

ECONOMIC AND SOCIAL CONTENTS

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ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES AND EVENTS

U.S. sanctions on Afghanistan's neighbor, Iran, were fully reimposed this quarter. The sanctions, which had previously been suspended under the 2015 Iran nuclear deal, target more than 700 Iranian-linked individuals, entities, aircraft, and vessels. Although Afghanistan received several exemptions, the country continued to feel secondary effects.⁵⁰⁴ A sanctions waiver granted under the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA) permits Afghanistan to continue importing petroleum from Iran.⁵⁰⁵

A separate waiver granted under IFCA provided an exemption for the development of the Chabahar Port in southeastern Iran, including the construction of an associated railway.⁵⁰⁶ The Chabahar Port has been used to ship humanitarian goods, such as wheat, to Afghanistan and could in the future allow Afghanistan to increase exports to India while circumventing frequent trade impasses at its border with Pakistan.⁵⁰⁷

The exemption for fuel imports was a significant development (according to State, Afghanistan may import more than 50% of its fuel from Iran), but did not compensate for other effects of the sanctions.⁵⁰⁸ According to the International Organization for Migration (IOM), more than 720,000 Afghans have returned from Iran since January 1, 2018.⁵⁰⁹ IOM noted this was a massive increase over previous years, driven by substantial depreciation of the Iranian rial and lower demand for labor in the informal sector, where Afghans in Iran generally work.⁵¹⁰ According to State, Afghan remittances from Iran have dropped to "almost zero" as a result.⁵¹¹

Afghanistan jumped 16 spots in the World Bank's annual *Doing Business* rankings (released October 31, 2018), from 183rd to 167th among the 190 economies measured.⁵¹² According to the Bank, the jump in the rankings was due to improvements to Afghanistan's legal framework for businesses.⁵¹³ Its improvement was both relative and absolute: Afghanistan's aggregate *Doing Business* score rose by more than 10 points, from just over 36 in the 2018 rankings to nearly 48 in the 2019 rankings—a 32% increase.⁵¹⁴ While this is a positive development for Afghanistan, the improvement in the rankings should be viewed in light of the *Doing Business* report's limitations. For example, the report does not address macroeconomic stability, security, corruption, human capital, the strength of an economy's financial system, or the underlying quality of infrastructure or institutions.⁵¹⁵ For

more on Afghanistan's jump in the *Doing Business* rankings, see the quarterly highlight on pages 161–163.

According to the USAID-funded Famine Early Warning Systems Network (FEWS NET), food insecurity persisted across large swathes of Afghanistan this quarter, due in part to the ongoing drought.⁵¹⁶ The Integrated Food Security Phase Classification (IPC), on whose food-security analyses USAID relies, anticipated that 10.6 million people would face severe food insecurity—meaning they would face food consumption gaps leading to acute malnutrition or would be forced to deplete household assets in order to meet minimum needs—between November 2018 and February 2019.⁵¹⁷ Although this figure was attributed to a variety of factors, including poverty and conflict, the IPC said that Afghanistan was experiencing a “major livelihood crisis,” primarily due to the drought (the agricultural sector directly employs approximately two out of every five Afghans in the labor force, according to the World Bank).⁵¹⁸ In September 2018, USAID contributed approximately \$44 million to the UN World Food Programme (WFP) to support the provision of critical food assistance to people affected by drought in Afghanistan.⁵¹⁹

The International Monetary Fund (IMF) released its latest macroeconomic appraisal of Afghanistan this quarter. The IMF said the outlook for near-term licit economic growth had deteriorated due to the ongoing drought that cut into farm output. As a result, the IMF lowered its real economic-growth forecast for 2018 by 20 basis points (100 basis points equal one percentage point), to 2.3%.⁵²⁰ This figure was 40 basis points lower than the IMF's 2017 growth estimate of 2.7%.⁵²¹

According to press reporting, the U.S. may withdraw approximately half—or more than 7,000—of about 14,000 U.S. troops currently deployed to Afghanistan in coming months.⁵²² However, the commander of U.S. and NATO forces in Afghanistan said he had received no orders regarding a possible withdrawal, and DOD said there had been no announcement.⁵²³ While this development is not overtly related to the Afghan economy, uncertainty surrounding the timing and implications of a material withdrawal of forces could increase investor uncertainty and dampen economic activity.

SIGAR analysis showed that the Afghan government's aggregate domestic revenues grew by approximately 9.3%, year-on-year, from Fiscal Year (FY) 1396 (December 21, 2016–December 21, 2017) to FY 1397 (December 22, 2017–December 21, 2018).⁵²⁴ Afghanistan's Ministry of Finance (MOF) classifies domestic revenues into **sustainable** and **one-off** categories.⁵²⁵ In FY 1397, several large transfers of funds to Afghanistan's central bank, totaling AFN 7.9 billion (approximately \$106.8 million), were classified as one-off transfers.⁵²⁶ These transfers corresponded to domestic debt obligations incurred by the MOF during the resolution of the Kabul Bank crisis and are scheduled to be repaid in full by the end of 2019, according to the MOF (for more on the Kabul Bank crisis, see pages 156–157 of this section).⁵²⁷ The transfers reduced aggregate revenues.⁵²⁸ It is not clear

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.

why the MOF accounts for such transfers as revenues given that they appear to be essentially expenditures.

Because the transfers were categorized as one-offs, sustainable domestic revenues (which do not include one-off transactions) grew by the higher rate of 14.0%, year-on-year, from FY 1396–FY 1397.⁵²⁹ Both the aggregate and sustainable domestic revenue growth rates appear to have recovered from nadirs in Month 8 of FY 1397.⁵³⁰ Expenditures, meanwhile, grew by 8.2%.⁵³¹

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

As of December 31, 2018, the U.S. government has provided approximately \$33.9 billion to support governance and economic and social development in Afghanistan since 2002. Most of these funds—nearly \$20.5 billion—were appropriated to USAID’s Economic Support Fund (ESF). Of this amount, \$19.2 billion has been obligated and \$16.2 billion has been disbursed.⁵³²

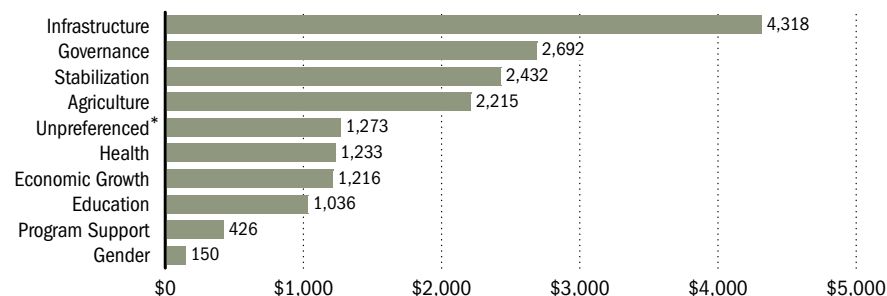
USAID’s approach to economic development in Afghanistan is set forth in its latest multiyear assistance agreement with the Afghan government, signed on September 6, 2018. The agreement details the agency’s strategic **Development Objectives (DOs)** for Afghanistan as well as intended results, among other information.⁵³³ The DOs mirror those of USAID’s Country Development Cooperation Strategy (CDCS) for Afghanistan, which has been finalized but not yet publicly released.⁵³⁴ A CDCS defines a given USAID Mission’s development approach in a country, providing the context for USAID-implemented programs and expected results.⁵³⁵ Figure 3.44 shows USAID assistance by sector.

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.

FIGURE 3.44

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF JANUARY 12, 2019 (\$ MILLIONS)



Note: USAID Mission-managed funds. Numbers are rounded. USAID gender programs presented as a separate category. Agriculture programs include Alternative Development. Infrastructure programs include power, roads, extractives, and other programs that build health and education facilities. OFM activities (e.g. audits and pre-award assessments) included under Program Support funds. In line with last quarter, additional OFM activities added due to increased data coverage.

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

Source: SIGAR analysis of USAID, response to SIGAR data call, 1/12/2019; SIGAR analysis of World Bank, ARTF, *Administrator’s Report on Financial Status*, as of 10/22/2018.

Per the articles of the \$2.5 billion agreement, which extends to December 31, 2023, the agency intends its assistance to:⁵³⁶

- accelerate private-sector-driven, export-led economic growth (DO 1)
- advance social gains in health, education, and gender equality (DO 2)
- increase the Afghan government's accountability to its citizens (DO 3)

The CDCS links 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, will 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.⁵³⁷ Whether this is achievable without a peace agreement and with a deteriorating security situation is unclear.

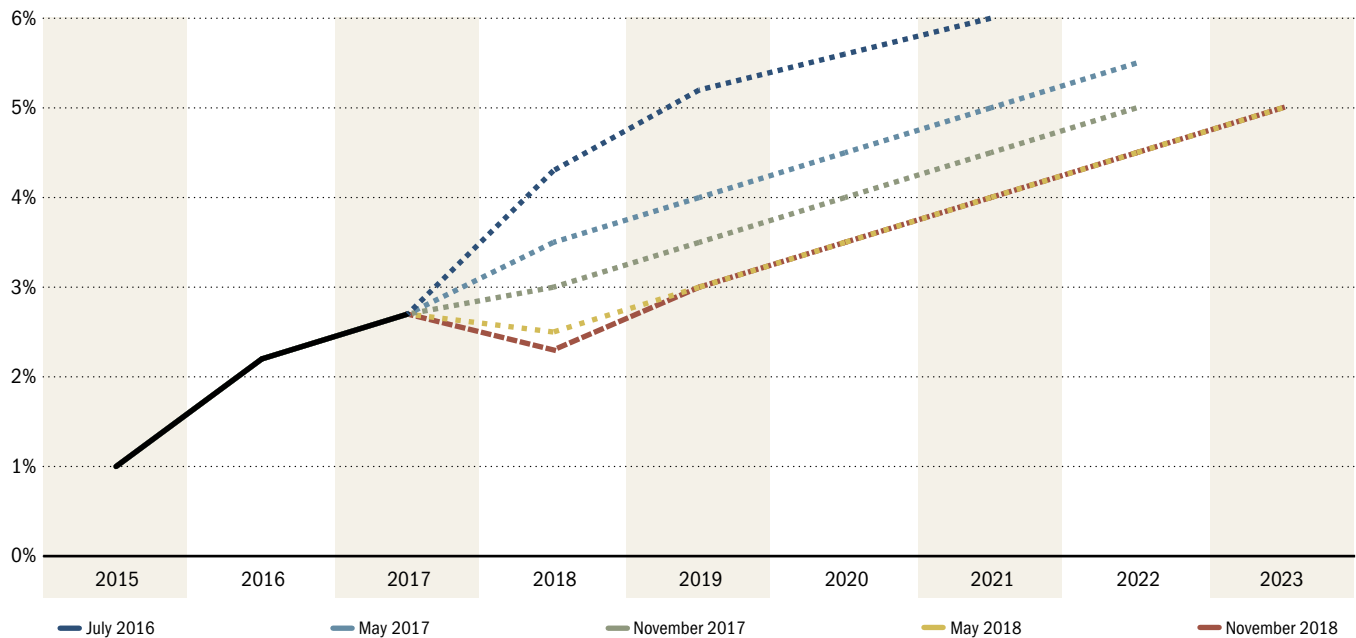
ECONOMIC PROFILE

Bolstered by high levels of donor spending, a large international military presence, and initial post-conflict economic recovery, Afghanistan's licit economic growth rate averaged close to double digits for the first decade of reconstruction. Since the 2014 security transition and drawdown of most foreign combat troops, however, growth has been substantially more subdued, despite continuing high levels of foreign assistance.⁵³⁸ While Afghanistan is in the midst of a modest, post-security-transition recovery, with growth rising to 2.7% in 2017 following 1.3% growth 2014 and 1.5% growth in 2015, the World Bank said in August 2017 that momentum appeared to be at risk, with growth projected to slip to 2.4% in 2018.⁵³⁹ Neither the Bank's analysis, nor the IMF's (described in the next paragraph) account for the opium economy to any real extent. Pages 150–152 explain why that is significant.

In November 2018, the IMF offered a similar appraisal, describing the near-term growth outlook as "weakened" due to the combined impact of the ongoing drought, political uncertainty surrounding the upcoming presidential elections (initially slated for April 2019, but now delayed by at least three months), and continued violence.⁵⁴⁰ Accordingly, the IMF projected modest 2.3% growth in 2018, down 20 basis points from its previous projection of 2.5%.⁵⁴¹ While the IMF expected a recovery in 2019 due to rebounding agricultural output (with growth expected to jump to 3%), the IMF's growth-rate projections have been consistently revised downward, possibly reflecting overly optimistic views of Afghanistan's expected near-term economic performance.⁵⁴² Figure 3.45 presents IMF growth scenarios since early 2017.

FIGURE 3.45

IMF REAL ECONOMIC-GROWTH PROJECTIONS FOR AFGHANISTAN



Note: The IMF conducts periodic reviews of Afghanistan's macroeconomic situation through its Extended Credit Facility (ECF) program. The figure above displays the IMF's real economic growth projections for Afghanistan, as presented in five sequential reviews for, or under, its ECF arrangement. The ECF provides modest amounts of financing to the Afghan government in exchange for implementing various reforms. The IMF generally enters into ECF arrangements with countries experiencing protracted balance of payment problems. Some ECF real growth projections stopped short of 2022 or 2023. In those cases, the lines above terminate in the final year for which a projection was provided. For example, the ECF Request (July 2016) projections terminated in 2021, with a projection of 6% real growth for that year. Growth rates for 2015–2017 are from the IMF's fourth review under the ECF.

Source: IMF, *Fourth Review Under The Extended Credit Facility Arrangement, Request For Modification Of Performance Criteria, And Request For Extension And Rephasing Of The Arrangement*, 11/20/2018, p. 24; IMF, *Third Review Under The Extended Credit Facility Arrangement And Request For Modification Of Performance Criteria*, 5/9/2018, p. 24; IMF, *Staff Report For The 2017 Article IV Consultation And Second Review Under The Extended Credit Facility Arrangement, And Request For Modification Of Performance Criteria*, 11/21/2017, p. 36; IMF, *First Review Under The Extended Credit Facility Arrangement And Request For Modification Of Performance Criteria*, 5/8/2017, p. 26; IMF, *Request For A Three-Year Arrangement Under The Extended Credit Facility*, 7/1/2016, p. 27.

Fiscal Situation: Revenue Gains Remain Strong in FY 1397

The Afghan government's revenue gains have been quite strong in recent years.⁵⁴³ In August 2018, the World Bank said Afghanistan's revenue performance was at a record high, reaching 12.3% of GDP in 2017, above the previous peak of 11.7% observed in 2011.⁵⁴⁴ According to the Bank, revenue gains were attributable to improved customs enforcement and administration as well as new non-tax charges and fees.⁵⁴⁵ However, the Bank said revenue gains attributable to improved administration and enforcement were "near exhaustion."⁵⁴⁶ Apparently reflecting this conclusion, customs collections were up only 3.5%, year-on-year, through the first 10 months of 2018, according to the Afghanistan Customs Department.⁵⁴⁷ The Bank indicated revenue gains could further moderate as a result of the upcoming presidential elections, based on historical election cycle trends.⁵⁴⁸

ECONOMIC IMPLICATIONS OF THE OPIUM ECONOMY

Balance of Payments (BOP): a record of transactions carrying economic value between the residents of one country and the rest of the world.

Aggregate Demand: the total demand for all goods and services within an individual economy.

Multiplier Effect: a phenomenon whereby a change or increase in a single economic variable results in changes or increases to numerous other variables.

Farm-Gate Price: the unit price of opium product available at farms at the time of harvest, which excludes value added by transport and delivery. The total farm-gate value of opium is equal to national potential production multiplied by the weighted average of farm-gate prices.

Source: UNODC, *Afghanistan Opium Survey 2017 Cultivation and Production*, 11/2017, p. 8; OECD, *Glossary of Statistical Terms*, "Farm Gate Price," 7/8/2005, <https://stats.oecd.org/glossary/detail.asp?ID=940>, accessed 1/24/2019; OECD, *Glossary of Statistical Terms*, "Balance of Payments," n.d., <https://stats.oecd.org/glossary/detail.asp?ID=940>, accessed 1/24/2019; Investopedia, "Aggregate Demand," 4/4/2018, <https://www.investopedia.com/terms/a/agggregatedemand.asp>, accessed 1/24/2019; Investopedia, "Multiplier," 7/13/2018, <https://www.investopedia.com/terms/m/multiplier.asp>, accessed 1/24/2019.

Any presentation or analysis of Afghanistan's economic output (and by extension its growth rate) without accounting for the opium trade provides an incomplete picture of the Afghan economy. By value, opium poppy is the most important crop in Afghanistan, generating between \$4–6.5 billion of potential exports in 2017—the equivalent of 20–32% of Afghanistan's licit GDP—according to the United Nations Office on Drugs and Crime (UNODC).⁵⁴⁹

The drug trade's impact on the political economy of Afghanistan has been deeply corrosive. Corruption associated with the opium economy undermines state legitimacy and public institutions, particularly in the security and justice sectors.⁵⁵⁰ Opium production has also directly worked against security goals by financing insurgent groups.⁵⁵¹

Nevertheless, from a purely economic perspective, it has also brought significant benefits, supporting Afghanistan's **balance of payments** and bolstering **aggregate demand** (although it does not directly contribute to Afghan government revenues).⁵⁵² Additionally, from a livelihoods perspective, opium-poppy cultivation can substantially impact rural households through both employment and increased purchasing power.⁵⁵³ According to the UNODC, opium-poppy weeding and harvesting provided up to 354,000 jobs in rural areas in 2017.⁵⁵⁴ In poppy-growing areas, opium has a strong **multiplier effect**, creating secondary jobs as farmers accrue capital to spend on food, medical care, and other consumer products.⁵⁵⁵

Setting aside the various ways in which it undermines the Afghan state, the opium economy's sheer size renders it highly relevant to assessments of Afghanistan's economic performance. However, the World Bank, IMF, and others exclude the value of opium production from their reported GDP estimates, as SIGAR has reported previously.⁵⁵⁶ In contrast to these 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.⁵⁵⁷ Due to what the 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.⁵⁵⁸ More or less in line with the NSIA's licit growth estimate for 2017, the IMF and the Bank reported that Afghanistan's growth rate in 2017 was 2.7%.⁵⁵⁹

With limited visibility into the opium sector, the NSIA appears to account only for the **farm-gate** value of opium and therefore does not include the



The sun rises over a poppy field in Maywand District, Kandahar Province. (U.S. Army photo by Sgt. Daniel P Shook)

value added through refinement and trafficking. Although much of the income generated by the opium economy above the level of the farm does not enter or remain in Afghanistan, the NSIA may still understate opium's contribution to the Afghan economy, in part because that income presumably provides financing for imports. Additionally, some portion of the export value returns downstream to the domestic economy, further multiplying the income effects from opium production and increasing the opium economy's impact on the licit economy.⁵⁶⁰ 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.⁵⁶¹

The magnitude of the opium economy raises significant questions about how to evaluate Afghanistan's macroeconomic performance. On the one hand, donors seek to increase licit growth, which perhaps lends some degree of legitimacy to the notion of excluding opium from economic reporting. On the other, Afghanistan's true economic performance may be substantially obscured by omitting opium. In fact, it is possible to derive wildly different conclusions about the state of economic affairs in the country through that omission. As shown in Table 3.21 on the following page, adding the contributions of the opium economy leads to polar-opposite conclusions about the health of the economy.

Precursor Substances: substances that may be used in the production, manufacture, and/or preparation of narcotic drugs and psychotropic substances.

Source: UNODC, *Multilingual Dictionary of Precursors and Chemicals*, 2008, viii.

TABLE 3.21

CONTRASTING MACROECONOMIC OBSERVATIONS, INCLUDING AND EXCLUDING THE OPIUM ECONOMY	
Observation Including the Opium Economy	Observation Excluding the Opium Economy
Afghanistan's 2017 economic growth rate was a robust 7.2%.	Afghanistan's 2017 economic growth rate was a modest 2.7%.
Depending on the level of opium exports, Afghanistan's 2017 merchandise trade deficit may have been between zero and \$2.3 billion.	Afghanistan's merchandise trade deficit in 2017 was \$6.3 billion.
Afghanistan's real growth rate in 2015 was -2.4%. By 2017, it had risen to 7.2%, an average annual growth rate increase of nearly five percentage points.	From 2015–2017, Afghanistan's economic growth rate gradually rose from 1.0% to 2.7%.

Source: IMF, *Fourth Review Under The Extended Credit Facility Arrangement, Request For Modification Of Performance Criteria, And Request For Extension And Rephrasing Of The Arrangement*, 11/20/2018, p. 23; NSIA, *Afghanistan Statistical Yearbook 2017–2018*, p. 110; UNODC, *Afghanistan Opium Survey 2017: Challenges to Sustainable Development, Peace and Security*, 5/2018, p. 14; NSIA, *Afghanistan Statistical Yearbook 2016–17*, 5/10/2017, p. 163; NSIA, *Afghanistan Statistical Yearbook 2015–16*, 5/31/2016, p. 139; SIGAR analysis.

While visiting Kabul this quarter, SIGAR's Research and Analysis Directorate asked USAID's Office of Economic Growth whether it accounts for opium in evaluating the performance of Afghanistan's economy. Despite the potential for the inclusion of opium to generate contradictory conclusions about Afghanistan's growth and trade picture, OEG stated it does not, claiming that opium statistics are speculative.⁵⁶² But the extent to which opium-related economic figures are actually speculative, relative to other economic data from Afghanistan is debatable. One economic expert on Afghanistan—a former World Bank economist—wrote in 2008, “data on the opium economy are generally no worse, and in many respects better, than the data available on the rest of Afghanistan's economy.”⁵⁶³ While this statement may be dated, the World Bank readily compares the size of the opium economy with the size of the licit agricultural economy in its most recent (August 2018) macroeconomic update on Afghanistan, implying data quality equivalency (though again, the Bank does not incorporate the opium economy into its GDP estimates and projections for Afghanistan).⁵⁶⁴ On the topic of licit economic figures, the IMF said in May 2018, “Data provision has significant shortcomings, hampering evidence-based policy decisions. The national accounts, the BOP, CPI, and inter-sectoral consistency are areas of concern.”⁵⁶⁵ In other words, poor data quality pervades many areas of the licit macroeconomy.

The opium economy contracted in 2018: due to high levels of supply that resulted in price reductions, income earned by farmers fell from an estimated \$1.4 billion in 2017 to just over \$600 million in 2018—a 56% reduction, according to the UNODC.⁵⁶⁶ The UNODC added that the area under opium-poppy cultivation declined by 20% in 2018, year-on-year—a decrease of approximately 65,000 hectares—driven in part by the ongoing drought.⁵⁶⁷ Nonetheless, the estimated 2018 figure of 263,000 hectares was the second-highest number recorded since systematic monitoring began in 1994.⁵⁶⁸ Opium, in other words, is not going away. Ultimately, the significance of narcotics to Afghanistan's economy is far from speculative and is likely to complicate assessments of Afghanistan's macroeconomy for years to come.

Consumer Price Index (CPI): an index that measures price changes over time for a specified “basket” of goods and/or services. A CPI can be used to measure inflation.

Source: “Consumer Price Index,” n.d., <https://stats.oecd.org/glossary/search.asp>, accessed 1/24/2019.

SIGAR analysis showed that, despite these concerns, the Afghan government's revenue performance remained strong in Fiscal Year (FY) 1397 (December 22, 2017–December 21, 2018). Aggregate domestic revenues grew by approximately 9.3%, year-on-year, from FY 1396 (December 21, 2016–December 21, 2017) to FY 1397.⁵⁶⁹ Afghanistan's Ministry of Finance (MOF) classifies domestic revenues into sustainable and one-off categories (see page 146 for definitions).⁵⁷⁰ In FY 1397, several large transfers of funds to Afghanistan's central bank, totaling AFN 7.9 billion (approximately \$106.8 million), were classified as one-off transfers.⁵⁷¹

These transfers corresponded to domestic debt obligations incurred by the MOF during the resolution of the Kabul Bank crisis and are scheduled to be repaid in full by the end of 2019, according to the MOF.⁵⁷² Following the near-collapse of Kabul Bank and the withdrawal of approximately \$500 million from nervous depositors within the span of just a few days, the Afghan government organized an \$825 million bailout financed by central bank reserves (for more on the Kabul Bank crisis, see pages 156–157 of this section).⁵⁷³ The bailout was underwritten by the MOF, which incurred associated repayment obligations to the central bank.⁵⁷⁴ The transfers reduced aggregate revenues.⁵⁷⁵ It is not clear why the MOF accounts for such transfers as revenues given that they appear to be essentially expenditures. Because the transfers were categorized as one-offs, sustainable domestic revenues (which do not include one-off transactions) grew by the higher rate of 14.0%, year-on-year, from FY 1396–FY 1397.⁵⁷⁶

Both the aggregate and sustainable domestic revenue growth rates appear to have recovered from nadirs in Month 8 of FY 1397.⁵⁷⁷ At this juncture, aggregate revenue growth stood at just 2.6%, while sustainable revenue growth was 6.5%.⁵⁷⁸ Total sustainable revenues through month 12 were 74.5% higher than total sustainable revenues through Month 8.⁵⁷⁹ Improvements to revenue gains in Months 9–12 of FY 1397 were driven primarily by a substantial increase in unspecified "Other revenue" (also referred to as "Miscellaneous" revenue), which accounted for 25.4% of the overall increase in revenues in Months 9–12, compared to the total at the end of Month 8. According to MOF officials, the "Miscellaneous" category is sometimes used as a catch-all category for uncategorized revenues prior to the MOF's reconciliation.⁵⁸⁰ Other revenue categories with significant contributions to the year-end sustainable revenue total, compared to the total at the end of Month 8, were income taxes (which accounted for 14.9% of sustainable revenue growth over the final four months of the year), customs duties and import taxes (14.9%), sales taxes (13.3%), and administrative fees (11.2%).⁵⁸¹

Expenditures, meanwhile, grew by 8.2%, driven primarily by increased costs for the purchase and improvement of government assets, which increased by 33.4%, year-on-year.⁵⁸² Outlays for wages and salaries, which rose by 5.3% year-on-year and were nearly 48% of total expenditures for FY 1397 (consistent with recent trends), also contributed to the overall

TABLE 3.22

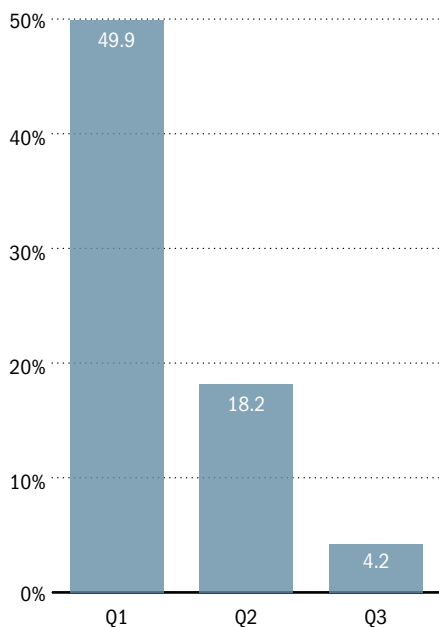
EXPENDITURES, FISCAL YEARS 1396 AND 1397 COMPARED (IN AFGHANIS)			
Category	FY 1396	FY 1397	% Change
Wages and Salaries ^a	174,563,039,363	183,829,117,199	5.3%
Goods and Services ^b	87,899,778,371	80,497,776,280	(8.4%)
Subsidies, Grants, and Social Benefits ^c	25,344,447,509	30,059,074,921	18.6%
Acquisition of Assets ^d	67,952,536,266	90,642,757,910	33.4%
Interest and Repayment of Loans ^e	1,830,762,840	2,002,475,994	9.4%
Total	357,590,564,348	387,031,202,304	8.2%

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 1/12/2019; 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.*

FIGURE 3.46

AFGHANISTAN'S 2017/2018 YEAR-ON-YEAR MERCHANDISE-EXPORT GROWTH



Source: SIGAR analysis of NSIA quarterly and annual export data, 2017–2018, accessed 9/25/2018 and 12/20/2018.

rise.⁵⁸³ Table 3.22 shows a comparison of expenditures for FY 1397, compared to FY 1396.

Trade: Exports Have Grown but Air Exports Have Been Subsidized

Afghanistan maintains a large licit merchandise-trade deficit, equivalent to more than 30% of GDP, according to the IMF.⁵⁸⁴ Nonetheless, air exports have been growing at a rapid rate. As SIGAR reported last quarter, exports by air rose from \$230 million in 2015 to \$391 million in 2017, according to USAID—an increase of over 70%.⁵⁸⁵ USAID has heavily emphasized its support to Afghanistan’s recent surge in air exports: in January 2018, USAID said exports were “set to soar” as a result of that support.⁵⁸⁶ Speaking at the inauguration of a new customs center at Hamid Karzai International Airport in Kabul, Ambassador John Bass said the new infrastructure would help to boost air exports and “give the world a different vision of Afghanistan and its future.”⁵⁸⁷ Despite this promotion, however, the IMF said Afghanistan’s trade deficit remained “very large,” noting that recent efforts to increase exports did not yet appear to have had a material effect.⁵⁸⁸ In fact, the IMF projected the trade deficit to rise substantially in 2018, from the equivalent of 31.2% of GDP to 39.7% of GDP.⁵⁸⁹

Moreover, overall gains in Afghanistan’s exports appear to be slowing. While SIGAR analysis of recent data from Afghanistan’s National Statistics and Information Authority showed that overall export growth over the first nine months of 2018, year-on-year, stood at 18.5%, quarter-to-quarter growth has slowed significantly, as Figure 3.46 shows.⁵⁹⁰ The total value of exports through the first three quarters of 2018 was \$581.2 million, while the total

TABLE 3.23

AFGHANISTAN'S AIR EXPORTS BY DESTINATION (10 MONTHS), 2017–2018		
Country of Destination	2018 Customs Value (AFN MILLIONS)	Share of FY 1397 Total
India	6,237.50	79.8%
Pakistan	480.24	6.1%
Saudi Arabia	330.03	4.2%
Germany	191.20	2.4%
United Arab Emirates	100.48	1.3%
Others	476.57	6.1%
Total	7,816.03	100%

Source: SIGAR, communications with ACD officials, 11/21/2018, 12/20/2018, and 12/21/2018.

value of imports over the period was \$5.5 billion, putting Afghanistan's running nine-month 2018 trade deficit at \$4.9 billion.⁵⁹¹

Furthermore, based on discussions with both Afghan and USAID officials in Kabul this quarter, Afghanistan's air exports have been, and are currently being, subsidized.⁵⁹² According to State, those subsidies are substantial: up to 90% for flights to India, 75% for flights to Europe, and up to 80% for flights to other destinations.⁵⁹³ This means that seemingly encouraging air export gains could be unsustainable and the net income to Afghans is lower than export income would suggest. Table 3.23 shows an Afghanistan Customs Department (ACD)-provided breakdown of air exports by destination through October 2018. There appeared to be discrepancies between air export figures provided by the ACD and those provided by USAID. SIGAR aims to resolve these discrepancies in future quarters.

Iran Sanctions Have been Fully Reimposed but Afghanistan Granted Waivers

In May, President Donald J. Trump announced that the United States was withdrawing from the Joint Comprehensive Plan of Action (JCPOA)—more commonly known as the “Iran nuclear deal” 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.⁵⁹⁴

This quarter, the U.S. fully reimposed sanctions on Iran, targeting more than 700 Iranian-linked individuals, entities, aircraft, and vessels.⁵⁹⁵ However, under a sanctions waiver granted under the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA), Afghanistan is permitted to continue to import petroleum from Iran. A separate waiver granted under IFCA provided an exemption for the development of the Chabahar Port in southeastern Iran, including the construction of an associated railway.⁵⁹⁶ The Chabahar Port has been used to ship humanitarian goods, such as



U.S. Ambassador to Afghanistan John Bass and Chief Executive Abdullah Abdullah attend a January 2018 ribbon-cutting ceremony for a one-stop customs facility at Hamid Karzai International Airport in Kabul. (USAID photo)

wheat, to Afghanistan and could in the future allow Afghanistan to increase exports to India while bypassing Pakistan.⁵⁹⁷ However, the extent to which the port will be developed further given the current sanctions regime is not readily apparent. According to State, commercial enterprises (including banks) were not yet clear on the nuances of the Chabahar-related exceptions. As a result, businesses remained somewhat wary about engaging with financial business that flowed through Iran.⁵⁹⁸ State said that while Iran had announced a \$40 million investment to develop fuel-storage facilities at the port since the announcement of the sanctions exception, no third-country investment had been committed, as of December 13, 2018.⁵⁹⁹

Additionally, although the exemption for fuel imports was a significant development (according to State, Afghanistan may import more than 50% of its fuel from Iran), Afghanistan continued to feel secondary effects from the sanctions this quarter.⁶⁰⁰ According to the International Organization for Migration (IOM), more than 720,000 Afghans have returned from Iran since January 1, 2018.⁶⁰¹ IOM noted this was a massive increase over previous years, driven by substantial depreciation of the Iranian rial and lower demand for labor in the informal sector, where Afghans in Iran generally work.⁶⁰²

Reintegrating returnees has created a heavy economic and social burden for the less-stable western provinces of Afghanistan, according to State.⁶⁰³ State said that Afghan remittances from Iran have dropped to “almost zero,” adding that the loss of remittance incomes to families already stressed by the ongoing drought poses a significant challenge to local economies and communities in western Afghanistan.⁶⁰⁴

BANKING AND FINANCE

Afghanistan’s modest financial sector consists of 14 banks—three state-owned institutions, eight Afghan private banks, and three branches of foreign banks.⁶⁰⁵ Arian Bank, a subsidiary of Iran’s state-owned Bank Melli with a presence in Afghanistan, was recently subjected to U.S. sanctions as a result of the U.S. withdrawal from the Iran nuclear deal.⁶⁰⁶

Overall, the banking sector remains weak and underdeveloped, which constrains investment and growth, according to the World Bank.⁶⁰⁷ While the sector’s total assets were equivalent to 23% of GDP, the value of credit extended to Afghanistan’s private sector was equivalent to a mere 3.3% of GDP, reflected by extremely high asset-to-deposit ratios.⁶⁰⁸

Kabul Bank Theft: Progress Remains Marginal

In September 2010, embezzlement and fraud by a handful of politically connected individuals and entities left Kabul Bank—a systemically important Afghan financial institution—at the brink of collapse.⁶⁰⁹ The Afghan government’s subsequent \$825 million bailout (an amount equivalent to

approximately 5–6% of the country’s GDP at the time) rendered the scam one of the largest banking catastrophes in the world, relative to GDP.⁶¹⁰

The scandal involved an elaborate fraud and money-laundering scheme orchestrated by Kabul Bank founder Sherkhan Farnood (who recently died while serving time in Bagram Prison), chief executive officer Khalilullah Ferozi, and other key shareholders and administrators. Years later, the legacy of Kabul Bank remains a striking symbol of the extensive corruption and criminality that undermines the Afghan government’s legitimacy, according to the United States Institute of Peace (USIP).⁶¹¹ 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.⁶¹²

According to State, based on information provided by the KBR, some progress on recoveries has been made since November 2018. Specifically, as of December 15, \$4 million had been collected since last quarter, including \$1.8 million in cash and \$2.2 million in properties seized.⁶¹³ However, as of September 23, 2018, the KBR appeared to have already counted the majority of these funds as recoveries in the form of collateralized loans. Rather than adding to total recoveries, the “recoveries” reported by State (which relies on the KBR for its figures) this quarter appear to simply represent shifts of funds between recovery categories, as collateralized assets already counted as “recovered” by the KBR were either sold or seized by the Afghan government.⁶¹⁴ Reflecting otherwise stagnant progress, total recoveries reported by the KBR increased by only \$170,000 from September 23, 2018–January 6, 2019.⁶¹⁵ More than \$535 million in missing funds remain outstanding.⁶¹⁶

ECONOMIC GROWTH

Given the centrality of USAID’s current objective to accelerate private-sector driven, export-led growth, the agency’s Office of Economic Growth (OEG) will play an important role in the agency’s Country Development Cooperation Strategy (CDCS).⁶¹⁷ Within the context of the new strategy, OEG’s efforts will focus on:⁶¹⁸

- supporting export-ready Afghan firms
- improving airport infrastructure to facilitate exports by air
- linking Afghan traders to new markets

As described on page 148, accelerating Afghanistan’s economic growth rate amid heightened uncertainty and ongoing conflict is likely to be difficult. USAID has cumulatively disbursed over \$1.2 billion for economic-growth programs in Afghanistan.⁶¹⁹ USAID’s active economic-growth programs have a total estimated cost of \$119 million and can be found in Table 3.24.



U.S. Ambassador to Afghanistan John Bass and Chief Executive Abdullah Abdullah, among others, participate in a lamp-lighting ceremony to kick off the USAID-sponsored Passage to Prosperity 2 trade show held in Mumbai, India, on September 12–15, 2018. (USAID photo)

TABLE 3.24

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 1/12/2019
Multi-dimensional Legal Economic Reform Assistance (MELRA)	2/7/2018	2/6/2023	\$19,990,260	\$0
Extractive Technical Assistance by USGS	1/1/2018	12/31/2022	18,226,206	979,204
INVEST	9/28/2017	9/27/2020	15,000,000	777,625
Afghanistan Investment Climate Program	3/27/2015	3/26/2020	13,300,000	5,203,601
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	694,351
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	922,000
Trade Show Support (TSS) Activity	6/7/2018	12/6/2020	3,999,174	1,792,626
Development Credit Authority (DCA) with Ghazanfar Bank	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			\$119,078,883	\$20,808,758

Source: USAID, response to SIGAR data call, 1/12/2019.

Natural Resources: An Untapped Source of Government Revenue and Licit Economic Growth

One largely untapped economic area identified as having the potential to generate substantial revenue for the government is Afghanistan’s extractives sector. According to President Ghani, “The economic development and prosperity of Afghanistan depends on its mining sector, which will enable Afghanistan to pay its military expenditure and achieve self-reliance.”⁶²⁰

Nevertheless, despite hopeful rhetoric about the promises mineral riches mining currently represents only a small share of Afghan economic activity.⁶²¹ SIGAR analysis of Afghanistan National Statistics and Information Authority data shows that, 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.⁶²²

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.⁶²³

2018 Mining Law Update

Afghanistan has been working on a new mining law. According to the Afghan government, the law is intended to provide a transparent bidding process for the sector and help form the foundation of a market economy.⁶²⁴ Through an interagency agreement with USAID, the Commerce Department's Commercial Law and Development Program (CLDP) has been assisting the Afghan government with revisions to several successive drafts of the new mining law (also referred to as the "2018 mining law").⁶²⁵

There was considerable confusion throughout the quarter regarding whether the new 2018 law was in force. Afghanistan's Ministry of Mines and Petroleum (MOMP) informed CLDP that the new law was signed on September 5, 2018, by President Ghani and was currently in force.⁶²⁶ State said the law was enacted by Presidential decree on October 1, 2018.⁶²⁷ State, too, said the law was currently in force.⁶²⁸ However, CLDP also said that according to MOMP, the law will not come into force until it is published in the Official Gazette after it is approved by the Parliament.⁶²⁹

According to an unofficial English translation of a draft version of the law dated September 5, 2018, "This Law shall enter into force as of the date of promulgation in the Official Gazette," apparently meaning that publication in the Official Gazette alone would put the law into force.⁶³⁰ Because the law has not yet been published in the Official Gazette, it is not clear whether or not the law was actually in force, statements to the contrary notwithstanding. SIGAR will continue to follow this issue.

Afghanistan Suspended from Extractive Industries Transparency Initiative

According to Integrity Watch Afghanistan, an Afghan nongovernment organization (NGO), Afghanistan was suspended from the Extractives Industries Transparency Initiative (EITI) on January 18, 2019.⁶³¹ The EITI is an international standard designed to ensure transparency in the extractives sector.⁶³² In countries that have committed to implementing the EITI standard, governments are required to publish revenues received from extractives companies. The companies, in turn, must publish what they pay to governments.⁶³³ Each EITI implementing country has a multistakeholder group consisting of representatives from industry, civil society, and the government that oversees the EITI process.⁶³⁴

IWA called the EITI the "most prominent international mechanism against abuses linked to natural resources."⁶³⁵ While there appeared to be no official announcement of the suspension, the EITI website now displays Afghanistan's status as "Inadequate progress/suspended."⁶³⁶ The United

States withdrew from the EITI as an implementing country in November 2017, citing conflict between U.S. laws and the EITI standard.⁶³⁷

Although IWA acknowledged that Afghanistan had made significant progress in implementing transparency initiatives in recent years, IWA emphasized that “serious gaps and weaknesses” remained and said it had anticipated the suspension.⁶³⁸ According to IWA, those gaps included a protracted delay in appointing a new national EITI coordinator and a “missed opportunity” with the new 2018 mining law to use a single account for all extractives revenues flowing to the Afghan government, which IWA said would facilitate simpler, more transparent accounting of those revenues.⁶³⁹ According to Global Witness, an international NGO that aims to expose corruption and increase government transparency, the Afghan government already has committed to take the necessary measures to lift its EITI suspension by summer 2019.⁶⁴⁰

Debate Regarding Two Recently Awarded Mining Contracts Continues

Two mining contracts for large concessions that had previously been stalled were signed last quarter—one for the Balkhab copper mine in Sar-e Pul and Balkh Provinces, and the other for a gold mine in Badakhshan (see pages 144–147 of SIGAR’s October 2018 *Quarterly Report to the United States Congress* for more).⁶⁴¹ Both contracts have received heavy scrutiny from Afghan civil society organizations due to the involvement of former minister of Urban Development and Housing Sadat Naderi.⁶⁴² Naderi resigned from his position as minister in June 2018.⁶⁴³ Naderi owns the Afghan Krystal Mining Company, which has a 50.1% ownership stake in the Balkhab concession and a 24.5% ownership stake in the Badakhshan concession, according to contract documents.⁶⁴⁴

Global Witness, a nongovernmental organization (NGO) that aims to expose corruption and human rights abuses, and Integrity Watch Afghanistan (IWA) contend that Naderi, as a former minister, is ineligible for the contracts. This is because Global Witness and IWA interpret the 2014 mining law as setting a five-year “cooling off” period before companies owned by former ministers are allowed to obtain mining contracts or licenses.⁶⁴⁵ Under this interpretation, Naderi would be ineligible for the contracts because his resignation occurred in June 2018, placing him well within the cooling off period. Countering this contention, State said this quarter that the views of Global Witness and Afghan civil society organizations were “without substantive legal basis.”⁶⁴⁶ State’s view is that Naderi bid for and won these contracts in good faith while he was a private citizen.⁶⁴⁷

Beyond potential conflict-of-interest issues, there was some confusion this quarter as to whether any U.S.-based firms were involved in the projects. According to contract documents, a company named Centar Ltd.,

AFGHANISTAN IMPROVES ITS *DOING BUSINESS* RANKING

A big leap. Afghanistan jumped 16 spots in the World Bank's annual *Doing Business* rankings (released October 31, 2018), from 183rd to 167th among the 190 economies measured.⁶⁴⁸ According to the Bank, the jump in the rankings was due to improvements to Afghanistan's legal framework for businesses.⁶⁴⁹ Its improvement was both relative and absolute: Afghanistan's aggregate *Doing Business* score rose by more than 10 points, from just over 36 in the 2018 rankings to nearly 48 in the 2019 rankings—a 32% increase.⁶⁵⁰

According to the Bank, the jump in Afghanistan's ranking was driven by the following reforms:⁶⁵¹

- lower costs for starting a business
- new electronic tax declarations for large taxpayers
- a new limited liability company law strengthening protections for minority investors
- a new insolvency law that, among other effects, streamlined insolvency proceedings and promoted reorganization of distressed companies
- improved access to credit, facilitated by the same new insolvency law, which ensured that secured creditors are the first to be repaid during insolvency proceedings

What does it mean? Afghanistan's jump in the rankings and its score increase represent an apparently positive development. In the past, SIGAR has used Afghanistan's performance on the *Doing Business* measures to underscore the challenges of the country's business climate.⁶⁵² However, it is not clear how material this improvement really is, given the rankings do not reflect actual business activity. Rather, they are merely a loose proxy for future activity. Moreover, the rankings omit many factors of great significance to the business environment, such as security and corruption. Ultimately, it is unlikely that Afghanistan will see immediate or perhaps even mid-term economic gains as a result of the reforms.

What is the *Doing Business* report? Published every October, the World Bank's *Doing Business*

report ranks 190 economies against one another, based on laws and regulations that may have an effect on business activity, such as protection of property rights and the cost of electricity access. The 2019 report provides rankings of economies based on 10 regulatory areas that theoretically impact each stage of the life of a business:⁶⁵³

- starting a business
- dealing with construction permits
- getting electricity
- registering property
- getting credit
- protecting minority investors
- paying taxes
- trading across borders
- enforcing contracts
- resolving insolvency

The premise of the report is that improvements in these areas assist private-sector development and performance, with higher-ranked economies better positioned to support private-sector (and hence gross domestic product) growth.⁶⁵⁴ For example, reforms that increase access to credit within a certain economy theoretically position entrepreneurs in that economy to finance the creation of new firms, and existing businesses in that economy to invest. Such investments, the logic goes, can create jobs, increase productivity, and raise a country's economic potential.

How are the scores and rankings determined? Sub-scores for each measure above are combined to form an aggregate score that allows economies to be ranked against one another. The rankings are determined by simply sorting aggregate scores. An economy's ranking is a relative measure of performance, while an economy's score is an absolute measure of performance.⁶⁵⁵

An economy's ease of doing business score reflects the gap between that economy's performance and a benchmark measure of best practice over the complete

sample of 41 indicators that collectively cover the 10 topics presented above.⁶⁵⁶ An economy’s aggregate score is referred to as the “distance to the frontier” score.⁶⁵⁷ Each indicator is normalized using the “worst” and “best” performance for a five-year period.⁶⁵⁸ Assuming that no measures or indicators are added, this helps ensure some degree of data consistency across time. This is why the World Bank considers score changes to be absolute, rather than relative, measures of reform.

What the *Doing Business* Report doesn’t measure.

The *Doing Business* report assesses and benchmarks domestic regulatory environments against one another.⁶⁵⁹ While the report assumes that effective and efficient business regulation is an important input to economic prosperity, it does not measure actual business activity.⁶⁶⁰ Consequently, improvements in the rankings may not necessarily reflect the expectation of improved economic performance, particularly in the short and mid-term.

China and India—both “top-improvers” according to the 2019 *Doing Business* report—are good examples of this phenomenon. According to the most recent report, China increased the efficiency of its business processes. However, by the Bank’s own analysis, the country’s real economic growth rate is expected to continue to slow over the course of the next few years.⁶⁶¹ Likewise, India is listed as a top improver by the Bank. Yet, again according to the Bank’s own analysis, India’s real economic growth rate is expected to remain more or less unchanged through 2020.⁶⁶²

Even significant improvements in the rankings, therefore, are not necessarily correlated with growth expectations. A country can simultaneously improve in the rankings and be expected to underperform economically, relative to prior years. The regulatory environment measured by the report is but one factor among many that determines the performance of an economy’s private sector.

Along these lines, a 2013 external panel review of the *Doing Business* report expressed concerns that the report had “the potential to be misinterpreted.”⁶⁶³ According to the review, “Empirical evidence on the

results of the business-regulation reforms captured by the report is mixed and suggestive at best. Correlations between the report’s topics and developmental outcomes often do point to a negative association between the regulatory burden and economic development and growth. However, such correlations do not justify a causal interpretation.”⁶⁶⁴

This is because, by the World Bank’s own admission, the rankings do not capture a variety of measures that significantly affect the business climate. According to the Bank, one of the most common misconceptions about the *Doing Business* report is that the rankings reflect a comprehensive measure of the business climate. However, the rankings overtly omit a wide range of factors relevant to firms—particularly those operating in frontier markets like Afghanistan. For example, the report does not address macroeconomic stability, security, corruption, human capital, the strength of an economy’s financial system, or the underlying quality of infrastructure or institutions.⁶⁶⁵ In other words, the rankings represent only one, arguably small, lens through which to analyze the business environment in many, if not most, of the compared economies.

Which reforms drove Afghanistan’s improved performance in the latest report?

Some of the reforms listed on the previous page appear to have had an outsized effect on Afghanistan’s aggregate *Doing Business* ranking. For example, Afghanistan’s score on the protecting minority investors measure jumped by nearly 62 points—or more than six times its 2018 score—due to passage of the new limited liability company law. This resulted in a ranking bump of 163 places on the measure (economies are ranked against one another for each individual measure in addition to the aggregate score).⁶⁶⁶ Reforms related to the new insolvency law, meanwhile, resulted in a nearly 30-point—or 119%—increase in Afghanistan’s score on the resolving insolvency measure, shifting Afghanistan up 87 places in the rankings.⁶⁶⁷ Finally, by lowering the cost of starting a business from 82.3% of income per capita to 6.4% of income per capita, Afghanistan increased its score for starting a business by nearly eight points—or 9%—resulting in a ranking bump for the measure of 58 places.⁶⁶⁸

QUARTERLY HIGHLIGHT

TABLE 3.25

Measure	Score				Rank		
	2018 Report	2019 Report	Change	% Change	2018 Report	2019 Report	Change
Starting a business	84.28	92.04	7.76	9%	107	49	58
Dealing with construction permits	22.54	34.54	12.00	53%	185	184	1
Getting electricity	44.58	44.51	(0.07)	0%	163	168	(5)
Registering property	27.50	27.50	0.00	0%	186	186	0
Getting credit	45.00	50.00	5.00	11%	105	99	6
Protecting minority investors	10.00	71.67	61.67	617%	189	26	163
Paying taxes	41.97	43.27	1.30	3%	176	177	(1)
Trading across borders	30.63	30.63	0.00	0%	175	177	(2)
Enforcing contracts	31.76	31.76	0.00	0%	181	181	0
Resolving insolvency	23.62	51.78	28.16	119%	161	74	87

Source: World Bank, *Doing Business 2019: Training for Reform*, 10/31/2018, p. 152; World Bank, *Doing Business 2018: Reforming to Create Jobs*, 10/31/2017, p. 142.

Changes on other measures were less significant: while Afghanistan did notch a 12-point—or 53%—score increase on the dealing with construction permits measure by, among other changes, dramatically decreasing the amount of time required to obtain a construction permit, this improvement was insufficient to offset advances made across other economies for the measure’s rankings.⁶⁶⁹ Table 3.25 presents a comparison of Afghanistan’s performance on the *Doing Business* measures in 2018 and 2019.

Conclusion. The numerous limitations of the *Doing Business* rankings render them an incomplete measure for Afghanistan’s current and future economic

performance. By the World Bank’s own admission, the report does not address a variety of factors that have substantial effects on the business environment in Afghanistan, such as security, corruption, and the underlying quality of the country’s institutions.⁶⁷⁰ Nonetheless, Afghanistan’s jump in the rankings is not without at least some significance. In the past, SIGAR has used Afghanistan’s performance on the *Doing Business* measures to underscore the challenges of the country’s business climate.⁶⁷¹ Afghanistan’s improvement is a positive development. However, it seems unlikely that the jump in the rankings will spur much, if any, near- or mid-term economic growth.

based in Guernsey in the Channel Islands of the UK, owns 24.5% of the Badakhshan concession and 49.9% of the Balkhab project.⁶⁷² The October 5, 2018, signing ceremony for the contracts, at which representatives from Centar Ltd. were present, occurred in the United States at the Afghan embassy in Washington, DC.⁶⁷³ Nevertheless, while there is a Delaware-registered limited liability company doing business under the name “Centar American LLC Mining Services Company,” without further information, SIGAR cannot confirm that this company is related to Centar Ltd.⁶⁷⁴

At this stage, SIGAR has drawn no conclusions regarding the legality or ownership of these two contracts. SIGAR will examine the contracts and other matters through an ongoing audit assessing the Afghan government’s progress in implementing its anticorruption strategy.

AGRICULTURE: A BIG FACTOR IN BOTH THE ILLICIT AND LICIT ECONOMY

More than half of the rural labor force works in the agricultural sector, which employs about 40% of Afghans overall, according to the World Bank. While the sector’s share of the overall economy has declined since the 2001 intervention in Afghanistan due to the rise of the service sector, historically, agriculture has made substantial contributions to Afghanistan’s licit economic growth.⁶⁷⁵

Illicit opium-poppy cultivation thrives in Afghanistan. In 2017, opium production reached a new peak. While the Bank projected the value of licit agricultural output in 2018 at 18% of officially reported GDP, the United Nations Office on Drugs and Crime (UNODC) estimated the value of the opium economy in 2017 to be the equivalent of 20–30% of licit GDP.⁶⁷⁶ 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%.⁶⁷⁷

The opium economy contracted in 2018: due to high levels of supply that resulted in price reductions, income earned by farmers fell from an estimated \$1.4 billion in 2017 to just over \$600 million in 2018—a 56% reduction, according to the UNODC.⁶⁷⁸ The UNODC added that the area under opium-poppy cultivation declined by 20% in 2018, year-on-year—a decrease of approximately 65,000 hectares—driven in part by the ongoing drought.⁶⁷⁹ Nonetheless, the estimated 2018 figure of 263,000 hectares was the second-highest number recorded since systematic monitoring began in 1994.⁶⁸⁰

Since 2002, USAID has disbursed more than \$2.2 billion to improve agricultural production, increase access to markets, and develop income alternatives to growing poppy for opium production.⁶⁸¹ Pages 193–203 of this quarterly report discuss USAID’s agriculture alternative-development programs. USAID’s active agriculture programs have a total estimated cost of \$449 million and can be found in Table 3.26.

TABLE 3.26

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 1/12/2019
Strengthening Watershed and Irrigation Management (SWIM)	12/7/2016	12/6/2021	\$87,905,437	\$10,612,109
Regional Agriculture Development Program (RADP North)	5/21/2014	5/20/2019	78,429,714	61,503,804
Commercial Horticulture and Agriculture Marketing Program (CHAMP)	2/1/2010	12/31/2019	71,292,850	59,687,955
Afghan Value Chains - Livestock activity	6/6/2018	6/5/2021	55,672,170	2,287,598
Afghanistan Value Chains- High Value Crops	8/2/2018	8/1/2023	54,958,860	867,575
RADP East (Regional Agriculture Development Program - East)	7/21/2016	7/20/2021	28,126,111	10,428,478
Grain Research and Innovation (GRAIN)	3/13/2017	9/30/2022	19,500,000	7,753,212
Promoting Value Chain - West	9/20/2017	9/19/2020	19,000,000	3,599,769
ACE II (Agriculture Credit Enhancement II)	6/23/2015	6/30/2019	18,234,849	16,372,201
Catalyzing Afghan Agricultural Innovation	5/28/2018	5/27/2023	8,000,000	404,281
Famine Early Warning System Network (FEWS NET)	1/1/2011	12/31/2018	5,000,000	2,000,000
SERVIR	9/14/2015	9/30/2020	3,100,000	1,538,075
Total			\$449,219,991	\$177,055,057

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see pages 193–203 of this report.

Source: USAID, response to SIGAR data call, 1/12/2019.

Effects of Drought Remain, but Above-Average Precipitation During Current Wet Season

According to the USAID-funded Famine Early Warning Systems Network (FEWS NET), food insecurity persisted across large swathes of Afghanistan this quarter, due in part to the ongoing drought.⁶⁸² The Integrated Food Security Phase Classification (IPC), on whose food-security analyses USAID relies, anticipated that 10.6 million people would face severe food insecurity—meaning they would face food consumption gaps leading to acute malnutrition or would be forced to deplete household assets in order to meet minimum needs—between November 2018 and February 2019.⁶⁸³ Although this figure was attributed to a variety of factors, including poverty and conflict, the IPC said that Afghanistan was experiencing a “major livelihood crisis,” primarily due to the drought.⁶⁸⁴ Western Afghanistan, also experiencing an influx of returnees from Iran, has been among the hardest-hit areas.⁶⁸⁵

As of November 30, 2018, approximately 260,000 Afghans had been displaced by the drought, according to the UN.⁶⁸⁶ The UN reported this quarter that child marriages had spiked due to the drought, with families selling their daughters into marriage in exchange for dowries in order to survive economically.⁶⁸⁷

According to FEWS NET, precipitation during the current wet season had been above average, as of late December 2018—meaning the drought appeared to have ended.⁶⁸⁸ Nevertheless, FEWS NET said the drought’s lingering effects would continue to have a significant impact on food security, as described above.⁶⁸⁹ In September 2018, USAID contributed approximately \$44 million to the UN World Food Programme (WFP) to support the provision of critical food assistance to people affected by drought in Afghanistan.⁶⁹⁰ Among other activities, the WFP provides food assistance and cash transfers to cover the basic needs of those displaced by the drought.⁶⁹¹

For an extensive treatment of the status of Afghanistan’s energy sector, see pages 154–155 of SIGAR’s October 2018 *Quarterly Report to the United States Congress*. SIGAR’s October 2018 report includes downloadable maps of Afghanistan’s planned and existing energy grid, and U.S.-funded power infrastructure projects, available at www.sigar.mil/.

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 2002.⁶⁹² 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 2017.⁶⁹³ 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.⁶⁹⁴ Overall, many enduring challenges in the power sector remain, according to USAID. Those challenges include insufficient supply to meet growing demand, Afghanistan’s near-complete (80%) dependence on electricity imports, and weak sector governance.⁶⁹⁵

Although insecurity also presents obstacles to power-infrastructure projects, in an interview conducted by SIGAR in Kabul this quarter, USAID Office of Infrastructure (OI) officials stated that the Taliban rarely attack power infrastructure directly once it is completed. Rather, in OI’s experience, infrastructure is damaged as a result of crossfire.⁶⁹⁶

According to The Asia Foundation’s *2018 Survey of the Afghan People* released this quarter, perceptions of access to electricity appear to have improved slightly from last year, with 16.4% of respondents to the 2018 survey stating that their electricity supply had improved, relative to the previous year.⁶⁹⁷ In contrast, only 12.2% of respondents to the Foundation’s 2017 survey said their electricity supply had improved relative to the prior year.⁶⁹⁸ Still, 20.1% of respondents cited lack of access to electricity as the biggest problem in their local area.⁶⁹⁹

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).⁷⁰⁰ USAID is funding the construction of a 511-kilometer transmission line connecting the two networks and improvements to SEPS.⁷⁰¹

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.⁷⁰²

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 some project costs.⁷⁰³ No additional AIF monies have been appropriated since FY 2014.⁷⁰⁴ However, up to \$50 million of Title IX Overseas Contingency Operations (OCO) funds appropriated in later acts may be used to complete these projects.⁷⁰⁵

DOD Power-Infrastructure Projects Near Completion; USAID Provides Some Data on Results; Implementation Risks Remain

DOD has completed the majority of its AIF power-infrastructure projects. Only two remain: a combined project involving the improvement of three substations in SEPS (now complete) and the construction of substations and a transmission line from Sangin to Lashkar Gah in Afghanistan's restive Helmand Province; and another project to build transmission lines from Paktiya Province to Khost Province. Approximately \$190.1 million has been obligated for those two projects, of which \$160.0 million has been disbursed. In total, \$603.6 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 \$565.4 million disbursed.⁷⁰⁶

Cumulatively, USAID has disbursed more than \$1.5 billion in Economic Support Funds since 2002 to build power plants, substations, and transmission lines, and to provide technical assistance in the power sector.⁷⁰⁷ The agency's active power-infrastructure programs have a total estimated cost of more than \$626 million and are listed in Table 3.27.

Both DOD and USAID power-infrastructure projects have faced substantial delays over the years, raising questions about whether or not they will achieve their intended economic development effects.⁷⁰⁸ For USAID, those delays continued this quarter. In new documents submitted to SIGAR,

SIGAR SPECIAL PROJECT

In December 2018, SIGAR released the results of site visits to six DOD-funded bridge projects in Kabul province that were constructed or rehabilitated using funds from the Commander's Emergency Response Program (CERP) between 2009 and 2012. While SIGAR found that all six bridges were open for use and in generally good condition, it is concerned that without sustained maintenance, there is reasonable risk that the bridges will fall into disrepair and U.S. investment in this infrastructure will not be sustained over the long-term.

TABLE 3.27

USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 1/12/2019
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2020	\$316,713,724	\$187,132,786
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	54,344,874
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	6/27/2022	20,151,240	686,975
Power Sector Governance and Management Assessment	1/12/2019	3/2/2019	567,330	567,330
Total			\$626,102,478	\$397,402,148

Source: USAID, response to SIGAR data call, 1/12/2019; USAID, "Status of USAID-funded Power Projects," 7/24/2018.

USAID quality-assurance contractor Tetra Tech warned that ongoing insurgent activity in the areas surrounding the agency's projects continued to pose risks to project implementation, primarily through security threats and incidental damage via crossfire incidents.⁷⁰⁹

Tetra Tech reported that Afghan security forces have been using the USAID-funded Salang substation as a as a temporary fighting position. As a result, Tetra Tech site inspectors no longer stay overnight at the worksite.⁷¹⁰ Tetra Tech also reported that project documents related to USAID's power-infrastructure programming remain with DABS for review for prolonged periods, which "may have a significant impact on project status and completion date if not resolved."⁷¹¹

When power-infrastructure projects can be completed, they provide nearly immediate benefits to local populations, according to USAID. In an interview in Kabul this quarter, USAID officials told SIGAR that its construction of substations and transmission lines from Arghandi to Ghazni (the first segment of the USAID's NEPS-SEPS Connector) had resulted in increased access to electricity for Afghans in Ghazni City and Sayyidabad (located in Ghazni and Wardak Provinces, respectively). According to data provided to USAID by Da Afghanistan Breshna Sherkhat (DABS, Afghanistan's national utility), Sayyidabad draws 2.3 MW of power at peak load as a result of the project. Ghazni City, meanwhile, draws 4.1 MW of power at peak load as a result of the project.⁷¹²

The project had resulted in 1,500 new connections in Sayyidabad and 2,600 new connections in Ghazni. DABS also claimed to have transferred 7,000 connections in Ghazni that previously depended on diesel power to the new transmission line and substation. USAID officials said that, overall, according to data from DABS, in areas covered by the project, the cost of electricity had decreased from 56 cents per kilowatt-hour to seven cents per kilowatt-hour.⁷¹³ However, SIGAR has not independently verified this information, and some data from DABS may not be reliable. For example,

evaluators conducting a mid-term assessment of USAID efforts to commercialize DABS “observed significant fluctuations in the power loss data for billing cycles [provided by DABS], implying inconsistency in reporting that could lead to inaccurate data.”⁷¹⁴

EDUCATION

Decades of intermittent conflict had devastated Afghanistan’s education system prior to the U.S.-led military intervention of 2001. While the war continues, donors have generally highlighted Afghanistan’s progress in the education sector as a significant success story.⁷¹⁵ However, given poor data quality, it is difficult to ascertain the extent of that success. Figures for the number of children and youth in school vary widely.⁷¹⁶ Afghanistan’s Ministry of Education counts students who have been absent for up to three years as enrolled because, it says, they might return to school.⁷¹⁷ This treatment limits the usefulness of government data to determine attendance rates.

Numerous 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.⁷¹⁸

USAID, which aims to improve access to and quality of education in Afghanistan, as well as build capacity at the MOE, has disbursed more than \$1 billion for education programs in Afghanistan, as of January 12, 2019.⁷¹⁹ USAID’s active education programs have a total estimated cost of \$500 million and can be found in Table 3.28.

The Taliban periodically disrupt the education system in Afghanistan. However, unverified reports paint a more complicated portrait of negotiation and compromise between the Afghan government and its adversary. For example, according to the Afghanistan Analysts Network, a district education director in Obeh District, Herat Province, was able to keep his job even after alleged involvement in corruption because he was seen as a key official able to work and deal with the Taliban to keep schools running.

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; Afghanistan Analysts Network, “One Land, Two Rules (2): Delivering public services in insurgency-affected Obeh District of Herat Province,” 12/9/2018.

TABLE 3.28

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 1/12/2019
Afghanistan University Support and Workforce Development Program	1/1/2014	9/30/2019	\$93,158,698	\$82,465,347
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	26,552,026
Support to the American University of Afghanistan (AUAF)	8/1/2013	11/29/2019	64,400,000	59,627,755
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2020	44,835,920	31,549,247
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	8,535,239
Afghanistan’s Global Partnership for Education	10/11/2012	6/30/2019	15,785,770	12,874,968
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	6/4/2019	4,384,058	1,959,660
PROMOTE Scholarships PAPA	3/4/2015	3/3/2020	1,247,522	1,247,522
Total			\$500,263,244	\$313,465,365

Source: USAID, response to SIGAR data call, 1/12/2019.

Status of Girls' Education in Afghanistan

USAID, the World Bank, and other donors consistently highlight the extent to which their projects have improved education for girls in Afghanistan.⁷²⁰ While poor data quality hinders efforts to quantify the extent of this improvement, it seems likely that donor spending has increased prospects for girls' education in Afghanistan, possibly to a large extent.⁷²¹

Unfortunately, a SIGAR review of available literature and data shows that progress in girls' education is at least stagnating, and possibly eroding. Data from the Afghanistan Living Conditions Survey (ALCS)—conducted every two years by Afghanistan's National Statistics and Information Authority (NSIA)—show that net attendance rates (NARs) for girls dropped slightly, or remained virtually stagnant, from the 2013–2014 survey to the 2016–2017 survey.⁷²² The NAR expresses the number of students attending school within a given age cohort as a percentage of the estimated total number of children in the same age cohort.⁷²³ The data point therefore represents one way of quantifying the issue of out-of-school children.

ALCS survey results show that for girls, the NAR for primary education (ages 7–12) was the same—45.5%—in 2013–2014 as in 2016–2017. The NAR for girls of secondary-school age (13–18), meanwhile, dropped by nearly three percentage points between the last two ALCS surveys, from 26.9% in 2013–2014 to 24.1% in 2016–2017. Although the NAR for girls (and women) of tertiary-school age (19–24) increased by 10 basis points, from 4.7% to 4.8%, it appears the change was statistically insignificant: different respondent pools for the respective surveys likely caused the change, as opposed to any underlying difference in attendance or enrollment.⁷²⁴ According to USAID, a lack of female teachers and school buildings contributed to the drop in the NAR for Afghan girls of secondary school age.⁷²⁵ However, USAID did not clarify why these issues might have had relatively more substantial effects on girls' secondary education than on girls' primary education.

Relying on 2013–2014 ALCS data, a June 2018 United Nations Children's Fund report on out-of-school children in Afghanistan found that 3.7 million children aged 7–17 were out of school, of whom 2.2 million were girls.⁷²⁶ According to the more recent 2016–2017 ALCS survey results, the number of out-of-school children ages 7–18 was more than 4.2 million, of whom nearly 2.6 million were girls.⁷²⁷ Commenting on the overall stagnation in the NAR for children of primary-school age between the 2011–2012 and 2016–2017 ALCS surveys, the NSIA said, "This is a remarkable finding, given the continuous efforts to expand primary education facilities across the country."⁷²⁸

Donors and others are beginning to sound the alarm. In a briefing delivered to U.S. Embassy officials in December 2018, the World Bank said progress against development outcomes had slowed or reversed, citing a range of data points, including declining primary attendance rates and a

TABLE 3.29

GIRLS' PRIMARY-SCHOOL ATTENDANCE RATES IN THE MOST AND LEAST VIOLENT PROVINCES (APRIL 2016–MARCH 2017)

Violence Rank (Deaths/1,000 People)	Province	Girls' Net Primary Attendance Rate
Most Violent		
1	Helmand	Less than 15.0
2	Uruzgan	Less than 15.0
3	Nangarhar	30.0–44.9
4	Farah	30.0–44.9
5	Kunduz	30.0–44.9
6	Zabul	15.0–29.9
7	Ghazni	45.0–59.9
8	Paktika	Less than 15.0
9	Kandahar	Less than 15.0
10	Paktiya	30.0–44.9
Least Violent		
25	Wardak	15.0–29.9
26	Takhar	60.0–74.9
27	Herat	45.0–59.9
28	Balkh	60.0–74.9
29	Kabul	60.0–74.9
30	Parwan	45.0–59.9
31	Samangan	45.0–59.9
32	Daykundi	45.0–59.9
33	Bamyan	60.0–74.9
34	Panjshir	75.0 and over

Note: Provinces ranked using population estimates from Afghanistan's National Statistics and Information Authority and the number of deaths recorded by the Uppsala Conflict Data Program (UCDP) during the 2016–2017 Afghanistan Living Conditions Survey period (April 2016–March 2017). To capture violence concentration, provinces were ranked by the number of deaths per 1,000 people rather than the total number of deaths. UCDP collects and aggregates data on organized violence. It is housed in Sweden's Uppsala University.

Source: SIGAR analysis of Government of Afghanistan, NSIA, *Afghanistan Living Conditions Survey 2016–17*, 8/29/2018, p. 144; SIGAR analysis of Uppsala Conflict Data Program, "Number of Deaths: Afghanistan," <http://ucdp.uu.se/#country/700>, downloaded 12/23/2018.

growing gender gap in school attendance.⁷²⁹ In a report on girls' education released in October 2017, Human Rights Watch had said that progress in Afghanistan could be reversing.⁷³⁰

Some posit that deterioration of security conditions may be driving the apparent reversal. In an overview of Afghanistan on its website last updated in October 2018, the World Bank said progress had been threatened by the security situation, pointing to declining secondary education attendance, driven by lower rates of attendance among girls.⁷³¹ Human Rights Watch also pointed to worsening security as a factor that could lead to a decline in girls' education in Afghanistan.⁷³²

Some evidence, while anecdotal and by no means authoritative, suggests this could be the case. For example, SIGAR analysis of open-source violent incident data and 2016–2017 ALCS results shows that four of the five provinces where the NAR for primary-school age girls is less than 15% are also some of the most violent provinces in the country, as measured by the number of deaths per 1,000 people during the survey period (April 2016–March 2017).⁷³³ The two provinces with the highest rates of deaths due to violent incidents during the survey period were Helmand and Uruzgan, both of which had NARs for primary school-age girls that were less than 15% (Table 3.29 on page 171 compares the NAR for primary-school age girls in the most and least violent provinces over the period of the 2016–2017 ALCS survey).⁷³⁴ Moreover, ranking provinces by the highest number of violent deaths per 1,000 people during the survey period shows a fairly clear association between higher rates of violent deaths and lower girls’ primary-age NARs (see Figure 3.47).⁷³⁵

The results of the latest Asia Foundation *Survey of the Afghan People* are also suggestive: respondents residing in inaccessible, insecure areas typically controlled by militants were significantly more likely to report (at a rate of 42.3%) that the quality of educational services in their area had grown worse in the last year, compared to main-sample respondents (25.9%).⁷³⁶ According to Human Rights Watch, insecurity has a disproportionate impact on girls’ education, with families “clamp[ing] down first on girls going to school, even while boys continue to attend.”⁷³⁷

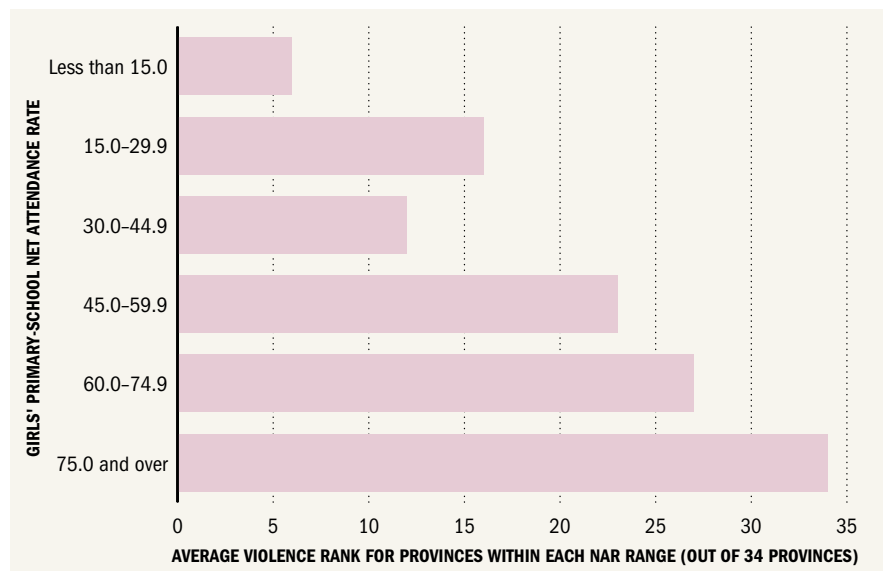
Other intertwined factors may also be playing a role, including structural shifts in how donors fund projects. For example, according to Human Rights Watch, the drawdown of international troops in 2014 resulted in a pullback from provinces where Provincial Reconstruction Teams previously provided funding—including funding for education. As a result, Human Rights Watch reported that provinces like Helmand, where U.S. forces surged during the high-water mark of the U.S. intervention in Afghanistan, have experienced a significantly reduced nongovernmental organization presence since 2014.⁷³⁸

According to Human Rights Watch and others, expanding community-based education (CBE) may represent an effective means of increasing educational access for girls in rural areas of Afghanistan.⁷³⁹ CBE is a form of non-formal education designed to serve children—particularly girls and young women in the case of USAID’s programming—who are otherwise unable to attend school due to distance, insecurity, or other constraints in areas where government schools do not exist.⁷⁴⁰ While they have teachers and generally follow standard curricula, CBE schools are not run directly by the Ministry of Education and are located in remote locations that lack government schools.⁷⁴¹

USAID also supports Accelerated Learning Centers specifically designed for young women whose education has been interrupted.⁷⁴² As of December

FIGURE 3.47

AVERAGE VIOLENCE RANK FOR PROVINCES WITHIN EACH PRIMARY-SCHOOL GIRLS' NAR RANGE (APRIL 2016–MARCH 2017)



Note: Figure displays the average rank for level of violence (measured by deaths per 1,000 people, with provinces ranked from highest to lowest) for provinces with a girls' primary-school net attendance rate (NAR) falling within a specified range. The NAR expresses the number of students attending school within a given age cohort as a percentage of the estimated total number of children in the same age cohort. Provinces ranked using population estimates from Afghanistan's National Statistics and Information Authority and the number of deaths due to violence recorded by the Uppsala Conflict Data Program (UCDP) during the 2016–2017 Afghanistan Living Conditions Survey period (April 2016–March 2017). To capture violence concentration, provinces were ranked by the number of deaths per 1,000 people rather than the total number of deaths. UCDP collects and aggregates data on organized violence. It is housed in Sweden's Uppsala University.

Source: SIGAR analysis of Government of Afghanistan, NSIA, *Afghanistan Living Conditions Survey 2016-17*, 8/29/2018, pp. 142, 144; SIGAR analysis of Uppsala Conflict Data Program, "Number of Deaths: Afghanistan," <http://ucdp.uu.se/#country/700>, downloaded 12/23/2018.

2017, through its \$77.4 million Increasing Access to Basic Education and Gender Equity project, USAID had enrolled nearly 82,000 out-of-school children and youth in community-based schools (50% of which were girls) in 13 provinces—including in provinces such as Helmand and Uruzgan where the primary NAR for girls is very low.⁷⁴³ In an interview with SIGAR in Kabul that touched on the issue of girls' education, USAID told SIGAR this quarter that, across its education portfolio in Afghanistan, 142,000 students were enrolled, half of whom were girls (implying that USAID projects reached approximately 71,000 girls).⁷⁴⁴

While the agency's projects likely have positive effects on a subset of girls, given the staggering number of girls not attending school (nearly 2.6 million, according to the 2016–2017 ALCS) it is not so clear that USAID-administered education programming alone, at this particular juncture, has the capacity to substantially raise overall educational prospects for girls

in Afghanistan.⁷⁴⁵ USAID told SIGAR this quarter that it only tracks girls' education and other outcomes within the context of its own programming in Afghanistan.⁷⁴⁶

Although USAID does contribute to the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF), which provides substantial assistance to Afghanistan's education sector, even the ARTF's recently ended \$408 million flagship education project—the Second Education Quality Improvement Program (EQUIP II)—failed to meet every one of its grade-level targets for the ratio of girls to boys in school, as well as its target for overall girls' enrollment.⁷⁴⁷ Although overall girls' enrollment did increase by 1.5 million students from 2008–2017, this was achieved over the course of about a decade, the first part of which coincided with an increasing U.S. foreign policy focus on Afghanistan that saw international troop levels in the country rise considerably.⁷⁴⁸

EQUIP II's completion and results report, published by the Bank in July 2018, noted, “by 2011, economic and social progress began to slow down with the withdrawal of international security forces.”⁷⁴⁹ Consequently, it is difficult to disentangle the effect of the increased troop presence from effects attributable to EQUIP II alone. Deteriorating (or statistically stagnating) enrollment ratios for girls reflected in the 2016–2017 ALCS, compared to the results of the 2013–2014 survey that was conducted in the midst of the international troop drawdown, could be interpreted to mean that security is a prerequisite for effective girls' education programming. Another possible explanation, advanced by the NSIA, is that improvements to education have increasingly marginal impact given rapid improvement from a very low base.⁷⁵⁰ The NSIA also hypothesized that it may be “difficult—if not impossible with available resources” for the education system to keep pace with the “ever-increasing” number of children entering school age.⁷⁵¹ USAID's recent assistance agreement with the Afghan government, signed in September 2018, said the agency's education activities would aim to build on gains in the sector and to decrease the number of out-of-school children, especially girls.⁷⁵² Recent trends raise questions about the agency's capacity to achieve this aspiration.

USAID told SIGAR this quarter that it does not operate in areas controlled by the Taliban and that its implementing partners deal with the Taliban only “on the margins.”⁷⁵³ Given the strength of the insurgency, rising numbers of school-age children, and stagnant improvement to Afghan government district and population control over the last year and a half, the future of girls' education in Afghanistan is very much uncertain.⁷⁵⁴

HEALTH

Despite Afghanistan's lack of security, the country's health outcomes have improved since 2001. Nevertheless, due to fairly serious data limitations,

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.30

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursement, as of 1/12/2019
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/11/2016	5/10/2021	\$75,503,848	\$16,865,874
Helping Mothers and Children Thrive (HEMAYAT)	1/7/2015	1/06/2020	60,000,000	47,976,646
Disease Early Warning System Plus (DEWS Plus)	7/1/2014	6/30/2022	41,773,513	28,988,615
Health Sector Resiliency (HSR)	9/28/2015	9/27/2020	27,634,654	15,409,440
Medicines, Technologies and Pharmaceuticals Services (MTaPS)	9/20/2018	9/20/2023	20,000,000	0
Challenge Tuberculosis	1/1/2015	9/29/2019	15,000,000	11,699,395
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
Sustaining Health Outcomes through the Private Sector (SHOPS) Plus	10/11/2015	9/30/2020	12,000,000	4,584,957
Provide Family Planning Health Commodities for USAID Health Programs (GHSCM-PSM)	4/20/2015	4/19/2020	2,343,773	1,599,999
Global Health Supply Chain Quality Assurance (GHSC-QA)	1/2/2015	12/31/2019	1,500,000	1,500,000
Global Health Supply Chain Management (GHSCM-PSM)	4/20/2015	4/19/2020	176,568	176,568
Total			\$268,932,356	\$141,801,493

Source: USAID, response to SIGAR data call, 1/12/2019.

precise estimates regarding the magnitude of successes in the health sector are elusive (for more, see page 161 of SIGAR’s October 2018 *Quarterly Report to the United States Congress*).⁷⁵⁵

In early 2018, the World Bank emphasized there was still significant room for improvement.⁷⁵⁶ 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 experienced approximately the same number of newborn deaths in 2016, according to the UN.⁷⁵⁷

USAID believes that continuing to improve health outcomes will help achieve stability by bolstering Afghans’ confidence in the government’s capacity to deliver services.⁷⁵⁸ However, there is reason to doubt this theory of change. Although SIGAR cannot independently verify them, some reports indicate that the Taliban and the Afghan government sometimes cooperate in the health-care sector. For example, a June 2018 report published by the Overseas Development Institute (ODI) found that when problems with the Taliban emerge, health providers usually resolve them through shuras (formal or informal consultative assemblies that typically involve local and tribal leaders). 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.”⁷⁵⁹ More recent reporting from the Afghanistan Analysts Network indicated that in some districts, the Taliban do not interfere with health services (although they do demand privileged use of health-care facilities, including at night).⁷⁶⁰

U.S. on- and off-budget assistance to Afghanistan’s health sector totaled more than \$1.2 billion as of January 12, 2019.⁷⁶¹ USAID’s active health programs have a total estimated cost of \$269 million, and are listed in Table 3.30 on the previous page.

Initiative for Hygiene, Sanitation, and Nutrition: Corrective Notice Issued for Failure to Meet Indicators

USAID’s \$75.5 million Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) aims to improve nutrition of women of reproductive age and children under the age of five. Over its five-year programmatic life, the project expects to reduce the 40% baseline incidence of anemia among women of reproductive age by a minimum of four percentage points and decrease the incidence of **stunting** among children by at least two points from the baseline rate of 41%. IHSAN expects to achieve these outcomes by bolstering capacity to institutionalize nutrition programs, improving nutritional and hygiene behavior in communities and households, and increasing the availability of sanitation, hygiene, and nutritional products and services.⁷⁶² IHSAN programming commenced in May 2016 and is implemented by Family Health International (FHI 360).⁷⁶³

This quarter USAID informed SIGAR that it had issued a corrective notice to FHI 360 due to FHI 360’s poor performance and its failure to achieve the majority of essential nutrition and water, sanitation, and hygiene (WASH) indicators in fiscal years 2017 and 2018. FHI 360 provided a remedial plan to address these issues; USAID said it is closely overseeing the plan’s implementation and progress.⁷⁶⁴

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.⁷⁶⁵ A fatwa issued by the Pakistani Taliban targeting polio workers complicates vaccination outreach, while large-scale population movements between the two countries increase the risk of cross-border transmission.⁷⁶⁶ 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.⁷⁶⁷ (Media reports that SIGAR cannot confirm indicate that Pakistani doctor Shakil Afridi assisted the Central Intelligence

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

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

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.)⁷⁶⁸

As of December 22, 2018, the total number of new polio cases reported in Afghanistan stood at 21.⁷⁶⁹ According to the United Nations Children’s Fund and the World Health Organization, there were 13 officially reported cases in Afghanistan in 2017—unchanged from 2016.⁷⁷⁰ However, UNAMA reported that the total number of cases in Afghanistan in 2017 was 14, as of February 27, 2018.⁷⁷¹ Either way, the current number of confirmed cases of wild poliovirus in Afghanistan represents at least a 50% increase over the number of cases reported last year.⁷⁷² USAID previously informed SIGAR it expected the number of polio cases to rise in 2018.⁷⁷³ SIGAR continues to echo the agency’s concerns, particularly because the situation appears to have worsened substantially. In November 2018, the World Health Organization said it was “very concerned” by the increase in polio cases worldwide, particularly by the increase in Afghanistan, where more than one million children under the age of five were not accessible during recent polio immunization campaigns.⁷⁷⁴

As of August 31, 2017, (which was the most recent data provided to SIGAR), USAID had obligated approximately \$28.5 million and disbursed about \$28.4 million for polio-eradication efforts in Afghanistan since 2003.⁷⁷⁵