

ECONOMIC AND SOCIAL DEVELOPMENT CONTENTS

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ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES AND EVENTS

Following a significant drought in 2018, severe floods affected more than 163,000 people in at least 14 of Afghanistan's 34 provinces this quarter, as of April 2, 2019, according to the United Nations.⁴⁴² Of those affected, more than 42,000 Afghans had been displaced.⁴⁴³ Speaking to the *Guardian*, the deputy governor of hard-hit Kandahar Province, where nearly 33,000 people had been affected, described the floods as “the worst in at least seven years.”⁴⁴⁴ The UN said 63 people had died as a result of the floods and that an additional 31 people had been injured, as of March 19, 2019.⁴⁴⁵ Droughts can contribute to flooding when precipitation begins again because droughts kill water-absorbing vegetation and dry out (and therefore compact) soil, limiting absorption during heavy rains.⁴⁴⁶

Displacement related to the flooding, combined with the lingering effects of the 2018 drought, high levels of violence, frigid winter temperatures, and general poverty led Toby Lanzer, UN Deputy Special Representative of the Secretary-General, to describe the level of suffering in Afghanistan as “as bad as [he’s] ever seen,” according to reporting from the *Guardian*.⁴⁴⁷ According to the USAID-funded Famine Early Warning Systems Network (FEWS NET), as of March 11, 2019, most Afghan households faced acute food insecurity—meaning they were likely to suffer from food consumption gaps leading to acute malnutrition or would be forced to deplete household assets to meet minimum needs.⁴⁴⁸

In addition to the factors identified by the UN, FEWS NET ascribed current levels of food insecurity to a weakening of the casual labor market and below-average remittances from Afghans living in Iran.⁴⁴⁹ Reimposed U.S. sanctions resulted in substantial depreciation of the Iranian rial and lower demand for labor in the informal sector, where Afghans in Iran generally work.⁴⁵⁰ Largely because of the effects of the sanctions, 773,125 Afghans returned to Afghanistan from Iran in 2018, according to the UN’s International Organization for Migration.⁴⁵¹

In September 2018, USAID contributed approximately \$44 million to the UN World Food Programme (WFP) to support the provision of critical food assistance to Afghans.⁴⁵² According to UN data, 78% of Afghanistan’s humanitarian assistance needs in 2018 were met by donors.⁴⁵³ So far, disaster assistance in 2019 has not kept pace. In early March 2019, UN

Deputy Special Representative Lanzer described donor contributions of approximately \$611.8 million toward UN-identified humanitarian assistance requirements for Afghanistan in 2019 as “shocking” because they were so low (3% of total requirements as of the end of February 2019).⁴⁵⁴ As of March 20, 2019, donor funding had reached only 10.6% (\$64.9 million) of total identified requirements.⁴⁵⁵

This quarter, the International Monetary Fund (IMF) released preliminary results of its latest macroeconomic appraisal of Afghanistan. The IMF said it had revised its estimate of 2018 growth in Afghan gross domestic product (GDP) from 2.3% to 2.7%.⁴⁵⁶ Estimated growth was higher due to stronger-than-expected performance from Afghanistan’s industrial sector, which compensated for the effects of the widespread drought on agricultural performance.⁴⁵⁷ The IMF assessed that growth in 2019 would improve to 3% as agricultural production recovered.⁴⁵⁸ According to the World Bank, the agricultural sector employs approximately 40% of Afghans overall and more than half of the rural labor force.⁴⁵⁹

In sharp contrast to the IMF’s estimates, updated World Bank estimates released this quarter had Afghanistan’s GDP growing by only 1.0% in 2018.⁴⁶⁰ Previously, the Bank had projected 2.4% growth for 2018.⁴⁶¹ While the factors accounting for the Bank’s downward revision were not immediately clear, it appeared that lower-than-expected agricultural output played a significant role.⁴⁶² The Bank added that heightened political uncertainty and election-related violence had lowered business confidence.⁴⁶³

SIGAR analysis showed that the Afghan government’s domestic revenues grew by approximately 12.9%, year-on-year, over the first three months of Fiscal Year (FY) 1398 (December 22, 2018–March 19, 2019), compared to the first three months of FY 1397 (December 22, 2017–March 20, 2018).⁴⁶⁴ Expenditures, meanwhile, increased by 32.1% year-on-year, over the first three months of FY 1398. While this is a large increase, average monthly expenditures over the first three months of FY 1398 were 46.1% less than average monthly expenditures over all 12 months of FY 1397, suggesting that expenditure increases may moderate as the year progresses.⁴⁶⁵

U.S. SUPPORT FOR ECONOMIC AND SOCIAL DEVELOPMENT: THEORY, OBJECTIVES, AND FUNDING

Over the course of the U.S. reconstruction effort in Afghanistan, U.S. officials have viewed economic development as a necessary component of security. The U.S. government saw the development of a robust economy in Afghanistan as contributing positively to security by (1) providing gainful employment to the young, unemployed men who were considered most likely to join an insurgency; (2) creating confidence in and legitimacy for the state; and (3) generating revenue that would enable the state to deliver services and prevent dependency on donors.⁴⁶⁶

This quarter, SIGAR published its third *High-Risk List*. The purpose of the *High-Risk List* is to alert Members of Congress and the Secretaries of State and Defense to major areas of reconstruction at risk of waste, fraud, abuse, mismanagement, or mission failure. One reconstruction area deemed at risk by SIGAR was Afghanistan’s sluggish economic growth. For more, see pages 11–12 of this report.

The United States continues to emphasize the importance of economic development in its policy planning for Afghanistan. The U.S. government’s current Integrated Country Strategy (ICS) for Afghanistan states that U.S. efforts in Afghanistan—including the fundamental objective of preventing further attacks by terrorists on the U.S. homeland—cannot be sustained without a growing licit Afghan economy.⁴⁶⁷ The ICS further identifies clear risks posed by a lack of sustained economic growth and job creation—risks that include increased youth unemployment and poverty that could lead to extremism.⁴⁶⁸ 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.⁴⁶⁹

This goal, as well as the aspiration of rendering the Afghan government more stable and accountable, links the ICS to USAID’s Country Development Cooperation Strategy (CDCS) for Afghanistan.⁴⁷⁰ The CDCS, which postulates that accelerating economic growth will help expand the Afghan government’s revenue base, contribute to stability, and create the conditions necessary for peace, defines how the agency plans to approach its development efforts in Afghanistan over the next five years.⁴⁷¹ Figure 3.44 shows USAID assistance by sector.

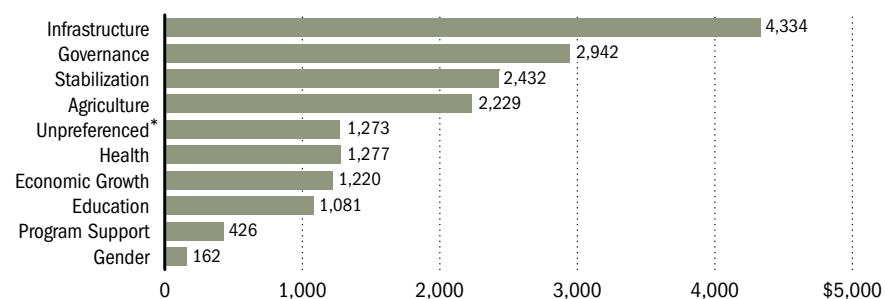
USAID articulated its strategic **Development Objectives (DOs)** for Afghanistan in the articles of a \$2.5 billion assistance agreement with the Afghan government signed on September 6, 2018. The agreement, which

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 APRIL 6, 2019 (\$ MILLIONS)



Note: USAID Mission-managed funds. Numbers are rounded. USAID gender programs managed by the agency’s Office of Gender are 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. Discrepancies in the data provided by USAID between last quarter and this quarter for Stabilization and Program Support projects resulted in a drop in cumulative disbursements for these categories. This did not seem realistic. Therefore, SIGAR used the cumulative disbursement figures from last quarter for the Stabilization and Program Support categories. SIGAR will raise this issue with USAID prior to next quarter’s reporting cycle.

*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, 4/11/2019; SIGAR analysis of World Bank, ARTF, *Administrator’s Report on Financial Status as of January 20, 2019*, 3/6/2019.

covers the agency's development efforts through December 31, 2023, states that USAID's development assistance is intended to:⁴⁷²

- 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)

It is unclear if these objectives are achievable, especially without a peace agreement. While the emphasis and intensity of specific policies and programs have changed over the past 17 years, the core belief and theory of change—that a growing economy contributes to stability and security—has remained constant.⁴⁷³ Yet, there is not universal agreement on the relationship between economic growth and security.⁴⁷⁴ SIGAR's own research suggests that security may be a prerequisite to sustained development.⁴⁷⁵

As of March 31, 2019, the U.S. government has provided approximately \$34.5 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 \$16.7 billion has been disbursed.⁴⁷⁶

ECONOMIC PROFILE

Donor plans articulated in the ICS and CDCS must grapple with the reality that building economic momentum will be difficult within the present context of increased political uncertainty, the lingering effects of an extreme drought for much of 2018, and declining business confidence, according to the World Bank.⁴⁷⁷ The IMF noted that as of December 2018, the midterm outlook for the Afghan economy faced “considerable downside risks” and that the near-term outlook had “weakened.”⁴⁷⁸

Even so, the IMF unexpectedly revised upward its 2018 GDP growth estimate to 2.7% due to stronger-than-expected performance from Afghanistan's industrial sector, which compensated for the effects of the drought on agricultural performance.⁴⁷⁹ Previously, the IMF had projected that Afghanistan's 2018 growth rate would be 2.3%.⁴⁸⁰

In sharp contrast to the IMF, but still in line with Afghanistan's recent low-growth trend, the Bank estimated that Afghanistan's GDP grew by only 1.0% in 2018.⁴⁸¹ Previously, the Bank had projected 2.4% growth for 2018.⁴⁸² While the reasons for the differing estimates (and the divergent revisions) were not immediately clear, the Bank appeared to have made the downward revision because of lower-than-expected agricultural output.⁴⁸³ According to the Bank, political uncertainty, which was degrading business confidence, had been heightened not only because of upcoming Afghan presidential elections scheduled for September 2019, but also because of ongoing peace talks between the U.S. and the Taliban.⁴⁸⁴

Opium and GDP Growth

Inclusive of the opium economy, GDP growth in Afghanistan can be higher or lower than that reported by the IMF and the World Bank. Reflecting the significant (approximately 90%) growth of opium production in 2017, Afghanistan's National Statistics and Information Authority reported that GDP growth inclusive of the opium economy in that year was 7.2%. Although final figures have not yet been published, opium will likely contribute far less to GDP growth in 2018, as high levels of supply and a widespread drought resulted in a significant decline in the amount of income earned by opium farmers.

Source: NSIA, *Afghanistan Statistical Yearbook 2017–2018*, 8/2018, p. 110; SIGAR, *Quarterly Report to the United States Congress*, 1/30/2019, pp. 150, 152; UNODC, *Afghanistan Opium Survey 2018: Cultivation and Production*, 11/2018, p. 5.

While both the Bank and the IMF anticipated that agricultural output would recover somewhat in 2019, the IMF said that even under its current projections, Afghanistan “would not make much progress in reducing poverty.”⁴⁸⁵ Neither the Bank’s nor the IMF’s analyses, however, account for the financial impacts of the opium economy to any significant extent.⁴⁸⁶

Although both donors and the Afghan government hope that licit growth will pick up gradually over the next several years, SIGAR’s 2018 lessons-learned report on private-sector development and economic growth found that optimistic longer-term expectations for the pace and level of progress did not always reflect the realities of the Afghan economy and the operating environment.⁴⁸⁷ Overall, many enduring barriers to growth remain, including limited skilled labor, a significant infrastructure deficit, corruption, and heavy reliance on foreign donor support.⁴⁸⁸

Fiscal Situation: Revenue Gains Remained Strong in Early 2019

Following a substantial budget shortfall in 2014 when international military expenditures in-country declined rapidly, the Afghan government’s revenue gains have been quite strong.⁴⁸⁹ The World Bank said Afghanistan’s 2018 revenue performance (AFN 189.7 billion, or approximately \$2.6 billion) represented a record high, reaching 14.2% of GDP according to SIGAR analysis.⁴⁹⁰

According to the Bank, recent revenue gains were attributable to improved customs enforcement and administration as well as new non-tax charges and fees, although revenue gains attributable to these factors were reaching diminishing returns.⁴⁹¹ The Bank expected revenues to stall in 2019, partly because these measures had reached exhaustion, and partly because of anticipated weakening in customs revenues due to diminished governance and political instability.⁴⁹²

SIGAR analysis showed that the Afghan government’s domestic revenue performance remained strong this quarter despite these concerns. Revenues grew by approximately 12.9%, year-on-year, over the first three months of Fiscal Year (FY) 1398 (December 22, 2018–March 19, 2019), compared to the first three months of FY 1397 (December 22, 2017–March 20, 2018).⁴⁹³

Ascertaining what revenue categories might have driven this increase was difficult this quarter because a large proportion (14.2%) of revenues over the first three months of FY 1398 were categorized as unspecified “Other Revenue” (also referred to as “Miscellaneous” revenue).⁴⁹⁴ According to MOF officials, the “Miscellaneous” category is sometimes used as a catch-all designation for uncategorized revenues prior to the MOF’s reconciliation.⁴⁹⁵ However, a 56.7% increase in income tax revenues and an 18.9% increase in revenues from the sale of goods and services appear to have contributed to the overall increase.⁴⁹⁶

TABLE 3.23

EXPENDITURES, FIRST THREE MONTHS, AFGHAN FISCAL YEARS 1397 AND 1398 COMPARED (IN AFGHANIS)			
Category	FY 1396	FY 1397	% Change
Wages and Salaries ^a	33,592,390,324	37,403,674,732	11.3%
Goods and Services ^b	3,361,042,150	7,776,365,575	131.4%
Subsidies, Grants, and Social Benefits ^c	1,438,338,383	929,497,905	(35.4%)
Acquisition of Assets ^d	657,513,061	5,574,659,282	747.8%
Interest and Repayment of Loans ^e	410,469,547	435,065,213	6.0%
Total	39,459,753,465	52,119,262,708	32.1%

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 4/8/2019; SIGAR analysis of USAID-provided AFMIS data exported 1/12/2019; Government of Afghanistan, MOF, *Chart of Account Guide Fiscal Year: 1397, Version 1, "Object Exp Long Des,"* 1/7/2018.

On-budget assistance: encompasses donor funds that are aligned with Afghan government plans, included in Afghan government budget documents, and included in the budget approved by the parliament and managed by the Afghan treasury system. On-budget assistance is primarily delivered either bilaterally from a donor to Afghan government entities, or through multidonor trust funds. (DOD prefers the term “direct contributions” when referring to Afghanistan Security Forces Fund monies executed via Afghan government contracts or Afghan spending on personnel.)

Off-budget assistance: encompasses donor funds that are excluded from the Afghan national budget and not managed through Afghan government systems.

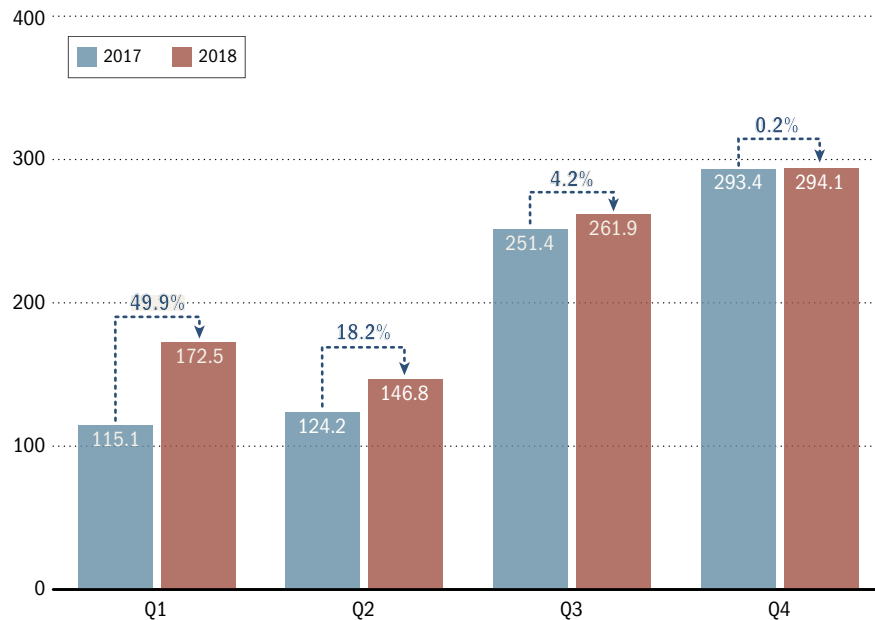
Expenditures, meanwhile, increased by 32.1% year-on-year. While this is a large increase, average monthly expenditures over the first three months of FY 1398 were 46.1% less than average monthly expenditures over all 12 months of FY 1397, suggesting that expenditure increases may moderate as the year progresses. Higher expenditures at the beginning of FY 1398, compared to the beginning of FY 1397, may also portend a smoother spending pattern this year. The first two months of FY 1397 were marked by unusually low spending levels, which did not tick up to end-of-year average monthly expenditure thresholds until months 4–5. Thus far, spending increases have been driven primarily by increases in outlays for the acquisition of assets and the purchase of goods and services. An 11.3% increase to wage and salary expenditures was also a factor.⁴⁹⁷ Table 3.23 shows a comparison of expenditures for the first three months of FY 1398, compared to FY 1397.

Overall, Afghanistan’s fiscal situation remains fragile. According to IMF projections, the Afghan government’s domestic revenues (total revenues minus donor contributions) will continue to cover less than 50% of total Afghan government expenditures through 2023.⁴⁹⁸ SIGAR analysis of World Bank data shows that foreign grants currently finance more than 70% of combined Afghan government expenditures and **off-budget** security and development spending.⁴⁹⁹ Consequently, increasing the fiscal sustainability of the Afghan government remains a key development objective for the United States.⁵⁰⁰

Source: SIGAR, *Quarterly Report to the United States Congress*, 7/30/2014, p. 130; Ministry of Finance, “Aid Management Policy for Transition and Beyond,” 12/10/2012, p. 8; State, response to SIGAR vetting, 1/14/2016; DOD, OSD-R, response to SIGAR vetting, 1/15/2018.

FIGURE 3.45

AFGHANISTAN'S EXPORT PERFORMANCE, 2017-2018 (\$ MILLIONS)



Source: SIGAR analysis of NSIA quarterly and annual export data, 2017-2018, accessed 9/25/2018, 12/20/2018, and 3/23/2019.

Trade: Exports Rose by Nearly 12% from 2017-2018 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.⁵⁰¹ Nonetheless, air exports have been growing at a rapid rate. According to USAID, the value of goods exported by air rose from nearly \$250 million in 2016 to over \$500 million in 2018—an increase of more than 100% over that two-year period.⁵⁰² Data provided to SIGAR by USAID this quarter showed that the value of air exports as a proportion of the total value of merchandise exports had increased to nearly 50% by the end of 2017.⁵⁰³

USAID has promoted 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.⁵⁰⁴ Despite this, 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.⁵⁰⁵ 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.⁵⁰⁶

Potential Data Quality Issue

On its public website, USAID said the total value of Afghanistan's air exports in 2018 was more than \$500 million. However, when SIGAR asked USAID's Office of Economic Growth to provide disaggregated data on air exports, USAID reported that the value of air exports in 2018 was only \$152.2 million—more than \$347.8 million (or approximately 70%) less than its public reporting. The reasons for this discrepancy were insufficiently explained. SIGAR will continue to follow this matter.

Source: USAID, OEG, response to SIGAR data call, 3/21/2019 and 9/21/2018; USAID, "Economic Growth: Afghanistan," 3/20/2019, <https://www.usaid.gov/afghanistan/economic-growth>, accessed 3/24/2019; USAID, OEG, response to SIGAR vetting, 4/11/2019.

Moreover, overall gains in Afghanistan's merchandise exports appear to be slowing. While SIGAR analysis of recent data from Afghanistan's National Statistics and Information Authority showed that overall export growth from 2017–2018 stood at 11.6%, quarter-to-quarter growth has slowed significantly, as Figure 3.45 on the previous page shows.⁵⁰⁷ The value of exports in quarter 4 of 2018 (\$294.1 million) was virtually unchanged from the value of exports in quarter 4 of 2017 (\$293.4 million), reflecting quarter-to-quarter, year-on-year growth of just 0.2%.⁵⁰⁸ The total value of merchandise exports in 2018 was \$875.2 million, while the total value of imports over the period was \$7.4 billion, putting Afghanistan's 2018 merchandise trade deficit at \$6.5 billion, nearly unchanged from 2017.⁵⁰⁹

Furthermore, Afghan, USAID, and State officials confirm that Afghanistan's air exports are currently receiving subsidies.⁵¹⁰ This quarter, USAID further clarified the magnitude of these subsidies. Relaying data from the Afghanistan Chamber of Commerce, USAID said that Afghan government subsidies covered 83% of shipment costs for flights to New Delhi, India; 80% of shipment costs for flights to Mumbai, India; and 70% of shipping costs for flights to Europe.⁵¹¹

Subsidies distort market dynamics. The World Trade Organization (of which Afghanistan is a member) prohibits export subsidies, subject to limited exceptions, because they provide an unfair competitive advantage to recipients. In particular, exceptions are made for specified developing countries.⁵¹²

It is not clear whether recent, seemingly encouraging merchandise export gains are sustainable given that subsidies cover the majority of what the Afghanistan Chamber of Commerce described as "shipment costs."⁵¹³ Despite a request from SIGAR, USAID has not fully explained the economics of the subsidies (which could clarify whether they exceed the profit margins of exporters and whether their net effect on Afghan income is positive, negative, or neutral).⁵¹⁴ While USAID claimed net gains to Afghan income as a result of the subsidies were 24% of the exported value of covered products, SIGAR has not independently verified this figure.⁵¹⁵ SIGAR will continue to look into this matter.

Afghanistan Sends First Round of Export Trade Through Chabahar Port

Although the United States reimposed sanctions on Iran, a waiver granted under the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA) provided an exemption for the development of the Chabahar Port in southeastern Iran, including the construction of an associated railway.⁵¹⁶ State said the purpose of the exemption was to facilitate reconstruction assistance to, and economic development for, Afghanistan.⁵¹⁷

On February 24, 2019, Afghanistan sent its first exports through Chabahar in a convoy of 23 trucks carrying 570 tons of dried fruit, textiles,

carpets, and mineral products, according to State.⁵¹⁸ State said that using the route from Zaranj (Nimroz Province), the departure point of the convoy, to Chabahar allows Afghan goods to reach India without crossing Pakistani territory.⁵¹⁹ Pakistan is regularly criticized by Afghan media and government officials for predatory economic practices, such as product dumping and nontariff barriers to trade.⁵²⁰

Even with the waiver for Chabahar and a separate exemption that allows Afghanistan to continue importing petroleum from Iran, reimposed sanctions may be having an overall negative effect on Afghanistan.⁵²¹ The sanctions resulted in substantial depreciation of the Iranian rial and lower demand for labor in the informal sector, where Afghans in Iran generally work.⁵²² Largely because of the effects of the sanctions, 773,125 Afghans returned to Afghanistan from Iran in 2018, according to the UN's International Organization for Migration, cutting remittances from Iran to Afghanistan to "almost zero" according to State.⁵²³ The loss of remittance incomes to families already stressed by a multi-year drought and heavy conflict, including some 250,000 internally displaced persons (IDPs) in western Afghanistan, will continue to provide significant challenges to those communities, according to State.⁵²⁴ State said the returnees include 4,005 unaccompanied Afghan children from Iran, many of whom faced severe sexual and physical abuse in detention centers before crossing the border.⁵²⁵ Most of these migrant children (98%) were forcibly deported from Iran, according to State.⁵²⁶

BANKING AND FINANCE

Afghanistan's modest financial sector consists of 12 banks—seven Afghan private banks, two branches of foreign banks, and three state-owned institutions.⁵²⁷ 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 and is no longer listed as a licensed financial institution on the Afghan central bank's website.⁵²⁸ This quarter, Afghanistan's central bank also canceled the operating license of Habib Bank Ltd., a Pakistani financial institution with a presence in Afghanistan.⁵²⁹ While the precise reason for the cancellation was unclear, various Afghan news agencies reported that Habib had committed unspecified violations of Afghan law.⁵³⁰

Overall, Afghanistan's weak and underdeveloped banking sector constrains investment and growth, according to the World Bank.⁵³¹ The Bank said that, due to high levels of uncertainty affecting the business climate, credit to the private sector had declined by 4% in 2018 and was equal to just 3% of GDP.⁵³² Excess liquidity, the Bank added, had risen to 63% of total bank assets.⁵³³

The banking sector is also vulnerable to high levels of abuse from terrorist and criminal organizations. In a report released this quarter, State continued to list Afghanistan as a major money-laundering jurisdiction. State said that terrorist and insurgent financing, money laundering, bulk cash smuggling, abuse of informal value-transfer systems, and other illicit activities that finance criminal activity continue to threaten Afghanistan's security and development. State added that although the Afghan government has enacted laws and regulations to combat financial crimes, it faces significant challenges in implementing and enforcing them.⁵³⁴

Treasury Technical Assistance Remained Limited This Quarter

In March 2015, the U.S. Treasury's Office of Technical Assistance (OTA) signed an agreement with Afghanistan's MOF to develop and execute technical-assistance and capacity-building programs aimed at strengthening the government's public financial management. OTA also aims to help the government of Afghanistan provide better oversight of its financial sector. President Ghani requested that OTA renew its engagement with the Afghan government in 2014 to assist with budget reforms and other activities.⁵³⁵ OTA's current work in Afghanistan is funded through an interagency agreement with USAID that expires in September 2019.⁵³⁶

This quarter, OTA reported that travel to Kabul continued to be on hold due to security concerns.⁵³⁷ OTA said it provided limited assistance to the MOF during the reporting period.⁵³⁸ No assistance was provided to Afghanistan's central bank this quarter, but OTA said it was planning a series of training sessions for central bank officials that would be executed in 2019.⁵³⁹

Kabul Bank Theft: Progress on Cash and Asset Recoveries Inches Forward

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 in September 2010.⁵⁴⁰ The scam, which required an \$825 million bailout from the Afghan government (an amount equivalent to approximately 5–6% of the country's GDP at the time), was one of the largest banking catastrophes in the world, relative to GDP.⁵⁴¹

The scandal involved an elaborate fraud and money-laundering scheme orchestrated by Kabul Bank chief executive officer Khalilullah Ferozi, founder Sherkhan Farnood (who died in August 2018 while serving time in Bagram Prison), and other key shareholders and administrators. According to a report from the United States Institute of Peace (USIP), years later, the legacy of Kabul Bank remains a striking symbol of the extensive corruption and criminality that undermines the Afghan government's legitimacy.⁵⁴² 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.⁵⁴³

According to State, KBR continued to make progress in recovering sizeable amounts of cash and assets from Kabul Bank debtors this quarter.⁵⁴⁴ Specifically, State said that since it began demanding that the Afghan government make progress on Kabul Bank debt collections and seizures through the Afghanistan Compact in June 2018, approximately \$10.3 million in cash or liquidated assets had been transferred to Afghan courts.⁵⁴⁵ The Afghanistan Compact is an initiative designed to demonstrate the Afghan government's commitment to reforms.⁵⁴⁶ State added that an additional \$10 million in property was making its way through Afghan courts for forfeiture, and that, separately, a large cache of gems possessed by Farnood's family, with a potential multi-million-dollar value, had been seized for forfeiture and auction.⁵⁴⁷

Nevertheless, total cash recoveries, as reported by the KBR, were \$265.92 million, as of March 20, 2019.⁵⁴⁸ This figure was just \$5.62 million more than total cash recoveries reported by the KBR on June 10, 2018.⁵⁴⁹ From January 6, 2019, to March 20, 2019, cash recoveries increased by \$2.02 million.⁵⁵⁰

State added that \$48.69 million in penalties were reimposed against Ferozi, reducing the total amount of waived interest to \$63.42 million (because interest payments previously waived are now being demanded), and raising the total amount of outstanding debt.⁵⁵¹ Mostly driven by this action, the KBR's figure for total recoveries fell by nearly \$50 million to \$401.9 million, which amounted to just 40.7% of \$987 million in total possible recoveries.⁵⁵²

ECONOMIC GROWTH

USAID's objective to accelerate private-sector-driven, export-led growth means that the agency's Office of Economic Growth (OEG) will play an important role in the agency's Country Development Cooperation Strategy (CDCS).⁵⁵³ Within the context of the new strategy, OEG's efforts seek to:⁵⁵⁴

- strengthen trade connections between Afghanistan and its neighbors
- increase firm-level competitiveness by supporting export-ready Afghan businesses
- raise employment levels through that firm-level support and by creating a more favorable enabling environment for businesses

It will be difficult for USAID to achieve its goal of accelerating Afghanistan's economic growth rate amid heightened uncertainty and ongoing conflict. USAID has cumulatively disbursed over \$1.2 billion for economic-growth programs in Afghanistan.⁵⁵⁵ USAID's active economic-growth programs have a total estimated cost of \$114 million and can be found in Table 3.24 on the following page.

TABLE 3.24

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 4/6/2019
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	2,246,298
Afghanistan Investment Climate Reform Program	3/27/2015	3/26/2020	13,300,000	5,892,783
Commercial Law Development Program	3/1/2014	9/30/2019	13,000,000	9,819,364
Carpet and Jewelry Value Chains	2/1/2019	3/31/2023	9,941,606	0
Goldozi Project	4/5/2018	4/4/2022	9,718,763	1,158,551
Livelihood Advancement for Marginalized Population (LAMP)	8/1/2018	7/31/2022	9,491,153	170,750
Establishing Kabul Carpet Export Center (KCEC)	6/6/2018	6/5/2021	9,416,507	2,373,000
Trade Show Support (TSS) Activity	6/7/2018	12/6/2020	3,999,174	2,249,850
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	732
Total			\$113,870,489	\$24,432,128

Source: USAID, response to SIGAR data call, 4/11/2019.

Natural Resources Remain Relatively Untapped

According to the World Bank, Afghanistan’s medium-term economic growth will depend in part on the realization of Afghanistan’s extractives industry potential.⁵⁵⁶ President Ghani has said, “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.”⁵⁵⁷ According to U.S. government estimates, Afghanistan has more than \$1 trillion in untapped extractive reserves that could generate more than \$2 billion in annual revenues for the Afghan government.⁵⁵⁸

Over the last several quarters, the Afghan government has attempted to move forward on tendering and approving mining projects. In the fall of 2018, the Afghan government signed three major contracts that had previously been stalled. These contracts included two copper mines—one in Herat Province and the other in Balkh and Sar-e Pul Provinces—and one gold mine in Badakhshan Province.⁵⁵⁹ This quarter, according to reporting from Reuters, Acting Minister of Mines and Petroleum Nargis Nehan announced 43 tenders for natural resource projects during a visit to Dubai. Nehan said the projects had generated interest from U.S., European, and

Persian Gulf companies. Further details regarding claimed investor interest were not provided.⁵⁶⁰

But despite much hope about the promises of mineral riches, mining currently constitutes only a small share of Afghan economic activity.⁵⁶¹ 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.⁵⁶²

In contrast to licit mining, illegal mining—broadly defined—has flourished in Afghanistan. Most mineral extraction in the country is either illicit or unregulated, according to a USIP report. 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.⁵⁶³ State said that, according to Afghan mining experts, Afghan raw minerals are exported almost entirely to Pakistan through informal channels, with no chain of custody for tax revenue collection.⁵⁶⁴

Bilateral U.S. Support to Afghanistan's Extractives Sector Likely to Remain Minimal Through 2023

U.S. interest in developing Afghanistan's extractives sector appeared to reemerge following President Donald J. Trump's August 2017 announcement of a new South Asia strategy.⁵⁶⁵ In September 2017, President Trump met with Afghan President Ashraf Ghani on the sidelines of the United Nations General Assembly in New York, where they discussed, among other topics, how American companies could rapidly develop Afghanistan's rare-earth minerals to lower the costs of U.S. assistance and render Afghanistan more self-reliant.⁵⁶⁶

Still, U.S. programming to develop the extractives sector remains relatively minimal. USAID has interagency agreements with the Department of Commerce to provide legal assistance to the sector (among other business-enabling activities that are not specific to extractives).⁵⁶⁷ USAID has a separate interagency agreement with the United States Geological Survey (USGS) to provide technical advisory services.⁵⁶⁸ These represent the only current U.S.-led initiatives to develop the natural resources industry.⁵⁶⁹

USAID's Office of Economic Growth, which manages the agency's current extractives sector assistance to Afghanistan, said the current projects involving CLDP and USGS are the only U.S. government projects likely to be implemented in the extractives sector over the implementation period of the CDCS, which covers USAID's development efforts in Afghanistan through 2023.⁵⁷⁰ State said it was unaware of any plans emanating from the Administration to develop Afghanistan's extractives sector, despite reported interest when President Trump took office.⁵⁷¹

Taliban Mining Revenues

While the Taliban are believed to derive revenues from illegal mining, reliable data on the extent of that revenue is difficult to obtain. According to one USIP report, extractives represent the second-largest revenue stream after narcotics, with approximately \$200–300 million in illegal mining revenues flowing to the group annually. However, State said its sources indicate that Taliban mining activities comprise a relatively small proportion of the total informal mining sector. According to State's sources, total Taliban revenues from illegal mining were just \$21 million (though it was unclear whether this figure was intended to include revenue from taxation). Thus, the range of possible Taliban revenues from illegal mining is quite wide.

Source: State, response to SIGAR data call, 3/22/2019; USIP, *Illegal Mining in Afghanistan: A Driver of Conflict*, 7/2017, pp. 1–2; State, response to SIGAR vetting, 4/9/2019.

In October 2018, two large mining contracts were indirectly awarded to a company—Centar Ltd.—that State believes reincorporated as a U.S. firm in Delaware just prior to signing the contracts.⁵⁷² One concession is for the Balkhab copper mine in Sar-e Pul and Balkh Provinces, and the other for a gold mine in Badakhshan.⁵⁷³ State said it is not aware of which investors hold precisely what percentage in either contract.⁵⁷⁴ According to contract documents, a company named Centar Ltd., based in Guernsey in the Channel Islands of the UK, owns 24.5% of the Badakhshan concession and 49.9% of the Balkhab project.⁵⁷⁵ Therefore, while at least one company executive and other Centar Ltd. representatives are American, according to State, it is not clear that Centar Ltd. is itself a U.S.-based firm.⁵⁷⁶

2018 Mining Law is in Force

SIGAR reported last quarter that there was some confusion whether Afghanistan's 2018 mining law was in effect. The Departments of State and Commerce reported this quarter that Afghanistan's 2018 mining law, which supersedes a 2014 law, was in force.⁵⁷⁷ The Afghan government is currently drafting new regulations, with input from donors, to support implementation of the new law.⁵⁷⁸

According to a September 2018 statement from Global Witness, a nongovernmental organization that aims to expose corruption and human-rights abuses, Afghan civil society organizations (CSOs) had reacted positively to some parts of a draft version of the law, including a transparency provision requiring that contracts be published before becoming valid.⁵⁷⁹ However, some concerns remained. For example, the draft law granted significant authority to presidentially appointed bodies, minimizing the role of Afghanistan's Ministry of Mines and Petroleum (MOMP), according to the CSOs.⁵⁸⁰ Additionally, CSOs said, the draft version of the law did not require publishing Afghan government sub-accounts used for mining revenues, which would make it more difficult to determine whether mining companies were paying required royalty fees.⁵⁸¹ There is also some concern among donors that royalty rates, which are fixed in the law, could render certain projects uneconomical (and therefore not investment-worthy).⁵⁸²

The Afghan government said the new law more clearly defined roles and responsibilities within MOMP departments and generally contained greater transparency and anticorruption provisions than the earlier statute.⁵⁸³ SIGAR has not independently assessed the 2018 mining law and does not currently have an official English translation of its final version.⁵⁸⁴ SIGAR will continue to report on the implications of the new law.

TABLE 3.25

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 4/6/2019
Strengthening Watershed and Irrigation Management (SWIM)	12/7/2016	12/6/2021	\$87,905,437	\$15,046,901
Regional Agriculture Development Program (RADP North)	5/21/2014	5/20/2019	78,429,714	64,490,651
Commercial Horticulture and Agriculture Marketing Program (CHAMP)	2/1/2010	12/31/2019	71,292,850	61,532,955
Afghan Value Chains-Livestock Activity	6/9/2018	6/8/2021	55,672,170	4,233,421
Afghanistan Value Chains-High Value Crops	8/2/2018	8/1/2023	54,958,860	2,300,878
RADP East (Regional Agriculture Development Program-East)	7/21/2016	7/20/2021	28,126,111	11,726,049
Grain Research and Innovation (GRAIN)	3/13/2017	9/30/2022	19,500,000	8,380,990
Promoting Value Chain-West	9/20/2017	9/19/2020	19,000,000	8,000,000
ACE II (Agriculture Credit Enhancement II)	6/23/2015	6/30/2019	18,234,849	17,041,341
Catalyzing Afghan Agricultural Innovation	5/28/2018	5/27/2023	8,000,000	967,508
SERVIR	9/14/2015	9/30/2020	3,100,000	1,558,556
Total			\$444,219,991	\$195,279,249

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see pages 170–177 of this report.

Source: USAID, response to SIGAR data call, 4/11/2019.

AGRICULTURE

The agricultural sector employs more than half of the rural labor force and approximately 40% of Afghans overall, according to the World Bank. Historically, agriculture has made substantial contributions to Afghanistan’s licit economic growth, although the sector’s share of the overall economy has declined since the 2001 intervention in Afghanistan due to growth in Afghanistan’s service sector.⁵⁸⁵

In addition to licit agricultural activity, which donors support, illicit opium-poppy cultivation thrives in Afghanistan.⁵⁸⁶ According to the United Nations Office on Drugs and Crime, in 2017, the value of opiates potentially available for export was the equivalent of 20–32% of Afghanistan’s licit GDP.⁵⁸⁷

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.⁵⁸⁸ Pages 170–177 of this quarterly report discuss USAID’s agriculture alternative-development programs. USAID’s active agriculture programs have a total estimated cost of \$444 million and can be found in Table 3.25.



Flash floods struck large swathes of Afghanistan in early March 2019. A second wave of flooding hit later that month. (U.S. Embassy Kabul photo)

In a February 13, 2019, press briefing, Toby Lanzer, the UN Secretary-General's Deputy Special Representative for Afghanistan, in response to a question about Taliban taxation of NGOs, said importing humanitarian aid into Afghanistan was sometimes a challenge for NGOs. While Lanzer provided no specifics, he said aid agencies "sometimes struggle with the authorities on either side of any dividing line." Lanzer added the UN was "having a conversation about this with everyone to make all officials aware and all people in position of influence aware."

Source: UN, "Press briefing by DSRSG Toby Lanzer in Kabul," 2/14/2019.

Floods Follow Drought, Contributing to High Levels of Food Insecurity

Severe floods affected at least 14 of Afghanistan's 34 provinces this quarter. According to the United Nations (UN), the floods had affected more than 163,000 people as of April 2, 2019, with more than 42,000 displaced.⁵⁸⁹ Speaking to *Guardian*, the Deputy Governor of hard-hit Kandahar Province, where nearly 33,000 people had been affected, described the floods as "the worst in at least seven years."⁵⁹⁰ The UN said 63 people had died as a result of the floods and that an additional 31 people had been injured, as of March 19, 2019.⁵⁹¹

The floods follow a severe drought in 2018 that affected the majority of Afghan provinces, with precipitation 70% below Afghanistan's long-term rainfall average.⁵⁹² Droughts can lead to flooding when precipitation begins again because they kill water-absorbing vegetation and dry out (and therefore compact) soil, limiting absorption during heavy rains.⁵⁹³

The drought decreased winter food supplies in many locations, thereby increasing the urgency of assisting displaced and returned populations, according to State.⁵⁹⁴ According to the USAID-funded Famine Early Warning Systems Network (FEWS NET), as of March 11, 2019, most Afghan households faced acute food insecurity—meaning they were likely to suffer from food-consumption gaps leading to acute malnutrition or would be forced to deplete assets to meet minimum needs.⁵⁹⁵

Some households had resorted to selling children or forcing them into childhood marriages in order to survive, according to State.⁵⁹⁶ Flood-related displacement, combined with the lingering effects of the drought, high levels of violence, frigid winter temperatures, and general poverty led UN Deputy Special Representative of the Secretary-General Toby Lanzer to describe the level of suffering in Afghanistan as "as bad as [he's] ever seen," according to reporting from the *Guardian*.⁵⁹⁷ In September 2018, USAID contributed approximately \$44 million to the UN World Food Programme (WFP) to support the provision of critical food assistance to Afghans.⁵⁹⁸ However, as of March 20, 2019, donor funding had reached just 10.6% (\$64.9 million) of total UN-identified humanitarian relief requirements.⁵⁹⁹ According to UN data, 78% of Afghanistan's humanitarian assistance needs were met by donors in 2018.⁶⁰⁰

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 2002.⁶⁰¹ 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

Approximately 30% of Afghans had access to grid-based electricity, as of August 2017, according to USAID. USAID said the proliferation of distributed solar systems (systems that provide energy at or near where it will be used) means that significantly more than 30% of Afghans have access to electricity today. However, the agency added that these systems lack the capacity and availability required to be the primary source of power for commercial enterprises.⁶⁰²

The World Bank said that lack of access constitutes a crucial barrier to progress on a wide range of development indicators, including poverty reduction, health, education, food security, and livelihoods.⁶⁰³ Overall, many enduring challenges in the power sector remain, according to USAID. Those challenges include Afghanistan's near-complete (80%) dependence on electricity imports, weak sector governance, a poorly functioning national utility, insufficient supply to meet growing demand, and insufficient transmission and distribution networks.⁶⁰⁴

Insecurity can also present obstacles to implementing power-infrastructure projects. In an interview conducted by SIGAR in Kabul last quarter, USAID Office of Infrastructure (OI) officials stated that once power-infrastructure has been constructed, the Taliban rarely attack it directly; damage is more often a result of crossfire.⁶⁰⁵ According to The Asia Foundation's 2018 *Survey of the Afghan People* released last 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.⁶⁰⁶ In contrast, only 12.2% of respondents to the Foundation's 2017 survey said their electricity supply had improved relative to the prior year.⁶⁰⁷ Still, 20.1% of respondents cited access to electricity as the biggest problem in their local area.⁶⁰⁸

U.S. Power-Sector Assistance: Priority on Expanding the National Power Grid

The majority of the U.S. government's current work in the Afghan power sector consists of large-scale infrastructure projects. A top priority has been expanding and connecting islanded power grids. Both USAID and DOD have been working to connect Afghanistan's Northeast Power System (NEPS) with its southeastern counterpart, the Southeast Power System (SEPS).⁶⁰⁹ USAID is funding the construction of a 470-kilometer transmission line that, when complete, will connect the two networks.⁶¹⁰ USAID is also expanding the SEPS network.⁶¹¹

For its part, DOD has funded projects intended to expand and improve SEPS, as well as a significant expansion of NEPS. DOD also funded a "bridging solution" for power in Kandahar City that concluded in September 2015. The bridging solution provided power to key industrial parks to buy

SIGAR SPECIAL PROJECT

In March 2019, SIGAR released the results of site visits to verify the locations and conditions of eight DOD-funded bridge projects in Ghazni Province. The eight bridges were constructed or rehabilitated using funds from the Commander's Emergency Response Program between 2009 and 2012. SIGAR found that the location information maintained in DOD systems was accurate; all eight bridges were within one kilometer of their recorded coordinates. SIGAR also found that all eight bridges were open, in good condition, and that local community members regarded them as being very useful to the local communities.

In addition to power-infrastructure projects funded by AIF, DOD is connecting Afghan National Defense and Security Force bases to regional electricity networks. These projects are funded through the Afghanistan Security Forces Fund. For a list of current projects, see pp. 92 and 102 of this report.

TABLE 3.26

USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 4/6/2019
Contributions to the Afghanistan Infrastructure Trust Fund (AIF)	3/7/2013	3/6/2023	\$153,670,184	\$153,670,184
Engineering Support Program	7/23/2016	7/22/2019	125,000,000	59,502,138
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	991,145
Power Sector Governance and Management Assessment	1/12/2019	3/2/2019	567,330	567,330
Total			\$309,388,754	\$215,730,797

Source: USAID, response to SIGAR data call, 4/11/2019.

According to USAID, when power-infrastructure projects are completed, they provide nearly immediate benefits to local populations. In an interview in Kabul last 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 DABS, the project had resulted in 1,500 new connections in Sayyidabad and 2,600 new connections in Ghazni.

Source: SIGAR, interview with USAID/OIG officials, 11/8/2018.

time for other infrastructure to be built.⁶¹² However, much of that additional infrastructure was either completed well after the bridging solution ended, or is still under construction.⁶¹³

DOD and USAID's power-infrastructure projects are funded through the Afghanistan Infrastructure Fund (AIF), with monies appropriated by Congress in Fiscal Years (FYs) 2011–2014. USAID is also using the Economic Support Fund to cover some project costs.⁶¹⁴ No additional AIF monies have been appropriated since FY 2014.⁶¹⁵ However, up to \$50 million of Title IX Overseas Contingency Operations (OCO) funds appropriated in later acts may be used to complete these projects.⁶¹⁶

DOD Power-Infrastructure Projects are Nearly Complete; Major USAID Projects Remain Ongoing; Implementation Risks Remain

The majority of DOD's AIF power-infrastructure projects are complete. Two remain. The first is a two-part project to construct substations and a transmission line from Sangin to Lashkar Gah in Afghanistan's restive Helmand Province (this component of the project remains ongoing) and to improve three substations in SEPS (this component of the project is now complete). The second ongoing project will construct transmission lines from Paktiya Province to Khost Province. Approximately \$187.4 million has been obligated for those two projects, of which \$166.1 million has been disbursed. In total, \$601.0 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 \$572.1 million disbursed.⁶¹⁷

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.⁶¹⁸ The

agency's active power-infrastructure programs have a total estimated cost of more than \$309 million and are listed in Table 3.26.

Both DOD and USAID power-infrastructure projects have faced substantial delays over the years, raising questions about whether they will fully achieve their intended economic-development effects.⁶¹⁹

USAID said its current set of power-infrastructure projects would be complete by late 2022.⁶²⁰ Completion delays for the agency's power-infrastructure projects may continue: in a biweekly report submitted on March 6, 2019, USAID quality-assurance contractor Tetra Tech warned that Afghanistan's national utility, Da Afghanistan Breshna Sherket (DABS), had not yet compensated persons affected by the project's land-acquisition resettlement plan for USAID-funded NEPS-SEPS connector transmission lines.⁶²¹ Consequently, those persons had stopped construction activities at 88 project locations, as of March 6, 2019. Tetra Tech said this development would affect the project completion date.⁶²² In response to a draft of this report, USAID said the number of construction locations affected by the project's land-acquisition resettlement plan had dropped from 88 to 59, as of April 11, 2019.⁶²³ Tetra Tech also noted numerous instances of contract non-conformance on the part of the contractor, KEC International Limited, that may indicate substandard construction quality at some work sites along the planned transmission lines.⁶²⁴

Tetra Tech said that, as of March 3, 2019, project sites for USAID's NEPS-SEPS Connector had a total of 92 open construction deficiencies.⁶²⁵ According to USAID, 5% of the total contract value is withheld from the contractor until all deficiencies noted in the final inspection are resolved.⁶²⁶

EDUCATION

Prior to the U.S.-led military intervention of 2001, Afghanistan's education system had been decimated by several decades of conflict. In the years since, donors have generally highlighted Afghanistan's progress in the education sector as a significant success story.⁶²⁷ 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.⁶²⁸ Afghanistan's Ministry of Education (MOE) counts students who have been absent for up to three years as enrolled because, it says, they might return to school, limiting the usefulness of government data to determine attendance rates.⁶²⁹

It is clear that many Afghan children and youth do not attend school, either because they drop out or because they never enroll at all.⁶³⁰ According to a comprehensive survey conducted by Afghanistan's statistical authority in 2016 and 2017, the number of out-of-school children ages 7–18 was more than 4.2 million, of whom nearly 2.6 million were girls.⁶³¹ Moreover, attendance rates appear to have stagnated in recent years. Commenting on the failure to raise attendance rates of primary-school

Education and the Taliban

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 (AAN), schools continue to operate in areas under Taliban control in Dasht-e Archi district, Kunduz Province. In most of the district, a Taliban education committee controls the schools. The committee reportedly interferes in curricula by insisting on additional religious teaching and exerts influence over school staffing. A dispute between the government and the Taliban over teacher salaries was mediated by local elders, according to AAN's research.

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 (3): Delivering public services in insurgency-affected Dasht-e Archi district in Kunduz province," 2/26/2019.

TABLE 3.27

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 4/6/2019
Afghanistan University Support and Workforce Development Program	1/1/2014	9/30/2019	\$93,158,698	\$86,687,630
Increasing Access to Basic Education and Gender Equality	9/17/2014	12/31/2019	77,402,457	77,402,457
Textbook Printing and Distribution II	9/15/2017	12/31/2019	75,000,000	0
Afghan Children Read (ACR)	4/4/2016	4/3/2021	69,547,810	29,899,949
Support to the American University of Afghanistan (AUAF)	8/1/2013	11/29/2019	72,181,844	61,858,575
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2020	44,835,920	32,835,808
Let Girls Learn Initiative and Girls' Education Challenge Programme (GEC)	6/29/2016	6/28/2021	25,000,000	15,000,000
Capacity Building Activity at the Ministry of Education	2/1/2017	1/31/2022	23,212,618	10,073,392
Afghanistan's Global Partnership for Education	10/11/2012	6/30/2019	15,785,770	14,235,078
Financial and Business Management Activity with AUAF	7/5/2017	6/4/2019	4,384,058	2,290,957
PROMOTE Scholarships PAPA	3/4/2015	3/3/2020	1,247,522	1,247,522
Total			\$501,756,697	\$331,531,367

Source: USAID, response to SIGAR data call, 4/11/2019.

age children between surveys conducted in 2011–2012 and 2016–2017, Afghanistan's statistical authority said, "This is a remarkable finding, given the continuous efforts to expand primary education facilities across the country."⁶³²

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.⁶³³ While they have improved since 2001, educational prospects for girls in particular remain low.⁶³⁴

USAID, which aims to improve access to and quality of education in Afghanistan, as well as build capacity at the MOE, has disbursed nearly \$1.1 billion for education programs in Afghanistan, as of April 6, 2019.⁶³⁵ USAID's active education programs have a total estimated cost of \$502 million as shown in Table 3.27.

New World Bank Education Project Moving Forward, but Experiencing Some Friction

The World Bank's \$298 million Education Quality Reform in Afghanistan (EQRA) project aims to increase access to primary and secondary education, especially for girls, in provinces where attendance and enrollment indicators are lagging behind. Another objective of the project is to improve learning conditions in Afghanistan.⁶³⁶ According to the Bank, EQRA is

designed to build on its predecessors, the First and Second Educational Quality Improvement Programs (EQUIP I and EQUIP II).⁶³⁷

EQRA is financed by a \$100 million grant from the World Bank's International Development Association (which provides grants and zero- or low-interest loans to help develop low-income countries), a \$100 million grant from the Global Partnership for Education (GPE, a multistakeholder organization that assists developing countries implement their education strategies), and a \$100 million contribution from the Afghanistan Reconstruction Trust Fund (ARTF).⁶³⁸ The grant from GPE includes \$2 million to cover administrative costs borne by the World Bank throughout project implementation (hence, the Bank lists the total project cost as \$298 million rather than \$300 million).⁶³⁹ EQRA, which was approved in September 2018, will be implemented through December 2023.⁶⁴⁰ The U.S. has disbursed approximately \$21.1 million to the ARTF to support EQRA.⁶⁴¹ Since October 2012, the U.S. has disbursed approximately \$12.9 million to GPE to support education in Afghanistan.⁶⁴²

This quarter, SIGAR received a report describing the results of the Bank's first implementation support mission for EQRA. The purpose of the mission was to review implementation progress and provide technical support.⁶⁴³ Bank officials noted there had been "concrete progress" on EQRA implementation. That progress included the signing of a memorandum of understanding between the MOE and the Ministry of Rural Rehabilitation and Development (MRRD) that delineated their respective responsibilities to further the planned construction of nearly 1,950 new schools and the improvement of 700 others under the project.⁶⁴⁴ According to the Bank, the mandate for school construction in rural areas was shifted last year from the MOE to the MRRD.⁶⁴⁵

Bank officials also said MRRD engineers surveying sites identified for school construction had observed a variety of issues that could warrant concern if not resolved in a timely manner. According to MRRD engineers, some of the surveyed sites did not have functioning Community Development Councils (CDCs).⁶⁴⁶ The Bank views CDCs, which were first established under its National Solidarity Program (NSP), as viable mechanisms for channeling development funding to local areas.⁶⁴⁷ During the implementation of NSP, CDCs, which operate at the village level and consist of members selected by a given community, were trained to manage small-scale projects funded by block grants.⁶⁴⁸

The lack of functioning CDCs at some planned school-construction sites, the Bank said, was an indication there was insufficient capacity to implement construction projects in these areas.⁶⁴⁹ Other issues identified by MRRD engineers included unavailable land, school buildings already constructed by other donors, community requests extending beyond the scope of the project, and unspecified security issues.⁶⁵⁰ Of 700 sites surveyed by MRRD engineers, only 300 had been found acceptable by the Bank

Seemingly acknowledging the limited utility of Afghan government enrollment data, USAID said the World Bank's Education Quality Reform in Afghanistan project, to which the agency contributes, will attempt to track actual attendance rates. USAID said this represented a shift in the World Bank's approach to monitoring its education projects in Afghanistan.

Source: USAID, OED, response to SIGAR vetting, 4/11/2019.

for the construction or improvement of schools, as of December 2018.⁶⁵¹ SIGAR will continue to track implementation progress of this flagship education project.

SPECIAL PROJECT

SIGAR released findings from site visits at 17 USAID-supported public health facilities in Faryab Province. The purpose of this review was to determine if the public health facilities were open, operational and adequately maintained and whether geospatial coordinates were accurate. SIGAR found that all 17 facilities were open and operational. Several facilities had minor structural issues (including cracked walls and leaking roofs) and not all facilities had access to reliable electricity.

HEALTH

Afghanistan's health outcomes have improved since 2001. Nevertheless, fairly serious data limitations complicate a precise evaluation of the extent to which those outcomes have improved.⁶⁵²

According to the World Bank, Afghanistan has made progress in key health indicators concerning maternal and child health, health service delivery, and nutrition, despite increasing insecurity since 2005. Pointing to Afghanistan's Demographic and Health Survey, which gathered substantial data on then-current health outcomes in Afghanistan, the Bank said that Afghanistan benefitted from a significant reduction in the under-five mortality rate, which fell from 97 per 1,000 live births in 2010 to 55 per 1,000 live births in 2015.⁶⁵³

Even with these improvements, however, Afghanistan's maternal mortality ratio remains very high at 650 deaths per 100,000 live births, according to the Bank (demonstrating the extent of discrepancies in health outcome data, another World Bank source, referring to UN estimates, stated that the maternal-mortality ratio was 396 deaths per 100,000 live births in 2015).⁶⁵⁴ The Bank added that Afghanistan's neonatal mortality rates, which account for approximately 40% of total under-five mortality, also remain high.⁶⁵⁵ According to the CIA World Factbook, Afghanistan also has the lowest life expectancy (52.1 years) in the world.⁶⁵⁶

USAID believes that continuing to improve health outcomes will help achieve stability by bolstering Afghans' confidence in the government's capacity to deliver services.⁶⁵⁷ However, there is reason to doubt this theory of change. Although SIGAR cannot independently verify them, some reports indicate that the Taliban benefit directly from government-funded health provision. For example, recent research from AAN in Dasht-e Archi District, Kunduz Province, found that the majority of the 10 health facilities in the district were located in Taliban-controlled areas. Health services are crucial for the Taliban, AAN said, because the group must ensure that their fighters are treated.⁶⁵⁸ According to AAN, the Taliban do not interfere directly in health services in Dasht-e Archi.⁶⁵⁹ While respondents to AAN interviews said that health facilities in the district treated both men and women, women are unable to seek treatment at health facilities unless they were accompanied by a male relative, indirectly limiting their access.⁶⁶⁰

U.S. on- and off-budget assistance to Afghanistan's health sector totaled nearly \$1.3 billion as of April 6, 2018.⁶⁶¹ USAID's active health programs have a total estimated cost of \$284 million, and are listed in Table 3.28.

TABLE 3.28

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 4/6/2019
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/11/2016	5/10/2021	\$75,503,848	\$22,181,634
Helping Mothers and Children Thrive (HEMAYAT)	1/7/2015	1/06/2020	60,000,000	50,443,943
Disease Early Warning System Plus (DEWS Plus)	7/1/2014	6/30/2022	54,288,615	28,988,615
Health Sector Resiliency (HSR)	9/28/2015	9/27/2020	27,634,654	17,097,156
Medicines, Technologies and Pharmaceuticals Services (MTaPS)	9/20/2018	9/20/2023	20,000,000	174,925
Challenge Tuberculosis	1/1/2015	9/29/2019	16,886,357	12,889,395
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	12,500,000	8,210,149
Provide Family Planning Health Commodities for USAID Health Programs (GHSCM-PSM)	4/20/2015	4/19/2020	2,343,773	256,227
Global Health Supply Chain Quality Assurance (GHSC-QA)	1/2/2015	12/31/2019	1,500,000	1,182,308
Global Health Supply Chain Management (GHSCM)	4/20/2015	4/19/2020	176,568	176,568
4 Children	9/15/2014	9/16/2019	20,000	20,000
Total			\$283,853,815	\$154,620,920

Source: USAID, response to SIGAR data call, 4/11/2019.

\$624 Million World Bank Program Intended to Improve Health Outcomes Yields Some Encouraging Results, but Misses on 67% of Objectives

The World Bank's \$623.9 million System Enhancement for Health Action in Transition project (SEHAT), which concluded on June 30, 2018, aimed to expand the coverage, quality, and scope of health-care services, particularly to Afghans living below the poverty line in project areas.⁶⁶² The project also sought to strengthen the Ministry of Public Health to integrate its health-services contracting unit and develop uniform performance-monitoring and contracting-management systems.⁶⁶³ SEHAT, which funded basic primary health-care services, provided support to more than 2,000 facilities across Afghanistan.⁶⁶⁴

As of January 20, 2019, the United States, through USAID, had provided approximately \$218.7 million in funding for the project, paid through the World Bank-administered Afghanistan Reconstruction Trust Fund.⁶⁶⁵

According to SEHAT's Implementation Completion and Results (ICR) Report on final project results, which was provided to SIGAR this quarter by USAID, SEHAT exceeded two of its development objectives by wide margins.⁶⁶⁶ SEHAT helped increase the number of births attended by skilled



World Health Organization (WHO) Director-General Dr. Tedros Adhanom Ghebreyesus reemphasized the WHO's commitment to eradicating polio in Afghanistan while speaking at the Ministry of Public Health in January 2019. (WHO photo)

health professionals from a baseline of 429,305 in December 2012 to 890,240 as of June 30, 2018. This latter figure was more than 107% above the project baseline and just over 57% more than SEHAT's target of 566,683.⁶⁶⁷ The project also expanded treatment of acute malnutrition for children under five years old from a baseline value of 24% to 77% of those children, a figure that was well above the project's target of 55%.⁶⁶⁸

While these results are impressive, the ICR also noted that the project had fallen short of 67% of project development objectives.⁶⁶⁹ While SEHAT expanded coverage of the Pentavalent vaccine, which provides immunization against five life-threatening diseases (tetanus, hepatitis B, pertussis, diphtheria, and Hib influenza) and is administered in three doses, to 45.0% of children between 12 and 23 months old in Afghanistan's lowest income quintile—up from a baseline of 28.9% in January 2011—the target for this indicator, to be achieved by June 30, 2018, was 60.0%.⁶⁷⁰

SEHAT also lagged significantly behind on expanding the use of contraceptives, finishing 13.7 percentage points below its end-program target of 30%. According to the data presented in the ICR, the contraceptive prevalence rate may have decreased by 1.7 percentage points from a January 2011 baseline value of 18.0%.⁶⁷¹ Moreover, while SEHAT made progress on improving the quality of health care from a baseline value of 55% (assessed via a balanced scorecard) to 59.3% by project closure, progress halted 10.7 percentage points shy of the project's end target of 70%.⁶⁷² Finally, SEHAT had not achieved full accreditation of the MOPH's procurement department, which was part of an effort to strengthen the ministry's fiduciary systems.⁶⁷³

While SEHAT is now closed, the World Bank approved the \$600 million Sehatmandi project in March 2018. Sehatmandi has similar objectives.⁶⁷⁴

Polio: 2018 was a Bad Year

Afghanistan and Pakistan, 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.⁶⁷⁵ 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.⁶⁷⁶

Although they sometimes provide access to vaccination efforts, the Afghan Taliban also disrupt them. This quarter, the Taliban reportedly announced a ban on the World Health Organization (WHO) and the International Committee of the Red Cross (ICRC) in areas controlled by the group. The Taliban claimed the WHO, which is conducting a vaccination campaign in Afghanistan, and the ICRC had been engaging in unspecified “suspicious activities.”⁶⁷⁷

As of March 28, two new polio cases were reported in Afghanistan in 2019. Twenty-one cases were reported in 2018, which was substantially higher than the 13–14 cases seen in 2016 and in 2017.⁶⁷⁸ 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.⁶⁷⁹

As of December 31, 2018, USAID had obligated approximately \$36.6 million and disbursed approximately \$32.5 million for polio-eradication efforts in Afghanistan since 2003.⁶⁸⁰

In a February 13, 2019, press briefing, Toby Lanzer, the UN Secretary-General's Deputy Special Representative for Afghanistan, called Shah Wali Kot district in Kandahar Province the “epicenter of polio in the world.”

Source: UN, “Press briefing by DSRSG Toby Lanzer in Kabul,” 2/14/2019.