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ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES & EVENTS

President Joseph R. Biden committed to “maintaining significant humanitarian and development assistance” to Afghanistan following the U.S. and Coalition troop withdrawal.

The Taliban seized a string of key border crossings with the potential to deny the Afghan government significant customs revenue.

Afghanistan struggled with a third wave of the COVID-19 pandemic as the infection rates skyrocketed by around 2,400%.

The Afghan government’s domestic revenues increased by 22.6% over the first six months of the current fiscal year versus the same period last year, but remain below prepandemic levels.

In his April 14, 2021, announcement on the U.S. troop withdrawal, President Joseph R. Biden committed to “maintaining significant humanitarian and development assistance” to Afghanistan.⁴⁰⁹ Yet Afghanistan is experiencing compounding problems that limit the potential impact and sustainability of U.S. reconstruction programs in both the short and long term.

The increasing levels of violence pose a grave threat to the government’s social services delivery, expansion of needed infrastructure, and economic development. This year has seen attacks targeting Afghan schools and healthcare workers, most notably the May 8 bombing in front of a school in Kabul that killed at least 90 people, largely female students.⁴¹⁰ Militants also targeted Afghanistan’s energy infrastructure, including a June 1 attack against electricity pylons in northern Kabul that cut off electricity to several parts of the country.⁴¹¹

The heightened violence is playing out against the backdrop of a deadly third wave of the COVID-19 pandemic. Afghan doctors have expressed grave concern over the rapid spread of the COVID-19 Delta variant initially discovered in India, which data suggests is approximately 60% more

transmissible than other variants and about twice as likely to land patients in the hospital; many critically ill patients in Kabul had recently returned from India or had relatives who had recently returned.⁴¹²

Since Afghanistan's first confirmed case of COVID-19 in February 2020, the country's public-health sector has had limited hospital capacity and resources to treat the disease. Many Afghans reportedly continue to avoid seeking treatment when they show symptoms, deterred by poor hospital conditions, false rumors, and various cultural stigmas associated with contracting COVID-19.⁴¹³ As of July 1, 2021, the number of confirmed cases had reached 120,216, with 4,962 deaths, but a high test-positivity rate—42% as of June 30, 2021—suggests the actual spread, case numbers, and deaths are far greater.⁴¹⁴

As confirmed cases of COVID-19 spiked, President Ashraf Ghani ruled out a complete lockdown, since many Afghans rely on daily wages for subsistence. Authorities did, however, temporarily close schools, marriage halls, gyms, and swimming pools.⁴¹⁵ In late April, Afghanistan's border crossings with Iran and Pakistan were temporarily closed to pedestrian traffic, though left open to trade.⁴¹⁶

As a result of the pandemic-induced economic contraction, the World Bank estimated that Afghanistan's overall *urban* poverty level increased from 41.6% to 45.5% in 2020. Yet, according to the World Bank, overall poverty levels actually decreased from 55% to 47.1% in 2020 because the pandemic had a less significant impact on the rural economy than originally projected.⁴¹⁷

Food security in Afghanistan has also worsened, mainly as a result of drought conditions in 2021.⁴¹⁸ According to the UN Office for the Coordination of Humanitarian Affairs, food prices are already higher than normal due to COVID-19 and are likely to increase further given the dry spell's projected impact on first and second crops in 2021.⁴¹⁹ The International Federation of Red Cross and Red Crescent's Head of Delegation for Afghanistan, Necephor Mghendi, expressed his "grave fears" for the millions of Afghans "who will need humanitarian support in Afghanistan this year due to this drought-driven food crisis piled on top of the debilitating social and economic impacts of COVID-19 and the long-running conflict."⁴²⁰

Around 12.2 million Afghans, or approximately one-third of the country's estimated population, are currently facing "crisis" and "emergency" levels of food insecurity, placing it among the three countries in the world (alongside Yemen and South Sudan) with the highest proportion of food insecure people. Additionally, almost half of Afghan children under five years old are projected to face acute malnutrition this year. The number of Afghans facing food insecurity dropped from a high of 16.9 million early in 2021, in part due to the government's and international organizations' mitigation efforts to address the adverse effects of the pandemic on the country's most vulnerable populations.⁴²¹

Food Security: All people within a society at all times having "physical, social, and economic access to sufficient, safe, and nutritious food to meet daily basic needs for a productive and healthy life," without being forced to deplete household assets in order to meet minimum needs.

Source: United Nations, Press Release, "World Food Summit Concludes in Rome," 11/19/1996.



A COVID-19 patient at the Afghan-Japan Hospital in Kabul receives oxygen. As COVID-19 cases have increased in recent weeks, Afghan hospitals have faced a critical shortage of oxygen. (Asian Development Bank photo)

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

On April 14, President Biden announced that all U.S. troops would be withdrawn from Afghanistan by September 11, 2021.⁴²² “While we will not stay involved in Afghanistan militarily, our diplomatic and humanitarian work will continue,” he explained. “We’ll continue to support the government of Afghanistan” and will maintain “significant humanitarian and development assistance” to Afghanistan after U.S. troops leave the country.⁴²³ Ahead of President Ashraf Ghani’s and Chairman of the High Council for National Reconciliation Abdullah Abdullah’s late June visit to Washington, DC, the White House reiterated its commitment “to support the Afghan people by providing diplomatic, economic, and humanitarian assistance.”⁴²⁴

As part of this new phase of U.S. engagement with Afghanistan, Ambassador Zalmay Khalilzad stated during a May 18, 2021, House Foreign Affairs Committee hearing that “promoting economic activity, trade and development between Central Asia, Afghanistan, and South Asia” remains one of the U.S. government’s primary objectives. In that hearing, the Acting USAID Assistant Administrator for Asia, Karen Freeman, reiterated USAID’s continued support to Afghanistan.⁴²⁵

As a demonstration of the United States’ “enduring support for the Afghan people,” the Biden administration has sought increased U.S. support for Afghanistan during the first half of 2021. U.S. Secretary of State Antony Blinken announced on April 21 that the Biden administration is working with Congress to provide an additional \$300 million of civilian assistance to Afghanistan in 2021; that sum had been announced at the November 2020 international donors’ conference as potentially available at a future

date. Secretary Blinken said, “The funding will be targeted at sustaining and building on the gains of the past 20 years by improving access to essential services for Afghan citizens, promoting economic growth, fighting corruption and the narcotics trade, improving health and education service delivery, supporting women’s empowerment, enhancing conflict resolution mechanisms, and bolstering Afghan civil society and independent media.”⁴²⁶ On June 4, the State Department announced another \$266 million in humanitarian aid to Afghanistan focused on food aid, basic health care, shelter, water and sanitation, and job opportunities.⁴²⁷ For FY 2022, President Biden also requested an additional \$364 million for the State Department and USAID to be used for development assistance to Afghanistan.⁴²⁸

Even with the troop withdrawal, the U.S. government’s ultimate goal remains to help Afghanistan shift from being an assistance recipient to an enduring and self-sufficient economic partner that is able to attract foreign investment and meet its own financial needs.⁴²⁹ While the intensity and focus of U.S. reconstruction programs in Afghanistan have changed over time, the United States has consistently highlighted the importance of Afghanistan’s economic and social development to support U.S. national-security interests, the Afghan peace process, and broader political stability. According to USAID, Afghanistan has been the leading recipient of U.S. foreign assistance since 2008, receiving around 10% of the total amount of U.S. assistance (including both development and security assistance) in recent years.⁴³⁰

In February 2021, the U.S. government publicly released its updated Integrated Country Strategy (ICS) for Afghanistan. The ICS continues to stress that “[a] growing Afghan economy and job creation remain necessary predicates for stability and the development that makes it resilient.” The ICS also maintains the importance of strengthening economic prosperity through U.S. support of private sector-led export growth and job creation, and accompanying gains in health, education, and women’s empowerment, to help increase revenue generation and budget sustainability.⁴³¹

USAID’s FY 2019–2023 Country Development Cooperation Strategy (CDCS) for Afghanistan, which is part of the ICS, further outlines the need to:⁴³²

- 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

In the CDCS, USAID posits that progress in these three areas will, in turn, “increase Afghanistan’s economic viability and enable the country to become less reliant on donors”; “enable the country to become more inclusive and stable, as Afghans gain confidence in their government’s ability to achieve reforms and deliver services”; and “help improve the country’s



Secretary of State Antony Blinken meets with President Ashraf Ghani to reiterate continued U.S. support to the Afghan government, during a visit to Kabul in April 2021. (State photo)

stability and inclusivity, as Afghans' trust in their government improves and civic participation expands."⁴³³

Overall, Afghanistan's economic growth and social development, as well as the United States' ability to support it, face many uncertainties. These include the broader effects of the withdrawal of U.S. and NATO forces, the ability of U.S. agencies to implement and monitor programs and funding, the outcome of Afghan peace talks, the impact of the COVID-19 pandemic, and future levels of international assistance.

Nevertheless, USAID told SIGAR, "Currently, the planned withdrawal of U.S. troops has not impacted the implementation of [USAID] programming. We and our implementing partners remain deeply engaged in the development of the Afghan economic sector and have continued to implement interventions."⁴³⁴

In a number of ways, the direct impact of the U.S. troop withdrawal on the administration of U.S. reconstruction programs could be minimal. Given ongoing security-related challenges and COVID-19-related restrictions, the movement of U.S. government personnel throughout Afghanistan is already severely limited. Therefore, the implementation and monitoring of USAID programming depends on contracting with implementing partners and third-party monitors; and, as USAID noted to SIGAR, implementing partners are responsible for providing their own security.⁴³⁵

Regardless of the level of U.S. funding and the continued impact of COVID-19, the ability of the United States to continue carrying out reconstruction programs will still depend on the ability of its contracted implementing partners to operate in Afghanistan amid potentially further deteriorating security conditions.

In contrast to USAID's proclamations, as violence worsens in 2021, some USAID implementing partners have noted serious security incidents that have impeded project implementation and staff movements. Recently,

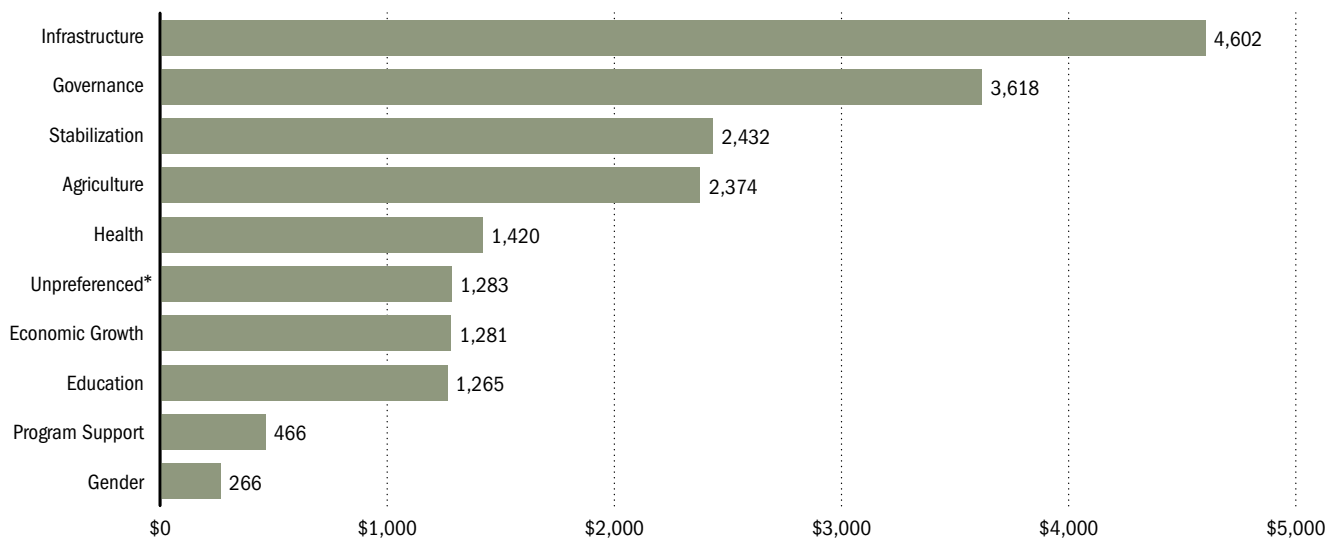
various USAID-funded project staff have been unable to freely access some implementation areas, were forced to cancel project activities, or generally limited project operations due to a variety of security-related incidents and challenges. These include threats of violence and targeted killings, explosive devices along main roads and highways, increasingly common illegal vehicle checkpoints where the Taliban have been searching for individuals associated with international organizations and the government, and large-scale attacks.⁴³⁶

Therefore, the near future of U.S. reconstruction in Afghanistan will not be threatened by the unwillingness of the United States and international partners to continue to fund and support economic and social development. They will, however, likely be impacted by insecurity and political instability, preventing contractors from effectively implementing internationally funded development projects.

As of June 30, 2021, the U.S. government has provided approximately \$36.3 billion to support governance and economic and social development in Afghanistan since 2002. Most of these funds—approximately \$21.2 billion—were appropriated to USAID’s Economic Support Fund (ESF). Of this amount, \$20 billion has been obligated and \$18.3 billion has been disbursed. Figure 2.37 shows USAID assistance by sector.

FIGURE 2.37

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF JULY 8, 2021 (\$ MILLIONS)



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

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.

Source: SIGAR analysis of USAID, response to SIGAR data call, 7/14/2021; SIGAR analysis of World Bank, ARTF, Administrator’s Report on Financial Status as of April 20, 2021, 7/14/2021.



A Kam Air flight readies for departure beneath the control tower of the Hamid Karzai International Airport in Kabul. (NATO Resolute Support photo)

THE CHALLENGE OF TRANSFERRING CONTROL OF AFGHANISTAN'S AIRPORTS

One of the most difficult problems facing the international community after the withdrawal of most international troops is the lack of an agreement to keep Hamid Karzai International Airport (HKIA) in Kabul open. HKIA plays a particularly important role among Afghan airports by facilitating the international diplomatic presence within Kabul and international air links. A State Department spokesperson said, “We underscore that a functioning, secure airport is essential to any international diplomatic presence and will benefit Afghan travelers and the Afghan economy.”⁴³⁷

NATO has been working on a plan to turn over full responsibility for all four of Afghanistan's international airports to the Afghan government since 2020, but the plan poses risks to civil aviation and the reconstruction effort.

NATO has been transferring control of airports in Herat, Kabul, Kandahar, and Mazar-e Sharif to the Ministry of Defense, which in turn was expected to turn civilian operations over to the Afghanistan Civil Aviation Authority (ACAA). The ACAA is a government agency established in 2012 under the Civil Aviation Law to manage civil aviation activities in Afghanistan. Afghanistan's international airports have been officially under joint control of NATO and the ACAA since 2015.⁴³⁸

Kandahar airport was handed over to the ACAA on January 10, 2021. According to State, the timeline for transferring control of the remaining airports was set following President Biden's April 2021 announcement on the impending U.S. troop withdrawal from Afghanistan. In June 2021, NATO

transferred control of the airports in Mazar-e Sharif and Herat; the date of the transfer of HKIA in Kabul is still under review.⁴³⁹

Airport transfers have faced a number of financial, operational, and security challenges. As the United States continues its diplomatic engagement and development work in Afghanistan following the troop withdrawal, the country's international airports, in particular HKIA, will be vital to maintaining Kabul's international connections, allowing for diplomats and other international personnel to move into and out of the country. As U.S., NATO, and Afghan officials have stressed, an international diplomatic presence will not be possible without a secure and efficiently managed airport in Kabul.⁴⁴⁰ A properly functioning civil aviation infrastructure also can be a key driver for sustainable economic growth in Afghanistan by facilitating international trade and promoting private-sector investment in the country, while a lack of civil-aviation capability can restrict growth.

Difficulty and Delay in Bolstering Afghan Aviation Capability

Given the Afghan government's limited capacity in the early 2000s and the importance of effective airspace management for military efforts, the U.S. government provided technical assistance and financial support for the country's civil-aviation sector, disbursing over \$562 million in civil-aviation-related activities between 2002 and 2015. DOD helped to reestablish Afghanistan's airspace management and provided support for aviation-related communication, navigation, and surveillance infrastructure and operations. Their support focused on military operations, but also benefited civil aviation.⁴⁴¹

Until 2014, the U.S. Federal Aviation Administration (FAA), with financial support from State and USAID, provided direct, in-country support focused specifically on bolstering civil aviation and provided the ACAA with technical advice, training, and support for airspace operations and airport operations. Despite sustained FAA involvement, including limited air traffic control training, the ACAA did not attain satisfactory proficiency to maintain its responsibilities under the International Civil Aviation Organization. The FAA ceased direct, in-country support in 2014, but concluded a memorandum of agreement for technical assistance in 2016. However, the Afghan government made no requests for assistance until 2020.⁴⁴² While USAID has not implemented specific programs to help the ACAA assume responsibility for civil-aviation services, they have supported capacity-building at the ACAA as part of broader assistance programs, all aimed at helping the ACAA "become a better partner for Afghan businesses."⁴⁴³ USAID has provided approximately \$6.1 million since 2015 to support ACAA capacity building and strengthen air-cargo infrastructure and export processes at HKIA.⁴⁴⁴

The United States government originally intended to transfer management of Afghanistan's civil aviation to the Afghan government at the end

of 2014 with the drawdown of U.S. forces. A SIGAR civil-aviation audit in 2015 found the transfer was delayed by a year in part due to the lack of certified Afghan air traffic controllers.⁴⁴⁵ Following the delay, the Afghan government failed to award an airspace-management contract, citing high costs, which required State to fund an interim \$29.5 million DOD-managed contract through September 2015 to avoid air-service disruptions.⁴⁴⁶ SIGAR's audit further found that the Afghan government failed to use all of its overflight revenue for airspace management, despite pledging to do so, which contributed to the ACAA's inability to independently manage civil aviation operations.⁴⁴⁷

In 2015, the ACAA took over control of airspace management from the U.S. government. However, NATO's Resolute Support Mission continued to shoulder key civil-aviation responsibilities at Afghanistan's international airports, in particular the five essential aviation functions: (1) air traffic control; (2) fire, crash, and rescue; (3) safety management; (4) meteorological services; and (5) communication, navigation, and surveillance.⁴⁴⁸

In July 2019, SIGAR reported that external donor support improved ACAA operations through better training regimes that allowed the agency to conduct limited operations at the four international airports. SIGAR also observed that the ACAA remained reliant on donor support and was "not currently capable of conducting civil aviation operations without donor support, including technical, training, and financial assistance—all of which were also identified as shortfalls in our 2015 audit."⁴⁴⁹ SIGAR concluded, "Although capacity development and increased revenues appear to have put the ACAA on a path toward civilian aviation independence, the ACAA has yet to demonstrate its capacity to assume control over the five essential aviation functions."⁴⁵⁰

In 2019, the ACAA director general noted that the ACAA remained roughly two to three years away from achieving the necessary personnel, financial, and regulatory capacity to independently manage all civil-aviation responsibilities within Afghanistan.⁴⁵¹ Since then, Afghan officials have continued to express concerns over the insufficient number of trained Afghan personnel able to take over functions currently handled by NATO; COVID-19-related delays in recent NATO training of local Afghan civil-aviation staff; and the inability to manage the airports without continued international assistance.⁴⁵²

Former ACAA Director General Qasem Wafayezad recognized that the Afghan government faces a number of ongoing capacity and training issues, presenting challenges to completing this transfer.⁴⁵³ In a November 2020 interview, the director of civil aviation at Kandahar's Ahmad Shab Baba International Airport also noted that local Afghans have not been trained to run critical tasks such as air traffic control or manning the radar. He added, "Our guys are not even able to start the fire trucks. If the U.S. leaves, the

"Our guys are not even able to start the fire trucks. If the U.S. leaves, the airport will be in trouble."

Source: Stars and Stripes, "With locals untrained on key functions, US departure could mean trouble for Afghanistan's airport," 11/6/2020.

airport will be in trouble.”⁴⁵⁴ The airport was nonetheless transferred to Afghan control two months later.⁴⁵⁵

NATO training of local Afghan civil-aviation staff was delayed by COVID-19, and then canceled after determining the Afghan trainees were “not capable of being trained,” according to Kandahar Governor Hayatullah Hayat. An ACAA spokesperson, however, announced that the Afghan government would be able to take control of the international airports by May 2021, adding that “some of our foreign colleagues will still be coordinating with us in some of the sectors of the airports after the handover is finished.”⁴⁵⁶

Challenges in Transferring Control of Afghan Airports

NATO’s turnover of airport management to the ACAA during 2021 has faced challenges that have hindered airport operations. Following the transfer of the Kandahar airport on January 10, 2021, the ACAA’s limited capacity to manage the aviation functions NATO previously ran has restricted civilian operations to daylight hours. Airlines have complained that this inhibits their ability to satisfy passenger preferences for arrival and departure times.⁴⁵⁷

To support airport operations, the ACAA issued two calls for proposals for contractors to operate air traffic control and ground services at the Kandahar airport, but State informed SIGAR this quarter that the ACAA is still seeking a contractor that can effectively operate the airport within the ACAA’s budget constraints. The ACAA maintains that it has ongoing challenges with retaining sufficient qualified personnel that can manage, maintain, and operate Afghanistan’s airports.⁴⁵⁸

Questions remain, in particular, for the future of HKIA, which has been run and secured by Turkey under the auspices of NATO’s Resolute Support Mission; Turkey has around 500 troops stationed in Afghanistan.⁴⁵⁹ ACAA representatives have raised concerns about their ability to maintain the runway and equipment at HKIA unassisted, as well as their lack of mid-level managers to supervise technical staff.⁴⁶⁰ In early June 2021, the Turkish government agreed in principle to continue to run and secure HKIA. The Turkish Defense Minister stated that this is subject to certain conditions including “political, financial, and logistical support” from its NATO allies. On July 9, Turkish President Recep Tayyip Erdogan announced that the United States and Turkey had reached an agreement on the “scope” of Turkish assistance, with the details about a future Turkish role in airport operations still being discussed.⁴⁶¹ The Turkish government also said it would not send additional troops to Kabul.⁴⁶² During a visit to Turkey later that month, Afghan Foreign Minister Mohammad Haneef Atmar welcomed the Turkish and other international support for Afghanistan’s civil aviation sector.⁴⁶³

During the June 14, 2021, NATO Summit in Brussels, participants agreed to continue to provide financial support to HKIA, at least in the interim as NATO forces withdraw.⁴⁶⁴ NATO's North Atlantic Council instructed the NATO Support and Procurement Agency to continue funding existing contracts that support aviation operations at HKIA.⁴⁶⁵

In response to efforts to maintain the Turkish presence at HKIA, the Taliban announced that this would be “unacceptable” and asserted that any continued Turkish military presence will violate the U.S.-Taliban agreement of February 2020—a view shared by the Russian presidential envoy for Afghanistan, Zamir Kabulov. A Taliban spokesperson warned, “If foreign forces want to retain a military presence here in the name of airport security, Afghans will not allow it and will view them as invaders, be it Turkey or any other country.”⁴⁶⁶

Afghanistan's Civil Aviation Sector and the COVID-19 Pandemic

The airport transfers come as the ACAA and the Afghan civil-aviation sector struggle to overcome the financial losses caused by the COVID-19 pandemic. The Afghan government grounded domestic flights on April 21, 2020, and resumed them on June 17. On June 13, however, international airlines had suspended most air travel to Afghanistan due to the spread of COVID-19, following a period of gradual reduction. At the end of 2020, the revenue generated by the ACAA, largely from fees for the use of Afghan airspace and airports, declined by 28% compared to the previous year.⁴⁶⁷ In recent years, ACAA's revenue has on average made up around 4% of Afghanistan's sustainable domestic revenues.⁴⁶⁸ The ACAA's budget problems have further limited its ability to hire contractors and equipment to maintain the country's international airports.⁴⁶⁹

In late 2020, international air travel slowly restarted, with only three out of 11 carriers (Air Arabia, Emirates, and Fly Dubai) having resumed international flights by December 2020.⁴⁷⁰ As of June 2021, according to State, eight airlines were operating international flights into and out of Kabul: Pakistan International Airlines, Mahan Air, Emirates, Fly Dubai, Air Arabia, Turkish Airlines, Kam Air, and Ariana Afghan Airlines.⁴⁷¹

Afghan airlines have been banned from European Union airspace since 2010 due to safety concerns.⁴⁷² The FAA maintains that U.S. civil aviation faces a number of potential and/or indirect threats to operations in Afghan airspace, especially at low altitudes, largely due to indirect fire targeting airports and surface-to-air fire targeting aircraft operating at low altitudes, including during the arrival and departure phases of flight. The FAA also notes that civil aviation operations could be exposed to possible weaponized unmanned aircraft attacks, ground assaults on or near the airports, and the risk of insider attacks or facilitation of terrorist activity in the airports.⁴⁷³

ECONOMIC PROFILE

Afghanistan remains poor, aid-dependent, and conflict-affected, with any potential economic growth in the short term further limited by the lingering effects of the COVID-19 pandemic. Donor grants totaling at least \$8.6 billion per year (covering both security and civilian assistance) currently finance over half of the government budget. That proportion climbs to almost 80% of Afghanistan's \$11 billion in total public expenditures when off-budget (U.S.-managed) assistance is counted along with on-budget (Afghan-managed) aid.⁴⁷⁴

Increased government service provision, an economy fueled by donor funds, and artificially inflated demand produced by the large international presence rapidly improved many of Afghanistan's development outcomes until the 2014 drawdown of most international troops. After the Afghan government assumed responsibility for the fight against the Taliban insurgency, licit annual GDP growth of just under 10% dropped to low-single-digit rates.⁴⁷⁵ Since the transition to Afghan lead responsibility for security, the afghani (AFN) has depreciated against the U.S. dollar, from approximately 57 AFN to the dollar in 2014 to around 77 by the end of 2020.⁴⁷⁶

Prior to the pandemic, an estimated 55% of Afghans lived below the poverty line (defined as 2,064 afghanis per person per month or around \$1 in daily income), according to household survey data, an increase from 34% in 2008.⁴⁷⁷ While the World Bank had projected that poverty levels would rise as high as 72% during 2020 due to the socioeconomic effects of the pandemic, it now estimates that overall poverty levels actually decreased to 47.1%, as the pandemic had a less severe economic impact in rural areas than originally projected. In urban areas, however, the Bank estimated that poverty levels rose from 41.6% to 45.5% in 2020.⁴⁷⁸

Despite early projections that the effects of the pandemic would cause the Afghan economy to contract by 5% in 2020, the World Bank also estimated in April 2021 that the Afghan economy actually contracted by only 1.9% of GDP, based on preliminary data from Afghanistan's National Statistics and Information Authority (NSIA). The World Bank explains that the agricultural sector managed to grow by 5.3% as a result of favorable weather conditions and that COVID-19-related disruptions had limited impact in rural areas. On the other hand, the lockdowns and border closures severely contracted economic activity within urban and peri-urban areas in 2020, leading to contractions of 4.2% in the industrial sector and 4.8% in the service sector.⁴⁷⁹

Afghanistan has continued to receive significant levels of international assistance this quarter to mitigate the impact of the pandemic. On June 7, 2021, the International Monetary Fund (IMF) completed the first review of Afghanistan's economic reform program supported by the 42-month Extended Credit Facility arrangement approved in November 2020. The completion of this review makes \$149.4 million immediately available for



An Afghan woman gathers water in western Afghanistan. Drought conditions in 2021 are contributing to the need for increased humanitarian assistance. (Norwegian Refugee Council photo)

disbursement. These funds are intended to support Afghanistan's recovery from the pandemic, bolster economic reforms, and help catalyze donor financing.⁴⁸⁰ On June 24, the World Bank also approved a \$132 million grant to Afghanistan intended to support the country's economic recovery from the COVID-19 pandemic.⁴⁸¹

According to the UN, the number of Afghans requiring humanitarian assistance in 2021 has reached approximately half of Afghanistan's total estimated population. This figure is nearly double that of 2020, and a six-fold increase compared to four years ago.⁴⁸² In January 2021, the UN said Afghanistan's Humanitarian Response Plan for 2021 would require an additional \$1.3 billion to address the growing number of Afghans in need of humanitarian aid, including around 10 million children, stemming from a combination of ongoing conflict, drought, poverty, and COVID-19.⁴⁸³ Halfway through this year, only 23% of the required funds have been distributed.⁴⁸⁴

The need for humanitarian assistance has been heightened by the record-breaking number of Afghan migrants returning to Afghanistan. In 2020, the intergovernmental International Organization for Migration (IOM) recorded the largest return of Afghan migrants in a single year, approximately one million—almost double the count in 2019.⁴⁸⁵ Over 200,000 returned between January and March 2021, more than double the number from the same periods in 2019 and 2020.⁴⁸⁶

If the current security and political conditions hold and international support remains at the levels pledged during the 2020 Geneva Conference, the World Bank projects that Afghanistan's economy will grow by only 1% of GDP during 2021. Continued weak investor confidence and the effects of drought on the agricultural sector are hindering growth.⁴⁸⁷ Considering that

real GDP growth remains below the population growth rate, real per capita GDP is likely to decline.

In 2020, Afghanistan's Chamber of Commerce and Investment estimated that around 1,500 small-scale traders, investors, and businessmen left the country as a result of continued insecurity and corruption, accounting for at least \$1.5 billion of capital flight.⁴⁸⁸ In a number of geographic areas where the Taliban exerts some level of control, many Afghan businesses also grapple with the challenge of double taxation—paying taxes to the Afghan government and to the Taliban, who may impose higher levies than the government, further inhibiting growth.⁴⁸⁹

Even if the Afghan government controls the pandemic and successfully negotiates a peace agreement with the Taliban—perhaps the best-case scenario for Afghanistan—this will not translate immediately into sustainable licit economic growth. Many enduring barriers remain. These include widespread corruption that undermines investor confidence in the Afghan government and economy, limited skilled labor, lingering effects of near-continuous conflict over four decades, deficits in physical and institutional infrastructure, a costly trade deficit, and heavy reliance on donor support.

Following a peace agreement, Afghanistan must also reintegrate into the economy ex-combatants and potentially large numbers of Afghans returning from abroad.⁴⁹⁰ Returnees could face a weak licit labor market unable to fully absorb the large influx of laborers in the short term, potentially exacerbating already high unemployment and poverty figures.

Trade Update: Transit Trade Agreement with Pakistan Further Extended

After failing to revise the Afghanistan-Pakistan Transit Trade Agreement (APTTA), Afghanistan and Pakistan agreed to extend the existing pact for another six months. The two countries had already agreed to a temporary, three-month extension for APTTA, which originally was due to expire on February 11, 2021.⁴⁹¹ While the Pakistani government temporarily closed the border to pedestrian traffic May 5–20 due to rising COVID-19 infections, the border crossings remained open to trade under bilateral trade and transit agreements.⁴⁹²

The APTTA was originally signed between Afghanistan and Pakistan on October 28, 2010, replacing an outdated agreement from 1965. The bilateral trade agreement currently allows landlocked Afghanistan access to Pakistani sea and land transit routes for international trade, in particular exporting goods to India, one of Afghanistan's main trading partners, and allows Pakistan to use Afghan territory to move goods into Central Asia. The current agreement does not, however, allow Pakistani territory to be used for Indian exports to Afghanistan. Afghan trucks that carry Afghan goods to the Wagah border crossing between India and Pakistan are not permitted to return with Indian goods.⁴⁹³ At the end of April 2021,

Afghan exports to India dropped to near zero; Indian border officials attributed this decline to India's recent struggles with a devastating surge in COVID-19 cases.⁴⁹⁴ The key disagreement over a revised APTTA relates to Afghanistan's insistence that it be signed under international law and the World Trade Organization (WTO) framework, which Afghanistan joined in 2016. Under WTO rules, Pakistan would be required to allow the free movement of goods through its territory between India and Afghanistan. Pakistani officials have refused to agree to this point, citing security concerns amid Pakistan's enduring rivalry with India.⁴⁹⁵

Overall, trade between Pakistan and Afghanistan has recently declined. Pakistan has consistently been one of Afghanistan's primary trading partners. However, over the first nine months of the current fiscal year, Pakistani exports to Afghanistan declined by 5.5%, according to data released by the State Bank of Pakistan.⁴⁹⁶ Trade between the two countries fell by 29% during 2020 due to the pandemic-related border closures.⁴⁹⁷

Since the first phase of its operations was inaugurated in December 2017, the Chabahar Port on Iran's Arabian Coast, developed jointly with India, has been held up as a means for trade between Afghanistan and India to bypass Pakistan. It was also expected to increase landlocked Afghanistan's access to international maritime trade.⁴⁹⁸ For these reasons, the State Department exempted Chabahar and its attached railway network from U.S. economic sanctions leveled against Iran in November 2018.⁴⁹⁹

Yet, according to State, Chabahar Port has had limited impact in increasing Afghan trade even amidst the constraints on trade with and through Pakistan. Despite the exemption for Afghan trade through Chabahar, many Afghan businesses remain hesitant to use the port facilities. Afghan traders also have reported that insurance companies, banks, and other business service providers refuse to operate through the port for fear of U.S. sanctions.⁵⁰⁰

Trade with Central Asian Neighbors

While trade between Afghanistan and Pakistan has faltered, Afghanistan has worked to improve its economic connectivity with Central Asian countries. During this quarter, Afghanistan and Uzbekistan marked the opening of a trans-Afghan shipping corridor between Uzbekistan and Pakistan. On May 11, 2021, Uzbek cargo trucks reached the Torkham border crossing between Afghanistan and Pakistan after crossing Afghan territory. An initiative of the Uzbek government, the opening of this route is intended to reduce the transportation costs of Uzbek goods moving through the region.⁵⁰¹

Work also continued on the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline. On April 15, 2021, Turkmenistan and Afghanistan signed a Safety Concept, an annex to the agreement which includes the development of a Safety Plan and protocol for the 816-kilometer portion of the pipeline within Afghan territory. Construction on the Asian

Development Bank-supported pipeline began in December 2015, with an estimated total cost of \$8 billion, and once complete will connect the Galkynysh gas field in Turkmenistan with India, passing through Afghanistan and Pakistan.⁵⁰²

In addition, Afghanistan began construction on a \$5 million road through the difficult mountainous terrain of the Wakhan Corridor in Badakhshan Province connecting Afghanistan and China. As of mid-June 2021, the Afghan government had constructed approximately 20% of the road, which is financed entirely by the Afghan government.⁵⁰³ Once completed, the 50-kilometer road “will be used for commerce, imports and exports as well as transit” between Afghanistan and China, according to a Public Works Ministry spokesperson who added, “China has expressed a huge interest for investment in Afghanistan, particularly in the mining sector, and this road will be good for that, too.”⁵⁰⁴

Afghanistan Maintains Large Trade Deficit

Afghanistan’s economy remains highly dependent on imports, generating a severe trade deficit that is almost entirely financed through external aid. Afghanistan’s main imports include petroleum, machinery and equipment, food items, and base metals and related articles.⁵⁰⁵ In 2019, Afghanistan imported goods totaling \$7.33 billion while exporting only \$975 million worth, according to WTO data; this produced a negative merchandise trade balance of \$6.36 billion, equivalent to 30.1% of GDP.⁵⁰⁶ In 2020, amid declining imports and exports (exports fell by 2% and imports by 5%), the negative trade balance narrowed to \$5.1 billion, equivalent to 26.7% of GDP.⁵⁰⁷

The trade deficit is in part caused by Afghanistan’s low manufacturing capacity and poor domestic infrastructure, which results in a narrow export base—largely agricultural products and carpets—to limited destination markets.⁵⁰⁸ Recognizing this challenge, the Afghan government’s National Procurement Authority signed an agreement with the Afghanistan Chamber of Commerce and Industries in January 2021 that all government departments would rely on domestically produced products, despite their being on average 25% more expensive than imports.⁵⁰⁹

Banking Update: Afghan Banking Sector Slowly Recovers from COVID-19 Restrictions

The pandemic-induced economic contraction has impacted the banking sector in a number of ways and helped induce shifts in the government’s banking policy—including substantially delaying the planned merger between the state-owned Bank-e-Millie Afghan and New Kabul Bank.⁵¹⁰ The initial economic contraction associated with the pandemic decreased the banking sector’s overall deposits and increased nonperforming loans (NPLs) while broadly leading to a reduction in the demand for credit. But Afghan banks’ small loan portfolios generally helped to minimize losses.

During the previous year, Da Afghanistan Bank (DAB), Afghanistan's central bank, took several measures to mitigate COVID-related shocks to the banking sector, including the monitoring of weaker banks, a relaxation of loan classification, a reduction in banks' operational costs, and suspension of administrative penalties and fees. As a result, the banking sector saw some modest improvements by the end of 2020 with increasing deposits.⁵¹¹

During the initial pandemic-induced economic decline, bank deposits contracted as business firms increasingly drew upon their accounts in the face of declining revenues, exacerbating the banking sector's vulnerability.⁵¹² During the first four months of 2020, total bank deposits declined by 3%.⁵¹³ But by the end of 2020, the World Bank found that bank deposits actually increased as more international grants and government expenditures fueled private-sector activities, and individuals and firms sought to reduce their cash holdings amid increasing political uncertainty and insecurity. In late 2020, bank deposits reached 292.6 billion afghanis (or 19.9% of GDP), an increase from 263.8 billion afghanis (or 18% of GDP) at the end of 2019; the loan to deposit ratio fell from 15.8% in 2019 to 13.8% in 2020.⁵¹⁴

The banking sector also faced a declining demand for credit within the private sector, driven by weak business confidence in Afghanistan's economic conditions. The World Bank estimated that credit to the private sector declined by 1.1%, reaching around 3.03% of GDP by the end of 2020.⁵¹⁵ After DAB ended the freeze on loan classification and resumed the enforcement of requirements for maintaining sufficient capital in July 2020, NPLs rose from 15.7% in 2019 to 21.9% of total loans by the end of 2020, reflecting the pandemic's impact on borrowers' debt servicing and repayment capacity. Given the fact that NPLs are a lagging indicator, the true figure is likely higher. The ensuing increase in the provisioning of NPLs and a drop in returns on overseas assets, which comprise one-third of the banking sector's assets, further weighed on profits.⁵¹⁶ The small loan portfolio of Afghanistan's banking sector, approximately 12% of bank assets, helped to limit potential losses from the pandemic-induced economic contraction. As a result of the low lending levels and lack of investment opportunities, banks' liquidity generally remained high.⁵¹⁷

The Afghan private sector's reliance on banks as a source of credit remains weak, with existing private sector credit largely directed towards the trade (41%) and services (27%) sectors.⁵¹⁸ According to the Asian Development Bank, Afghan banks only provide a line of credit to around 5% of micro, small, and medium-sized enterprises, with the remainder seeking financing largely from informal sources.⁵¹⁹ Even before the pandemic, Afghanistan's small banking sector was severely limited in its ability to finance private investment and support economic growth. With an economy heavily reliant on the informal sector—85% of Afghan adults lack access to formal financial services—DAB estimates that only 3.9% of businesses rely on banks to finance capital expenses, with only 0.8% using banks to finance

investments due to both demand and supply constraints. Those constraints include high interest rates and collateral requirements, lack of expertise, and limited access in rural areas.⁵²⁰

Fiscal Update: The Challenge of Insufficient Domestic Revenues

This quarter, Afghanistan's domestic revenues continued to rebound following a decline in the previous fiscal year due to the COVID-19-induced economic downturn, SIGAR analysis of Afghan government accounting data showed. Through the first six months of FY 1400 (December 2020–December 2021), Afghanistan's sustainable domestic revenues increased by 22.6%, year-on-year (Figure 2.38). However, domestic revenues remained 2.7% below revenue levels during the same period of FY 1398.⁵²¹

Expenditures over the first six months of FY 1400 (Figure 2.39), meanwhile, decreased overall by 5.4%.⁵²² The Ministry of Finance (MOF) informed SIGAR that the expenditure decline during the first quarter of FY 1400 was a result of delays in the Afghan parliament approving an FY 1400 national budget.⁵²³ In February 2021, following weeks of debate in which the draft budget was twice rejected, the Afghan parliament approved a 473 billion afghani (approximately \$6 billion) national budget for FY 1400, comprising some \$4 billion for the regular budget covering government operations and \$2 billion for the development budget. Only 46% of the FY 1400 budget is funded by domestic revenue sources. With the passage of the budget, expenditures are anticipated to continue to increase in the coming months.⁵²⁴

Afghanistan consistently has insufficient domestic revenues to cover government expenditures, offsetting deficits with international grants. Figure 2.40 demonstrates this trend in recent years, with **sustainable domestic revenues** covering on average only 43% of Afghan government expenditures. This problem has only worsened as domestic revenues have stagnated while government expenditures have steadily increased.⁵²⁵ Donor grants totaling \$8.5 billion per year (covering both security and civilian assistance) finance more than half the Afghan government budget and approximately 75–80% of total public expenditures (including funds not channeled through government ministries).⁵²⁶

The pandemic has aggravated the Afghan government's inability to generate sufficient domestic revenue and its heavy dependence on international assistance—long-standing challenges stemming from extreme poverty, limited capacity, persistent corruption, tax evasion, and the strength of the untaxed informal and illicit economies. Amid increasing expenditures and declining revenues during the COVID-19 pandemic, the Asian Development Bank reported that the fiscal deficit, excluding grants, increased from the equivalent of 13.9% of GDP in 2019 to 20.8% in 2020.⁵²⁷

In Afghanistan, approximately 90% of the economy is informal and, therefore, largely escapes taxation, hindering the government's financial

Sustainable Domestic Revenues:

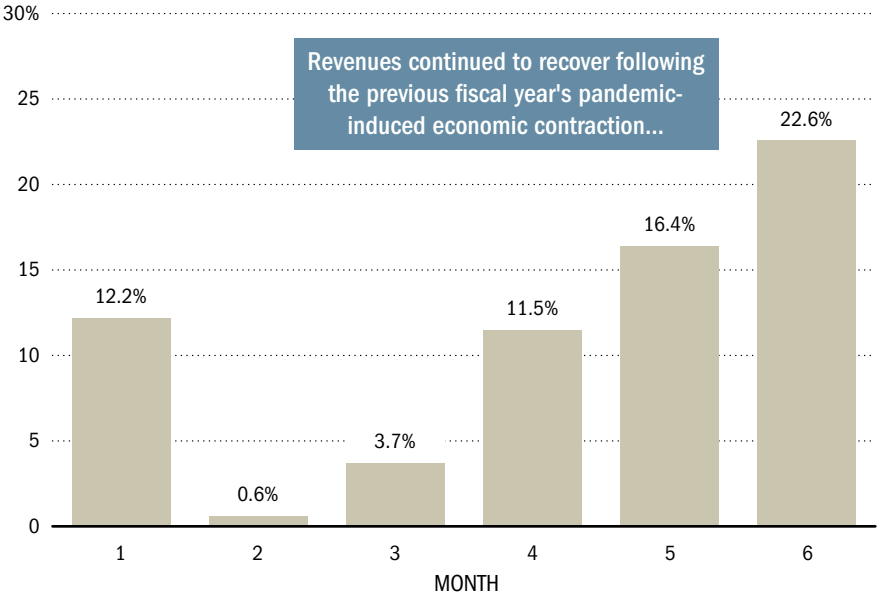
According to Afghan Ministry of Finance officials, these are revenues such as customs, taxes, and non-tax fees. Multilateral institutions, including the World Bank and IMF, use reports of these revenues to judge the Afghan government's fiscal performance.

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.

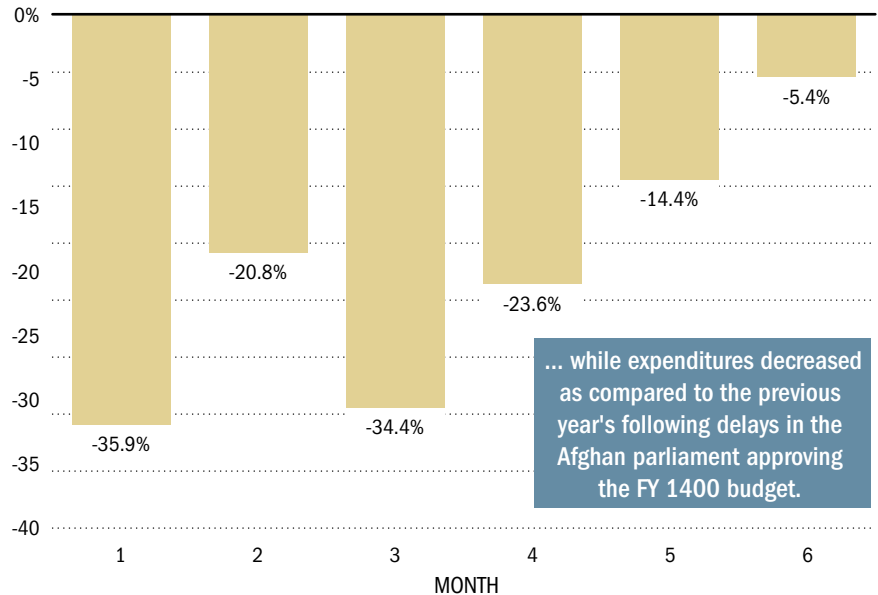
ECONOMIC AND SOCIAL DEVELOPMENT

FIGURE 2.38
**CUMULATIVE SUSTAINABLE REVENUE GAINS (FY 1399-1400)
 VERSUS SAME MONTH PRIOR YEAR**



Source: SIGAR analysis of MOF-provided AFMIS data exported 7/12/2021 and 1/10/2021.

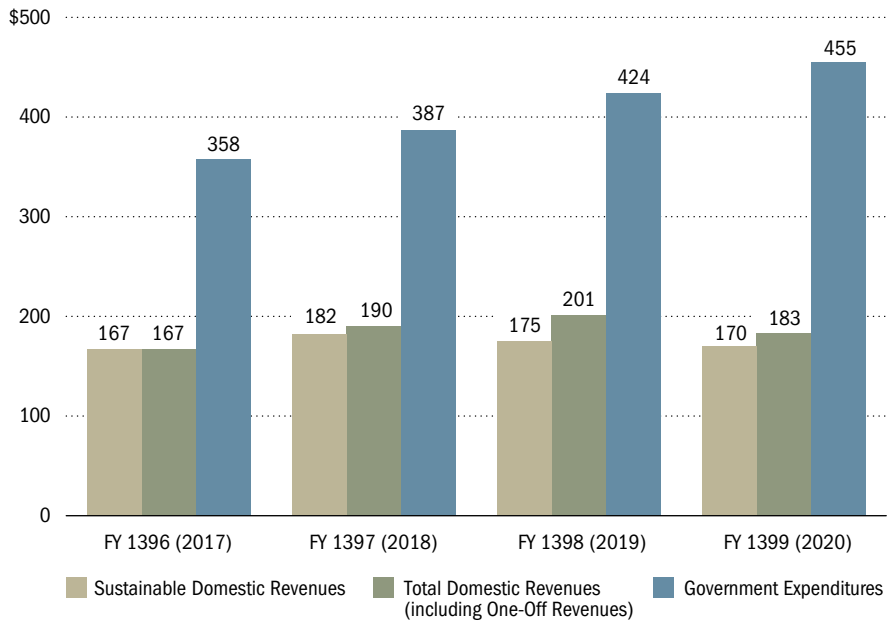
FIGURE 2.39
**CUMULATIVE EXPENDITURE DECREASES (FY 1399-1400)
 VERSUS SAME MONTH PRIOR YEAR**



Source: SIGAR analysis of MOF-provided AFMIS data exported 7/12/2021 and 1/10/2021.

FIGURE 2.40

AFGHAN GOVERNMENT REVENUES AND EXPENDITURES (BILLIONS OF AFGHANIS)



Source: SIGAR analysis of MOF-provided AFMIS data exported 1/10/2018, 1/12/2019, 1/6/2020, and 1/10/2021.

self-sufficiency.⁵²⁸ Members of parliament and cabinet ministers also assert that significant levels of government revenue are lost to corruption.⁵²⁹

The strength of the informal economy limits the Afghan government’s ability to benefit from the extractives sector, which Afghan officials have highlighted as potentially a significant source of revenues. A large percentage of mining activity in Afghanistan is conducted by informal or illegal small-scale operations in both government-controlled and insurgent-controlled territory, with their products smuggled out of the country.⁵³⁰ In March 2021, the Afghanistan Precious Stones Association claimed that around \$1 billion in precious stones is smuggled out of Afghanistan each year.⁵³¹

In contrast, illegal mining has increasingly become a key source of revenue for the Taliban. In areas under its control, the Taliban issues mining licenses, collects taxes and protection money from mining operations, and controls the smuggling of quarried minerals and gems abroad, in particular to Pakistan.⁵³² In late January 2021, Minister of Mines and Petroleum Mohammad Haroon Chakhansuri stated, “The Taliban are currently mining in 750 areas. This group is using the money [made from] mining against the government.”⁵³³ As a result, the formalized extractives sector has failed

to materialize as a driver of economic growth and a source of sustainable domestic revenues for the Afghan government.

For revenue derived from trade, such as customs, more than half of the total value of goods that crosses the international border flows to the informal economy. This is a substantial source of income for anti-state insurgents, other non-government groups, and corrupt officials, resulting in hundreds of millions of dollars in lost revenue for the Afghan government.⁵³⁴

As the Afghan economy has struggled to find areas of sustainable economic growth, the country has increasingly relied in recent years on remittances from Afghans working abroad, especially in neighboring Iran. By 2019, remittances accounted for the equivalent of 4.3% of Afghanistan's annual GDP, an increase from 1.2% in 2014, according to World Bank data.⁵³⁵ However, officials from the IOM estimate this figure could be as high as 15–20%, given that many remittances are sent through the informal *hawala* money-transfer system.⁵³⁶

In 2020, remittances to Afghanistan dropped by 10%, according to the World Bank.⁵³⁷ Afghans in Iran, for instance, have struggled to find work due to COVID-19 and economic sanctions, forcing many to return to Afghanistan, where they face rising levels of unemployment, poverty, and insecurity.⁵³⁸

ECONOMIC GROWTH

Under the current CDCS, USAID economic-growth programs seek to support and enhance export-led growth through direct interaction with Afghanistan's private sector, necessary for putting the country on the “road to self-reliance.”⁵³⁹ Specifically, the strategy aims to:⁵⁴⁰

- 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

Even before the COVID-19 pandemic, Afghanistan's licit economic growth was too low to reduce the increasing poverty rates and improve living standards for most Afghans.⁵⁴¹ Additionally, licit export levels stagnated in 2019, despite the Afghan government's providing a majority of the transit costs for exports through subsidized air corridors to incentivize regional trade.⁵⁴² The pandemic intensified these economic challenges, adding to existing uncertainties about Afghan peace talks, deteriorating security conditions, and the level of future donor support.

USAID's active economic-growth programs have a total estimated cost of \$307 million, as shown in Table 2.20 on the following page.

The Taliban Seize Key Border Crossings

The Taliban seized six total border crossings this quarter, including four major border crossings, with the potential to deny the Afghan government significant customs revenue. On June 22, 2021, Taliban forces captured the U.S.-financed Sher Khan Bandar border crossing in Kunduz Province between Afghanistan and Tajikistan after 134 border guards and other Afghan troops fled into Tajikistan. According to a Taliban spokesperson, the Taliban have kept this crossing open to cross-border trade and have begun to collect customs revenue. In early July, Afghan officials acknowledged that the Taliban had captured the Torghundi border crossing with Turkmenistan and the Islam Qala border crossing in western Herat Province, a main gateway for trade with Iran. On July 14, there were also reports that Taliban forces seized the Spin Boldak crossing with Pakistan in Kandahar Province. This crossing is one of the busiest entry points into the country and a primary trade link between southern Afghanistan and Pakistan.

The Taliban's occupation of key border crossings could deny potentially significant levels of customs revenue to the Afghan government, further inhibiting its ability to generate sufficient domestic revenues. In FY 1399, the border crossings in Herat, Kandahar, and Kunduz Provinces generated 34.3% of the Afghan government's total customs revenues, according to Afghan government accounting data.

Source: BBC News, “Taliban capture key Afghanistan-Iran border crossing,” 7/9/2021; Reuters, “Afghan Taliban seize border crossing with Pakistan in major advance,” 7/14/2021; SIGAR analysis of MOF-provided AFMIS data exported 1/10/2021; Swiss Institute for Global Affairs, “What Recent Taliban Advances in Afghanistan Do and Do Not Mean,” 7/8/2021; Wall Street Journal, “Taliban Finds New Revenues as They Seize Afghanistan's U.S.-built Border Gateway,” 7/5/2021.

TABLE 2.20

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/8/2021
Afghanistan Competitiveness of Export-Oriented Businesses Activity (ACEBA)	1/28/2020	1/27/2025	\$105,722,822	\$11,862,961
Air Export Program (AEP)	5/1/2021	4/30/2026	85,526,068	0
Multi-Dimensional Economic Legal Reform Assistance (MELRA)	2/7/2018	9/30/2024	29,990,258	9,353,137
Extractive Technical Assistance by USGS	1/1/2018	12/31/2022	18,226,206	10,067,500
INVEST*	9/28/2017	9/27/2021	15,000,000	9,910,701
Afghanistan Investment Climate Reform Program (AICR)	3/27/2015	3/26/2022	13,300,000	7,401,545
Carpet and Jewelry Value Chains	1/31/2019	4/30/2023	9,941,606	4,798,580
The Goldozi Project	4/5/2018	4/4/2022	9,718,763	5,762,818
Livelihood Advancement for Marginalized Population (LAMP)	8/1/2018	7/31/2022	9,491,153	4,996,172
Recycling Plant Value Chain in Northern Afghanistan	6/5/2019	6/4/2023	7,250,000	1,264,578
Development Credit Authority (DCA) with Ghazanfar Bank	9/1/2018	8/30/2025	2,163,000	40,015
Afghanistan Loan Portfolio Guarantee	9/27/2017	9/26/2023	665,820	732
Total			\$306,995,696	\$65,458,739

*INVEST is a USAID initiative to mobilize and support private capital investment in development markets through technical assistance, networking, and capacity building.

Source: USAID, response to SIGAR data call, 7/14/2021.

Export Processing Zone: An area established to enhance commercial and industrial exports and job creation by encouraging economic growth through investment from foreign entities, with incentives including tax exemptions and a barrier-free investing environment

Source: Thomasnet.com, "What are Export Processing Zones (EPZs)?" 12/13/2019.

USAID Seeks to Expand Afghanistan's Air Exports

USAID informed SIGAR this quarter that it is working to introduce a new Air Export Program in Afghanistan; the program is currently under procurement. Covering FYs 2021–2025, the program aims to improve air cargo policies and procedures, and to attract private investment in developing and operating export-processing areas such as **Export Processing Zones**. It also will support the modernization of Afghanistan's five key airports in Kabul, Kandahar, Mazar-e Sharif, Jalalabad, and Herat. The program's targets for its base period include:⁵⁴³

- air exports increased by at least 30%
- investment attracted for HKIA export-processing area
- at least 2,000 new jobs created as a result of program interventions
- at least three new air services agreements opened between Afghan carriers and international destinations
- World Trade Organization compliance maintained
- a Customs One-Stop-Shop implemented in one additional airport

Over the past several years, the Afghan government has taken steps to expand air exports with the ultimate goal of helping to increase private investment, address the trade deficit, and eventually wean the country off international largesse. In 2015, for instance, President Ghani established

the Afghanistan Airfields Economic Development Commission to carry out the government's plan to create Special Economic Zones (SEZs)—areas with more liberal and open investment and trade laws—at the country's airports.⁵⁴⁴ The realities of persistent insecurity and political instability, with their attendant economic effects, have slowed this effort.

Afghanistan also began an export-promotion initiative by creating government-subsidized air corridors. According to the Afghanistan Chamber of Commerce, Afghan government funds have covered around 83% of shipment costs for flights to New Delhi, India; 80% of shipment costs for flights to Mumbai, India; and 70% of shipping costs for flights to Europe.⁵⁴⁵ While trade across Afghanistan's land borders was severely limited by periodic border closures and delays due to the pandemic, the government-subsidized air corridors allowed exports sent through air cargo to remain steady or even increase. For example, exports to China increased by 78.5% in 2020 as compared to the previous year.⁵⁴⁶

The WTO, which Afghanistan joined in 2016, prohibits export subsidies as they provide an unfair competitive advantage to recipients and therefore distort market dynamics. The WTO does allow for exceptions in specified least-developed countries, including Afghanistan, but only temporarily until certain economic benchmarks are reached.⁵⁴⁷

While the purpose of the air corridor initiative has been to expand Afghanistan's air exports, it has had the effect of making export firms reliant on government subsidies to fund their transportation costs rather than facilitating the creation of a robust export market, combined with the other economic challenges which businesses face. Following delayed parliamentary approval of the FY 1400 budget and other financial difficulties, the Afghan government fell behind on air corridor subsidy payments to freight transport companies, effectively suspending the program. By mid-April, for instance, carpet exports had fallen by approximately 90%, according to participating businesses, who argued that they cannot afford to send their products abroad without the Afghan government subsidizing their transportation costs.⁵⁴⁸ As of July 8, 2021, the Afghan government had not yet resumed its air-corridor subsidy payments.⁵⁴⁹

AGRICULTURE

Licit agriculture has served as the foundation for Afghanistan's formal economy and one of its primary exports. The agricultural sector directly employs approximately 40% of the country's labor force and directly or indirectly supports an estimated 80% of the total population.⁵⁵⁰ The service sector has risen in prominence, but agriculture has been a key driver of GDP growth and developing that sector remains a priority for external donors.⁵⁵¹

In recent years, Afghan farmers and agribusinesses have struggled with the effects of nearly four decades of conflict, poor market conditions,

SIGAR CONDUCTS EVALUATION OF USAID'S GOLDOZI PROJECT

On June 8, 2021, SIGAR issued an evaluation report on USAID's Goldozi Project, a four-year, \$9.7 million project aimed to support revenue generation, job creation, and trade promotion for Afghanistan's textiles sector. SIGAR found that the Goldozi Project failed to achieve several of its targets during its first three years, including training sales agents, increasing embroiderers' incomes, and improving sales. The evaluation further noted that the COVID-19 pandemic severely curtailed the project's activities in 2020. SIGAR recommended that USAID consider withholding or delaying future funding disbursements until USAID determines whether to continue funding the Goldozi Project, potentially saving \$4.6 million in U.S. taxpayer funds.

Source: SIGAR, USAID's Goldozi Project in Afghanistan: Project Has Not Achieved Its Goals and COVID-19 Further Curtailed Project Implementation, SIGAR 21-37-IP 6/2021, ii.

the lack of cold-storage facilities for their products, and the increasing prevalence of extreme weather such as droughts and flash floods, making Afghanistan increasingly reliant on agricultural imports to meet rising domestic demand for key crops.⁵⁵²

According to the Afghan Ministry of Energy and Water, heightened temperatures combined with more frequent droughts have led to less rain and snow and to increasing evaporation of water sources. As a result, water levels in recent years have dropped by approximately 10 billion cubic meters, causing desertification and making irrigation of agricultural land even more difficult.⁵⁵³ In 2018, Afghanistan experienced a devastating drought, decreasing agricultural output by 45%. It displaced more people than fighting between security forces and the Taliban and pushed an additional two million people into food insecurity, according to the United Nations.⁵⁵⁴

USAID's current CDCS highlights these risks: "climate change-driven challenges generate deep food insecurity, especially when compounded by food transport problems from poorly maintained or flood-damaged roads and adverse conditions at border crossings." These challenges, USAID adds, have "far-reaching economic effects because Afghanistan's economy remains primarily agricultural" and "can impact the success of USAID's projects."⁵⁵⁵

Since 2002, USAID has disbursed approximately \$2.4 billion to improve licit agricultural production, increase access to both domestic and international markets, and develop income alternatives to growing poppy for opium production.⁵⁵⁶ USAID's active agriculture programs have a total estimated cost of \$296.7 million and can be found in Table 2.21. Total disbursements for State's active alternative-livelihood programs (Table 2.22)—which aim to transition opium-poppy farmers into licit agriculture—were \$109.2 million.

Drought Threatens Afghanistan's Agricultural Sector

On June 22, 2021, the Afghan government officially declared a drought.⁵⁵⁷ With less snow and rainfall through the winter months of 2020–2021, many farmers are feeling its impact. A lack of snowmelt from the Hindu Kush mountains, for instance, has led to low water levels in the Panjshir River, so that it no longer provides adequate irrigation for crops in Parwan Province. In other regions, the absence of late-winter rains has hurt the wheat harvest, driving up wheat prices in some areas by as much as one-third.⁵⁵⁸ The 2021 wheat harvest is expected to fall by as much as 31% as compared to the previous year's harvest.⁵⁵⁹ The lack of irrigation threatens to force farmers into a cycle of loans and debt to cover the costs of failed crops.⁵⁶⁰

The potential impact of drought on Afghanistan's farmers has been a concern of USAID-supported agricultural programs, which have incorporated mitigation steps. During the second quarter of FY 2021, for instance,

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 2.21

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/8/2021
Strengthening Watershed and Irrigation Management (SWIM)	12/7/2016	12/6/2021	\$87,905,437	\$49,022,379
Afghanistan Value Chains–Livestock	6/9/2018	6/8/2023	55,672,170	25,761,617
Afghanistan Value Chains–High Value Crops	8/2/2018	8/1/2023	54,958,860	24,367,450
Agricultural Marketing Program (AMP)	1/28/2020	1/27/2023	30,000,000	8,215,520
Regional Agriculture Development Program-East (RADP-East)	7/21/2016	7/20/2021	28,126,111	25,545,286
Grain Research and Innovation (GRAIN)	11/8/2012	9/30/2022	19,500,000	13,559,767
USDA PAPA	9/30/2016	9/29/2021	12,567,804	961,057
Catalyzing Afghan Agricultural Innovation	5/28/2018	5/27/2023	8,000,000	3,833,620
Total			\$296,730,382	\$151,266,694

Source: USAID, response to SIGAR data call, 7/14/2021.

TABLE 2.22

STATE-INL ACTIVE ALTERNATIVE-DEVELOPMENT PROJECTS				
Project Title	Start Date	End Date	Obligated and Disbursed, Cumulative, as of 6/16/2021	
Community-Based Agriculture and Rural Development - Access to Licit Livelihoods (CBARD-ALL)	8/25/2020	5/25/2025	\$30,000,000	
Community-Based Agriculture and Alternative Development (CBARD) West	9/1/2016	4/30/2022	24,368,607	
Community-Based Agriculture and Alternative Development (CBARD) East	11/11/2017	4/30/2022	22,128,683	
Boost Alternative Development Intervention Through Licit Livelihoods (BADILL)	8/12/2016	12/30/2021	20,000,000	
Community-Based Agriculture and Alternative Development - Access to International Market (CBARD-AIM)	7/30/2019	4/30/2023	8,900,000	
Monitoring and Impact Assessment of High-Value Agricultural Based Interventions	8/30/2016	12/30/2022	3,810,530	
Total			\$109,207,820	

Source: State, INL, response to SIGAR data call, 6/16/2021.

the Agriculture Marketing Program has emphasized improved irrigation and management techniques in its farmer trainings.⁵⁶¹

Around 12.2 million Afghans, or approximately one-third of the country’s estimated population, are currently facing “crisis” and “emergency” levels of food insecurity, with drought as a contributing factor alongside poverty and the pandemic.⁵⁶² Amid high temperatures and drought conditions, there also have been reports of scarcity in drinking water in a number of areas. In Nimroz Province, civil society organizations have complained that water shortages have increased the cost of safe drinking water, making it unaffordable for many families.⁵⁶³ The worsening drought conditions and the impact on the agricultural sector could undermine the modest economic gains projected for 2021.

USAID Agricultural Program Loses Subcontractor

In the second quarter of FY 2021, the USAID-funded Regional Agricultural Development-East (RADP-East) terminated its contract with one of its subcontractors, according to the implementing partner's latest quarterly report. RADP-East works to expand the sales of agricultural goods and services in selected value chains within eight target provinces (Ghazni, Kapisa, Laghman, Logar, Nangarhar, Parwan, Wardak, and Kabul). The program provides technical services to the private sector—including farmers, agricultural processing firms, traders, and buyers—with assistance from three subcontractors.⁵⁶⁴

On February 7, the RADP-East program terminated its contract with subcontractor Relief International (RI), which managed the project's poultry value chain, after it had been suspended by USAID due to “strong indications” that the organization had breached antiterrorism legislation, donor rules, and other policies intended to guard against bribery, corruption, and terrorist financing. RI's five employees were immediately released in early February, bringing their activities to a halt. Four new short-term specialists were recruited and joined the project in April, with activities beginning again by the end of the quarter.⁵⁶⁵

INFRASTRUCTURE AND ESSENTIAL SERVICES

A major objective of U.S.-led reconstruction efforts has been to support and expand Afghanistan's physical infrastructure base, with the purpose of supporting economic development, and bolstering stability in the country and confidence in the government. Since 2002, the U.S. government has built and expanded electricity infrastructure, roads, and education and health facilities.⁵⁶⁶ USAID is still working 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.⁵⁶⁷

By late 2020, according to data provided by Afghanistan Inter-Ministerial Commission for Energy, Afghanistan's total installed capacity for domestic power production is approximately 699 MW, versus the 2000 MW the Afghan Ministry of Water and Energy estimates the country needs. Domestic power production consists of 280.5 MW of hydroelectric power, 353.5 MW of thermal/oil plants, and 65 MW from renewable energy.⁵⁶⁸

Afghanistan's domestic energy consumption relies heavily on electricity imports from neighboring countries. To address shortfalls in domestic power production, the Afghan government spends approximately \$280 million annually to import energy associated with roughly 670 MW of electric generating capacity in neighboring Iran, Uzbekistan, Tajikistan, and Turkmenistan, according to the national power utility Da Afghanistan Breshna Sherkat (DABS).⁵⁶⁹ This makes Afghans' access to reliable

electricity vulnerable to changes (seasonal domestic demands, energy output levels, etc.) within other countries. On July 7, 2021, for instance, Iran's Energy Ministry announced it would be halting electricity exports to neighboring countries due to rising domestic power consumption amid high summer temperatures.⁵⁷⁰

Afghans' access to the power grid has increased since 2002, but only to about 30% of the population.⁵⁷¹ This limited access to reliable, grid-based power remains an obstacle to economic growth. To expand access to grid-based power, DOD and USAID have worked to connect the country's **Northeast Power System**, (NEPS) with its southeastern counterpart, the **Southeast Power System** (SEPS). An approximately 500-kilometer transmission line financed by USAID will eventually link them.⁵⁷²

However, an expansive power infrastructure remains vulnerable to persistent insecurity in many parts of the country, contributing to blackouts that undermine the reliability of Afghanistan's power production. This quarter, militants have increasingly targeted electricity pylons, causing power disruptions across the country.⁵⁷³ This is compounded by the aggregated 34% technical and commercial energy losses in transmission lines and distribution networks of the national power grid.⁵⁷⁴

In recent years, U.S. reconstruction efforts have shifted away from large capital projects like roads and transmission lines toward smaller-scale projects, including solar and wind power plants. To incentivize more private-sector investments in the energy sector, in line with the broader U.S. economic growth strategy, USAID has shared the upfront costs of constructing solar and wind power plants with independent power producers (IPPs). The profitability and commercial viability of such projects is premised on power-purchase agreements (PPA) with DABS that allow IPPs to recover their upfront costs for construction and support their ongoing operations and maintenance costs.⁵⁷⁵

With the Afghan government heavily reliant on international aid, DABS' long-term financial stability depends on either a continuation of the current level of donor assistance or on the Afghan government's ability to generate far greater domestic revenues—both areas of great uncertainty. In particular, DABS has faced lingering challenges in billing and collecting payments from its customers which have affected its cash flow.⁵⁷⁶ This problem is in part due to security issues. There have been recent reports that DABS is unable to collect payment in Taliban-controlled areas of Faryab, Kunduz, Baghlan, Helmand, Badghis, and Herat Provinces; the Taliban collected those fees. DABS's limited ability to collect payment from all of its customers contributes to rate increases.⁵⁷⁷ In late June 2021, Kabul residents complained of increasing electric bills even as service worsened with electricity available for only limited hours per day and frequent blackouts.⁵⁷⁸ The resulting rate increases inhibit many Afghans' ability to pay their electric bills, further cutting into DABS's revenue, and threatens the

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. An ongoing SIGAR audit is examining the broad scope of U.S. investment in the Afghan energy sector since 2009, including efforts to improve generation, transmission, and distribution.

sustainability of the IPPs—which are dependent upon DABS to purchase and distribute electricity produced—and the Afghan power sector.

Some USAID Power-Infrastructure Projects Face Continuing Delays

USAID has seven ongoing power-infrastructure projects. Current USAID projects include constructing:⁵⁷⁹

- a transmission line between Ghazni and Kandahar Provinces (87.9% complete as of May 29, 2021, with an expected completion date of September 7, 2021)
- substations along the transmission line from Ghazni to Kandahar (68% complete as of April 19, 2021, with an expected completion date of July 30, 2023)
- transmission lines and substations in SEPS (41% complete as of April 19, 2021, expected completion date of July 30, 2023)
- a 25 MW wind farm in Herat Province (the notice to proceed was issued on October 28, 2020, and mobilization work began in March 2021; the contractor, 77 Construction Corporation, submitted their 95% design package to USAID for review and approval, with an expected completion date of November 7, 2022)
- a 20 MW floating solar-power plant to be constructed on the Naghlu Dam Reservoir in Kabul Province (the notice to proceed was issued on January 4, 2021; the contractor, Phelan Energy Group (PEG), submitted its design package to USAID for review and approval, with the project having an expected completion date of July 4, 2022)
- a 40 MW bifacial solar plant to be constructed in Balkh Province (this activity was awarded in July 2021; the PPA between the contractor, PEG, and DABS was signed in September 2020)
- a 25 MW sun-tracking solar plant to be constructed in Herat Province (this activity was awarded in July 2021; the PPA between the contractor, PEG, and DABS was signed in September 2020)

Three of USAID's seven active projects are delayed.⁵⁸⁰ USAID's work on SEPS evolved from a separate contract that was to be completed by November 2013—meaning it is now almost seven and a half years behind schedule.⁵⁸¹ The NEPS-SEPS connecting transmission lines and substations between Ghazni and Kandahar were to be completed by the end of 2016—meaning they are over four and a half years behind schedule.⁵⁸²

Construction on the Ghazni-to-Kandahar transmission line was halted in May 2020 as a result of the demining and reclearance contract expiring. As of May 29, 2021, construction remained halted as the demining and reclearance contract was still under procurement with DABS. According to USAID, the procurement process has been delayed by the COVID-19 pandemic.

As a result of this delay, the completion date for the transmission line was extended from December 31, 2020, to September 7, 2021.⁵⁸³

Cumulatively, USAID has disbursed approximately \$2.05 billion since 2002 to build power plants, substations, and transmission lines, and to provide technical assistance in the power sector.⁵⁸⁴ USAID’s active power-infrastructure projects have a total estimated cost of \$864.9 million and are presented in Table 2.23.

TABLE 2.23

USAID ACTIVE ENERGY PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/8/2021
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2023	\$316,713,724	\$272,477,914
Design and Construct of SEPS Completion and NEPS-SEPS Connector Substations	7/3/2019	7/30/2023	175,527,284	93,415,533
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	1/22/2022	125,000,000	99,768,283
Bifacial Solar Photovoltaic Power Plant	4/1/2021	3/31/2022	24,150,000	0
25 MW Wind Farm in Herat Province	10/22/2019	11/27/2021	22,994,029	0
Design and Acquisition of SEPS Completion and NEPS-SEPS Connector	3/7/2018	6/27/2022	20,151,240	9,668,086
20 MW Floating Solar Installation-Naghlu	1/27/2020	7/4/2022	19,630,174	3,569,975
Partnerships for Enhanced Engagement in Research (PEER) grants	7/25/2011	7/23/2021	5,440,647	5,440,647
Energy Loss Management Visualization Platform Activity	1/25/2020	1/24/2022	1,579,973	789,986
Total			\$864,857,255	\$638,800,608

Source: USAID, response to SIGAR data call, 7/14/2021.

Power Generation at Kandahar Solar Power Plant at Risk

On October 16, 2019, the 10 MW Kandahar Solar Power Plant, the first private-sector investment in Afghanistan’s renewable energy sector, began commercial operations. USAID provided \$10 million in incentive funds for Dynasty Oil & Gas Private Limited to build, own, and operate the plant. In addition, Dynasty signed a 15-year PPA with DABS, which constructed a 6.5 kilometer transmission line connecting the plant to the national power grid. USAID commended the construction of this power plant as establishing “a model approach for the Ministry of Energy and Water and DABS to successfully attract additional private sector investments in energy projects in Afghanistan.” This model is currently being applied to other USAID investments in Afghanistan’s renewable energy sector.⁵⁸⁵

While the Kandahar Solar Power Plant has been generating electricity, DABS is not using all of the electricity generated and has outstanding payments of approximately \$1.1 million owed to Dynasty. Dynasty



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

SIGAR CONDUCTS INSPECTION OF KANDAHAR SOLAR POWER PLANT

On April 5, 2021, SIGAR released an inspection report on Kandahar Solar Power Plant. Based on site visits to the power plant from August 31 to September 3, 2020, SIGAR found that the construction of the plant by Dynasty Oil & Gas Private Limited generally met the contract requirements and the plant is producing electricity. Yet, the inspection uncovered a number of problems with the plant. SIGAR found Dynasty had installed prohibited piping from Iran; some of the electrical workmanship was substandard and created a fire-safety hazard; and several maintenance issues had appeared, including nonfunctional security cameras, cracks in the boundary wall and the control building's roof, and missing mortar in the boundary wall's foundation.

Source: SIGAR, Kandahar Solar Power Plant: Project Was Generally Completed According to Contract Requirements, SIGAR 21-30-IP, 4/5/2021, iii.

representatives informed SIGAR that there have been technical difficulties and instability in the power grid preventing DABS from accepting and using all of the solar power generated, necessitating frequent plant shut downs. Between October 2019 and September 2020, the amount of electricity which was unable to be delivered exceeded 50% of all electricity generated at the plant for five of the 12 months. In December 2019, the amount of undistributed electricity peaked at 93.7% of electricity produced by the plant. In order to mitigate electricity delivery issues, DABS has procured additional reactive capacitor banks.⁵⁸⁶

However, DABS has refused to pay for all the electricity generated. DABS was unable to distribute energy from the plant due to technical problems with the grid, although the PPA stipulates that the Afghan utility must purchase all electricity regardless of whether it was distributed. DABS asserts that Dynasty was 180 days late in completing construction of the plant and bringing it online. Therefore, DABS officials believe that Dynasty owes financial damages incurred by this delay. This dispute has been referred to the Afghan courts. Until the courts settle the matter, DABS will not pay any energy invoices for electricity produced but not distributed.⁵⁸⁷

By September 2020, these outstanding payments added up to \$825,011. Combined with other delayed payments, the total amount owed to Dynasty is approximately \$1.1 million. Not only is almost half of the electricity generated wasted due to technical problems with the grid, but Dynasty officials informed SIGAR that the unpaid invoices contribute to cash-flow problems that put the viability of the solar power plant at risk.⁵⁸⁸

While the PPA and plant operations are outside of the scope of USAID's support for the Kandahar Solar Power Plant, the problems that have arisen between Dynasty and DABS threaten to undermine the sustainability of USAID's investment in Afghanistan's power infrastructure, especially with this model of financial support being used for new renewable energy projects.⁵⁸⁹

Escalating Violence Threatens Afghanistan's Power Infrastructure

According to DABS, at least 35 electricity pylons have been damaged or destroyed in explosions over the previous six months.⁵⁹⁰ In early May, Kabul was plunged into a blackout after two power pylons 30 kilometers outside of the capital city were destroyed in an explosion.⁵⁹¹ In early June, unknown assailants blew up another electricity tower in northern Kabul, cutting off the electricity to several parts of the country.⁵⁹² On June 8, DABS officials announced that an electricity tower in Herat's Kohsan City near the Iran border exploded, cutting off electricity imports from Iran to Herat Province.⁵⁹³ In late June, Kabul once again suffered severe power outages when unknown attackers destroyed a pylon in Parwan Province.⁵⁹⁴ USAID

informed SIGAR this quarter that no U.S.-funded power infrastructure has been affected by these attacks.⁵⁹⁵

The targeting of pylons and transmission lines has disrupted the electricity supply in Kabul and seven other provinces and raised concerns over the stability of both domestically produced and imported power.⁵⁹⁶ The resulting power outages continue to inflate the operational costs of many Afghan companies, which are forced to rely on generators for electricity.⁵⁹⁷

In a June 9 statement, USAID Mission Director in Afghanistan Dr. Tina Dooley-Jones stated, “Destroying infrastructure helps no one. It creates untold suffering. The Government of Afghanistan knows we all lose when the lights go out, when people cannot move from one district or province to another, or when parents cannot send their children to school because the building no longer exists.”⁵⁹⁸

EDUCATION

USAID-funded education programs aim to increase access to, and improve the quality of, both basic and higher education, while also building the management capacity of the Ministry of Education (MOE) to develop a self-sustaining national education system in the long term. The premise of USAID’s strategy is that gains in social development, including a strong education system, will help to bolster Afghan confidence in the government, improve the overall “stability and inclusivity” of the country, expand “civic participation,” and “create the conditions necessary for peace.”⁵⁹⁹

With one of the youngest populations in the world—more than 40% of the Afghan population is aged 14 or younger—developing a quality education system serves as a long-term investment in human capital for the Afghan economy and for a democratic system of government as well as individual self-reliance.

Despite donor assistance, Afghanistan has struggled to improve its education outcomes in recent years in the face of MOE’s capacity issues and continued insecurity; many students, particularly girls, remain out of school. Reports indicate that the Taliban have threatened people within areas under their control, saying girls should not attend school beyond the seventh grade, which limits their prospects.⁶⁰⁰ Since 2002, USAID has disbursed approximately \$1.3 billion for education programs, as of July 8, 2021.⁶⁰¹ The agency’s active education programs have a total estimated cost of \$183.8 million and can be found in Table 2.24 on the following page.

Afghan Schools Close Again Amid Surge in COVID-19 Cases

Due to the surging COVID-19 cases, the Ministry of Public Health (MOPH) closed all schools in 16 provinces on May 29, 2021, for the third time since the beginning of the pandemic. The MOPH conducted no contact tracing or other specific analysis to measure the relationship between schools and

“Destroying infrastructure helps no one. It creates untold suffering. The Government of Afghanistan knows we all lose when the lights go out, when people cannot move from one district or province to another, or when parents cannot send their children to school because the building no longer exists.”

—Dr. Tina Dooley-Jones, USAID Mission Director in Afghanistan

TABLE 2.24

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/8/2021
Advancing Higher Education for Afghanistan Development (AHEAD)	8/5/2020	8/4/2025	\$49,999,917	\$2,606,464
Strengthening Education in Afghanistan (SEA II)	5/19/2014	3/31/2022	49,828,942	43,337,905
Textbook Printing and Distribution II	9/15/2017	12/31/2021	35,000,000	4,333,950
Capacity Building Activity at the Ministry of Education	2/1/2017	1/31/2022	23,042,634	20,783,640
Technical Capacity Building for AUAF	2/1/2021	1/31/2022	18,947,149	4,177,757
Financial and Operational Capacity Building for an Afghan Higher Education Institution	4/8/2021	4/7/2022	7,000,000	24,936
Total			\$183,818,642	\$75,264,653

Source: USAID, response to SIGAR data call, 7/14/2021.

COVID-19 transmission.⁶⁰² As part of the vaccination campaign launched in February 2021, the Afghan government had included teachers on the list of professions prioritized to receive the vaccine in an effort to ensure that schools remained open and teachers stayed safe. As of June 1, 2021, 79,734 teachers had been vaccinated out of around 400,000.⁶⁰³

To reduce the spread of COVID-19, the Afghan government initially closed schools on March 14, 2020. Schools had a phased reopening from August to October 2020, but as Afghanistan faced a second wave of COVID-19, the Afghan government announced in late November 2020 that schools would once again close with final exams postponed until the following year.⁶⁰⁴

Afghan schools reopened and held their postponed exams this quarter. Beginning on February 28, 2021, grades 4–12 held their end-of-year exams and, on March 10, grade 1–3 exams were held. In some highly populated cities like Kabul, schools opened on February 28, 2021; in colder areas, the new school year began on March 23, 2021.⁶⁰⁵ Universities resumed classes on March 6, 2021. Following the reopening of schools, there were reports that many students were not observing health-care guidelines regarding wearing masks and social distancing. In late March 2021, the MOE announced it was launching an awareness program among teachers to ensure these guidelines are followed.⁶⁰⁶

Despite the MOE working to ensure students have remote access to educational material and coursework during the school closures, such efforts have been hampered by lack of electricity, electrical load shedding, and limited internet access. Only 14% of Afghans use the internet, according to World Bank data.⁶⁰⁷

In September 2020, the nongovernmental organization Save the Children found that 64% of children had no contact with teachers during the school

closures and eight in 10 children believed that they had learned little or nothing during school closures.⁶⁰⁸ Save the Children further reported that with limited access to remote-learning options, only 28.6% of enrolled students were able to access distance-learning programs through television, 13.8% through radio, and just 0.2% through the internet.⁶⁰⁹

To better understand the impact of the pandemic on the education sector, USAID's mission in Afghanistan is implementing a Loss of Learning and Associated Factors assessment to gauge the impact of COVID-19 and resulting school closures on students in Afghanistan, at a total estimated cost of \$450,000.⁶¹⁰ The assessment is being conducted by the Research Triangle Institute (RTI), which was originally scheduled to begin collecting data in Herat Province in June 2021. This has been delayed due to further COVID-related school closings. After collecting this initial data once schools reopen, RTI will present its preliminary findings. In September 2021, at the beginning of the new school year, RTI will begin collecting data in Nangarhar Province. USAID informed SIGAR that data collection is planned only for Herat and Nangarhar Provinces.⁶¹¹

The assessment will look at how severely different subgroups of children experience the impact of lost time in school and how likely those different subgroups are to return to school. The assessment will also look at the associated factors that may help or hinder students' return to school. Results will be used to formulate recommendations for the Afghan government and its developing partners to consider and adequately support student learning following the protracted disruptions caused by the global pandemic.⁶¹²

Troubled USAID Program Begins Printing Remaining Textbooks

USAID informed SIGAR this quarter that letters of credit have been issued for printing a portion of the textbooks in its Textbook Printing and Distribution II project.⁶¹³ This on-budget project with the Ministry of Education, launched in September 2017, originally planned to print and distribute 135 million textbooks to Afghan schools through three phases, at a total cost of \$75 million.⁶¹⁴ So far, a total of 12.2 million textbooks have been printed and distributed to provincial and district education departments.⁶¹⁵

However, after printing 12.2 million Dari and Pashto textbooks for primary education as part of the first phase of the project, the original contractor, Baheer Printing and Packaging in Kabul, had its contract cancelled for falsifying certification documents during the bidding process. In January 2020, the MOE and National Procurement Authority awarded new contracts to three international firms for the remaining 37 million textbooks of the first phase.⁶¹⁶ They also made the decision to limit the project to its first phase only, which, at 49.2 million textbooks total, was less than half the number originally planned, and subsequently extended the contract until December 31, 2021.⁶¹⁷ USAID informed SIGAR that it expects all remaining

Escalating Violence Targets Female Students in Kabul

In the afternoon of May 8, 2021, a series of explosions outside of Sayed ul-Shuhada High School in western Kabul killed at least 90 people and injured more than 100, many of them female students leaving class. The school hosts classes for girls in the afternoon; boys' classes are held in the morning. The attack occurred in the same neighborhood, a predominantly Hazara area, as an October 2020 suicide bombing of an education center that killed 24 people, most of them students.

The Afghan government blamed the Taliban for the attack, though the Taliban denied involvement. No group claimed responsibility. Afghan National Security Advisor Hamdullah Mohib stated, "Right now, the Taliban are not fighting us in conventional warfare. They attack us where we're weakest. Our front line are our mosques, they're our streets, they're our schools, they're our universities. Any place the Taliban can attack is a front line for us now." On May 16, parents of the victims in the attack demonstrated in Kabul, demanding that the Afghan government provide greater security for schools.

Source: Associated Press, "Victims' Families Ask Afghan Govt for School Security," 5/16/2021; CBS News, "As U.S. leaves Afghanistan, emboldened extremists lash out at the softest targets," 5/17/2021; New York Times, "Bombing Outside Afghan School Kills At Least 90, With Girls as Targets," 5/8/2021.



An Afghan classroom uses USAID-supported textbooks and teaching materials. (USAID photo)

textbooks to be printed and distributed to provincial education directorates by November 30, 2021, subject to the books meeting the technical specifications of the contract with the printers.⁶¹⁸

Teachers, students, and members of parliament have complained of the lack of textbooks in Afghan schools, a challenge which students say has hindered their ability to study. Combined with insufficient educational materials, schools also face a teacher shortage. An MOE spokesperson stated that the country's schools require at least 50,000 more teachers; there are currently around 400,000 teachers for approximately 9.7 million students.⁶¹⁹ In May 2021, the MOE announced that the government is recruiting additional temporary, contract-based teachers to address the teacher shortage.⁶²⁰

HEALTH

Since late February 2020, Afghanistan's already weak and still fledgling health system has been overwhelmed by the COVID-19 pandemic, like those of many other countries. Even before the pandemic, Afghanistan's health-care system was hampered by a lack of resources and struggled to contain outbreaks of treatable diseases due to poor access to health-care services stemming from continued insecurity, repeated population displacement, and insufficient resources. Afghanistan and Pakistan are the only two countries in the world in which polio remains endemic. In 2019, Abdullah Abdullah, then serving as Afghanistan's chief executive, said "With what we spend on a single day of war, we could build a state-of-the-art hospital." Afghans who can afford it often seek medical treatment abroad, particularly in Pakistan, India, and Turkey; Afghans spend around \$300 million a year for medical care outside the country.⁶²¹

Health-care services also continue to be affected by the escalating violence.⁶²² On May 5, a bombing targeted a minibus of health-care workers in Kabul, killing one and wounding three, and on June 15, five polio vaccinators were shot and killed in Nangarhar Province. These attacks this quarter followed a March attack against three polio vaccinators in Jalalabad.⁶²³ On June 23, militants targeted a hospital in Kunar Province, firing rockets into it; while there were no casualties in the attack, the resulting fire destroyed key medical supplies including COVID-19 and polio vaccines.⁶²⁴

During 2020, the United Nations Assistance Mission in Afghanistan (UNAMA) verified 90 attacks (71 attributed to the Taliban) which impacted health-care service delivery, both direct attacks against health-care facilities and providers and indiscriminate attacks causing incidental damage to health-care facilities and their personnel. This figure was a 20% increase from the previous year. Additionally, the Taliban continue to threaten health-care facilities and abduct health-care workers to force them to provide medical care to its fighters, provide medicines, pay special taxes, or to close down and relocate to other areas. Due to the security-related closure

of health facilities, UNAMA estimates that up to three million Afghans were deprived of essential health-care services.⁶²⁵

U.S. on- and off-budget assistance to Afghanistan’s health sector totaled more than \$1.4 billion as of July 8, 2021.⁶²⁶ USAID’s active health programs have a total estimated cost of \$305.2 million, and are listed in Table 2.25.

TABLE 2.25

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost	Cumulative Disbursements, as of 7/8/2021
Assistance for Families and Indigent Afghans to Thrive (AFIAT)	7/10/2020	7/9/2025	\$117,000,000	\$8,155,501
Urban Health Initiative (UHI)	10/14/2020	10/13/2025	104,000,000	5,547,051
Disease Early Warning System Plus (DEWS Plus)	7/1/2014	6/30/2022	54,288,615	34,588,615
Sustaining Health Outcomes through the Private Sector (SHOPS) Plus	10/11/2015	9/30/2021	13,025,000	12,014,261
Afghanistan Demographic and Health Survey (ADHS) Follow-On	10/9/2018	9/9/2023	10,500,000	5,548,814
Central Contraceptive Procurement (CCP)	4/20/2015	11/28/2023	3,599,998	1,599,999
Sustaining Technical and Analytic Resources (STAR)	5/1/2018	9/30/2023	2,186,357	1,100,362
TB Data, Impact Assessment and Communications Hub (TB DIAH)	9/24/2018	9/24/2023	600,000	596,946
Total			\$305,199,970	\$69,151,549

Source: USAID, response to SIGAR data call, 7/14/2021.

Afghanistan Struggles with Third Wave of the COVID-19 Pandemic

Beginning in early May 2021, COVID-19 cases in Afghanistan began to rapidly increase, triggering grave concerns that the COVID-19 Delta variant first identified in India is spreading among the population: many critically ill patients in Kabul had recently returned from India or had relatives who had recently returned.⁶²⁷ By mid-June, the infection rates had skyrocketed by approximately 2,400%, according to the International Federation of Red Cross and Red Crescent Societies.⁶²⁸ Afghan public-health officials estimated that the Delta variant is responsible for approximately 60% of new infections.⁶²⁹ As of July 1, 2021, the number of confirmed cases had reached 120,216, with 4,962 deaths. Yet, a test-positivity rate of 42% suggests the actual spread, case numbers, and deaths are far higher.⁶³⁰

Afghanistan has increased its testing capacity. By the end of March 2021, the number of public-health labs had been expanded to 23 in 19 provinces.⁶³¹ Yet testing capacity remains limited, making it difficult to determine with any accuracy the spread of COVID-19.

The capacity and management problems that have hampered the public-health sector’s ability to treat COVID-19 patients and limit the spread of the disease persist as the country experiences this deadly third wave of the

pandemic. As COVID-19 cases spiked in Kabul in early June, the two primary hospitals in the city treating patients—Afghan Japan Communicable Disease Hospital and the Muhammad Ali Jinnah Hospital—were forced to close their doors to new patients because they had run out of beds. The Ali Jinnah Hospital, for instance, only has 50 beds allocated for COVID-19 patients.⁶³²

Doctors also have warned of acute shortages of oxygen and other medical supplies for COVID-19 patients in Afghanistan's hospitals.⁶³³ Acting Minister of Public Health Wahid Majroh stated, "The third wave is as high as it is out of control. The oxygen processing equipment is not enough for today's needs."⁶³⁴ The population's access to basic health equipment has also become strained as prices have drastically increased with large quantities of available supplies reportedly diverted to the black market; by June 2021, the price of a box of face masks increased from \$1 a year ago to \$15.⁶³⁵

On June 17, the U.S. Embassy in Kabul went into an immediate lockdown amid surging cases on the embassy compound, with ICU resources at full capacity. Some 95% of the cases at the embassy are among unvaccinated or partially vaccinated individuals. The U.S. Embassy also issued a health alert urging Americans to leave Afghanistan "as soon as possible" due to the surge in COVID-19 cases and the inability of the health sector to handle the increased caseload.⁶³⁶

The U.S. government sent 100 ventilators to Afghanistan in October 2020 to treat COVID-19 patients. However, the supply of associated consumables, such as ventilation tubes and plastic attachments, included in this shipment was expected to last only until June 2021, and Afghanistan cannot procure replacement parts.⁶³⁷ USAID informed SIGAR this quarter that the requisition and purchase orders for the replacement consumables were finalized and that shipments arrived in Kabul in late June 2021.⁶³⁸ The USAID mission in Afghanistan and the Bureau of Global Health also are coordinating on installing four oxygen pressure swing adsorption (PSA) plants in hospitals in Kabul, Kandahar, Mazar-e Sharif, and Jalalabad. USAID informed SIGAR this quarter that the installation and operationalization of these PSA plants have been delayed to the second quarter of FY 2022.⁶³⁹

In total, the U.S. government has provided over \$40 million in additional direct support for Afghanistan's COVID-19 response, and has expedited \$90 million, out of which \$10 million was COVID reprogrammed funds in development assistance through the World Bank, and reoriented other reconstruction programs to deal with the effects of the pandemic. The additional funding has come from the Economic Support Fund, International Counter Narcotics and Law Enforcement, and Migration Refugee Assistance accounts.⁶⁴⁰

U.S.-Funded COVID-19 Vaccines Arrive in Kabul

On June 25, 2021, the White House announced plans to donate 3.3 million doses of the Johnson & Johnson vaccine to Afghanistan through COVAX, an international program to assist with equitable access to COVID-19 vaccines, therapeutics, and tests for developing countries. The Johnson & Johnson vaccine requires only a single shot and can be stored at normal refrigeration temperatures (35.6 to 46.4 degrees Fahrenheit). On July 9, the first 1.4 million doses arrived in Kabul.⁶⁴¹

Afghanistan's vaccination campaign kicked off at a February 23 ceremony at the presidential palace, two weeks after receiving 500,000 doses (enough for 250,000 people) of the AstraZeneca COVID-19 vaccine from the Indian government. This vaccine can be stored and transported at normal refrigeration temperatures.⁶⁴² On March 8, Afghanistan received a second shipment of 468,000 doses (enough for 234,000 people) of the AstraZeneca vaccine through COVAX; this shipment also included 470,000 syringes and 4,700 safety boxes to safely dispose of used needles.⁶⁴³ On April 20, 2021, the Asian Development Bank approved a \$50 million grant to assist the Afghan government in purchasing and transporting up to 2.6 million doses of COVID-19 vaccines, in addition to supporting the capacity of the Ministry of Public Health to implement the government's vaccination program.⁶⁴⁴

After Afghanistan used up its initial supply of vaccines in late May, China sent 700,000 doses (enough for 350,000 people) of its Sinopharm COVID-19 vaccine on June 10. The Ministry of Public Health announced that it would prioritize individuals with chronic diseases or who are over the age of 50 with comorbidities to receive the vaccine.⁶⁴⁵ Like the AstraZeneca vaccine, the Sinopharm vaccine can be stored and transported at normal refrigeration temperatures, as opposed to the deep cold storage required for some other vaccines.⁶⁴⁶ The efficacy of China's vaccines, however, especially against the Delta variant, is uncertain.⁶⁴⁷ In addition to the Chinese-provided vaccines, the Afghan government expects the World Health Organization (WHO) to deliver a further three million vaccines doses by August 2021, after supply problems led to a delay from the original promised delivery date in May.⁶⁴⁸ Foreign Minister Mohammad Haneef Atmar has also announced that Afghan health officials are in discussions with the Russian government to distribute the Russian-produced Sputnik V vaccine, despite its current lack of WHO approval.⁶⁴⁹

As of July 3, 2021, the Afghan government had administered the vaccine to 909,829 individuals, with 188,847 people fully vaccinated with both doses.⁶⁵⁰ By early June 2021, up to 500,000 first and second doses were allocated to military personnel, limiting the supply available to civilians.⁶⁵¹ In some parts of the country, there have been reports of vaccine hesitancy among the population, with vaccinators struggling to administer doses before the vaccine supplies expire.⁶⁵²



U.S.-funded COVID-19 vaccines arrive in Kabul, July 9, 2021. (U.S. Embassy Kabul photo)

