

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-55 Audit Report

Afghanistan's Mineral, Oil, and Gas
Industries: Unless U.S. Agencies Act Soon to
Sustain Investments Made, \$488 Million in
Funding is at Risk



APRIL
2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT SIGAR REVIEWED

The U.S. government estimates Afghanistan contains sizeable reserves of minerals, oil, and natural gas. Afghanistan's mineral deposits are valued at about \$900 billion. Development of these mineral resources could eventually generate more than \$2 billion in annual royalty and tax revenues for the Afghan national budget. Additionally, Afghanistan's reserves of oil and natural gas could be worth more than \$220 billion.

Given the size and importance of Afghanistan's mineral and hydrocarbon (oil and natural gas) reserves, the U.S. government has implemented a number of initiatives designed to develop the extractive industries in Afghanistan.

The objectives of this audit were to (1) describe the Department of Defense Task Force for Business and Stability Operations (TFBSO) initiatives and U.S. Agency for International Development (USAID) programs that were intended to support the development of Afghanistan's extractive industries, (2) identify the approaches and strategies guiding U.S. government support for Afghanistan's extractive industries since 2009, and (3) determine the extent to which these TFBSO and USAID initiatives incorporated sustainability planning and identified challenges, if any, to the successful sustainment of these industries.

April 2015

Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk

SIGAR 15-55 AUDIT REPORT

WHAT SIGAR FOUND

Since 2009, the Department of Defense (DOD) Task Force for Business and Stability Operations (TFBSO) and the U.S. Agency for International Development (USAID) have been the two U.S. government entities that provided assistance in direct support of Afghanistan's extractive industries. TFBSO documents state that it administered 11 initiatives aimed at developing Afghanistan's extractive industries by pursuing three broad objectives: (1) restoring productive capacity in the Afghan economy wherever possible, across all industrial sectors, (2) stimulating economic growth, and (3) serving as a catalyst for private investment in Afghanistan by linking the international business community with Afghan business leaders and government officials. In addition to minerals and hydrocarbons development, TFBSO activities included projects to facilitate private investment, industrial development, and other projects that the Secretary of Defense, with the concurrence of the Secretary of State, determined would strengthen stability or provide strategic support to the counterinsurgency campaign in Afghanistan. TFBSO implemented these efforts through contracts, purchase orders, and interagency agreements totaling \$282 million before ceasing all operations on March 31, 2015.

Separately, USAID funded three programs also aimed at developing Afghanistan's extractives industries. USAID implemented these three programs through contracts with combined obligations for these activities of \$206 million. In 2013, USAID implemented the Mining Investment and Development for Afghan Sustainability (MIDAS) program, which is designed to reform mining policy regulation, strengthen institutional and technical capacity at the Ministry of Mines and Petroleum (MoMP), assist in exploration and development of new mining tender packages—invitations to private industry to bid on the right to develop publicly owned resources such as minerals and hydrocarbons—and support the growth of local Afghan businesses involved in or delivering services to the mining industry. In 2011, USAID established two broad initiatives intended to develop Afghanistan's hydrocarbons industry:

1. The Sheberghan Gas Generation Activity (SGGA) is designed to deliver hydrocarbons-specific technical and financial assistance to MoMP. USAID directly funds and manages the program.
2. The Sheberghan Gas Development Program (SGDP) is designed to rehabilitate existing natural gas wells, develop new natural gas wells, construct a 200-megawatt power plant, and refurbish the Northern Fertilizer and Power Plant. Funding is channeled

through the Afghan government's core budget. For this audit, SIGAR did not examine the SGDP program, which is being reviewed by the USAID Office of Inspector General.

Lack of overall U.S. strategy: SIGAR found that the U.S. government did not have a unified strategy for the development of Afghanistan's extractive industries. Instead, TFBSO and USAID pursued divergent approaches to guide their initiatives. TFBSO did not have multi-year plans or strategies for its initiatives to develop Afghanistan's extractive industries nor did it establish written guidance for project selection criteria, metrics and project documentation, or project monitoring and evaluation. As a result, TFBSO projects did not follow a clear and cohesive development strategy. In contrast, according to USAID's contract for MIDAS, activities undertaken by MIDAS link closely with the *Afghanistan and Pakistan Regional Stabilization Strategy* and the *USAID 2011-2015 Policy Framework*. ECC Water and Power LLC (ECC), the MIDAS contractor, developed a rapid appraisal assessment, a local small- and medium-enterprise assessment, a comprehensive report for mineral targets for exploration and tendering, a capacity building plan, and a comprehensive policy document. SIGAR found that, together, these contract deliverables identify areas of Afghanistan's minerals sector that need assistance, articulate a strategy for development in the Afghan minerals sector, and, unlike TFBSO's plans, lay out a clear set of criteria for selecting potential areas for investment by USAID. Nevertheless, SIGAR found that the MIDAS team has not adequately communicated its development strategy and goals to all the relevant stakeholders at MoMP. The SGGA program is similarly guided by documented strategies for the development of Afghanistan's hydrocarbons sector.

Lack of U.S. interagency coordination: In addition to the lack of an overall strategy, the U.S. Embassy in Kabul did little to coordinate interagency activities aimed at developing Afghanistan's extractive industries. Embassy officials stated that coordinating with TFBSO was a challenge because the embassy officials lacked policymaking authority and effectively had little influence over TFBSO. One senior TFBSO official stated that the Task Force viewed coordination with embassy officials as a "courtesy" rather than a requirement, and that they answered to the DOD chain of command, not the Ambassador. Officials from USAID, the Department of State (State), and TFBSO all stated that they had met with each other in the past to discuss current and planned activities. However, they all agreed that these meetings were perfunctory and that coordination efforts had all but fallen apart by the time TFBSO activities in Afghanistan concluded in December 2014. Our review revealed that weaknesses in TFBSO's information-sharing efforts identified by the Government Accountability Office in 2011 remained largely unchanged. According to representatives from USAID, TFBSO's perception that it did not have to coordinate with other U.S. agencies resulted in TFBSO electing not to share information with USAID in multiple instances. As a result, one senior official from the U.S. Embassy in Kabul stated that the embassy did not become aware of a \$39.6 million TFBSO project until Afghan government officials thanked the Ambassador for U.S. support.

Lack of MoMP capacity: SIGAR found that although MoMP officials have developed some technical, legal, and commercial knowledge under TFBSO and USAID assistance, representatives from the U.S. government, Afghan government, and Integrity Watch Afghanistan all agree that MoMP still lacks the technical capacity to research, award, and manage new contracts without external support. According to TFBSO, USAID, and MoMP officials, the MoMP does not have the technical capacity to handle medium- or large-scale tenders without support from outside advisors. According to a report by MIDAS officials, although MoMP's proposed tender processes and procedures compare favorably with the World Bank's summary of best tender practices, MoMP has only conducted "start-to-finish" tenders for small-scale and artisanal, or purely manual, projects at the provincial level. However, senior officials from the U.S. Embassy in Kabul and representatives from Integrity Watch Afghanistan were less confident about MoMP's independently managed tenders, saying that the tendering process has been severely flawed and rife with corruption. Similarly, international non-governmental organizations have alleged that small mining contracts have been awarded to warlords and parliamentarians in contravention of Afghan law. Further, the larger mineral tenders conducted to date have, for the most part, been organized and managed by advisors provided by TFBSO, the World Bank, and other international donors. SRK Consulting, which was part of TFBSO's mineral tender advisory team, stated in its fiscal year 2012-2013 closeout report that continued assistance from technical and legal advisors would ensure effective on-the-job training, and that without continued assistance, there is a chance that current contract and tender processes would not meet industry best practices or could end in a failed round of tenders.

In addition, representatives from TFBSO, USAID, and State told SIGAR that MoMP personnel have gained knowledge

and experience since they awarded the copper mining contract for Mes Aynak—located in Logar Province, 25 miles southeast of Kabul—to the China Metallurgical Group Corporation in 2007, but the agency is not capable of independently operating as a regulatory authority. Representatives from civil-society organizations, such as Integrity Watch Afghanistan and Global Witness, also have expressed concern that MoMP and other Afghan government entities, such as the Ministry of Energy and Water and the National Environmental Protection Agency, do not have the authority or capacity to fulfill their regulatory roles in the extractive industries and may wither in the absence of donor engagement. In addition, representatives from TFBSO, USAID, and State also said MoMP personnel have capacity needs that must be addressed before they can independently operate as a regulatory authority. Finally, due to staff turnover and possible funding issues, it is uncertain how much, if any, of TFBSO or USAID's capacity building efforts at MoMP will be sustained over the long term. Without continued efforts and a plan to sustain advances in the development of Afghanistan's extractive industries, these industries may not reach their full economic potential.

Lack of U.S. sustainability planning: Subsection 1535(b) of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011, Pub. L. No. 111-383, 124 Stat. 4137, 4427, required DOD, State, and USAID to jointly develop and submit to Congress a plan for transition of TFBSO activities in Afghanistan to State or USAID. Although the transition plan submitted to Congress in May 2012 outlined objectives necessary for successful transfer of activities from TFBSO to USAID, the agencies never identified specific transition procedures for particular projects. The agencies' failure to identify transition procedures was in large part due to the facts that TFBSO's projects were all scheduled to be completed or transferred to the Afghan government, or other donors, prior to its withdrawal from Afghanistan in December 2014 and that USAID and State were not interested in sustaining those projects. As a result, no U.S. agency that will remain in Afghanistan has any plans to provide continued monitoring, evaluation, or support for TFBSO extractive initiatives.

USAID's MIDAS, SGDP, and SGGA initiatives focusing on the development of minerals and hydrocarbon resources have not created plans to ensure the sustainability of these programs by the Afghan government. This is contrary to the *USAID 2011-2015 Policy Framework*, which states that building in sustainability from the start of a program is an operational principle and calls for building skills, knowledge, institutions, and promoting incentives that can make development processes self-sustaining. Instead, USAID officials told SIGAR that MIDAS staff will begin sustainment planning for MIDAS in April 2016, more than 3 years after the contract was awarded, rather than from the beginning as the USAID guidance states. Similarly, USAID's SGGA contract documents do not identify plans for the end of its programmatic life. According to USAID officials, the agency is reviewing a contract modification to enable the extension of the SGGA program past its current end date of March 31, 2015. Nevertheless, as before, the continued lack of sustainment planning for the SGGA program runs counter to *USAID 2011-2015 Policy Framework* guidance.

WHAT SIGAR RECOMMENDS

SIGAR is making one recommendation to DOD and two recommendations to USAID. SIGAR recommends that the Secretary of Defense consider assessing and documenting the economic impact and final status of each TFBSO initiative intended to develop Afghanistan's extractive industries and provide these assessments to State, USAID, and the appropriate congressional committees. Additionally, SIGAR recommends that the USAID Administrator (1) conduct a review and document the incomplete TFBSO initiatives that have been transferred to the MoMP and, to the extent feasible, assist in the conclusion of those initiatives that fit within the USAID development strategy and the agency's ongoing programs; and (2) require ECC, the MIDAS implementing partner, to update the MIDAS performance management plan by August 1, 2015, to include plans for the sustainment and transfer of its activities. DOD declined to provide comments prior to the issuance of this report. However, in accordance with our normal procedures, SIGAR will follow up with DOD in 60 days to assess whether DOD has addressed SIGAR's recommendation. Based on USAID's comments on a draft of this report, SIGAR modified the first recommendation to USAID. USAID concurred with the other recommendation.



SIGAR

**Office of the Special Inspector General
for Afghanistan Reconstruction**

April 24, 2015

The Honorable John F. Kerry
Secretary of State

The Honorable Ashton B. Carter
Secretary of Defense

The Honorable P. Michael McKinley
U.S. Ambassador to Afghanistan

The Honorable Alfonso E. Lenhardt
Acting Administrator, U.S. Agency for International Development

Mr. William Hammink
USAID Mission Director for Afghanistan

This report discusses the results of SIGAR's audit of U.S. efforts to develop Afghanistan's extractive industries, revenues from which could provide billions of dollars for the Afghan government and reduce reliance on foreign aid. This report focuses on the efforts of the Department of Defense (DOD) Task Force for Business and Stability Operations (TFBSO) and the U.S. Agency for International Development (USAID). This is the first of two planned SIGAR reports on U.S. efforts to develop Afghanistan's extractive industries and focuses on the planning, coordination, and sustainability of U.S. programs. The second report will focus on the effectiveness and efficiency of U.S. efforts.

We are making one recommendation to DOD and two recommendations to USAID. We recommend that the Secretary of Defense consider assessing and documenting the economic impact and final status of each TFBSO initiative intended to develop Afghanistan's extractive industries and provide these assessments to State, USAID, and the appropriate congressional committees. Additionally, we recommend that the USAID Administrator (1) conduct a review and document the incomplete TFBSO initiatives that have been transferred to the MoMP and, to the extent feasible, assist in the conclusion of those initiatives that fit within the USAID development strategy and the agency's ongoing programs and (2) require ECC, the MIDAS implementing partner, to update the MIDAS performance management plan by August 1, 2015, to include plans for the sustainment and transfer of its activities.

Because TFBSO ceased operations on March 31, 2015, the Task Force did not provide written comments. DOD declined to provide comments prior to the issuance of this report. However, in accordance with our normal procedures, SIGAR will follow up with DOD in 60 days to assess whether DOD has addressed SIGAR's recommendation. Based on USAID's comments on a draft of this report, SIGAR modified the first recommendation to USAID. USAID concurred with the other recommendation. USAID's comments are reproduced in appendix VII.

SIGAR conducted this work under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended; and in accordance with generally accepted government auditing standards.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS

AEAI	Advanced Engineering Associates International, Inc.
AGS	Afghanistan Geological Survey
DOD	Department of Defense
ECC	ECC Water and Power LLC
GAO	Government Accountability Office
MIDAS	Mining Investment and Development for Afghan Sustainability
MoMP	Ministry of Mines and Petroleum
NDAA	National Defense Authorization Act
NSPD 44	National Security Presidential Directive 44
SGDP	Sheberghan Gas Development Program
SGGA	Sheberghan Gas Generation Activity
State	Department of State
TFBSO	Task Force for Business and Stability Operations
USAID	U.S. Agency for International Development
USGS	U.S. Geological Survey

Afghanistan is one of the least developed nations in the world, and continues to rely heavily on international assistance to fund basic operational expenses.¹ Enhancing Afghanistan's domestic revenue streams is critical to the country's long-term fiscal sustainability. Exploiting and monetizing Afghanistan's extensive, undeveloped natural resources may provide one such revenue stream. The U.S. government estimates that Afghanistan contains sizeable reserves of minerals, oil, and natural gas, collectively referred to as "extractives." According to estimates made by the Department of Defense (DOD) Task Force for Business and Stability Operations (TFBSO) in 2010, the value of Afghanistan's mineral deposits is about \$900 billion.² TFBSO reported that accelerating development of these mineral resources could eventually generate more than \$2 billion in annual royalty and tax revenues for the Afghan national budget. TFBSO also estimated that the reserves of oil and natural gas could be worth more than \$220 billion.³

While TFBSO estimates show that Afghanistan is rich in potential extractives, those resources remain largely beneath the ground and need to be further explored. According to TFBSO officials and Afghan civil society organizations, international investors have been reluctant to invest in medium- and large-scale extractive operations due to a number of factors that hinder economic viability, including Afghanistan's landlocked geography; inefficient governance and corruption; lack of adequate data about extractive deposits; lack of critical and modern infrastructure, such as railways and highways; and vulnerability to earthquakes. As Afghanistan enters its "Transformation Decade,"⁴ during which it will need to rely on decreasing amounts of funding from international donors, the United States and the international donor community are hoping the development of Afghanistan's natural resources will help underpin future economic growth. To help facilitate this growth, TFBSO and the U.S. Agency for International Development (USAID) have implemented initiatives designed to develop Afghanistan's oil, natural gas, and minerals industries.

The objectives of this audit were to (1) describe the TFBSO initiatives and USAID programs that were intended to support the development of Afghanistan's extractive industries, (2) identify the approaches and strategies guiding U.S. government support for Afghanistan's extractive industries since 2009, and (3) determine the extent to which these TFBSO and USAID initiatives incorporated sustainability planning and identified challenges, if any, to the successful sustainment of these industries.^{5, 6}

To accomplish these objectives, we reviewed Afghan development strategy documents; international best practices and standards; TFBSO contract documents, internal program management reports, concurrence plans, and reports to Congress; external analyses of TFBSO activities; and USAID contract documents, performance management plans, work plans, and planning documents. We interviewed officials from the U.S. Embassy in Kabul, USAID, TFBSO, the Ministry of Mines and Petroleum (MoMP), Afghanistan Geological Survey (AGS), Afghanistan Petroleum Authority, the Ministry of Energy and Water, the Afghanistan Extractive Industries Transparency Initiative implementation office, and representatives from implementing partners, international non-governmental organizations, and civil society. We conducted our work in Kabul, Afghanistan, and

¹ World Bank, Afghanistan Economic Update, April 2014.

² Established in 2006, TFBSO was a temporary division of DOD tasked with stabilizing the post-invasion economies of Iraq and Afghanistan, reducing unemployment, and attracting foreign investors. TFBSO's mandate in Afghanistan expired on December 31, 2014.

³ Some of the hydrocarbon and mineral resources may not be economically recoverable because the cost to extract the resources and get them to market may exceed their market value.

⁴ The "Transformation Decade," a term coined at the International Afghanistan Conference in Bonn on December 5, 2011, broadly refers to the multinational development strategy for Afghanistan during the period from 2015 to 2024 following the transition of security responsibility from coalition forces to the Afghan government at the end of 2014.

⁵ This is the first of two planned SIGAR reports on U.S. efforts to develop Afghanistan's extractive industries. The second report will focus on the effectiveness and efficiency of U.S. efforts.

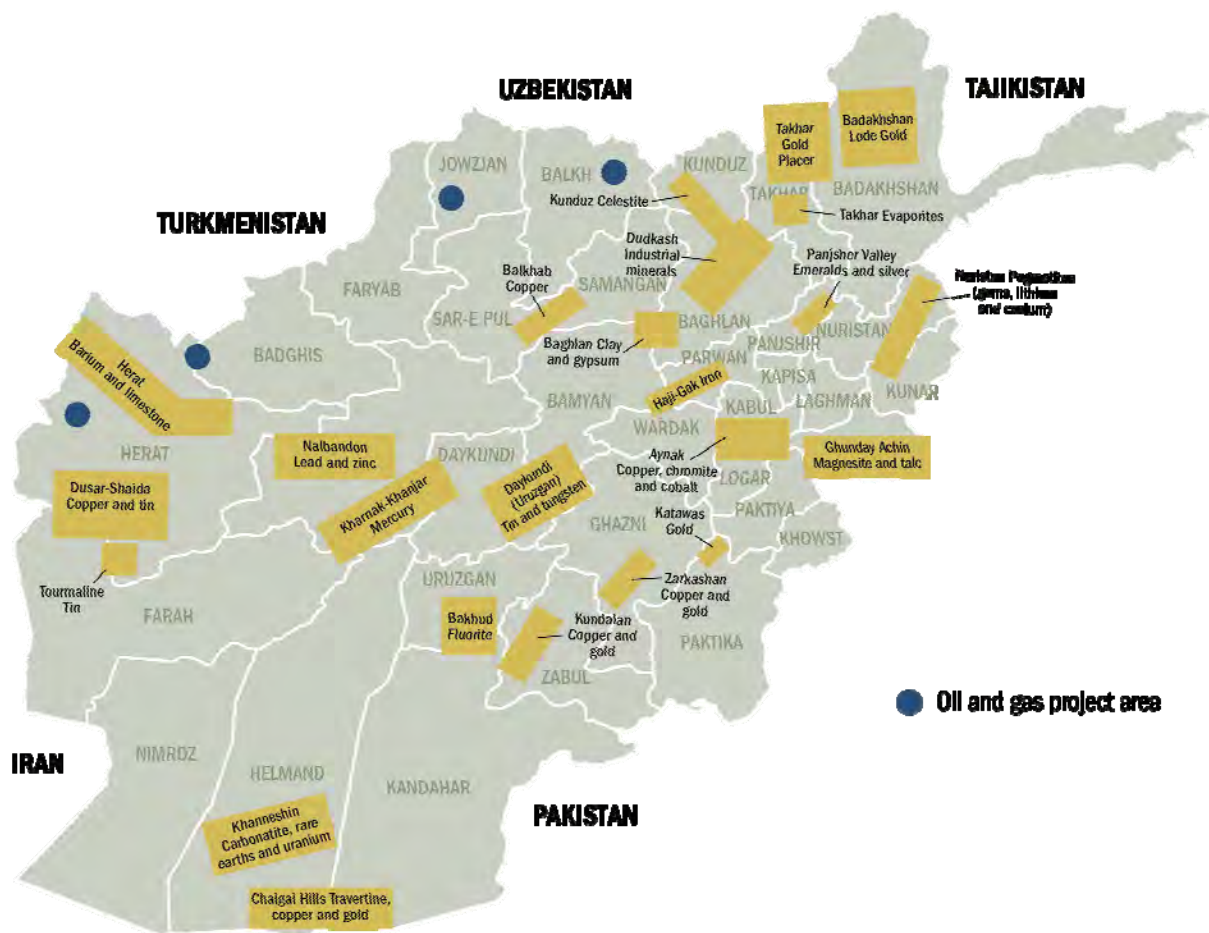
⁶ Based upon evidence gathered during the audit, in December 2014, we released an inquiry letter expressing concern about the safety of a natural gas pipeline between Sheberghan and Mazar-e-Sharif that TFBSO helped rehabilitate, and requested further information from TFBSO about the assistance it provided to ensure the pipeline is safe for continued use (see SIGAR 15-15-AL, TFBSO Rehabilitation of the Sheberghan-Mazar Pipeline, December 11, 2014).

Washington, D.C. from February 2014 through April 2015, in accordance with generally accepted government auditing standards. Appendix I includes a more detailed discussion of the scope and methodology.

BACKGROUND

According to TFBSO's estimate, Afghanistan possesses more than \$1 trillion worth of natural resources, including extensive mineral deposits and reserves of oil and natural gas. Developing Afghanistan's natural resources could generate revenues for the Afghan government and help stimulate long-term economic growth, and decrease the Afghan government's dependence on international donations. As a result, a number of U.S. government and international donor organizations have provided support for the regulatory and commercial development of Afghanistan's extractive industries. Figure 1 shows the locations of Afghanistan's potential extractive resources by province.

Figure 1 - Afghanistan's Areas of Interest for Extractive Resources



Source: SIGAR map based on U.S. Geological Survey data. See <http://afghanistan.cr.usgs.gov/information-packages/>, accessed on November 24, 2014

Extractive Resources

Afghanistan's mountainous environment is home to a variety of geological formations with an abundance of minerals, precious metals, gemstones, and hydrocarbons. Despite Afghanistan's vast and complex array of mineral reserves, the majority of mining operations today are artisanal or small-scale, and not under the

control of the Afghan government.⁷ Moreover, the unregulated excavation and trafficking of precious stones and other minerals has played a role in the fundraising strategies for militant groups and organized crime syndicates throughout the past four decades of conflict in Afghanistan. According to Integrity Watch Afghanistan and Global Witness—two internationally recognized civil society organizations monitoring the development of Afghanistan’s extractive industries—illegal mining in Afghanistan has resulted in the loss of \$300 million annually in potential government revenues since the fall of the Taliban.⁸

Afghanistan’s hydrocarbon industry is even less developed because technological and capital constraints tend to preclude exploitation by small firms. Exploration for oil is generally centered in the Amu Darya basin, in northern Afghanistan, while most natural gas exploration and infrastructure is centered in Jowzjan province near the city of Sheberghan. According to estimates by MoMP, the regulator of Afghanistan’s extractive industries, Afghanistan currently has the capacity to produce approximately 450,000 cubic meters of natural gas daily.⁹

Regulation of Afghanistan’s Extractive Industries

According to Afghanistan’s Minerals and Hydrocarbon Laws, MoMP is the Afghan government entity responsible for the administration, oversight, and regulation of Afghanistan’s mineral resources.¹⁰ MoMP’s responsibilities include establishing mining policy, negotiating mining contract tenders,¹¹ and regulating Afghanistan’s extractive industries. MoMP also has several sub-components with defined responsibilities. For example, the AGS provides information on the geology of Afghanistan and promotes interest in the country’s mineral resources. The Afghanistan Petroleum Authority, another MoMP sub-component organization, has exclusive responsibility for establishing hydrocarbon policy and regulating the hydrocarbon industry.¹² The Afghanistan Petroleum Authority directly oversees two utilities that together manage the state-owned natural gas operations in Afghanistan: the Afghan Gas Enterprise, which conducts production, processing, and transportation activities, and the General Directorate of Oil & Gas Survey, which conducts exploration and development operations. More information about the evolution of the laws governing Afghanistan’s extractive industries can be found in appendix II.

In addition to the MoMP and its subordinate components, the Inter-Ministerial Committee—a body comprised of high-level officials from MoMP, the Ministry of Finance, the Ministry of Commerce and Industries, the Ministry of Economy, the Ministry of Foreign Affairs, and the National Environmental Protection Agency—approves model contracts, evaluates contract bids, and selects the winning bidders for every extractives contract. The Afghanistan cabinet has final approval authority for large extractives contracts, which are defined by Afghan mining law and regulations as contracts with total capital investment estimated to be greater than \$25 million. In addition to their regulatory responsibilities, MoMP and the Afghanistan Petroleum Authority are also responsible for collecting revenues from extractives sales, taxes, and royalties.

⁷ Artisanal or small-scale mining is conducted by individuals, groups, families, or cooperatives with minimal or no mechanization, often in the informal sector of the market. In some countries a distinction is made between artisanal mining that is purely manual and on a very small scale, and small-scale mining that has some mechanization and is on a larger scale.

⁸ Integrity Watch Afghanistan and Global Witness are civil society organizations working to reduce corruption and increase transparency and accountability in Afghanistan.

⁹ At these rates, if Afghanistan theoretically ran its existing natural gas wells at full capacity, it could produce 5.8 billion cubic feet of natural gas per year. This is a relatively modest amount and would make Afghanistan’s production levels roughly equivalent to Cameroon’s, which was the world’s 77th (out of 94) largest natural gas producer in 2012, according to the U.S. Energy Information Administration. In comparison, the world’s two largest natural gas producers in 2012, the United States and Russia, produced 24,058 and 21,685 billion cubic feet of natural gas, respectively.

¹⁰ MoMP was formerly known as the Ministry of Mines, and before that as the Ministry of Mines and Industry.

¹¹ Tendering is the process whereby the Afghan government invites private industry to bid on contracts to develop Afghanistan’s mineral, oil, and natural gas resources.

¹² The Afghanistan Petroleum Authority was formerly known as the Amu Darya Petroleum Authority.

U.S. Efforts to Develop Afghanistan's Extractive Industries

Since 2009, TFBSO and USAID have been the two U.S. government entities that provided assistance to directly support Afghanistan's extractive industries. TFBSO documents state that it administered initiatives to assist the Commander of U.S. Forces–Afghanistan and the U.S. Ambassador to Afghanistan in support of U.S. security interests by pursuing three broad objectives: (1) restoring productive capacity in the Afghan economy wherever possible, across all industrial sectors, (2) stimulating economic growth, and (3) serving as a catalyst for private investment in Afghanistan by linking the international business community with Afghan business leaders and government officials. In addition to minerals and hydrocarbons development, TFBSO activities included initiatives to facilitate private investment, industrial development, and other initiatives that the Secretary of Defense, with the concurrence of the Secretary of State, determined would strengthen stability or provide strategic support to the counterinsurgency campaign in Afghanistan.

Starting in 2010, TFBSO implemented a variety of initiatives aimed at developing mineral resources, enhancing access to energy resources, strengthening institutional and technical capacity at MoMP and AGS, and assisting indigenous industrial development and growth. TFBSO funded these efforts through contracts, purchase orders, and interagency agreements totaling \$282 million before ceasing all operations on March 31, 2015. Specific TFBSO activities included efforts to develop tenders to lease Afghanistan's extractives resources, attract investor interest in Afghanistan, develop contract management and technical capacity at MoMP and AGS, and provide information on Afghanistan's mineral and hydrocarbon reserves.

USAID implemented two cost-plus-fixed-fee competitive contracts to develop Afghanistan's hydrocarbon resources in northern Afghanistan and mineral resources throughout the country. For the hydrocarbons industry, USAID established two broad initiatives in 2011:

1. The Sheberghan Gas Development Program (SGDP) is an on-budget assistance¹³ program designed to rehabilitate existing natural gas wells, develop new natural gas wells where feasible, facilitate the construction of a 200-megawatt power plant, and refurbish the Northern Fertilizer and Power Plant.¹⁴
2. The Sheberghan Gas Generation Activity (SGGA) is an off-budget assistance program designed to deliver hydrocarbons-specific technical and financial assistance to MoMP.¹⁵

In 2013, USAID implemented the Mining Investment and Development for Afghan Sustainability (MIDAS) program, which includes on-budget and off-budget components designed to reform mining policy regulation, strengthen institutional and technical capacity at MoMP, assist in exploration and development of new mining tender packages, and support the growth of local Afghan businesses involved in or delivering services to the mining industry. Details about concurrent efforts by other international donors within Afghanistan's extractive industries can be found in appendix III. Appendix IV provides the timeline of significant events for Afghanistan's extractive industries.

Statutory and Policy Guidance for Sustainability Planning

The overall success of the U.S. reconstruction effort is based, in part, on the ability of development activities to be sustained over the long term, which includes ensuring that the proper financial resources, human resources, and technical and regulatory capacity are dedicated to carry activities forward. Guidance for sustainability planning of U.S. reconstruction efforts is outlined in several documents. Subsection 1535(b) of the Ike Skelton National Defense Authorization Act (NDAA) for Fiscal Year 2011, Pub. L. No. 111-383, 124 Stat. 4137, 4427, required DOD, USAID, and the Department of State (State) to jointly develop a plan to

¹³ On-budget assistance is funding that is provided directly to the Afghan government's core budget.

¹⁴ In order to minimize overlap and duplication with the USAID Office of Inspector General's review of SGDP, we focused our performance audit solely on SGGA, the off-budget portion of USAID's hydrocarbon initiatives.

¹⁵ Off-budget assistance is funding for programs that U.S. agencies directly fund and manage.

transition TFBSO activities in Afghanistan to State or USAID. Separately, the *Administrator's Sustainability Guidance for USAID in Afghanistan* generally calls for conditions to be created for successful and lasting transition of USAID programs to host nations, to include identifying recurrent costs for USAID development activities and obtaining assurance that Afghan partners have the willingness, resources, and capacity to implement USAID investments and programs into the future.¹⁶ In addition, the *USAID Policy Framework 2011-2015* states that sustainability planning should be an operational principle from the start, to include building skills, knowledge, institutions, and promoting incentives that can make development processes self-sustaining.¹⁷

TFBSO AND USAID OBLIGATED \$488 MILLION TO DEVELOP AFGHANISTAN'S EXTRACTIVE INDUSTRIES

TFBSO Implemented 11 Initiatives to Develop Energy Resources and Ministerial Capacity, and Aid Village Stability Operations

TFBSO undertook 11 initiatives primarily aimed at developing the ability of MoMP and its component organizations to regulate Afghanistan's extractive industries and attract investment by reputable international mining and hydrocarbon companies. TFBSO documents state that the organization's broader goals in the extractive industries were to create new, long-term revenue streams for the Afghan government, create new Afghan-run businesses, create jobs for the Afghan people, and promote independence from expensive fuel imports. TFBSO's initiatives spanned five major areas: (1) developing mineral resources, (2) developing hydrocarbon resources, (3) enhancing access to energy resources, (4) enhancing rural village stability, and (5) strengthening institutional and technical capacity at the MoMP and AGS.¹⁸

According to TFBSO documents, since 2009, TFBSO has obligated approximately \$282 million and disbursed at least \$219 million on these initiatives (78 percent), which concluded December 31, 2014.¹⁹ Our analysis of TFBSO files found 11 broad initiatives across the five major areas that are summarized in table 1.

¹⁶ USAID, *Administrator's Sustainability Guidance for USAID in Afghanistan*, June 2011.

¹⁷ USAID, *USAID Policy Framework 2011-2015*.

¹⁸ TFBSO assisted in efforts to enhance stability in rural villages. These "Village Stability Operations" were efforts conducted by Combined Special Operations Forces teams in rural village areas across Afghanistan in support of the International Security Assistance Force's broader counterinsurgency goals. Village Stability Operations were "bottom-up" development efforts, generally undertaken in strategically important, insurgent-controlled or -contested rural areas, to undermine insurgent influence and control. They were designed to enable local security, re-establish or re-empower traditional local governance mechanisms that represent the populations, and to promote critical local development to improve the quality of life within rural areas.

¹⁹ At the conclusion of operations in Afghanistan, TFBSO had obligated \$281,949,562 and disbursed \$218,789,126 for extractive industries development projects in Afghanistan.

Table 1 - Summary of TFBSO Initiatives

MINERAL DEVELOPMENT					
Project	Prime contractor(s)	Obligated funds	Disbursed Funds	Time frame	Included activities
Tender support and promotion	GTW Consultants & Associates, LLC SRK Consulting, Inc. Canaccord Genuity, Inc. Expertech Solutions, Inc. Intrepid TV, Ltd. Pro Global Media, Ltd.	\$65,686,294.89	\$46,463,568.89	9/29/2010 - 12/31/2014	<ul style="list-style-type: none"> Support for Round 1 tenders Support for Round 2 tenders Support for current tenders Legal, technical, and commercial advising at MoMP Tender promotion at international conferences Promotional materials Mining industry seminars at the Afghan Parliament and Cabinet
Mineral exploration and drill rig training	Central Asian Mining Services, Inc. CENTAR American Technical Service, Inc. Emissary Transition Group, LLC	\$7,173,145.75	\$7,164,057.27	9/30/2012 - 11/16/2013 5/16/2014 - 9/30/2014	<ul style="list-style-type: none"> Drilling for core samples at potential mining project sites Drill rig training for AGS staff
HYDROCARBON DEVELOPMENT					
Project	Prime contractor(s)	Obligated funds	Disbursed Funds	Time frame	Included activities
Tender support and promotion	PricewaterhouseCoopers Hickory Ground Solutions, LLC Curtis, Mallett-Prevost, Colt & Mosle LLP Zantech IT Services, Inc.	\$61,977,029.04	\$44,872,086.00	7/3/2009 - 7/2/2010 12/14/2010 - 12/31/2014	<ul style="list-style-type: none"> Tender support for Amu Darya contract Tender support for Afghan-Tajik I contracts (2) Tender support for Afghan-Tajik II contract Tender support for Amu Darya (Totmalkan Block) contract Legal, technical, and commercial advising at Afghanistan Petroleum Authority Promotion of tenders to International Investors
Landmine removal	EOO Technology, Inc.	\$46,896.00	\$46,659.60	2/27/2011 - 4/13/2011	<ul style="list-style-type: none"> Removal of landmines from the Keshkari Block of the Amu Darya Basin in preparation for development
Seismic collection surveys	Terrasais Trading Limited Leidos Holdings, Inc.	\$42,351,939.00	\$35,927,470.01	9/24/2011 - 3/16/2013 9/10/2013 - 6/20/2014	<ul style="list-style-type: none"> Collection of seismic data for approximately 480 kilometers in Afghan-Tajik and Amu Darya Basins Collection of seismic data for approximately 300 kilometers in Kushka Basin of which 52 km was collected
ENHANCING ACCESS TO ENERGY RESOURCES					
Project	Prime contractor(s)	Obligated funds	Disbursed Funds	Time frame	Included activities
Sheberghan-Mazar natural gas pipeline	Defense Logistics Agency U.S. Army Corps of Engineers SNC, Inc.	\$39,618,400.15	\$33,709,102.39	8/24/2012 - 11/21/2014	<ul style="list-style-type: none"> Refurbishment of 15 km of pipe for existing Sheberghan-Mazar pipeline Provision of methane gas detector and other pipeline safety equipment Provision of gas processing equipment and 94.5km of line pipe for construction of new Sheberghan-Mazar natural gas pipeline
Compressed Natural Gas	Central Asian Engineering Construction Company United Independent Afghan Trading	\$5,069,447.47	\$5,051,267.68	8/14/2011 - 3/23/2012 7/22/2012 - 7/9/2013	<ul style="list-style-type: none"> Construction and tender of a Compressed Natural Gas filling station Conversion of 4 existing diesel generators to bi-fuel (Compressed Natural Gas and diesel) Provision of, and training for, installation and maintenance of Compressed Natural Gas engine conversion kits for more than 150 vehicles

VILLAGE STABILITY OPERATIONS

Project	Prime contractor(s)	Obligated funds	Disbursed Funds	Time frame	Included activities
Management and technical support for Village Stability Operations projects	Allon Science and Technology Corporation Transformation Advisors Group, LLC	\$14,349,916.68	\$7,790,769.55	9/26/2012 - 9/28/2013	<ul style="list-style-type: none"> Assessment of how TFBSO can work in concert with units and support special operations strategy and priorities Provision of geologic expertise and field management support for village stabilization operations projects Response to requests to provide natural resource development based economic development assistance to base commanders
Chromite mining in Khas Konar	Cathay Oil & Gas, Ltd.	\$54,900.01	\$54,450.01	12/15/2011 - 12/26/2012	<ul style="list-style-type: none"> Purchase, rush delivery, and training for rock crushing equipment to support artisanal chromite miners in Khas Konar

CAPACITY BUILDING FOR MOMP AND AGS

Project	Prime contractor(s)	Obligated funds	Disbursed Funds	Time frame	Included activities
Data collection and AGS capacity building	USGS Bureau of Land Management IBM Simorg Homa Industrial Group	\$38,011,289.57	\$33,764,809.91	10/1/2009 - 12/31/2014	<ul style="list-style-type: none"> Consultation on and support for tender and bidding processes Field studies, remote sensing studies, and laboratory studies for mining areas of interest Construction of data center at AGS headquarters in Kabul Population of data in AGS data center, and training for MoMP staff on use of data center Capacity building in geology, hydrology, mapping, and sampling analysis
Training and curriculum development at Kabul Polytechnic University	University of Missouri System	\$500,000.00	\$-	4/17/2014 - 10/15/2014	<ul style="list-style-type: none"> Training and curriculum development for professors specializing in Geology and Mining

Source: SIGAR analysis of TFBSO documents

Note: This analysis excludes contracts that provided support across initiatives, such as helicopter support contracts, and funds used to sustain TFBSO operations.

TFBSO's 11 initiatives were intended to assist in the development of Afghanistan's extractive resources through (1) additional exploration of Afghanistan's mineral resources, (2) development of mineral tenders known as the "Round 1" and "Round 2" tenders, (3) development of cement tenders, (4) development of tenders for the exploration and extraction of hydrocarbon resources, (5) increased natural gas flow to Mazar-e-Sharif, (6) the use of compressed natural gas to power automobiles, (7) seismic imaging to determine hydrocarbon reserves, and (8) increased technical and regulatory capacity at the MoMP.²⁰ Additional details on TFBSO's initiatives are in appendix V.

²⁰ TFBSO's Round 1 tenders include four mineral deposits: (1) a gold deposit spread over a 1,000-square kilometer area in Badakhshan province, (2) a copper and gold deposit contained in a 484-square kilometer area in Ghazni province, (3) a copper deposit located in a 457-square kilometer area in Balkhab, Sar-i-Pul and Balkh provinces, and (4) a copper deposit spread over a 250-square kilometer area in Herat province. TFBSO's prospective Round 2 tenders included an additional four mineral deposits: (1) a rare earth elements deposit in Khanneshin in Helmand province, (2) an industrial minerals deposit in Dudkash in Baghlan province, (3) a copper deposit in North Aynak in Logar province, and (4) a copper deposit in Dusar in Herat Province. See appendix V for more information.

USAID's Three Extractive Industries Initiatives Focus on Developing Technical Capacity at MoMP and Assisting in Minerals Exploration and Natural Gas Power Plant Development and Operation

USAID implemented MIDAS, SGDP, and SGGa through competitively awarded cost-plus-fixed-fee contracts with combined obligations of \$206 million. In March 2013, USAID awarded ECC Water and Power LLC (ECC) the MIDAS contract with planned total obligations not to exceed \$86 million.^{21, 22} According to USAID contract documents, the goals of the MIDAS program are to strengthen capacity at MoMP and Afghan businesses offering services relevant to the mineral and hydrocarbon industries, such as sample drilling and analysis, and to assist the MoMP in encouraging private sector activity and economic and community development. In accomplishing these goals, USAID hopes to leave a legal and regulatory framework that promotes international investment while also ensuring appropriate financial gains, rights, and protections for the Afghan government and the people of Afghanistan. The MIDAS work plan consists of three components: (1) reforming mining policy and regulation, (2) strengthening capacity at MoMP, and (3) supporting the private sector and mining project development.

The MIDAS budget is split into two components: (1) \$41 million in off-budget funding to build institutional and technical capacity at MoMP, and (2) \$45 million in on-budget funding for MoMP to procure, implement, and monitor the completion of prioritized mining tender packages under direct contract with international consulting firms.²³ The MIDAS contract has a base period of 18 months and two cost-plus-fixed fee option periods of 18 months and 12 months, respectively; if all options are exercised, MIDAS will conclude in April 2017.²⁴

USAID awarded the contract for SGGa and SGDP, two linked USAID initiatives targeting development in Afghanistan's hydrocarbon industry, to Advanced Engineering Associates International, Inc. (AEAI) in December 2011.^{25, 26} The contract had a planned end date of December 31, 2014, and an estimated value of approximately \$30 million in off-budget funding.²⁷ Both SGGa and SGDP focus on building capacity throughout various Afghan government entities, including MoMP, the Afghan Gas Enterprise, the Ministry of Energy and Water, and Da Afghanistan Breshna Sherkat, Afghanistan's electricity company. The specific objectives of SGGa are to:

1. provide technical assistance, training, and capacity enhancement to MoMP for the development and effective utilization of Afghanistan's hydrocarbon reserves;
2. implement a comprehensive capacity building program for staff of the MoMP and other relevant institutions;

²¹ USAID implemented the MIDAS program under contract number AID-306-I-00-12-00544 and task order number AID-306-TO-13-00003. The contract for the MIDAS program is comprised solely of task order AID-306-TO-13-0003.

²² ECC is a global engineering company that delivers engineering and design, construction, environmental remediation, management, energy, and military munitions response services to government and commercial clients.

²³ According to USAID and MIDAS officials, USAID plans to transfer \$10 million from on-budget funding to off-budget funding in order to facilitate drilling exploration. Doing so would bring the off-budget value of MIDAS to \$51 million.

²⁴ According to USAID officials, USAID's Office of Economic Growth and Infrastructure has requested an extension of the MIDAS contract through May 2018, but this has not yet been finalized at the time we drafted this report.

²⁵ USAID implemented SGGa and SGDP under contract number EPP-I-00-03-00004-00 and task order number AID-306-TO-12-00002. The contract for SGGa and SGDP is comprised solely of task order AID-306-TO-12-00002.

²⁶ AEAI is a global engineering energy and environmental services company.

²⁷ USAID initially estimated that the SGGa contract would conclude in June 2013; however, USAID exercised an option period extending it through December 2014. Additionally, according to USAID officials, SGGa will be extended once more through March 2015 at no cost to the U.S. government.

3. assist MoMP in procuring and implementing the construction and infrastructure activities necessary to identify, quantify, and develop natural gas fields and increase the power output of the Northern Fertilizer and Power Plant;
4. assist MoMP in commercializing the Afghan Gas Enterprise; and
5. improve and consolidate the Northern Fertilizer and Power Plant power operations with Da Afghanistan Breshna Sherkat to enhance operational efficiency.

Additional details on USAID's efforts to develop Afghanistan's extractive industries are in appendix VI.

U.S. AGENCIES LACK A STRATEGY FOR AFGHANISTAN'S EXTRACTIVE INDUSTRIES AND EFFORTS TO COORDINATE ASSISTANCE ACTIVITIES WERE WEAK

Lack of Unified U.S. Strategy Led to Divergent Approaches for Developing Afghanistan's Extractive Industries

There was no overarching, government-wide strategy for the development of Afghanistan's extractive industries. According to *National Security Presidential Directive 44 (NSPD 44)*, the Secretary of State is responsible for coordinating and strengthening U.S. efforts "to prepare, plan for, and conduct reconstruction and stabilization assistance and related activities,"²⁸ including harmonizing such efforts with U.S. military plans and operations.²⁹ *NSPD 44* calls for State to develop and approve development strategies for reconstruction and stabilization activities, and to ensure policy and program coordination across U.S. agencies. According to a senior official from the U.S. Embassy in Kabul, the U.S. government's approach to Afghanistan's extractive industries is articulated in U.S. development strategies, such as the *Afghanistan and Pakistan Regional Stabilization Strategy* and the *U.S. Civil-Military Strategic Framework for Afghanistan*.³⁰ However, these two documents discuss broader development goals for the Afghan extractive industries, and do not describe how the U.S. government will work to achieve these goals. State has not otherwise developed a unified strategy specific to Afghanistan's extractive industries. In the absence of a government-wide strategy, TFBSO and USAID pursued different approaches to guide the development of Afghanistan's extractive industries.

In addition to the lack of an overall extractives strategy, the U.S. Embassy in Kabul appears to have done little to coordinate interagency activities aimed at developing Afghanistan's extractive industries. U.S. Embassy officials stated that coordinating with TFBSO was a particular challenge because embassy officials lacked policymaking authority and effectively had little influence over TFBSO. One senior TFBSO official stated that the Task Force viewed coordination with the embassy officials as a "courtesy" rather than a requirement, and that they answered to the DOD chain of command, not the Ambassador. In July 2011, the Government Accountability Office (GAO) identified weaknesses in TFBSO's information-sharing efforts, noting that while

²⁸ Executive Office of the President, *National Security Presidential Directive 44: Management of Interagency Efforts Concerning Reconstruction and Stabilization*, December 2005.

²⁹ Executive Office of the President, *National Security Presidential Directive 44: Management of Interagency Efforts Concerning Reconstruction and Stabilization*, December 2005. *NSPD 44* promotes the security of the United States through "improved coordination, planning, and implementation for reconstruction and stabilization assistance for foreign states and regions at risk of, in, or in transition from conflict or civil strife."

³⁰ The *U.S. Civil-Military Strategic Framework* was originally issued in October 2012 and focused on ensuring that civilian and military efforts were fully integrated and complimentary. The updated version, issued in August 2013, includes the addition of a stand-alone section on transition, greater emphasis on preserving gains, and further clarity on the Transformation Decade. See *U.S. Civil-Military Strategic Framework for Afghanistan*, August 2013. State's *Afghanistan and Pakistan Regional Stabilization Strategy* includes broad development objectives applicable to the extractive industries but not concrete strategies for achieving them (see State, *Afghanistan and Pakistan Regional Stabilization Strategy*, February 2010).

TFBSO regularly shared information at senior levels of the U.S. government, its information sharing at the project management level was limited and irregular.³¹ Officials at USAID, State, and TFBSO all stated that they had met with each other in the past to discuss current and planned activities. However, they all agreed that these meetings were perfunctory in nature and that coordination efforts had all but fallen apart by the time TFBSO activities in Afghanistan concluded. Our review revealed that the conditions GAO uncovered in 2011 remained largely unchanged. According to representatives from USAID, TFBSO's perception that it did not have to coordinate with other U.S. agencies resulted in TFBSO electing not to share information with USAID in multiple instances. As a result, one senior official from the U.S. Embassy in Kabul stated that the embassy did not become aware of a \$39.6 million TFBSO initiative until Afghan government officials personally thanked the Ambassador for the U.S. government's support in this area.

TFBSO's Planning was Short Term and Project Selection Criteria Varied

According to senior TFBSO officials, the organization's long-term planning efforts were hindered by the fact that TFBSO funding was authorized and appropriated on an annual basis, rather than for multiple years at a time. As a result, the Task Force did not develop multi-year plans or strategies for its initiatives to develop Afghanistan's extractive industries, nor did it establish written guidance documenting project selection criteria, requirements for metrics and project documentation, or project monitoring and evaluation processes. Instead, as required by its enabling legislation, TFBSO submitted annual concurrence plans, high level overviews of planned activities, to State for approval.³² Without more detailed strategy documents, these concurrence plans represent the clearest articulation of TFBSO's year-to-year strategy and project selection process. However, although the concurrence plans for fiscal years 2011 through 2014 describe current and past activities in relative detail, the descriptions of proposed activities lack similar detail.

GAO previously identified the lack of documentation of program planning and oversight guidance as weaknesses of TFBSO.³³ GAO recommended that, in order to ensure effective project management, oversight, and accountability, the Secretary of Defense direct TFBSO to develop written guidance that documents, as appropriate, its management processes and practices, including elements such as criteria for project selection, requirements for establishing metrics and project documentation, and project monitoring and evaluation processes. DOD partially concurred with GAO's recommendation and stated that TFBSO would review its program management practices and consider how to implement the recommendation to the extent practicable. Although an October 2013 assessment by Boston Consulting Group noted improvements in TFBSO's strategic-level analysis, project evaluation, and planning activities, a separate Boston Consulting Group study released the same month concluded that TFBSO's temporary mandate and the limited historical record of its activities continued to be limitations to its effectiveness.³⁴

As indicated above, senior TFBSO officials claimed that the uncertainty around TFBSO's annual budget and high turnover among its leadership led to frequent shifts in TFBSO's organizational direction. TFBSO senior officials stated that while the organization's overall goals for developing Afghanistan's extractive industries did not change, the various TFBSO directors' "rearticulations" of the roadmap for achieving these goals resulted in little documentation because of the fluid nature of the plans. However, TFBSO officials stated that there was less turnover at the project management level, and that allowed the organization to maintain a level of continuity with its initiatives.

³¹ U.S. Government Accountability Office, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011.

³² Pub. L. No. 111-383, § 1535(a)(2)(B), 124 Stat. 4137, 4426,

³³ GAO-11-715.

³⁴ The Boston Consulting Group is a global management consulting firm that works with clients in the private, public, and not-for-profit sectors. (See Boston Consulting Group, *TFBSO Operations Playbook*, October 2013 and *TFBSO Summary Report: Private Sector Operations as Stability and Security Tool*, October 2013.)

TFBSO officials also stated that the annual budget justification process limited the scope of initiatives that TFBSO could pursue. Although TFBSO officials failed to identify specific initiatives, they told us that there were more strategic, higher-impact initiatives that TFBSO would have liked to initiate, but did not due to the uncertainty regarding its annual reauthorization. TFBSO officials stated that with a longer budgetary timeline, TFBSO would have chosen other initiatives to implement.

USAID Initiatives Incorporate Documented Strategies and Project Selection Criteria, but Did Not Communicate Strategy with All MoMP Stakeholders

In contrast to TFBSO, USAID's MIDAS and SGGG programs have documented strategies and assessments that guide program implementation. The goal of the MIDAS initiative, implemented by ECC, is to support an enhanced role for the private sector in Afghanistan's economic growth by complementing and supporting the Afghan government's strategy to:

1. increase economic activity related to Afghanistan's minerals industry,
2. increase revenue generation for the Afghan government,
3. increase jobs related to mining, infrastructure, and related industries for Afghan men and women, and
4. support diversification of the minerals industry through inclusion of women.

According to the MIDAS contract, activities undertaken by MIDAS link closely with the *Afghanistan and Pakistan Regional Stabilization Strategy* and the *USAID 2011-2015 Strategic Plan*.³⁵ ECC developed a rapid appraisal assessment, local small and medium enterprise assessment, comprehensive report for mineral targets for exploration and tendering, capacity building plan, and comprehensive policy document. Together, these documents identify areas of Afghanistan's minerals industry that need assistance, articulate a strategy for development in the Afghan minerals industry, and—unlike TFBSO's plans—lay out a clear set of criteria for selecting potential areas for investment by USAID.

Nevertheless, the MIDAS team has not adequately communicated its development strategy and goals to all the relevant stakeholders at MoMP, despite clear guidance from USAID policy and MIDAS's internal reports. The "Process—Project Concept Stage" section of USAID's Automated Directives System, which contains the policies and procedures directing USAID's activities and operations, requires that project managers identify the principal stakeholders and potential partners who are critical to a project's success and provide an overview of their level of involvement and commitment, to include the project's design phase.³⁶ ECC's *Rapid Appraisal Report* stated that MoMP actively encouraged MIDAS team members to work directly with counterpart ministry staff for all contract activities, and identified the need to reconcile ministry needs with MIDAS priorities. This same report also stated that MIDAS would work with MoMP to complete assessments of the ministry to determine institutional weaknesses and needs and, upon completion, devise a plan for MIDAS capacity building efforts. As a part of this effort, the MIDAS team held consultations with MoMP officials between October and November 2013, culminating in the MoMP Minister endorsing the MIDAS work plan on November 12, 2013.

However, ECC appears to have not coordinated and communicated its development approach with all principal stakeholders at MoMP. According to several senior MoMP officials with responsibility for working with the MIDAS team, ECC developed much of its strategy without their input. These senior MoMP officials stated that they had not been involved in the planning of MIDAS activities, and that ECC focused on meeting only with the Minister of Mines and Petroleum, not the deputy ministers and senior technical staff who would be working directly with the MIDAS advisers. According to two senior MoMP officials, ECC only began meeting with the deputy ministers and technical staff to discuss capacity building needs in August 2014, more than a year after

³⁵ State, *Afghanistan and Pakistan Regional Stabilization Strategy*, February 2010.

³⁶ USAID, Automated Directive System, Chapter 201, Section 3.15.1, last updated September 2013.

the MIDAS contract was signed. These MoMP officials stated that, as a result, they are still unaware of what MIDAS training has accomplished, or will accomplish, for their staff. MoMP senior officials claimed that the lack of coordination has resulted in suboptimal implementation of MIDAS activities.

Like MIDAS, the SGGA program, implemented by AEAI, is guided by documented strategies for the development of Afghanistan's hydrocarbons industry. SGGA strategic planning documents include, among other things,

- a needs assessment for MoMP and component organizations such as AGS;
- design for a comprehensive, 3-year capacity building, training, and mentorship program; a plan for capacity building, commercialization, and modernization of the AGE; and
- a feasibility report on the transfer of the Northern Fertilizer and Power Plant, its operations and maintenance, or both to Da Afghanistan Breshna Sherkat.

By outlining areas of need and creating a plan to address the identified deficiencies, these documents, together with the Strategic Objective Grant Agreement and AEAI's performance monitoring plan, form a strategic plan to develop Afghanistan's natural gas resources.³⁷

THE AFGHAN GOVERNMENT HAS LIMITED CAPACITY TO EXPAND THE EXTRACTIVE INDUSTRIES, AND TFBSO AND USAID DID NOT DEVELOP REQUIRED TRANSITION AND SUSTAINABILITY PLANS

Although MoMP officials have developed some technical, legal, and commercial knowledge under TFBSO and USAID assistance, representatives from the U.S. government, the Afghan government, and Integrity Watch Afghanistan all agree that MoMP still lacks the technical capacity to research, tender, and regulate new contracts without external support. According to TFBSO, USAID, and MoMP officials, MoMP does not have the technical capacity to handle medium- or large-scale tenders without support from outside advisors.³⁸ According to a report by MIDAS officials, although MoMP's proposed tender processes and procedures compare favorably with the World Bank's summary of best tender practices, MoMP has only conducted "start-to-finish" tenders for small-scale and artisanal projects at the provincial level.³⁹ Senior officials from the U.S. Embassy in Kabul and representatives from Integrity Watch Afghanistan were less confident about MoMP's independently managed tenders, saying that the tendering process has been severely flawed and rife with corruption. Similarly, international non-governmental organizations have alleged that small mining contracts have been awarded to warlords and parliamentarians in contravention of Afghan law. Further, the larger mineral tenders conducted to date have, for the most part, been organized and managed by advisors provided by TFBSO, the World Bank, and other international donors. SRK Consulting advisors, who formed a part of TFBSO's mineral tender advisory team, stated in their fiscal year 2012–2013 closeout report that continued assistance from technical and legal advisors would ensure effective on-the-job training, and that without continued assistance, there is a chance that current contract and tender processes would not be implemented to industry best practices or could end in a failed round of tenders.⁴⁰

³⁷ The Strategic Objective Grant Agreement is a framework for cooperation between the U.S. Government, acting through USAID, and the Government of Afghanistan to reach key strategic development objectives. One of these objectives is "a thriving economy led by the private sector in Afghanistan," and stated goals relevant to SGGA include "increased incomes through economic growth" and "stabilized energy services that are more affordable and accessible."

³⁸ Afghan mining law and regulations define medium-size contracts to be those with total capital investment estimated to be between \$5 and \$25 million, and define large-scale contracts to be those with total capital investment estimated to be greater than \$25 million.

³⁹ See World Bank, "Mineral Resource Tenders and Mining Infrastructure Projects Guiding Principles," Extractive Industries for Development Series #22, September 2011.

⁴⁰ SRK Consulting provides a variety of mining and geology advisory services.

According to a senior MoMP official, MoMP and its component organizations still lack the capacity to handle the technical, commercial, and legal aspects of its work. Representatives from TFBSO, USAID, and State told us that MoMP personnel have gained a lot of knowledge and experience since they awarded the copper mining contract for Mes Aynak—located in Logar Province, 25 miles southeast of Kabul—to the China Metallurgical Group Corporation in 2007, but they have a long way to go before they can independently operate as a regulatory authority.⁴¹ Representatives from civil-society organizations, such as Integrity Watch Afghanistan and Global Witness, have also expressed concern that MoMP and other Afghan government entities, such as the Ministry of Energy and Water and the National Environmental Protection Agency, do not have the authority or capacity to fulfill their regulatory roles in the extractive industries and may wither in the absence of donor engagement.

Both TFBSO and USAID were required to work together to transition TFBSO activities to enduring partners.⁴² TFBSO officials stated that TFBSO's role was to help MoMP to develop internal technical capacity as well as to know when it is appropriate for the Ministry to hire experts to support development in the mining and hydrocarbon industries. According to these officials, once these industries become self-sustaining and profitable, they expect the Afghans will be able to pay for these experts themselves. ECC officials stated that they will focus on building in-house expertise at MoMP so that ministry officials will be able to manage tenders and contracts with minimal support from outside advisors. According to ECC officials, this approach should leave MoMP with increased technical capacity; however, this increased capacity only lasts as long as the trained employees remain at the MoMP. ECC documents mention that without significant staff increases within the MoMP's Legal Services Directorate, it seems unlikely that the MoMP will be able to handle more than a few tenders at any one time.

Further, many of MoMP's mid- and upper-level management personnel receive salary subsidies from the World Bank, while lower-level ministry employees have gone months at a time without receiving their expected pay due to government-wide funding gaps, creating some animosity between management and staff.⁴³ According to officials at MoMP and the World Bank, if the World Bank ultimately stops subsidizing salaries and the Afghan government continues to fail to pay ministry staff in a timely manner, it is possible that many MoMP employees will pursue more lucrative employment elsewhere. In addition, Integrity Watch Afghanistan officials told us that when the Afghan government shuffles ministers between its ministries, as it has done in the past, these ministers will often take their senior management staff with them to their new appointment, effectively decapitating the organizations they leave behind. Due to staff turnover and possible funding issues resulting from the recent presidential elections, it is uncertain how much, if any, of TFBSO's or USAID's capacity building efforts at MoMP will be sustained over the long term.

TFBSO, State, and USAID Did Not Develop an Actionable Plan for the Transition of TFBSO Initiatives and Instead Transferred All Activities to the Afghan Government, Other International Donors, or the Private Sector

As noted above, subsection 1535(b) of the Ike Skelton National Defense Authorization Act (NDAA) for Fiscal Year 2011, Pub. L. No. 111-383, 124 Stat. 4137, 4427, required DOD, State, and USAID to jointly develop a plan to transition TFBSO activities in Afghanistan to State or USAID. Subsection 1535(b) required the jointly-developed transition plan to describe (1) all activities carried out by TFBSO in fiscal year 2011; (2) those activities TFBSO carried out in fiscal year 2011 that USAID would continue in fiscal year 2012, including those that might be merged with similar efforts carried out by USAID; (3) any activities carried out by TFBSO in fiscal

⁴¹ The China Metallurgical Group Corporation is a state-owned enterprise in Beijing, China that is engaged in mineral exploration and exploitation as well as engineering, manufacturing, and construction.

⁴² Pub. L. No. 111-383, § 1535(b), 124 Stat. 4137, 4427.

⁴³ ECC stated that MoMP was recently accepted into the World Bank's Capacity Building for Results Program, allowing 100 additional MoMP employees to be eligible for salary subsidies.

year 2011 that USAID would not continue and the reasons why such activities would not be continued; and (4) those actions that might have been necessary to transition activities carried out by the TFBSO in fiscal year 2011 and that would be continued by USAID in fiscal year 2012 from DOD to USAID.

In addition to planning documents dated in June 2011, TFBSO submitted to Congress in May 2012 a plan for transitioning its activities. This plan stated that a successful transition should (1) maintain DOD funding and authorities to allow activities in TFBSO's portfolio to be completed by December 31, 2014; (2) start a joint program for coordination among State, DOD, and USAID with a focus on sustainability and future ownership; (3) transfer TFBSO initiatives, on a case-by-case basis to other U.S. agencies, the Afghan government, or the private sector beginning in fiscal year 2013; (4) plan for the completion of all TFBSO initiatives by the end of 2014; and (5) ensure the U.S. government has the organizational structure, authorities, and funding to engage the private sector in Afghanistan post transition. Subsequent to the submission of this plan, Congress amended subsection 1535(a) of the NDAA for Fiscal Year 2011 to require DOD, State, and USAID to provide updates every 180 days on the implementation of the transition plan.⁴⁴

Despite the requirement to update Congress every 180 days, TFBSO only provided SIGAR with copies of two such transition plan updates, one each for fiscal years 2013 and 2014. The fiscal year 2014 transition plan update, created on April 23, 2014, claimed that all active TFBSO initiatives—including its mineral tender and contract support, its hydrocarbon tender and contract support, its geologic data analysis and drilling activities, its support for the Sheberghan-Mazar Pipeline, its compressed natural gas activities, and its capacity development program at Kabul Polytechnic—would be completed by November 30, 2014. Further, the Task Force stated that it would transfer all data and other project materials from these completed activities to an Afghan ministry, private investors, or another U.S. government agency, but did not describe how this transition would happen. Additionally, TFBSO wrote that “further involvement is expected” from the United Kingdom's Department for International Development for capacity building at AGS, and that the Task Force will coordinate with State to ensure that the Sheberghan-Mazar Pipeline is “finished in a manner appropriate to both agencies,” but again, did not provide a detailed plan.

The timeline for initiative completions that TFBSO outlined in these documents was, at best, overly optimistic. At the time TFBSO concluded operations in Afghanistan, not a single one of the mineral or cement tenders supported by the Task Force resulted in a signed contract, according to publically available contract data on the MoMP website. Further, TFBSO officials stated that at the Task Force had only provided to MoMP and AGS the data and technical documents for its Round 2 tenders. According to senior representatives from USAID's MIDAS program, these data and documents are insufficient, and the MoMP will need to do significant additional fieldwork and analysis before it can realistically begin marketing TFBSO's Round 2 tenders. In addition to the unfinished minerals tenders, it is our understanding TFBSO left two hydrocarbon tenders incomplete. Emissary Transition Group—the advisors TFBSO contracted with to provide drill training for AGS technicians—reported that their 12-week program was cut short by 2.5 weeks, and expressed reservations about AGS exploratory drilling capabilities in light of the fact that drill training programs normally require 1–2 years.⁴⁵ Further, as of November 2014, the Afghan government still has not completed its rehabilitation of the existing Sheberghan-Mazar natural gas pipeline, which TFBSO supported with equipment and training. The 94.5 kilometers of pipe that TFBSO procured in 2013 for a brand new 89.1-kilometer pipeline, to run alongside the old one, continues to sit unused in Afghan stockyards.

It is evident from our interviews with TFBSO, USAID, and State officials that not one TFBSO initiative will be transferred to USAID. Aside from claiming that the “Afghans will have the capability to handle ongoing project requirements,” TFBSO did not give reasons for this. When we asked USAID and State officials why their agencies would not be continuing any TFBSO initiatives, they stated that it was because their leaderships were

⁴⁴ Pub. L. No. 111-383, § 1535(a), 124 Stat. 4137, 4426, as amended by National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, § 1533, 126 Stat. 1632, 2058-59, and National Defense Authorization Act for Fiscal Year 2014, 113-66, § 1534, 127 Stat. 672, 940 (2014).

⁴⁵ Emissary Transition Group, LLC provides security and logistics services for businesses operating in fragile states

not interested in doing so. When pressed on this point, these officials further explained that USAID and State considered some TFBSO initiatives, such as the Sheberghan-Mazar Pipeline, to be liabilities due to safety concerns, lack of sustainability, and other problems. In another instance, a technical expert for the SGGA program stated that one of TFBSO's incomplete hydrocarbons tenders, if it results in a formal contract, may create legal conflicts with USAID contracts in the Sheberghan area if the same exploration company is selected.

In other cases, such as legal capacity development at the MoMP and mineral tender development, USAID officials stated that they attempted to reach out to TFBSO to discuss continuity of efforts, but the Task Force failed to respond to their e-mails and calls. According to MIDAS officials, ECC initially entered into negotiations with SRK Consulting and Mayer Brown—the TFBSO mining tender consultants—to continue their work at MoMP. However, these negotiations did not result in formalized contracts, and ECC officials decided to hire in-house mineral tender advisors instead.⁴⁶ Finally, MIDAS representatives told us without further explanation that they do not intend to assist MoMP in managing TFBSO's Round 1 mineral contracts (in the event they are signed), researching or executing TFBSO's Round 2 mineral tenders, or further negotiating TFBSO's cement tenders, unless directly requested to do so by the Afghan government.

While TFBSO's May 2012 Transition Action Plan outlined objectives necessary for successful transfer of activities from TFBSO to USAID, neither TFBSO nor State nor USAID adequately followed through on these plans. Because TFBSO estimated that all of their extractive initiatives would be completed by its withdrawal from Afghanistan in December 2014, and USAID and State officials expressed a lack of interest in continuing these activities, no transition plan that identified specific transfer procedures for specific initiatives was ever created or acted upon. Neither TFBSO nor State nor USAID adequately explained, in writing, the reasons why no TFBSO initiatives would be transferred to State or USAID, as required by the NDAA for fiscal year 2011.

Based on the information gathered during the course of this audit, it is apparent that no U.S. agency remaining in Afghanistan has any plans to provide continued monitoring, evaluation, or support for TFBSO extractive initiatives. Officials from the Asian Development Bank have stated that they may provide assistance for the second Sheberghan-Mazar pipeline project after MoMP drafts a project proposal for construction, but the Asian Development Bank has not yet committed any funds. All remaining TFBSO data and project materials—many for initiatives that TFBSO left substantively incomplete—have been transferred to MoMP or its component organizations, despite ongoing capacity concerns at the MoMP. As a result, there is a significant risk that TFBSO investments in developing Afghanistan's extractive industries will go to waste.

USAID Does Not Have a Sustainability Plan for Its Extractive Industries Development Efforts

Neither USAID, nor its implementing partners for MIDAS and SGGA, have developed plans detailing how the planned capacity building efforts will be sustained following the conclusion of their projects. The *Administrator's Sustainability Guidance for USAID in Afghanistan* calls for conditions to be created for successful transition that will lead to lasting benefits for the host nation, including identifying recurrent costs for USAID development activities and obtaining assurance that Afghan partners have the willingness, resources, and capacity to implement USAID investments and programs into the future, which for MIDAS and SGGA, would be after 2017—if USAID decides to approve and fund all the associated option periods. Additionally, the *USAID Policy Framework 2011-2015* states that building in sustainability from the start of a program is an operational principle, and calls for USAID projects to prioritize building skills, knowledge, and institutions that can make development outcomes self-sustaining.

Despite these requirements, the MIDAS program does not conform to USAID guidance and policy. USAID officials told us that MIDAS staff will only begin post-close out sustainability planning beginning at the second option period for the MIDAS contract in April 2016, more than 3 years after the contract was awarded.

⁴⁶ Mayer Brown is a global law firm.

Similarly, SGGA contract documents do not identify plans to sustain gains following the end of the program. USAID officials stated that the agency is reviewing additional contract modifications to enable the extension of the SGGA program past its current end date of March 31, 2015. However, as of March 12, 2015, 19 days before the conclusion of the current SGGA contract, the contract modification has not been finalized, and we cannot confirm how long USAID plans to extend the life of the SGGA program.

USAID officials stated that their goal is to entice multinational investors to engage in the development of Afghanistan's extractive industries. USAID believes that private sector actors will continue to build infrastructure and develop Afghanistan's extractive industries because it is in their commercial interest to do so. One USAID official told us it would take the U.S. government "a hundred years" to build the necessary infrastructure and fulfill training requirements to completely develop Afghanistan's extractive industries. Other USAID officials expressed confidence that MoMP will be able to write and oversee contracts, procure equipment, explore potential mining sites, and manage revenues by the time USAID support is expected to conclude. Ultimately, though, the lack of planning at the outset of both MIDAS and SGGA puts the sustainability of USAID's initiatives in Afghanistan's extractive industries in doubt.

CONCLUSION

As international donor support of Afghanistan declines over the next few years,⁴⁷ the Afghan government will need sustainable sources of domestic revenue to close the so-called "revenue gap"—the difference between revenues received and money spent. According to U.S. officials, Afghanistan's successful exploration, extraction, processing, and sale of minerals and hydrocarbons in the domestic and international markets has the potential to provide the Afghan government with billions in much needed funds in the coming decades.

However, even after the United States and its coalition partners have provided hundreds of millions of dollars to create new infrastructure and capacity, self-sustaining Afghan extractive industries still seems a very distant goal. As we have reported previously in our audit and inspection reports, the key to successful reconstruction initiatives in Afghanistan is to ensure that the Afghan government is both willing and able to sustain whatever reconstruction gains are realized from programs and projects initially funded by the United States, particularly after the reduction of coalition military forces and civilian staff. Yet TFBSO, State, and USAID failed to coordinate and prioritize their extractives activities even among themselves, resulting in divergent strategies and poor working relationships, and creating potential sustainability problems. To its credit, TFBSO prepared several documents outlining its plans to conclude program activities by 2014 and transfer its data and project materials to the Afghan government, other international donors, or the private sector. However, TFBSO, State, and USAID failed to develop an actionable sustainability plan showing how USAID would continue specific TFBSO activities and why it would not continue others after TFBSO ceased operations in March 2015. It is now uncertain whether any of TFBSO's planned, ongoing, or completed initiatives will be overseen or otherwise supported by another U.S. agency, creating a risk that the data, equipment, and human capital that TFBSO invested in will be squandered. Furthermore, USAID has not conducted adequate sustainability planning for its own initiatives in the Afghan extractive industries—the MIDAS and SGGA programs—risking that these too will not be monitored or sustained once the contracts for these initiatives end. Without sound sustainability planning within and among all agencies active in Afghanistan's extractive industries, the \$488 million U.S. government investment in efforts to develop Afghanistan's extractive industries could be wasted, and Afghanistan may not be able to generate the additional revenues it needs to meet its long-term budgetary requirements without continued international assistance.

⁴⁷ The thirteenth summary conclusion of the Bonn Conference of 2011 states that "[the International Community] declares its intent to continue to assist in [the Afghan National Security Forces'] financing [after 2014], with the understanding that over the coming years this share will gradually be reduced, in a manner commensurate with Afghanistan's needs and its increasing domestic revenue generation capacity." The twenty-second summary conclusion states that "transition [in 2014] will reduce the international presence and the financial requirements associated with it."

RECOMMENDATIONS

In order to better inform current and future efforts to develop Afghanistan's extractive industries, we recommend that the USAID Administrator:

- 1. Conduct a review and document the incomplete TFBSO initiatives that have been transferred to the MoMP and, to the extent feasible, assist in the conclusion of those initiatives that fit within the USAID development strategy and the agency's ongoing programs.**

In order to better inform current and future efforts to develop Afghanistan's extractive industries and to document the impact of funds spent by TFBSO, we recommend that the Secretary of Defense:

- 2. Consider assessing and documenting the economic impact and final status of each TFBSO initiative intended to develop Afghanistan's extractive industries and provide these assessments to State, USAID, and the appropriate congressional committees.**

To ensure technical capacity building is sustained at MoMP and its component organizations after the MIDAS initiative is completed, we recommend that the USAID Administrator require ECC, the MIDAS implementing partner, to

- 3. Update the MIDAS performance management plan by August 1, 2015, to include plans for the sustainment and transfer of its activities.**

AGENCY COMMENTS

We provided a draft of this report to DOD, State, and USAID for review and comment. USAID was the only agency that provided written comments on the draft report, which are reproduced in appendix VII. In its comments, USAID did not concur with the first recommendation, concurred with the third recommendation, and acknowledged that much remains to be done to develop a regulatory environment and a MoMP that can oversee the development of the extractive industries. DOD did not provide comments. However, in accordance with our normal procedures, SIGAR will follow up with DOD in 60 days to assess whether DOD has addressed SIGAR's recommendation.

We modified the first recommendation based on USAID's comments on a draft of this report. Initially, we recommended that the USAID Administrator report to the appropriate congressional committees the reasons why USAID did not continue any of TFBSO's activities. We modified that to recommend that USAID perform a review of the incomplete initiatives that TFBSO transferred to the MoMP and integrate components of these initiatives into existing USAID efforts. The modified recommendation emphasizes the importance of continuing to review the TFBSO initiatives. Although TFBSO's annual transition updates state that its initiatives in Afghanistan would be completed by the end of 2014, leaving no initiatives to be transferred to USAID, many of TFBSO's initiatives in Afghanistan were incomplete at the time of its withdrawal and simply transferred to the Afghan government. However, several of these incomplete initiatives align with ongoing USAID efforts, including TFBSO's Round I and Round II mineral tender efforts, hydrocarbon tender efforts, and legal and technical capacity building efforts. For example, TFBSO's Round I and Round II mineral tender efforts appear to be compatible with the work of MIDAS's component II efforts to create new mineral tenders and provide support to the MoMP's mineral tender process; its hydrocarbon tender efforts could benefit from the capacity building efforts of the SGGGA program; and its legal and technical capacity building efforts at the MoMP appear to be in line with MIDAS's component I and II legal and technical capacity building efforts as well as technical capacity building efforts in the SGGGA program. Unless TFBSO's unfinished initiatives are integrated with USAID programs and completed, millions of dollars of U.S. taxpayer funds spent on TFBSO programs may be wasted.

With regard to the third recommendation, USAID concurred and stated that it will work with ECC, the MIDAS implementing partner, to prepare plans for the sustainability and transfer of its activities by August 1, 2015.

APPENDIX I - SCOPE AND METHODOLOGY

This report provides the results of SIGAR's performance audit of U.S. efforts to develop Afghanistan's extractive industries and build capacity at the Ministry of Mines and Petroleum (MoMP). The objectives of this audit were to (1) describe the Task Force for Business and Stability Operations (TFBSO) initiatives and U.S. Agency for International Development's (USAID) programs that support the development of Afghanistan's extractive industries, (2) identify the approaches and strategies guiding U.S. government support for Afghanistan's extractive industries since 2009, and (3) determine the extent to which TFBSO and USAID initiatives incorporated sustainability planning and identified challenges, if any, to the successful sustainment of these industries. In order to minimize overlap and duplication with the USAID Office of Inspector General's review of the Sheberghan Gas Development Program, we focused our audit solely on the Sheberghan Gas Generation Activity, the off-budget portion of USAID's hydrocarbon initiatives. We reviewed documents dated from June 2004 through March 2015.

To describe the TFBSO and USAID initiatives that support the development of Afghanistan's extractive industries, we reviewed TFBSO and USAID contract documents, task orders, and purchasing orders. We reviewed planning documents, progress reports, final summary reports, and other deliverables prepared by TFBSO's contractors and USAID's implementing partners. We reviewed contracting officer representative status reports where available. For TFBSO, we also reviewed internal program management reports, financial modeling documents, concurrence plans submitted to the Department of State (State) and USAID, and fiscal year 2011, 2012, and 2013 Activities Reports to Congress. We interviewed officials from the U.S. Embassy in Kabul, USAID, TFBSO, the U.S. Geological Survey, MoMP, and Ministry of Energy and Water, as well as contractor representatives.

To identify the approaches and strategies guiding U.S. government support for Afghanistan's extractive industries since 2009, we reviewed the *Afghan National Development Strategy* and the MoMP business plan for 2010–2015. We also reviewed the Extractive Industries Transparency Initiatives standards, which in 2010 the Afghan government committed to implement. For TFBSO initiatives, we reviewed language as it appeared in the contract documents, concurrence plans submitted to the State and USAID, external analyst reports, internal program management reports, and fiscal year 2011, 2012, and 2013 Activities Reports to Congress. For USAID initiatives, we reviewed contract documents, performance management plans, work plans, and planning documents prepared by the contractors. We interviewed officials from the U.S. Embassy in Kabul, USAID, TFBSO, MoMP, Afghanistan Petroleum Authority, the Ministry of Energy and Water, and the Afghanistan Extractive Industries Transparency Initiative implementation office at the Ministry of Finance. We also interviewed contractor representatives, and representatives from international nongovernmental and civil society organizations.

To determine the extent to which TFBSO and USAID initiatives designed to assist in the development of Afghanistan's extractive industries incorporated sustainability strategies and identified challenges, if any, to the sustainability of these industries, we reviewed *TFBSO's Fiscal Year 2013 Transition Plan and Report on Transition Implementation*, contract documents, internal program management reports, and concurrence plans submitted to State and USAID. We also reviewed USAID contracts and planning documents prepared by the contractors. We interviewed officials from the U.S. Embassy in Kabul, USAID, and TFBSO, as well as contractor and implementing partner representatives.

We did not use or rely on computer-processed data for purposes of our objectives. To assess internal controls, we reviewed State, Department of Defense, and USAID procedures for planning and initiating programs. The results of our assessment are included in the body of this report.

We conducted our audit work in Washington, D.C. and in Kabul, Afghanistan, from February 2014 to April 2015, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our

findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was performed by SIGAR under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978 as amended.

APPENDIX II - OVERVIEW OF LEGAL FRAMEWORK

Activities related to the exploration and extraction of Afghanistan's extractive resources were originally regulated under the Mineral Law of 2005 and the Hydrocarbons Law of 2006. In March 2009, the Afghan government announced its intent to implement the terms of the Extractive Industries Transparency Initiative.⁴⁸ In accordance with the initiative's standards, Afghanistan agreed to make its laws, regulations, and industry practices consistent with the following criteria:

1. publish regularly all mining, oil, and natural gas payments by companies to the government as well as all revenues from the extractive industries,
2. subject all payments and revenues to independent audit,
3. have all payments and revenues reconciled by an independent administrator,
4. actively engage civil society organizations in the design, monitoring, and evaluation of this transparency process, and
5. develop and publish a public, financially sustainable work plan to accomplish all of the above.

The World Bank contracted Adam Smith International to draft a revision of the 2005 Mineral Law in order to include provisions formally committing Afghanistan to the Extractive Industries Transparency Initiative and otherwise improve transparency in the mining industry.⁴⁹ The Hydrocarbons Law was separately revised at the same time with support from the Norwegian Agency for Development Cooperation.⁵⁰ Both revisions evolved into wholly new replacement laws, which were signed into law in 2009. In February 2010, Afghanistan was accepted by the global Extractive Industries Transparency Initiative Board.

However members of the international donor community, the Ministry of Mines and Petroleum (MoMP), and Afghan civil society organizations widely agreed that the 2009 Mineral Law created regulatory confusion and stymied investment in the minerals industry. According to representatives from these interested parties, the 2009 Mineral Law did not (1) guarantee security of tenure and assignability of exploration/exploitation rights, (2) provide a clear legal basis from which regulations could be drafted by MoMP, (3) include clear language regarding contract bidding and licensing procedures, or (4) include adequate social and environmental protections.⁵¹ As part of the 2012 Tokyo Framework, the international donor community charged the Afghan government with strengthening the enabling environment for the private sector, including development of an Extractive Industries Development Framework to govern Afghanistan's natural wealth through an accountable and transparent mechanism based on international best practices.⁵² According to U.S. Embassy Kabul officials,

⁴⁸ The World Bank implements the Extractive Industries Transparency Initiative in Afghanistan. The initiative is a voluntary, multi-stakeholder effort designed to promote and support improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from extractives industries.

⁴⁹ Adam Smith International is a professional services business that supports economic growth and government reform.

⁵⁰ The Norwegian Agency for Development Cooperation is a specialized directorate under the Norwegian Ministry of Foreign Affairs that provides direct bilateral and multilateral development cooperation.

⁵¹ According to representatives from the Task Force for Business and Stability Operations, SRK Consulting, and Mayer Brown, "security of tenure" refers to the right of a mining firm conducting exploration operations on a plot of land to have preemptive privilege to an exploitation contract for that same plot of land. Without security of tenure, the firm would have to submit to an open bid for both contracts. This discourages investment in exploration. Assignability refers to the ability of a mining entity to transfer exploration or exploitation rights to another entity, such as another company or bank. Banks generally require assignability clauses in contracts as a protective measure against default. Without assignability rights, mining companies may have a difficult time securing financing for new projects.

⁵² The Tokyo Framework, the resulting document from the Tokyo Conference on Afghanistan of 2012, instituted a process of accountability in achieving mutually identified goals for the economic growth and development of Afghanistan. The Tokyo Framework committed the donor community to providing \$16 billion through 2015 and sustaining support through 2017 and established a mechanism to monitor and review these commitments.

the donor community and the Afghan government interpreted this provision as a call for significant revisions to the Mineral Law. As a result, the Afghan government worked on drafting an entirely new Mineral Law, which was passed by the Afghan Parliament and signed by the President in August 2014.

APPENDIX III - INTERNATIONAL DONOR EFFORTS TO DEVELOP AFGHANISTAN'S EXTRACTIVE INDUSTRIES

Along with the U.S. government's activity, a number of international donors, including the World Bank, Asian Development Bank, the United Kingdom's Department for International Development, and Germany's Deutsche Gesellschaft für Internationale Zusammenarbeit, have directed spending toward Afghanistan's extractive industries. The World Bank initiated the Second Sustainable Development of Natural Resources Project in 2011. The objective of the 5-year World Bank program is to provide technical assistance to Ministry of Mines and Petroleum (MoMP) and the Afghan National Environmental Protection Agency in order to further improve their capacities to effectively regulate Afghanistan's mineral resource development in a transparent and efficient manner, as well as foster private sector development. Additionally, the World Bank provides salary support to key civil servants at MoMP and other ministries through its Capacity Building for Results Program.⁵³ World Bank advisors were instrumental in supporting the tender of contracts for large scale mining operations at Mes Aynak (copper) and Hajigak (iron).

Since 2008, the Asian Development Bank has financed projects, through its Energy Sector Development Investment Program, to support the extractive industries in Afghanistan, including the rehabilitation of defunct Soviet natural gas wells in the Amu Darya region.⁵⁴ In July 2013, the United Kingdom's Department for International Development allocated £10 million for its Extractives Sector Support Program, a 3-year capacity building program for MoMP.⁵⁵ The Deutsche Gesellschaft für Internationale Zusammenarbeit manages the Open Policy Advisory Fund on behalf of the German Federal Ministry for Economic Cooperation and Development; the German government established the Open Policy Advisory Fund in 2010 to support the Afghan government in implementing its National Development Strategy.^{56, 57} The Deutsche Gesellschaft für Internationale Zusammenarbeit provided funding for advisors to help MoMP strengthen Afghanistan's extractive industries, create jobs, and increase state revenues. Figure 2 in Appendix IV provides a timeline of significant events related to the development of Afghanistan's extractive industries.

⁵³ The Capacity Building for Results Program supports the Afghan government's effort to improve the capacity and performance of core line ministries responsible for implementing National Priority Programs. This program helps to finance the costs associated with (1) technical assistance for preparation and implementation of capacity building programs, (2) recruitment of managerial, common function, and professional staff for key positions in selected line ministries, (3) a management internship program, (4) training of civil servants, and (5) project management, monitoring, and evaluation.

⁵⁴ The Energy Sector Development Investment Program helps to finance investment in key energy infrastructure, such as the North East Power System, the Chimtala-Kabul Transmission Line, and the Gereshk Hydropower Plant.

⁵⁵ The Extractives Sector Support Program is broken into the following four priorities: (1) providing technical assistance and conducting research to support organizational reforms at MoMP, (2) providing technical assistance to promote the development of a transparent fiscal regime, (3) developing capacity at the MoMP Cadaster and Inspectorate (the Cadaster retains property ownership records for MoMP), and (4) providing specialized technical assistance by the British Geological Survey to develop capacity at AGS.

⁵⁶ The Deutsche Gesellschaft für Internationale Zusammenarbeit supports German government efforts directed towards international development.

⁵⁷ The Afghan National Development Strategy serves as Afghanistan's Poverty Reduction Strategy Paper that is underpinned by the principles, pillars, and benchmarks of the Afghanistan Compact, which includes (1) security, (2) governance, rule of law, and human rights, and (3) economic and social development. See Afghan Government, *Afghanistan National Development Strategy*, April 2008.

APPENDIX IV - SIGNIFICANT EVENTS FOR AFGHANISTAN'S EXTRACTIVE INDUSTRIES FROM 2005 THROUGH 2014

Figure 2 - Timeline of Significant Events in Afghanistan's Extractive Industries



Source: SIGAR analysis of major events related to the development of Afghanistan's extractive industries

APPENDIX V - TFBSO'S EFFORTS TO DEVELOP AFGHANISTAN'S EXTRACTIVE INDUSTRIES

Minerals Industry Development

In February and March 2009, the U.S. Geological Survey (USGS) and the Task Force for Business and Stability Operations (TFBSO) held discussions regarding opportunities for USGS to provide expertise in the areas of minerals, energy, water, and geospatial data, with the objective of promoting job creation and economic revitalization in Afghanistan. As a result of these discussions, in September 2009, USGS and TFBSO developed interagency agreements to support travel and work by USGS to help develop Afghanistan's mineral industry. Under these interagency agreements, USGS compiled data in 24 areas of interest in Afghanistan, in which the potential for early economic exploitation had been documented for a number of different mineral, commodity, and deposit types. In 2010, TFBSO reported on the potentially high-value deposits of Afghanistan's mineral resources, including gold, iron, and copper. Additionally, USGS formed teams of mineral, energy, water, and geospatial experts to work alongside Afghan counterparts at the Afghanistan Geological Survey (AGS). Together, USGS and AGS provided the technical information packages that formed the basis for the mineral technical reports, or "National Instrument 43-101-like" documents that TFBSO advisors would later prepare to provide geological information to potential investors.⁵⁸

To attract private investment in Afghanistan's minerals industry, TFBSO hired legal, financial, and technical advisors to assist in the exploration of mineral properties and the tendering process in Afghanistan. The first group of TFBSO-assisted tenders has become known as the Round 1 mineral tenders. SRK Consulting, a mining consulting firm, worked with TFBSO and MoMP to select four of the most promising mineral deposits for tendering.⁵⁹ These four mineral deposits included (1) a gold deposit spread over a 1,000-square kilometer area in Badakhshan province, (2) a copper and gold deposit contained in a 484-square kilometer area in Ghazni province, (3) a copper deposit located in a 457-square kilometer area in Balkhab, Sar-i-Pul and Balkh provinces, and (4) a copper deposit spread over a 250-square kilometer area in Herat province. TFBSO hired Mayer Brown to develop legal documentation, Canaccord Genuity to provide financial advice, Bell Pottinger to provide marketing and public relations material, and the Marx Group, LLC to provide services ensuring a transparent tendering process.⁶⁰ Expertech Solutions, Inc. was also contracted to assist with the mineral tender process.⁶¹

Additionally, from 2011 through 2014, TFBSO funded technical support and on-the-job training for the preliminary mineral exploration, core sampling, and analysis needed to develop potential tender packages. TFBSO contracted with Jasmine Consultants to develop technical reports on potential lithium deposits in Namak-sar-e-Herat and with Central Asian Mining Services to conduct exploratory drilling for copper deposits in

⁵⁸ National Instrument 43-101 outlines the set of disclosure rules and guidelines that companies holding mineral properties must follow before listing on stock exchanges overseen by the Canadian Securities Administration. National Instrument 43-101 requires companies to submit standardized feasibility studies and technical reports vouched for by a "qualified person," which is defined as an engineer or geoscientist who has at least five years of experience in mineral exploration and is a member in good standing of a recognized professional association. National Instrument 43-101 is considered a de facto industry reporting standard by other jurisdictions that lack similarly rigorous regulatory regimes for mining.

⁵⁹ SRK Consulting provides a variety of mining and geology advisory services.

⁶⁰ Mayer Brown is an international law firm; Canaccord Genuity is a banking and financial services firm; Bell Pottinger (formerly known as Pelham, Bell, Pottinger) is a financial public relations company; and the Marx Group, LLC is a consultant group specializing in transparency in international investment and global commerce in developing countries.

⁶¹ Expertech Solutions, Inc. (currently known as Afilion, Inc.) is a United States-based company that specializes in business transformation and modernization.

North Aynak; however, these projects were excluded from the first round of mineral tenders.⁶² TFBSO also contracted with Transformation Advisors Group, LLC to oversee, manage, and certify drilling, sampling, mapping, and potential mine planning and design; with Emissary Transition Group, LLC to assist with the development and implementation of a training curriculum for drilling; and with Metis Solutions, LLC to assist with geological survey exploration and capacity development at AGS.⁶³

Hydrocarbon Industry Development

TFBSO efforts in the hydrocarbons industry include hydrocarbon development for the upstream sector, which includes the exploration and exploitation of oil and natural gas, and the downstream sector, which includes refining hydrocarbons into fuels, lubricants, and petrochemicals such as fertilizer. With only two operational refineries, Afghanistan remains heavily dependent on imported fuels. According to a TFBSO's economic impact assessment, Afghanistan's oil imports increased from \$728 million in 2009 to \$1.7 billion in 2013. Therefore, one of TFBSO's goals was to help move Afghanistan toward energy independence with development efforts for both the extraction and use of hydrocarbon resources.

On the upstream side, TFBSO activities included collecting and analyzing data about Afghanistan's hydrocarbon deposits, as well as assisting the Ministry of Mines and Petroleum (MoMP) in preparing and executing tenders of hydrocarbon properties. TFBSO officials stated that they determined modern, high-quality seismic data—which can accurately map subsurface geological structures known to be potential reservoirs for oil and or natural gas—would help spur exploration investment by international oil and natural gas companies. TFBSO's efforts to assist the MoMP and the Afghanistan Petroleum Authority in initiating and managing contract tenders for the development of Afghanistan's oil and natural gas reserves focused primarily on the Amu Darya and Afghan-Tajik Basins in northern Afghanistan. TFBSO contracted with Hickory Ground Solutions, LLC, Zantech IT Services, Inc., and Curtis, Mallet-Prevost, Colt & Mosle, LLP to research and otherwise support tenders of contracts for blocks in each basin.⁶⁴

In December 2011, the Afghan government approved a hydrocarbons exploration and production sharing contract with China National Petroleum Corporation International and its Afghan partner, Watan Oil and Gas, for three oil blocks in the Amu Darya Basin: (1) Kashkari, (2) Bazarkhami, and (3) Zamarudsay. Also in the Amu Darya Basin, TFBSO experts worked with MoMP to rehabilitate and reopen an additional four oil wells. According to TFBSO officials, the rehabilitation of these four oil wells created the production capacity for approximately 350,000 barrels annually and enabled MoMP to hold its first oil sale to an Afghan company. To reduce the security risk for international oil companies to enter the Amu Darya region, TFBSO also funded the clearance of 41,200 square meters of landmines.

In October 2013, MoMP approved two exploration and production sharing contracts with an international consortium for two oil and natural gas blocks in the Afghan-Tajik Basin—the Mazar-e-Sharif and Sanduqli blocks. The consortium consisted of the Turkish National Petroleum Corporation, Dragon Oil, and the Afghan

⁶² Jasmine Consultants is a small, United States-based business that provides natural resources development consulting services. Central Asian Mining Services is a drilling and mining support company headquartered in Kabul, Afghanistan.

⁶³ Transformation Advisors Group, LLC is a service-disabled veteran-owned small business specializing in providing technology services and program management consulting for the U.S. government and commercial businesses in the Middle East, Asia, Africa, and North America; Emissary Transition Group, LLC is a woman-owned small business that provides security and logistics services for businesses operating in fragile states; Metis Solutions, LLC is a woman-owned small business that provides strategy and policy support, intelligence and operations support, program management, and international business development services to U.S. government and commercial clients.

⁶⁴ Hickory Ground Solutions is a service advising firm that delivers strategic consulting services to federal and state government business leaders; Zantech IT Services, Inc. is a minority-owned information technology company that provides its federal government and industry clients with enterprise information systems solutions, which include program management services, applications development, operations and maintenance, and systems administration; Curtis, Mallet-Prevost, Colt, & Mosle, LLP is an international law firm that provides a broad range of legal services to clients around the world.

Ghazanfar Group.⁶⁵ TFBSO officials said that Task Force advisors provided some assistance to the Afghan Petroleum Authority to help develop their capacity to manage and regulate these Amu Darya and Afghan-Tajik contracts.

Enhancing Access to Energy Resources

TFBSO worked with MoMP and the Afghan Gas Enterprise, a state-owned subsidiary of MoMP, to improve natural gas availability and access, attract foreign investment in downstream natural gas industries, and further monetize Afghanistan's natural gas resources—while reducing the country's dependence on foreign fuels. TFBSO provided pipe, equipment, planning, operations and management support, and training to the Afghanistan Gas Enterprise to rehabilitate 15 kilometers of the 89.1-kilometer pipeline running between the natural gas fields in Sheberghan and the Northern Fertilizer and Power Plant near Mazar-e-Sharif.⁶⁶ TFBSO also procured natural gas process equipment to enable the use of sour gas that would flow through this pipeline.⁶⁷

Additionally, TFBSO planned to build an entirely new pipeline alongside the old Sheberghan-Mazar pipeline. For this effort, TFBSO procured and delivered 94.5 kilometers of line pipe to enable the Afghanistan Gas Enterprise to construct a new pipeline between the Khoja Gogordak facility in Sheberghan and potential consumers in Mazar-e-Sharif. TFBSO planned for the new pipeline to operate in parallel with the existing pipeline to provide up to four times the amount of natural gas available from the current Sheberghan-Mazar pipeline. According to TFBSO officials, the necessary construction materials for the new line will be transferred to the Afghan government for the construction of the second pipeline, although this project remains unfunded. Asian Development Bank officials said that they may ultimately fund the project after MoMP submits a formal request and proposal. One TFBSO expert estimated that it will cost approximately \$16.6 million to construct the second pipeline, not including the (likely significant) security costs.

Because Afghanistan's electric power plants and transport fleet rely on expensive diesel imports, TFBSO leadership also decided that taking steps to develop a domestic fuel market would be critical to Afghanistan's economy and energy security. As a proof of concept to demonstrate that Afghanistan's automotive fleet could transition from a reliance on foreign diesel and instead use cheaper, locally-produced natural gas, TFBSO funded the construction of a compressed natural gas complex in Sheberghan City, including a compression station, pipeline extension from the current natural gas grid, desulphurization and dehydration systems, engine conversion kits, and installation and maintenance training for station operators. Additionally, TFBSO coordinated with the taxi association in Sheberghan to convert its fleet of approximately 150 cars to dual-use—compressed natural gas/petroleum—engines. TFBSO also converted two diesel generators operated by the Afghan Ministries of Interior and Defense to run on compressed natural gas.

Enhancing Rural Village Stability

TFBSO contracted Metis Solutions, LLC to provide an artisanal mining expert to train both special forces personnel and local partners in proper artisanal mining methods and supporting Combined Joint Special Operations Task Force–Afghanistan Village Stability Operations by identifying potential small scale mineral development in strategic villages. TFBSO also contracted with Alion Science and Technology to perform an

⁶⁵ The Turkish National Petroleum Corporation is a national oil company of Turkey that engages in all fields of the oil industry, including exploration, production, refining, marketing, and transportation; Dragon Oil is an international oil and gas exploration, development, and production company based in Dubai, United Arab Emirates; the Ghazanfar Group is an Afghan company involved in exploration, refining, and distribution.

⁶⁶ Based upon evidence gathered during the audit, in December 2014, we released an inquiry letter expressing concern about the safety of a natural gas pipeline between Sheberghan and Mazar-e-Sharif that TFBSO helped rehabilitate, and requested further information from TFBSO about the assistance it provided to ensure the pipeline is safe for continued use (see SIGAR 15-15-AL, TFBSO Pipeline Project, December 11, 2014).

⁶⁷ Sour gas is natural gas that contains measurable amounts of hydrogen sulfide (H₂S). It is colorless, flammable, poisonous to humans and animals and, unlike sweet natural gas, it is extremely corrosive and requires refining before use.

assessment of how TFBSO could leverage its resources to support special operations strategies and priorities with Village Stability Operations activities.⁶⁸

Capacity Building

According to TFBSO officials, a successful capacity building effort in Afghanistan would result in the Afghan government having enough technical knowledge to be able to function in a self-sustaining manner while knowing when it is appropriate to bring in outside expertise. TFBSO conducted its main capacity building efforts at MoMP through on-the-job training and teleconferences with experts in geology and international extractive industries practices. As discussed above, many of TFBSO's activities—including but not limited to its tender support, drilling for core samples, rehabilitation of the Sheberghan-Mazar pipeline, and Village Stability Operations in the Khas Kunar Valley—involved elements of instruction and on-the-job training.

According to USGS officials, in addition to these efforts, since 2004, through interagency agreements with the Department of Defense, the USGS has assisted the AGS in compiling pre-existing Soviet-era data related to mineral, water, coal, oil and natural gas resources. In 2011, TFBSO financed the establishment of a data center at the MoMP headquarters in Kabul to house both historical and newly acquired data. A senior TFBSO senior official stated that the Task Force embedded a team of USGS experts at AGS to teach them how to manage the data center. TFBSO and USGS also funded efforts to help AGS improve its technical capability in fields such as geophysics, hydrology, mapping, and sampling analysis. Additionally, USGS partnered with the Colorado School of Mines to provide training specific to analyzing and documenting Afghanistan's coal deposits.

In addition, TFBSO officials told us that they partnered with three international universities and Kabul Polytechnic University to update the school's mining curriculum and train professors in contemporary mining practice in 2014. According to representatives from TFBSO and MoMP, schools such as Kabul Polytechnic University needed this support because their curriculums still reflected Soviet central planning practices. A TFBSO program officer stated that the Task Force's Kabul Polytechnic University capacity building project began in May 2014 and concluded in October 2014.

⁶⁸ Alion Science and Technology delivers advanced engineering, information technology, and operational solutions to customers in defense, civilian government, and commercial industries.

APPENDIX VI - USAID'S EFFORTS TO DEVELOP AFGHANISTAN'S EXTRACTIVE INDUSTRIES

Mining Investment and Development for Afghan Sustainability (MIDAS) Legislative and Regulatory Reform

The first component of the U.S. Agency for International Development's (USAID) MIDAS program is to work with the Ministry of Mines and Petroleum (MoMP) to reform mining policy and regulations. The MIDAS implementing partner—ECC Water and Power, LLC—reviewed the Minerals Law of 2009 and made legislative recommendations for inclusion in the new Minerals Law, which the Afghan Parliament passed in August 2014.⁶⁹ Additionally, MIDAS officials are working with MoMP to develop policies and regulations that are consistent with the new minerals law and conducive to economic development. According to MIDAS contract documents, the program will assist the Afghan government in improving royalty, tax, environmental and licensing regulations, including implementing principles for transparency and creating oversight institutions.

MIDAS Mineral Exploration and Capacity Building for MoMP

The second component of MIDAS is to provide technical assistance to (1) develop MoMP expertise in geoscience, field investigation, and drilling; (2) conduct data analysis and management to verify the location and quantity of mineral deposits; and (3) provide support services and evaluation for tender packages. According to MIDAS contract documents, this component will facilitate:

1. a functioning mining cadastre,⁷⁰
2. standardized information technology,
3. an expanded resource analysis and quantification capability,
4. skilled legal and policy analysis staff,
5. appropriately-sized operations staffed by qualified officials,
6. databases accessible to potential investors, and
7. investment promotion capacity.

This component also aims to improve MoMP governance, internal controls, procurement procedures, and financial management practices, with the goal of improving the efficiency of on-budget development assistance management within MoMP.

MIDAS officials provided exploration experience and training by taking geologists with the Afghanistan Geological Survey (AGS) on a field visit near the Salang Pass and in Panjshir in August 2014 to drill for mineral core samples. Further, MIDAS officials told us they intend to drill at three sites along the border of Parwan and Baghlan provinces and Bamyan. MIDAS officials envision that four to five sites will be ready for tender by the MoMP by December 2015.

MIDAS Private Sector Development for the Mining Industry

The third component of MIDAS is to provide technical assistance to improve the capacity of Afghan small and medium enterprises that provide drilling, construction, transportation, and other support services related to mining activities. MIDAS contract documents note that private investment in Afghan mining is constrained by deficits of skilled labor, poor security, and limited financing options, among other factors. This third component

⁶⁹ ECC is a global engineering company that delivers engineering and design, construction, environmental remediation, management, energy, and military munitions response services to government and commercial clients.

⁷⁰ A cadastre (also spelled cadaster) is a comprehensive property registry that commonly includes data regarding ownership, tenure, coordinates, dimensions, and land value. Mining-specific cadastres also control compliance with the payment of fees and other requirements to maintain a concession in good standing.

of MIDAS is intended to (1) introduce Afghan small and medium enterprises to new market opportunities in the mining value chain, (2) facilitate the creation of jobs directly and indirectly from mining industry investments and activities, and (3) facilitate communication among MoMP, private sector companies, and local communities.

MIDAS contract documents also note that community engagement is a USAID priority when developing mining sites, and MIDAS officials stated that they intend to develop village councils in order to educate Afghan citizens about the mining industry and facilitate communication between local communities, mining companies, and the government. According to a MIDAS assessment, much work needs to be done in developing small and medium enterprises to work with communities and help raise awareness of the potential of Afghanistan's mining industry. MIDAS contract documents show that the program intends to focus on small and medium enterprises that tend to operate in the various stages of mining development such as surveyors, drillers, transportation and security companies, hotels, and project management consultants.

Sheberghan Gas Development Program (SGDP)

USAID's SGDP includes \$90 million in on-budget funding for natural gas field development in two phases:

Sheberghan Gas Field Development: This phase is expected to result in the rehabilitation of two existing natural gas wells in Bashikurd, and drilling additional wells in Juma and Bashikurd. The objective of this project is to prove natural gas reserves and develop the wells for natural gas production at a power plant to be developed later. In December 2013, MoMP awarded the drilling and re-entry services contract to the Turkish National Petroleum Corporation.⁷¹

Construction of a Natural Gas Processing Plant: This phase is expected to result in the construction of a gas processing plant capable of sweetening natural gas from the Sheberghan wells to meet the needs of a planned 200-megawatt plant, which USAID expects to be constructed and operated by the private sector.⁷² USAID officials have stated that success of the Sheberghan Gas Generation Activity, described below, relies on the private industry to sustain and maintain the installations built as part of SGDP.

Sheberghan Gas Generation Activity (SGGA)

The objectives of SGGA are to:

1. provide technical assistance, training, and capacity enhancement to MoMP for the development and effective utilization of Afghanistan's hydrocarbon reserves;
2. implement a comprehensive capacity building program for staff of the MoMP and relevant institutions to support objective;
3. assist MoMP in procuring and implementing the construction and infrastructure activities necessary to identify, quantify, and develop natural gas fields and restore the power output of Northern Fertilizer and Power Plant;
4. assist MoMP in commercializing the Afghan Gas Enterprise; and
5. improve and consolidate the Northern Fertilizer and Power Plant power operations with Da Afghanistan Breshna Sherkat—Afghanistan's electricity company—for operational efficiency.

The SGGA contract was initially estimated to conclude in June 2013 but, USAID extended the program through March 2015 at no cost to the government. USAID officials stated that the agency is reviewing an

⁷¹ The Turkish National Petroleum Corporation is a national oil company of Turkey that engages in all fields of the oil industry, including exploration, production, refining, marketing, and transportation.

⁷² Sweetening natural gas refers to a process that removes sulfur and other contaminants from raw natural gas. This is a prerequisite for utilization by the power plant.

additional contract modification to enable the extension of the SGGA program past its current end date of March 31, 2015.

According to USAID officials, SGGA is designed to provide technical capacity building crucial to the success of the initiatives undertaken through SGDP. Specifically, SGGA is to provide training in the skills SGDP requires as the need for those skills arises. However, delays in SGDP's progress have resulted in delays in the technical capacity building efforts under the SGGA program. According to SGGA officials, two major delays extended the SGGA activity. The first delay was due to the rebidding of the well rehabilitation and drilling in the Juma and Bashikurd field, and the second delay resulted from the Turkish National Petroleum Corporation's failure to obtain a required security guarantee within the mandated time frame. Further, SGGA officials stated that the Turkish National Petroleum Corporation has also been slow to mobilize its rigs for drilling. To recover the time lost, SGGA officials stated that natural gas will be pumped from previously drilled wells in the nearby natural gas field of Jarquduq, which they say should allow the project to continue.


APPENDIX VII - COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



MEMORANDUM

DATE: April 15, 2015

TO: John F. Sopko
Special Inspector General for
Afghanistan Reconstruction (SIGAR)

FROM: William Hammink, Mission Director 

SUBJECT: Mission Response to Draft SIGAR Report titled
"Afghanistan's Extractive Industries: \$500 Million in
U.S. Funding Is at Risk" (SIGAR Report 15-XX under
Code 097A-1)

REF: SIGAR Transmittal email dated 03/17/2015

USAID thanks SIGAR for the opportunity to comment on this report.

The extractives industry in Afghanistan could attract high levels of private foreign direct investment and become a fundamental pillar of a robust Afghanistan economy. However, much remains to be done to develop a regulatory environment and a Ministry of Mines and Petroleum (MoMP) that will oversee the development of the extractives industry. Providing the necessary capacity building in this sector will take considerable time and effort.

U.S. government support to and coordination with the Government of the Islamic Republic of Afghanistan (GIROA) and the private sector will help to develop Afghan mineral and natural gas resources in a responsible, environmentally-friendly manner.

USAID capacity-building efforts in the extractives sector have been considerable and have been closely coordinated with the World Bank and other bilateral donors and U.S. Government entities, including TFBSO. Through the Sheberghan Gas Development Program (SGDP) and the Mining Investment and Development for Afghan Sustainability (MIDAS) project, USAID funding is developing the regulatory framework and an enabling business environment with the potential to attract billions of dollars in investment for energy and road infrastructure, job creation, and

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GIRoA revenue generation. Private sector investments, business taxes and royalty rates will be particularly important to the future of the Afghan government's revenue generating potential over the coming decade.

The international donor community has a collaborative approach to develop the Afghan extractive industry. In particular, the World Bank, the United Kingdom's Department for International Development (DFID), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and other donors spend considerable money on capacity building at MoMP and in other elements of the sector. However, USAID's MIDAS is the only program that focuses on drilling and mineral exploration documentation, key skills required for managing tender processes.

The international donor community has been very active in the Afghan extractives industry given this is a post-conflict country that requires extensive amounts of institution building and technical assistance. An initial priority was the establishment of the legal framework for an enabled business environment. As the industry and the country mature, capacity building at the Ministries will take priority. With USAID's assistance, MoMP will prepare the necessary background documentation to ensure the private sector will operate the locations in an efficient and legally acceptable manner. This is a key component to the long-term sustainability of the sector and of the government's ability to ultimately manage Afghanistan's natural patrimony.

RESPONSE TO SIGAR's RECOMMENDATIONS

In light of subsection 1535(b) of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011, Pub. L. No. 111-383, 124 Stat. 4137, 4427, which required the Secretary of Defense, the Secretary of State, and the USAID Administrator to jointly develop a plan for the transition of TFBSO activities, we recommend that the USAID Administrator:

(1) Report to the appropriate congressional committees the reasons why USAID did not continue any of TFBSO's activities.

USAID Comments: The Mission does not concur with the first recommendation.

Actions Taken/Planned:

To comply with the 2011 legislation, TFBSO, the Department of State, and USAID jointly submitted a transition plan to Congress, which

outlined the necessary criteria for the transfer of activities from TFBSO to USAID. These criteria were:

- Activity fit within the USAID development strategy
- USAID and TFBSO sign a Memorandum of Understanding
- TFBSO provide necessary funding to continue each activity

Subsequently, in a June 2013 meeting and at a July 2013 Steering Committee meeting, TFBSO and USAID determined that none of TFBSO's projects were to be transitioned to USAID because they were being handed over to other responsible entities or were completed (Attachment 1). Therefore, TFBSO and USAID did not take steps to transfer activities to USAID. TFBSO also submitted semiannual reports to Congress over the last two years explaining its transition strategy (Attachment 2). Furthermore, USAID is unable to liberally assume other federal agency projects without commensurate allocation of funding of the annual budget passed by the U.S. Congress.

Target Closure Date:

Based on the above, we request removal of the first recommendation.

To ensure technical capacity building is sustained at MoMP and its component organizations after SGGA and MIDAS initiatives are completed, we recommend that the USAID Administrator require ECC, the MIDAS implementing partner, to:

(3) Update the MIDAS performance management plan by August 1, 2015 to include plans for the sustainment and transfer of its activities.

USAID Comments: The Mission concurs with Recommendation 3.

Actions Taken/Planned:

USAID will work with the MIDAS implementing partner (IP) to update the performance management plan (PMP). To complement the PMP, the MIDAS IP is preparing plans for the sustainment and transfer of its activities.

Target Closure Date: August 1, 2015

APPENDIX VIII - ACKNOWLEDGMENTS

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