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ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES AND EVENTS

A severe drought continued to affect large swaths of Afghanistan this quarter, contributing to significant internal displacement, according to the United Nations.⁴¹⁸ The UN said that as of September 9, 2018, the drought had displaced about 275,000 people in 2018—52,000 more than the ongoing conflict had displaced over the period.⁴¹⁹ While the gap between conflict-induced displacement and drought-induced displacement later narrowed, more than 263,330 people had been displaced in 2018 due to the drought, as of October 14, 2018, compared to 254,796 displaced due to conflict, according to the UN. In May 2018, the UN estimated that approximately 2.2 million Afghans would be affected by the drought, which it had previously called the worst in decades.⁴²⁰

According to the USAID-funded Famine Early Warning Systems Network (FEWS NET), the drought has resulted in atypically high levels of acute food insecurity (meaning that many Afghans do not have access to adequate nutrition), which is likely to increase in the coming months. FEWS NET said the northwestern provinces of Badghis and Faryab, which border Turkmenistan, have been the worst-affected areas.⁴²¹ USAID has reported it expected a 2.5 million metric ton (MMT) wheat-harvest deficit for 2018, against a total need of 6 MMT.⁴²² USAID expected this year's wheat harvest yield to be just 3.5 MMT—even lower than the 2017 yield of 4.2 MMT, which was already 57% below the then five-year average.⁴²³ On September 23, 2018, USAID announced it would provide \$43.8 million to the UN's World Food Programme to provide food assistance to drought-affected Afghans.⁴²⁴

The World Bank continued to report subdued economic growth projections this quarter, with growth likely to dip to 2.4% in 2018, down slightly from 2.7% in 2017. Building momentum in the economy would be difficult within the current context of violence and uncertainty related to parliamentary and presidential elections, prevailing drought conditions, and declining business confidence, according to the Bank. The Bank pointed to recent survey results suggesting that the percentage of Afghans living under the national poverty line (defined as the cost of covering basic needs, which was approximately \$1 per person, per day in 2016–2017) had increased from 38% in 2011–2012 to 55% in 2016–2017. Overall, available indicators, including new business registrations, measurements of business sentiment, and

continued violence, suggested that economic momentum may have slowed in the first half of 2018.⁴²⁵

In a more recent assessment of the Afghan economy, the International Monetary Fund (IMF) offered a similar perspective, projecting a 2.3% growth rate in 2018. Like the Bank, the IMF noted this was lower than last year's estimated 2.7% pace. The World Bank estimated population growth in 2017 at 2.5%, implying that, with the projected low economic growth rate, licit per capita income could either stagnate or decrease in 2018. The IMF ascribed the drop in economic growth rate to deteriorating security conditions, political uncertainty, and the ongoing drought. However, the IMF commended Afghan authorities for their sound macroeconomic management despite challenging circumstances.⁴²⁶

Former Kabul Bank chairman Sherkhan Farnood died in Bagram Prison this quarter. Farnood was serving time for his role in embezzling more than \$900 million in cash and assets from Kabul Bank, which nearly collapsed in 2010.⁴²⁷ Revelations of the fraud led Afghan depositors to withdraw approximately \$500 million over the course of a few days, putting Afghanistan on the verge of a financial crisis. While Kabul Bank was placed into conservatorship shortly after its near-collapse, asset recoveries have since stalled. A 2016 report from the United States Institute for Peace said that the crisis symbolized the "pervasive corruption and impunity that have threatened the legitimacy of the Afghan government."⁴²⁸ Afghan officials from the Kabul Bank Receivership, established to manage the bank's bad assets, believe that Farnood's death could adversely affect efforts to recover the stolen funds.⁴²⁹ DOJ said that, according to the KBR, Farnood had provided a list of "227 names and areas" where he had distributed the \$467 million he owed, implying that collecting on his debt would be difficult following his death.⁴³⁰

SIGAR analysis showed that the Afghan government's aggregate domestic revenues grew by approximately 4%, year-on-year, over the first seven months of Fiscal Year (FY) 1397 (December 22, 2017–December 21, 2018).⁴³¹ Afghanistan's Ministry of Finance classifies domestic revenues into **sustainable** and **one-off** categories.⁴³² During the period, a large, nearly AFN 4 billion (approximately \$55.5 million) transfer of funds to Afghanistan's central bank was classified as a one-off transfer. This transfer reduced aggregate revenues, which include both sustainable and one-off transactions. However, because this transfer was categorized as a one-off, sustainable domestic revenues (which do not include one-off transactions) grew by the higher rate of 8.6% over the first seven months of FY 1397, year-on-year.⁴³³ Both the aggregate and sustainable domestic revenue growth rates, while positive, were lower than in recent years.⁴³⁴ Expenditures, meanwhile, grew by nearly 5%.⁴³⁵

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 IMF 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 with the government.

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

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

As of September 30, 2018, the U.S. government has provided approximately \$33.72 billion to support governance and economic and social development in Afghanistan since 2002. Most of these funds—nearly \$20.38 billion—were appropriated to USAID’s Economic Support Fund (ESF). Of this amount, \$19.23 billion has been obligated and \$16.16 billion has been disbursed.⁴³⁶

Although USAID’s forthcoming Country Development Cooperation Strategy (CDCS), which will define the agency’s mid-term development approach to Afghanistan, remained unfinalized this quarter, the agency signed its latest multiyear assistance agreement with the Afghan government on September 6, 2018. The agreement details the agency’s strategic **Development Objectives (DOs)** for Afghanistan as well as intended results, among other information.⁴³⁷ Per the articles of the agreement, which extends to December 31, 2023, the agency intends its assistance to accelerate private-sector-driven, export-led economic growth (DO 1); advance social gains in health, education, and gender equality (DO 2); and increase the Afghan government’s accountability to its citizens (DO 3).⁴³⁸ USAID plans to spend approximately \$2.5 billion in order to achieve these objectives.⁴³⁹

The CDCS is also linked to the updated U.S. Integrated Country Strategy (ICS) for Afghanistan, released in late September 2018. According to the ICS, the U.S. policy goal in Afghanistan is to prevent any further attacks on the United States by terrorist groups that enjoy support or safe haven in Afghanistan. Accomplishing this policy objective, the ICS said, would not be possible without a growing Afghan economy. One goal of the U.S. mission in Afghanistan, therefore, is to create economic prosperity in Afghanistan by advancing private-sector-led export growth and job creation and by bolstering social gains in health, education, and women’s empowerment.⁴⁴⁰

ECONOMIC PROFILE

Spurred by high levels of donor spending, a large international military presence, and the recovery typically seen in post-conflict situations, Afghanistan’s economic growth rate averaged close to double digits for the first decade of reconstruction. Since the 2014 security transition and draw-down of foreign troop strength, however, growth has been substantially more muted, even with continuing high levels of foreign assistance.⁴⁴¹ While Afghanistan is in the midst of a modest recovery, with growth rising to 2.7% in 2017 following 1.3% growth in both 2014 and 2015, the World Bank said in August 2017 that the momentum appeared to be at risk.⁴⁴² Echoing the Bank, the IMF projected a 2.3% growth rate in 2018, which was lower than the Fund’s 2.7% growth estimate for 2017.⁴⁴³ Lower levels of business confidence, the ongoing drought, and the apparent slowing of economic

Development Objectives (DOs):

correspond to specific development challenges that a mission aims to address. A Country Development Cooperation Strategy cannot have more than four DOs. DOs are typically the most ambitious results to which a USAID Mission in a particular country (e.g., the USAID/Afghanistan Mission), in conjunction with its development partners, can contribute.

Source: USAID, ADS Chapter 201: Program Cycle Operational Policy, 5/24/2018, p. 29.

USAID initially expected to complete its new Country Development Cooperation Strategy by the summer of 2018. However, as of October 11, 2018, the strategy was not yet finalized.

Source: USAID, response to SIGAR data call, 9/19/2018 and 12/21/2017; USAID, OAPA, response to SIGAR vetting, 10/11/2018.

SIGAR has reported previously that the World Bank, IMF, and others exclude the value of opium production from their reported GDP estimates. However, accounting for Afghanistan's economic output (and by extension its economic growth rate) without considering opium production provides an incomplete picture of the Afghan economy.

In contrast to multilateral institutions, since 2015–2016, Afghanistan's National Statistics and Information Authority (NSIA) has reported the country's GDP and GDP growth rates with two figures: one that includes, and one that excludes the opium economy. Due to what the United Nations Office on Drugs and Crime (UNODC) described as "record-high" opium production in 2017, Afghanistan's total economy, including the opium sector, grew by a robust 7.2% in 2017, according to the NSIA, compared to 2.9% excluding opium.

With limited visibility into the opium sector, the NSIA appears to only account for the farm-gate value of opium and therefore does not include the value added through refinement and trafficking. Thus, the NSIA may understate opium's contribution to the Afghan economy. Extrapolating from UNODC estimates, the net value of the total opium economy in 2017—which includes value added during production and trafficking but excludes the value of imported precursor substances—was \$3.9–6.3 billion, the equivalent of 19.1–30.5% of GDP.

Source: SIGAR, *Quarterly Report to the United States Congress*, 7/30/2018, p. 149; NSIA, *Afghanistan Statistical Yearbook 2017–2018*, p. 110; UNODC, *Afghanistan opium survey 2017 Challenges to sustainable development, peace and security*, 5/2018, pp. 13–14.

activity collectively represented obstacles to growth, according to the Bank, which pointed to the results of a recent survey suggesting that the number of Afghans living below the national poverty line had risen from 38% in 2011–2012 to 55% in 2016–2017.⁴⁴⁴ The IMF added that, among other factors, deteriorating security conditions rendered the current environment even more challenging.⁴⁴⁵

The current state of the Afghan economy, however, is not without its bright spots. As SIGAR reported last quarter, data from Afghanistan's National Statistics and Information Authority (formerly the Central Statistics Organization) showed that exports of goods increased by 28% from 2016 to 2017, driven in part by the initiation of an air corridor with India that resulted in higher sales of Afghan fruit, according to the Asian Development Bank.⁴⁴⁶ The World Bank added that the resolution of border issues with Pakistan, which had slowed trade between the two countries, also played a role.⁴⁴⁷ Nevertheless, despite the lower growth rate of imports, the merchandise trade deficit still widened in 2017, as SIGAR has reported previously.⁴⁴⁸ The World Bank said merchandise exports remained low in absolute terms at the equivalent of 6% of Afghanistan's gross domestic product (GDP), reflecting simultaneously the prospect of both additional near-term growth from a low base and a long road ahead to reducing the country's wide trade deficit, which the Bank said was equal to 40% of GDP in 2017.⁴⁴⁹

Fiscal Outlook: Recent Improvement is Fragile

The Afghan government's revenue gains have been quite strong in recent years.⁴⁵⁰ The World Bank and the International Monetary Fund (IMF) concur.⁴⁵¹ In August 2018, the Bank said that Afghanistan's revenue performance was now at a record high.⁴⁵² The Bank added that recent improvements in revenue performance were the result of better tax and customs administration and enforcement (with the average value of customs declarations for imports trending higher), as well as new fees and charges that led to increases in non-tax revenues.⁴⁵³ Overall, the Bank said, revenues had risen to 12.3% of GDP in 2017, which was higher than the previous 11.7% peak of 2011–2012.⁴⁵⁴ Given modest expenditure growth in 2017, all of this reflects an encouraging trend line.⁴⁵⁵

Nevertheless, the Bank said that while revenue growth has been strong for the last several years, it is now slowing (see SIGAR's analysis of current revenues and expenditures in the next subsection) and noted that revenue growth over the first half of 2018 barely exceeded the rate of inflation.⁴⁵⁶ Both the IMF and the Afghan government echoed their assessments that fiscal risks persisted this year, exacerbated by the parliamentary elections (which occurred this month) and presidential elections slated for April 2019. In May 2018, Afghan authorities pointed to downside revenue risks that coincided with the last election year (2014), which resulted in a sharp decline in revenue performance.⁴⁵⁷ The Afghan government also

pointed to risks associated with uncertainty surrounding economic growth as well as precarious security conditions.⁴⁵⁸ Thus, overall, Afghanistan's fiscal outlook remained fragile this quarter.

Government Revenues and Expenditures: Revenue Gains Continue at Slower Pace

SIGAR analysis showed that the Afghan government's aggregate domestic revenues grew by approximately 4%, year-on-year, over the first seven months of Fiscal Year (FY) 1397 (December 22, 2017–December 21, 2018).⁴⁵⁹ Afghanistan's Ministry of Finance categorizes domestic revenues into **sustainable** and **one-off** categories (see page 134 for definitions of these terms).⁴⁶⁰ During the period, a large, nearly AFN 4 billion (approximately \$55.5 million) transfer of funds to Afghanistan's central bank that reduced overall revenues was classified as a one-off transaction. Because this transfer reduced aggregate revenues, sustainable domestic revenues (which do not include one-off transactions) grew by the higher rate of 8.6% over the first seven months of FY 1397, year-on-year.⁴⁶¹

Both the aggregate and sustainable domestic revenue growth rates, while positive, were lower than in recent years.⁴⁶² The World Bank expected revenue growth to slow in 2018. According to the Bank, revenue gains from recent improvements in administration and enforcement are nearing exhaustion. The Bank said that revenue increases over the first six months of 2018 only slightly exceeded the rate of inflation.⁴⁶³

Recent revenue data showed that customs duties and taxes continued to represent the largest component of domestic revenues (21.7% through the first seven months of FY 1397), followed by sales taxes (18.9%), administrative fees (18.1%), and income taxes (15.2%).⁴⁶⁴ Approximately 11.0% of revenues were classified as "Miscellaneous" through FY 1397 Month 7, precluding a line-item analysis of year-on-year changes in individual revenue categories.⁴⁶⁵ According to MOF officials, the "Miscellaneous" category is sometimes used as a catch-all category for uncategorized revenues prior to the MOF's reconciliation.⁴⁶⁶

SIGAR analysis showed that expenditures, meanwhile, grew by approximately 4.9% over the same time period.⁴⁶⁷ Wages and salaries constituted the largest share of expenditures (57.1% over the first seven months of FY 1397), consistent with recent trends.⁴⁶⁸ The World Bank projected expenditures to grow by just over 5% in 2018, reflecting expected increases to security and development spending.⁴⁶⁹ Table 3.26 on the following page shows a comparison of expenditures over the first seven months of FY 1397, compared to the first seven months of FY 1396.

Trade

In 2017, Afghanistan's merchandise trade deficit remained quite high at the equivalent of 33.6% of GDP, widening from the 2016 figure of 31.6%. The

TABLE 3.26

EXPENDITURES, FIRST SEVEN MONTHS, AFGHAN FISCAL YEARS 1396 AND 1397 COMPARED (IN AFGHANIS)			
Category	1396 (Through Month 7)	1397 (Through Month 7)	% Change
Wages and Salaries^a	AFN 95,449,436,844	AFN 98,993,358,639	3.7%
Goods and Services^b	33,283,817,205	29,515,462,068	(11.3%)
Subsidies, Grants, and Social Benefits^c	14,000,008,398	14,612,484,103	4.4%
Acquisition of Assets^d	21,725,266,139	29,177,193,628	34.3%
Interest and Repayment of Loans^e	847,494,365	1,068,861,212	26.1%
Total	AFN 165,306,022,951	AFN 173,367,359,650	4.9%

- 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.
 - 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, improvement, or construction of assets.
 - e Interest, principal payments, and fees related to government debt.

Source: SIGAR analysis of USAID-provided AFMIS data exported 9/17/2018; 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.

country's services trade deficit also rose recently, from the equivalent of 4.2% of GDP in 2016 to 5.6% in 2017. The deficit continues to be financed almost entirely by donor inflows.⁴⁷⁰ While USAID plans to accelerate Afghanistan's economic growth by increasing the country's exports, the World Bank expected the trade balance to remain relatively unchanged in the mid-term.⁴⁷¹

Exports by air have been growing at an impressive rate, albeit from a low base, supporting the proposition that Afghanistan can rapidly grow its exports. USAID said the country's air exports had grown by 70% over the last two full years, from \$230 million in 2015 to \$391 million in 2017.⁴⁷²

While encouraging, many barriers 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.⁴⁷³

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 Afghan trade with India, which in turn hopes to use the port to transit Indian goods through Afghanistan into Central Asia.⁴⁷⁴

Export and Import Data

Afghanistan continued its strong recent record of export growth in goods this quarter. Through the first two quarters of FY 2018, exports grew by 33%, year-on-year, which represented a slight acceleration over the growth rate of 28% from 2016 to 2017, though growth in the second quarter of 2018 slowed to 18%.⁴⁷⁵ Through two quarters, India remained the number-one destination for Afghan export goods, 45% of which flowed to India over that period. While Pakistan was a distant second, taking in 34% of Afghan products through the first two quarters, exports to Afghanistan's oft-contentious neighbor surged from the first to the second quarter, growing at 34%, perhaps reflecting de-escalating border tensions that have affected licit trade volume between the two countries. Exports to India, meanwhile, dropped dramatically from the first to the second quarter of FY 2018 by 42%. This decrease was driven in part by a 45%—or more than \$15 million—decrease in exports of *asefetida* (also known as “devil’s dung”), a fetid gum resin used as flavoring in Indian cooking.⁴⁷⁶ While coal was Afghanistan’s number-two export in the second quarter of 2018, agricultural products continued to dominate the list of the country’s top exports, constituting nine of the top 10 merchandise exports in the first quarter of 2018 and eight out of the top 10 in the second.⁴⁷⁷

Nevertheless, even with lower growth in Afghan imports of goods, the merchandise trade deficit for FY 2018 was approximately \$3.4 billion through the first two quarters of the year, signaling that from a low base, even dramatic increases in exports have little material effect on shoring up Afghanistan’s trade balance, which is financed primarily by foreign aid.⁴⁷⁸ Through the first two quarters of 2018, the majority of imported products (approximately 66%) originated in five countries: Pakistan (16.1%), Iran (15.6%), China (14.0%), Kazakhstan (11.3%), and Uzbekistan (9.2%).⁴⁷⁹ Afghanistan’s number-one import through the first two quarters of 2018 was wheat flour.⁴⁸⁰

Iran Sanctions Could Affect the Afghan Economy, but Full Impact Not Yet Clear

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 Michael R. Pompeo, the President withdrew from the Iran deal because it failed to guarantee the safety of the American people.⁴⁸¹

This quarter, State provided an assessment of how the Iran sanctions could affect Afghanistan's economy. While the renewed sanctions have not yet been fully applied—those most significant to Afghanistan, affecting Iran's ports and crude oil exports, are scheduled to take effect on November 5, 2018—State said that remittances to Afghanistan from Iran have dropped sharply to “almost zero,” the consequence of a precipitous slide in the Iranian rial. The loss of remittance incomes to families already suffering from the ongoing drought will represent a significant challenge to local economies and communities in western Afghanistan, according to State. Iran's currency collapse has also significantly increased returns of Afghan migrant workers from Iran. State said that Afghanistan's western region would be stressed by the need to reintegrate the 500,000-plus returnees (compared to 230,000 in 2017), exacting a heavy economic toll and adding to less-stable western provinces' social-support systems.⁴⁸²

While the Afghan and Indian governments hope the U.S. will grant a sanctions waiver for the Chabahar Port in southeastern Iran, State reported that, according to Afghanistan Chamber of Commerce and Industry officials, the volume of goods destined for Afghanistan by way of Chabahar and Iran's Bandar-e-Abbas ports had dropped considerably in recent months.⁴⁸³ The Chabahar port is hardly the only issue at stake: State also emphasized that fuel products, which will also be subject to sanctions, make up the lion's share of Afghanistan's imports from Iran. According to State, approximately 40% of Afghanistan's official fuel imports come from Iran, with estimates of unofficial imports likely raising that figure above 50%. State said that if fully reimposed, sanctions could eliminate Afghanistan's fuel imports from Iran. However, State added, fully applied sanctions would likely push trade underground, with higher levels of illicit trade in both fuel and steel.⁴⁸⁴

As State detailed, Afghanistan is already experiencing some repercussions as a result of renewed U.S. sanctions. Nevertheless, with potential waivers for fuel, steel, and Chabahar still under review, it is not yet clear what the final effects of U.S. sanctions will be. As of October 15, 2018, State said it was still reviewing how its Iran sanctions policy will be implemented.⁴⁸⁵

BANKING AND FINANCE

Afghanistan's financial sector consists of 15 banks. Three banks are state-owned; of the remaining 12, nine are private and three are foreign commercial-bank branches.⁴⁸⁶ The banking sector remains vulnerable to adverse shocks due to poor asset quality, capital shortfalls, and management deficiencies at several banks. However, Afghan financial institutions have recently been reducing their exposure to risk.⁴⁸⁷ By the end of 2017, the ratio of nonperforming loans to gross loans was at the lowest level seen since the beginning of 2015, according to data presented by the IMF.

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 2018.⁴⁸⁸

Nevertheless, access to credit in Afghanistan remains minimal: asset-to-deposit ratios remain exceedingly high—74% at the end of 2017—reflecting weak intermediation of credit from banks to the country’s private sector. In 2017, the value of intermediated credit in Afghanistan was the equivalent of 3.3% of GDP, down from approximately 3.6% in 2016. According to the World Bank, weak confidence was continuing to inhibit credit demand, with current economic conditions limiting the number of feasible projects.⁴⁸⁹

Treasury Technical Assistance: Additional Third-Country Meetings/Training Sessions Under Consideration

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 aims to help the government of Afghanistan 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.⁴⁹⁰ OTA’s current work in Afghanistan is funded through an interagency agreement with USAID that expires in September 2019.⁴⁹¹

During the reporting period, Treasury said that all travel to Kabul had been on hold as a result of security concerns. While OTA advisors were able to engage in limited remote-advising work—for example by supporting Afghanistan’s Fiscal Performance Improvement Plan, a reform program designed to strengthen public financial management—it was unable to pursue other technical advisory work such as efforts to help the Afghan government improve how it costs new policy initiatives for budgeting purposes.⁴⁹² Because security concerns have affected OTA’s ability to deliver training on-site in Kabul, OTA is exploring the option of more frequently conducting training in other venues such as Baku, Azerbaijan. For example, in late August, Treasury delivered a **problem bank resolution** workshop organized in conjunction with the U.S. Department of Commerce to Afghan counterparts in Baku. OTA said that even when advisors have been able to travel to Kabul, U.S. Embassy security protocols required for Afghan counterparts to enter the Embassy compound have proved onerous, introducing bureaucratic obstacles to holding multiday meetings.⁴⁹³

Kabul Bank Theft: Substantive Progress Remains Elusive

Due to embezzlement and fraud by a handful of politically connected individuals and entities, Kabul Bank—a systemically important Afghan financial

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.

institution—nearly collapsed in September 2010.⁴⁹⁴ The Afghan government subsequently organized an \$825 million bailout (an amount equivalent to approximately 5%–6% of GDP), rendering the scam one of the largest banking catastrophes in the world, relative to GDP.⁴⁹⁵ The aftermath of the scandal exposed an elaborate fraud and money-laundering scheme orchestrated by Kabul Bank founder Sherkhan Farnood (who died while serving time in Bagram Prison this quarter), chief executive officer Khalilullah Ferozi, and other key shareholders and administrators. According to a 2016 report from the United States Institute of Peace (USIP), years later, the legacy of Kabul Bank remains a striking symbol of the extensive corruption and criminality that undermine the Afghan government’s legitimacy.⁴⁹⁶ The U.S. Department of Justice (DOJ) has referred to the scandal as “one of the most notorious fraud cases in Afghan history.”⁴⁹⁷ Every quarter, SIGAR requests an update from relevant agencies 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.⁴⁹⁸

Both DOJ and State reported that, overall, Kabul Bank debtors (i.e. those responsible for the stolen funds) still owe just over \$594 million, unchanged from last quarter.⁴⁹⁹ However, State reported that, according to the KBR, approximately \$1.6 million has been recovered since May 2018.⁵⁰⁰ State said that recent debtor payments had been made “under significant Compact pressure”—referring to the Afghanistan Compact, initiated in August 2017 with the intent of prioritizing Afghan government commitments and measuring progress against key benchmarks, including Kabul Bank repayment agreements.⁵⁰¹ DOJ confirmed that the U.S. Embassy has been demanding progress through periodic Compact meetings.⁵⁰²

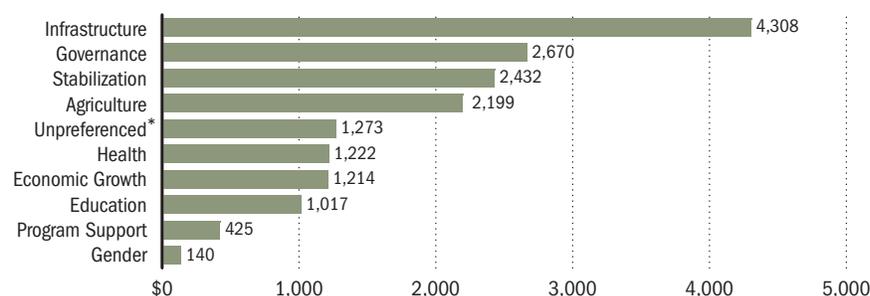
Additionally, DOJ reported that President Ghani issued a new decree this quarter ordering that the market value of borrowers’ collateral and assets be determined and that a public announcement be made to sell those collateral and assets. Nevertheless, DOJ added that it does not believe the Afghan government possesses the political will to move forward on Kabul Bank asset recoveries, despite having the capacity to do so.⁵⁰³

U.S. ECONOMIC AND DEVELOPMENT SUPPORT

Most assistance from the Economic Support Fund goes toward USAID’s development programs. According to the agency’s recently signed, \$2.5 billion assistance agreement with the Afghan government that extends through December 31, 2023, USAID aims to render Afghanistan a more inclusive, economically viable, and self-reliant country with which the U.S. government can better partner in its national-security strategy.⁵⁰⁴ USAID hopes to achieve this end state through programming that accelerates private sector-driven and export-led economic growth, advances social gains, and increases the Afghan government’s accountability to its citizens.⁵⁰⁵

FIGURE 3.43

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF SEPTEMBER 30, 2018 (\$ MILLIONS)



Note: USAID Mission-managed funds. Numbers are rounded. USAID gender programs are presented as a separate category this quarter. Reclassification of some projects from other categories (such as economic growth) to the new gender category reduced some previously reported cumulative disbursements. Agriculture programs include alternative development. Infrastructure programs include power, roads, extractives, and programs that build health and education facilities. Office of Financial Management activities (e.g. audits and pre-award assessments) included under Program Support funds. Additional Office of Financial Management activities added due to increased data coverage.

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

Source: SIGAR analysis of USAID, response to SIGAR data call, 10/15/2018; SIGAR analysis of World Bank, ARTF, *Administrator's Report on Financial Status*, as of July 22, 2018.

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 expected the CDCS to be completed this summer.⁵⁰⁶ However, USAID said this quarter that the new strategy had not yet been finalized.⁵⁰⁷ Figure 3.43 shows USAID assistance by sector.

Natural Resources Remain an Under-Tapped Source of Government Revenue and Economic Growth

Afghanistan is endowed with a plethora of natural resources. These include rare earth elements, gold, chromite, copper, talc, sulfur, lead, iron, coal, construction stone, and natural gas, among others. Yet, despite this potential wealth and the presence of numerous mines, most of the resources have yet to be extracted. While some efforts have been made to mine iron, gold, copper and other minerals, thus far neither donors nor the Afghan government have been able to facilitate large-scale extraction.⁵⁰⁸

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 where economic benefits are distributed among most Afghans as opposed to only a few).⁵⁰⁹ However, in 2017 mining contributed only 0.97% of added value to the country's licit GDP. Including

the opium economy, value-added from the mining sector was even lower: 0.92% of GDP.⁵¹⁰ The Afghan government believes that underdeveloped infrastructure, declining commodity prices, and ongoing security challenges all hinder progress in this important sector.⁵¹¹

Though licit mining languishes, illegal mining—broadly defined—has flourished in Afghanistan. According to USIP, most mineral extraction in the country is either illicit or unregulated. While some 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.⁵¹²

U.S. Support to Afghanistan’s Extractives Sector Remains Limited

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, as SIGAR reported last year.⁵¹³ Following that announcement, President Trump met with Afghan President Ashraf Ghani on the sidelines of the United Nations (UN) 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.⁵¹⁴ Those discussions were widely reported by U.S. media, generating speculation that the United States would pursue a reinvigorated effort to develop the country’s extractives sector.⁵¹⁵

No subsequent meeting occurred during the UN General Assembly held this quarter: President Ghani canceled a planned trip to New York to attend the assembly.⁵¹⁶ Thus, nearly one year after the Trump administration made the decision to recommit to Afghanistan, U.S. extractives-sector programming, as measured by direct U.S. funding of extractives-related programs, remains relatively small-scale. USAID has interagency agreements with the Department of Commerce to provide legal assistance to the sector. The agency also has an agreement with the United States Geological Survey (USGS) to provide technical advisory services, but these represent the only current U.S.-led initiatives to develop Afghanistan’s natural resources.⁵¹⁷

Some Movement on Previous DOD-Facilitated Mining Tenders, but Legality of Two Contracts is Questioned

DOD is no longer involved in Afghanistan’s extractives sector and has no authority or funding to support extractives projects.⁵¹⁸ In the past, DOD pursued the development of the sector through the Task Force for Business and Stability Operations (TFBSO), which sought to reduce violence, enhance stability, and support economic normalcy in Afghanistan through strategic business and economic activities.⁵¹⁹ TFBSO was a temporary organization with a nontraditional mission whose funding ended in 2014.⁵²⁰

SIGAR INVESTIGATION

On September 24, 2018, Adam Doost, the former owner of a now-defunct marble mining company in Afghanistan, was found guilty by a federal jury for his role in defrauding the Overseas Private Investment Corporation (OPIC), a U.S. government agency, and defaulting on a \$15.8 million loan. Doost obtained the loan in February 2010 while working at his company, Equity Capital Mining LLC. The loan from OPIC was to help fund the development, maintenance, and operation of a marble mine in western Afghanistan. SIGAR led the four-year investigation, with assistance from the FBI. For more, see p. 35 of this report.

TFBSO sought to develop Afghanistan's mining sector through a \$51 million obligation originally intended to facilitate the award of between eight and 12 large-scale mining contracts to international companies. TFBSO officials and contractors said they overestimated the speed at which the Ministry of Mines and Petroleum could work and underestimated the resistance from other ministries. Nevertheless, four contracts were advanced to the point that they only needed the Afghan government's signature. The Afghan government refused to sign any of these contracts because of political concerns surrounding mining contracts.⁵²¹

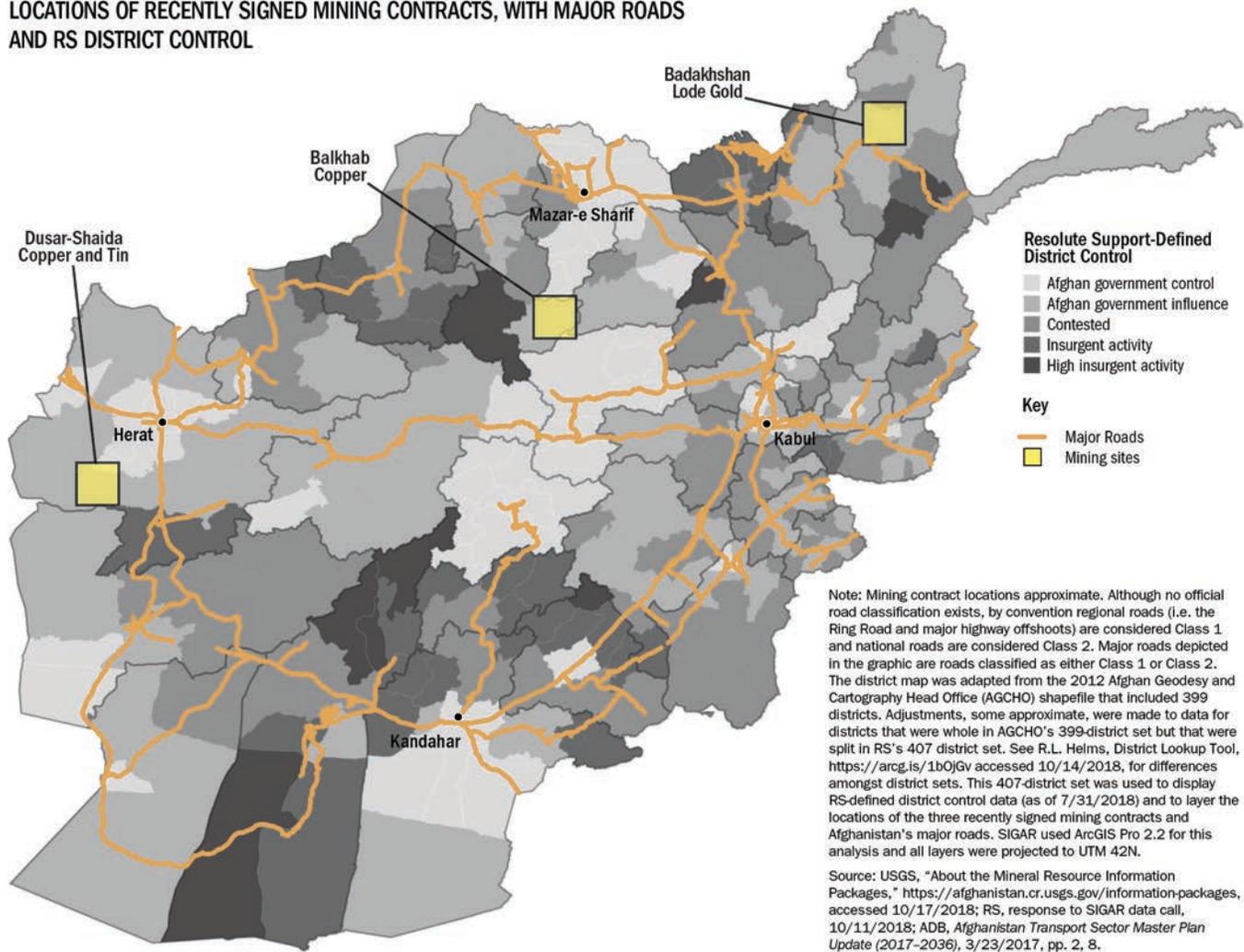
However, both DOD and State indicated this quarter there had been recent movement on these stalled contracts.⁵²² According to State, the Afghan government recently approved a contract for the Shaida copper mine, located in Herat Province.⁵²³ Of the four contracts, Shaida was the highest-valued (\$433 million) and was expected to deliver more than \$1.3 billion to the Afghan government over the lifetime of the project, according to consultant projections from November 2012.⁵²⁴ Although these were older, inherently imprecise estimates (particularly given that exploration activity had not yet been initiated), State said the \$1.3 billion figure could be achievable, based on a final negotiated contract royalty rate of 7.1% and the potential to extract an estimated \$18 billion in commercial copper.⁵²⁵ State said that an environmental-impact assessment and other necessary processes would take an estimated two to three years to complete before any extraction activities could begin.⁵²⁶

Two other TFBSO-related contracts that had previously been stalled—one for the Balkhab copper mine in Sar-e Pul and Balkh Provinces and the other for a gold mine in Badakhshan—were also signed this quarter.⁵²⁷ According to State, the Afghan Gold and Minerals Company (AGMC) is the majority stakeholder in the Balkhab contract. AGMC is a consortium of international investors backed by London financier Ian Hannam, former BHP Billiton chief executive Chip Goodyear, and former Afghan Minister of Urban Development Sadat Naderi. AGMC's joint venture, the Turkish-Afghan Mining Company, in which the Turkish mining firm Eti Gümüş has a majority stake, is developing the mine in Badakhshan.⁵²⁸

However, State added that both the Sar-e Pul/Balkh and Badakhshan contracts had received heavy scrutiny due to the involvement of Naderi.⁵²⁹ According to Global Witness, a nongovernmental organization (NGO) that aims to expose corruption and human rights abuses, Naderi, who resigned from his position as minister in June 2018, is the president of the Afghan Krystal mining company, which the NGO referred to as a "major partner" in both contracts (while State said that Naderi was no longer a majority stakeholder in either project, he still holds ownership stakes in both). According to Global Witness, the 2014 Afghan mining law set a five-year "cooling off" period before a former minister or his or her direct relatives are permitted to hold a mining contract. Naderi's sister, Farkhunda Zahra

FIGURE 3.44

LOCATIONS OF RECENTLY SIGNED MINING CONTRACTS, WITH MAJOR ROADS AND RS DISTRICT CONTROL



Naderi, is currently serving as an advisor for UN affairs to President Ghani. Nevertheless, according to Global Witness, Naderi has challenged the law's applicability on the grounds that he was not a minister when the Afghan Krystal mining company was named as a preferred bidder in 2012. Global Witness, however, emphasized that revisions to the law occurred while Naderi was serving as a minister and that downward revisions to the royalty rates on the contracts amounted to a renegotiation of the deals.⁵³⁰ Centar Ltd., meanwhile, an investment firm founded by Hannam that participated in the signing of the contracts in Washington, DC, on October 5, 2018, said the deal was negotiated "in strict adherence to Afghan law and international standards," according to the *New York Times*.⁵³¹

While lack of security and infrastructure make mining difficult in Afghanistan, Centar told the *Financial Times* it will provide for its own security and emphasized that the copper concession in Sar-e Pul and Balkh was located near a major rail hub in Mazar-e Sharif (see Figure 3.44 for a map depicting the three mining sites).⁵³² According to State, Afghanistan’s Office of the President made great effort this quarter to secure approval for the contracts.⁵³³

At this time, SIGAR is drawing no conclusions regarding the legality of these two contracts. However, SIGAR will be examining the contracts and other matters through an ongoing audit assessing the Afghan government’s progress in implementing its anticorruption strategy.

Agriculture: A Key Component of Both the Licit and Illicit Economy

The World Bank has called agriculture a “pillar of economic development and national security in Afghanistan.”⁵³⁴ More than half of the rural labor force works in the agricultural sector, which employs about 40% of Afghans overall. Historically, agriculture has made substantial contributions to Afghanistan’s economic growth.⁵³⁵

In 2017, however, agriculture’s contribution to economic growth showed a darker side, with opium production reaching a new peak. While the Bank projected the value of licit agriculture in 2018 at 18% of GDP, the United Nations Office on Drugs and Crime estimated the value of the opium economy to be the equivalent of 20–30% of licit GDP.⁵³⁶ Reflecting the spectacular (approximately 90%) growth of opium production in 2017, Afghanistan’s National Statistics and Information Authority reported that GDP growth inclusive of the opium economy was 7.2%.⁵³⁷

Thus, the World Bank’s characterization of agriculture as a pillar of national security requires a major caveat—SIGAR has reported that opium-poppy cultivation has undermined security goals by providing a major revenue source for the insurgency, eroding Afghan government legitimacy, and exacting an enormous human and financial toll.⁵³⁸

Afghanistan Suffers “Worst Drought in Decades”

A severe drought continued to affect large swaths of Afghanistan this quarter, contributing to ongoing waves of internal displacement, according to the UN.⁵³⁹ Testifying to the scale of the natural disaster, the UN said that as of September 9, 2018, the drought had displaced about 275,000 people in 2018—52,000 more than the ongoing conflict during the same time period.⁵⁴⁰ While the gap between conflict-induced displacement and drought-induced displacement later narrowed, more than 263,330 people had been displaced in 2018 due to the drought, as of October 14, 2018, compared to 254,796 displaced due to conflict, according to the UN.⁵⁴¹

The scale of the natural disaster remained severe: As of May 2018, the UN estimated that approximately 2.2 million Afghans would be affected.⁵⁴² The

In its response to SIGAR’s requests for information this quarter, USAID downplayed the effects of the drought, describing it as “localized.” While it is true that the drought is not affecting all areas of Afghanistan, this seems to minimize the scale of the natural disaster. USAID’s internal humanitarian update stated that Afghanistan’s 2018 drought continued to “intensify in the north, west, and central highlands, adding acute new pressures to rural Afghan communities already strained by years of war and poverty.”

For example, USAID previously pointed out that the 2018 wheat harvest was likely to yield just 3.5 million metric tons (MMT), resulting in a projected deficit of 2.5 MMT for this year. USAID added the drought would likely have ripple effects on Afghan pastoralists who depend on rangelands, increasing food insecurity. However, the drought may not have significant implications for USAID’s agricultural programs, which generally focus on irrigated crops that do not directly rely on rain.

Source: USAID, response to SIGAR data call, 9/19/2018; USAID, *Humanitarian Update #19*, 9/15/2018, p. 1; USAID, response to SIGAR vetting, 4/10/2018; USAID, OAG, response to SIGAR vetting, 10/11/2018.

UN previously called the drought the worst in decades.⁵⁴³ According to the USAID-funded Famine Early Warning Systems Network (FEWS NET), the drought has resulted in atypically high levels of acute food insecurity (meaning that many Afghans do not have access to adequate nutrition), which was likely to increase in the coming months. FEWS NET said the northwestern provinces of Badghis and Faryab, which border Turkmenistan, have been the worst-affected areas.⁵⁴⁴ The extent of anticipated food insecurity appeared high: USAID previously reported it expected a 2.5 million metric ton (MMT) wheat harvest deficit for 2018, against a total need of 6 MMT.⁵⁴⁵ On September 23, 2018, USAID announced it would provide \$43.8 million to the UN's World Food Programme to provide food assistance to drought-affected Afghans.⁵⁴⁶

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

According to USAID's recently signed four-year assistance agreement with the Afghan government, licit agriculture will remain an area of particular focus for the agency. USAID programs aim to support Afghan agribusinesses to develop competitive value chains, strengthen public and private agricultural service delivery, and increase the productivity of key agricultural crops. As in other sectors, USAID's support for agribusinesses will be oriented on firms that have the potential to serve as anchors for key value chains—that is, on businesses that can best put investment capital to use, generate both supply and demand along value chains, and benefit from international partnerships.⁵⁴⁷

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.⁵⁴⁸ Pages 175–183 of this quarterly report discuss USAID's agriculture alternative-development programs. USAID's active agriculture programs have a total estimated cost of \$444 million and can be found in Table 3.27.

Agricultural Development Fund Update: USAID Extends Technical Assistance by Four Months, but Sustainability Still in Question

SIGAR remains concerned this quarter about the sustainability of an Afghan credit facility to which USAID has provided funding and technical assistance. 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 the Ministry of Agriculture Irrigation and Livestock (MAIL). The purpose of the ADF, which remains active, is to provide credit to agribusinesses, commercial farmers, and processors and exporters of agricultural products.⁵⁴⁹ Initially managed by USAID through its \$50 million Agricultural

TABLE 3.27

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 9/30/2018
Strengthening Watershed and Irrigation Management (SWIM)	12/7/2016	12/6/2021	\$87,905,437	\$9,453,159
Regional Agriculture Development Program (RADP North)	5/21/2014	5/20/2019	78,429,714	56,906,996
Commercial Horticulture and Agriculture Marketing Program (CHAMP)	2/1/2010	12/31/2019	71,292,850	57,322,706
Afghan Value Chains - Livestock Activity	6/6/2018	6/5/2021	55,672,170	778,367
Afghanistan Value Chains - High-Value Crops	8/2/2018	8/1/2023	54,958,860	0
RADP East (Regional Agriculture Development Program-East)	7/21/2016	7/20/2021	28,126,111	9,022,776
Grain Research and Innovation (GRAIN)	3/13/2017	9/30/2022	19,500,000	7,305,193
Promoting Value Chain - West	9/20/2017	9/19/2020	19,000,000	1,703,361
ACE II (Agriculture Credit Enhancement II)	6/23/2015	6/30/2019	18,234,849	15,171,274
Catalyzing Afghan Agricultural Innovation	5/28/2018	5/27/2023	8,000,000	176,578
SERVIR	9/14/2015	9/30/2020	3,100,000	1,538,075
Total			\$444,219,991	\$159,378,486

Source: USAID, response to SIGAR data call, 10/15/2018.

Credit Enhancement (ACE) project, the ADF was transferred to the Afghan government in 2015.⁵⁵⁰ 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.⁵⁵¹

For several quarters now, SIGAR has documented what appear to be significant sustainability challenges at the ADF.⁵⁵² The financial performance of the ADF has suffered due to the prevailing political, economic, and security conditions, which according to ACE-II project implementers has contributed to a more prolonged time frame “required for the ADF to achieve . . . operating sustainability, one of its primary objectives.”⁵⁵³ Additionally, in early 2016, the 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 (Da Afghanistan Bank or 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.⁵⁵⁴

This quarter SIGAR learned that USAID had approved a four-month, no-cost extension (NCE) for ACE-II that extended the contract’s period of performance to October 31, 2018.⁵⁵⁵ The purpose of the NCE is to continue USAID’s support of the ADF’s transition to an independent agricultural finance institution. However, according to the agency’s implementing partners, the NCE’s scale, in conjunction with the brief period of performance

SIGAR learned this quarter that independent auditor Deloitte recommended that the Agricultural Development Fund (ADF), established by USAID, strengthen its due diligence process and closely monitor overdue loans to reduce risk of defaults. This recommendation echoes what SIGAR has reported for several quarters: that despite high levels of loan losses and loan-loss provisions, the ADF changed its loss policy to count as losses only those nonperforming loans overdue by more than 1,095 days (three years), which contrasts sharply with the current Afghanistan central bank standard of 360 days.

Source: USAID, *Agricultural Credit Enhancement II (ACE-II) Program Monthly Report No. 37, July 2018, 8/13/2018*, p. 4; SIGAR, *Quarterly Report to the United States Congress, 7/30/2018*; USAID, *Agricultural Credit Enhancement II (ACE-II) Program Quarterly Report: Q2-FY 2018 January–March, 2018, 4/30/2018*, p. 37.

remaining, could impact ACE-II's ability to retain staff for the remainder of the project.⁵⁵⁶

SIGAR also learned that Deloitte, an independent auditor, had prepared draft 2017 financial statements for the ADF. Deloitte noted that while income rose by 15% to AFN 153.4 million (~\$2.1 million), loan-loss provisions for the year were substantial: AFN 65.3 million (~\$907,000). Moreover, despite the fact that the ADF was intended to facilitate access to credit by loaning funds to agribusinesses, the majority of the increase in income was due to interest earned by placing surplus funds with financial institutions rather than through the ADF's loan portfolio.⁵⁵⁷ While this could be interpreted as a positive sign of healthy liquidity, it may simultaneously signal that the ADF is not meeting its original intent to inject much-needed credit into the agricultural sector.

Deloitte also highlighted that the present ADF loan-loss provision policy—which differs from DAB loan-classification criteria, as SIGAR has emphasized for several quarters now—“could be problematic,” according to the project's most recently available monthly report. Deloitte recommended that the ADF strengthen its due-diligence process and closely monitor overdue loans to reduce risk of defaults.⁵⁵⁸

SIGAR SPECIAL PROJECT

A SIGAR Special Project released in September 2018 reported the results of site inspections conducted at eight DOD-funded bridge projects in Baghlan Province. SIGAR found that the location information for the bridges maintained in DOD systems was generally accurate. SIGAR also found that six of the eight bridges were in generally good, usable condition. Additionally, all eight were identified as “very useful” by community members and an Afghan government official. Two of the bridges, however, appeared to have significant structural issues that could pose a risk to people using the bridge. As a result, SIGAR issued two alert letters and USFOR-A notified the appropriate Afghan authorities. For more, see p. 32 of this report.

ESSENTIAL SERVICES AND DEVELOPMENT

The United States has provided reconstruction funds to increase the electricity supply, build roads and bridges, and construct and improve health and education facilities in Afghanistan since 2002.⁵⁵⁹ This section addresses key developments in U.S. efforts to improve the government's ability to deliver these essential services, focusing specifically on ongoing projects intended to increase access to electricity in Afghanistan.

Power Supply: Lack of Access to Electricity Remains a Key Challenge

According to USAID, only about 30% of Afghans had access to grid-based electricity, as of August 2017.⁵⁶⁰ Lack of access constitutes a crucial barrier to progress on a wide range of development indicators, including poverty reduction, education, health, livelihoods, and food security, according to the World Bank.⁵⁶¹

USAID has said that lack of reliable, available, and affordable power represents a fundamental constraint to economic growth. While comprehensive data on the current set of challenges Afghan businesses face as a consequence of low electricity access is unavailable, the agency pointed to the results of the World Bank's 2014 Enterprise Survey for Afghanistan, which showed that 66% of private enterprises reported that limited access to electricity represented a major constraint. At that time, 70% of businesses experienced significant electricity outages and attributed an average of 10%

in annual sales losses due to such outages.⁵⁶² USAID said that data from Afghanistan's Chamber of Commerce showed the situation may have grown worse in more recent years, with Kabul-based factory owners reporting they receive only eight hours of power per day, and with outages causing \$200–\$1,000 in losses due to damaged materials and equipment per outage.⁵⁶³

Overall, many enduring challenges in the power sector remain, according to USAID. Those challenges include insufficient supply to meet growing demand, Afghanistan's heavy (80%) dependence on electricity imports, and weak sector governance.⁵⁶⁴

U.S. Power-Sector Assistance: Large-Scale Projects to Expand the National Power Grid Predominate

Large capital projects represent the majority of the U.S. government's current work in the Afghan power sector. A top priority has been expanding and connecting islanded power grids, with both USAID and DOD working to connect Afghanistan's Northeast Power System (NEPS) with its southeastern counterpart, the Southeast Power System (SEPS).⁵⁶⁵ USAID is funding the construction of a 511-kilometer transmission line connecting the two networks and improvements to SEPS. DOD, meanwhile, has funded a significant expansion of NEPS, the expansion and improvement of infrastructure associated with SEPS, and a bridging solution for power in Kandahar City, designed to provide power to key industrial parks to buy time for other infrastructure to be built.⁵⁶⁶

Both DOD and USAID power-infrastructure projects are funded through the Afghanistan Infrastructure Fund (AIF), with monies appropriated by Congress in FYs 2011–2014. USAID is also using the Economic Support Fund to cover the costs of some projects.⁵⁶⁷ No additional AIF monies have been appropriated since FY 2014.⁵⁶⁸ However, up to \$50 million of Title IX Overseas Contingency Operations (OCO) funds appropriated in later acts may be used to complete these projects.⁵⁶⁹

DOD has completed the majority of its AIF power-infrastructure projects. Only two remain: a single project encompassing both the improvement of three substations in SEPS (which is now complete) and the construction of a transmission line from Sangin to Lashkar Gah in Afghanistan's restive Helmand Province; as well as the construction of transmission lines from Paktiya Province to Khost Province. Approximately \$186.4 million has been obligated for those two projects, of which \$156.0 million has been disbursed, signaling that these projects are close to completion. In total, \$599.6 million has been obligated for DOD's AIF-funded power infrastructure projects (including \$141.7 million for the aforementioned Kandahar Power Bridging Solution project), with \$561.4 million disbursed.⁵⁷⁰

As SIGAR reported in April 2018, USAID recently faced significant challenges in completing its large energy-sector projects, moving nearly \$400 million of previously on-budget power-sector funds off-budget. The

TABLE 3.28

USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursement, as of 9/30/2018
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2020	\$316,713,724	\$183,695,904
Contributions to the Afghanistan Infrastructure Trust Fund (AITF)	3/7/2013	3/6/2023	153,670,184	153,670,184
Engineering Support Program	7/23/2016	7/22/2019	125,000,000	48,988,595
Kandahar Solar Project	2/23/2017	8/25/2019	10,000,000	1,000,000
Design and Acquisition of SEPS Completion and NEPS-SEPS Connector	3/7/2018	3/7/2019	917,680	503,142
Total			\$606,301,588	\$387,857,825

Note: PTEC end date reflects USAID's anticipated end date for the project. Because some PTEC contracts have not yet been awarded, the project's final total estimated cost will likely be higher than the reported amount.

Source: USAID, response to SIGAR data call, 10/15/2018; USAID, OI, "Status of USAID-funded Power Projects," 7/24/2018.

Large-scale economic development projects in Afghanistan often face significant delays. For example, a SIGAR audit released in October 2017 found that three power-sector projects funded with Fiscal Year 2011 Afghanistan Infrastructure Fund monies were incomplete and up to five years behind their original schedule.

Source: 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.

move resulted from the agency's conclusion that Afghanistan's national utility, Da Afghanistan Breshna Sherkat (DABS), lacked sufficient procurement and oversight capacity, rendering the utility unable to manage the on-budget monies.⁵⁷¹

Cumulatively, USAID has disbursed more than \$1.5 billion in Economic Support Funds to build power plants, substations, and transmission lines, and provide technical assistance in the power sector since 2002.⁵⁷² The agency's active power-infrastructure programs have a total estimated cost of more than \$606 million and are listed in Table 3.28.

USAID Project to Construct 10 MW Solar Power Plant in Kandahar Faces 12-Month Delay

In August 2017, USAID initiated a \$10 million project to help construct a 10 megawatt (MW) solar power plant near Kandahar City. The agency's \$10 million contribution represented an incentive payment to encourage private investment in the project, with India-based contractor Dynasty Oil and Gas Ltd. covering the remaining \$10 million cost to construct the plant. Under a 15-year power purchase agreement with DABS, Dynasty plans to sell energy to Afghanistan's national utility to increase power supply in what remains a volatile area of the country. DABS, in turn, committed to constructing a 6.5 km transmission line to connect the plant to the national grid. According to USAID, the plant, when complete, will be the first privately built and operated power plant of this capacity in Afghanistan. During a September 2017 groundbreaking ceremony, DABS chief executive officer Amanullah Ghalib said the plant will be "an important step toward solving the critical shortage of power in Kandahar."⁵⁷³

Although USAID intended the project to serve as a model for future private investment in Afghanistan's power sector, the agency informed SIGAR



USAID broke ground on its 10 MW solar power plant project in Kandahar on September 24, 2017. (USAID photo)

this quarter that the project was significantly delayed. USAID's contract with Dynasty was modified to extend the period of performance by one year to August 26, 2019, from the original completion date of August 26, 2018.⁵⁷⁴ USAID said the delay was due to land-encumbrance issues encountered at the beginning of the activity as well as an issue with the customs-duty exemption for materials imported through Karachi, Pakistan.⁵⁷⁵ According to USAID, the land-encumbrance issues included the need to relocate public properties located on the site and to adjust to a new site location established by DABS.⁵⁷⁶

As a result of the significant delay, USAID modified the contract to provide payment of \$1 million to Dynasty in June 2018 rather than disbursing an initial payment of \$2 million upon "cold commissioning" (completed but not yet generating) of the first two MW of power. The purpose of the payment was to provide cash flow to Dynasty to cover port demurrage charges (fees assessed when cargo remains at a port for too long) incurred as a result of the customs-duty exemption issue, with critical materials such as photovoltaic panels being held in the Port of Karachi.⁵⁷⁷ SIGAR will continue to report on progress on the 10 MW solar-power plant.

SIGAR provides a comprehensive update on the status of Afghanistan's power sector this quarter. The following pages include an inserted, two-sided map that presents both existing and planned power infrastructure. One side provides an overall picture of the country's power-infrastructure projects, including those funded by multilateral institutions such as the Asian Development Bank. The other side shows the current status of projects funded directly by the U.S. A PDF version of the map is posted at www.sigar.mil.

CURRENT STATUS OF AFGHANISTAN'S POWER SECTOR

Every year, the Asia Foundation conducts its *Survey of the Afghan People*, which provides a sweeping look at the current state of affairs in Afghanistan, as viewed from the perspective of Afghans. Respondents to the Foundation's latest (2017) survey reported they considered lack of access to electricity to be the third-biggest problem in their local area, behind only unemployment and security. Despite the many initiatives aimed at expanding the national electrical grid, the Asia Foundation said, only 12.2% of Afghans reported their electricity supply had improved in 2017, a drop from 13.9% in 2016. Approximately 43.3%, meanwhile, said their supply had deteriorated—the same proportion as in 2016. The survey also asked respondents whether they thought the country was headed in the right or wrong direction. When it came to Afghans' responses to this question, the Asia Foundation noted, the strongest predictor of optimism was whether Afghans believed conditions within their own households had improved on a range of factors, one of which was access to electricity. Overall, in each of the surveys over the period of more than a decade (from 2006 through 2017), access to electricity rated as one of the top three issues that Afghans faced locally, its ranking fluctuating among the top three slots.⁵⁷⁸

The centrality of electricity to Afghanistan's development has led the United States to devote considerable attention and resources to increasing availability of electricity by expanding the transmission grid and tapping into supplies from Central Asian countries. Those efforts have ranged from large power-infrastructure projects to technical assistance for Afghanistan's state-owned utility, Da Afghanistan Breshna Sherkhat. USAID, which has said that lack of access to reliable and affordable power represented a fundamental constraint to economic growth, has cumulatively spent more than \$1.5 billion on the power sector.⁵⁷⁹ DOD, meanwhile, which once said that sufficient electricity supply was key to building Afghans' confidence in their government (but is now simply completing projects that were started during the

high water mark of the U.S. commitment), has disbursed more than \$561 million to expand and rehabilitate Afghanistan's Northeast Power System (NEPS) and Southeast Power System (SEPS).⁵⁸⁰

Despite the substantial expenditure of resources, the vision of significantly expanded electricity access has been difficult to realize. Over the years, SIGAR has consistently documented the many challenges associated with the effort, which have ranged from insufficient security to land disputes. Such challenges have significantly delayed the completion of these ambitious projects. For example, in 2017, a SIGAR audit found that three power-sector projects funded with FY 2011 Afghanistan Infrastructure Fund (AIF) monies were incomplete and up to five years behind their original schedules (based on early schedule estimates developed before the projects began).⁵⁸¹ Through two ongoing audits—one focusing on USAID's \$870 million Power Transmission Expansion and Connectivity project, which among other goals, aims to improve Afghanistan's transmission system, and the other on DOD and USAID efforts to expand power generation at the Kajaki Dam, a key component of SEPS—SIGAR continues to focus on the question of whether U.S.-funded efforts to expand electricity access are achieving their objectives.⁵⁸²

Currently, these projects stand at varying degrees of completion. DOD reported that it has only two power-infrastructure projects remaining. While one aims to rehabilitate three substations and construct a transmission line within SEPS, the other seeks to further expand NEPS.⁵⁸³ DOD further reported that all four completed power-infrastructure projects aimed at permanently expanding electricity access (as opposed to providing power temporarily, as did its provision of diesel fuel to generators that powered two industrial parks in Kandahar City) had been transferred to the Afghan government, with the exception of two substations. Moreover, transmission lines transferred to DABS were energized, according to DOD, meaning that they were operational and in use (though to what extent was not

clear).⁵⁸⁴ However, SIGAR has previously documented that transferred infrastructure may not operate as intended. For example, SIGAR found that because the U.S. Army Corps of Engineers did not complete contractually required testing of the NEPS III system, consisting of transmission lines and substations in Parwan and Kapisa Provinces, it had no assurance that the system could be operated safely or could fulfill the project's goal of providing one million Afghans access to electricity.⁵⁸⁵

For its part, USAID said it had completed only one of its three power-infrastructure projects, the construction of a transmission line and substations from Arghandi to Ghazni. USAID reported that the transmission line was energized (though again, to what extent was not clear). Two of the agency's power-infrastructure projects remains ongoing: one aims to connect NEPS with SEPS via a transmission line extending from Ghazni to Kandahar, and the other seeks to further expand SEPS. Both of those projects were expected to be completed in 2020.⁵⁸⁶ See the enclosed map (which can be found at www.sigar.mil) for a detailed status update of U.S.-funded power-sector projects.

Multilateral organizations (to which the United States contributes) have also invested heavily in Afghanistan's power sector. As of May 2018, the Asian Development Bank (ADB) had cumulatively committed nearly \$2.2 billion of grant assistance to develop distribution systems and domestic generation, promote institutional reforms, support energy imports for urgent electricity needs, and develop a large renewable program.⁵⁸⁷ ADB is funding an initiative known as TUTAP, named for the project's five participating countries: Turkmenistan, Uzbekistan, Tajikistan, Afghanistan, and Pakistan. The objective of the TUTAP project is to provide Afghanistan power-transmission connectivity with neighboring countries, in order to improve Afghanistan's electricity supply and, pending connectivity with Pakistan, the ability to transmit power from its northern neighbors to Pakistan. The project's two-way lines would also be used to cover seasonal power shortages.⁵⁸⁸ According to State, the first phase of TUTAP is currently supplying Afghanistan with 350 MW of power from Uzbekistan as well as varying levels from Tajikistan. The second phase of the project, however, is still under procurement.⁵⁸⁹

For its part, as of April 2018, the World Bank carried a nearly \$500 million energy-sector portfolio in Afghanistan. The Bank's most ambitious project is the Central Asia South Asia Electricity Transmission and Trade Project, more commonly known as CASA-1000. CASA-1000 aims to construct more than 1,200 kilometers of transmission lines spanning four countries—the Kyrgyz Republic, Tajikistan, Afghanistan, and Pakistan—in order to transmit excess summer hydro-power energy from Central Asia to energy-poor South Asia. The total cost of the project is estimated at nearly \$1.2 billion, of which \$356.5 million in World Bank funding will go to Afghanistan. Construction on the project is expected to commence in the second quarter of 2019.⁵⁹⁰ Both CASA-1000 and TUTAP are part of a broader effort called the East-Central-South Asia Regional Electricity Market (E-CASAREM), which envisions a shared energy market and increased energy trade.⁵⁹¹

According to DOD, the results of surveys such as the Asia Foundation's typically improve markedly in areas that benefit from new projects. DOD pointed out that many donor projects, whether funded directly by the U.S. or through multilateral organizations, are not yet complete, implying that more time will be required before the effects of power-infrastructure work can be fully assessed.⁵⁹² However, the significant delays associated with these projects, considered within the context of precarious security conditions and political uncertainty, raise the important question of just when those effects can or will be achieved. The enclosed map (also posted at www.sigar.mil) provides a comprehensive picture of existing and planned power-sector projects in Afghanistan.

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.⁵⁹³ Since the 2017 report, Afghanistan has 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% to 82.3% of Afghanistan's income per capita (the average income earned per person in the country).⁵⁹⁴ 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).⁵⁹⁵

USAID has cumulatively disbursed over \$1.2 billion for economic-growth programs in Afghanistan.⁵⁹⁶ USAID's active economic-growth programs have a total estimated cost of \$109 million and can be found in Table 3.29.

TABLE 3.29

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 9/30/2018
Multi-Dimensional Legal Economic Reform Assistance (MELRA)	2/7/2018	2/6/2023	\$19,990,260	\$477,799
Extractive Technical Assistance by USGS	1/1/2018	12/31/2022	18,226,206	979,204
Afghanistan Investment Climate Program	3/27/2015	3/26/2020	13,300,000	4,990,433
Commercial Law Development Program	3/1/2014	9/30/2019	13,000,000	9,759,661
Goldozi Project	4/5/2018	4/4/2022	9,718,763	382,251
Livelihood Advancement for Marginalized Population (LAMP)	5/27/2018	5/25/2022	9,491,153	8,889
Establishing Kabul Carpet Export Center (KCEC)	6/6/2018	6/5/2021	9,416,507	581,000
Rebranding Afghanistan: Creating Jobs, Changing Perceptions, Empowering Women	11/2/2015	11/1/2018	4,800,000	4,500,000
Trade Show Support (TSS) Activity	6/7/2018	12/6/2020	3,999,174	697,367
Unspecified USAID Subsidy	Not provided	Not provided	2,163,000	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
Reduce Disaster Risks through Mitigation	Not provided	Not provided	150,000	150,000
Total			\$108,878,883	\$23,047,404

Note: SIGAR previously listed USAID's Women in the Economy (WIE) project under economic growth given its cross-cutting intent. This quarter, however, SIGAR breaks out USAID's gender programming separately.

Source: USAID, response to SIGAR data call, 10/15/2018.

USAID's Afghanistan Jobs Creation Program: Three Awards So Far

Initiated in June 2017 through a solicitation for concept papers, USAID's Afghanistan Jobs Creation Program (AJCP) has two goals: to generate revenue and sustainable jobs by supporting Afghanistan's value-chain development, and to support trade promotion and facilitate Afghan businesses in increasing exports.⁵⁹⁷ The program intends to fund multiple awards—with the value of individual grants ranging from \$2 million–\$10 million—to be implemented within the next five years. The shared funding ceiling for all projects is \$96 million.⁵⁹⁸

This quarter, USAID said that its Office of Economic Growth had awarded three grants thus far.⁵⁹⁹ One was a \$9.5 million grant for the Livelihood Advancement for Marginalized Populations project (awarded in May 2018), which aims to create sustainable jobs for internally displaced Afghans, returnees, and some local households in three target urban areas in Afghanistan.⁶⁰⁰ Through the second award, the \$9.7 million Goldozi (Dari for embroidery) Project (awarded in April 2018), USAID intends to improve the skills of, and increase market access for 15,000 women in and around Kabul. The intent is to increase the commercial potential of the embroidered products they make.⁶⁰¹ AJCP's third and most recent (June 2018) award is intended to establish the Kabul Carpet Export Center (KCEC). The \$9.4 million KCEC seeks to address obstacles to Afghanistan's carpet exports by increasing access to capital for the purchase of wool, improving packaging and export processing, and connecting Afghanistan's carpet industry to global markets.⁶⁰²

These projects are too early in their implementation phases to assess. However, because AJCP is designed to achieve quantifiable objectives—for example, the Goldozi Project includes a performance indicator expressing the number of new jobs created as a result of U.S. government assistance, to be reported quarterly—SIGAR will continue to track tangible outcomes as these projects progress, as well as the methodology behind such metrics.⁶⁰³

EDUCATION

Prior to the U.S.-led military intervention of 2001, decades of intermittent conflict had devastated Afghanistan's education system. While the current war continues, donors have generally highlighted Afghanistan's progress in the education sector as a success story. Although 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 2002.⁶⁰⁴ In FY 1396—which roughly corresponds to the year 2017—about 8.95 million

SIGAR SPECIAL PROJECT

A SIGAR Special Project released in August 2018 reported the results of site inspections at 14 USAID-supported schools in Parwan Province. SIGAR found that all 14 schools were open and in generally usable condition. However, SIGAR also found that there may be problems with student and teacher attendance and staffing at several of the schools. For more, see p. 32 of this report.

The Taliban periodically disrupt the education system in Afghanistan. In early July 2018, the insurgent group reportedly closed nearly 40 schools in Logar Province. According to the United Nations, there were 47 Taliban attacks (including threats) against schools and education-related personnel in Afghanistan from April to June 2018.

However, although SIGAR is unable to verify them, other reports paint a more complicated portrait of negotiation and compromise between the Afghan government and its adversary. A June 2018 report published by the Overseas Development Institute (ODI), a UK think tank, found that Taliban officials emphasized the extent to which they worked with, rather than against, the Afghan government when it came to issues of education (though the report also framed the relationship as one of cooptation). According to the ODI report, “In Taliban areas teachers turned up to work, children attended class, books and supplies did not go missing and there was more order in the classroom. Beyond that, however, not a great deal has actually changed.”

Source: *Pajhwok Afghan News*, “Taliban shut 39 schools in Logar,” 7/7/2018; UN, *The situation in Afghanistan and its implications for international peace and security*, report of the Secretary-General, 9/10/2018, p. 8; Overseas Development Institute, *Life under the Taliban shadow government*, 6/2018, pp. 5, 12, 14, 32.

students were enrolled in grades 1–12, according to the MOE.⁶⁰⁵ However, the MOE counts students who have been absent for up to three years as enrolled because, it says, they might return to school.⁶⁰⁶ The number of students actually *attending* school is therefore generally considered to be much lower.

Many Afghan children do not enroll in school at all, or drop out. The United Nations Children’s Fund (UNICEF) took aim at quantifying the scope of this issue in June 2018, 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 National Statistics and Information Authority (NSIA), among other data sources that were not published recently, but which presumably were the best available at the time of the analysis.⁶⁰⁷ Due to the data lag, the number of children out of school today may be even higher.⁶⁰⁸

The NSIA said gains in the education sector may be stagnating. The 2016–2017 ALCS results showed that 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%), secondary-school age (36%), and tertiary-school age (10%) 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 NSIA.⁶⁰⁹ Both adult and youth literacy rates—35% and 54%, respectively, according to the 2016–2017 results—were also stagnant.⁶¹⁰

Numerous other challenges plague the education sector. They include insecurity, shortages of school buildings and textbooks, rural access issues, poor data reliability, and the alleged appointment of teachers on the basis of cronyism and bribery.⁶¹¹

USAID Education Programs Focus on Increasing Access, Improving Quality, and Improving Systems

According to the recently signed assistance agreement between USAID and the Afghan government (which covers the agency’s aid priorities and goals through December 31, 2023), advancing social gains, including gains in education, represents one of the agency’s three **Development Objectives** (DOs; see page 135 for a definition).⁶¹² USAID aims to increase Afghans’ access to education, improve the quality and relevance of education in the country, and enhance the management capacity of Afghanistan’s educational systems.⁶¹³

USAID has disbursed over \$1 billion for education programs in Afghanistan, as of September 30, 2018.⁶¹⁴ USAID’s active education programs have a total estimated cost of \$500 million and can be found in Table 3.30.

TABLE 3.30

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 9/30/2018
Afghanistan University Support and Workforce Development Program	1/1/2014	9/30/2019	\$93,158,698	\$77,618,812
Increasing Access to Basic Education and Gender Equality	9/17/2014	12/31/2019	77,402,457	77,402,457
Textbook Printing and Distribution II	9/15/2017	12/31/2019	75,000,000	0
Afghans Read Program (ARP)	4/4/2016	4/3/2021	69,547,810	22,988,772
Support to the American University of Afghanistan (AUAF)	8/1/2013	11/29/2019	64,400,000	57,407,245
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2020	44,835,920	28,047,880
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	7,395,829
Afghanistan's Global Partnership for Education	10/11/2012	6/30/2019	15,785,770	10,836,711
Assessment of Learning Outcomes and Social Effects in Community-Based Edu.	1/1/2014	12/31/2018	6,288,391	6,251,143
Financial and Business Management Activity with AUAF	7/5/2017	1/4/2019	4,384,058	1,527,821
PROMOTE Scholarships PAPA	3/4/2015	3/3/2020	1,247,522	1,247,522
Total			\$500,263,244	\$295,724,192

Source: USAID, response to SIGAR data call, 10/15/2018.

USAID's USWDP Project: Labor Market Outcomes are Unclear but Show Some Encouraging Signs

USAID's five-year, \$91.9 million Afghanistan University Support and Workforce Development Program (USWDP) assists the Ministry of Higher Education (MOHE) and 11 public universities with implementing strategies designed to improve educational quality and labor market outcomes for students. The project also strengthens the management of the partner universities and links universities and potential public and private sector employers. Activities include providing staff training and resources to the MOHE, improving the administrative capacity of the MOHE and partner universities, and providing scholarships for faculty members at public universities to upgrade their qualifications.⁶¹⁵

Because one of USWDP's goals is to assist the MOHE with implementing programs that ensure employment opportunities for students, one of the project's performance indicators attempts to track the number of individuals with new or better employment following completion of workforce development programs that receive U.S. government assistance. In the project's latest quarterly report, which covers activities conducted from April through June 2018, implementers acknowledge that tracking this indicator represents a "formidable task" in a place like Afghanistan. The implementers added, "USWDP cannot provide the exact number of people who

have *better* employment opportunities.” As a result, tracking is conducted through sample surveys and “other less elaborate means of communication with the graduated students.”⁶¹⁶

The results of a recent survey of 256 USWDP graduates and 264 non-USWDP graduates attempted to tease out the effects of the project on the labor-market outcomes of former students, such as employment status and wages. The survey sought data from each of the 12 months prior to the time labor-market outcome data was collected. The results indicated that USWDP graduates were *less* likely to be employed than their non-USWDP counterparts (although the employment gap between the two groups narrowed over time). However, despite the fact that non-USWDP alumni were more likely to be employed, among alumni and non-alumni who were employed, the annual wages of USWDP graduates in the sample were on average AFN 58,000 (approximately \$806) higher than their non-USWDP counterparts.⁶¹⁷

It is difficult to know how to interpret these results, which point to mixed conclusions regarding the project’s effectiveness in advancing this particular indicator. On the one hand, USWDP alumni may be more selective in their job searches than non-USWDP alumni, a possible explanation advanced by implementers in the project’s most recent quarterly report.⁶¹⁸ Yet, without more conclusive evidence that this is the case, higher levels of unemployment among USWDP graduates—particularly in a labor market reportedly experiencing a glut of supply—may not be an encouraging sign.

HEALTH

Since 2001, health outcomes in Afghanistan have improved substantially despite the country’s lack of security. USAID views these improvements as a significant development success, although precise estimates regarding the extent of that success are elusive due to data-quality limitations (see highlight on the next page). According to UN estimates, maternal mortality rates declined by 64% from 2000 to 2015, from 1,100 deaths per 100,000 live births in the former year to 396 in the latter. Concurrently, the under-5 child-mortality rate fell from 137 to 91 deaths per 1,000 live births—a drop of 34%. Newborn-mortality rates fell by 32% over the same time period.⁶¹⁹

Nevertheless, in early 2018 the World Bank emphasized there was still significant room for improvement.⁶²⁰ Afghanistan’s newborn-mortality rate, for example, still ranks the second-highest among those of 31 low-income countries. Meanwhile, the total number of newborn deaths in 2016—about 46,000—places Afghanistan tenth highest among all countries, according to estimates from the UN. Afghanistan has a lower population than the other nine countries in the top 10. With a population 58% larger than Afghanistan’s, Tanzania reported approximately the same number of newborn deaths in 2016.⁶²¹

ASSESSING MATERNAL MORTALITY: A REPRESENTATIVE CASE OF DATA LIMITATIONS IN DEVELOPING-COUNTRY CONTEXTS

One metric used by USAID and multilateral organizations to assess progress in Afghanistan’s health sector is the country’s maternal-mortality rate (MMR), defined as the number of pregnancy-related deaths (i.e. caused in some way by the pregnancy) per 100,000 live births (including pregnancy-related deaths occurring up to 42 days following birth).⁶²² Reducing the maternal mortality rate has been a key objective for USAID’s health-sector programming.⁶²³

A reduction in the MMR from 1,100 deaths per 100,000 live births in the year 2000 to 396 in 2015 (according to the United Nations), if true, would represent a remarkable achievement.⁶²⁴ However, data limitations pose obstacles to assessing success. For example, as SIGAR reported in a January 2017 audit, some USAID public documents cited a decrease in Afghanistan’s MMR from 1,600 to 327 deaths per 100,000 live births between 2002 and 2010. However, the baseline survey used to determine the 2002 MMR of 1,600 maternal deaths per 100,000 live births was extremely limited in coverage.⁶²⁵

Specifically, the baseline survey, conducted by the U.S. Centers for Disease Control and Prevention and by the United Nations Children’s Fund, was performed in only four of the 360 districts that existed in Afghanistan in 2002. Furthermore, according to the author of the report, ultimately only data from three of the four districts were used in the survey’s estimate. One district (Ragh, located in Badakhshan Province, which borders Tajikistan, China, and Pakistan in Afghanistan’s northeast), where the rate was significantly higher, was deemed an outlier. While the agency did not mention these limitations in its external reporting on progress made in Afghanistan’s health-care sector—despite the fact that USAID’s own internal documentation did—no other baseline data was available at that time, as SIGAR reported.⁶²⁶

It is therefore difficult to know how much progress has been achieved. On the one hand, the exclusion of the data from Ragh in the 2002 survey reduced the sample size, rendering the survey results potentially more anecdotal. On the other hand, including the results

from Ragh, where maternal mortality was substantially higher (6,500 deaths per live births) in baseline data actually would have made USAID’s achievements seem even more impressive (by increasing the baseline figure and providing more room to claim subsequent reductions).⁶²⁷

However, setting baselines aside, the current maternal mortality figures, such as the UN estimate of 396 deaths per 100,000 live births in 2015, may underrepresent the true number.⁶²⁸ The 2015 Afghanistan Demographic and Health Survey, for example, estimated the pregnancy-related mortality (PRM) ratio at 1,291 deaths per 100,000 live births.⁶²⁹ While the PRM is technically a different measure than the MMR in that it includes all deaths occurring during (or within 42 days after) child birth regardless of the cause of death, the magnitude of this figure may provide some cause for concern. However, the survey said its PRM estimate appeared to be high in light of findings from other data sources and the expected relationship between maternal mortality and overall adult mortality. In particular, the survey said, the share of adult female pregnancy-related deaths appeared to be overestimated.⁶³⁰

A recent *New York Times* article pointed to discrepancies in maternal-mortality figures as evidence that the U.S. government “misleads the public on Afghanistan.”⁶³¹ SIGAR emphasized in its January 2017 audit of USAID health-sector programs that the agency should have disclosed existing data limitations.⁶³² But it is also true that those limitations, combined with data points produced using different methodologies and incomplete baseline estimates—resulting from the paucity of available data early on in the U.S. effort—make it inherently difficult to quantify progress.⁶³³

Thus, while the consensus seems to be that U.S., international, and multilateral investment has had positive—and perhaps significantly positive—effects on Afghanistan’s health sector, it is difficult to quantify the magnitude of those effects, as Afghanistan’s maternal-mortality rate demonstrates.⁶³⁴

The Taliban sometimes disrupt health-care service delivery, as the insurgent group did one year ago when it shut down nearly all of the health facilities in Uruzgan Province. However, although SIGAR cannot independently verify them, some reports indicate that the Taliban and the Afghan government more often cooperate in health-care sector.

For example, a June 2018 report published by the Overseas Development Institute (ODI), a UK think tank, found that when problems with the Taliban emerge, health providers usually resolve them through shuras. The report also noted that most government officials and NGO workers did not believe that the Taliban impeded access to health care. Instead, “most pointed to government interference and corruption and occupation of and theft from clinics by Afghan security forces and militias as being more problematic than Taliban interventions.”

Source: *New York Times*, “Afghan Province, Squeezed by Taliban, Loses Access to Medical care,” 9/23/2017; Overseas Development Institute, *Life under the Taliban shadow government*, 6/2018, p. 17.

Insecurity impacts health-care delivery. According to the UN, there were 12 attacks against health facilities and workers from April through June 2018, although this represented a decrease of four attacks compared to the previous reporting period. The majority of these attacks were carried out by armed groups (which include unspecified antigovernment elements and the Islamic State in addition to the Taliban). However, nearly the same number of attacks (four) were attributed to progovernment forces (which include international troops, the Afghan National Defense and Security Forces, and progovernment militias) as to the Taliban.⁶³⁵

USAID Health Programming Intended to Advance Gains Made Since 2002

One of USAID’s three **Development Objectives** (DOs; see page 135 for a definition) specified in the agency’s recently signed assistance agreement with the Afghan government (which covers the agency’s aid priorities and goals through December 31, 2023) is advancing social gains, including gains in Afghanistan’s health outcomes.⁶³⁶ USAID believes that continuing to improve health outcomes will help achieve stability by bolstering Afghans’ confidence in the government’s capacity to deliver services.⁶³⁷

USAID said that improving 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, it may expand its private-sector engagement in the health sector, as well as a focus on improving health outcomes in urban and population centers specifically.⁶³⁸ The majority of Afghans—approximately three in four—live in rural areas.⁶³⁹

U.S. on- and off-budget assistance to Afghanistan’s health sector totaled more than \$1.2 billion as of July 9, 2018.⁶⁴⁰ USAID’s active health programs have a total estimated cost of \$269 million, and are listed in Table 3.31.

System Enhancement for Health Action Yields Some Encouraging Results, but Carries Risk Rating of “Substantial”

The World Bank’s System Enhancement for Health Action in Transition project (SEHAT), which concluded on June 30, 2018, aimed to expand the coverage, quality, and scope of health-care services, particularly to Afghans living below the poverty line in project areas. As of July 22, 2018, donors had provided \$440.3 million for the program.⁶⁴¹ The project also sought to strengthen the MOPH to integrate its health-services contracting unit and develop uniform performance-monitoring and contracting-management systems.⁶⁴² SEHAT, which funded basic primary health-care services, provided support to more than 2,000 facilities across Afghanistan.⁶⁴³ As of July 2018, the United States, through USAID, had provided approximately one-half (\$218.7 million) of total funding for the project, paid through the World Bank-administered Afghanistan Reconstruction Trust Fund.⁶⁴⁴

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.31

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursement, as of 9/30/2018
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/11/2016	5/10/2021	\$75,503,848	\$15,751,094
Helping Mothers and Children Thrive (HEMAYAT)	1/7/2015	1/6/2020	60,000,000	44,887,206
Disease Early Warning System Plus (DEWS Plus)	7/1/2014	6/30/2022	41,773,513	26,466,332
Health Sector Resiliency (HSR)	9/28/2015	9/27/2020	27,634,654	14,698,173
Medicines, Technologies and Pharmaceuticals Services (MTaPS)	9/20/2018	9/20/2023	20,000,000	0
Enhance Community Access, Use of Zinc, Oral Rehydration Salts for Management of Childhood Diarrhea	7/21/2015	7/20/2020	13,000,000	13,000,000
Challenge Tuberculosis	1/1/2015	9/29/2019	15,000,000	10,589,395
Sustaining Health Outcomes through the Private Sector (SHOPS) Plus	10/11/2015	9/30/2020	12,000,000	3,880,752
Global Health Supply Chain Management (GHSCM-PSM)	4/20/2015	4/19/2020	2,343,773	1,343,772
Global Health Supply Chain Quality Assessment	1/2/2015	12/31/2019	1,500,000	1,500,000
Global Health Supply Chain-Procurement and Supply Management-HIV/AIDS Task Order #1	4/20/2015	4/19/2020	176,568	176,568
Total			\$268,932,356	\$132,293,292

Source: USAID, response to SIGAR data call, 10/15/2018.

SIGAR reviewed SEHAT’s latest Implementation Status and Results Report (ISR) this quarter. Much of the data provided in the ISR reviewed by SIGAR was current as of June 1, 2018. With only 30 days remaining before closeout at the time the ISR was published, data provided in the ISR likely provides a very good sense of whether SEHAT eventually met its project development objectives by the project end-date.⁶⁴⁵

SEHAT’s latest ISR noted that the project had surpassed three of its six major performance indicators. As of June 1, 2018, SEHAT had expanded coverage of the Pentavalent vaccine, which provides immunization against five life-threatening diseases (tetanus, hepatitis B, pertussis, diphtheria, and Hib influenza) and is administered in three doses, to 59.6% of children between 12 and 23 months old in Afghanistan’s lowest income quintile, up from a baseline of 28.9% in June 2012. The target for this indicator, to be achieved by June 30, 2018, was 60.0%.⁶⁴⁶ The project had also expanded treatment of acute malnutrition for children under five years old from a baseline value of 24% to 77% of those children, a figure that was well above the project’s target of 55%.⁶⁴⁷ Finally, SEHAT helped increase the number of births attended by skilled health professionals from a baseline of 429,305 in November 2013 to 890,240 as of June 1, 2018. This latter figure was more than 107% above the project baseline and just over 57% more than SEHAT’s target of 566,683.⁶⁴⁸

SIGAR AUDIT

A SIGAR audit of the World Bank's Afghanistan Reconstruction Trust Fund released in April 2018 found that the World Bank did not provide clear support or justification for performance and progress ratings it gave certain projects. The audit was based on a review of six development projects that accounted for more than \$2.25 billion in spending.

These results are impressive. Nevertheless, with only 30 days remaining before project closeout, SEHAT had not yet achieved end targets for the additional three of its six major indicators. In particular, SEHAT was lagging significantly on expanding the use of contraceptives, and was 10 percentage points (33%) below its end-program target of 30%. According to the data presented in the ISR, the contraceptive prevalence rate had increased by only half a percentage point from a June 2012 baseline value of 19.5%.⁶⁴⁹ Moreover, while SEHAT appeared to have made progress on improving the quality of health care from a baseline value of 55% (assessed via a balanced scorecard) to 63.5% as of December 31, 2017, progress remained 6.5 percentage points (or 9.3%) shy of the project's end target of 70%.⁶⁵⁰ Finally, as of December 31, 2017, SEHAT had not achieved accreditation of the MOPH's procurement department, which was part of an effort to strengthen the ministry's fiduciary systems.⁶⁵¹

Despite SEHAT's achievement of only half of its key performance indicators, a World Bank review that examined SEHAT's progress through June 1, 2018, (30 days before project closeout) claimed that the project was on track to achieve its development objectives. With respect to SEHAT's goal of expanding the use of contraceptives, the report stated that the project's 30% target was "very ambitious," implying that the 20% figure (of June 1, 2018) reflected in the latest ISR was satisfactory despite the fact that it did not differ materially from the project baseline of 19.5%.⁶⁵² While SEHAT's final ISR assigned a risk rating of "Substantial" to the project—meaning there was a substantial likelihood that the project's development objectives could be impacted by political and governance factors such as reversed political decisions—SEHAT was "on track" to achieve its development objectives, according to the ISR. The ISR rated progress against the project's development objectives as "Satisfactory" despite the fact that the project had met (or was close to meeting) only three of its six development objective indicators thirty days before project closeout.⁶⁵³ While SEHAT is now closed, the World Bank approved the \$600 million Sehatmandi project in March 2018. Sehatmandi has similar objectives.⁶⁵⁴

Polio: Number of Confirmed Cases in 2018 Continues to Rise

Pakistan and Afghanistan, which share a 1,500-mile border, are the only two countries in which polio remains endemic or "usually present," according to the Centers for Disease Control.⁶⁵⁵ Large-scale population movements between the two countries increase the risk of cross-border transmission, and a fatwa issued by the Pakistani Taliban targeting polio workers complicates vaccination outreach.⁶⁵⁶ 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.⁶⁵⁷ (Media reports that SIGAR cannot confirm indicate that Pakistani doctor Shakil Afridi

assisted the Central Intelligence Agency in tracking bin Laden down while leading a hepatitis B vaccination campaign. The association between the campaign and the May 2011 bin Laden raid reportedly set back polio-vaccination efforts.)⁶⁵⁸

As of October 11, 2018, the total number of confirmed polio cases in 2018 was 15.⁶⁵⁹ As of September 25, 2018, the total number of confirmed polio cases worldwide was 19, meaning that Afghanistan accounted for nearly 80% of all confirmed cases in the current year.⁶⁶⁰ The current figure for Afghanistan represented a fairly dramatic increase of five cases over the course of the last few months alone.⁶⁶¹ According to the United Nations Children's Fund and the World Health Organization, there were 13 officially reported cases in 2017—unchanged from 2016.⁶⁶² However, UNAMA reported that the total number of cases in Afghanistan in 2017 was 14, as of February 27, 2018.⁶⁶³ USAID previously informed SIGAR it expected the number of polio cases to rise in 2018.⁶⁶⁴ SIGAR has echoed the agency's concerns.⁶⁶⁵

This quarter, USAID reported that several worrisome developments have contributed to the recent rise in the number of confirmed cases. Among them were the growing number of provinces and districts with local bans on house-to-house vaccination and increasing vaccination refusals in accessible areas.⁶⁶⁶

As of August 31, 2017, (which was the most recent data provided to SIGAR), USAID had obligated about \$28.5 million and disbursed about \$28.4 million for polio-eradication efforts in Afghanistan since 2003.⁶⁶⁷

It now appears inevitable that the number of confirmed polio cases in Afghanistan in 2018 will be higher than in the previous two years.