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ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES & EVENTS

COVID-19 continued to ravage Afghanistan this quarter, further straining the country's rudimentary health-care system.

Testing remains limited, but nearly 43% of samples were testing positive as of July 15, one of the highest rates in the world.

Afghanistan has likely entered a recession because of the pandemic; the economy is projected to shrink 3–10% in 2020.

Reflecting the economic damage, the Afghan government's sustainable domestic revenues declined by 23.4%, year-on-year, over the first six months of 2020.

COVID-19 continued to ravage Afghanistan this quarter, overwhelming the country's rudimentary health-care system and, as UNAMA head Deborah Lyons put it, casting "a huge shadow" over Afghan daily life.⁴⁹⁵ As of July 15, 2020, the number of reported deaths remained low at just 1,094, but this figure may vastly undercount the true toll of the virus: testing capacity remained limited and many Afghans do not have access to medical facilities.⁴⁹⁶ Afghans tell foreigners that the illness is already widespread. The Asia Foundation's country director wrote at the end of June, "I have been unable to keep track of the growing number of deaths among my own acquaintances, relatives, and friends' families."⁴⁹⁷ At a press conference in June 2020, the governor of Kabul Province, Mohammad Yaqub Haidari, said the capital's ambulance service had reported an average of approximately 33 deaths per day.⁴⁹⁸ Commenting on the lack of an accurate death count, the head of a Kabul-based hospital dedicated to treating COVID-19 patients estimated that roughly 75% of those who died at the hospital had not been tested.⁴⁹⁹

Available COVID-19 data point to rapid spread with undetected infection.⁵⁰⁰ As of early June, Afghanistan's Ministry of Public Health could test only 2,000 of the 10,000–20,000 samples received daily, according to the

International Rescue Committee (IRC), a humanitarian-oriented nongovernmental organization.⁵⁰¹ Consequently, up to 90% of potential cases are not being tested.⁵⁰² Afghanistan’s positivity rate—or the proportion of tests that return a positive result divided by the total number of tests conducted—was nearly 43%, as of July 15, 2020.⁵⁰³ This was one of the highest positivity rates in the world, based on data collected by Johns Hopkins University (JHU) and, separately, by the IRC.⁵⁰⁴ While JHU did not calculate the rate for all countries and although Afghanistan was apparently excluded from the JHU rankings, Brazil (at nearly 37%) was listed as having the highest positivity rate globally.⁵⁰⁵ Overall, the IRC said, Afghanistan faced a “humanitarian disaster.”⁵⁰⁶

The potential for disaster is heightened by the probability that the pandemic will have secondary effects on broader health outcomes.⁵⁰⁷ State pointed to research from JHU suggesting a possible 18% increase in child mortality and a 14% increase in maternal mortality in Afghanistan as indirect consequences of the virus’ spread.⁵⁰⁸ Complicating matters, public-health workers in some provinces, like Nangarhar and Herat, only recently received their salaries after a hiatus of several months, State added.⁵⁰⁹

Perhaps reflecting widespread desperation among many Afghans, thousands of people swarmed an herbal clinic in Kabul hoping to receive a dose of a solution falsely marketed as a COVID-19 vaccine.⁵¹⁰ Local residents initially resisted Afghan government efforts to shut down the clinic, burning tires and blocking roads.⁵¹¹ The government eventually forced the clinic’s proprietor, an herbalist named Hakeem Alokozai, out of Kabul after tests revealed that the solution Alokozai had represented as a vaccine was merely an amalgamation of several types of narcotics.⁵¹² As of mid-June, Alokozai’s brother—Alokozai himself is reportedly in hiding, with a warrant out for his arrest—was still distributing drops of the concoction to several thousand Afghans in Kandahar City every day, according to the *New York Times*.⁵¹³

Beyond social effects, COVID-19 began disrupting the Afghan economy this quarter, and estimates of the magnitude of economic disruption varied widely. The IMF said that Afghanistan had likely entered a recession, forecasting that Afghanistan’s GDP would contract by 3% in 2020.⁵¹⁴ Projected economic contraction by other experts ranged from 3% to 10%.⁵¹⁵ Describing the outlook as “dire,” the World Bank said South Asia would likely experience its worst economic performance in the last four decades and predicted that Afghanistan would be the worst regional performer in 2020, other than the Maldives.⁵¹⁶ “The pandemic is inflicting severe economic and social damage, with its depth and duration subject to great uncertainty,” the IMF said.⁵¹⁷

Driven in part by COVID-19, the Afghan government’s **sustainable domestic revenues** contracted by 23.4%, year-on-year, over the first six months

Sustainable Domestic Revenues:

According to Afghanistan Ministry of Finance officials, these are revenues like customs, taxes, and nontax fees. Multilateral institutions such as the World Bank and the IMF use reports of these revenues to judge the Afghan government’s fiscal performance.

One-Off Domestic Revenues: These are nonrecurring revenues arising from one-time transfers of funds, such as central bank profits, to the Afghan government. The IMF excludes central bank transfers from its definition of domestic revenues for the purpose of monitoring Afghanistan’s fiscal performance under its Extended Credit Facility arrangement with the government.

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



Balkh Chamber of Commerce raised over 2 million afghanis to support Afghan families in need due to COVID-19 and distributed 15,000 sacks of flour at reduced prices. (U.S. Embassy photo)

of 2020, SIGAR analysis of Afghan government accounting data showed. In the first quarter of the year, prior to the pandemic, revenues already were falling as a result of deep political uncertainty that followed the contested September 2019 Afghan presidential election, only resolved in May 2020.⁵¹⁸ The impact of COVID-19 and government actions to halt its spread exacerbated this decline. With the Afghan government so heavily reliant upon customs duties and taxes—comprising approximately one-fifth of all revenues—the ongoing border closures due to COVID-19 were a major contributor to this contraction. In the first six months of 2020, customs duties and taxes dropped 31.6% from the same period last year. With the pandemic driving increases in both unemployment and prices for essential goods, sales-tax revenue—another major source of income for the Afghan government—also decreased substantially from the previous year.⁵¹⁹

As revenues declined, expenditures increased at the outset of the lockdown beginning in late March, rising by 5% over the next two months compared to the same period in the prior year. Nevertheless, a significant drop in expenditures in Month 6 (May 21–June 20, 2020) meant that cumulative, year-on-year expenditures through the first half of 2020 decreased by 1.6%, in part due to restricted government activity during the lockdown, according to the MOF. In Month 6 of FY 1399 (December 22, 2019–December 21, 2020), expenditures were 31% lower than the previous year.⁵²⁰

COVID-19 Has Prompted Generosity Among Some Afghans

Amidst a growing public health and economic crisis in Afghanistan, some Afghans are reportedly responding to the pandemic with generosity, according to the *New York Times*. In many areas, landlords have waived rent—some until the crisis passes. For example, in Taloqan, the capital of Takhar Province in the country's north, the owner of a 40-shop business center informed his tenants that rent would be forgiven temporarily, and possibly until the end of 2020 if the pandemic persists.

Source: New York Times, "Waiving Rent and Making Masks, Afghans Meet Coronavirus With Kindness," 3/31/2020 (updated 6/24/2020).



Provincial governments in Afghanistan are using mass media campaigns, including billboards, to increase public awareness of best practices to prevent the spread of COVID-19. (USAID photo)

COVID-19 INTENSIFIES IN AFGHANISTAN

The COVID-19 epidemic in Afghanistan has intensified since the first case was confirmed in Herat Province on February 24, 2020.⁵²¹ As of July 15, 2020, the country has reached 34,994 confirmed cases with 1,094 deaths attributed to the disease, according to the Afghan Ministry of Public Health (MOPH). Confirmed cases have been largely concentrated in urban centers, with the highest number in Kabul.⁵²² However, Afghan public-health officials have warned that actual cases are likely much higher given the government's low testing capacity.⁵²³ With limited resources to deal with the spreading disease and high poverty levels inhibiting compliance with government-mandated lockdowns, experts have warned that Afghanistan is headed for a humanitarian disaster.⁵²⁴

Millions Going Hungry

The economic shock of the pandemic—including increased unemployment, food-supply disruptions due to border closures, and rising food prices—has exacerbated Afghans' food insecurity, already impacted by the ongoing conflict and high poverty levels. In May 2020, the Integrated Food Security Phase Classification (IPC), a common global scale for classifying the severity and magnitude of food insecurity and malnutrition, warned that about one-third of Afghanistan's estimated 32.2 million people remain in either a crisis or emergency state of food insecurity and require urgent action.⁵²⁵ Further, Save the Children assessed that 7.3 million Afghan children will face food shortages due to the pandemic.⁵²⁶

Due to supply shortages and panic buying, prices of essential food items have steadily risen. When comparing World Food Programme (WFP) price data from March 14 to May 28, wheat flour has increased by as much as 17%, wheat by 9%, cooking oil by 24%, pulse by 11%, and sugar by 10%. At the same time, the purchasing power of casual labor has dropped significantly by 13%.⁵²⁷ Amid reports of food-price inflation of 16.7%, the Afghan government initiated a bread-distribution program in early May to help Afghan families.⁵²⁸ Soon thereafter, seven protesters reportedly died after demonstrations broke out in Ghor Province over perceived unfair food distribution.⁵²⁹

Donors Commit Economic Aid Despite Concerns of Corruption and Mismanagement

Various international donors have committed economic aid for Afghanistan to mitigate the COVID-19 crisis. The Asian Development Bank (ADB) provided a \$40 million emergency-assistance grant to help Afghanistan construct and rehabilitate hospitals, procure medical supplies, and train health workers.⁵³⁰ The World Bank approved a \$400 million grant, comprising \$160 million from the International Development Association (IDA)—the World Bank Group’s fund for the poorest countries—and \$240 million from the Afghanistan Reconstruction Trust Fund (ARTF).⁵³¹ The European Union provided an additional EUR 50 million to help strengthen Afghanistan’s health system.⁵³² However, Integrity Watch Afghanistan, an Afghan-based NGO, raised concerns about the Afghan government’s ability to properly manage and monitor funds allocated for the COVID-19 response.⁵³³

Other reports suggest public-health resources are being mismanaged. More than 200 doctors and medical staff took part in protests in Herat on May 19, 2020, saying they had not been paid for three months while risking their lives to treat COVID-19 patients.⁵³⁴ Furthermore, 13

doctors resigned from a Herat hospital designated to treat COVID-19 patients, citing a lack of equipment, unpaid salaries, and increased workload.⁵³⁵ Amid this and other health-related crises, Minister of Public Health Ferozuddin Feroz announced on May 31 that he was stepping down. President Ghani appointed Mohammad Javad Osmani as the new acting Minister of Public Health.⁵³⁶

Challenges to Limiting Spread of COVID-19

The Afghan government has launched several information campaigns in urban and rural areas to promote public-health recommendations for containing the spread of the disease, such as frequent hand washing, use of masks in public spaces, social distancing, and staying at home as much as possible. Many impoverished families have ignored government recommendations to stay at home because they will not be able to afford to feed their families if they do not work. Despite the rising number of cases and government warnings, Afghans are increasingly moving about in Kabul. The government food-distribution plan has drawn many vulnerable families outside, putting them in severe risk of contracting COVID-19.⁵³⁷ A similar situation was reported in Herat, where health officials warned that the public was not paying sufficient attention to the crisis.⁵³⁸

Public-health conditions in areas under Taliban control remain unclear. The group has released messages and videos as part of a public relations campaign highlighting its COVID-19 response, including enforcing quarantine. Yet, as aid officials have argued, it has been difficult to assess the effectiveness of the Taliban’s actions. Reports have said Taliban messaging is mere propaganda, with no preventive public-health measures occurring in local communities. Others portrayed Taliban officials as attempting to help mitigate the crisis by holding the Afghan

government accountable for delivering necessary supplies.⁵³⁹

Lack of Testing and Medical Equipment

Afghanistan has carried out 81,934 tests in a population estimated at more than 30 million people, as of July 15, 2020. The UN Office for the Coordination of Humanitarian Affairs reports that Afghanistan has a test-positivity rate (positive tests as a percentage of total tests) of nearly 43%, of which more than 10% are healthcare staff, one of the highest rates in the world.⁵⁴⁰ Confirmed cases rose by 684% in May 2020, as the MOPH struggled to scale up testing. As of June 1, 2020, the MOPH had the capacity to test only 2,000 of the 10,000–20,000 samples it receives daily.⁵⁴¹

Afghanistan also lacks the medical equipment necessary to treat patients diagnosed with COVID-19. While the Afghan government approved the purchase of 500 ventilators in April, the country's hospitals currently have only 300 ventilators to help patients.⁵⁴² Furthermore, Kabul hospitals have also reported a severe lack of oxygen, resulting in relatives bringing makeshift oxygen balloons to help suffering patients.⁵⁴³

Slowdown in Economic Activity

Largely as a result of border closures and the resulting loss in customs revenues, Afghanistan's sustainable domestic revenues contracted by 23.4% in the first two quarters of 2020, as compared to the same period in the previous year.⁵⁴⁴ The World Bank's latest *Global Economic Prospects* report predicts Afghanistan will experience an economic contraction of 5.5% of real GDP.⁵⁴⁵ Further, a panel of experts at a May 14, 2020, event titled "Economic Implications of COVID-19 for South Asia" hosted by the Wilson Center in Washington, DC, also

predicted that the Afghan economy could contract 3–10% due to the pandemic.⁵⁴⁶ Experts predict that an additional 8 million people will fall into poverty, pushing the poverty rate from 55% to 80%.⁵⁴⁷

The shutdown of trade routes by neighboring countries has damaged Afghanistan's economy. Members of the Afghan Chamber of Commerce and Investment (ACCI) claim that millions of dollars' worth of economic activity will be lost due to the pandemic.⁵⁴⁸ The IMF projected an \$857 million balance of payments deficit for Afghanistan in 2020.⁵⁴⁹ By early July 2020, five border crossings with Pakistan (Angor Adda, Kharlachi, Torkham, Chaman, and Ghulam Khan) were open for trade. However, traders have complained of lost revenues as trucks face slow clearance processes, especially as severe delays put perishable cargo at high risk of rotting.⁵⁵⁰

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

Since the outset of the intervention, the United States has sought to advance economic and social conditions in Afghanistan in the service of U.S. national security interests.⁵⁵¹ While the intensity and emphasis of policies and programs have changed over the years, the core U.S. belief and theory of change that expansive programming across a wide array of disparate sectors could contribute to stability and security has remained constant.⁵⁵²

The U.S. sees such programming as contributing positively to security through several channels. Economic growth raises living standards and can provide gainful employment to the young, unemployed men who may be most likely to join the insurgency.⁵⁵³ Improved Afghan government delivery of key services like health and education, meanwhile, are believed to increase the government's legitimacy, thereby fostering greater stability as Afghan citizens' confidence in the Afghan state rises.⁵⁵⁴

However, the causal processes by which countries become more stable and prosperous are not well understood.⁵⁵⁵ Additionally, scholars have found the evidence that development can reduce violence in conflict zones is, at best, mixed.⁵⁵⁶

Nevertheless, these theories continue to inform current U.S. economic and social development programming in Afghanistan. The U.S. government's current Integrated Country Strategy (ICS) states that economic prosperity in Afghanistan depends upon the United States' ability to advance private-sector-led export growth and job creation, and to bolster gains in health, education, and women's empowerment.⁵⁵⁷

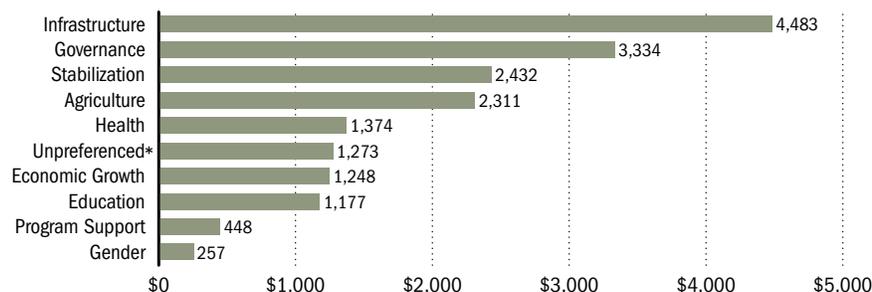
USAID's Country Development Cooperation Strategy (CDCS) for Afghanistan is nested within the ICS.⁵⁵⁸ The objectives of the CDCS are to:⁵⁵⁹

- 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

Making progress toward these goals faces numerous obstacles. After growing by 2.9% in 2019, Afghanistan's economy faces major headwinds as COVID-19 continues to spread across the country.⁵⁶⁰ A panel of experts convened by the Wilson Center in May predicted that Afghanistan's GDP would contract sharply in 2020, perhaps by as much as 10%.⁵⁶¹ Economic and social conditions in Afghanistan faced significant challenges even before the pandemic. Since 2014—the year in which U.S. and Coalition forces completed a phased drawdown—annual GDP growth has not surpassed 3%, poverty has increased, some social-development indicators have stagnated, and the proportion of Afghans who perceive corruption as a problem in daily life has remained roughly unchanged.⁵⁶²

FIGURE 3.37

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF JULY 9, 2020
(\$ 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 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.

Source: SIGAR analysis of USAID, response to SIGAR data call, 7/9/2020; SIGAR analysis of World Bank, ARTF, Administrator's Report on Financial Status as of April 19, 2020, 6/14/2020.

As of June 30, 2020, the U.S. government has provided approximately \$35.85 billion to support governance and economic and social development in Afghanistan since 2002. Most of these funds—nearly \$21.05 billion—were appropriated to USAID's Economic Support Fund (ESF). Of this amount, more than \$19.60 billion has been obligated and nearly \$17.65 billion has been disbursed. Figure 3.37 shows USAID assistance by sector.⁵⁶³

ECONOMIC PROFILE

The overall economic goal of the current U.S. strategy is to transition Afghanistan from an assistance recipient to an enduring economic partner.⁵⁶⁴ This transition will be difficult, as Afghanistan remains poor, aid-dependent, and conflict-affected.⁵⁶⁵ Donor grants totaling \$8.5 billion per year (combined security and civilian assistance) currently finance more than half the Afghan government's budget and 75% of total public expenditures (including funds not channeled through government ministries).⁵⁶⁶

Approximately 55% of Afghans live below the poverty line, according to the most recent household survey data—up from 34% in 2008.⁵⁶⁷ Although increased service provision and an economy fueled by donor funds rapidly improved many development outcomes through the 2014 drawdown of most international troops, licit GDP growth of just under 10% dropped to low-single-digit levels as the Afghan government assumed responsibility for the fight against the Taliban insurgency.⁵⁶⁸

Poverty likely worsened in 2019 and “remains at unacceptably high levels,” according to the World Bank.⁵⁶⁹ The IMF said the COVID-19 pandemic is likely to push more Afghans below the poverty line—approximately \$1 per day—in 2020, as remittances from Afghans working in

adjacent countries decline, household budgets are stretched by a spike in food prices, and lockdowns and border closures dampen domestic economic activity.⁵⁷⁰

Short-term prospects for the Afghan economy are not bright. Weak domestic demand and trade disruption due to border closures intended to contain the virus' spread are weighing on Afghan businesses, according to the IMF.⁵⁷¹ The IMF added that Afghanistan had likely entered a recession and projected that GDP would contract by at least 3%.⁵⁷² Some experts expected a drop of as much as 10%.⁵⁷³ Raising Afghanistan's licit exports in accordance with current U.S. development strategy will be very difficult.⁵⁷⁴ Exports are expected to decline in 2020 as key regional economies—primarily India and Pakistan—slow.⁵⁷⁵ Declining exports and slowing remittance inflows that could eventually fall by as much as 50% have reportedly opened up a more than \$850 million deficit in Afghanistan's balance of payments—the net value of financial transactions between Afghanistan and the rest of the world.⁵⁷⁶

Overall, while much uncertainty remains regarding the full impact of the pandemic, the IMF assessed that “risks to the outlook are high and to the downside,” with additional uncertainty surrounding prospects for a political settlement between the Afghan government and the Taliban.⁵⁷⁷

Afghanistan's True GDP Growth Remains Highly Sensitive to the Narcotics Trade

More than any other domestic factor, the success or failure of the opium trade has the greatest effect on Afghanistan's gross domestic product (GDP) when illicit activity is taken into account. The country's statistical authority (NSIA) includes the opium economy in one version of its annual GDP calculation. The NSIA reported that when estimated opium production dropped by nearly 30% in 2018 due to drought and a supply surplus left over from the previous year, the Afghan economy contracted by 0.2%. By comparison, the NSIA estimated that licit growth in the same year was 2.7%.

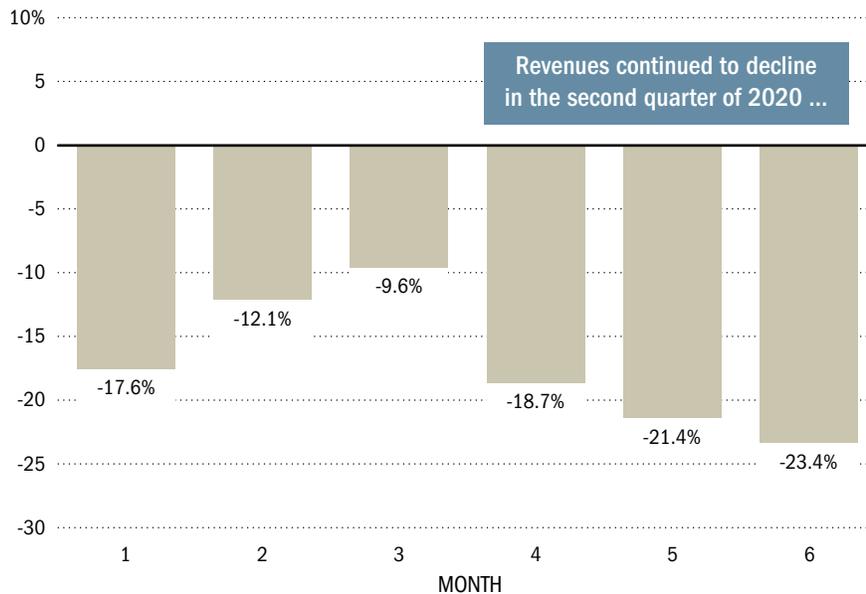
By contrast, when opium production increased by nearly 90% in 2017, GDP growth including the opium economy in 2017 was 7.2%. Afghanistan's licit GDP growth rate in 2017 was 2.7%, according to the Bank and IMF.

Unlike the NSIA, neither the IMF nor the World Bank consider the narcotics economy in their GDP growth estimates. However, there appears to be increasing interest from the Bank on this issue. In a March 2020 paper described by its authors as “the first . . . to consider impacts [of conflict] across formal, informal, and illicit activities simultaneously,” the Bank found that while violence in Afghanistan negatively impacted licit economic activity, it did not materially affect aggregate economic activity because of the high prevalence of opium-poppy cultivation.

Source: NSIA, Afghanistan Statistical Yearbook 2017–2018, 8/2018, p. 110; World Bank, Afghanistan Development Update: Building Confidence Amid Uncertainty, 7/2019, p. 18; IMF, Fifth Review under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria, 5/15/2019, p. 24; SIGAR, Quarterly Report to the United States Congress, 1/30/2019, pp. 150, 152; UNODC, Afghanistan Opium Survey 2018: Cultivation and Production, 11/2018, pp. 5, 8; NSIA, “Growth-Rate-of-GDP” 6/10/2019; NSIA, Afghanistan Statistical Yearbook 2018–19, 7/2019, posted to the NSIA website 11/2019, ii; UNODC, Afghanistan Opium Survey 2017: Cultivation and Production, 11/2018, p. 40; World Bank, Conflict and the Composition of Economic Activity in Afghanistan, 3/2020, pp. 12, 19.

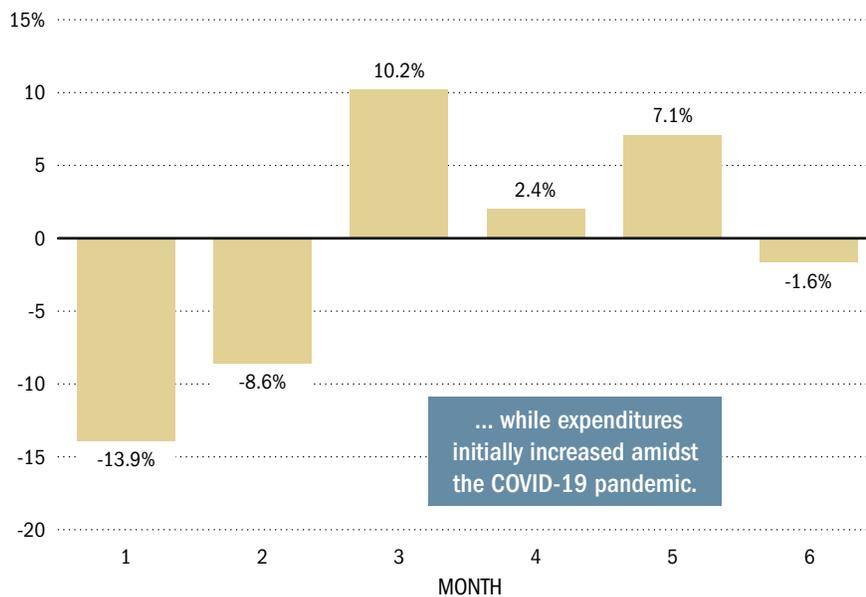
FIGURE 3.38

CUMULATIVE SUSTAINABLE REVENUE GAINS (FY 1398-1399) VERSUS SAME MONTH PRIOR YEAR



Source: SIGAR analysis of MOF-provided AFMIS data exported 7/11/2020; SIGAR analysis of MOF-provided AFMIS data exported 1/18/2020.

CUMULATIVE EXPENDITURE INCREASES (FY 1398-1399) VERSUS SAME MONTH PRIOR YEAR



Source: SIGAR analysis of MOF-provided AFMIS data exported 7/13/2020; SIGAR analysis of MOF-provided AFMIS data exported 1/18/2020.

Fiscal Update: Revenues Contract Substantially, Driven by Decline in Customs

Afghanistan's sustainable domestic revenues contracted by 23.4% in the first two quarters of 2020 as compared to the same period in the previous year, reflecting further fallout from the pandemic.⁵⁷⁸ According to State, the Afghan government expects tax revenue to contract by \$715 million to \$1.99 billion in 2020, 26% shy of the \$2.7 billion in revenues that were projected before the emergence of COVID-19.⁵⁷⁹ Beginning in March 2020, customs revenues dropped “to close to zero for several months,” State said.⁵⁸⁰

Among revenue categories, customs revenues—on which the Afghan government relies for approximately one-fifth of its domestically generated income—are uniquely vulnerable to border closures. Pakistan, one of Afghanistan's key trading partners, closed the Chaman-Spin Boldak and Torkham border crossings with Afghanistan in March 2020 in an attempt to contain the spread of COVID-19.⁵⁸¹ As a result, customs revenues dropped by 54.2% from Month 3 (February 20–March 19, 2020) to Month 4 (March 20–April 19, 2020) of the Afghan fiscal year, according to publicly available data from the Afghanistan Revenue Department. Although customs revenues rebounded in Month 5 (April 20–May 20, 2020), the cumulative gap compared to prior-year revenues continued to widen. At Month 6 (May 21–June 20, 2020), the aggregate year-on-year decline was 31.6%.⁵⁸²

As of May 15, 2020, Pakistan increased the numbers of days the border was open to commercial traffic to six days a week, according to State.⁵⁸³ More recently, the Pakistani and Afghan governments had coordinated to allow five border crossings to reopen to commercial traffic on a regular schedule, as of July 12, 2020.⁵⁸⁴ Consequently, it is possible that customs revenues may recover somewhat over the second half of the year (though much uncertainty remains especially with traders reporting corruption and delays at the border).⁵⁸⁵ Figure 3.38 shows cumulative sustainable revenue gains through Month 6 of FY 1399. Expenditures over the first six months of 2020 (also presented in Figure 3.38), meanwhile, decreased overall by 1.6%, in part due to restricted government activity during the lockdown, according to the MOF.⁵⁸⁶

ECONOMIC GROWTH

Through its current strategy, USAID is seeking to accelerate export-led growth by providing support to Afghanistan's private sector.⁵⁸⁷ Specifically, the strategy aims to:⁵⁸⁸

- strengthen trade connections between Afghanistan and neighboring countries
- increase the competitiveness of Afghan private industry by supporting export-ready firms
- create jobs via that firm-level support and by improving the enabling environment for businesses



An Afghan man sells cameras at Kabul bazaar. (SIGAR photo by Adam Bonfanti)

Treasury Provides USAID with Final Report on Financial-Sector Technical Assistance

Last quarter, SIGAR reported that Treasury had not yet provided a final project-performance report required by an interagency agreement with USAID through which Treasury provided technical assistance to Afghanistan’s financial sector. This quarter, Treasury informed SIGAR it had provided the report to USAID on April 13, 2020. Treasury also provided SIGAR with a copy of the report.

The final project report described Treasury’s efforts to increase the Afghan government’s public financial-management capacity through training on how to better project future expenditures. It also described Treasury’s technical assistance to Afghanistan’s central bank (DAB) for improving DAB’s ability to supervise and oversee Afghanistan’s financial sector.

SIGAR was particularly interested to understand what metrics Treasury had used to assess progress in building up Afghan government capacity in these areas. According to USAID, the metrics against which USAID and Treasury tracked progress were the “number of meetings and number of trainings with Treasury’s [Afghan] counterparts.”

In the final project report, Treasury indicated that “timely workshops” and “opinions valued by [the Ministry of Finance]” were metrics used to assess progress against objectives. While Treasury said it used additional measures—such as actual Afghan government “adoption and implementation” of improved budgeting techniques—SIGAR could not verify, judging by the report, whether such progress had actually been achieved and, if so, the extent to which Treasury’s technical assistance played a role.

Source: SIGAR, communication with Treasury official, 5/27/2020; Treasury, OTA, “USAID-OTA IAA Afghanistan Final Report,” 4/13/2020, p. 1; USAID, OEG, response to SIGAR data call, 3/18/2020.

However, given current obstacles, tightening trade connections, increasing Afghanistan’s licit exports, and creating jobs may not be possible within the timeframe set by USAID’s strategy (which covers development support through 2023).⁵⁸⁹ Afghanistan’s economy is likely to face a significant contraction this year.⁵⁹⁰ Even before the pandemic took hold, licit economic growth was too low vis-à-vis Afghanistan’s population growth to reduce poverty and improve living standards for most Afghans.⁵⁹¹ Moreover, licit export levels stagnated in 2019, even though the Afghan government covers a majority of transit costs for exports via air freight in subsidized air corridors to incentivize trade within the region.⁵⁹² Although the full effects of COVID-19 have not yet been felt, the IMF projected that unemployment and poverty would rise in 2020.⁵⁹³

USAID’s active economic-growth programs—which have included technical assistance to the mining and financial sectors, recent developments within which are discussed in this section—have a total estimated cost of \$331 million and can be found in Table 3.18.

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.18

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/9/2020
Afghanistan Competitiveness of Export-Oriented Businesses Activity (ACEBA)	1/28/2020	1/27/2025	\$105,722,822	\$1,052,156
Women in Economy (WIE)	7/1/2015	8/31/2020	71,571,543	68,166,610
Multi-Dimensional Legal Economic Reform Assistance (MELRA)	2/7/2018	9/30/2024	29,990,258	3,371,197
Extractive Technical Assistance by USGS	1/1/2018	12/31/2022	18,226,206	7,016,783
Commercial Law Development Program (CLDP)	3/1/2014	9/29/2020	17,864,283	12,826,970
INVEST	9/28/2017	9/27/2020	15,000,000	6,811,649
Afghanistan Investment Climate Reform Program (AICR)	3/27/2015	3/26/2022	13,300,000	6,851,149
Carpet and Jewelry Value Chains	1/31/2019	4/30/2023	9,941,606	2,402,755
The Goldozi Project	4/5/2018	4/4/2022	9,718,763	4,087,713
Livelihood Advancement for Marginalized Population (LAMP)	8/1/2018	7/31/2022	9,491,153	1,915,464
Establishing Kabul Carpet Export Center (KCEC)	6/6/2018	6/5/2021	9,416,507	4,659,066
Recycling Plant Value Chain in Northern Afghanistan	6/5/2019	6/4/2023	7,250,000	520,278
Trade Show Support (TSS) Activity	6/7/2018	12/6/2020	6,921,728	6,197,800
Development Credit Authority (DCA) with Ghazanfar Bank	9/1/2018	8/30/2025	2,163,000	40,015
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	142,100
Afghanistan Loan Portfolio Guarantee	9/27/2017	9/26/2023	665,820	732
Total			\$331,201,689	\$126,583,238

Source: USAID, response to SIGAR data call, 7/12/2020.

Mahmoud Karzai Appointed Minister Despite Alleged Involvement in Kabul Bank Crisis

On June 1, 2020, President Ghani appointed Mahmoud Karzai—the brother of former Afghan President Hamid Karzai—as the new Acting Minister of Urban Development and Land.⁵⁹⁴ Karzai is a former investor in the now-defunct, but still infamous, Kabul Bank, which nearly collapsed in 2010 after almost \$1 billion was stolen by a group of politically connected executives and shareholders.⁵⁹⁵ Orchestrated by Kabul Bank chairman Sher Khan Farnood and head of security turned chief executive officer Khalilullah Ferozi, the scheme involved money laundering and fraudulent lending.⁵⁹⁶ Funds flowed to shareholders, such as Karzai, through the loans or via inflated or falsified asset purchases.⁵⁹⁷ The crimes stressed the still incipient formal Afghan financial system, resulting in a \$500 million run on Kabul

In a list of new Afghan government appointments provided to SIGAR this quarter, State explicitly referred to Acting Minister of Urban Development and Housing Mahmoud Karzai as a “shareholder of Kabul Bank.”

Source: State, SCA, response to SIGAR data call, 6/18/2020.

Bank and eventually an \$825 million bailout (an amount equivalent to approximately 5–6% of the country’s GDP at the time).⁵⁹⁸

Karzai, who for a time was reportedly allowed to live in one of Farnood’s Dubai villas, maintains his innocence.⁵⁹⁹ He claimed he was offered a 7.5% share in Kabul Bank in 2007, purchased the shares with a \$6 million loan from Farnood, but had no knowledge of the fraud and embezzlement.⁶⁰⁰ The same year, Karzai founded a cement business using additional loans from the bank.⁶⁰¹ In November 2019, investigative reporting from the London-based Bureau of Investigative Journalism based on leaked property data revealed that Karzai owned luxury property in Dubai (not an indication of wrongdoing in itself).⁶⁰² Records from the Kabul Bank Receivership, established to manage the bank’s bad assets, show that Karzai had paid back all but \$585,537 of \$13.0 million owed, as of December 2019.⁶⁰³ The remaining balance has been in dispute.⁶⁰⁴

Overall, \$587.5 million—59.5% of the \$987.0 million total amount of stolen funds—remains unrecovered by the Afghan government.⁶⁰⁵ Hope rose that the government would compel additional payments after President Ghani first took office in September 2014.⁶⁰⁶ A presidential decree issued two days after he was sworn in purported to address all remaining aspects of the case,⁶⁰⁷ although, little progress has been made since.⁶⁰⁸

Mining Equipment of Guernsey-Based Firm Could be in Taliban Hands

The mining equipment of CENTAR Ltd., a Guernsey-based company whose contracts for large-scale gold and copper concessions were recently canceled by the Afghan government, may be in the hands of the Taliban, according to the *Financial Times*.⁶⁰⁹ “The Taliban have established their own ministry of mining in Qatar, with their own people on the ground collecting revenues and operating mines nationally, which has led to a profitable mining industry of which our mine in Badakhshan [Province] is a great success,” CENTAR founder and former UK Special Air Services officer Ian Hannam said in a colorful letter to CENTAR shareholders quoted in the *Financial Times*.⁶¹⁰

The contracts for the Badakhshan gold and Balkhab copper concessions were signed at a ceremony at the Afghan Embassy in Washington, DC, in the fall of 2018.⁶¹¹ At the time, some claimed the contracts resulted from pressure applied to the Afghan government by the Trump administration.⁶¹² According to the *Financial Times*, CENTAR did initiate a lobbying campaign targeting both the U.S. and Afghan governments.⁶¹³ However, according to the Afghanistan Compact—a reform-tracking device containing economic benchmarks (among others) mutually agreed upon by the U.S. and Afghanistan—the Afghan government had committed merely to “approve, reject, [or] retender the then-stalled contracts.”⁶¹⁴

The signed contracts—finally moving after a seven-year delay—seemed to revive long-held hopes that Afghanistan’s extractives sector could be leveraged for the country’s economic development.⁶¹⁵ But controversy soon followed.⁶¹⁶ Civil society organizations, concerned about corruption in Afghanistan’s mining sector, contended the contracts had been awarded illegally, due to the involvement of former Minister of Housing and Urban Development Sadat Naderi, whose firm held the mining license.⁶¹⁷

Documented Western interest in Afghan minerals extends back more than 200 years. As early as 1808, surveyors from Britain’s armed, quasigovernmental East India Company “scrambled through Afghanistan attempting to exploit its riches ahead of their Russian competitors.”⁶¹⁸ In 2010, the U.S. government estimated the value of the country’s extractives sector at more than \$1 trillion.⁶¹⁹ Yet, as in other areas of reconstruction, efforts to develop extractives have been hindered by unrealistic implementation timelines and inflated expectations, sometimes shaped by overestimation of the Afghan government’s ability to provide critical enabling support.⁶²⁰

AGRICULTURE

Licit agriculture remains the base of Afghanistan’s formal economy. The sector directly employs approximately 40% of Afghanistan’s labor force and directly or indirectly supports an estimated 80% of the total population.⁶²¹ While the agricultural industry’s importance has diminished somewhat since the outset of reconstruction due to the rise of the country’s service sector, it remains an important driver of GDP growth.⁶²²

Because of its economic significance, developing Afghanistan’s agricultural sector has long been a priority for donors. In a strategic document published in 2002, USAID said agriculture was a “cornerstone of recovery and a pillar of reconstruction for a sustainable future.”⁶²³ Even today, the agency’s strategy says, “Agriculture, the biggest driver of the Afghan economy, presents major opportunities for job creation, poverty reduction, and economic growth.”⁶²⁴

While donors continue to support the development of licit Afghan agriculture, illicit opium-poppy cultivation thrives. According to the Afghanistan Research and Evaluation Unit, a Kabul-based think tank, as many as 507,000 Afghans worked in the opium economy in 2018, including indirect employment, making the drug trade one of Afghanistan’s largest employers.⁶²⁵

Since 2002, USAID has disbursed over \$2.3 billion to improve licit agricultural production, increase access to markets, and develop income alternatives to growing poppy for opium production.⁶²⁶ USAID’s active agriculture programs have a total estimated cost of \$390 million and can be found in Table 3.19. Total disbursements for State’s active alternative-livelihood projects (Table 3.20)—which aim to transition opium-poppy farmers into licit agriculture—were \$79 million, as of June 17, 2020.

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.19

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/9/2020
Strengthening Watershed and Irrigation Management (SWIM)	12/7/2016	12/6/2021	\$87,905,437	\$30,717,548
Commercial Horticulture and Agriculture Marketing Program (CHAMP)	2/1/2010	1/31/2020	71,292,850	71,285,455
Afghanistan Value Chains—Livestock	6/9/2018	6/8/2021	55,672,170	15,476,686
Afghanistan Value Chains—High-Value Crops	8/2/2018	8/1/2023	54,958,860	13,787,319
Agricultural Marketing Program (AMP)	1/28/2020	1/27/2023	30,000,000	1,359,301
Regional Agriculture Development Program-East (RADP East)	7/21/2016	7/20/2021	28,126,111	18,220,200
Grain Research and Innovation (GRAIN)	11/8/2012	9/30/2022	19,500,000	10,273,530
Promoting Value Chain—West	9/20/2017	9/19/2020	19,000,000	13,900,963
Catalyzing Afghan Agricultural Innovation	5/28/2018	5/27/2023	8,000,000	2,887,581
SERVIR	10/1/2015	9/30/2020	3,100,000	2,367,493
USDA PAPA	09/30/2016	9/29/2021	12,567,804	0
Total			\$390,123,232	\$180,276,077

Note: CHAMP is the only project USAID continues to code as an alternative-development intervention in its financial data. All other projects are coded as agricultural interventions.

Source: USAID, response to SIGAR data call, 7/12/2020.

TABLE 3.20

STATE-INL ACTIVE ALTERNATIVE-DEVELOPMENT PROJECTS			
Project Title	Start Date	End Date	Obligated and Disbursed, Cumulative, as of 6/17/2020
Community-Based Agriculture and Alternative Development-West (CBARD-West)	9/1/2016	4/30/22	\$24,368,607
Community-Based Agriculture and Alternative Development-East (CBARD-East)	11/11/17	4/30/22	22,128,683
Boost Alternative Development Intervention Through Licit Livelihoods (BADILL)	8/12/16	8/12/20	20,000,000
Community-Based Agriculture and Alternative Development-Access to International Markets (CBARD-AIM)	7/30/19	4/30/23	8,900,000
Monitoring and Impact Assessment of High-Value Agricultural Based Interventions	8/30/16	11/10/20	3,810,530
Total			\$79,207,820

Source: State, INL, response to SIGAR data call, 6/17/2020.

Major Activities of USAID's SWIM Project Continue Despite Pandemic

USAID's five-year, \$57 million Strengthening Watershed and Irrigation Management (SWIM) project saw some training and meetings delayed as a result of COVID-19, implementer DT Global said in its latest quarterly report (January through March 2020).⁶²⁷ However, canal-rehabilitation efforts were "ongoing and for the most part on schedule," DT Global added.⁶²⁸ Operating in six provinces in northern Afghanistan, SWIM has several components.⁶²⁹

The project aims to increase the sustainability and production of agricultural water use: rehabbing irrigation canals and watersheds; strengthening Afghanistan’s regulatory framework for water use; and building the capacity of local entities to better manage water resources.⁶³⁰

Specifically, among other effects of COVID-19, DT Global was forced to postpone water evaluation and planning training that was intended to serve as a platform for reviewing catchment data (that is, information about areas from which rainfall flows into rivers) for different locations of the Kunduz river basin.⁶³¹ However, irrigation-rehabilitation delays reported by DT Global did not appear to be related to the pandemic. For example, cold weather and severe rain delayed work on canals in the Choghai and Joy Zendam areas of Samangan Province for 54 days and 50 days, respectively.⁶³² Nevertheless, rehabilitation progress on the canals sped up after subcontractors marshalled additional labor and arranged for longer working hours.⁶³³

INFRASTRUCTURE AND ESSENTIAL SERVICES

A major goal of the U.S.-led reconstruction effort has been to provide Afghanistan with a physical infrastructure base. Since 2002, the U.S. has built electricity infrastructure, bridges and roads, and education and health facilities.⁶³⁴ USAID alone has disbursed more than \$4.4 billion for infrastructure projects.⁶³⁵

In more recent years, however, the U.S. reconstruction focus has shifted away from large capital projects like road construction. Several high-dollar-value projects are still being implemented, but there are presently no plans to bilaterally underwrite any new major infrastructure, according to State.⁶³⁶ Below, SIGAR provides an update on remaining U.S.-funded power-infrastructure projects.

U.S. Efforts to Expand Afghanistan’s Power Grid

A top U.S. development priority has been to build out and improve Afghanistan’s two major power grids, which are currently “islanded,” or unconnected. Specifically, DOD and USAID have been working to connect the country’s **Northeast Power System (NEPS)** with its southeastern counterpart, the **Southeast Power System (SEPS)**.⁶³⁷ A 470-kilometer transmission line constructed by USAID will eventually link them.⁶³⁸ The fragmented nature of Afghanistan’s power sector presents a number of technical challenges to establishing this link, such as synchronization. Islanded power grids rely on different supply sources, including imported power, and therefore generate electricity at different speeds and frequencies. Da Afghanistan Breshna Sherkat (DABS)—Afghanistan’s national power utility—is responsible for working with neighboring countries to match (or synchronize) imported power with domestically generated power

NEPS: imports electricity from Central Asia to provide power to Kabul and the communities north of Kabul.

SEPS: draws most of its power from the Kajaki Dam and from diesel generators in Kandahar City to provide power in the Helmand and Kandahar areas.

Source: DOD, Report on Progress Toward Security and Stability in Afghanistan, 11/2013, p. 107.

SIGAR OVERSIGHT OF AFGHANISTAN'S ENERGY SECTOR

Given the U.S. government's significant investment in Afghanistan's energy sector and the importance of available, reliable power to support the overall success of the reconstruction effort, SIGAR has focused a considerable portion of its oversight portfolio on projects and programs in the sector. SIGAR is currently performing an audit to examine the entirety of the U.S. investment in the Afghan energy sector, including efforts to improve generation, transmission, and distribution. Additionally, SIGAR has a number of ongoing inspections of key energy infrastructure projects to examine whether construction was completed in accordance with requirements and whether the constructed infrastructure is being used as intended and maintained.

before electricity can safely flow from NEPS to SEPS once the connection is established.⁶³⁹

During the high-water mark of the Afghanistan intervention (roughly 2010–2012), DOD and State justified the development of Afghanistan's power sector based on the U.S. government's counterinsurgency (COIN) strategy. Applying COIN doctrine meant trying to contain the Taliban insurgency by addressing its presumed root causes. Confidence in the Afghan government would grow as the government demonstrated it could provide essential services (such as electricity), the thinking went. Popular confidence would translate into support for the Afghan government—and thereby, under a zero-sum paradigm, reduce support to the insurgency.⁶⁴⁰

The proportion of Afghans with access to grid-based electricity rose from less than 6% in 2002 to over 30% in early 2019, according to USAID.⁶⁴¹ However, it is unclear whether this improvement contributed to COIN outcomes: A 2017 SIGAR audit that examined a subset of infrastructure projects funded by Fiscal Year (FY) 2011 monies found that U.S. agencies had not assessed whether the projects had achieved their COIN objectives.⁶⁴² Although USAID plans to conduct an assessment to better understand how electricity access and socioeconomic conditions improved as a result of its investment in power-infrastructure, it will not examine COIN-related outcomes.⁶⁴³

Currently, agencies claim their remaining efforts to bolster Afghanistan's power sector will contribute to Afghanistan's economic development.⁶⁴⁴ Still, USAID links the projects to stability when it says that all development objectives articulated in its current strategy “address the security and development challenges that have made Afghanistan a safe haven for terrorists and violent extremist organizations and have driven the conflict with the Taliban.”⁶⁴⁵

Some Remaining USAID Power-Infrastructure Projects Face Delays

USAID has five ongoing power-infrastructure projects; DOD's projects are complete. Current USAID projects include the construction of:⁶⁴⁶

- a transmission line between Ghazni and Kandahar Provinces (21.7% complete, with an expected completion date of December 31, 2020)
- substations along the transmission line from Ghazni to Kandahar (expected completion date of July 30, 2023, but still in the design phase)
- transmission lines and substations in SEPS (expected completion date of July 30, 2023, but still in the design phase, which was delayed this quarter due to COVID-19 lockdowns in India, USAID said)
- a wind farm in Herat Province (no completion date established, but at least two years away)

ECONOMIC AND SOCIAL DEVELOPMENT

- a floating solar power plant to be constructed on the Naghlu Dam Reservoir in Kabul Province (no completion date established, but at least one-and-a-half years away)

Three of USAID’s five active projects are delayed.⁶⁴⁷ The transmission line and substations between Ghazni and Kandahar were originally supposed to be complete by the end of 2016—putting them more than three-and-a-half years behind schedule.⁶⁴⁸ USAID’s work on SEPS evolved from a separate contract that was originally supposed to be complete by November 2013—now more than six-and-a-half years behind schedule.⁶⁴⁹ This quarter, USAID finally completed the Salang substation, located near a strategic pass between Baghlan and Parwan Provinces.⁶⁵⁰ Only contract-closeout activities remain.⁶⁵¹ Like the Ghazni-to-Kandahar transmission lines and substations, the Salang substation was more than three years behind schedule.⁶⁵²

Cumulatively, USAID has disbursed more than \$1.9 billion since 2002 to build power plants, substations, and transmission lines, and to provide technical assistance in the power sector.⁶⁵³ USAID’s active power-infrastructure projects have a total estimated cost of \$828 million and are presented in Table 3.21.

TABLE 3.21

USAID ACTIVE ENERGY PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/9/2020
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2023	\$316,713,724	\$262,427,145
SEPS Completion and NEPS-SEPS Connector Substations	7/3/2019	7/30/2023	159,794,733	39,551,606
Contribution to AITF (Afghanistan Infrastructure Trust Fund)	3/7/2013	3/6/2023	153,670,184	153,670,184
Engineering Support Program	7/23/2016	1/22/2020	125,000,000	79,534,193
25 MW Wind Farm in Herat Province	10/22/2019	12/24/2021	22,994,029	0
Design and Acquisition of SEPS Completion and NEPS-SEPS Connector	3/7/2018	6/27/2022	20,151,240	3,994,795
20 MW Floating Solar Installation–Naghlu	1/27/2020	7/26/2021	16,100,000	0
Kandahar Solar Project (10MW solar photovoltaic plant in Kandahar City)	2/23/2017	12/29/2019	10,000,000	10,000,000
Spare Parts for Tarakhil Power Plant	8/14/2019	8/31/2020	2,136,850	1,849,965
Energy Loss Management Visualization Platform Activity	1/25/2020	1/24/2022	1,579,973	0
Total			\$828,140,733	\$551,027,888

Source: USAID, response to SIGAR data call, 7/12/2020.



The USAID-supported 10 MW solar power Plant in Kandahar Province. (USAID photo)

Involving Private Sector in Afghan Energy is a Bet on Continued Donor Funding

Donors have presented their efforts to attract private investment in Afghanistan’s energy sector as a push towards sustainability. But even if they succeed in finding some private investors, these projects may continue to rely indirectly on international largesse.

In their efforts to develop Afghanistan’s power sector, USAID and other donors are attempting to pivot away from large capital projects—like transmission-line construction—and towards incentivizing private-sector involvement.⁶⁵⁴ For example, USAID is subsidizing the upfront costs of independent power producers (IPPs) who wish to construct power plants, thereby making such investments more attractive for the private sector.⁶⁵⁵ Similarly, the Asian Development Bank (ADB) announced this quarter that it had signed a \$10 million loan with a private firm—the Afghan Power Plant Company Limited (APPC)—to construct and subsequently operate a 58.6 megawatt (MW) gas-fired power plant near the city of Mazar-e Sharif in northern Afghanistan.⁶⁵⁶

Such projects are introduced with great fanfare. In announcing the \$10 million loan—a virtually immaterial amount compared to ADB’s overall \$2.2 billion energy-sector portfolio in Afghanistan—an ADB official said the apparently inevitable success of the power plant “will send an important signal to the market that Afghanistan’s power industry is now ready to attract more private sector investment and financing.”⁶⁵⁷ Likewise, a USAID press release describing the groundbreaking ceremony for a 10 MW solar-power plant that received a \$10 million construction subsidy from USAID called the plant a “landmark infrastructure project.”⁶⁵⁸

Beneath this rhetoric, though, the pivot to encouraging more private investment in Afghanistan’s power sector involves numerous challenges. First, it will be a long time before such a pivot is fully actualized. As explained earlier in this section, USAID is still struggling to complete several large capital projects involving the construction of transmission lines and substations—legacy projects underpinned by the assumption that the best way to expand electricity access in Afghanistan was to build a nationwide power grid.⁶⁵⁹ Likewise, ADB is still funding, or has pledged to fund, extremely ambitious transnational power-infrastructure projects.⁶⁶⁰ ADB’s initiatives, for example, include the Turkmenistan, Uzbekistan, Tajikistan, Afghanistan, and Pakistan (TUTAP) project, which aims to leverage Afghanistan’s geographical location between Central Asia and Pakistan to export excess electricity from the former to the latter.⁶⁶¹

An additional and more vexing challenge is that the commercial viability of these projects is ultimately contingent on power-purchase agreements struck between the IPPs and DABS. A typical agreement involves a commitment from DABS to purchase electricity from an IPP at a set rate schedule for a number of years.⁶⁶² The IPPs make money as they sell electricity to

DABS. Profit from electricity sales allows the IPPs to recover their share of upfront construction costs as well as steady-state operations and maintenance expenditures.

Thus, whether the projects will ultimately be profitable for the private sector and successful for Afghanistan in the long run depends on DABS' ability to purchase electricity.⁶⁶³ That in turn hinges on DABS' financial sustainability and, because DABS is nationalized, the financial sustainability of the Afghan government.⁶⁶⁴ As the World Bank said about the aforementioned gas-fired power plant project co-financed by ADB's \$10 million loan, "The cost of gas is the responsibility of the electricity off-taker (DABS) and by extension the [Government of Afghanistan]."⁶⁶⁵

This is where things get tricky. The Afghan government continues to face "substantial constraints to fiscal sustainability," according to the World Bank.⁶⁶⁶ Donors currently finance more than half the Afghan government budget and 75% of total public expenditures.⁶⁶⁷ The result is that donors pay for at least half of a government that in turn owns the national electricity utility purchasing the power from the IPPs. Ultimately, therefore, unless the Afghan government is able to mobilize sustainable sources of domestic revenue, including more effective DABS billing for its electricity sales, donor efforts in Afghanistan's energy sector that are overtly bets on the private sector are in reality a collective bet on donors themselves.

EDUCATION

Progress in Afghanistan's education sector has been held up as a significant achievement since the U.S.-led intervention of 2001.⁶⁶⁸ Millions more Afghan children are in school today compared to the number under the Taliban, which generally banned girls from attending.⁶⁶⁹ But poor data quality makes it difficult to determine fully the extent of success. Figures for the number of children and youth in school vary widely.⁶⁷⁰ Additionally, Afghanistan's Ministry of Education (MOE) counts students who have been absent for up to three years as still enrolled, in the belief that they may reenter school.⁶⁷¹ While this may be a reasonable policy given the desire to mitigate barriers for children who wish to return to school, it means that enrollment data cannot be used as a close proxy for attendance.⁶⁷²

Currently, USAID aims to increase access to, and improve the quality of, basic education for children while also building management capacity at the MOE.⁶⁷³ USAID's strategy advances the theory that advancing the education sector will spur greater confidence in the Afghan government, ultimately making the country more stable.⁶⁷⁴ However, the Taliban has reportedly co-opted Afghan government-run education services in areas under their control.⁶⁷⁵

An additional justification for USAID's current education projects is to increase Afghanistan's self-reliance.⁶⁷⁶ A better-educated workforce could



Afghan students participate in community schooling, which helps Afghan youth with limited access to formal schools receive an education. (USAID photo)

theoretically contribute to long-term sustainable economic growth.⁶⁷⁷ Moreover, increasing access to education in Afghanistan may be a worthy goal unto itself, as a commonly held view is that education is a fundamental human right.⁶⁷⁸ Nevertheless, there are concerns with the sustainability of a nation-wide education system established and supported through donor funds, given the many challenges the Afghan government currently faces to becoming a self-financing state.⁶⁷⁹ Complicating matters, according to the World Bank, population growth of approximately 2.3% per year could necessitate increases in public-expenditures to maintain service delivery,⁶⁸⁰ with investments in education potentially taking years to contribute to positive economic growth.

Setting aside the end-goals of USAID's investments in Afghanistan's education sector, the country has struggled to improve its education outcomes in recent years. Attendance rates of primary-school age children did not improve between two comprehensive surveys conducted by Afghanistan's statistical authority (NSIA) in 2011–2012 and 2016–2017. "This is a remarkable finding, given the continuous efforts to expand primary education facilities across the country," the NSIA commented.⁶⁸¹

Moreover, given continuing violence that often makes it difficult for children to physically travel to school—and wariness on the part of parents who may not want to send them in areas where the risk of harm is high—stagnation (and possibly deterioration) of education-sector indicators may have been even greater, but for continued donor funding.⁶⁸² Thus, while donors may have been unable to bolster education outcomes from 2011–2012 and 2016–2017, continued commitment to Afghanistan's education sector may have at least held them constant.⁶⁸³

TABLE 3.22

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/9/2020
Support to the American University of Afghanistan (AUAF)	8/1/2013	8/31/2020	\$90,681,844	\$80,254,987
Increasing Access to Basic Education and Gender Equality	9/17/2014	6/30/2020	77,402,457	77,402,457
Afghan Children Read (ACR)	4/4/2016	4/3/2021	69,547,810	48,169,788
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2020	44,835,920	39,392,473
Textbook Printing and Distribution II	9/15/2017	12/31/2020	35,000,000	0
Let Girls Learn Initiative and Girls' Education Challenge Programme (GEC)	6/29/2016	6/28/2021	25,000,000	25,000,000
Capacity-Building Activity at the Ministry of Education	2/1/2017	1/31/2022	23,212,618	17,413,626
Financial and Business Management Activity	7/5/2017	10/31/2020	4,384,058	3,735,749
Total			\$370,064,707	\$291,369,079

Source: USAID, response to SIGAR data call, 7/12/2020.

Since 2002, USAID has disbursed more than \$1.1 billion for education programs in Afghanistan, as of July 9, 2020.⁶⁸⁴ The agency's active education programs have a total estimated cost of \$370 million and can be found in Table 3.22.

School Closures Present Challenges for Education Outcomes

On March 14, 2020, the Afghan government announced it would close all schools for an initial one-month period to help stem the spread of COVID-19.⁶⁸⁵ Although, at the time, the government tentatively planned to reopen the education system by April 18, this quarter the closure was extended into at least September.⁶⁸⁶

In Afghanistan, where widespread online education is not possible because of limited internet access and where traditional gender roles already limit girls' relative access to education, school closures run the risk of exacerbating existing challenges even if they help address the first-order health crisis caused by the pandemic.⁶⁸⁷ In mid-June, Human Rights Watch (HRW), a nongovernmental organization that focuses on girls' education, among other issues, in Afghanistan said that although Afghan schools faced a "crisis" before the pandemic, "now things are even worse."⁶⁸⁸ Prior to the spread of COVID-19, nearly 2.6 million girls were out of school, SIGAR analysis of NSIA data shows.⁶⁸⁹

Specifically, HRW raised concerns that because girls generally have less internet access, more social isolation, and greater housework burdens than boys, they may be less likely to return to school when the education system opens again.⁶⁹⁰ HRW underscored that physical abuse at home and

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The practice of *bacha bazi*, or “boy play,” in which authority figures sexually abuse young boys, is widespread in Afghanistan. A SIGAR report released in January 2018 found that DOD was providing security-related training and support to certain Afghan security-force units credibly accused of being involved in child sexual assault.

the prevalence of early marriages were additional risks disproportionately faced by out-of-school girls during the pandemic.⁶⁹¹

At the same time, school closures and other socially restrictive policies appear to significantly curtail the spread of COVID-19.⁶⁹² In a study published on June 8, 2020, that analyzed emergency health measures in six major countries—including Afghanistan’s neighbor Iran—UC Berkeley researchers found that restrictive policies, including school closures, may have averted approximately 530 million infections.⁶⁹³ While the full impact of COVID-19 on Afghanistan remains uncertain, the issue of school closures underscores the difficulties inherent in balancing public health outcomes with other fundamental areas of social development.

Two Convictions, Ten Arrests in AGO’s Investigation of Logar Sexual Abuse Scandal

The Afghanistan Attorney General’s Office’s (AGO’s) investigation into allegations that at least 165 boys were sexually abused in Logar Province continued this quarter, resulting in two convictions and one additional arrest, according to State.⁶⁹⁴ The AGO made nine arrests last quarter.⁶⁹⁵

The allegations were made public by the Logar Youth, Social, and Civil Institution, which said it had discovered more than 100 videos of abuse on a Facebook page.⁶⁹⁶ According to State, civil-society activists identified 59 suspected perpetrators—20 of whom have now been identified by the AGO’s investigation.⁶⁹⁷ It is not clear whether these suspected perpetrators were part of a single criminal ring, State told SIGAR this quarter.⁶⁹⁸

Two activists were subsequently detained by Afghanistan’s intelligence agency, the National Directorate of Security (NDS), and coerced into confessing that their accusations were untrue.⁶⁹⁹ Then-U.S. Ambassador to Afghanistan John Bass decried NDS tactics as “Soviet-style” and “appalling.” For safety reasons, both activists left the country with their families after their release.⁷⁰⁰

Perhaps because they feared for their safety, the activists neither shared their report with the MOE nor met with ministry officials, according to an MOE statement provided to donors.⁷⁰¹ To assess the truth of the allegations, a team of MOE officials visited the schools where the abuse was said to have occurred and distributed confidential questionnaires to students and teachers.⁷⁰² According to the MOE’s analysis of data collected, “some respondents reported [the] possibility of individuals who could have [an] inclination towards child abuse; however, no child abuse was reported.”⁷⁰³ According to the MOE, ministry officials then requested that the AGO investigate.⁷⁰⁴

HEALTH

Increasing caseloads resulting from the COVID-19 pandemic are significantly stretching the capacity of Afghanistan’s already limited healthcare system, State reported this quarter.⁷⁰⁵ The strain comes despite efforts by health officials to increase the number of hospital beds available in provincial and district centers.⁷⁰⁶ Underscoring the toll the outbreak is taking on Afghanistan’s health infrastructure, approximately 10% of Afghans who have tested positive for the virus work in the healthcare sector, according to the United Nations (UN).⁷⁰⁷ Complicating matters, in some provinces such as Herat and Nangarhar, public health workers only recently received their salaries after a hiatus of several months.⁷⁰⁸

State added that the pandemic was likely to impact substantially a range of health outcomes not overtly related to COVID-19.⁷⁰⁹ For example, researchers at Johns Hopkins University estimated a potential 18% increase in child mortality and a 14% increase in maternal mortality in the country as a secondary result of the virus’ prevalence.⁷¹⁰

USAID asserts in its current strategy that advancing gains in Afghanistan’s health sector will help the country become more stable and self-reliant.⁷¹¹ As the agency told SIGAR as it was developing the strategy in December 2017, “healthy people and health[y] communities are the bedrock of a peaceful and stable nation.”⁷¹² However, there is reason to question the independent influence of public-health improvements on stability due to confounding factors and data failing to support a causal link. In fact, insecurity has risen even as health outcomes have improved. And even severely insecure areas have demonstrated progress in health service coverage, according to the World Bank.⁷¹³ Moreover, as the Bank summarized in a 2018 policy brief, “In the period between 2011 and 2015, there was no detectable difference in unadjusted improvements in health systems performance between facilities located in areas of low, medium, and high insecurity.”⁷¹⁴ Adjusting the analysis for potentially confounding variables did not alter “evidence of resilience to conflict,” the Bank added.⁷¹⁵ In other words, it appears that, at least in Afghanistan, better health care coexists with ongoing instability.

Additionally, some reports (unverified by SIGAR) indicate that health-care delivery in areas controlled by the insurgency may actively work against stability by reinforcing insurgent governance. Such research suggests that the Taliban co-opt Afghan government health services delivered in areas under their control, thereby bolstering their own legitimacy and authority rather than the Afghan government’s.⁷¹⁶

U.S. on- and off-budget assistance to Afghanistan’s health sector totaled more than \$1.3 billion as of July 9, 2020.⁷¹⁷ USAID’s active health programs have a total estimated cost of \$283 million, and are listed in Table 3.23 on the following page.

Kabul Maternity Ward Attacked

On May 12, 2020, three men of undetermined affiliation attacked a Kabul maternity ward. Dressed in ANDSF uniforms and armed with AK-47s and hand grenades, the attackers killed 24 people, including 19 women and three children. An additional 23 people were injured, including two children and one newborn. No group claimed responsibility for the incident.

The maternity ward was operated by Médecins Sans Frontiers (MSF, also known as Doctors Without Borders), which in a statement described the attack as a “deliberate assault” on its operations “with the purpose of killing mothers in cold blood.” Concerned about the possibility of further attacks, MSF announced on June 15, 2020, that it would close the maternity ward.

Source: UNAMA, Afghanistan Protection of Civilians in Armed Conflict Special Report: Attacks On Healthcare During the COVID-19 Pandemic, 6/20/2020, pp. 12–13; MSF, “They came to kill the mothers” in Kabul maternity hospital attack, 5/14/2020; Reuters, “Doctors Without Borders to close Kabul maternity clinic after attack,” 6/15/2020.

TABLE 3.23

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/9/2020
Helping Mothers and Children Thrive (HEMAYAT)	1/7/2015	10/6/2020	\$66,292,151	\$60,242,137
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/11/2016	9/11/2020	57,645,037	46,667,373
Disease Early Warning System Plus (DEWS Plus)	7/1/2014	6/30/2022	54,288,615	34,588,615
Health Sector Resiliency (HSR)	9/28/2015	9/27/2020	27,634,654	23,429,554
Medicines, Technologies and Pharmaceuticals Services (MTaPS)	9/20/2018	9/20/2023	20,000,000	29,620
Challenge Tuberculosis	1/1/2015	1/31/2020	15,700,000	15,389,341
Enhancing Community Access & Utilization of Zinc and ORS for the 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	10,579,393
Afghanistan Demographic and Health Survey (ADHS) Follow-On	10/9/2018	9/9/2023	10,500,000	2,000,000
Central Contraceptive Procurement (CCP)	4/20/2015	4/19/2020	2,343,773	1,350,309
Global Health Supply Chain Quality Assurance (GHSC-QA)	1/2/2015	12/31/2019	1,500,000	1,348,802
Sustaining Technical and Analytic Resources (STAR)	5/1/2018	9/30/2023	1,000,000	362,010
TB Data, Impact Assessment and Communications Hub (TB DIAH)	9/24/2018	9/24/2023	600,000	180,419
Global Health Supply Chain Management (GHSCM-PSM)	4/20/2015	4/19/2020	176,568	176,568
4 Children	9/15/2014	9/16/2019	20,000	20,000
Total			\$283,200,798	\$209,364,141

Source: USAID, response to SIGAR data call, 7/12/2020.

UN Expresses Concern Regarding Attacks on Health Facilities During Pandemic

In a special report, the UN voiced “grave concern” regarding the extent of deliberate attacks against healthcare facilities and workers in Afghanistan even as the country faced the health crisis of the pandemic.⁷¹⁸ According to the UN, “both Anti-Government Elements and Pro-Government Forces were responsible for incidents that significantly undermined healthcare delivery.”⁷¹⁹

The UN monitored attacks against health facilities and health-care workers in Afghanistan during the approximately two-and-a-half month period from March 11, 2020, (when the World Health Organization officially declared the pandemic) to May 23, 2020 (which marked the end of Ramadan and the commencement of a three-day ceasefire).⁷²⁰ In that period, 15 incidents were documented, 12 of which were categorized as deliberate attacks and three of which were “incidental” in that parties were fighting in the vicinity of healthcare provision.⁷²¹ The UN attributed two-thirds (10) of the documented attacks to the Taliban.⁷²²



USAID supported training for agribusinesses in Afghanistan on safety measures to reduce the risks of COVID-19 transmission. (USAID photo)

USAID's IHSAN Projects Faces Significant Disruption due to COVID-19

In a sign that the pandemic is beginning to disrupt some U.S. development programming, USAID's \$57.6 million Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) project “cancelled all planned workshops, training sessions, monitoring programs and supportive supervision visits” due to the government-imposed lockdown in Kabul, implementer Family Health International (FHI 360) said in a semiannual report finalized this quarter.⁷²³ 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.⁷²⁴

Prior to the pandemic, USAID had already decided to move up IHSAN's project end date by eight months from May 11, 2021, to September 11, 2020, and reduce its budget from \$75.5 million to \$57.6 million as part of a transition to the new National Health Technical Assistance Program and Urban Health Initiative.⁷²⁵ When the pandemic struck, COVID-19 forced IHSAN to cancel “train-the-trainer” sessions intended to promote and support breastfeeding at hospitals across 24 provinces.⁷²⁶ At the same time, IHSAN adjusted some of its programming to directly address the pandemic. For example, project implementers provided a COVID-19 “orientation session” for Afghan government public health officials.⁷²⁷ Overall, the pandemic had a “major impact” on IHSAN operations across Afghanistan, FHI 360 wrote in its semiannual project report.⁷²⁸ The pandemic's effects on IHSAN are emblematic of broader ramifications for USAID health programs in Afghanistan as they have been adjusted to address COVID-19 directly, mitigate the secondary impact of the virus, and protect project staff, according to USAID.⁷²⁹

