ECONOMIC AND SOCIAL CONTENTS

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KEY ISSUES AND EVENTS
An additional $5.2 billion in economic development funds may be required to consolidate and sustain a future Afghan political settlement, the World Bank said in a draft plan released this quarter. The additional funds would finance expanding existing programs and implementing new projects for five years following a peace agreement. The Bank’s plan is consistent with SIGAR’s 2019 High-Risk List, which emphasized that peace would not be cost-free. For more on the Bank’s draft plan, see pages 135–137.

The U.S. government returned $81.4 million to the U.S. Treasury that was intended for a large power-infrastructure project, USAID informed SIGAR this quarter. Secretary of State Michael R. Pompeo initially said that up to $100 million would be returned in a September 19, 2019, statement that cited Afghan government corruption and financial mismanagement as the cause. While the press widely characterized this as a new development, SIGAR reported in April 2018 that these funds were likely to expire. The power project, which aims to expand the Afghan electric grid, will still be implemented, but off-budget (with procurement and implementation managed by the United States, not by Afghan officials).

Secretary Pompeo also announced that $60 million in planned assistance to the Afghanistan Reconstruction Trust Fund (ARTF) would be withheld (but not returned to the U.S. Treasury) due to the Afghan government’s failure to meet unspecified reform benchmarks for transparency and accountability in public financial management. USAID later clarified that the benchmarks, which were not yet due at the time of the Secretary’s statement, require the Afghan government to publicly publish revenue data and cash management decisions made by the MOF. The Secretary took specific issue with Afghanistan’s National Procurement Authority—the secretariat of the National Procurement Commission (NPC), a centralized government procurement body consisting of President Ashraf Ghani and his cabinet officials. No further details were provided in the Secretary’s statement. USAID has told SIGAR that the NPC may suffer from corruption. However, it has not provided SIGAR with evidence for this claim.

Including opium-poppy cultivation, Afghanistan’s economy contracted by 0.2% in 2018, according to Afghanistan’s National Statistics and Information Authority (NSIA). A 20% decline in opium-poppy cultivation appeared to
account for the hit to growth.\textsuperscript{432} The NSIA said the economy grew by 2.7\% in 2018, excluding opium-poppy.\textsuperscript{433} Other sources’ estimates for Afghanistan's 2018 GDP growth vary (p. 133).

The Afghan government’s revenue growth through the first eight months of Fiscal Year 1398 (December 22, 2018, to December 21, 2019) slowed to just 3.2\%, year-on-year; SIGAR analysis of Afghan government-provided data showed this quarter.\textsuperscript{434} The slower pace represented a departure from recent trends: revenues grew by 14\% from 2017–2018.\textsuperscript{435} Expenditures, meanwhile, rose by 11.1\%, outpacing revenue growth.\textsuperscript{436}

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

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 efforts to prevent further terrorist attacks on the U.S. homeland cannot be sustained without a growing licit Afghan economy.\textsuperscript{437} Economic prosperity in Afghanistan, the ICS states, depends upon the ability to advance private-sector-led export growth and job creation, and to bolster gains in health, education, and women’s empowerment.\textsuperscript{438}

The ICS is linked to USAID’s Country Development Cooperation Strategy (CDCS) for Afghanistan.\textsuperscript{439} The objectives of the CDCS are to:\textsuperscript{440}

- accelerate private-sector-driven, export-led economic growth
- advance social gains in health, education, and gender equality
- increase the Afghan government’s accountability to its citizens

**FIGURE 3.37**

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF OCTOBER 8, 2019

\[
\begin{align*}
\text{Infrastructure} & \quad 4,418 \\
\text{Governance} & \quad 3,037 \\
\text{Stabilization} & \quad 2,432 \\
\text{Agriculture} & \quad 2,269 \\
\text{Health} & \quad 1,310 \\
\text{Unpreferred}^* & \quad 1,273 \\
\text{Economic Growth} & \quad 1,232 \\
\text{Education} & \quad 1,112 \\
\text{Program Support} & \quad 435 \\
\text{Gender} & \quad 231 \\
\end{align*}
\]

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 programs that build health and education facilities. OFM activities (e.g. audits and pre-award assessments) included under Program Support funds.

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

ECONOMIC AND SOCIAL DEVELOPMENT

It may be difficult for the U.S. government to make as much progress as desired toward these goals. Licit economic growth remains low and poverty is increasing. Some social-development indicators are stagnating. The proportion of Afghans who perceive corruption as a major issue in Afghanistan, meanwhile, has actually increased modestly since 2006.

As of September 30, 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, $19.6 billion has been obligated and $17.0 billion has been disbursed. Figure 3.37 shows USAID assistance by sector.

ECONOMIC PROFILE

Despite extraordinary donor efforts since 2002 to raise Afghanistan’s long-term growth prospects, the country remains poor, conflict-affected, and heavily aid-dependent. The probability that these circumstances will change in the near- or mid-term appears very low: poverty is likely to have become more widespread, civilian deaths reached a record high in 2018, and donor grants continue to finance approximately 75% of total public expenditures, the World Bank said.

Estimates of Afghanistan’s real GDP growth rate for 2018 varied widely (see Table 3.22), but all pointed to a relatively stagnant economic picture. The most recently released estimate indicated Afghanistan’s licit economy may have grown by just 1.8% in 2018. This rate contrasts with a very high overall growth rate (7%) in South Asia, which the Bank described as “the world’s fastest growing region.”

Assessments of Afghanistan’s Economic Performance are Incomplete without Accounting for Narcotics

GDP growth figures that account for the opium economy can be higher or lower than those reported by the IMF and the World Bank. Reflecting the significant (approximately 90%) growth of opium production in 2017, Afghanistan’s statistical authority reported that GDP growth including the opium economy in that year was 7.2%. Afghanistan’s licit GDP growth rate in 2017, by contrast, was 2.7%, according to the World Bank and IMF.

Opium contributed far less to GDP growth in 2018: high levels of supply from the previous year caused prices to fall, while a widespread drought disrupted agricultural production throughout the country. Accounting for opium-poppy cultivation, Afghanistan’s economy contracted by 0.2% in 2018, the NSIA said. That figure differs substantially from the NSIA’s licit growth rate figure of 2.7%. Unlike the NSIA, neither the IMF nor the World Bank attempt to account for the narcotics economy in their GDP growth estimates.

TABLE 3.22

<table>
<thead>
<tr>
<th>Growth Rate</th>
<th>Source</th>
<th>Date Published</th>
<th>Poppy Cultivation Included?</th>
</tr>
</thead>
<tbody>
<tr>
<td>(0.2%)</td>
<td>NSIA</td>
<td>6/10/2019</td>
<td>Yes</td>
</tr>
<tr>
<td>1.0</td>
<td>World Bank</td>
<td>4/2/2019</td>
<td>No</td>
</tr>
<tr>
<td>1.8</td>
<td>World Bank</td>
<td>7/21/2019</td>
<td>No</td>
</tr>
<tr>
<td>2.7</td>
<td>NSIA</td>
<td>3/2019</td>
<td>No</td>
</tr>
<tr>
<td>2.7</td>
<td>IMF</td>
<td>6/7/2019</td>
<td>No</td>
</tr>
</tbody>
</table>

Note: For undated documents, document properties were used to establish a publication date. The publication date for the NSIA’s licit (2.7%) estimate for growth in 2018 is based on information presented on page 2 of the World Bank’s July 2019 Afghanistan Development Update.

The end of a severe drought rendered growth prospects for 2019 more favorable, according to both the World Bank (which projected 2.5% growth for 2019) and the International Monetary Fund (IMF, which projected 3% growth). With population growth outstripping licit economic growth, per-capita GDP was expected to decline from $513 in 2018 to $485 in 2019. Large numbers of returnees, particularly from Iran, could exacerbate the projected decline in per-capita incomes.

“Substantial downside risks,” including violence and political instability, could dampen the short-term outlook, according to the Bank. While the IMF projected that growth would rise to 5% by 2023, that projection assumed no significant deterioration in security, continued Afghan government reforms, and sustained aid inflows. These assumptions may prove to be invalid, as Table 3.23 shows.

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Potential Complication</th>
</tr>
</thead>
<tbody>
<tr>
<td>No significant deterioration in security.</td>
<td>Violence may increase in the wake of suspended peace talks.</td>
</tr>
<tr>
<td>The Afghan government continues to implement reforms.</td>
<td>Reforms stalled in the previous presidential election year, according to the IMF.</td>
</tr>
<tr>
<td>Aid flows are sustained.</td>
<td>Donor grants are expected to decline over the next several years.</td>
</tr>
</tbody>
</table>

SUSTAINING A POLITICAL SETTLEMENT COULD COST BILLIONS

An additional $5.2 billion in economic development funds may be required to consolidate and sustain a peace settlement, the World Bank said in a draft plan released this quarter.\(^{454}\) This estimate considers a substantial expansion of existing programs, as well as the introduction of new projects over a five-year period following the signing of a peace agreement.\(^{455}\) Costs would increase over that time period from approximately $500 million in the year an agreement is reached to approximately $1 billion in the third year of implementation.\(^{456}\)

The draft plan emerged from the November 2018 donor conference on Afghanistan in Geneva, Switzerland. A joint communiqué released at the conclusion of the conference stressed the importance of developing a package of economic initiatives that could be implemented after a political settlement was reached.\(^{457}\) The Bank’s plan follows SIGAR’s 2019 High-Risk List, which emphasized that peace would not be cost-free.\(^{458}\)

Whether the Plan’s Primary Purpose is to Stimulate Growth or Reduce Poverty is Unclear

The purpose of the package, the communiqué said, is to advance the return of Afghan financial capital to the country, increase investment, create jobs, and enhance regional economic integration.\(^{459}\) Some initiatives in the plan could directly contribute to these objectives, such as a proposed $48 million project to further develop Afghan agribusinesses by establishing food processing hubs, and a separate project that would scale up financial services for small and medium enterprises.\(^{460}\)

However, the primary goal of other initiatives described in the draft plan, like a $250 million to $300 million cash-transfer scheme that would target up to a million vulnerable households, seems more akin to poverty relief than to investment facilitation or job creation (though cash could theoretically catalyze the growth of household wealth and therefore provide an indirect path).\(^{461}\) Among high-priority initiatives, direct cash-transfer schemes could constitute 29% of costs.\(^{462}\) Figure 3.38 on the following page presents a breakdown of high-priority initiatives by sector.

Many Proposed Projects Harken Back to Old Ideas

Claiming “there is no need to reinvent the wheel,” the draft plan does not contemplate a serious departure from past programming.\(^{463}\) Numerous large projects currently being implemented would be significantly expanded.\(^{464}\)

The size of the Bank’s flagship education project—Education Quality Reform in Afghanistan—would more than double, requiring an additional $330 million in funding to improve 6,000 schools and provide basic education to an additional one million students.\(^{465}\) And the centerpiece of the plan—a scale-up of the Bank’s $628 million Citizens’ Charter project, a governance-focused initiative that aims to improve the delivery of core infrastructure and social services to local communities—would, if fully implemented under the plan, nearly triple in size, potentially requiring more than $1 billion in additional funding.\(^{466}\)
Moreover, certain projects not currently being implemented by the Bank (and therefore nominally “new”) are reminiscent of previous donor efforts. For example, a proposed $100 million regional trade-facilitation program that would support trade deals, improve infrastructure at border-crossing points, and introduce procedural reforms (among other activities) appears very similar to USAID’s $78 million Afghanistan Trade and Revenue (ATAR) project. ATAR, which concluded in 2017, supported trade and transit agreements, attempted to implement electronic payment infrastructure, and aimed to streamline customs procedures. A SIGAR Special Project found ATAR did not achieve tangible results related to the implementation of the e-payment system, which accounted for less than 1% of custom duties collected at the time the report was published in August 2017.

Donors Must Carefully Weigh How to Commit Funds

No initiatives proposed in the draft plan are currently funded. Financing could come from either increases in development grants or from the reprioritization of existing initiatives (the latter of which would reduce the amount of additional financing required to fund the package). Acknowledging that the future of grant support was highly uncertain, the Bank’s analysis assumes a steady decline in donor support over the next five years.

Yet, unless donors are willing to tolerate the risk of state collapse, they will likely have to continue providing the Afghan government with significant financial support and avoid a sudden disruption or abrupt halt of aid. Should a peace settlement eventually emerge, donors will have to decide how much funding to commit and what projects to support.
When that time comes, they would do well to mitigate known risks by posing the seven key questions originally presented by SIGAR in its January 2013 Quarterly Report to the United States Congress to help guide decision makers as they consider how best to use remaining reconstruction funds:

• Does the project or program make a clear and identifiable contribution to our national interests or strategic objectives?
• Do the Afghans want it and need it?
• Has it been coordinated with other U.S. implementing agencies, with the Afghan government, and with other international donors?
• Do security conditions permit effective implementation and oversight?
• Does it have adequate safeguards to detect, deter, and mitigate corruption?
• Do the Afghans have the financial resources, technical capacity, and political will to sustain it?
• Have implementing agencies established meaningful, measurable metrics for determining successful project outcomes?

Even after a Peace Settlement, Many Challenges Will Remain and Oversight Will be Key

A potential political settlement will not immediately eliminate many of the fundamental obstacles to achieving U.S. objectives in Afghanistan. Gains from U.S. reconstruction investment are likely to continue to face multiple threats: the possibility of continued insecurity, endemic corruption, weak Afghan institutions, and the insidious impact of the narcotics trade.

But amid the slew of uncertainties, SIGAR in its 2019 High-Risk List identified one fact that lies at least somewhat within donors’ control: the continuing need for oversight to ensure that taxpayer funds are spent efficiently and effectively. Should reductions in foreign personnel occur without accompanying improvement in Afghanistan’s governance, even the best-laid post-peace plans may go awry. Similarly, failure to ensure proper documentation of expenditures or to put in place other anticorruption control measures, would raise the risk of waste, fraud, and abuse—particularly if the proportion of on-budget grants increases, as the Bank’s plan projects.

But if donors take seriously their responsibility to carefully prioritize post-peace initiatives, implement proper control measures, and most importantly, avoid the temptation to spend too much, too fast, they will increase the probability that an eventual future settlement will succeed.
Fiscal Situation: Revenue Gains Begin to Slow

Afghanistan’s sustainable domestic revenues grew by just 3.2% over the first eight months of FY 1398 (December 22, 2018, to December 21, 2019), year-on-year, SIGAR analysis of Afghan government accounting data showed. As SIGAR emphasized in its 2019 High-Risk List, strengthening Afghanistan’s fiscal capacity will be key to sustaining the infrastructure and institutions that will be vital to economic growth as the Afghan government is asked to assume a more prominent role in its own development in the coming years. Slowing revenue growth is therefore a significant concern.

Lower growth through month 8 was driven primarily by a 9.8% decrease in administrative fees, which fell by AFN 1.8 billion ($23.8 million). The Afghan government earns administrative fees in exchange for certain services it provides, such as issuing national identity cards and visas. A 51.8% drop in overflight revenues accounted for the majority of the overall decline in the administrative fees category. Overflight revenues, earned when commercial aircraft transit through Afghan airspace, decreased by AFN 1.5 billion ($20.1 million) during the period. Pakistan closed its airspace from February 27, 2019, to July 16, 2019, which likely contributed to the decline.

A second and more significant factor driving lower revenue growth was a sharp drop in “Other Revenue,” a catchall category for revenues not listed elsewhere in the MOF’s chart of accounts. Within this category, revenues that had not yet been classified fell by AFN 3.4 billion ($44.4 million), or 73%. According to MOF officials, these unclassified revenues are later reconciled and recategorized.

Figure 3.39 compares monthly sustainable domestic revenue collection from FY 1397 (December 22, 2017, to December 21, 2018) with monthly revenue collection from FY 1398. While aggregate revenues grew by 11.4% over the first eight months of the year, the increase was driven by a large (AFN 9.0 billion, or $116.8 million) transfer of central bank profits rather than revenue categories generally considered to be more sustainable. Within this category, revenues that had not yet been classified fell by AFN 3.4 billion ($44.4 million), or 73%. According to MOF officials, these unclassified revenues are later reconciled and recategorized.

Depreciation of the Afghani and One-Off Central Bank Transfer May Be Distorting the Revenue Growth Picture for 2019

After adjustments accounting for the depreciation of the afghani (AFN) against the U.S. dollar and a one-time central bank transfer, there was “little
CUMULATIVE SUSTAINABLE REVENUE GAINS (FY 1397–1398)

Revenue gains have slowed as FY 1398 has progressed...

Source: SIGAR analysis of MOF-provided AFMIS data exported 10/8/2019; SIGAR analysis of USAID-provided AFMIS data exported 1/12/2019.

CUMULATIVE EXPENDITURE INCREASES (FY 1397–1398)

... but expenditure increases have moderated significantly

Source: SIGAR analysis of MOF-provided AFMIS data exported 10/8/2019; SIGAR analysis of USAID-provided AFMIS data exported 1/12/2019.

Afghan Government May Miss its FY 1398 Revenue Target

Given slowing revenue growth, the Afghan government may have difficulty meeting the AFN 188 billion ($2.4 billion) sustainable domestic revenue target established by its FY 1398 budget. At its current rate of collection, revenues would fall short of the target by AFN 19.3 billion ($250.9 million). While the government did collect more than 40% of its FY 1397 revenues in the final four months of the year, uncertainty surrounding the outcome of the September 2019 Afghan presidential election could adversely affect collections through the remainder of FY 1398. Data from month 8 of FY 1398, as well as preliminary figures from month 9, appear to show that sustainable domestic revenues are contracting.

or no” underlying growth in Afghan government revenues in first half of 2019, a former World Bank economist and a former Ministry of Finance (MOF) official wrote this quarter. While the former officials described revenue growth in nominal afghani terms as “robust” over the first six months of the year, they noted that the 9% depreciation of the afghani between the first half of 2018 and the first half of 2019 artificially inflated customs receipts and produced a profit transfer from the central bank that was attributable to gains from foreign-exchange transactions and asset valuations.

Accounting for currency depreciation by converting customs receipts denominated in afghani to U.S. dollars and subtracting the one-time AFN 8.9 billion (~$117.0 million) transfer of central bank profits from total revenues, the former officials said, effectively negated underlying growth. In their view, revenue growth in the first half of 2019 was the result of an “extraneous, one-time” event (currency depreciation) rather than the domestic revenue mobilization efforts of the Afghan government. While SIGAR has not independently evaluated this narrative, it dovetails with the World Bank’s July 2019 warning that prospects for revenue mobilization appeared weaker than in the past.

Slowing Export Growth Raises Questions about USAID’s Strategy

One of the pillars of USAID’s current strategy for Afghanistan is to accelerate merchandise export growth. But export growth has decelerated in 2019, SIGAR analysis of Afghan trade data shows. In fact, exports contracted by 2.4% from the second quarter of 2018 to the second quarter of 2019 (Figure 3.41 shows Afghanistan quarter-to-quarter, year-on-year, export growth.). While USAID pointed out that the closure of Pakistani airspace from February 27, 2019, to July 16, 2019, may have had exogenous, adverse effects on Afghan exports to India, the contraction occurred despite generous subsidies (up to 83% of air freight costs) provided by the Afghan government for goods exported by air. Moreover, as SIGAR pointed out last quarter, air exports contribute less to Afghanistan’s export performance (as reflected in the official Afghan figures traditionally analyzed by SIGAR) than USAID has previously suggested.

As USAID was developing its current strategy in December 2017, the agency told SIGAR it expected to “bridge [Afghanistan’s] massive trade deficit” over the “next three to five years.” Current data show that this is highly unlikely to happen: the World Bank expected the trade deficit to be equivalent to 36.4% of GDP in 2019, an increase over 2018. The Bank expected the deficit to be equivalent to 32.3% of GDP by 2022, essentially unchanged from the time at which USAID made this statement to SIGAR.

It is also unlikely Afghanistan’s trade situation will improve any time soon. The country’s landlocked geography (which significantly raises the costs of trade, relative to countries with direct access to commercial sea routes), low
levels of infrastructure and institutional capacity, and persistent, decades-long conflict have stunted trade expansion. For Afghanistan, high energy costs and limited access to electricity and finance also pose major challenges. Additional U.S. Sanctions on Iran Announced as Afghanistan Continues to Feel Secondary Effects

Approximately 571,000 Afghans were expected to return to Afghanistan from Iran in 2019, State told SIGAR in September, as President Donald J. Trump announced new sanctions on Iran’s central bank and sovereign wealth fund. The additional sanctions target what Treasury Secretary Steven T. Mnuchin described as “the last remaining source of funds” for Iran’s government. They follow previous rounds of sanctions on Iran’s oil industry and financial institutions, and the designation of the Islamic Revolutionary Guard Corps as a Foreign Terrorist Organization. While it was not yet clear what the tangible repercussions of the new sanctions might be for Iran (and by implication for Afghanistan), much of the damage to Iran’s economy may have already occurred: the Iranian rial has stabilized somewhat from its free fall of the first half of 2018, State said.

### FIGURE 3.41

**AFGHANISTAN’S EXPORT PERFORMANCE, 2017–2019 ($ MILLIONS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>124.2</td>
<td>146.8</td>
<td>251.4</td>
<td>261.9</td>
</tr>
<tr>
<td>2018</td>
<td>172.5</td>
<td>182.6</td>
<td>293.4</td>
<td>294.1</td>
</tr>
<tr>
<td>2019</td>
<td>146.8</td>
<td>143.3</td>
<td>0.2%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>


**Exports to India Increase Despite Closure of Pakistani Airspace**

USAID said that Pakistan’s decision to close its airspace earlier this year due to clashes with India “undermined the air corridor with India and impeded air exports.” However, SIGAR analysis of official Afghan government trade data shows that merchandise exports from Afghanistan to India increased by a robust 17.4% in the first two quarters of 2019, compared to the first two quarters of 2018—even as overall exports increased by just 2.1% over the same time period.

Still, State reported that Afghanistan continued to feel the secondary effects of the sanctions, including an uptick in the return of unaccompanied minors and single women, approximately 45,600 of whom have returned to Afghanistan from Iran since 2018. Many of these vulnerable returnees face severe sexual and other physical abuse in detention centers before crossing the border, State said. The confluence of the ongoing conflict, a severe drought in 2018, and the influx of more than 950,000 returnees since January 2018 has burdened western Afghanistan with heavy economic and social costs. Current humanitarian-response measures provide scant relief: due to limited funding, the United Nations’ International Organization for Migration, an intergovernmental entity that aims to alleviate the negative effects of large-scale migration, assisted just 4% of Afghans who returned from Iran in 2018, said State.

BANKING AND FINANCE

Reflecting high levels of uncertainty around Afghanistan’s presidential election, the future of security assistance funding, and a possible settlement between the U.S. and the Taliban, credit to the private sector declined by four percentage points in 2018, the World Bank said. With levels of credit equal to just 12.8% of total bank assets, excess liquidity among banks remained high, reaching 63% of total assets. While Afghanistan’s central bank has taken steps to increase the supply of credit, such as expanding the list of eligible collateral, it has not yet been enough to reduce “massive” amounts of excess reserves, the Bank said. Foreign-exchange-denominated loans are decreasing due to the substantial depreciation of the afghani against the U.S. dollar, suggesting that capital flight may be occurring amid declining confidence in the banking sector, the Bank added.

Overall, Afghanistan’s still-nascent financial sector, which consists of just 12 banks (three state-owned, seven private, and two foreign-owned), remains weak and underdeveloped. Just 15% of Afghan adults have an account at a bank or mobile money provider. Informal financial services continue to flourish in Afghanistan, Afghanistan’s central bank said this quarter, and many Afghans still use the hawala system to transfer funds.

Treasury Technical Assistance to Afghan Banking Sector Ends

The U.S. Treasury Department’s interagency agreement with USAID to support Afghanistan’s public financial-management systems and oversight of its financial sector concluded this quarter. The assistance, which began in March 2015, ended with a series of five training sessions in Dubai for Afghan central bank staff covering subjects ranging from corporate governance to internal auditing. Earlier assistance under the agreement focused on effective fiscal budgeting and on building capacity to combat financial crimes, among other topics.
Treasury’s penultimate training session addressed correspondent banking relationships. Afghanistan is considered a high-risk jurisdiction for such relationships because poor implementation and poor enforcement of the country’s anti-money-laundering/combating financing of terrorism (AML/CFT) laws leave its financial system vulnerable to abuse. Although the Financial Action Task Force no longer lists Afghanistan as a jurisdiction with strategic AML/CFT deficiencies, the European Union does: Afghanistan was included in a February 2019 EU list of high-risk third-party countries. The State Department also continues to list Afghanistan as a major money-laundering jurisdiction.

Architect of Afghanistan’s Most Notorious Banking Scandal Gets Early Release from Prison

Khalilullah Ferozi, the former chief executive officer of Kabul Bank, which nearly collapsed in 2010 after almost $1 billion was stolen by a group of politically connected executives and shareholders, was released from prison this quarter. Ferozi, who was transferred to house arrest purportedly due to a severe diabetic condition, is considered one of the chief perpetrators of a fraud and money-laundering scheme that severely stressed the Afghan financial system and led to an $825 million bailout from the Afghan government (an amount equivalent to approximately 5–6% of the country’s GDP at the time). Ferozi’s chief partner in the theft, former Kabul Bank Chairman Sherkhan Farnood, died last summer while serving a sentence at Bagram Prison.

Ferozi’s release was quickly followed by criticism from prominent quarters: U.S. Ambassador to Afghanistan John R. Bass said on Twitter that he was “disturbed” by the news, emphasizing that it “call[ed] into question the government’s commitment to combating corruption and making [the] best use of donors’ support.” Casting an unverified allegation at his political rival, President Ghani, Afghan presidential candidate and former head of the National Directorate of Security Rahmatullah Nabil accused Ferozi of contributing $30 million to Ghani’s reelection campaign in return for his release. Quick to respond, presidential spokesman Sediq Seddiqi characterized Nabil’s accusation as “misleading,” with “no truth in it.” Seddiqi said Ferozi had been placed “under severe house arrest.” The Afghan government told State that, under this arrangement, Ferozi would be allowed visitors, but could only leave his home to receive medical treatment.

This is not the first time Ferozi, who is serving a 10-year sentence, has benefitted from a lenient interpretation of “detention.” Under former Afghan President Hamid Karzai, Ferozi frequently patronized Kabul’s upscale restaurants while meeting with friends and former business partners under the pretense of attempting to recover their money so that they could repay stolen funds, according to the Afghanistan Analysts Network. In 2011, Ferozi sat down with a reporter from the Guardian over “shisha
and several plates of rice and kebab” while he was nominally under house arrest.\textsuperscript{536} In 2015, without prior announcement, Ferozi showed up as an apparent guest of honor at a stone-laying ceremony for a real-estate project ostensibly conceived as a means of repaying his debt.\textsuperscript{537} The project, which quickly devolved into scandal, was hastily canceled.\textsuperscript{538}

It is not yet clear what impact Ferozi’s latest detention arrangement will have on recovering the funds he stole.\textsuperscript{539} Ferozi entered into an agreement with the Kabul Bank Receivership (KBR), which was established to manage the bank’s bad assets, that requires him to repay 50% ($68.6 million) of the funds he stole ($137.2 million, which does not include accumulated interest valued at $59.4 million) within six months from the date of his transfer to house arrest.\textsuperscript{540} Since the Afghan government announced that Kabul Bank would be put into receivership in April 2011, Ferozi has paid back $14.5 million in cash, meaning that, per the terms of the agreement, he would have to repay an additional $54.1 million within the required six-month timeframe.\textsuperscript{541} No cash has been recovered from Ferozi in the last year, the KBR told SIGAR, although some of his collateralized property will be transferred to the Afghan government.\textsuperscript{542} Overall, 59.6% (approximately $588.2 million) of the $987 million loan portfolio remained unrecovered, as of September 20, 2019.\textsuperscript{543}

**ECONOMIC GROWTH**

USAID’s objective to accelerate private-sector-driven, export-led growth means that the agency’s Office of Economic Growth (OEG) could play an important role in the agency’s Country Development Cooperation Strategy (CDCS).\textsuperscript{544} In support of that strategy, OEG’s efforts seek to:\textsuperscript{545}

- 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 through the creation of a more favorable enabling environment for businesses

Conflict and uncertainty, however, may prevent USAID from achieving its goal of accelerating Afghanistan’s economic growth rate. With peace talks on hold, violence levels have increased as the U.S. and Taliban seek leverage over one another.\textsuperscript{546} Uncertainty, meanwhile, runs high: investment confidence has deteriorated amid anxiety over the future international security presence, presidential elections, and (now-suspended) peace negotiations.\textsuperscript{547} A SIGAR lessons-learned report on private-sector development and economic growth found that it is not realistic to expect robust and sustainable economic growth in an insecure and uncertain environment.\textsuperscript{548}

USAID’s active economic-growth programs have a total estimated cost of $139 million and can be found in Table 3.24.
Commerce Department Tries to Help Bring Afghanistan Back into Compliance with Extractives Transparency Standards

The U.S. Department of Commerce (DOC) is trying to help bring Afghanistan back into line with global extractives-sector transparency standards, officials from the DOC's Commercial Law and Development Program (CLDP) said this quarter. Afghanistan made inadequate progress toward meeting those standards, which are promulgated by the Extractives Industries Transparency Initiative (EITI), an international body that aims to increase transparency in the natural-resources sector. Afghanistan was suspended from the EITI in January 2019. Afghanistan is in desperate need of transparency in all sectors, especially the mining sector. 

CLDP, which provides technical assistance in commercial law to the governments and private sectors of developing countries, agreed to sponsor the attendance of Afghan representatives at EITI-organized training workshops in 2020. The sponsorship will be provided through USAID’s Multi-Dimensional Economic Legal Reform Assistance Program (MELRA), implemented by CLDP. MELRA is a $20 million project that provides high-level policy and legal advice in areas deemed essential for fostering transparency. 

Many Donors Do Not Hold Themselves to EITI Standards

The U.S. withdrew from the EITI as an implementing country in 2017, citing conflict with U.S. laws. However, the U.S. still supports the initiative and believes that Afghanistan will benefit from embracing EITI standards. As USAID said, “Afghanistan is in desperate need of transparency in all sectors, especially the mining sector.” 

Several other donors supporting reforms in the Afghan extractives sector are also non-EITI-implementing countries, including Australia, New Zealand, and Canada. 

Source: USAID, OIEG, response to SIGAR vetting, 10/10/2019; U.S. Department of the Interior, Office of Natural Resources Revenue, Letter to Mr. Fredrik Reinfeldt, Chair, Extractive Industries Transparency Initiative Board, 11/2/2017, pp. 1–2.
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economic growth, including information communications technology, mining, and trade.553

EITI standards aim to reduce corruption by requiring implementing countries to reconcile revenue data from mining.554 Such reconciliation, which attempts to uncover discrepancies between taxes and royalties paid by firms and revenues collected by governments, is believed to reduce corruption.555 The U.S. withdrew from the EITI as an implementing country in 2017 because U.S. laws conflicted with EITI standards (meaning those laws allowed U.S. companies to be less transparent than those in EITI-compliant countries).556 Although the Afghan government had reportedly committed to bring Afghanistan back into EITI compliance by the summer of 2019, it remained suspended as of September 25, 2019.557

AGRICULTURE

Afghanistan remains heavily reliant on the agricultural sector, which employs approximately 40% of its total labor force and is expected to contribute nearly one-fifth of the country’s GDP in 2019 (excluding opium-poppy cultivation), according to the World Bank.558 Historically, agriculture has been the base of Afghanistan’s licit, formal economy, making substantial contributions to Afghanistan’s licit economic growth. However, its significance to growth has diminished somewhat since the U.S.-led intervention in 2001.559 Due to anticipated recovery from a severe drought in 2018, the Bank expected licit agriculture to contribute approximately 0.84 percentage points (out of 2.5 percentage points) of GDP growth in 2019.560

In addition to licit agricultural activity supported by international donors, illicit opium-poppy cultivation thrives in Afghanistan. As many as 507,000 Afghans worked in opium-poppy cultivation in 2018, making the illegal industry one of the country’s largest employers (larger than the Afghan National Defense and Security Forces), a May 2019 paper from the Afghanistan Research and Evaluation Unit said.561

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.562 USAID’s active agriculture programs have a total estimated cost of $444 million and can be found in Table 3.25. The Counternarcotics section of this report provides updates for many of these programs.

USAID’s SWIM Project Lags on Several Performance Indicators

USAID’s $87.9 million Strengthening Watershed and Irrigation Management (SWIM) project was behind on several key performance indicators, the latest quarterly report from project implementer AECOM International Development said.563 A five-year project that began in December 2016, SWIM aims to improve agricultural water use, resource management, and regulations.564
AECOM’s report, which covered activities from April through June 2019, showed that AECOM had informed zero people about appropriate water and natural resource management during the quarter, compared to a target of 2,125 people.\textsuperscript{565} USAID said the target was missed because the Afghan government took longer than expected to provide input on a concept note for planned outreach.\textsuperscript{566} USAID added that the concept note was finally approved and that 5,300 people had been trained on sustainable natural-resource management, as of October 10, 2019.\textsuperscript{567} However, this number was still below the third-year project target of 8,500 people.\textsuperscript{568}

The report also showed that AECOM had failed to restore a single hectare of upland watershed, compared to a target of 3,741 hectares.\textsuperscript{569} The 3,741 hectares are covered by two separate watersheds in Jowzjan Province.\textsuperscript{570} USAID said that restoration of this land was delayed because AECOM had submitted watershed-management plans that were insufficiently detailed and that required new tables of contents.\textsuperscript{571} Implementation of this aspect of the project will now commence in early 2020.\textsuperscript{572} Consequently, the year-three target for this indicator is now zero and has been transferred to year four.\textsuperscript{573}

A third quarterly target missed by AECOM was the number of hectares under new or improved irrigation or drainage service as a result of U.S. government assistance. The goal for the quarter was 9,108 hectares; the result was zero.\textsuperscript{574}
A combination of factors appears to account for these missed targets. AECOM said that flooding, labor shortages (for both low-skilled laborers and engineers), cold weather and heavy windstorms, and security challenges impacted the rehabilitation of several canals. The implementer also said that a major training course, scheduled to conclude in March 2019, had been delayed and that a new trainer for the course had not yet been hired. That training was eventually completed in September 2019, six months behind schedule. In more positive developments, AECOM said it had created approximately 60 full-time-equivalent (FTE) jobs, compared to a quarterly target of 20 FTE jobs.

In response to a draft version of this report, USAID said it had taken several actions to ensure AECOM met its annual targets. Those actions include a requirement for monthly construction-progress reports and a revised quality-assurance plan.

INFRASTRUCTURE AND ESSENTIAL SERVICES
The U.S. has provided funds to build roads and bridges, construct and improve health and education facilities, and increase the electricity supply in Afghanistan since 2002. USAID alone has disbursed more than $4.4 billion for infrastructure projects.

While funding levels for infrastructure have decreased in recent years as the U.S. has moved away from large capital projects like road construction, and although the U.S. does not plan to bilaterally underwrite any new major infrastructure moving forward, several high-dollar projects are still being implemented. This section focuses specifically on remaining power-infrastructure projects.

Access to Electricity Remains a Stubborn Development Challenge
Lack of access to reliable and affordable electricity fundamentally constrains economic growth in Afghanistan, USAID said in a comprehensive February 2018 assessment of Afghanistan's energy sector. Although nearly 98% of Afghans report having access to some form of electricity, just 31% have access to grid-based electricity, according to Afghanistan's statistical authority.

The majority of rural Afghans use distributed solar-power systems rather than connections to an electric grid for their energy needs. However, these systems lack the capacity and availability required to be the primary source of power for commercial enterprises, USAID said, implying that current levels of available electricity are not sufficient to bolster economic growth in rural areas.

Many barriers to expanding electricity access persist. USAID said the set of challenges includes Afghanistan's near-complete (80%) dependence on
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electricity imports (which reduces its bargaining power to negotiate favorable power-purchase rates), insecurity (particularly with respect to crossfire incidents), a poorly functioning national utility (Da Afghanistan Breshna Sherkat, or DABS), insufficient transmission and distribution networks, and weak sector governance.587

Growing the National Power Grid Has Been a Major Emphasis of U.S. Economic Development Efforts

Expanding and connecting Afghanistan’s “islanded” power grids has been a top U.S. development priority. Remaining work in the Afghan power sector therefore consists primarily of large-scale infrastructure projects. Both USAID and DOD have been working to connect Afghanistan’s North East Power System (NEPS) with its southeastern counterpart, the South East Power System (SEPS).588 USAID is funding the construction of a 470-kilometer transmission line that, when complete, will connect the two networks.589 USAID is also working to expand the SEPS network.590

Afghanistan Infrastructure Fund (AIF) monies appropriated by Congress in Fiscal Years (FYs) 2011–2014 fund DOD and USAID power-infrastructure projects. The Economic Support Fund also covers some USAID project costs.591 No additional AIF funds have been appropriated since FY 2014.592 However, up to $50 million of Title IX Overseas Contingency Operations (OCO) funds appropriated in later acts may be used to complete these projects.593 Both DOD and USAID projects have faced substantial delays over the years.594

DOD’s Power-Infrastructure Projects are Complete

DOD reported that it had completed the last of its power-infrastructure projects this quarter. The final project involved the construction of substations and a transmission line from Sangin to Lashkar Gah in Afghanistan’s restive Helmand Province and the improvement of three substations in SEPS. The transmission line was turned over to the Afghan government in late September 2019, DOD said. Approximately $65.4 million has been obligated for this project, of which $55.2 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 “bridging solution” for power in Kandahar City that concluded in September 2015), with $583.1 million disbursed.595 Figure 3.42 on the following page shows the current status of U.S. funded power-infrastructure projects.

Five USAID Power-Infrastructure Projects Remain Ongoing; All are Delayed

USAID currently has five ongoing power-infrastructure projects. Those projects include the construction of.596

SIGAR AUDIT

The U.S. Army Corps of Engineers (USACE) used qualified local-national personnel to monitor its construction projects in Afghanistan and is taking steps to improve contractor reporting, a SIGAR audit released this quarter found. USACE was responsible for implementation of DOD’s power-infrastructure projects.
• the Salang substation (completion date: January 2, 2020), located near a strategic pass between Baghlan and Parwan Provinces
• a 10 megawatt solar-power plant near Kandahar City in southern Afghanistan (completion date: December 29, 2019, an additional three-month delay since last quarter)
• a transmission line between Ghazni and Kandahar Provinces (completion date: December 2020)
• substations along the transmission line from Ghazni to Kandahar (completion date: July 30, 2023, approximately six months later than reported last quarter)
transmission lines and substations in SEPS (completion date: July 30, 2023, approximately six months later than previously reported)

All five projects are delayed. 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. USAID’s active energy projects have a total estimated cost of $788 million and are presented in Table 3.26.

**USAID Awards Contract to Construct Substations from Ghazni to Kandahar and Complete SEPS**

After long delay, USAID awarded a $159.8 million contract for five substations between Ghazni and Kandahar and a 114-kilometer transmission line, with new or improved substations, that will complete the SEPS system, the agency informed SIGAR this quarter. Contracts for the projects—known as the NEPS-SEPS Connector Substations and SEPS Completion, both of which were originally to be completed on-budget—were initially awarded by the Afghan government in January 2015 and August 2016. Both of these prior contracts failed amidst allegations of corruption and mismanagement at DABS. Consequently, in October 2017, USAID paused all on-budget energy construction projects and conducted an assessment of its energy-sector program and the Afghan government’s ability to perform under the on-budget model. The result of the assessment led USAID to cancel $400 million of on-budget (Afghan-managed) funds designated for DABS energy projects and reallocate them through off-budget (U.S.-managed) mechanisms. As a result of the delays caused by failed Afghan government contracts, approximately $81.4 million in AIF funding will cancel at the end of September and

**SIGAR AUDIT**

A SIGAR audit released in September 2019 found that USAID’s Power Transmission Expansion and Connectivity (PTEC) project was behind schedule and faced possible sustainability challenges. PTEC’s main objective is to connect Kabul’s and Kandahar’s respective power grids by building new transmission lines and substations.

**TABLE 3.26**

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Start Date</th>
<th>End Date</th>
<th>Total Estimated Cost</th>
<th>Cumulative Disbursements, as of 10/8/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Transmission Expansion and Connectivity (PTEC)</td>
<td>1/1/2013</td>
<td>12/31/2023</td>
<td>$316,713,724</td>
<td>$245,553,052</td>
</tr>
<tr>
<td>SEPS Completion and NEPS-SEPS Connector Substations</td>
<td>7/3/2019</td>
<td>7/30/2023</td>
<td>159,794,733</td>
<td>0</td>
</tr>
<tr>
<td>Contributions to the Afghanistan Infrastructure Trust Fund (AITF)</td>
<td>3/7/2013</td>
<td>3/6/2023</td>
<td>153,670,184</td>
<td>153,670,184</td>
</tr>
<tr>
<td>Engineering Support Program</td>
<td>7/23/2016</td>
<td>1/22/2020</td>
<td>125,000,000</td>
<td>66,094,199</td>
</tr>
<tr>
<td>Design and Acquisition of SEPS Completion and NEPS-SEPS Connector</td>
<td>3/7/2018</td>
<td>6/27/2022</td>
<td>20,151,240</td>
<td>2,098,988</td>
</tr>
<tr>
<td>Kandahar Solar Project</td>
<td>2/23/2017</td>
<td>12/29/2019</td>
<td>10,000,000</td>
<td>9,000,000</td>
</tr>
<tr>
<td>Spare parts for Tarakhil Power Plant</td>
<td>8/14/2019</td>
<td>11/13/2019</td>
<td>2,136,850</td>
<td>0</td>
</tr>
<tr>
<td>Power Sector Governance and Management Assessment</td>
<td>1/12/2019</td>
<td>3/2/2019</td>
<td>567,330</td>
<td>567,330</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$788,034,061</strong></td>
<td><strong>$476,983,754</strong></td>
</tr>
</tbody>
</table>

return to the U.S. Treasury. Secretary of State Pompeo referred to these funds in his statement of September 19, 2019, which overstated the number. USAID reported that all canceled AIF funds would be replaced by Economic Support Fund monies in order to complete the project.

The cancellation of these AIF funds was anticipated in early 2018 and is therefore not a new or unexpected development. However, USAID reported that, in addition to the return of these monies to the U.S. Treasury, project costs were lower than anticipated, resulting in an estimated $100 million cost savings to the U.S. Government.

EDUCATION
Decades of conflict had decimated Afghanistan’s education system prior to the U.S.-led military intervention in 2001. Since then, donors have generally highlighted Afghanistan’s progress in the education sector as a significant achievement. However, poor data quality makes it difficult to ascertain the extent of that success, although more children are in school than under the Taliban regime, when girls were forbidden to attend. For example, figures for the number of children and youth in school vary widely. Afghan government enrollment data cannot be used to determine attendance rates directly because Afghanistan’s Ministry of Education (MOE) counts students who have been absent for up to three years as enrolled under the premise that they may return to school.

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

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 $1.1 billion for education programs in Afghanistan, as of October 8, 2019. USAID’s education programs aim to increase access to education, as well as to improve the quality and relevance of, and to bolster the management capacity of Afghanistan’s education system. The agency’s active education programs have a total estimated cost of $520 million and can be found in Table 3:27.

Review of Flagship World Bank Education Program Points to Possible Corruption
A fiduciary review of the World Bank’s $418 million second Education Quality Improvement Project (EQUIP II) revealed significant weaknesses in the MOE’s record-keeping practices and identified several instances of potential procurement fraud that warrant further investigation, the Bank said in a brief shared with SIGAR this quarter. Out of a sample of $156.5 million project expenditures, $21.9 million (14.0%) lacked adequate
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documentation, $2.2 million (1.4%) did not comply with World Bank procedures, and $37.2 million (23.8%) in procurement contracts were identified as potentially fraudulent.\textsuperscript{614} The possibly fraudulent contracts involved a local nongovernmental organization that was supposed to provide teacher training services.\textsuperscript{615} The expenditures for which there was inadequate documentation all related to salary payments made to teacher trainers.\textsuperscript{616}

The sample of examined expenditures represented 37.4\% of the total project cost and the total amount of potentially compromised expenditures was 39.2\% of the sample.\textsuperscript{617} Although the Bank emphasized that the results could not be extrapolated to all project expenditures because sample expenditures were not randomly selected, the Bank noted that if expenditures for the entire project had been inadequately documented at the same rate, the total amount of compromised funds would be approximately $165.0 million.\textsuperscript{618}

The objective of EQUIP II was to increase equitable access to education, especially for girls, through school grants, teacher training, and institutional capacity building.\textsuperscript{619} The review, which covered the project’s entire nine-year implementation period (January 2008 to December 2017) was prompted in part by a 2018 SIGAR audit of the Bank’s Afghanistan Reconstruction Trust Fund.\textsuperscript{620}

### TABLE 3.27

#### USAID ACTIVE EDUCATION PROGRAMS

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Start Date</th>
<th>End Date</th>
<th>Total Estimated Cost</th>
<th>Cumulative Disbursements, as of 10/8/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan University Support and Workforce Development Program</td>
<td>1/1/2014</td>
<td>9/30/2019</td>
<td>$93,158,698</td>
<td>$91,864,195</td>
</tr>
<tr>
<td>Support to the American University of Afghanistan (AUAF)</td>
<td>8/1/2013</td>
<td>5/31/2020</td>
<td>$90,681,844</td>
<td>70,375,170</td>
</tr>
<tr>
<td>Textbook Printing and Distribution II</td>
<td>9/15/2017</td>
<td>12/31/2019</td>
<td>$75,000,000</td>
<td>0</td>
</tr>
<tr>
<td>Strengthening Education in Afghanistan (SEA II)</td>
<td>5/19/2014</td>
<td>9/30/2020</td>
<td>$44,835,920</td>
<td>35,150,406</td>
</tr>
<tr>
<td>Let Girls Learn Initiative and Girls’ Education Challenge Programme (GEC)</td>
<td>6/29/2016</td>
<td>6/28/2021</td>
<td>$25,000,000</td>
<td>15,000,000</td>
</tr>
<tr>
<td>Capacity Building Activity at the Ministry of Education</td>
<td>2/1/2017</td>
<td>1/31/2022</td>
<td>$23,212,618</td>
<td>13,691,418</td>
</tr>
<tr>
<td>PROMOTE Scholarships PAPA</td>
<td>3/4/2015</td>
<td>3/3/2020</td>
<td>$1,247,522</td>
<td>$1,247,522</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$520,256,697</strong></td>
<td><strong>$361,572,263</strong></td>
</tr>
</tbody>
</table>

More than Half of Graduates Apparently Still Unemployed as USWDP Project Comes to an End

Fewer than half the graduates of universities supported by USAID’s $93.2 million University Support and Workforce Development Program (USWDP) were employed, a survey commissioned by project implementer Family Health International (FHI) 360 suggested.621 While FHI 360 cautioned that the survey results allowed for inferences only rather than definitive judgements, this figure was well below the end-project target of 75%.622 USAID’s nearly six-year USWDP project, which concluded in September 2019, assisted the Ministry of Higher Education (MOHE) and 11 public universities to support the establishment of higher education programs that were deemed most relevant to the Afghan job market, and linked universities to potential employers.623

Because one of USWDP’s goals was to assist the MOHE with implementing programs that ensure employment opportunities for students, one of the project’s more notable performance indicators attempts to track the number of individuals with new or better employment as a result of the project.624 In USWDP’s latest quarterly report, which covered activities conducted from April through June 2019, implementers acknowledged that tracking this indicator represents a “formidable task” in a place like Afghanistan. The implementers added, “USWDP cannot provide the exact number of people who have better employment opportunities.”625

While this indicator was not yet available in the latest report, a similar survey conducted one year ago suggested that graduates were less likely to be employed than their non-USWDP counterparts.626 However, the same survey indicated that the employment gap between the two groups narrowed over time and that, among those respondents who were employed, USWDP graduates generally had higher salaries.627

USAID Commits Additional Funds to AUAF, Linking Financial Controls to Further Support

USAID increased the total estimated cost of its current support to the American University of Afghanistan (AUAF) from $72.2 million to $90.7 million (an increase of $18.5 million), the agency informed SIGAR this quarter.628 USAID also obligated an additional $6.7 million and extended the timeframe of its assistance from November 30, 2019, to May 31, 2020.629 AUAF has faced substantial scrutiny for mismanaging donor money: a joint investigation between SIGAR and USAID’s Office of Inspector General (OIG) concluded that AUAF could not account for more than $63 million of U.S. government funds. The problems were so severe that SIGAR and USAID OIG brought them to the attention of USAID Administrator Mark Green in July 2018.630

As a result of this work, additional USAID funds provided to AUAF this quarter came with tighter financial controls and additional oversight.
measures, including no further programmatic or physical expansions of AUAF programs or “centers” and, at USAID’s discretion, the addition of a USAID representative or USAID designee on AUAF’s board of trustees.\textsuperscript{631} The tighter controls were imposed as part of a contract modification that codified an administrative agreement between AUAF and the USAID suspension and debarment official. That agreement incorporated many of the concerns raised with Administrator Green by SIGAR and USAID OIG.\textsuperscript{532}

According to its website, AUAF is “Afghanistan’s only nationally accredited, private, not-for-profit, nonpartisan and coeducational university.”\textsuperscript{633} Since its first assistance agreement with AUAF commenced in 2008, USAID’s support for the university has exceeded $100 million.\textsuperscript{534}

**HEALTH**

While data limitations preclude a precise evaluation of the extent of improvement, Afghanistan appears to have made progress in key health indicators since 2001.\textsuperscript{635} For example, the Bank said that Afghanistan’s under-five mortality rate fell from 97 per 1,000 live births in 2010 to 55 per 1,000 live births in 2015.\textsuperscript{636} Even with this progress, however, Afghanistan’s health outcomes remain worse than most countries’: according to the CIA World Factbook, Afghanistan has the lowest life expectancy (52.1 years) in the world.\textsuperscript{637}

While USAID believes that “healthy people and health[y] communities are the bedrock of a peaceful and stable nation” (suggesting that making people healthier can produce security), insecurity has risen even as key health indicators have ticked up, the World Bank said in 2018.\textsuperscript{638} USAID has also asserted that continuing to improve health outcomes will help achieve stability by bolstering Afghans’ confidence in the government’s capacity to deliver services.\textsuperscript{639} However, there is reason to doubt this theory of change. Although unverified by SIGAR, some reports indicate that the Taliban coopt Afghan government health services delivered in areas under their control, thereby potentially legitimizing their own capacity and authority, not the Afghan government’s.\textsuperscript{640} Despite the dislocation from security outcomes, improving health conditions remains a key pillar of USAID’s programming in Afghanistan.\textsuperscript{641}

U.S. on- and off-budget assistance to Afghanistan’s health sector totaled more than $1.3 billion as of October 8, 2019.\textsuperscript{542} USAID’s active health programs have a total estimated cost of $284 million, and are listed in Table 3.28 on the following page.

**USAID’s IHSAN Project Continues Efforts to Improve Basic Hygiene, Sanitation, and Nutrition**

USAID’s $75.5 million Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) project printed thousands of documents, sent 500,000 text...
messages, and upgraded or constructed more than 53,000 latrines over the course of its latest reporting period (April to June, 2019), implementer FHI 360 said.643 Additionally, 1,311 communities were declared open-defecation free.644 Implemented over a five-year period (2016 to 2021), IHSAN aims to assist the Afghan government, civil society organizations, and the private sector to implement and scale hygiene and nutrition interventions in order to improve the health of women and young children.645

Amidst these activities, implementer FHI 360 said that poor security continued to adversely affect implementation at several project sites.646 FHI 360 reported that a drone strike conducted in Farah Province in May had destroyed a field office of a subcontractor, killing two members of the subcontractor’s staff.647 Other teams in Farah were disrupted by unspecified additional security incidents.648 FHI 360 added that operations in insurgent strongholds continued to face temporary delays that are typically resolved by the intervention of community elders.649

In January 2019, USAID told 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 2018.650 This quarter, SIGAR followed up

<table>
<thead>
<tr>
<th>PROJECT TITLE</th>
<th>START DATE</th>
<th>END DATE</th>
<th>TOTAL ESTIMATED COST</th>
<th>CUMULATIVE DISBURSEMENTS, AS OF 10/8/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)</td>
<td>5/11/2016</td>
<td>5/10/2021</td>
<td>$75,503,848</td>
<td>$33,065,219</td>
</tr>
<tr>
<td>Helping Mothers and Children Thrive (HEMAYAT)</td>
<td>1/7/2015</td>
<td>1/6/2020</td>
<td>60,000,000</td>
<td>56,795,155</td>
</tr>
<tr>
<td>Disease Early Warning System Plus (DEWS Plus)</td>
<td>7/1/2014</td>
<td>6/30/2022</td>
<td>54,288,615</td>
<td>28,988,615</td>
</tr>
<tr>
<td>Health Sector Resiliency (HSR)</td>
<td>9/28/2015</td>
<td>9/27/2020</td>
<td>27,634,654</td>
<td>19,563,246</td>
</tr>
<tr>
<td>Medicines, Technologies and Pharmaceuticals Services (M TaPS)</td>
<td>9/20/2018</td>
<td>9/20/2023</td>
<td>20,000,000</td>
<td>30,335</td>
</tr>
<tr>
<td>Challenge Tuberculosis</td>
<td>1/1/2015</td>
<td>9/29/2019</td>
<td>16,886,357</td>
<td>13,889,395</td>
</tr>
<tr>
<td>Enhancing Community Access &amp; Utilization of Zinc and ORS for the Management of Childhood Diarrhea</td>
<td>7/21/2015</td>
<td>7/20/2020</td>
<td>13,000,000</td>
<td>13,000,000</td>
</tr>
<tr>
<td>Sustaining Health Outcomes through the Private Sector (SHOPS) Plus</td>
<td>10/11/2015</td>
<td>9/30/2020</td>
<td>12,500,000</td>
<td>9,596,443</td>
</tr>
<tr>
<td>Central Contraceptive Procurement (CCP)</td>
<td>4/20/2015</td>
<td>4/19/2020</td>
<td>2,343,773</td>
<td>256,227</td>
</tr>
<tr>
<td>Global Health Supply Chain Quality Assurance (GHSC-QA)</td>
<td>1/2/2015</td>
<td>12/31/2019</td>
<td>1,500,000</td>
<td>1,348,802</td>
</tr>
<tr>
<td>TB Data, Impact Assessment and Communications Hub (TB DIAH)</td>
<td>9/24/2018</td>
<td>9/24/2023</td>
<td>600,000</td>
<td>0</td>
</tr>
<tr>
<td>Global Health Supply Chain Management (GHSC-PSM)</td>
<td>4/20/2015</td>
<td>4/19/2020</td>
<td>176,568</td>
<td>176,568</td>
</tr>
<tr>
<td>4 Children</td>
<td>9/15/2014</td>
<td>9/16/2019</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$284,453,815</strong></td>
<td><strong>$176,730,007</strong></td>
</tr>
</tbody>
</table>

with USAID to see how FHI 360 was performing in response to the notice. USAID said FHI 360 was on track to meet these performance indicators in 2019.651

Polio: 16 Cases in 2019
As of September 23, 16 new cases of polio had been reported in Afghanistan in 2019.652 Thus far, the rate of new cases in 2019 is approximately the same as in 2018, when 21 cases were reported—substantially higher than the 13 cases seen in 2016 and 14 more in 2017.653 USAID has obligated $36.6 million for polio-related programs since 2003, of which $32.5 million has been disbursed.654

Afghanistan is one of only three countries in the world in which polio remains endemic, along with Pakistan and Nigeria.655 Afghanistan and Pakistan share a 1,500-mile border and large-scale population movements between the two countries increase cross-border transmission risk. Complicating vaccination outreach, the Pakistani Taliban have issued by a fatwa targeting polio workers.656

Although the Afghan Taliban have reportedly voiced strong support for polio vaccinations over the past decade, they too at times disrupt vaccination efforts.657 Claiming that vaccinators were collecting intelligence on local Taliban leaders, the group’s central leadership implemented a ban on polio vaccination in Helmand, Uruzgan, Kandahar, and Ghazni Provinces in 2018, reporting from the Afghanistan Analysts Network indicates.658

Similarly, the Taliban instituted a ban on polio vaccinations carried out by the International Committee of the Red Cross (ICRC) and the World Health Organization (WHO) in April 2019, citing unspecified “suspicious activities” on the part of vaccinators.659 After clarifying their conditions— which reportedly included securing the Taliban’s permission before hiring vaccination workers and carrying out vaccinations only in health centers—the Taliban lifted its ban on the ICRC on September 15, 2019, and on the WHO on September 25, 2019.660 While it was unclear whether the WHO and ICRC had agreed to all of these conditions, Schaerer Juan-Pedro, the head of the ICRC delegation in Afghanistan, said ICRC and the Taliban had reached a “common understanding” regarding ICRC’s work.661 Meanwhile, Richard Peeperkorn, the WHO’s Afghanistan representative, said the WHO would “with partners, . . . start health facility-based campaigns in the previously banned areas.”662

Although the WHO welcomed the Taliban’s announcement, it remained concerned that “more children [had] become vulnerable to poliovirus,” and that, as a result of the previous ban, “we will see more Afghan children paralyzed.”663