

ECONOMIC AND SOCIAL CONTENTS

Key Issues and Events	147
U.S. Reconstruction Funding for Governance and Economic and Social Development	148
Economic Profile	149
Banking and Finance	155
U.S. Economic and Development Support	157
Essential Services and Development	164
Economic Growth	169
Education	171
Health	174

ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES AND EVENTS

In June, the United Nations reported that a drought was affecting two-thirds of Afghanistan's 34 provinces due to a precipitation deficit of 70 percent in recent months. As a result, the UN expected that, over the next six months, more than two million people would face severe food insecurity, and would be in "desperate need" of humanitarian assistance.⁵⁰¹ This development follows what SIGAR first reported last quarter: that seasonal rainfall and snowpack deficits were likely to have adverse effects on both irrigated and rain-fed crops (with more pronounced effects on the latter) in water-deficit areas.⁵⁰² USAID has told SIGAR that levels of precipitation and snowpack have been so low that, "in many parts of the country, the current rain-fed winter wheat crop has effectively been lost."⁵⁰³ The Afghan government's Ministry of Agriculture, Irrigation, and Livestock anticipates that this year's wheat harvest will be more than one million metric tons lower than last year's.⁵⁰⁴ The UN said it would require an additional \$117 million from donors to provide urgent humanitarian assistance to those affected by this natural disaster.⁵⁰⁵

In May, President Donald J. Trump announced that the United States was withdrawing from the Joint Comprehensive Plan of Action (JCPOA)—more commonly known as the "Iran Nuclear Deal"—that had lifted sanctions on Iran in return for Iran's limiting its nuclear power activity to ensure that it cannot produce nuclear weapons. According to Secretary of State Michael R. Pompeo, the President withdrew from the Iran deal because it failed to guarantee the safety of the American people.⁵⁰⁶ Just how the sanctions will affect the Afghan economy and U.S. development efforts is not yet clear. At a minimum, they could affect Afghanistan's economic relationship with Iran, one of Afghanistan's top trading partners. The total value of merchandise trade between the two countries more than doubled from 2012 to 2016 to nearly \$1.3 billion, which made Iran Afghanistan's number-two trading partner (for goods) in 2016.⁵⁰⁷ Iran has significant commercial interests in Afghanistan, particularly in the western province of Herat, where Iran provides electricity.⁵⁰⁸ Re-imposing sanctions may also affect Afghanistan's trade relationship with India, which imports significant volumes of petroleum from Iran. India, which was the number-one destination for exports of Afghan goods in the first quarter of fiscal year 2018, is developing the Chabahar port in southern Iran, which would allow both Afghan and Indian

trade to bypass Pakistan. India was identified by President Trump as a “critical part of the South Asia strategy” for securing Afghanistan.⁵⁰⁹

On June 26, 2018, Afghan Minister of Finance Eklil Hakimi resigned. Hakimi, who is reportedly a key ally of President Ghani, attributed his resignation to unspecified personal reasons. Formerly Afghanistan’s ambassador to the United States, Hakimi oversaw Ministry of Finance efforts to increase Afghanistan’s domestic revenues.⁵¹⁰

This quarter, the International Monetary Fund (IMF) said continued, significant violence and political uncertainty—the latter exacerbated by upcoming parliamentary elections scheduled for October 2018 and presidential elections scheduled for April 2019—were adversely affecting economic confidence and growth in Afghanistan.⁵¹¹ The IMF made its statement as it released the results of Afghanistan’s third review under the Fund’s Extended Credit Facility (ECF).⁵¹² The ECF is an IMF financing vehicle that provides assistance to countries experiencing extended balance-of-payments problems.⁵¹³ The IMF estimated that Afghanistan’s real GDP growth in 2017 was 2.5 percent, about the same level as in 2016 and identical to the Fund’s growth projection for 2018.⁵¹⁴ In contrast to the current, very modest annual increase in real GDP, growth averaged close to double digits during the first decade of reconstruction. The subsequent international troop drawdown in 2014 and swift decline of international military spending resulted in a significant demand shock from which Afghanistan is still recovering.⁵¹⁵

SIGAR analysis shows that the Afghan government’s domestic revenues grew by 15.2 percent over the first four months of FY 1397 (December 22, 2017, to April 20, 2018), compared to the same period in FY 1396. This continues the trend of strong revenue growth reported by SIGAR over the last few quarters. Revenues grew at a substantially lower rate of 6.6 percent inclusive of the fifth month (April 21–May 21, 2018) of FY 1397.⁵¹⁶ While it is not clear why year-on-year revenue growth appeared to slow dramatically from Month 4 to Month 5 of FY 1397, SIGAR has previously observed that point-in-time data exports from Afghanistan’s government accounting system sometimes appear to under-report revenues due to what may be a lag in the logging of transactions (see pp. 185–186 of SIGAR’s October 2017 *Quarterly Report to the United States Congress* for more).⁵¹⁷ Over the first five months of FY 1397, expenditures decreased marginally by 0.4 percent year-on-year, consistent with the Afghan government’s intent to minimize an anticipated fiscal deficit in FY 1397.⁵¹⁸

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

As of June 30, 2018, the U.S. government has provided approximately \$33.0 billion to support governance and economic and social development

in Afghanistan since 2002. Most of these funds—nearly \$19.9 billion—were appropriated to USAID’s Economic Support Fund (ESF). Of this amount, \$18.5 billion has been obligated and \$16.0 billion has been disbursed.⁵¹⁹

In its FY 2018 budget request, the State Department indicated that U.S.-funded civilian-assistance programs in Afghanistan are intended to complement and reinforce 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. To mitigate corruption, they are to be implemented under strict monitoring conditions.⁵²⁰

ECONOMIC PROFILE

Ongoing violence and political uncertainty related to the upcoming parliamentary and presidential elections, slated for October 2018 and April 2019, respectively, are undermining confidence and growth, according to the IMF.⁵²¹ Numerous other underlying challenges remain, including severe poverty, limited human capital, near-continuous conflict over multiple decades, an infrastructure deficit, and heavy reliance on foreign donor support.⁵²²

Adverse population dynamics also obstruct development: the World Bank said that in recent years Afghanistan has not been able to generate enough jobs for the estimated 400,000 Afghans entering its labor market every year. These labor market dynamics are, in part, the result of the country’s youth bulge, which has resulted in a “bottom-heavy” population distribution.⁵²³

According to the results of the recently released 2016–2017 Afghanistan Living Conditions Survey (ALCS), published periodically by Afghanistan’s Central Statistics Organization (CSO), the poverty rate has increased dramatically over the last decade. Whereas the 2007–2008 ALCS survey results showed that 34 percent of Afghans lived below the national poverty line, the 2016–2017 survey results suggested that figure had risen to 55 percent, implying that about 16 million Afghans lived below the national poverty line at the time of the survey. The CSO defines the national poverty line as the value of income required per person, per month to cover the costs of basic needs. For the 2016–2017 survey, this threshold was approximately \$29.50. While the 2013–2014 ALCS survey results were not suitable for comparison, most of the increase occurred in the intervening period between the last two surveys. According to the CSO, poverty increased due to the “deterioration in Afghanistan’s macro-economic and security situation” since the 2013–2014 survey as well as to “unsustainably high” population growth.⁵²⁴

The IMF estimated that Afghanistan’s real GDP growth in 2017 was 2.5 percent, about the same level as in 2016 and identical to the Fund’s growth projection for 2018.⁵²⁵ In contrast to the current, very modest annual increase in real GDP, growth averaged close to double digits during the first decade of reconstruction. The subsequent international troop drawdown

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 percent and 2.1 percent, respectively). Opium-related earnings boost domestic demand and are a significant source of foreign exchange. The estimated net value of opium production—that is, the estimated value of all income generated by opium production and trafficking minus the estimated value of imported precursor substances—was \$2.9 billion in 2016, equivalent to 16 percent of Afghanistan’s official GDP. The range of the net value of opium production in 2017 was \$2.6–4.8 billion, which was equal to 13–24 percent of GDP.

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 2016, Sustainable Development in an Opium Production Environment*, 5/2017, p. 44; UNODC, *Afghanistan opium survey 2017: Challenges to sustainable development, peace and security*, 5/2018, p. 5.

in 2014 and swift decline of international military spending resulted in a significant demand shock from which Afghanistan is still recovering.⁵²⁶ The IMF's longer-term projections of 4–5 percent in 2021–2023 may represent the higher end of possible growth ranges, as donors have often overestimated Afghanistan's growth potential in the absence of the aforementioned demand stimulus.⁵²⁷ Since May 2016, short- and mid-term IMF growth scenarios have consistently been revised downward. The IMF recently lowered its growth projection for 2018 by 0.5 percentage points—a decline of about 17 percent—since its previous projection of December 2017 to its current projection of 2.5 percent.⁵²⁸ Projected out-year growth increases were contingent on no significant deterioration of security, unwavering donor support, and continued Afghan government reforms. Risks, the IMF said, were “mostly tilted to the downside.”⁵²⁹

Fiscal Outlook: Some Notable Improvements, but Underlying Structural Challenges Remain

Since late 2014, when the Afghan government disclosed that it was in “urgent and immediate need” of \$537 million to close a sudden fiscal gap, growth of Afghanistan's organically generated domestic revenues has been strong.⁵³⁰ Nevertheless, the IMF reported that an underlying fiscal deficit remains, as the operating balance excluding grants (domestic revenues minus operating expenditures) was equivalent to minus-6 percent of GDP in 2017.⁵³¹

The IMF added that the Afghan government continues to face “substantial” fiscal risks in 2018.⁵³² While the FY 1397 (December 22, 2017–December 21, 2018) budget initially submitted to the Afghan parliament envisioned a zero fiscal balance, inclusive of grants, the revised budget that was eventually passed projected a deficit of approximately 1 percent of GDP, including grants. With hopes of mitigating the deficit, Afghan authorities agreed to a 1.5 percent increase of the FY 1397 revenue target under the IMF's Extended Credit Facility program.⁵³³ Given these fiscal pressures, the IMF recommended that any scale-up of Afghan-government investment programs designed to stimulate aggregate demand should be gradual.⁵³⁴

Government Revenues and Expenditures: Revenue Gains Continue

SIGAR analysis shows that the Afghan government's domestic revenues grew by 15.2 percent over the first four months of FY 1397 (December 22, 2017, to April 20, 2018), compared to the same period in FY 1396. This continues the trend of strong revenue growth reported by SIGAR over the last few quarters. Revenues grew by the significantly lower rate of 6.6 percent inclusive of the fifth month (April 21–May 21, 2018) of FY 1397.⁵³⁵ It is not clear why year-on-year revenue growth appeared to slow dramatically from Month 4 to Month 5 of FY 1397. However, SIGAR has previously observed that point-in-time data exports from Afghanistan's government accounting system sometimes appear to under-report revenues due to what may be a lag

in the logging of transactions (see pages 185–186 of SIGAR’s October 2017 *Quarterly Report to the United States Congress* for more).⁵³⁶

SIGAR also noted that a relatively large percentage (11.3 percent) of revenues were categorized as “Miscellaneous” through FY 1397 Month 5. According to MOF officials, the “Miscellaneous” category is sometimes used as a catch-all category for uncategorized revenues prior to the MOF’s reconciliation.⁵³⁷ Because **one-off domestic revenues** were negligible in the first five months of FY 1396 and FY 1397, both **sustainable domestic revenues** and aggregate domestic revenues grew at the same rate, year-on-year.⁵³⁸

Excluding those revenues categorized as “Miscellaneous,” taxes and duties on imports constituted the largest source (21.9 percent) of Afghan government revenue through the first five months of FY 1397, followed closely by sales taxes (21.7 percent). Administrative fees, which consist of fees collected in exchange for services provided by the government, represented 19.9 percent of total revenues through the first five months, while income taxes were 16.3 percent of total revenues, less those categorized as “Miscellaneous.”⁵³⁹

Over the first five months of FY 1397, expenditures decreased marginally by 0.4 percent year-on-year, consistent with the Afghan government’s intent to minimize an anticipated fiscal deficit in FY 1397.⁵⁴⁰ For more on the anticipated FY 1397 deficit, see SIGAR, *Quarterly Report to the United States Congress*, April 30, 2018, page 152.

The fact that a relatively large amount of revenues were classified as “Miscellaneous” in both Months 4 and 5 of this fiscal year precluded a year-on-year comparison of revenues at the line-item level.⁵⁴¹ Because the MOF recategorizes revenues from the “Miscellaneous” category as they are reconciled, presenting year-on-year, line-item percent changes before more complete reconciliation occurs could be misleading.⁵⁴² However, SIGAR provides a five-month, year-on-year comparison of major expenditure categories in Table 3.17 on the following page.

Afghan Minister of Finance Eklil Hakimi Resigns

On June 26, 2018, Afghan Minister of Finance Eklil Hakimi resigned. Hakimi, who is reportedly a key ally of President Ghani, attributed his resignation to unspecified personal reasons. Hakimi formerly served as Afghanistan’s ambassador to the United States, and oversaw Ministry of Finance efforts to increase Afghanistan’s domestic revenues.⁵⁴³ Hakimi will reportedly take on a new position as a senior presidential advisor for international affairs.⁵⁴⁴

According to reporting from *Khaama Press*, President Ghani has appointed Dr. Humayoun Qayoumi as acting finance minister. Dr. Qayoumi had been serving as the president’s senior advisor on infrastructure, human capital, and technology.⁵⁴⁵ In the early days of reconstruction, he served as a senior advisor to the future president during Ghani’s tenure as finance

Sustainable Domestic Revenues:

According to Afghanistan Ministry of Finance (MOF) officials, these are revenues like customs, taxes, and non-tax fees. Multilateral institutions such as the World Bank and the International Monetary Fund use reports of these revenues to judge the Afghan government’s fiscal performance.

One-Off Domestic Revenues: These are nonrecurring 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.



Former Minister of Finance Eklil Hakimi, right, and USAID Mission Director Herbie Smith are pictured at a signing ceremony in October 2016. (USAID photo)

TABLE 3.17

EXPENDITURES, FIRST FIVE MONTHS, FISCAL YEARS 1396 AND 1397 COMPARED (IN AFGHANIS)			
Category	1396 (Through Month 5)	1397 (Through Month 5)	% Change
Wages and Salaries ^a	AFN 66,179,317,229	AFN 64,829,015,494	(2.0%)
Goods and Services ^b	16,920,876,173	16,082,790,285	(5.0%)
Subsidies, Grants, and Social Benefits ^c	8,334,215,688	9,927,821,034	19.1%
Acquisition of Assets ^d	11,939,689,777	12,034,585,166	0.8%
Interest and Repayment of Loans ^e	464,274,198	504,271,550	8.6%
Total	AFN 103,838,373,065	AFN 103,378,483,529	(0.4%)

- Note:
- ^a Compensation of government employees.
 - ^b Includes: (1) payments to private firms in return for goods and/or services, and (2) payments to other government units or agencies in return for services performed by those units or agencies.
 - ^c Includes: (1) expenditures made to entities in return for development assistance and promotional aid, or reimbursement for losses caused by equalization of commodity tariffs, price controls, and other similar purposes that are not repayable; (2) grants to other government units for which unequal value is provided in return; and (3) social assistance benefits not covered by social security.
 - ^d Expenditures related to the purchase or improvement of assets.
 - ^e Interest, principal payments, and fees related to government debt.

Source: SIGAR analysis of USAID-provided AFMIS data exported 6/26/2018; SIGAR analysis of USAID-provided AFMIS data exported 1/8/2018; Government of Afghanistan, MOF, *Chart of Account Guide Fiscal Year: 1397, Version 1, "Object Exp Long Des," 1/7/2018.*

minister.⁵⁴⁶ Before entering the Ghani administration, Dr. Qayoumi was the president of San Jose State University in the San Francisco Bay Area. In an interview with a local Bay Area news station in 2015, Dr. Qayoumi said that he and Ghani had been college roommates at the American University of Beirut, and that he and the president had “been best of friends for 47 years now.”⁵⁴⁷

Trade

In 2017, Afghanistan sustained an estimated merchandise trade deficit equivalent to more than 30 percent of its GDP, according to the IMF. The IMF anticipated that the merchandise trade deficit would remain largely unchanged through the next few years, dropping to just under 30 percent of GDP in 2020.⁵⁴⁸

These projections appeared to raise questions regarding the apparent goal established by Afghanistan’s Ministry of Industry and Commerce (MOIC) of increasing exports from \$750 million to \$2 billion by 2020. USAID’s forthcoming Country Development Cooperation Strategy (CDCS) will support this goal, but not a specific dollar value, according to an Office of Economic Growth portfolio review provided to SIGAR this quarter.⁵⁴⁹ The IMF projected that exports of goods would be \$842 million by 2019, far lower than the \$1.4 billion figure for 2019 implied by MOIC’s goal, which assumes a compound annual growth rate of 39 percent from 2017–2020.⁵⁵⁰ However, the IMF’s 2017 trade figures represented year-end estimates rather than final tallies and the Fund’s projections may not take into account a concerted effort by USAID to raise exports.⁵⁵¹

Supporting the proposition that Afghanistan can rapidly grow its exports is the fact that exports by air have been growing at an impressive rate. USAID said that last year's exports by air reached approximately \$323 million through October 2017, which over that 10-month period represented a \$73 million (or approximately 29 percent) gain over the total value of air-transported exports in 2016.⁵⁵² According to the Asian Development Bank, the June 2017 opening of an air corridor with India boosted Afghanistan's exports in 2017, which saw increased sales of Afghan fruit.⁵⁵³

But many challenges to trade persist. Afghanistan's landlocked geography, poor infrastructure, institutional deficits, and ongoing conflict all threaten trade expansion. The IMF said being landlocked introduces other challenges: import and export costs and delays are higher for landlocked countries than for those with coastlines. For Afghanistan, high energy costs and low levels of access to electricity, land, and finance also pose obstacles.⁵⁵⁴

To address these challenges, in addition to its recent, aggressive expansion of air corridors, Afghanistan has signed various bilateral and regional trade agreements with neighboring countries. For example, although geopolitical factors have inhibited its full implementation, a transit trade agreement between Afghanistan and Pakistan allows the countries to leverage one another's transit corridors. According to the IMF, transit trade represents an opportunity to turn Afghanistan's landlocked geography into a comparative advantage. Meanwhile, the agreement between Iran and India to develop the Chabahar seaport in southeastern Iran has the potential to open up further trade with India, which in turn hopes to use the port to transit its own goods through Afghanistan into Central Asia.⁵⁵⁵

Export and Import Data

SIGAR analysis of data from Afghanistan's Central Statistics Organization (CSO) paints a picture of encouraging merchandise export growth in FY 1396 (December 21, 2016–December 21, 2017).⁵⁵⁶ While exports of goods in the first half of FY 1396 were down marginally by about 3 percent—a result that corresponds with the World Bank's analysis of November 2017—strong pick-up over the second-half of FY 2017 resulted in impressive annual growth of 28 percent.⁵⁵⁷ Although imports grew at the lower rate of about 15 percent from FY 1395 to FY 1396, the merchandise trade deficit widened considerably, by more than \$800 million (or 13 percent) over the same time period.⁵⁵⁸

On July 1, 2018, the CSO released merchandise trade data for the first quarter of FY 1397, providing an updated picture of Afghanistan's export and import composition.⁵⁵⁹ By a wide margin, India was Afghanistan's number-one export destination in the first quarter of FY 2018, receiving nearly 53 percent (\$91.2 million) of Afghanistan's total exports of goods during the quarter. The importance of India as a trading partner cannot be overstated:

Afghanistan's number-one export in the first quarter of FY 1397 was asafetida (a fetid gum resin used for flavoring in Indian cooking), which accounted for nearly 20 percent (\$33.9 million) of total goods exports in the first quarter. Almost all of Afghanistan's asafetida exports (99.9 percent) went to India.⁵⁶⁰

More than half (nearly 57 percent) of Afghanistan's imports in the first quarter of FY 1397 came from four countries: China, Iran, Pakistan, and Kazakhstan. Its main import was wheat flour, which represented about 11 percent of total imports for the period.⁵⁶¹

Effects of Renewed Iran Sanctions on Afghan Economy Unclear

In May, President Donald J. Trump announced that the U.S. was withdrawing from the Joint Comprehensive Plan of Action (JCPOA)—more commonly known as the “Iran Nuclear Deal” of 2015—that lifted sanctions on Iran in return for Iran's limiting its nuclear power activity to ensure that it is unable to produce nuclear weapons. According to Secretary of State Pompeo, the President withdrew from the Iran deal because it failed to guarantee the safety of the American people.⁵⁶²

Just how the sanctions will affect the Afghan economy and U.S. development efforts is not yet clear. At a minimum, they could affect Afghanistan's economic relationship with Iran, which is one of Afghanistan's top trading partners. The total value of merchandise trade between the two countries more than doubled from 2012 to 2016 to nearly \$1.3 billion, which made Iran Afghanistan's number-two trading partner (for goods) in 2016.⁵⁶³ Iran has significant commercial interests in Afghanistan, particularly in the western province of Herat, where Iran provides electricity.⁵⁶⁴

The sanctions could also affect Afghanistan's trade relationship with India. President Trump called India a “critical part of the South Asia strategy” for securing Afghanistan. India imports significant volumes of petroleum from Iran, and is also developing the Chabahar port in southeastern Iran, which would allow both Afghan and Indian trade to bypass Pakistan.⁵⁶⁵ U.S. officials have pointed to Chabahar as an example of how Afghanistan is increasing regional trade integration.⁵⁶⁶

The December 2017 opening of the Indian-backed port was intended to provide Afghanistan with an alternative to the Pakistani port of Karachi, and India with access to Central Asian markets. Some media reports following the announcement of the U.S. withdrawal from the JCPOA indicated that re-imposed sanctions could significantly hinder the port's development.⁵⁶⁷ However, according to reporting from Reuters in late May, Indian Foreign Minister Sushma Swaraj said that India observed only U.N. sanctions rather than “unilateral sanctions by any country,” and in late June the Indian government said that it planned to have Chabahar fully operational by 2019.⁵⁶⁸ Whether the sanctions will have an impact on U.S. economic development efforts in Afghanistan, India's role in that development, or on Afghanistan itself is unknown, and much depends on the reaction from New Delhi.

BANKING AND FINANCE

The Afghan banking sector comprises 15 banks. Three banks are state-owned; of the remaining 12, nine are private and three are foreign commercial-bank branches.⁵⁶⁹ While the financial sector remains vulnerable to adverse shocks due to poor asset quality, capital shortfalls, and management deficiencies at several banks, the banking sector recently has been chipping away at risk.⁵⁷⁰ According to data presented by the IMF, by the end of 2017, the ratio of non-performing loans to gross loans was at the lowest level seen since the beginning of 2015. The ratio of adversely classified loans (loans that banks doubt will be repaid) to gross loans, meanwhile, dropped dramatically from the third to the fourth quarter of 2017, while the ratio of regulatory capital to risk-weighted assets climbed from 2016 to 2017, before leveling off in the first quarter of 2018.⁵⁷¹

However, the banking sector is only marginally profitable, and, overall, both return on assets and return on equity for the sector dipped into the red in the first quarter of 2018, according to the IMF.⁵⁷² While hedging risk may mitigate the threat of adverse shocks, it may also be further restricting access to finance—already a significant obstacle in Afghanistan. Banks are reportedly reluctant to lend large amounts to individual borrowers, and businesses face substantial collateral requirements of 100–200 percent of loan values, according to some representatives of the Afghan private sector.⁵⁷³

Treasury Technical Assistance: No Significant Updates this Quarter

In March 2015, the U.S. Treasury's Office of Technical Assistance (OTA) signed an agreement with Afghanistan's MOF to develop and execute technical-assistance and capacity-building programs aimed at strengthening the government's public financial management. OTA also helps the Government of Afghanistan to provide better oversight of its financial sector. President Ghani requested OTA renew its engagement with the Afghan government in 2014 to assist with budget reforms, among other activities.⁵⁷⁴ OTA's current work in Afghanistan is funded through an inter-agency agreement with USAID that expires in September 2019.⁵⁷⁵ Despite security constraints, OTA says it remains engaged with Afghan counterparts, including remotely by e-mail and phone. OTA also holds training events in third countries.⁵⁷⁶

This quarter, Treasury said it had no plans to alter its technical-assistance program in response to the Administration's new South Asia strategy, as the issues OTA addresses are enduring.⁵⁷⁷ While Treasury provided no significant updates on its work in Afghanistan this quarter, OTA said it plans to conduct a **problem bank resolution** workshop for Afghan deposit insurance fund staff in Baku, Azerbaijan in late August.⁵⁷⁸ USAID emphasized that the issues OTA is addressing were crucial to improving economic governance but added, "OTA has been shy to expand their operations in Afghanistan despite several efforts by OEG to get more OTA technical assistance."⁵⁷⁹

Problem bank resolution: a process through which authorities resolve a situation in which a financial institution is in danger of failing. Examples include deposit payoffs and purchase and assumption (P&A) transactions. In a P&A transaction, a healthy institution agrees to purchase some or all of the assets, and to assume some or all of the liabilities, of a failed institution. Effective resolution is believed to foster stable financial systems.

Source: FDIC, *Resolutions Handbook*, 12/23/2014, pp. 5–6; IMF, "Bank Resolution Powers and Tools," 10/20/2016, p. 5.

SIGAR INVESTIGATION

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 Attorney General's Office, MOF, Ministry of Interior, FinTRACA, and Kabul Bank entities to provide SIGAR relevant information and documents. SIGAR is using the retrieved documents in support of an ongoing investigation related to the Kabul Bank case.

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

Pointing to the findings of SIGAR's recently completed assessment of the Afghan government's anticorruption reform efforts, DOJ said that donors do not demand sufficient accountability, and instead "generally go along with the status quo of Afghan corruption and dysfunction."

Source: DOJ, response to SIGAR data call, 6/23/2018.

Kabul Bank Theft: DOJ Reports that Corruption Continues to Stall Recovery of Stolen Assets

Kabul Bank—a systemically important Afghan financial institution—nearly collapsed in September 2010 due to embezzlement and fraud by a handful of politically connected individuals and entities.⁵⁸⁰ The subsequent \$825 million bailout by the Afghan government, representing approximately 5–6 percent of GDP, made it one of the largest banking catastrophes in the world, relative to GDP.⁵⁸¹ The aftermath of the scandal exposed an elaborate fraud and money-laundering scheme orchestrated by Kabul Bank founder Sherkhan Farnood, chief executive officer Khalilullah Ferozi, and other key shareholders and administrators. Years later, the legacy of Kabul Bank continues to be a striking symbol of the extensive corruption and criminality that threatens the Afghan government's legitimacy, according to a report from the United States Institute of Peace (USIP).⁵⁸² The U.S. Department of Justice (DOJ) has referred to the scandal as “one of the most notorious fraud cases in Afghan history.”⁵⁸³

Every quarter, SIGAR asks DOJ and the Department of State's Bureau of South and Central Asian Affairs (SCA) to provide an update on Kabul Bank Receivership (KBR) efforts to recover funds stolen from the Kabul Bank. The KBR was established to manage Kabul Bank's bad assets.⁵⁸⁴ DOJ communicated to SIGAR that interference from both Afghan law enforcement and other government authorities continues to impede the KBR's collection efforts. DOJ relayed doubts from the KBR that authorities would pursue major debtors, despite the fact that, according to at least one KBR official, “the government knows where they live.” Moreover, high-level KBR officials themselves have been accused of corruption.⁵⁸⁵ As reported by the KBR, total recoveries now stand at \$451.65 million (including forgiven interest payments and assets that have been identified but remain unrecovered), which represented a 0.75 percent increase over the previous quarter (\$448.3 million). More than \$590 million owed to the Afghan government remains outstanding.⁵⁸⁶

Despite the Afghan government's public promise of action, reflected in the Afghanistan Compact, DOJ told SIGAR that Afghanistan's Attorney General has communicated privately that “he is not going to pursue any additional defendants.”⁵⁸⁷

DOJ: Process for Recovering Kabul Bank's Stolen Assets is “Unwieldy, Cumbersome, and Bureaucratic”

In response to SIGAR's requests for information regarding the Kabul Bank scandal this quarter, DOJ said that an “unwieldy, cumbersome, and bureaucratic” process for seizing assets exacerbates the effects of corruption on the KBR's capacity to recover stolen funds.⁵⁸⁸

First, the “Special Committee on Kabul Bank” (the “Committee”) is required to draft an agreement that must be signed by the KBR, the

Ministry of Urban Development, and the MOF. Once signed, the agreement is presented to a court for approval. If the court approves, a court order is then sent to the Ministry of Justice, which convenes a meeting of relevant stakeholders, including MOF and Ministry of Interior (MOI) officials, and representatives from local government and tribes. Following this consultation, this group serves the court order to the debtor and specifies the deadline by which the debtor must relinquish his property. If the deadline is not met, the MOI bears responsibility for forcibly seizing the property.⁵⁸⁹

Using information relayed to it by a KBR contact, DOJ provided an illustrative example of breakdown in the asset-recovery process. At one point in time, the Committee attempted to pursue the assets of a Balkh Province-based militia commander connected to a high-level official currently serving in the Afghan government. KBR officials engaged in the extensive process described above. However, when the process reached the stage at which the property would actually be seized, both MOI and local officials reportedly “backed down.” DOJ pointed out that the Afghan government’s inability to effectively enforce the rule of law reflects a fundamental lack of will to ensure a properly functioning criminal justice system.⁵⁹⁰ State SCA has communicated to SIGAR that Afghan government authorities hinder the KBR’s asset-recovery efforts.⁵⁹¹ SIGAR will continue to provide updates on Kabul Bank asset recoveries in future quarters.

According to DOJ, one KBR official described the process for recovering the Kabul Bank’s stolen assets as (in DOJ’s words) a “byzantine journey . . . which winds its way through a sclerotic bureaucracy before ending up at an impotent police force.”

Source: DOJ, response to SIGAR data call, 6/23/2018.

U.S. ECONOMIC AND DEVELOPMENT SUPPORT

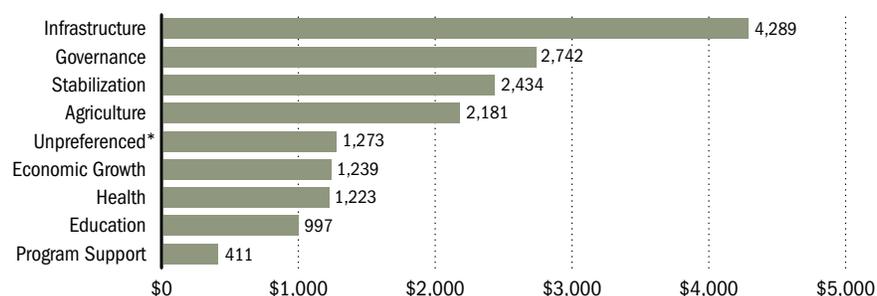
Most assistance from the Economic Support Fund goes toward USAID’s development programs. In September 2015, USAID published an updated Performance Management Plan to guide and measure its development objectives, and to articulate its development strategy through 2018. USAID’s overall goal through 2018 was to promote Afghan-led sustainable development. That goal was to be supported by expanding agriculture-led economic growth, maintaining gains in education, health, and women’s empowerment, and increasing the performance and legitimacy of the Afghan government.⁵⁹²

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 assessment, see pages 59–60 of SIGAR’s January 2018 *Quarterly Report to the United States Congress*.⁵⁹³

USAID is developing its first Country Development Cooperation Strategy (CDCS) for Afghanistan. The CDCS will articulate how USAID plans to support the new U.S. South Asia strategy. USAID expects the CDCS to be completed this summer.⁵⁹⁴ However, USAID said this quarter that it has not yet been finalized.⁵⁹⁵ Figure 3.38 shows USAID assistance by sector.

FIGURE 3.38

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF JULY 9, 2018 (\$ 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. OFM activities included under Program Support funds.

*Unpreferred funds are U.S. contributions to the ARTF that can be used for any ARTF-supported initiatives.

Source: SIGAR analysis of USAID, response to SIGAR data call, 7/12/2018; SIGAR, analysis of World Bank, ARTF, *Administrator's Report on Financial Status*, as of May 21, 2018.

USAID Releases Mid-Term Evaluation Results of, and Ends, its New Development Partnership

USAID's New Development Partnership (NDP), which began implementation in mid-2015, was a four-year, \$800 million program designed to help the Afghan government ensure fiscal sustainability, improve governance, enhance stability, and combat poverty. USAID recently discontinued NDP. NDP was intended to be an incentive-based program to speed the Afghan government's reform efforts, specifically the achievement of 40 key development results.⁵⁹⁶

While the mid-term evaluation stated it was too early to conclude whether all NDP results directly contributed to intended objectives, evaluators concluded that, overall, USAID's operational management of the NDP has been adequate. However, they recommended modifications to the NDP that include an overarching program purpose and a justification for allocated resources, among others.⁵⁹⁷ For more information see pages 124–126.

Natural Resources: An Under-Tapped Source of Government Revenue and Economic Growth

The Afghan government has said that development of its natural resources and the fiscal reform of the extractives industry are critical to medium-term domestic revenue mobilization.⁵⁹⁸ According to evaluators of USAID's now-concluded flagship mining program—the Mining Investment and Development for Afghan Sustainability project—the extractives sector is the “country's best, and perhaps only” option to generate the level of economic growth that would support inclusive job creation (i.e., job creation

SIGAR SPECIAL PROJECT

This quarter, SIGAR released a review that examined the extent to which three DOD- and USAID-funded extractives-sector programs assisted the Afghan government in generating revenue. DOD and USAID cumulatively spent \$125.4 million on the programs, which were designed to assist the Ministry of Mines and Petroleum to develop and award extractive tenders. SIGAR found that none of the three programs achieved that goal, and not a single extractive tender that TFBSO or USAID supported resulted in a contract that is currently active. For more see p. 29 of this report.

where economic benefits are distributed among most Afghans as opposed to only a few).⁵⁹⁹

The theoretical possibilities of Afghanistan's extractives sector have some basis in fact. In 2010, DOD's Task Force for Business and Stability Operations estimated the potential value of the country's mineral deposits at \$908 billion, a figure that was rounded upward to \$1 trillion and widely cited.⁶⁰⁰ Nevertheless, as SIGAR has reported previously, optimistic projections by the Afghan and U.S. governments consistently underestimated the time and costs, both in terms of capital and political will, required to get the mining industry going, while overestimating revenue projections despite low international demand. While the hope is that private-sector investment will bring money and infrastructure, licit investment might not come if perceived levels of profit potential remain low.⁶⁰¹

The Afghan government believes that underdeveloped infrastructure, declining commodity prices, and ongoing security challenges all hinder progress in this potentially important sector.⁶⁰² The inability of the Afghan parliament to amend the existing mining law has also obstructed the development of the sector, although the Afghan government claims that it plans to work with the IMF and the World Bank to submit an amended version to parliament.⁶⁰³ Speaking at an event at the Center for Strategic and International Studies in November 2017, then-Assistant to the Administrator for the Office of Afghanistan and Pakistan Affairs Greg Huger commented that previous U.S. efforts to develop Afghanistan's extractives sector "really weren't very successful."⁶⁰⁴

While licit mining languishes, illegal mining—broadly defined—is widespread in Afghanistan. According to USIP, most mineral extraction that occurs in the country is either unregulated or illicit. In some cases, local communities have operated for decades under informal agreements brokered before the current regulatory regime took effect. The Taliban and various criminal networks control other sites.⁶⁰⁵

Current Level of U.S. Support to Afghanistan's Extractives Sector Remains Relatively Low

As SIGAR reported in its October 2017 *Quarterly Report to the United States Congress*, there appeared to be renewed interest in developing Afghanistan's extractives sector following President Trump's August 2017 announcement of a new South Asia strategy.⁶⁰⁶ In September 2017, President Trump met with Afghan President Ashraf Ghani on the sidelines of the United Nations General Assembly in New York where they discussed, among other topics, how American companies could rapidly develop Afghanistan's rare-earth minerals to lower the costs of U.S. assistance and render Afghanistan more self-reliant.⁶⁰⁷ In the meeting, President Ghani said, "The economic development and prosperity of Afghanistan depend on its mining sector."⁶⁰⁸

Potential Data-Quality Issue

While the Taliban derive some revenues from illegal mining, they are difficult to quantify. A November 2017 USAID Office of Economic Growth portfolio review stated that annual revenues from illegal mining flowing to antigovernment forces amounted to about \$200–300 million. USAID said that this figure was derived from a USIP report. The USIP report, which refers only to Taliban revenues from illegal mining rather than to the revenues of all "antigovernment forces," cited an article published in the United States Military Academy Combating Terrorism Center's *CTC Sentinel*, which as the publication's name suggests, addresses counterterrorism issues. The article referenced the author's interview of a single "Afghan extractives analyst who spoke on the condition of anonymity." Therefore, while \$200–300 million may represent a best estimate of illegal mining revenues flowing to the Taliban, it is a figure derived from an interview with a single anonymous expert and does not appear to have been verified elsewhere.

Source: USAID, OEG, "Context Slides for OEG Portfolio Review—Private Sector Export-led Economic Growth," 11/15/2017, p. 12; USAID, OEG, response to SIGAR data call, 6/21/2018; USIP, *Illegal Mining in Afghanistan: A Driver of Conflict*, 7/2017, pp. 1–2, 4; *CTC Sentinel*, "The Taliban Stones Commission and the Insurgent Windfall from Illegal Mining," Vol. 10, no. 3, (2017): 32, 35.

The U.S. media widely reported on those discussions, generating speculation that the United States would engage in a reinvigorated effort to develop Afghanistan's extractives sector.⁶⁰⁹ However, nearly one year after the Trump administration made the decision to recommit to Afghanistan, U.S. extractives sector programming remains relatively minimal. USAID has interagency agreements with the Department of Commerce to provide legal assistance to the sector and with the United States Geological Survey (USGS) to provide technical advisory services, but these represent the only current U.S.-led initiatives to develop the natural resources industry.⁶¹⁰

Under the five-year, \$18.2 million agreement between USAID and USGS, signed in December 2017, USGS will review, organize, and archive existing minerals data and assessments, and focus exclusively on providing technical support to Afghanistan's Ministry of Mines and Petroleum (MOMP).⁶¹¹ USAID has two agreements with the U.S. Department of Commerce's Commercial Law Development Program (CLDP). The more recent, a five-year, \$20 million agreement signed in February 2018, includes several objectives, one of which relates to Afghanistan's extractives sector. The extractives sector objective focuses on improving the legal and regulatory regime in the mining sector as well as building the capacity of MOMP's staff to administer its mining contracts.⁶¹² The second agreement, a \$13.1 million activity scheduled to end in 2019, supports MOMP with drafting policies, regulations, and commercial laws for the mining sector.⁶¹³

Even considered together, the scale and scope of these programs are far more modest than previous U.S. efforts, which amounted to hundreds of millions of dollars in support. However, SIGAR has assessed that, overall, these prior efforts were largely ineffective.⁶¹⁴ While USAID has told SIGAR that assisting Afghanistan to develop its extractives sector is a component of the new South Asia strategy, how that component will be fully developed has not yet been determined.⁶¹⁵

USAID Discusses Mining Opportunities and Challenges with Afghan Private Sector

On February 7, 2018, USAID and the U.S. Embassy in Kabul hosted an event to explore challenges and opportunities for the private sector in Afghanistan's mining industry. Representatives from the Afghan business community, Afghan government, and donor countries participated. SIGAR received a final report on the event this quarter.⁶¹⁶

Speaking at the event, U.S. Ambassador to Afghanistan John Bass stated that Afghanistan's revenues from mining had increased from \$14 million in 2016 to more than \$31 million in 2017, despite no new contracts being issued in the last three years.⁶¹⁷ SIGAR analysis shows that the 2017 figure represents only 0.62 percent of total Afghan government revenues for that year, inclusive of donor grants.⁶¹⁸ An evaluation of USAID's Mining Investment and Development for Afghan Sustainability project that ended in 2017 states

that 2016 mining revenues were \$20 million, about 43 percent higher than the \$14 million figure cited by Ambassador Bass, but still minimal relative to the scale of what is believed to be Afghanistan's untapped mineral wealth.⁶¹⁹

According to the event report, private-sector representatives expressed their desire for assistance in forging links to international markets, and in obtaining machinery, equipment, and technical assistance. They hoped that the Afghan government could help identify international companies that could help them fill these needs. Private-sector representatives also called for clear and consistent policies in the mining sector, and noted that deficiencies in the current mining law and leadership turnover at MOMP added to uncertainty surrounding the sector.⁶²⁰ MOMP is currently headed by Acting Minister Nargis Nehan, whose nomination for a permanent position at the ministry was rejected by the Afghan parliament in December 2017.⁶²¹ The Department of Commerce reported this quarter that while there are two drafts of a new mining law, it has no information on when one may be enacted.⁶²²

Private-sector representatives also urged the Afghan government to begin issuing new contracts and licenses. Afghan government representatives said they had initiated a "pause" to consolidate past efforts to develop the sector and to conduct a value-chain analysis of key commodities. According to private-sector representatives, one negative impact of the pause was the further proliferation of illegal mining, which has lowered prices in the countries to which the illicit products are exported, limiting the market for legitimate businesses, which must pay taxes and royalties.⁶²³

One benchmark included in the Afghanistan Compact, which was introduced by the Afghan government in August 2017 in order to "demonstrate the government's commitment to creating a peaceful, stable, and prosperous society," was to initiate a new round of mining concessions by January 2018.⁶²⁴ USAID's legal and technical assistance to MOMP was designed to support the Afghan government in meeting its obligations under the compact.⁶²⁵ A compact status tracker dated May 15, 2018, listed that benchmark as having been completed.⁶²⁶ However, the State Department informed SIGAR that, according to media reports, a contract to develop a salt mine in Ghoryan (Herat Province), which was signed in support of completing this benchmark, had been canceled, and the benchmark remains outstanding.⁶²⁷

Agriculture: Two Million Afghans May Face Food Insecurity Due to Drought Conditions

The World Bank has called agriculture a "pillar of economic development and national security in Afghanistan."⁶²⁸ More than half of the rural labor force works in the agricultural sector, which employs about 40 percent of Afghans overall. Historically, agriculture has made substantial contributions to Afghanistan's economic growth.⁶²⁹ However, the World Bank's characterization that agriculture is a pillar of national security requires a major caveat—SIGAR has reported that opium-poppo cultivation has undermined

In March, the USAID-funded Famine Early Warning Systems Network (FEWS NET) reported that both rain-fed and irrigated crops in water-deficit areas were likely to be affected by current drought conditions. However, USAID told SIGAR this quarter that the drought will not impact irrigated crops. According to FEWS NET, while snowmelt has contributed to water availability in most irrigated areas, dry spells and below-average precipitation levels reduced the area planted under wheat in both irrigated and rainfed areas for the 2017–2018 agricultural year, compared to 2016–2017.

Source: FEWS NET, "Afghanistan Food Security Outlook: High levels of food assistance needs will persist through at least early 2019," 6/2018, p. 3; FEWS NET, "Afghanistan – Seasonal Monitor: Thu, 2018-03-15," 3/15/2018, <http://www.fews.net/central-asia/afghanistan/seasonal-monitor/march-15-2018>, accessed 3/21/2018; USAID, response to SIGAR vetting, 7/10/2018; FEWS NET, "About Us: Famine Early Warning Systems Network," n.d., <http://www.fews.net/about-us>, accessed 3/21/2018.

security goals by providing a major revenue source for the insurgency, undermining Afghan government legitimacy, and exacting an enormous human and financial toll.⁶³⁰

As SIGAR reported last quarter, seasonal precipitation and snowpack deficits have resulted in a drought affecting large swaths of Afghanistan.⁶³¹ According to the United Nations, two-thirds of provinces have been affected. Consequently, the UN anticipated that two million Afghans would become “severely food insecure” and “in desperate need of life-saving humanitarian assistance” within the next six months, as of June 2018. As a result, the UN said it would require an additional \$117 million from donors in order to provide urgent humanitarian assistance to those affected by this natural disaster. The UN has already provided about \$1.2 million in assistance to the hardest-hit parts of Badghis Province in Afghanistan’s northwest.⁶³² As a result of the drought, the Afghan government’s Ministry of Agriculture, Irrigation, and Livestock anticipates that this year’s wheat harvest will be more than one million metric tons lower than last year’s.⁶³³ However, USAID anticipated that the harvest for high-value irrigated crops would be productive.⁶³⁴

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

USAID’s agricultural projects aim to enhance food security, create jobs and export markets, increase incomes and productivity, and enhance the government’s ability to promote broad-based growth. USAID hopes to bolster the Ministry of Agriculture, Irrigation, and Livestock’s (MAIL) “farmer-focused” approach through marketing and production of livestock products and high-value horticultural crops, the rehabilitation of irrigation and drainage systems, and increased use of new technologies.⁶³⁵

Since 2002, USAID has disbursed nearly \$2.2 billion to improve agricultural production, increase access to markets, and develop income alternatives to growing poppy for opium production.⁶³⁶ Pages 191–200 of this quarterly report discuss USAID’s agriculture alternative-development programs. USAID’s active agriculture programs have a total estimated cost of \$435 million and can be found in Table 3.18.

Agricultural Development Fund Update: Shrinking Loan Portfolio and Questions about Sustainability

SIGAR has concerns that a credit facility established by USAID to help develop Afghanistan’s agricultural sector may be facing significant sustainability challenges.⁶³⁷ Given the centrality of agriculture to the Afghan economy and the difficulties Afghan farmers faced in accessing credit, USAID established the Agricultural Development Fund (ADF) in July 2010 through a \$100 million grant to MAIL. The purpose of the ADF, which remains active, is to provide credit to agribusinesses, commercial farmers,

In early 2016, the Agricultural Development Fund (ADF) changed its loan-write-off policy so that only loans that are overdue by more than 1,095 days (three years) are counted as losses. The new policy significantly lengthened the period of time after which loans were counted as losses, deviated substantially from Afghan central bank (DAB) standards, and altered the definition of a key indicator used to assess the performance of USAID’s assistance to the ADF. The ADF is not a bank and is thus not regulated by DAB.

Source: USAID, *Agricultural Credit Enhancement II (ACE-II) Program Annual Report No. 2: June 23, 2016–June 22, 2017*, 7/31/2017, p. 20; USAID, *Agricultural Credit Enhancement II (ACE-II) Program Q2-FY 2017: January–March, 2017*, 4/30/2017, p. 30; USAID, *Agricultural Credit Enhancement (ACE) Program Final Report*, 2/15/2015, pp. 1, 45.

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.18

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 7/9/2018
Strengthening Watershed and Irrigation Management (SWIM)	12/7/2016	12/6/2021	\$87,905,437	\$8,298,234
Regional Agriculture Development Program (RADP North)	5/21/2014	5/20/2019	78,429,714	53,478,361
Commercial Horticulture and Agriculture Marketing Program (CHAMP)	2/1/2010	12/31/2019	71,292,850	55,577,706
Afghan Value Chains - Livestock activity	6/6/2018	6/5/2021	55,672,170	0
Kandahar Food Zone (KFZ)	7/31/2013	8/30/2018	45,402,467	44,508,000
RADP East(Regional Agriculture Development Program- East)	7/21/2016	7/20/2021	28,126,111	7,496,403
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	1,060,692
ACE II (Agriculture Credit Enhancement II)	6/23/2015	10/31/2018	18,234,849	13,890,041
Catalyzing Afghan Agricultural Innovation	5/28/2018	5/27/2023	8,000,000	0
SERVIR	9/14/2015	9/30/2020	3,100,000	1,097,533
Total			\$434,663,598	\$188,656,971

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see pp. 191–200 of this report.

Source: USAID, response to SIGAR data call, 7/12/2018.

and processors and exporters of agricultural products.⁶³⁸ Initially managed by USAID through its \$50 million Agricultural Credit Enhancement (ACE) project, the ADF was transferred to the Afghan government in 2015.⁶³⁹ Since the conclusion of ACE, a follow-on program—the Agricultural Credit Enhancement Phase-II (ACE-II) project—has been providing technical assistance to the ADF.⁶⁴⁰

ACE’s final report, produced by implementer Development Alternatives Inc., described the project as a significant success. According to the report, ACE was tasked with “what seemed for many an unattainable goal,” namely to establish and manage a financial institution that could effectively provide agricultural credit while maintaining a cumulative default rate of below 5 percent “in one of the world’s most volatile environments.” ACE, the report said, had “delivered” on this goal.⁶⁴¹ ACE’s 4.5 percent cumulative default rate, implementers said, demonstrated the “sound implementation approach undertaken by the project.”⁶⁴²

While the percentage of loan losses in the ADF’s portfolio has remained below the 5 percent target for loan losses under ACE-II, the indicator significantly under-reports losses when compared to those identified by the methodology required by Afghanistan central bank (DAB) regulations.⁶⁴³ Because the ADF is not a bank, it is not subject to DAB regulation. Previously, DAB identified loans overdue by more than 539 days as being in default. More recently, DAB changed that threshold to 360 days, presumably

in an effort to mitigate financial risk by taking a more conservative approach to assessing the health of credit portfolios.⁶⁴⁴

According to ACE-II's most-recent annual report submitted in July 2017, under the Afghan government's management, the ADF altered its categorization of loan losses by substantially increasing the period of time that must pass (from 539 days in accordance with prior DAB regulations to 1,095 days per current ADF policy) in order for a nonperforming loan to be counted in the losses category.⁶⁴⁵ As a result, the ADF presently does not classify loans as losses until they are in default by more than three years. Consequently, the loan losses indicator measures only trailing loan losses from ACE, rather than the performance of new loans issued under ACE-II.⁶⁴⁶ This means that the loan-loss indicator for ACE-II is not directly comparable to that of ACE.

Under ACE-II, the financial performance of the ADF has suffered due to the prevailing political, economic, and security conditions, which according to project implementers has contributed to a more prolonged time frame "required for the ADF to achieve . . . operating sustainability, one of its primary objectives."⁶⁴⁷ Under the methodology used by DAB, which classifies loans as losses if they are overdue by more than 360 days, current losses would represent 20.4 percent of the ADF's total portfolio.⁶⁴⁸ To ensure fund profitability while increasing access to agricultural credit, the magnitude of this percentage may not be sustainable under current conditions. According to a USAID project appraisal document dated April 2017, the "global benchmark" for the loan write-off indicator is 5 percent.⁶⁴⁹ While the value of loan losses and loss provisions decreased by nearly 20 percent from September 2017 to March 2018, the total value of the portfolio also decreased, by about 13 percent.⁶⁵⁰ As of March 2018, the ADF had cumulatively disbursed about \$103 million, which was 6.9 percent short of the project's target.⁶⁵¹

SIGAR SPECIAL PROJECT

A SIGAR Special Project released in June 2018 reviewed the construction of a 233-kilometer section of the Afghan Ring Road from Qeysar, in Faryab Province, to Laman, in Badghis Province using Asian Development Bank (ADB) grants, funded by the United States and other ADB members. SIGAR found that although \$249 million had been disbursed in support of the project, construction had been stalled for two-and-a-half years and construction progress stood at only 15 percent. For more, see p. 28 of this report.

ESSENTIAL SERVICES AND DEVELOPMENT

The United States has provided reconstruction funds to increase the electricity supply, build roads and bridges, and improve health and education in Afghanistan since 2002.⁶⁵² This section addresses key developments in U.S. efforts to improve the government's ability to deliver these essential services. Rather than providing minor updates in dedicated subsections every quarter, SIGAR will provide updates on the Kajaki Dam and power availability at the Shorandam and Bagh-e Pol industrial parks in Kandahar only as significant developments occur.⁶⁵³ DOD informed SIGAR this quarter that providing additional assistance to the Shorandam and Bagh-e Pol industrial parks in Kandahar City is not within DOD's current mission set. Consequently, DOD has no plans to provide future support to these industrial parks.⁶⁵⁴

Power Supply: Access to Electricity Remains Key Challenge

According to USAID, lack of access to affordable and reliable electricity hinders Afghanistan's economic growth. Citing data from a World Bank survey of enterprises in Afghanistan, USAID reported that two-thirds of firms operating in the country said limited access to electricity was a major obstacle to doing business, and about 70 percent of businesses experienced significant electricity outages. Those outages resulted in an average loss of 10 percent in annual sales.⁶⁵⁵

Because of unreliable supply, nearly half of private businesses share or own a diesel generator, obtaining about 40 percent of their electricity from this relatively high-cost power source. The Afghanistan Chamber of Commerce indicated that, for businesses, the power supply situation may have become even worse in recent years: factory owners operating in Kabul's industrial parks report that they can lose \$200 to \$1,000 from each outage as a result of equipment and material damage. The World Bank's 2018 *Doing Business* survey indicated that, for firms, the cost of an electricity connection in Afghanistan remains prohibitively high at more than 2,000 percent of per-capita income. With respect to electricity, the Bank continues to assess the lowest possible score to Afghanistan for both reliability of service and for transparency.⁶⁵⁶

USAID said that several underlying constraints would have to be addressed to achieve maximum impact in the power sector. Data from Afghanistan's state-owned national electric utility, Da Afghanistan Breshna Sherkat (DABS), indicate that demand exceeds supply in all major cities. Additionally, Afghanistan relies heavily on electricity imported from its neighbors—a dependence that could increase in the short to medium term with a reportedly recently signed, 10-year agreement with Turkmenistan to increase imports from that country, according to USAID. Tenuous functionality at DABS, which faces technical and commercial losses due to theft, improper billing and collection, and poorly maintained and outdated equipment, represents an additional challenge, as does weak sector governance, according to USAID.⁶⁵⁷

U.S. Power-Sector Assistance: Large-Scale Infrastructure Projects Predominate

USAID has disbursed, since 2002, more than \$1.5 billion in Economic Support Funds to build power plants, substations, and transmission lines, and provide technical assistance in the power sector.⁶⁵⁸ USAID has also provided support to DABS in order to increase its commercial viability.⁶⁵⁹ The agency's active power-infrastructure programs have a total estimated cost of more than \$1 billion and are listed in Table 3.19.

DOD has disbursed approximately \$180 million for power projects through the Commander's Emergency Response Program (CERP) as of July 2015. DOD implemented no CERP-funded power projects in Fiscal Years

In March 2018, SIGAR signed a memorandum of understanding with DABS that will allow SIGAR to review DABS' management and expenditure of donor funds. On July 10, 2018, SIGAR awarded a contract to CliftonLarsonAllen LLP (CLA) to begin the review. Three days later, SIGAR and CLA met to discuss objectives, timelines, and expected outcomes.

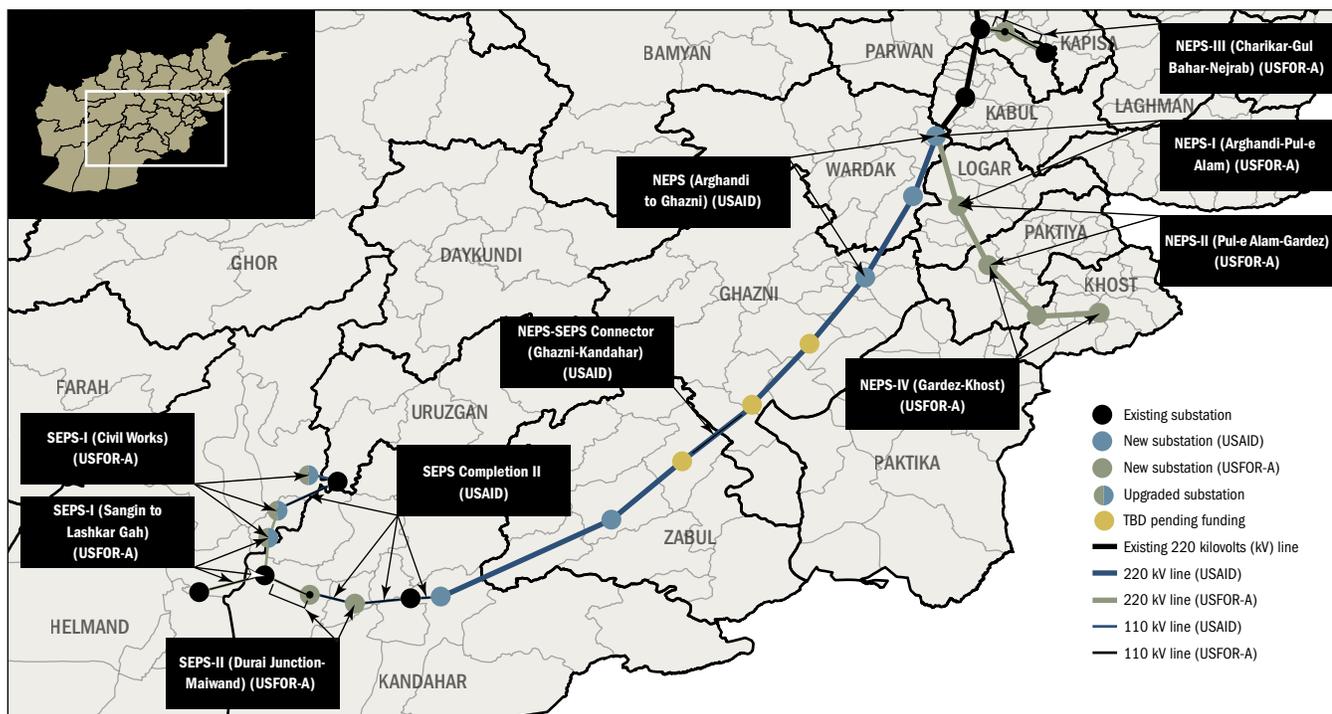
TABLE 3.19

USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursement, as of 7/9/2018
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2020	\$725,000,000	\$175,774,115
Contributions to the Afghanistan Infrastructure Trust Fund (AIF)	3/7/2013	3/6/2023	153,670,184	153,670,184
Engineering Support Program	7/23/2016	7/22/2019	125,000,000	41,945,902
Kandahar Solar Project	2/23/2017	8/26/2018	10,000,000	1,000,000
Design and Acquisition of SEPS Completion and NEPS-SEPS Connector	3/7/2018	3/7/2019	917,680	60,685
Total			\$1,014,587,864	\$372,450,886

Source: USAID, response to SIGAR data call, 7/12/2018 and 6/21/2018.

FIGURE 3.39

MAP: PLANNED DOD AND USAID AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS



Note: For DOD projects, schedule status is as of June 14, 2018, and financial status as of May 31, 2018. For USAID projects, both schedule and financial status are as of June 6, 2018. Completion-percentage figure for USAID's NEPS-SEPS Connector refers to the transmission line only. Voltages shown are for power transmission: 220,000 volts (220 kV) and 110,000 volts (110 kV). Small-customer service is distributed at 220 volts, after being "stepped down" at substations and local transformers.

Source: USFOR-A, JENG, *AIF Power Projects*, n.d.; USFOR-A, JENG, *FY 2011-2014 AIF Program Status Report*, 6/14/2018; USACE, Garrison and Infrastructure Working Group, *AIF Status Sheet*, 6/7/2018; USAID, OI, response to SIGAR data call, 6/6/2018; USAID, response to SIGAR vetting, 4/17/2018; USAID, *Afghanistan Energy Sector Technical Assessment Final Report*, 2/28/2018, pp. 7-8; USFOR-A, JENG, response to SIGAR vetting, 7/13/2018.

2016 or 2017. While DOD funded the restoration of a micro-hydro power generator in FY 2018, the total amount disbursed—approximately \$48,000—was very small and the project also involved refurbishing a mosque and a grain mill.⁶⁶⁰

Measured by total funding, DOD has provided the majority of its support to the power sector through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State. As of May 31, 2018, DOD had disbursed roughly \$555 million through the AIF to fund the construction or improvement of transmission lines and substations, and to provide electricity to industrial parks in Kandahar City. Of that amount, DOD has disbursed approximately \$414 million to construct or improve Afghanistan's two primary power systems—the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**—which the U.S. government aims to connect. (See Figure 3.39 for an overview of NEPS-SEPS.) DOD spent the remaining balance (approximately \$142 million) on fuel and operations and maintenance for generators in Kandahar City.⁶⁶¹

DOD Completes Northeast Power System Segment from Arghandi to Pul-e Alam

This quarter, DOD reported that it had completed the \$50 million Northeast Power System I project, which entailed the construction of a transmission line from Arghandi (Wardak Province) to Pul-e Alam (Logar Province). The transmission line was turned over to the Afghan government in January 2018 and a substation in Pul-e Alam was transferred in May 2018, according to DOD's responses this quarter. However, SIGAR understands that as of July 2, 2018, DOD had not yet received a signed document from the Afghan government confirming receipt of the transferred substation.⁶⁶²

According to DOD, the project is also energized, which represents a positive development for U.S. efforts to increase Afghans' access to electricity. Ten unoccupied houses located below the transmission line were too close to the line to safely energize it full-time when the project was initially transferred.⁶⁶³ However, DOD said that, according to DABS, the homes were subsequently demolished with the consent of the homeowners, who were reusing the materials to build new homes.⁶⁶⁴

Overseas Contingency Operations Funds May Be Used to Complete Legacy Afghanistan Infrastructure Fund Projects

Afghanistan Infrastructure Fund 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 Northeast Power System and Southeast Power System.⁶⁶⁵ SIGAR has consistently documented the many delays associated with AIF-funded projects.⁶⁶⁶

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.

Power-infrastructure projects that DOD considers to be completed are not necessarily providing electricity to Afghans—or even capable of providing that electricity safely. For example, DOD completed construction of transmission lines in Parwan and Kapisa Provinces in January 2018. However, SIGAR found that the transmission project was not operational because of land-acquisition and right-of-way issues, and may also be structurally unsound and pose a risk to Afghans living near transmission towers and lines.

While the Afghan government sees hope and opportunity in the potential of large-scale infrastructure projects, SIGAR has found that implementation of large capital projects in Afghanistan has often been significantly delayed. A SIGAR audit of FY 2011 Afghanistan Infrastructure Fund projects released in October 2017 found that three power sector projects were incomplete and up to five years behind their original schedule.

Source: SIGAR, *Afghanistan's North East Power System Phase III: USACE's Mismanagement Resulted in a System that Is Not Permanently Connected to a Power Source, Has Not Been Fully Tested, and May Not Be Safe to Operate*, SIGAR 18-37-IP, 3/2018, i; USFOR-A, JENG, *FY 2011–2014 AIF Program Status Report*, 6/14/2018; Government of Afghanistan, Embassy of Afghanistan, Washington, D.C., "Full Transcript of President Ghani's Speech at the Heart of Asia Conference," n.d.; SIGAR, *Afghanistan Infrastructure Fund: Agencies Have Not Assessed Whether Six Projects That Began in Fiscal Year 2011, Worth about \$400 Million, Achieved Counterinsurgency Objectives and Can Be Sustained*, SIGAR 18-10-AR, 10/2017, ii.

ECONOMIC AND SOCIAL DEVELOPMENT

AIF projects use FY 2011–FY 2014 appropriated funds; no additional AIF money was appropriated in subsequent fiscal years.⁶⁶⁷ However, up to \$50 million of funds appropriated in later acts may be used to complete these projects. Although the provision authorizing the use of additional monies has been included under the Afghanistan Security Forces Fund (ASFF) heading in the consolidated appropriations acts, the language of

TABLE 3.20

AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS, AS OF JUNE 14, 2018 (\$ MILLIONS)							
AIF Project	Description	Notified				% Completed	Completion Date
		Amount	Obligated	Disbursed			
AIF FY 2011	Kandahar Power Bridging Solution	Provided fuel and O&M for diesel generators in Kandahar City	\$40.5	\$39.1	\$39.1	100%	Complete
	SEPS - Kajaki Dam to Lashkar Gah ^a	Repair, install transmission lines; rebuild, construct power substations.	130.0	57.5	57.5	N/A	N/A
	NEPS - Arghandi to Ghazni	Design, construct transmission lines and substations (first segment of NEPS-SEPS connection). USAID: PTEC project	101.0	101.0	92.3	100%	Complete
	NEPS I - Arghandi to Pul-e Alam ^b	Design, construct transmission line, towers, and power substation.	93.7	50.3	47.1	100%	Complete
AIF FY 2012	Kandahar Power Bridging Solution	Provided fuel and O&M for diesel generators in Kandahar City	67.0	64.7	64.7	100%	Complete
	SEPS II - Durai Junction to Maiwand ^c	Design, construct transmission line; rebuild and construct substations.	40.0	28.5	27.5	96%	7/31/2018
	NEPS II - Pul-e Alam to Gardez	Design, construct transmission line, towers, and power substation.		68.5	67.4	100%	Complete
	NEPS III - Charikar to Gul Bahar and Nejrab	Design, construct transmission lines, towers, and power substation.	120.0	38.8	37.9	100%	Complete
AIF FY 2013	Kandahar Power Bridging Solution	Provided fuel and O&M for diesel generators in Kandahar City	37.0	34.0	34.0	100%	Complete
	NEPS III - Charikar to Gul Bahar and Nejrab	Design, construct transmission lines, towers, and power substation	33.0	24.1	23.6	100%	Complete
	SEPS Completion - Phase I	Civil, structural, architectural improvements to substations in Tangi, Sangin North and South.	75.0	63.1	9.0	90%	7/31/2018
		Design, construct, transmission lines from Sangin North to Lashkar Gah.			39.4	86%	3/31/2019
	NEPS - SEPS Connector, Ghazni to Kandahar ^d	Design, construct transmission line and substations. Final phase of NEPS-SEPS connector. USAID: PTEC project	179.5	113.2 ^e	10.5	28% ^f	12/31/2021
AIF FY 2014	Kandahar Power Bridging Solution	Provided fuel and O&M for diesel generators in Kandahar City	4.0	3.9	3.9	100%	Complete
	SEPS Completion - Phase II	Design, construct transmission line, and install equipment and commission substations USAID: PTEC project	55.0	55.0 ^g	0.0	0%	12/31/2021
	NEPS IV - Gardez to Khost	Design, construct transmission line and substations. DOD's final contribution to NEPS.	130.0	121.3	104.3	86%	12/18/2018

Note: Projects that DOD reports as 100 percent complete are not necessarily energized; for example, see SIGAR, *Afghanistan's North East Power System Phase III: USACE's Mismanagement Resulted in a System that Is Not Permanently Connected to a Power Source, Has Not Been Fully Tested, and May Not Be Safe to Operate*, SIGAR 18-37-IP 3/2018. For DOD projects, schedule status is as of June 14, 2018, and financial status is as of May 31, 2018. For USAID projects, both schedule and financial status are as of June 6, 2018. USAID lifted a previous pause on its PTEC projects on March 27, 2018. For more on the pause, see SIGAR's April 2018 *Quarterly Report to the United States Congress*, pp. 163–164, 167.

^a Terminated due to out-of-scope security costs.

^b Although there were 10 occupied houses below the transmission line whose proximities to the line prevented it from being safely energized full-time when the project was initially transferred, DOD said that, according to DABS, the line is now energized.

^c Transmission line energized and turned over to MEW/DABS.

^d The original project scope included five substations. Last quarter, USAID said it plans to construct two substations, both off-budget. Completion of the remaining three will be funded only if ESF reserves are not required to substitute for canceled AIF funds. USAID has reserved \$80 million in ESF funds to complete the NEPS-SEPS Connector in the event that AIF funds expire.

^e Represents amount sub-obligated for construction of transmission line. Procurement for substations along the line not yet awarded. USAID said the \$330 million obligation figure previously reported by SIGAR is now outdated because the substations will be contracted along with additional work for the rehabilitation of SEPS under a single mechanism.

^f Completion percentage applies to transmission line only, and reflects the earned value of the project. According to USAID, "Earned value shows how much of the budget and time should have been spent, considering the amount of work done so far."

^g In December 2017, USAID de-sub-obligated \$55 million of AIF funding previously sub-obligated for SEPS Completion. Therefore, current obligations may be \$0. However, when asked to update the obligated figure for the project this quarter in the table above, USAID made no change. SIGAR will update obligations for SEPS Completion-Phase II next quarter. The total estimated cost for this project is now \$62.6 million.

Source: USFOR-A, JENG, *FY 2011–2014 AIF Program Status Report*, 6/14/2018; USACE, Garrison and Infrastructure Working Group, *AIF Status Sheet*, 6/7/2018; USAID, OI, response to SIGAR data call, 6/21/2018; USAID, OI, response to SIGAR vetting, 7/12/2018, 7/10/2018, 4/18/2018, and 4/17/2018; USAID, *Afghanistan Energy Sector Technical Assessment Final Report*, 2/28/2018, p. 8; USAID, "Implementation Letter (IL) 22-83 to de-sub-obligate a total of \$62,573,815 of on-budget support to Da Afghanistan Breshna Sherkat (DABS) under the Power Transmission Expansion and Connectivity (PTEC) project," 12/11/2017; DOD, response to SIGAR vetting, 7/16/2018.

the provision authorizes DOD to use other Title IX Overseas Contingency Operations (OCO) funds in addition to ASFF in order to complete legacy AIF projects.⁶⁶⁸ Title IX OCO funds authorized by the FY 2018 Consolidated Appropriations Act include myriad other headings in addition to ASFF, such as the Counter-ISIS Train and Equip Fund and Operation and Maintenance, Army National Guard.⁶⁶⁹

Some AIF funds have either **cancelled** or are at risk of being cancelled due to project delays.⁶⁷⁰ Thus far, DOD has on only one occasion used non-AIF monies—in this instance ASFF funds—to complete an AIF project.⁶⁷¹ DOD notified Congress in September 2017 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.⁶⁷² In the end, DOD said it used only \$3.38 million to complete that project.⁶⁷³ Three AIF-funded DOD power-infrastructure projects, in various phases, remain ongoing. About \$213 million has been obligated for those projects, of which approximately \$180 million has been disbursed.⁶⁷⁴ Future DOD-backfilling of AIF projects is possible. However, according to DOD, no further use of non-AIF funds are planned for the three remaining power projects because they are “on track to finish with their original AIF funds.”⁶⁷⁵ For the current status of AIF power-infrastructure projects see Table 3.20.

Cancelled funds are monies that, because too much time has passed since they were appropriated by Congress, are no longer available for use by agencies. Project delays can create situations in which agencies are unable to disburse sufficient funds to complete a project before those funds cancel.

Source: Interagency Alternative Dispute Resolution Working Group, Electronic Guide to Federal Procurement ADR, “The Federal Government Funding Cycle,” n.d., <https://www.adr.gov/adrguide/afmc.html>, accessed 7/5/2018.

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.⁶⁷⁶ 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 the cost from the equivalent of 19.9 percent to 82.3 percent of income per capita.⁶⁷⁷ 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 best score was for getting credit (105).⁶⁷⁸

USAID has cumulatively disbursed over \$1.2 billion for economic-growth programs in Afghanistan.⁶⁷⁹ USAID’s active economic-growth programs have a total estimated cost of \$350 million and can be found in Table 3.21.

Latest USAID Office of Economic Growth Portfolio Review Provides Further Details on New Strategy

As reported earlier, USAID is developing its first Country Development Cooperation Strategy (CDCS) for Afghanistan.⁶⁸⁰ USAID has told SIGAR it expects the CDCS to be completed by the summer of 2018.⁶⁸¹ The new CDCS remained unfinalized this quarter.⁶⁸²

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.21

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/9/2018
Assistance in Building Afghanistan by Developing Enterprise (ABADE)	10/16/2012	7/15/2018	\$104,997,656	\$104,949,806
Women in the Economy (WIE)	7/1/2015	6/30/2019	71,571,543	31,159,147
Afghanistan Workforce Development Program (AWDP)	4/5/2012	6/30/2018	44,775,680	43,390,573
Multi-Input Area Development-Global Development Alliance	3/23/2013	6/15/2018	22,445,265	21,445,265
Multi-dimensional Legal Economic Reform Assistance (MELRA)	2/7/2018	2/6/2023	19,990,260	0
Extractive Technical Assistance by USGS	1/1/2018	12/31/2022	18,226,206	334,407
Afghanistan Investment Climate Program	3/27/2015	3/26/2020	13,300,000	2,972,518
Commercial Law Development Program	3/1/2014	9/30/2019	13,000,000	9,746,898
Goldozi Project	4/5/2018	4/4/2022	9,718,763	47,974
Livelihood Advancement for Marginalized Population (LAMP)	5/27/2018	5/25/2022	9,491,153	0
Establishing Kabul Carpet Export Center (KCEC)	6/6/2018	6/5/2021	9,416,507	0
Rebranding Afghanistan: Creating Jobs, Changing Perceptions, Empowering Women	11/2/2015	11/1/2018	4,800,000	3,950,000
Trade Show Support (TSS) Activity	6/7/2018	12/6/2020	3,999,174	0
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			\$350,356,027	\$218,517,389

Source: USAID, response to SIGAR data call, 7/12/2018.

Nevertheless, the latest USAID Office of Economic Growth (OEG) portfolio review, dated June 2018 and provided to SIGAR this quarter, brought additional clarity to the shape the new strategy will take. SIGAR reported on OEG's November 2017 portfolio review last quarter.⁶⁸³ OEG's latest review described the three main challenges the new CDCS will address: poverty, unemployment, and Afghanistan's substantial trade deficit.⁶⁸⁴

The strategic shift from the USAID/Afghanistan Plan for Transition 2015–2018 to the CDCS, according to OEG, will involve a focus on the private sector in order to create jobs, improve the enabling environment for businesses, and increase exports.⁶⁸⁵ The first **Development Objective** under the Plan for Transition—"sustainable agriculture-led economic growth expanded"—sought to provide jobs and increase income through projects designed to raise economic growth with "a focus on private-sector development and improving the business enabling environment."⁶⁸⁶ The shift will involve a change in emphasis from direct **government-to-government** support to USAID-facilitated support across agencies.⁶⁸⁷ In other words, OEG

plans to shift its approach towards interagency agreements, such as those it has with the Department of Commerce and the United States Geological Survey. Such interagency agreements allow for “more discrete” support to the development of laws, regulations, policies, and procedures according to OEG.⁶⁸⁸

OEG plans to support the forthcoming CDCS through three work streams: (1) creating jobs and increasing the competitiveness of the Afghan private sector, (2) creating export-processing zones (EPZs) and facilitating exports (e.g., by supporting trade shows), and (3) assisting Afghanistan with policy reforms supporting businesses and with managing its strategic assets (e.g., natural resources).⁶⁸⁹ Some current OEG programs, such as its extractives-sector technical assistance program (effected through an interagency agreement with the United States Geological Survey) support anticipated **Intermediate Results** (IRs) of the unfinalized CDCS—in this case, the USGS project supporting the IR “International Trade and Connectivity Increased.”⁶⁹⁰ Other programs, such as a project titled Airport EPZs and Air Cargo for Export Promotion are still being planned.⁶⁹¹

EDUCATION

Prior to 2001, decades of intermittent conflict had devastated Afghanistan’s education system. Although the current war continues, Afghanistan’s progress in the education sector has been highlighted as one of the country’s success stories. While figures vary, the total number of children currently enrolled in school recently rose to 9.2 million, according to USAID, which relies on data from Afghanistan’s Ministry of Education (MOE). That number represents a dramatic increase over the some one million students who were enrolled in school in 2002.⁶⁹² In FY 1396—which roughly corresponds to the year 2017—about 8.95 million students were enrolled in grades 1–12, according to the MOE.⁶⁹³ However, the MOE counts students who have been absent for up to three years as enrolled because, it says, they might return to school.⁶⁹⁴ Thus, the number of students actually *attending* school is generally considered to be much lower.

Another issue is that many Afghan children do not enroll at all, or simply drop out. In April 2018, the United Nations Children’s Fund (UNICEF) quantified the scope of this problem, estimating that about 3.7 million children were out of school, about 2.2 million of whom were girls. To generate its findings, UNICEF used data from the 2013–2014 Afghanistan Living Conditions Survey (ALCS), published by Afghanistan’s Central Statistics Organization (CSO), among other data sources that were not published recently, but which presumably were the best available at the time of the analysis.⁶⁹⁵

Due to the data lag, the number of children out of school today may be even higher. With rapid population growth, Afghanistan is experiencing a

Development Objective (DO): Typically the most ambitious result to which a USAID Mission in a particular country (e.g., the USAID/Afghanistan Mission), in conjunction with its development partners, can contribute. DOs correspond to specific development challenges that a mission aims to address. A CDCS cannot have more than four DOs.

Government-to-Government (G2G): assistance, according to USAID, involves grants or other cash transfers provided to the Afghan government in order to help implement projects or activities. One advantage of G2G assistance is host-nation ownership of results. However, oversight and the ability to vet technical advice and expertise can be more difficult.

Intermediate Results (IRs): Results that, when combined, support the advancement of a DO. IRs are required to be measurable, and capture more specific, lower-level results.

Source: USAID, ADS Chapter 201: Program Cycle Operational Policy, 5/24/2018, pp. 29–30; USAID, OEG, response to SIGAR vetting, 7/10/2018.

demographic “youth bulge”: the CIA estimates that nearly 41 percent of Afghans are age 14 or younger. As a result, with the release of its 2016–2017 ALCS survey results, the CSO said that in six years the number of primary-school-age children will be 18 percent larger than the current figure. The CSO added that in order to serve all primary-school-age children six years from now, the number of education facilities would have to expand by this additional 18 percent, on top of a 38 percent expansion that would be required to accommodate all children of primary-school age now.⁶⁹⁶

Moreover, according to the 2016–2017 ALCS results, gains in the education sector appear to be stagnating. The net attendance ratios, which express the number of students in a given age cohort as a percentage of the total number of children in that cohort, for children of primary-school age (56 percent), secondary-school age (36 percent), and tertiary-school age (10 percent) in the 2016–2017 survey were approximately the same as they were in the 2013–2014 ALCS. This may reflect that gains in education are more difficult now that many children are already in school, according to the CSO.⁶⁹⁷ Both adult and youth literacy rates—35 percent and 54 percent, respectively, according to the 2016–2017 results, were also stagnant.⁶⁹⁸

The education sector faces numerous other challenges. They include poor data reliability, insecurity, shortages of school buildings and textbooks, rural access issues, and the alleged appointment of teachers on the basis of cronyism and bribery.⁶⁹⁹

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

USAID aims to improve equitable access to quality education in Afghanistan through community-based classes in both remote and urban 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.⁷⁰⁰ The agency will articulate future plans in the forthcoming Country Development Cooperation Strategy.⁷⁰¹

USAID had disbursed nearly \$1 billion for education programs in Afghanistan, as of July 9, 2018.⁷⁰² USAID’s active education programs have a total estimated cost of \$500 million and can be found in Table 3.22.

USAID’s Support to the American University of Afghanistan: Sustainability Challenges Remain

The Kabul-based American University of Afghanistan (AUAF), which is supported by a \$64.4 million USAID program, appears to be struggling with financial sustainability. Through its support to AUAF, which offers both undergraduate and graduate degree programs, USAID aims to improve the quality of, and provide better access to, higher education in Afghanistan.⁷⁰³

SIGAR AUDIT

In April 2018, SIGAR published the results of a financial audit of a DOD-funded grant provided to the Friends of the American University of Afghanistan. The \$1.35 million grant was intended to fund a pilot program to assess the viability of a sustainable business incubator in Kabul. The audit, conducted by the Williams Adley Firm, identified \$89,892 in total questioned costs arising from internal-control deficiencies and instances of noncompliance. Questioned costs were nearly 7 percent of the total value of the grant.

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.22

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/9/2018
Afghanistan University Support and Workforce Development Program	1/1/2014	9/30/2019	\$93,158,698	\$70,580,920
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
Afghan Children Read (ACR)	4/4/2016	4/3/2021	69,547,810	20,340,522
Support to the American University of Afghanistan (AUAF)	8/1/2013	11/29/2019	64,400,000	53,736,523
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2020	44,835,920	25,855,236
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	2/1/2017	1/31/2022	23,212,618	5,369,438
Afghanistan's Global Partnership for Education	10/11/2012	6/30/2019	15,785,770	8,549,079
Assessment of Learning Outcomes and Social Effects in Community-Based Edu.	1/1/2014	12/31/2018	6,288,391	5,943,212
Financial and Business Management Activity with AUAF	7/5/2017	1/4/2019	4,384,058	559,312
PROMOTE Scholarships PAPA	3/4/2015	3/3/2020	1,247,522	1,247,522
Total			\$500,263,244	\$274,584,221

Source: USAID, response to SIGAR data call, 7/12/2018.

Following the results of a midterm assessment and an attack on the university that killed 15 people, including seven students, USAID sent AUAF a Corrective Action letter in September 2016. The letter necessitated a revision to USAID's agreement with the university that included additional activities designed to address security, academic quality, and accounting and financial management. As a result, the agreement was revised in March 2017, and the total amount of support—initially \$45.9 million—increased to its current level.⁷⁰⁴ This increase occurred despite the fact that one outcome described by USAID's 2013 cooperative agreement with AUAF was that USAID's support for the university would decrease annually.⁷⁰⁵

In February 2018, Afghanistan's Ministry of Higher Education (MOHE) granted accreditation to AUAF. According to a recent project quarterly report, AUAF is the first university in the country, public or private, to receive accreditation from the MOHE. AUAF also saw a dramatic increase in new student enrollment.⁷⁰⁶ New student enrollment for the spring 2018 semester stood at 201 students, which represented a 142 percent increase over fall 2017 (83 students) and a 109 percent gain over spring 2017 (96 students).⁷⁰⁷ According to the latest quarterly report, enrollment gains are attributable to AUAF's aggressive recruitment of new students at local high schools and a "customer-friendly" admissions process.⁷⁰⁸



Members of the American University of Afghanistan board of trustees, U.S. officials, and others participated in a groundbreaking ceremony for a 3,000 square-meter women's dormitory in October 2015. The dormitory was opened in January 2018. (USAID photo)

USAID said it “does not have direct visibility on AUAF’s total income,” even though the agency’s 2013 cooperative agreement with the university included specific financial self-sufficiency outcomes, such as increasing non-U.S. government funding and increasing revenue from tuition and fees.

Thus, while USAID confirmed that AUAF’s organically generated income was \$1.16 million for the nine months ending March 31, 2018, it could not confirm that AUAF’s remaining income for the period was exclusively from U.S. government sources. However, the AUAF income statement provided to SIGAR this quarter appeared to be comprehensive.

Source: USAID, OED, response to SIGAR vetting, 7/12/2018; USAID, Cooperative Agreement No. 306-A-13-00004 for the support of the American University of Afghanistan (AUAF), 8/1/2013, p. 31; AUAF, Federal Financial Report for the Nine Months Ending Saturday, March 31, 2018, p. 2.

SIGAR SPECIAL PROJECT

A SIGAR Special Project released in June 2018 reported the results of site inspections at nine USAID-supported public health facilities in Kandahar Province. SIGAR found that all nine facilities were open and operational. However, there were substantial inaccuracies in the geospatial coordinates USAID provided for five of the nine health facilities. SIGAR also found that not all facilities had access to reliable electricity and most had minor structural issues, including cracked walls and leaking roofs. For more, see p. 28 of this report.

According to AUAF, growth in AUAF’s student body is lowering the cost per student.⁷⁰⁹ While this may be true, an AUAF income statement provided to SIGAR this quarter, which shows income and expenses for the nine months ending March 31, 2018, indicated that AUAF’s expenses for the period (about \$5.5 million) were 136 percent of total income (just over \$4 million).⁷¹⁰ While higher enrollment levels can help cover fixed costs through tuition income—undergraduate tuition fees accounted for approximately 33 percent of total income, and were the university’s second-largest source of income after grants—AUAF’s latest financial statement shows that U.S. government subsidies provided nearly half (49 percent) of AUAF’s undergraduate tuition income (less late fees).⁷¹¹ Looking beyond tuition income, USAID grants represented about 48 percent of AUAF’s total income, while net U.S. government contributions accounted for 71 percent.⁷¹²

The cost of protecting AUAF students and faculty, meanwhile, represented a substantial share of overall expenses. Supplemental security costs, which included a nearly \$1.5 million expense for a private security company, were 27.6 percent of total expenses, equated to 37.6 percent of total income, and significantly exceeded AUAF’s organically generated income of \$1.16 million.⁷¹³ Overall security costs constituted 32.7 percent of total expenses.⁷¹⁴

Responding to a draft copy of this report, USAID said, “AUAF has made some progress in improving financial systems with direct oversight from USAID/Afghanistan’s financial and contracting staff.”⁷¹⁵ SIGAR will continue to track and report on AUAF’s sustainability in future quarters.

HEALTH

Afghanistan’s health outcomes have improved dramatically since 2001 despite persistent instability. USAID has cited these improvements as a significant development success story. According to United Nations estimates, maternal mortality rates declined from 1,100 deaths per 100,000 live births in 2000 to 396 in 2015—a drop of 64 percent. Over the same period, the under-5 child mortality rate fell by 34 percent, from 137 to 91 deaths per 1,000 live births. Concurrently, newborn mortality rates fell by 32 percent.⁷¹⁶

In February 2018 the World Bank emphasized there was still significant room for improvement.⁷¹⁷ For example, Afghanistan’s newborn mortality rate still ranks the second-highest among those of 31 low-income countries, and the total number of newborn deaths in 2016—about 46,000—places Afghanistan tenth among all countries according to estimates from UNICEF. Of the other nine countries in the top 10, Afghanistan has the lowest population. In 2016, Tanzania, whose population is 58 percent

larger than Afghanistan’s, reported approximately the same number of newborn deaths.⁷¹⁸

Insecurity impacts health-delivery services. The United Nations Assistance Mission in Afghanistan recorded 17 conflict-related incidents that targeted health-care personnel and facilities from January 1–March 31, 2018. This figure was 10 incidents more than the seven reported by UNAMA in the previous quarter.⁷¹⁹

USAID Health Programming Intended to Sustain and Supplement Gains in Health Outcomes

The objective of U.S.-funded health-sector programs is to preserve and enhance gains made since 2002. USAID assistance to the Ministry of Public Health includes training, capacity-building, and quality-assurance activities to strengthen the ministry’s management and control over health care delivery across Afghanistan.⁷²⁰

According to USAID, assisting the Afghan government with health-care delivery will increase the population’s support for the government because “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 is considering an expansion of private sector engagement in the health sector, as well as a focus on improving health outcomes in urban and population centers specifically.⁷²¹ The majority of Afghans—approximately

TABLE 3.23

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursement, as of 7/9/2018
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/11/2016	5/10/2021	\$75,503,848	\$12,779,731
Helping Mothers and Children Thrive (HEMAYAT)	1/7/2015	1/6/2020	60,000,000	42,261,454
Disease Early Warning System Plus (DEWS Plus)	7/1/2014	6/30/2022	41,773,513	24,388,615
Health Sector Resiliency (HSR)	9/28/2015	9/27/2020	27,634,654	13,463,606
Enhance Community Access, Use of Zinc, Oral Rehydration Salts for Management of Childhood Diarrhea	7/21/2015	7/7/2020	15,002,610	13,000,000
Challenge Tuberculosis	1/1/2015	9/29/2019	15,000,000	9,689,395
Sustaining Health Outcomes through the Private Sector (SHOPS) Plus	10/11/2015	9/30/2020	12,000,000	6,941,903
Global Health Supply Chain-Procurement and Supply Management-HIV/AIDS Task Order #1	4/20/2015	4/19/2020	2,520,341	176,568
Global Health Supply Chain Quality Assessment	1/2/2015	12/31/2019	1,500,000	1,500,000
Total			\$250,934,966	\$124,201,272

Source: USAID, response to SIGAR data call, 7/12/2018.

72 percent—live in rural areas, where the Taliban were likely to attempt to expand their influence, according to DOD.⁷²²

U.S. on- and off-budget assistance to Afghanistan’s health sector totaled more than \$1.2 billion as of July 9, 2018.⁷²³ USAID’s active health programs have a total estimated cost of \$251 million, and are listed in Table 3.23.

USAID’s HEMAYAT Program Continues to Address High Child Mortality Rates and Pregnancy-Related Deaths

USAID’s Helping Mothers and Children Thrive (HEMAYAT) program aims to increase access to and utilization of family-planning and maternal, neonatal, and child health services. A second goal is to strengthen referral systems to hospitals at the provincial level. HEMAYAT was initiated to address high child-mortality rates and pregnancy-related deaths for mothers in Afghanistan.⁷²⁴

As of May 2018, HEMAYAT had, with its capacity-building efforts and through a partnership with the United Nations Children’s Fund, expanded **Chlorhexidine** (CHX) services to 1,121 health providers in 10 provinces. As a result, about half of the health facilities in these 10 provinces now have at least one skilled birth attendant on staff familiar with the use and administration of CHX. To further scale this intervention—considered to be high-impact because the simple procedure of administering CHX to infants immediately after birth has been shown to prevent 15 percent of newborn deaths—HEMAYAT trained 854 community health workers in Badakhshan and Nimroz Provinces. To date, 79,277 newborns have received CHX.⁷²⁵

HEMAYAT’s latest quarterly report, which covered activities running from January–March 2018, listed several implementation challenges. Among the challenges were poor recordkeeping in several high-volume healthcare facilities with which implementers are working, meaning that baselines for some key indicators could not be established. Additionally, due to the lack of CHX availability, high-impact community-based interventions were initiated without the use of CHX.⁷²⁶

Polio

The only two countries in which polio remains endemic are Afghanistan and Pakistan, which share a 1,500-mile border.⁷²⁷ Large-scale population movements between Afghanistan and Pakistan raise the risk of cross-border transmission, and a fatwa issued by the Pakistani Taliban targeting polio workers complicates vaccination outreach.⁷²⁸ The Taliban have falsely referred to polio-vaccination drops as “poison,” and began targeted killings of polio workers in June 2012—one year after the U.S. military raid that killed Osama bin Laden in Abbottabad, Pakistan.⁷²⁹ (While leading a hepatitis B vaccination campaign, Pakistani doctor Shakil Afridi assisted the Central Intelligence Agency in tracking bin Laden down. The association

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

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



Female volunteer community health workers practice chlorhexidine gel application in Herat Province. (USAID photo)

between the campaign and the May 2011 bin Laden raid has reportedly set back polio-vaccination efforts.)⁷³⁰

As of July 10, 2018, nine new polio cases were reported in Afghanistan in 2018, the most recent of which were recorded in Helmand Province.⁷³¹ If the number of polio cases continues to grow at the current rate, total reported cases in 2018 could exceed those seen in 2016 and 2017. Confirming the current trend, USAID said it expects a rise in polio cases in 2018. According to the United Nations Children’s Fund and the World Health Organization, there were 13 officially reported cases in 2017—unchanged from 2016.⁷³² However, UNAMA reported that the total number of cases in Afghanistan in 2017 was 14, as of February 27, 2018. According to UNAMA, five of those cases occurred in Kandahar’s Shah Wali Kot district, which vaccination workers could not access for six months in 2017.⁷³³

UNAMA said that access remains a major concern in 2018, and reported that the number of children who were inaccessible to vaccination workers has grown rapidly in recent months. Whereas only 60,000 children were inaccessible in February of this year, more than half a million were inaccessible in May.⁷³⁴ USAID said the increasing numbers of inaccessible children are the result of insecurity (particularly in Helmand and Kandahar provinces), displacement caused by active fighting, as well as the quality of polio operations.⁷³⁵

As of August 31, 2017, USAID had obligated about \$28.5 million and disbursed about \$28.4 million for polio-eradication efforts in Afghanistan since 2003.⁷³⁶