any power-production assets transferred to DABS.⁶⁵⁷

Moreover, the figures SIGAR presented in its July 2014 quarterly report reflected appropriated monies.⁶⁵⁸ Disbursements at the time (which would capture actual spending levels on physical power-infrastructure assets such as substations and transmission lines) were lower (see next section below for a summary of current disbursements in the power sector). Thus, SIGAR cannot confirm the claims in the MEC report.⁶⁵⁹

However, SIGAR has long been concerned about U.S. on-budget assistance to DABS, \$221.7 million of which has been provided directly to DABS thus far.⁶⁶⁰ Citing concerns about significant corruption in a current DABS contract, President Ghani suspended the award, referred the matter to the Attorney General's Office (AGO) for investigation, and requested that SIGAR and USAID's Office of Inspector General provide assistance to the AGO. The investigation is ongoing (see page 63 of SIGAR's October 2017 quarterly report for further details).

U.S. Power-Sector Assistance Characterized by Large-Scale Infrastructure Projects

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.⁶⁶¹ 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.⁶⁶²

SIGAR INSPECTION

An ongoing SIGAR inspection is assessing the extent to which the U.S. Army Corps of Engineers properly managed a \$59.7 million contract to design and construct transmission lines and substations in Parwan and Kapisa Provinces.

TABLE 3.15

| USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS | | | | |
|---|------------|------------|---------------------------|--|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursement, as of 12/31/2017 (\$) |
| Power Transmission Expansion and Connectivity (PTEC) | 01/01/2013 | 12/31/2018 | \$725,000,000 | \$158,579,664 |
| Contributions to the Afghanistan Infrastructure Trust Fund (AITF) | 03/07/2013 | 03/06/2018 | 153,670,184 | 153,670,184 |
| Engineering Support Program | 07/23/2016 | 07/22/2019 | 125,000,000 | 31,527,327 |
| Kandahar Solar Project | 02/23/2017 | 08/26/2018 | 10,000,000 | 0 |
| Total | | | \$1,013,670,184 | \$343,777,175 |

Source: USAID, response to SIGAR data call, 1/17/2018.

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

SEPS: currently 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; DOD, response to SIGAR vetting, 1/16/2018.

DOD has disbursed approximately \$180 million for power projects through the Commander’s Emergency Response Program as of July 2015, and roughly \$510 million, as of November 30, 2017, through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.⁶⁶³

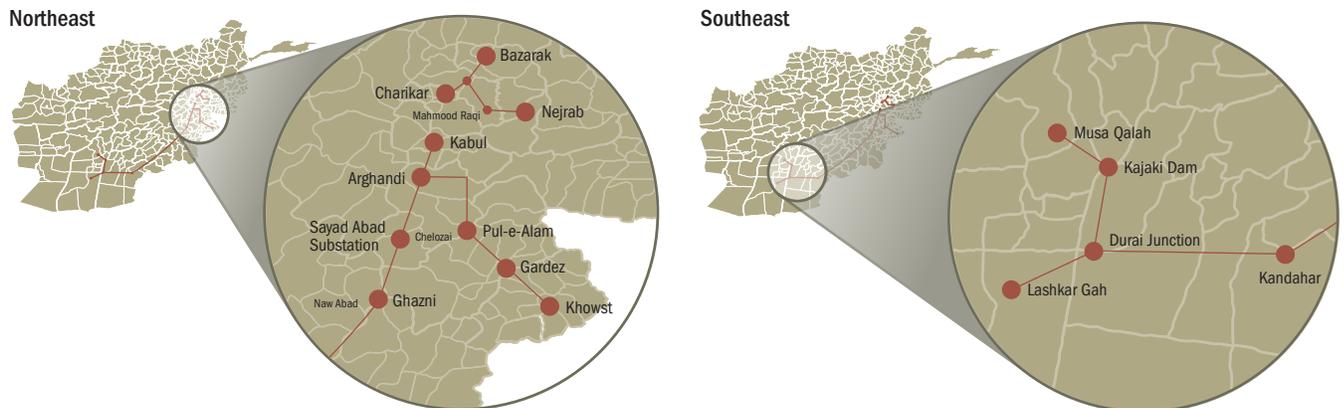
Of that amount, DOD has disbursed about \$369 million to construct or improve Afghanistan’s two primary power systems—the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**—which U.S. Forces-Afghanistan (USFOR-A) and USAID aim to connect, increasing the electricity supply in both systems (see Figure 3.48 for an overview of NEPS and SEPS). 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.⁶⁶⁴ USAID’s active power-infrastructure projects have a total estimated cost of \$1 billion and are listed in Table 3.15.

Power Transmission Expansion and Connectivity Program: Key NEPS-SEPS Segments On Hold and Under Review

The U.S.-funded Power Transmission Expansion and Connectivity’s (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.⁶⁶⁵ 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.⁶⁶⁶ Technical losses include energy lost to line heating and current leakage; commercial losses include customers’ nonpayment of bills and energy theft from illegal tapping into lines or bypassing meters.

FIGURE 3.48

Overview of Planned Northeast and Southeast Power Systems



Note: Locations and routes are approximate. The majority of planned NEPS and SEPS segments remain incomplete. DOD told SIGAR this quarter that transmission lines, substations, and towers from Arghandi to Pul-e Alam, Pul-e Alam to Gardez, and Charikar to Gul Bahar and Nejrab were scheduled for turnover to GIROA in January 2018. Remaining USAID PTEC segments are on hold, pending the results of USAID's energy sector assessment.

Source: DOD, response to SIGAR data call, 4/3/2014; DOD, response to SIGAR vetting, 1/16/2018.

This quarter, USAID reported that it is currently conducting an energy-sector assessment to ensure that its power-infrastructure projects are aligned with the Trump Administration's new South Asia strategy, announced on August 21, 2017.⁶⁶⁷ As a result of the review, USAID said two key PTEC projects were on hold.⁶⁶⁸ Specifically, USAID has partially suspended funding for its Ghazni–Kandahar transmission line project and has withdrawn its consent for DABS to execute an on-budget contract for the SEPS Completion transmission lines.⁶⁶⁹ USAID will not consent to any new procurements for the Ghazni–Kandahar substations for the duration of its energy assessment, and has postponed SEPS Completion on-budget activities.⁶⁷⁰ USAID said it expects to complete the assessment by early 2018 and that it is examining ways to maximize PTEC's impact while minimizing implementation risks.⁶⁷¹

Large power-infrastructure programming was once considered a linchpin of the U.S. counterinsurgency strategy in Afghanistan. In 2010, General David Petraeus, then-head of United States Central Command, said "Sufficient electrical supply is a key component in building the population's faith in their government, increasing the average Afghan's economic prosperity, and dissuading the population from joining the Taliban." Petraeus added that NEPS and SEPS projects "will contribute to long-term stability and peace in Afghanistan."⁶⁷² SIGAR assesses that cancellation of, or any substantial changes to, USAID's PTEC programming will represent a significant departure from previous U.S. efforts in the power sector.

PTEC Commercialization Midterm Report: Key Activities Not Implemented Effectively

This quarter, USAID released the results of its midterm evaluation of the PTEC Energy Commercialization component. Funded through on-budget assistance with a cost ceiling of \$142 million, this component provides DABS with technical assistance and aims to increase the utility's capacity to manage, operate, and maintain the national power system. Key objectives are to increase DABS' ability to reduce technical and commercial losses, increase cost recovery, and generate revenue.⁶⁷³

The midterm evaluation concluded that the program's main activities were not implemented effectively, and that the program did not achieve intended results. Power loss reduction targets—10% by December 2015 and 15% by June 2016—were not met due to failed procurement of “smart” and bulk meters, as well as an automated metering system. Although PTEC Commercialization activities did help reduce power losses by 5%, DABS' commercial viability remains tenuous, according to the report (see next sub-section for more).⁶⁷⁴

Kajaki Dam Power: Sparse Updates Despite Ongoing Power Sector Assessment

Although USAID said that it is currently assessing Afghanistan's electricity needs, as well as whether current power infrastructure programming supports the new U.S. South Asia strategy, USAID did not provide an update on the Kajaki Dam's power production levels this quarter.⁶⁷⁵ USAID said DABS is not responsible for providing reports to USAID because responsibility for Kajaki has been fully transferred to the Afghan government.⁶⁷⁶

As of last quarter, the three turbines in service at the Kajaki powerhouse had a total generating capacity of 50.5 MW and were online. However, they were operating at a peak level of 41.5 MW due to seasonal reservoir-level constraints.⁶⁷⁷ It was not known how long this level of power generation would last.⁶⁷⁸ DABS postponed planned repairs on Unit 3 initially scheduled for September 2016 to an unspecified future date.⁶⁷⁹ USAID reported again this quarter that it is unaware of any near-term plans or significant need to perform repairs on any of the three turbines.⁶⁸⁰ DABS assumed full responsibility for the Kajaki power plant, including operations and maintenance (O&M), in April 2017, and hired 11 operators to take charge of the powerhouse.⁶⁸¹

Power Availability in Kandahar: No Significant Updates

U.S. fuel subsidies totaling \$141.7 million for power generation at two industrial parks in Kandahar City ended in September 2015.⁶⁸² USAID reported that since then, energy output has fallen from the diesel generators in Shorandam and Bagh-e Pol industrial parks.⁶⁸³ Five generators at Bagh-e Pol, in need of major overhauls and critical spare parts, have

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.

stopped working altogether. Three other generators were transferred to Shorandam, meaning that the Bagh-e Pol diesel power plant is no longer operational.⁶⁸⁴ USAID said that from March 21, 2017, to December 21, 2017, DABS Kandahar supplied an average of 41 MWh per day to Shorandam.⁶⁸⁵

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, 2017.⁶⁸⁶ Last quarter, USAID issued a notice to proceed, and construction on the solar-power plant commenced with a ceremonial groundbreaking on September 24, 2017.⁶⁸⁷ USAID reported this quarter that construction is ongoing. Although a boundary wall was scheduled for completion by December 31, 2017, the date was subsequently postponed to February 2018.⁶⁸⁸

Afghanistan Infrastructure Fund Power Projects: Legacy Initiatives Continue

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.⁶⁸⁹

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.⁶⁹⁰ 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.⁶⁹¹

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 3.16 on the following page.⁶⁹²

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.⁶⁹³

SIGAR AUDIT

A SIGAR audit published last 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 pages 24–29 of SIGAR's October 2017 quarterly report.

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.16

| AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS, AS OF DECEMBER 27, 2017 (\$ MILLIONS) | | | | | | |
|---|---|--|--------------------|--------------------|---|---|
| AIF Project | Description | Notified Amount | Obligated | Disbursed | Status | |
| AIF FY 2011 | Kandahar Power Bridging Solution | Provides fuel and O&M for diesel generators in Kandahar City | 40.5 | 39.1 | 39.1 | Complete. |
| | SEPS - Kajaki Dam to Lashkar Gah | Repair, install transmission lines; rebuild, construct power substations | 130.0 | 57.5 | 57.5 | Terminated due to out-of-scope security-cost increases. |
| | NEPS - 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 | Project in closeout phase, but still pending war damage repairs. (Estimated completion by DABS: 4/2018) |
| | 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 99% a/o 12/28/2017. (Completion: 1/2018) ^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 - Durai Junction to Maiwand | Design, construct transmission line; rebuild and construct substations | 40.0 | 28.5 | 26.2 | Towers, stringing, substations nearly complete. (Completion: 4/2018) ^b |
| | NEPS - Pul-e Alam to Gardez | Design, construct transmission line, towers, and power substation | 120.0 | 68.5 | 67.4 | Transmission line and substations complete; project to be handed over to MEW imminently. (Completion: 1/2018) ^c |
| | NEPS - Charikar to Gul Bahar and Nejrab | Design, construct transmission lines, towers, and power substation | | 38.8 | 37.9 | All towers erected; transmission line and substations complete; MEW addressing ROW issues. (Completion: 1/2018) ^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 | 23.6 | All towers erected; transmission line and substations complete; addressing ROW issues. (Completion: 1/2018) ^d |
| | SEPS Completion - Phase 1 | Civil, structural, architectural improvements to substations in Tangi, Sangin North and South | | | 8.2 | Civil, structural, and architectural improvements underway, but contractor behind schedule. (Completion: 5/2018) ^e |
| | | Design, construct, transmission lines from Sangin North to Lashkar Gah | 75.0 | 63.1 | 38.3 | Transmission towers under construction; some ROW issues remain; majority of transmission lines complete. (Completion: 3/2019) ^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 | USAID revoked consent for all awards related to substations in 7/2017 due to allegations of impropriety; USAID confirming alignment with new South Asia Strategy. (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 | USAID assessing alignment with new South Asia Strategy; withdrew consent for DABS to execute on-budget contract for transmission lines and will not respond to requests for consent for substation contracts during assessment. (Completion: TBD) |
| | NEPS - Gardez to Khowst | Design, construct transmission line and substation; DOD's final contribution to NEPS | 130.0 | 121.3 | 62.5 | Design nearly complete for transmission line and substations. (Completion: 9/2018) ^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, completion dates have not been determined. All AIF power projects are to be sustained by Afghanistan's Ministry of Energy and Water, and Da Afghanistan Breshna Sherkat (DABS), Afghanistan's national electric utility. Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 11/30/2017. All other information is as of either 11/30/2017, 12/17/2017, 12/21/2017, 12/28/2017, or 1/16/2018 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 ASFF funds transferred to replace cancelled funds. BOD shifted to 1/2018 from 12/2017.

^b 111 of 114 towers completed; 25km/27km transmission lines strung. Pushmol and Maiwand substations both 91% complete. Scheduled completion pushed from 2/2018 to 4/2018.

^c Cannot fully test/commission this segment until MEW clears ROW obstructions and NEPS, Phase 1 segment is energized to Pul-e Alam. Scheduled completion extended to 12/31/2017.

^d USACE inspection complete. Resolution of ROW issues ongoing.

^e Tangi substation 80% complete. Sangin North substation 82% complete. Sangin South substation 82% complete.

^f Sangin to Durai Junction segment: Tls 90% complete, 204 of 205 towers erected. Durai Junction to Lashkar Gah segment: Tls 70% complete 194/212 towers erected. Disbursed amount includes \$2.8 million for security.

^g Includes additional, non-AIF USAID funding.

^h Construction underway on all 268 towers; 146 towers complete; design 99% complete for transmission line and substations; route clearing to begin after MEW/DABS secures real estate.

Source: USFOR-A, JENG, FY 2011-2014 AIF Program Status Report, 12/27/2017; USACE, Garrison and Infrastructure Working Group, AIF Status Sheet, 12/28/2017 and 11/25/2017; USAID, OI, response to SIGAR data call, 12/22/2017, 9/21/2017 and 3/24/2017; USAID, Implementation Letter (IL) 22-79 Withdrawal of Award Consent for SEPS Completion and Ghazni-Kandahar five substation pending procurement actions under USAID agreement 306-05-00, 11/9/2017; DOD, response to SIGAR vetting, 1/16/2018.

Roads

Afghanistan has more than 76,400 miles of road, 28,000 of which have been rehabilitated or improved.⁶⁹⁴ In 2016, SIGAR auditors assessed the conditions of approximately 1,020 miles of Afghanistan's U.S.-funded national and regional highways, and found that most were in need of repair and maintenance.⁶⁹⁵ The World Bank similarly reported that 85% of Afghanistan's roads are in poor condition; the majority cannot be used year-round.⁶⁹⁶

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.⁶⁹⁷ 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.⁶⁹⁸ DOD underscored to SIGAR this quarter that the Afghan government is responsible for the sustainability of completed infrastructure projects.⁶⁹⁹

USAID Assistance to Developing Afghanistan's Road Infrastructure: Future Programming Contingent on Ministry Reform

USAID's last road infrastructure program, the three-year, \$25.5 million Technical Assistance for the Ministry of Public Works (TA-MOPW) project, ended last quarter 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.⁷⁰¹ Because a road authority, road fund, and transportation institute were not created, USAID decided to withhold funding from the MOPW after TA-MOPW ended, in line with SIGAR's recommendation in a 2016 audit.⁷⁰² In their final project report, TA-MOPW implementers said that despite an estimated \$60 million spent on capacity building at MOPW, change has occurred "only at the margins" and that, short of a "fundamental shift," MOPW was "not equipped to meet the road sector goals and targets envisaged by the donor community going forward."⁷⁰³ This quarter, USAID said that it would predicate the majority of future work with MOPW on the passage of needed reforms.⁷⁰⁴

ECONOMIC GROWTH

Afghanistan ranked 183rd of 190 economies in the World Bank's *Doing Business 2018* report on regulatory quality and efficiency, unchanged from last year's ranking.⁷⁰⁵ Since the 2017 report, Afghanistan substantially increased the cost of starting a business at incorporation. Entrepreneurs are now required to pay the business license fee for three years, raising

SIGAR AUDIT

In October 2016, SIGAR recommended that USAID make future funding for Afghanistan's Ministry of Public Works (MOPW) contingent on successful creation of an independent road authority, road fund, and transportation institute. USAID concurred with the recommendation. Because MOPW did not create these entities, USAID ceased to fund the ministry. This quarter, USAID reiterated that it agreed with SIGAR's recommendation, and emphasized that future funding was contingent on passage of needed reforms by MOPW. No future projects are currently planned.

the cost from the equivalent of 19.9% to 82.3% of income per capita.⁷⁰⁶ As a result, Afghanistan's rank for starting a business declined significantly, from 42nd last year to 107th this year. Afghanistan remains nearly last in dealing with construction permits (185), getting electricity (163), registering property (186) and enforcing contracts (181). It remains second-worst (189) in protecting minority investors. Its rank for getting credit (105) was its best score.⁷⁰⁷

USAID has cumulatively disbursed over \$1.2 billion for economic-growth programs in Afghanistan.⁷⁰⁸ USAID's active economic-growth programs have a total estimated cost of \$379 million and can be found in Table 3.17.

TABLE 3.17

| USAID ACTIVE ECONOMIC-GROWTH PROGRAMS | | | | |
|---|------------|------------|---------------------------|---|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursements, as of 12/31/2017 (\$) |
| Assistance in Building Afghanistan by Developing Enterprise (ABADE) | 10/16/2012 | 7/15/2018 | \$104,997,656 | \$104,949,972 |
| Afghanistan Trade and Revenue Project (ATAR) | 11/7/2013 | 2/28/2018 | 77,754,266 | 73,910,183 |
| Women in the Economy (WIE) | 7/1/2015 | 6/30/2019 | 71,571,543 | 25,392,990 |
| Afghanistan Workforce Development Program (AWDP) | 4/5/2012 | 6/30/2018 | 44,919,458 | 40,003,423 |
| Multi-Input Area Development-Global Development Alliance | 3/23/2013 | 3/22/2018 | 22,445,265 | 20,897,171 |
| Extractive Technical Assistance by USGS | 1/1/2018 | 12/31/2022 | 18,226,206 | 0 |
| Afghanistan Investment Climate Program | 3/27/2015 | 3/26/2020 | 13,300,000 | 2,870,959 |
| 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 | 11/1/2018 | 4,800,000 | 3,450,000 |
| 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 |
| Afghanistan Loan Portfolio Guarantee | 9/27/2017 | 9/26/2023 | 665,820 | 0 |
| Total | | | \$378,638,214 | \$280,424,660 |

Source: USAID, response to SIGAR data call, 1/17/2018.

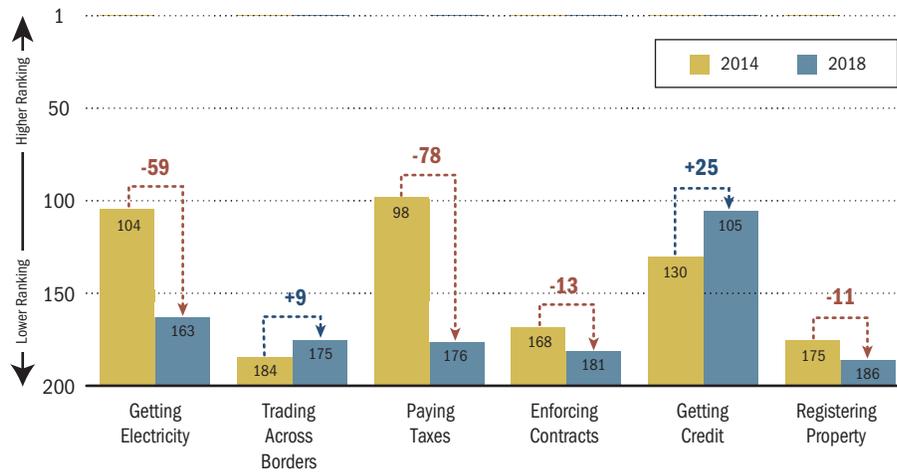
Afghanistan Compact Objectives Update: Recent Trends Must be Reversed to Achieve Aspirations

Through the Afghanistan Compact, launched in August 2017, the Afghan government committed to a total of 64 benchmarks designed to strengthen the Afghan economy.⁷⁰⁹ Included among the business climate reform benchmarks are six World Bank *Doing Business* targets, to be met by 2021:⁷¹⁰

- **Availability of electricity:** rank 120
- **Trading Across Borders:** rank 120

FIGURE 3.49

AFGHANISTAN DOING BUSINESS RANKINGS: 2014 VS. 2018



Source: World Bank, *Doing Business 2018: Reforming to Create Jobs*, 10/31/2017, p. 142; World Bank, *Doing Business 2014: Understanding Regulations for Small and Medium Enterprises*, 10/29/2013, p. 173; State, *Afghanistan-United States Compact-Economic Benchmarks*, current as of 12/23/2017, pp. 1–2.

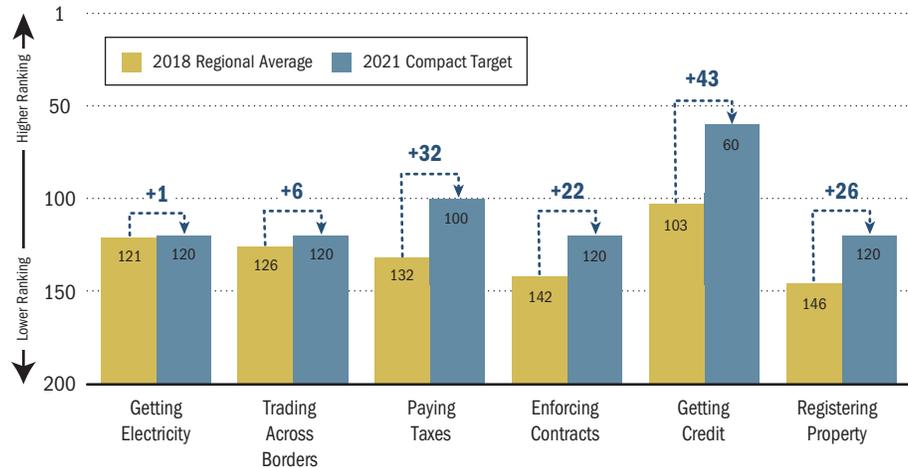
- **Paying Taxes:** rank 100
- **Enforcing Contracts:** rank 120
- **Getting Credit:** rank 60
- **Registering Property:** rank 120

SIGAR analysis of Afghanistan’s standing in these indicators over the last five years shows that the country is generally trending in the opposite direction from Compact targets (see Figure 3.49). From 2014–2018, Afghanistan’s ranking fell in four of the six indicators. Declines in its ranking for Getting Electricity (59 spots, from 104th in 2014 to 163rd in 2018) and for Paying Taxes (78 spots, from 98th in 2014 to 176th in 2018) were especially large.⁷¹¹

Although Afghanistan improved its position for Trading Across Borders (by 9 spots, from 184 in 2014 to 175 in 2018) and Getting Credit (by 25 spots, from 130 in 2014 to 105 in 2018), more recent trends show either stagnation or modest decreases along these indicators. From 2015 to 2018, Afghanistan fell from 89th to 105th for Getting Credit. For Trading Across Borders, Afghanistan has shown little improvement over the last few years, improving by just one spot, from 174th in 2016 to 175th in 2018. All of Afghanistan’s Doing Business Compact targets also exceed 2018 South Asia regional averages, as shown in Figure 3.50 on the next page.⁷¹²

FIGURE 3.50

KABUL COMPACT *DOING BUSINESS* INDICATORS: 2018 SOUTH ASIA REGIONAL AVERAGES VS. AFGHANISTAN'S 2021 COMPACT TARGETS



Source: World Bank, *Doing Business 2018: South Asia*, 10/31/2017, pp. 19, 25, 31, 39, 45, 55; State, *Afghanistan-United States Compact—Economic Benchmarks*, current as of 12/23/2017, pp. 1–2.

Afghanistan Trade and Revenue Project: Mixed Results

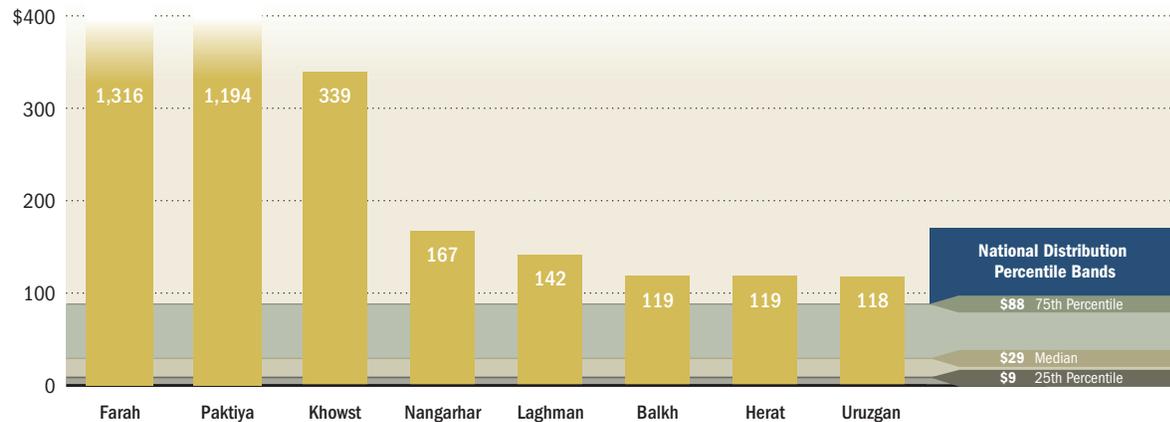
USAID’s four-year, \$77.8 million Afghanistan Trade and Revenue (ATAR) project, which submitted its final project report this quarter, aimed to help Afghanistan realize its potential as a regional and global trading partner. ATAR was designed to promote trade-policy liberalization, enhance Afghanistan’s access to regional markets, and improve its customs administration.⁷¹³ As of December 31, 2017, USAID had obligated \$77.8 million and disbursed \$73.9 million for ATAR-related activities.⁷¹⁴

ATAR’s final report highlighted several key accomplishments, including contributions to Afghanistan’s accession to the World Trade Organization (WTO) in July 2016. Prior to accession, and with ATAR support, Afghanistan adopted 25 legal acts that brought Afghanistan’s legal framework in compliance with the preconditions for WTO membership. ATAR also helped Afghan traders negotiate business deals worth millions of dollars at various international trade events, including \$240 million of confirmed and potential deals at the recent India-Afghanistan Trade Show.⁷¹⁵

However, not all objectives were met. USAID, in consultation with its ATAR implementing partner, Chemonics, established the goal of collecting 75% of all custom duties electronically by the end of this planned \$77.8 million, four-year project (November 2013–November 2017). However, a report released by SIGAR’s Office of Special Projects in August 2017 found that by

FIGURE 3.51

REPORTED CUSTOMS BRIBES: TOP PROVINCES AND NATIONAL DISTRIBUTION



Note: Excludes provinces for which there were fewer than five responses; excludes responses for which respondents provided a value of 0 AFN; presents responses from "random walk" interviews only. SIGAR used the exchange rate 68.3856/1 USD to convert from AFN. This corresponds to the exchange rate used in the Asia Foundation's analysis.

Source: SIGAR analysis of data from The Asia Foundation, *Afghanistan 2017: A Survey of the Afghan People*, 11/2017.

the end of December 2016, less than 1% (0.59%) of all custom duty collections were being collected electronically.⁷¹⁶

According to the Afghan Customs Department, one benefit of an electronic payment system is that it reduces opportunities for corruption by decreasing physical interaction between customs officials and traders.⁷¹⁷ Customs offices are one of only four institutions where reported bribes average more than \$100, according to the Asia Foundation's recently released public-opinion survey of Afghanistan.⁷¹⁸ Figure 3.51 shows the eight provinces where customs bribes are the highest (out of a total of 25 included in a SIGAR analysis of the Asia Foundation's raw survey data). Average reported bribes for each province are presented within columns. The national distribution of reported bribes is displayed with percentile bands on the right side of the graphic.

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



Chief Executive Abdullah Abdullah speaks at the launch of USAID's latest Textbook Printing and Distribution Project. (USAID photo)

requirements, with the rest receiving in-service training. While the sector is improving, the quality of education and administration remains weak.⁷¹⁹ Moreover, the ongoing conflict continues to limit access to education.⁷²⁰ The United Nations Assistance Mission in Afghanistan (UNAMA) reported a total of 51 conflict-related incidents against either education facilities or education workers through the first nine months of 2017.⁷²¹

Girls' education, in particular, faces obstacles. Human Rights Watch (HRW) said 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. HRW observed that educational disparities between girls and boys is reflected in adolescent literacy rates: 66% of adolescent boys are literate, compared to 37% of adolescent girls.⁷²²

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.

SIGAR SPECIAL PROJECT

This quarter, SIGAR's Office of Special Projects released its fourth report in a series that discusses findings from site visits at schools across Afghanistan that were either built or rehabilitated by USAID. Focusing on 17 schools in Faryab Province, SIGAR found that all schools were open and in generally usable condition. However, SIGAR observed that there may be problems with student and teacher absenteeism at one school in Maymana district, and that several schools have structural deficiencies that could affect the delivery of education. For more, see Section 2, pp. 42–43 of this report.

Ministry of Education Data: Enrollment Rises, But 20% of Students Habitually Absent

According to the **Education Management Information System (EMIS)** for FY 1396 (December 22, 2016–December 21, 2017), Afghanistan reportedly had 16,049 general-education (government-run, grades 1–12) schools, which represented a 2.2% increase over FY 1395 figures. The total number of schools included 959 schools that were either inactive or closed, a 6.1% increase from the previous year. Approximately 8.95 million students were enrolled in general education schools in FY 1396, which represented a 6.3% increase over last year's figure of about 8.4 million.⁷²³ The number of enrolled students includes both present and absent students.⁷²⁴

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.⁷²⁵ According to a recent report from the Joint Anti-Corruption Monitoring and Evaluation Committee (MEC; see next section for further information), this sub-population represents about 20% of total enrolled students, implying that only about 7.2 million students are actually attending school.⁷²⁶

Corruption in the Ministry of Education: Vulnerability High, According to MEC Report

In October 2017, the Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) released a corruption vulnerability assessment of Afghanistan's Ministry of Education (MOE). The MEC's primary finding was that many teachers were appointed based on "nepotism and bribery" rather than on merit, and that this practice was widespread. The MEC assessed that this was the most serious corruption challenge facing the MOE, rather than procurement or "ghost teachers."⁷²⁷

To remedy this issue, the MEC recommended that school communities select teachers, rather than Provincial Education Departments. The MEC

TABLE 3.18

| USAID ACTIVE EDUCATION PROGRAMS | | | | |
|--|-------------------|-----------------|----------------------------------|--|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursements, as of 12/31/2017 (\$) |
| Afghanistan University Support and Workforce Development Program | 1/1/2014 | 12/31/2018 | \$91,927,769 | \$58,501,991 |
| Increasing Access to Basic Education and Gender Equality | 9/17/2014 | 12/31/2019 | 77,402,457 | 77,402,457 |
| Textbook Printing and Distribution II | 9/15/2017 | 12/31/2019 | 75,000,000 | 0 |
| Afghans Read Program (ARP) | 4/4/2016 | 4/3/2021 | 69,547,810 | 14,567,091 |
| Support to the American University of Afghanistan (AUAF) | 8/1/2013 | 11/29/2019 | 64,400,000 | 45,061,094 |
| Strengthening Education in Afghanistan (SEA II) | 5/19/2014 | 9/30/2020 | 44,835,920 | 21,908,001 |
| Let Girls' Learn Initiative and Girls' Education Challenge Programme (GEC) | 6/29/2016 | 6/28/2021 | 25,000,000 | 5,000,000 |
| Capacity Building Activity at the Ministry of Education | 2/6/2017 | 2/5/2021 | 23,212,618 | 3,008,258 |
| Afghanistan's Global Partnership for Education | 10/11/2012 | 6/30/2018 | 10,019,464 | 4,547,341 |
| Assessment of Learning Outcomes and Social Effects in Community-Based Edu. | 1/1/2014 | 12/31/2018 | 6,288,391 | 4,970,763 |
| Financial and Business Management Activity with AUAF | 7/5/2017 | 1/4/2019 | 4,384,058 | 447,450 |
| PROMOTE Scholarships PAPA | 3/4/2015 | 3/3/2020 | 1,247,522 | 1,247,522 |
| Total | | | \$493,266,009 | \$236,661,967 |

Source: USAID, response to SIGAR data call, 1/17/2018.

also recommended that the government reduce the size and scope of the MOE, which is the largest public employer in Afghanistan and, as such, uniquely susceptible to corruption, according to the report.⁷²⁸

USAID Programs Focus on Increasing Access, Improving Literacy, and Enhancing Employability

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.⁷²⁹ USAID had disbursed approximately \$959 million for education programs in Afghanistan, as of December 31, 2017.⁷³⁰ USAID's active education programs have a total estimated cost of \$493 million and can be found in Table 3.18.

USAID Announces \$75 Million for Printing and Distribution of Textbooks

On November 7, 2017, USAID announced that it will provide \$75 million to Afghanistan's Ministry of Education to cover the costs of printing and

distributing 135 million textbooks and teacher guides for all public schools in Afghanistan serving students in first through 12th grade. USAID said this latest effort was a follow-on to its \$26.9 million Textbook I Printing and Distribution Project, which ran from 2011 to 2017.⁷³¹

USAID added that procuring and distributing the textbooks would help ensure increased access to, and improve the quality of, basic education in Afghanistan.⁷³² However, a USAID report issued in February 2017 that examined lessons learned on the agency's programming in the education sector said "textbooks production and distribution has been another area of recurrent problems in the education sector." The report noted that the Ministry of Education (MOE) has in the past inadequately planned for textbook needs, which resulted in "emergency procurements." The report also said the MOE lacks a reliable distribution plan, which produced inefficiencies in textbook delivery, including delays and shortages.⁷³³ To mitigate recurrence of such issues, USAID said two agency representatives on the Ministry of Education's textbook-oversight committee will directly review procurements and provide oversight for selection of printing contractors.⁷³⁴

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.⁷³⁵

Insecurity also impacts health-delivery services. Between July 1, 2017, and September 30, 2017, UNAMA reported 18 conflict-related incidents against either health facilities or health workers. This was lower than the 33 incidents verified by UNAMA over the same period in 2016.⁷³⁶ Armed groups sometimes threaten health clinics with closure to secure treatment for their fighters. Last quarter, SIGAR reported that the Taliban had closed the majority of health clinics in Uruzgan Province (see page 214 of SIGAR's October 2017 quarterly report for more details).⁷³⁷ According to UNAMA, as of November 23, 2017, just five of those clinics had reopened—a number that differs substantially from the MOPH's figure of 18, relayed to SIGAR in October.⁷³⁸

USAID Health Programming: Objective is to Sustain and Bolster Gains

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.⁷³⁹

TABLE 3.19

| USAID ACTIVE HEALTH PROGRAMS | | | | |
|--|------------|------------|---------------------------|--|
| Project Title | Start Date | End Date | Total Estimated Cost (\$) | Cumulative Disbursement, as of 12/31/2017 (\$) |
| Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) | 05/11/2016 | 05/10/2021 | \$75,503,848 | \$4,703,935 |
| Helping Mothers and Children Thrive (HEMAYAT) | 01/07/2015 | 01/06/2020 | 60,000,000 | 36,321,409 |
| Health Sector Resiliency (HSR) | 09/28/2015 | 09/27/2020 | 37,936,471 | 10,884,875 |
| Disease Early Warning System Plus (DEWS Plus) | 01/01/2015 | 12/30/2020 | 32,728,000 | 24,388,615 |
| Enhance Community Access, Use of Zinc, Oral Rehydration Salts for Management of Childhood Diarrhea | 07/21/2015 | 07/07/2020 | 15,002,610 | 9,400,000 |
| Challenge Tuberculosis | 01/01/2015 | 09/29/2019 | 15,000,000 | 7,546,790 |
| Sustaining Health Outcomes through the Private Sector (SHOPS Plus) | 01/01/2016 | 09/30/2017 | 6,000,000 | 5,561,289 |
| Global Health Supply Chain Quality Assessment | 01/02/2015 | 01/01/2020 | 1,500,000 | 1,500,000 |
| Global Health Supply Chain-Procurement and Supply Management-HIV/AIDS Task Order #1 | 04/15/2015 | 09/29/2021 | 176,568 | 176,568 |
| Total | | | \$243,847,497 | \$100,483,481 |

Source: USAID, response to SIGAR data call, 1/17/2018.

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.⁷⁴⁰

USAID also believes that assisting the Afghan government with health-care delivery will increase the population's support for the government, clarifying that "Healthy people and healthy communities are the bedrock of a peaceful and stable nation." USAID said that, among other refinements to its health-sector strategy following the announcement of the new South Asia strategy, it will focus on improving health outcomes in urban centers and expanding its private-sector engagement.⁷⁴¹

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.⁷⁴² U.S. on- and off-budget assistance to Afghanistan's health sector totaled nearly \$1.2 billion as of December 31, 2017.⁷⁴³ USAID's active health programs have a total estimated cost of \$244 million, and are listed in Table 3.19.

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.

SIGAR Special Project Exposes Possible Oversight Weaknesses in USAID's Multilateral Programming

This quarter, SIGAR's Office of Special Projects released the seventh in a series of reports examining health facilities supported by USAID in provinces throughout Afghanistan. The latest report focused on 20 facilities in Khowst Province. The facilities reviewed by SIGAR are supported by USAID through the World Bank-administered System Enhancement for Health Action in Transition (SEHAT) program, which is scheduled to run through June 2018.

SIGAR found substantial inaccuracies in the geospatial coordinates USAID previously provided for many of these 20 health facilities, including 15 facilities that were at least 10 kilometers away from coordinates USAID provided. SIGAR also found that not all facilities had access to reliable electricity.⁷⁴⁴

SIGAR maintains that, given USAID's intention to contribute approximately \$228 million to the World Bank's SEHAT program, USAID should take steps to ensure that its funds are used as intended. In the case of SEHAT, that means, in part, using accurate GPS data to help ensure that the correct populations are receiving intended health care services.⁷⁴⁵

Initiative for Hygiene, Sanitation, and Nutrition: First Annual Report Submitted

With a total estimated cost of \$75.5 million, USAID's Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) aims to improve nutrition of women of reproductive age and children under the age of five. Over its five-year programmatic life, the project expects to reduce the incidence of anemia among women of reproductive age by a minimum of 10% (a four-percentage-point reduction from the current rate of 40%) and decrease the incidence of **stunting** among children by at least 5% (an approximately two-percentage-point reduction from the current rate of 41%). IHSAN expects to achieve these outcomes by bolstering capacity to institutionalize nutrition programs, improving nutritional and hygiene behavior in communities and households, and increasing the availability of sanitation, hygiene, and nutritional products and services.⁷⁴⁶

IHSAN programming commenced in May 2016.⁷⁴⁷ In its first annual report, USAID's implementing partner said it had met with government and donor stakeholders to produce workplans for FY 2017 and FY 2018, and had developed and delivered nutrition counselor training to master trainers from 18 provinces.⁷⁴⁸ Implementers also assisted the Ministry of Public Health during its development of Afghanistan's National Nutrition Strategy. IHSAN expects to help finalize the strategy in FY 2018.⁷⁴⁹

Stunting: refers to the physical characteristic of being at least two standard deviations below the median height for one's age in a reference population. Children whose mothers have poor nutrition during pregnancy, whose parents engage in poor infant feeding practices, and who experience repeated infections can become stunted. Afghanistan has one of the highest rates of stunting in the world.

Source: UNICEF, "Definitions: Nutrition," n.d., accessed 12/28/2017, https://www.unicef.org/infobycountry/stats_popup2.html; UNICEF, National Nutrition Survey Afghanistan (2013) Survey Report, 8/2014, p. 9; Maternal and Child Nutrition, Stop stunting: situation and way forward to improve maternal, child and adolescent nutrition in Afghanistan, 4/2016, p. 237.

Polio

As of December 28, Afghanistan reported 12 new polio cases in 2017, the most recent one in Kandahar Province.⁷⁵⁰ There were 13 polio cases in 2016.⁷⁵¹ 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).⁷⁵² Large-scale population movements between Afghanistan and Pakistan increase the risk of cross-border transmission—UNAMA said the new transmissions in Afghanistan in 2017 were the result of cross-border movements—and a fatwa issued by the Pakistani Taliban targeting polio workers complicates vaccination outreach.⁷⁵³

This quarter, UNAMA reported that the national polio vaccination campaign reached over 9 million children in September and more than 5.5 million in November.⁷⁵⁴ As of August 31, 2017, USAID had obligated more than \$25.7 million and disbursed about \$17.7 million for polio eradication in Afghanistan since FY 2003.⁷⁵⁵