

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

SIGAR 16-11 Audit Report

### Afghanistan's Oil, Gas, and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth



JANUARY  
2016

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT SIGAR REVIEWED

The U.S. government estimates Afghanistan has more than \$1 trillion in reserves of minerals, oil, and natural gas—collectively referred to as “extractives”—that could generate more than \$2 billion in annual revenues for the Afghan government. Since 2009, the Department of Defense’s (DOD) temporary Task Force for Business and Stability Operations (TFBSO) and the U.S. Agency for International Development (USAID) have obligated nearly \$488 million on efforts designed to develop the extractive industries in Afghanistan.

This is the second of two SIGAR reports focused on the U.S. efforts to develop Afghanistan’s extractive industries. In our April 2015 report, we found that TFBSO and USAID pursued divergent approaches to guide their projects; the U.S. Embassy in Kabul did little to coordinate interagency activities aimed at developing Afghanistan’s extractive industries because embassy officials lacked policymaking authority; and TFBSO generally did not coordinate with other agencies beyond perfunctory efforts. We also reported that TFBSO transferred all remaining projects to the Afghan Ministry of Mines and Petroleum (MoMP), and no U.S. agency in Afghanistan had any plans to provide continued monitoring, evaluation, or support for TFBSO extractive projects.

The objectives of this audit were to (1) assess TFBSO efforts to develop the extractive industries in Afghanistan, (2) assess USAID efforts to develop the extractive industries in Afghanistan, and (3) identify the challenges to creating stable and lasting extractive industries as a source of revenue for the Afghan government.

January 2016

## Afghanistan’s Oil, Gas, and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress, and Challenges Prevent Further Investment and Growth

### SIGAR 16-11 AUDIT REPORT

#### WHAT SIGAR FOUND

Most TFBSO and USAID assistance to Afghanistan’s extractive industries has been directed toward developing capacity at the MoMP and its component organizations, and toward making regulatory reforms to attract private sector investment. TFBSO pursued short-term projects seeking immediate results, while USAID pursued longer-term capacity-development efforts. Both the efforts of TFBSO and USAID in this area produced mixed results. Responding to SIGAR’s April 2015 report on TFBSO, USAID assessed the projects TFBSO transferred to the MoMP and estimated the costs to continue them. USAID concluded that it does not have the funding to support those projects. Separately, SIGAR determined that USAID’s own programs had mixed results because of the lack of MoMP commitment to reforms, and other challenges in Afghanistan’s operating environment.

SIGAR evaluated the results of TFBSO’s 11 extractives projects, worth a total of \$215.4 million, to determine: (1) whether the projects achieved their objectives before the conclusion of TFBSO activities in Afghanistan in December 2014 and (2) the extent to which these projects will be sustainable based on the observed capabilities of the Afghan government. TFBSO’s projects were intended to, among other things, develop extractive resources, enhance access to energy resources, and strengthen institutional and technical capacity at the MoMP. TFBSO’s 11 projects achieved mixed results, with 3 of those projects showing little to no achievement of their project objectives, 5 partially met project objectives, and the final 3 generally met project objectives. For example, while TFBSO spent \$46.5 million towards building capacity for mineral tender support, not a single tender resulted in a signed contract, largely because of delays created by the Afghan central government, such as the delayed passage of the new Minerals Law and contract review created by the new Afghan government.

SIGAR reviewed two of USAID’s three programs intended to develop Afghanistan’s extractive industries—USAID’s Office of Inspector General plans to review the third program—and determined that these programs had mixed success due to challenges in dealing with the Afghan government. Specifically, the Mining Investment and Development for Afghan Sustainability (MIDAS) program, which aimed to build institutional capacity to develop and regulate Afghanistan’s extractive industries, fully met 5, partially met 2, and did not meet 4 of the 11 key performance indicators for fiscal year 2014. The Sheberghan Gas Generation Activity (SGGA), which was intended to provide training and technical assistance in support of Afghanistan’s hydrocarbons industry, completed only 7 of its 24 program objectives for fiscal year 2014, partially met or was still working on 11, and cancelled or abandoned 6 objectives. Although other factors also played a role in USAID not meeting its program objectives, our review found that the MoMP’s management lacks the commitment to make necessary reforms to absorb on-budget assistance—funding that is channeled through the Afghan government’s core budget. For example, 5 of the 11 key performance indicators for MIDAS were either partially met or not met because of the delayed passage of the 2014 Minerals Law, staffing issues with the MoMP, and USAID’s eventual decision not to release on-budget funding for the MIDAS program following an

assessment of the MoMP's ability to absorb on-budget assistance. USAID has recognized the problems within the MoMP and responded by reducing, and then in December 2014, discontinuing on-budget assistance under MIDAS to the MoMP. Neither the MoMP nor its component organizations have demonstrated the capacity to responsibly manage on-budget funding or a seriousness in addressing transparency and anti-corruption concerns, as called for by USAID guidance.

Despite the issues highlighted above, U.S. government assistance to the MoMP has resulted in several positive developments. The Afghan government now has updated geological data for several dozen areas of interest, which it can use to attract investors. According to non-governmental organizations monitoring the extractive industries in Afghanistan, the Minerals Law and Hydrocarbon Law, while still deficient in several critical areas, have become more investor-friendly and conform better to internationally accepted best practices. Afghan government officials stated that the MoMP has begun to transition away from a centralized planning model for its extractive industries and towards a private sector-led model. Additionally, the MoMP and its component organizations have developed both greater capacity and greater confidence to market, negotiate, and regulate competitive contracts with some level of transparency. However, significant problems remain in the areas of corruption, infrastructure, security, and Minerals Law.

Corruption has been a major obstacle for sustainable growth in Afghanistan's extractive industries. In particular, unregistered and illegal artisanal and small-scale mining operations continue to be a source of civil strife, unrealized government revenues, and lost economic output. One senior official in the Afghan government stated that many mines in Afghanistan operate illegally because of the inefficient and often corrupt registration process. Integrity Watch Afghanistan estimates that 1,400 mines operate illegally throughout Afghanistan, with 710 mines operating illegally in the Kabul area alone. By contrast, the Afghan government reports that only 300 mines are licensed to operate and are paying taxes. Additionally, despite the 2014 Mining Law's prohibition on granting mining licenses to employees of the Ministries of Defense and the Ministry of Interior, as well as senior members of the national government, many mining operations are still controlled by political elites, warlords, military personnel, and the police. According to non-governmental organizations monitoring the growth of Afghanistan's extractive industries, if the rampant corruption and disregard for government oversight in the artisanal mining sector continues, there is a risk that it will cause Afghanistan's security situation to further deteriorate.

Afghanistan's road and rail networks remain generally inadequate to support the needs of its mining industry. The Afghan government notes that many roads are not easily passable by motor vehicles, and only half are serviceable throughout the year, making it difficult to move necessary equipment to often remote mining sites. Further, Afghanistan's rail network is almost nonexistent, and according to representatives from TFBSO, the few lines that do exist use gauges that are incompatible with each other. Low-value bulk commodities, like Afghanistan's iron and copper, generally require transport by rail to customer or port to be economically feasible. Further, although crude oil can be profitably transported by truck, representatives from the Department of State stated that this is not economically feasible given current global prices for crude. Even if prices were to rise, USAID subject matter experts say that Afghanistan lacks the infrastructure necessary to refine oil and load it onto trucks. TFBSO and USAID officials agreed that transportation of Afghanistan's natural gas will require updates to and expansion of its existing pipeline infrastructure.

Afghanistan's poor security environment is another ongoing challenge for the extractive industries. According to both Afghan and U.S. government officials, mineral- and hydrocarbon-rich areas are often located in remote areas outside of government control, rendering them dangerous to explore and develop. Other areas are contaminated by landmines and unexploded ordinance that will need to be cleared before these areas are suitable for exploration. Security issues will likely constrain Afghan government personnel working in the extractive industries.

According to ECC Water & Power LLC, USAID's MIDAS implementing partner, there are several ways in which the 2014 Minerals Law needs to be improved. Specifically, the law's categorization of "rare earth elements" includes minerals that are not generally considered rare earth elements by the international scientific community, creating additional burdens for potential investors. Also, the Afghan Minerals Law requires that a tender process be used to award mining exploration licenses. However, according to MIDAS, most countries award licenses based on when applications are received since the tender process, except in very specific cases, is viewed as both cost and time prohibitive. Without addressing the above mentioned problems, it is unlikely that Afghanistan's extractive industries will develop to their full potential.

## WHAT SIGAR RECOMMENDS

We are making two recommendations to USAID. SIGAR recommends that the USAID Administrator (1) using the results of the assessments done to date, develop a plan with the MoMP and its component organizations addressing the structural reforms needed at the ministry and establishing milestones for achieving them; and (2) condition any future on-budget assistance to the MoMP on the ministry achieving the milestones in the agreed-upon plan. We received written comments on a draft of this report from DOD and USAID, and technical comments from the Department of State. DOD did not comment on the findings or other contents of the draft report and instead directed us to a RAND Corporation lessons learned study of TFBSO that does not address the issues discussed by this audit. USAID concurred with both recommendations.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

January 11, 2016

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 Gayle E. Smith  
Administrator, U.S. Agency for International Development

Mr. Herbert B. Smith  
USAID Mission Director for Afghanistan

This report discusses the results of SIGAR's audit of U.S. efforts to develop Afghanistan's mineral, oil, and gas industries, and develop the capacity of the Afghan Ministry of Mines and Petroleum (MoMP). It focuses on the efforts of the Department of Defense's (DOD) Task Force for Business and Stability Operations (TFBSO) and the U.S. Agency for International Development (USAID). This is the second of two SIGAR reports on U.S. efforts to develop Afghanistan's extractive industries. The first 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*, published in April 2015, focused on the planning, coordination, and sustainability of U.S. efforts.

Due to the discontinuation of TFBSO's activities in Afghanistan on December 31, 2014, we are not making recommendations to TFBSO. However, we are making two recommendations to USAID. We recommend that the USAID Administrator (1) using the results of the assessments done to date, develop a plan with the MoMP and its component organizations addressing the structural reforms needed at the ministry and establishing milestones for achieving them; and (2) condition any future on-budget assistance to the MoMP on the ministry achieving the milestones in the agreed-upon plan.

We received written comments on a draft of this report from DOD and USAID. DOD did not comment on the findings or other contents of the draft report and instead directed us to a lessons learned study of TFBSO conducted by the RAND Corporation. USAID concurred with both recommendations. DOD's and USAID's comments are reproduced as appendices V and VI, respectively. We also received technical comments from the Department of State, which we incorporated as appropriate.

SIGAR conducted this work under the authority of Public Law 110-181, as amended, and the Inspector General Act of 1978, as amended; and in accordance with generally accepted government auditing standards.

A handwritten signature in black ink, appearing to read "John F. Sopko".

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

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## ABBREVIATIONS

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AGS	Afghanistan Geological Survey
APA	Afghan Petroleum Authority
DOD	Department of Defense
FY	Fiscal Year
MIDAS	Mining Investment and Development for Afghan Sustainability
MoMP	Ministry of Mines and Petroleum
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

According to the Department of Defense's (DOD) Task Force for Business and Stability Operations (TFBSO),<sup>1</sup> the estimated value of Afghanistan's mineral and hydrocarbon deposits—collectively known as “extractives”—is more than \$1 trillion, with \$908 billion in mineral resources and more than \$200 billion in hydrocarbon deposits. Recognizing the potential economic importance of these resources to Afghanistan, the United States, through TFBSO and the U.S. Agency for International Development (USAID), has obligated nearly \$488 million to support the Afghan Ministry of Mines and Petroleum (MoMP) and develop Afghanistan's mineral and energy resources.

The objectives of this audit were to (1) assess TFBSO efforts to develop the extractive industries in Afghanistan, (2) assess USAID efforts to develop the extractive industries in Afghanistan, and (3) identify the challenges to creating stable and lasting extractive industries as a source of revenue for the Afghan government.<sup>2</sup> In coordination with the USAID Office of Inspector General's planned review of USAID's Sheberghan Gas Development Program (SGDP), we focused our audit on USAID's two other projects in the extractive sector: the Mining Investment and Development for Afghan Sustainability (MIDAS) program and the Sheberghan Gas Generation Activity (SGGA).

To accomplish our objectives, we reviewed contract documents, task orders, and purchasing orders. We reviewed progress reports, final summary reports, and other deliverables prepared by USAID and TFBSO. We reviewed contracting officer representative status reports, where available. We also reviewed internal program management reports, financial modeling documents, concurrence plans submitted to the Department of State (State) and USAID, and fiscal year (FY) 2011, 2012, 2013, and 2014 Activities Reports to Congress. We interviewed officials from the U.S. Embassy in Kabul, USAID, TFBSO, the MoMP, and other U.S. and Afghan government entities engaged in the sector, as well as contractor representatives. We conducted our work in Washington, D.C., and Kabul, Afghanistan, from February 2014 through January 2016 in accordance with generally accepted government auditing standards. Details regarding our objectives, scope and methodology are in appendix I.

## BACKGROUND

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Afghanistan's mountainous environment is home to a variety of geological formations with an abundance of minerals, precious metals, gemstones, and hydrocarbons, estimated by TFBSO to be worth over \$1 trillion. The U.S. Geological Survey (USGS) has identified potentially significant mineral deposits in nearly every province of Afghanistan, with some larger deposits spanning multiple provinces. The Afghan government awarded the largest-scale mineral contract to date, for the Mes Aynak copper deposit in Logar province, to the Metallurgical Corporation of China in 2008.<sup>3</sup> Proven oil and gas reserves, on the other hand, are concentrated in the north of the country near the Turkmen and Uzbek borders. Existing infrastructure for the production and transportation of oil and natural gas is largely centered in Balkh, Jowzjan, and Sar-e Pol provinces.

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<sup>1</sup> TFBSO was established by the Deputy Secretary of Defense in 2006, reporting to the Office of the Secretary. Its original purpose was to help revive the post-invasion economy of Iraq. In 2009, TFBSO was redirected to Afghanistan, where its mission was to carry out projects designed to encourage private-sector investment in Afghanistan and to reduce unemployment. TFBSO ceased operations in Afghanistan on December 31, 2014, and shut down entirely on March 31, 2015.

<sup>2</sup> This audit report is part of a broader, ongoing SIGAR review of TFBSO program activities. For additional SIGAR reporting on TFBSO, see: SIGAR Special Project 16-2-SP, *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived \$43 Million Project*, October 22, 2015; SIGAR Special Project 15-60-SP, *Inquiry Letter: Downstream Gas Utilization Project*, May 18, 2015; SIGAR Audit Report 15-55-AR, *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 24, 2015; SIGAR Special Project 15-40-SP, *DOD Contract Obligations*, March 18, 2015; and SIGAR Alert Letter 15-15-AL, *Alert Letter: Task Force for Business and Stability Operations Pipeline Project*, December 11, 2014.

<sup>3</sup> 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.



Despite Afghanistan's vast array of mineral reserves, the majority of mining operations today are artisanal or small scale, and not under the control of the Afghan government.<sup>4</sup> Moreover, the unregulated and illegal 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 4 decades of conflict in Afghanistan. Additionally, Afghanistan's hydrocarbon sector is even less developed because technological and capital constraints tend to preclude exploitation by small firms.

The MoMP is the Afghan government entity responsible for the administration, oversight, and regulation of Afghanistan's mineral resources.<sup>5</sup> The MoMP's responsibilities include establishing mining policy, negotiating mining contract tenders,<sup>6</sup> and regulating Afghanistan's extractive industries. The MoMP's Afghanistan Geological Survey (AGS) provides information on the geology of Afghanistan and promotes interest in the country's mineral resources. The MoMP's Afghan Petroleum Authority (APA) has exclusive responsibility for establishing hydrocarbon policy and regulating the hydrocarbon sector.<sup>7</sup> The APA directly oversees two utilities that together manage the state-owned 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. In addition to their regulatory responsibilities, the MoMP and the APA are also responsible for collecting revenues from extractives sales, taxes, and royalties.

As levels of international aid to Afghanistan begin to decline, the extraction and export of Afghanistan's natural resources could help stimulate long-term economic growth and generate revenues for the Afghan government. As a result, U.S. government and international donor organizations have provided support for the regulatory and commercial development of Afghanistan's extractive industries. For the U.S. government, since 2009, TFBSO and USAID have been the two main entities providing assistance to directly support Afghanistan's extractive industries. TFBSO efforts included assisting the Afghan government in documenting its mineral and hydrocarbon resources; researching, designing, and executing tenders for mineral and hydrocarbon contracts; rehabilitating a natural gas pipeline between Sheberghan and Mazar-e-Sharif; and developing technical capacity within the MoMP, the AGS, and the APA. According to self-reported numbers provided by the Task Force to SIGAR, TFBSO obligated at least \$275 million and disbursed at least \$215 million in support of these projects before concluding operations in Afghanistan on December 31, 2014.<sup>8</sup>

In 2013, USAID began the MIDAS project to assist the MoMP in developing the institutional capacity to develop and regulate Afghanistan's extractive industries. Specifically, the MIDAS project is intended to assist in the development of (1) a legal and regulatory framework to govern the minerals industry, (2) technical capacity at the MoMP and the AGS, and (3) small and medium enterprises that deliver support services to the minerals industry. According to self-reported numbers provided by USAID to SIGAR, USAID has allocated approximately \$86 million to MIDAS through 2017. Similarly, USAID officials reported that they have been implementing the SGGG program since 2011, at a cost of \$30 million, to develop technical capacity within the MoMP and other relevant Afghan government institutions involved in the extraction, regulation, and use of natural gas from the

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<sup>4</sup> 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.

<sup>5</sup> The MoMP was formerly known as the Ministry of Mines and before that as the Ministry of Mines and Industry.

<sup>6</sup> Tendering is the process whereby the government invites suppliers to submit expressions of interest and proposals, or bids, for public contracts. The government provides publicly held data and documentation outlining project criteria and requirements, and the interested suppliers prepare documents outlining pricing, schedules, and unique competencies or qualifications, among other things. The government evaluates all submitted bids according to its pre-established criteria and enters into contract negotiations with the supplier whose offer best meets its requirements.

<sup>7</sup> The APA was formerly known as the Amu Darya Petroleum Authority.

<sup>8</sup> This data excludes contracts that provided support across projects, such as helicopter support contracts, and funds used to sustain TFBSO operations.

Sheberghan area of northern Afghanistan. At the time of our audit, USAID planned to discontinue the SGGA program in July 2016 following the anticipated completion of the program's objectives.<sup>9</sup>

USAID's *Administrator's Sustainability Guidance for USAID in Afghanistan* generally calls for conditions to be created for the successful and lasting transition of USAID programs, including obtaining assurance that Afghan partners have the willingness, resources, and capacity to implement USAID programs into the future.<sup>10</sup> The guidance also states that programs "must increase Afghan ownership, Afghan capacity to manage and lead, and Afghan commitment to sustain. If these characteristics are not present in the programs now, there must be a realistic plan for achieving these in the short-to-medium term."<sup>11</sup>

## Prior SIGAR Reporting on Afghanistan's Extractive Industries

In April 2015, we reported on the strategy, coordination, and sustainability planning for these projects.<sup>12</sup> We found that TFBSO and USAID pursued divergent approaches to guide their projects; the U.S. Embassy in Kabul did little to coordinate interagency activities aimed at developing Afghanistan's extractive industries because embassy officials lacked policymaking authority; and TFBSO, despite a mandate to do so, generally did not coordinate with other agencies beyond perfunctory efforts. We also reported that TFBSO transferred all remaining projects to the MoMP, and no U.S. agency in Afghanistan had any plans to provide continued monitoring, evaluation, or support for TFBSO extractive projects. We recommended that the Secretary of Defense assess and document the economic impact and final status of each TFBSO project intended to develop Afghanistan's extractive industries and provide these assessments to State, USAID, and the appropriate congressional committees. As of the date of this report, we have not received comment on this recommendation from DOD, nor has DOD implemented it. Additionally, we recommended that USAID create sustainability plans to ensure the Afghan government could continue USAID's projects, which USAID implemented following the report's publication. USAID, in response to our recommendation, provided an assessment of the remaining TFBSO projects and the costs to continue them. See appendix II for USAID's assessment.

## TFBSO EXTRACTIVE INDUSTRIES PROJECTS ACHIEVED MIXED RESULTS, AND SUSTAINING GAINS WILL REMAIN A CHALLENGE

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TFBSO documents state that it administered projects intended 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 projects to facilitate private investment, industrial development, and other projects that the Secretary of Defense, with concurrence from the Secretary of State, determined would strengthen stability or provide strategic support to the counterinsurgency campaign in Afghanistan.

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<sup>9</sup> Additional information on TFBSO's and USAID's efforts to develop Afghanistan's extractive industries can be found in our initial report discussing U.S. efforts to develop Afghanistan's extractives industries (see SIGAR 15-55-AR, *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 24, 2015).

<sup>10</sup> USAID, *Administrator's Sustainability Guidance for USAID in Afghanistan*, June 2011.

<sup>11</sup> USAID, *Administrator's Sustainability Guidance for USAID in Afghanistan*, June 2011.

<sup>12</sup> See SIGAR 15-55-AR, *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 24, 2015.

With respect to Afghanistan's extractive industries, beginning in 2010, TFBSO implemented 11 projects across five major areas: (1) mineral development, (2) hydrocarbon development, (3) enhancing access to energy resources, (4) village stability operations, and (5) capacity building at the MoMP and the AGS. These projects were aimed at developing extractive resources, enhancing access to energy resources, strengthening institutional and technical capacity at the MoMP and the AGS, and assisting indigenous industrial development and growth. According to TFBSO documents, since 2010, TFBSO obligated approximately \$274.8 million and disbursed at least \$215.4 million on these projects, all of which concluded December 31, 2014.<sup>13</sup>

As noted in our prior report on TFBSO's efforts to support the Afghan extractive industries, the Ike Skelton National Defense Authorization Act for Fiscal Year 2011 required DOD, State, and USAID to jointly develop a plan to transition TFBSO activities in Afghanistan to State or USAID.<sup>14,15</sup> In May 2012, TFBSO submitted its transition plan to Congress. Subsequent to the submission of this plan, Congress amended subsection 1535(a) of the Act to require DOD, State, and USAID to provide updates every 180 days documenting the implementation of the transition plan.<sup>16</sup> However, the agencies failed to identify specific transition procedures for particular projects, and TFBSO did not transfer any projects to either State or USAID. In follow up responses to our April 2015 report, USAID, in coordination with the MoMP, assessed the remaining TFBSO projects and, where possible, estimated completion costs. Overall, USAID assessed that some projects were poorly designed or otherwise did not have merit. USAID's assessment is reproduced in appendix II.

For this report, we evaluated the results of TFBSO's 11 projects, worth approximately \$215.4 million, to determine whether the projects achieved their objectives within set timeframes, and the extent to which the Afghan government or an enduring donor were sustaining each project. Our review considered only (1) whether the projects achieved their objectives before the conclusion of TFBSO's activities in Afghanistan in December 2014, and (2) the extent to which these projects will be sustainable based on the observed capabilities of the Afghan government. Based on our review, TFBSO's projects achieved mixed results. Three projects worth \$54.3 million showed little to no achievement of their project objectives, five projects worth \$121.7 million partially achieved their objectives, and three projects worth a total of \$39.4 million generally met their objectives. See appendix III for a description of each TFBSO project.

### **\$54.3 Million Spent on Three Projects with Little to No Achievement of Project Objectives**

TFBSO spent \$54.3 million on projects that achieved few—if any—project objectives, specifically \$46.5 million towards mineral tender support, \$7.8 million for village stabilization operations, and \$54,450 on chromite mining. We concluded that these efforts were wasted or at a high risk of being wasted. First, despite 5 years of effort, none of the eight mineral exploration tenders and three cement tenders that TFBSO supported has resulted in a signed contract, largely due to issues within the Afghan government.<sup>17</sup> At the time of our review,

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<sup>13</sup> This analysis excludes contracts that provided support across initiatives, such as helicopter support contracts, and funds used to sustain TFBSO operations.

<sup>14</sup> See SIGAR 15-55-AR, *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 24, 2015.

<sup>15</sup> See Pub. L. No. 111-383, § 1535(b), 124 Stat. 4137, 4427. The National Defense Authorization Act for Fiscal Year 2011 required the jointly developed transition plan to describe (1) all activities carried out by TFBSO in FY 2011; (2) those activities TFBSO carried out in FY 2011 that USAID would continue in FY 2012, including those that might be merged with similar efforts carried out by USAID; (3) any activities carried out by TFBSO in FY 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 FY 2011 and that would be continued by USAID in FY 2012 from DOD to USAID.

<sup>16</sup> 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).

<sup>17</sup> Among the Afghan government's issues were Parliament's delay in passing a new Minerals Law, a major requirement before international investors would agree to sign a mining contract in Afghanistan; delays in the translation of mining

the TFBSO mineral exploration projects remained in various stages of development, with some having progressed to contract negotiations between the companies and the Afghan government, and others still being prepared for initial bid. According to State's response to a draft of this report, given volatile commodity prices in the worldwide mining market, mining projects that may have been profitable 5 years ago may no longer be economically viable today. Until legally binding contracts are finalized and signed, there is a risk that the companies currently participating in the on-going tender process may ultimately choose not to invest in Afghanistan, leading to failed tenders and years of wasted efforts by TFBSO. Because, according to USAID and State officials, the new Afghan administration is reviewing all contracts negotiated by the prior government, and significant capacity issues at the MoMP remain, it is unclear when and how many of these contracts will be finalized.

TFBSO disbursed \$7.8 million for contracts to develop a plan and provide management support for Village Stability Operations projects focused on the mining sector. However, none of these contracts achieved their goals in this area because, according to TFBSO officials, following the first project, the Afghan government cancelled further TFBSO-assisted village stability operations. According to an Integrity Watch Afghanistan report, the TFBSO-funded chromite processing equipment utilized in the initial project was taken by an Afghan Local Police commander, in violation of Afghanistan's Minerals Law.<sup>18</sup> As a result, the MoMP refused to allow any more TFBSO Village Stability Operations projects.

### **\$121.7 Million Was Spent on Five Projects that Partially Met Project Objectives**

TFBSO spent \$121.7 million—\$35.9 million for seismic reflection surveys, \$44.9 million towards hydrocarbon tender support, \$46,660 for landmine removal, \$33.7 million for natural gas pipeline repair and replacement, and \$7.2 million for mineral drilling expeditions and training—on projects that partially achieved project objectives. The \$35.9 million TFBSO spent on seismic reflection surveys was broken into three contracts: \$12.7 million for a seismic survey in the Afghan-Tajik and Amu Darya Basins, \$4.7 million for an attempted seismic survey in the Kushka Basin, and \$18.5 million for a second attempted seismic survey in the Kushka Basin. Although the \$12.7 million spent on the Afghan-Tajik and Amu Darya seismic surveys resulted in the collection of the required seismic data, TFBSO spent \$23.2 million on the two Kushka Basin contracts with minimal results.

The first firm-fixed-price Kushka Basin seismic survey contract was terminated for cause in March 2013 after \$4.7 million was disbursed to the contractor. According to the contractor, the project failed to collect any of the 300 kilometers of contractually required data during the contract period due to inclement weather and insurgent attacks. However, DOD did not view these as excusable delays. In September 2013, TFBSO awarded a cost-plus-fixed-fee contract to another contractor to conduct the same work. However, after disbursing \$18.5 million, TFBSO had received seismic data for only 52 kilometers, or just over 17 percent, of the expected 300 kilometers for the Kushka Basin project. TFBSO officials in Afghanistan stated that TFBSO headquarters in Arlington, Virginia, proceeded with the second and more expensive cost-plus-fixed-fee contract over the objections of the project managers and subject matter experts. Those personnel feared the same weather and security problems would cause the second contract to fail, which ultimately occurred. Further, TFBSO field representatives stated that TFBSO program managers suppressed negative field reports that might have led to the earlier cancellation of the contract by TFBSO's director.

With respect to TFBSO's \$44.9 million in hydrocarbon tender support and \$46,660 in landmine removal at prospective well sites, the Afghan government concluded three of the five hydrocarbon tenders for the award of exploration and production sharing contracts. The remaining two hydrocarbon tenders remain stalled in the bidding stage, and their futures are uncertain.

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agreements; capability and staffing gaps at the MoMP; the previous Afghan President's refusal to sign the contracts during his final months in office; and delays in forming a new government with the authority to approve contracts.

<sup>18</sup> Integrity Watch Afghanistan is a civil society organization working to reduce corruption and increase transparency and accountability in Afghanistan.

TFBSO's \$33.7 million natural gas pipeline project was split into three major efforts: (1) rehabilitation of the existing pipeline between Sheberghan and Mazar-e-Sharif, (2) construction of a new pipeline running along the same route, and (3) construction of several new compressors, dehydration equipment, and an amine processing facility.<sup>19</sup> According to TFBSO, as of November 2014, Afghan engineers had partially completed the rehabilitation of an existing pipeline between Sheberghan and Mazar-e-Sharif with TFBSO support.

In December 2014, we published an alert letter highlighting a number of operational and safety concerns that USAID and State officials had raised related to this 45-year-old pipeline.<sup>20</sup> TFBSO also purchased 94.5 kilometers of pipe and associated materials for the construction of a second pipeline that has remained unused at two MoMP storage facilities. Finally, TFBSO used pipeline funding to purchase an amine processing plant for the Sheberghan area to process the natural gas in the area. However, the MoMP lacks the knowledge and capacity to operate this facility.

TFBSO's \$7.2 million drilling projects had two components: (1) expeditions to explore for copper deposits in North Aynak and lithium deposits in Dasht-e-Nawar, Ghazni province, and (2) capacity-building efforts to give MoMP engineers the ability to conduct further exploration in the future. According to TFBSO program reports, the North Aynak expedition was a success; however, we were unable to verify that assertion or determine the status of the lithium exploration due to the absence of program managers following TFBSO's closure. In addition to the drilling expeditions, TFBSO funded a 12-week effort to train Afghan technicians on drilling rigs, but the contractor that delivered this training reported only partial completion of the program due to circumstances outside its control, including unplanned extensions of government holidays and a walk-out by trainees to protest delays in receiving salaries.

### **\$39.4 Million Spent on Projects that Generally Met Project Objectives**

TFBSO spent at least \$39.4 million—\$5.1 million towards compressed natural gas infrastructure development contracts, \$33.8 million for USGS data collection, and \$500,000 for academic exchanges at Kabul Polytechnic University—on projects that generally met project objectives.

According to contract documents and expenditure data reported by TFBSO, the Task Force spent \$5.1 million on contracts for compressed natural gas projects. Specifically, TFBSO funded the construction of a compressed natural gas automobile filling station and then purportedly passed operational responsibility for the station to a private Afghan firm. In addition, TFBSO also funded at least two of four planned conversions of power generators from diesel-only to bi-fuel (diesel/compressed natural gas).

In October 2015, we released a special project report questioning the decision to build the filling station.<sup>21</sup> The report cites a TFBSO study which states that the filling station's total costs, including overhead, was \$42.7 million. Furthermore, we found no indication that TFBSO considered the feasibility of achieving the station's broader objectives or considered any of the potentially considerable obstacles to the project's success before construction. While we attempted to investigate the high cost of the project, DOD stated that the March 2015 closure of TFBSO resulted in the Office of the Secretary "no longer possessing the personnel expertise to address these questions or to assess properly the TFBSO information and documentation retained by WHS [Washington Headquarters Services] in the OSD [Office of the Secretary of Defense] Executive Archive."<sup>22</sup>

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<sup>19</sup> Natural gas produced in Afghanistan typically contains high levels of hydrogen sulfide, which is extremely corrosive and will damage gas transmission pipelines and local distribution networks. Amine processing facilities remove hydrogen sulfide from "sour" natural gas prior to transmission.

<sup>20</sup> See SIGAR 15-15-AL, *Alert Letter: Task Force for Business and Stability Operations Pipeline Project*, December 11, 2014.

<sup>21</sup> See SIGAR 16-2-SP, *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived \$43 Million Project*, October 22, 2015.

<sup>22</sup> See Brian P. McKeon (Principal Deputy Under Secretary of Defense for Policy), letter to SIGAR, June 17, 2015.

With funding from TFBSO, USGS collected data for 24 areas of interest for potential mine development, compiling both new and preexisting data into a data center built at AGS headquarters by TFBSO; assisted in the drafting of technical documents in preparation for future mineral exploration contract tenders; and conducted institutional capacity building at the AGS and the MoMP. However, it remains unclear whether the MoMP has the technical capacity to use the data USGS gathered.

According to TFBSO and USGS, they sponsored an academic knowledge exchange between various international universities and Kabul Polytechnic in order to update the latter's geology and mining curricula, which were still largely based on dated, Soviet-era best practices. However, TFBSO discontinued this academic exchange in 2014 because the Task Force could not secure continued financial support for the program from other potential donors.

## USAID EFFORTS TO ENHANCE THE CAPACITY OF THE MOMP HAVE HAD SOME SUCCESS, BUT STRUCTURAL REFORMS ARE NEEDED

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USAID provides assistance for Afghanistan's mining and hydrocarbons development through three programs: Mining Investment and Development for Afghan Sustainability (MIDAS), Sheberghan Gas Development Program (SGDP), and Sheberghan Gas Generation Activity (SGGA).<sup>23</sup> As previously noted, USAID began implementing the MIDAS program in 2013. As of December 16, 2014, USAID estimated the cost of the program at \$36.5 million in on-budget assistance and \$50.1 million in off-budget assistance.<sup>24</sup> For the \$50.1 million in off-budget assistance, USAID awarded a task order to ECC Water & Power LLC to: (1) assist in the reform and further development of mining policy and regulation, (2) strengthen institutional capacity at the MoMP, and (3) support the private sector and mining project development.<sup>25</sup>

In 2011, USAID established SGDP and SGGA to develop Afghanistan's hydrocarbons industries. SGDP is a \$90 million on-budget assistance program designed to rehabilitate existing natural gas wells, develop new natural gas wells where feasible, and facilitate the construction of a 200-megawatt power plant by private sector investors. SGGA is a \$30 million contract designed to deliver hydrocarbons-specific technical and financial assistance to the MoMP in support of SGDP.

### USAID's MIDAS and SGGA Programs Have Had Mixed Levels of Success

MIDAS's FY 2014 annual report measured the program's progress against 11 key performance indicators. Of these 11 indicators, MIDAS was able to meet 5, partially meet 2, and did not meet 4 indicators as scheduled. Table 1 provides details for the progress USAID reports that MIDAS made in accomplishing its designated performance indicators during FY 2014 based on SIGAR's analysis of MIDAS's FY 2014 annual report.












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<sup>23</sup> In coordination with the USAID Office of Inspector General, we did not perform a full review of the SGDP.

<sup>24</sup> On-budget assistance is funding that is channeled through the Afghan government's core budget. Off-budget assistance is funding for programs that U.S. agencies directly fund and manage.

<sup>25</sup> According to its website, ECC Water & Power LLC is an engineering company that delivers engineering and design, construction, environmental remediation, management, energy, and military munitions response services to government and commercial clients.

**Table 1 - Progress As Measured By MIDAS Performance Indicators During FY 2014**

Performance Indicator	Status	
Number of new laws or amendments drafted and presented to Afghan Parliament	Target (1 law or amendment) reached. MIDAS supported the MoMP in writing one amendment to the new Minerals Law and helped the ministry submit it to Parliament.	
Person hours of training completed for MoMP staff related to policy and regulation development	450 person hours completed, exceeding the target for the reporting period (288 person hours).	
Number of procedures drafted and presented to the MoMP for approval	Target (4 procedures) not reached because drafting of new procedures required passage of new Minerals Law, which was not passed until end of reporting period.	
Number of regulations drafted and presented to the MoMP for approval	Drafting of new regulations required passage of new Minerals Law, which was not passed until end of reporting period. Notwithstanding that, 3 regulations were drafted in anticipation of the new law, falling short of the target (6 regulations).	
Number of mineral projects explored and prepared for the MoMP	Target (1 project) not reached due to on-budget funding not being released by USAID, as well as AGS field team strikes due to nonpayment of salaries by the MoMP.	
Person hours of training completed for MoMP staff related to technical skills, geosciences, and financial management	2,069 person hours completed, exceeding the target for the reporting period (600 person hours). More trainings held at request of AGS Director and the MoMP.	
Person hours of training completed for MoMP staff related to on-budget assistance management	Target (150 person hours) not reached due to on-budget funding not being released by USAID. Zero person hours of training completed.	
Person hours of training completed for MoMP staff related to private sector enablement	8,749 person hours completed, exceeding the target for the reporting period (250 person hours). More trainings needed due to low levels of capacity at the MoMP.	
Number of improvements drafted for laws and regulations affecting the registration and operation of micro or small enterprises	Target (1 improvement drafted) not reached because top three leadership positions in the MoMP Mineral Sectors Development Directorate were vacant throughout reporting period.	
Number of communities mobilized around mining sites	Target (2 communities) reached. Communities in Bamyan and Badakhshan provinces were mobilized through four mining awareness and community engagement workshops.	
Number of Mining Development Committees supported	1 existing Mining Development Committee in Bamyan province was supported, falling short of target (2 committees supported). Stakeholders in Badakhshan province were briefed on benefits of Mining Development Committees but did not establish one during reporting period.	

**Met** 
**Partially Met** 
**Unmet** 

Source: SIGAR analysis of MIDAS Annual Report for FY 2014

According to MIDAS's FY 2014 annual report and our discussions with USAID and MIDAS representatives, five of six performance indicators were either partially met or unmet due to the delayed passage of the 2014 Minerals Law, staffing issues with the MoMP, and USAID's decision not to release on-budget assistance for the MIDAS program. The program did not meet the sixth performance indicator because no mining development committee was established in Badakhshan during the reporting period. The delayed passage of the 2014 Minerals Law and staffing issues at the MoMP were largely outside of USAID's control. Furthermore, the program was unable to meet its on-budget assistance-related performance indicator for training because, according to USAID officials, USAID conducted an assessment in 2015 of the MoMP's ability to absorb the remaining on-budget assistance planned under the MIDAS task order and, based on the results of that assessment, decided to move all planned \$36.5 million on-budget funding to off-budget subcontracts to be managed directly by USAID. This resulted in the complete elimination of the on-budget funding component of the MIDAS program.

USAID's off-budget SGGG program was designed to complement SGDP's on-budget program's activities by providing technical assistance, training for MoMP personnel, and quality assurance, but SGGG has not met many of its objectives. Of the 24 objectives, SGGG met 7, partially met 11, and cancelled or abandoned 6. Table 2 provides details of the objectives SGGG was, or was not, able to accomplish in FY 2014 based on SIGAR's analysis of SGGG's FY 2014 annual report.

**Table 2 - Progress Made on SGGa Objectives During FY 2014**

Objective	Status	
Address conditions precedent for Phase 1: on-budget funding for the drilling contract	USAID approved all conditions.	
Engage key subcontractors or individuals on needs and availability for electric power support to Da Afghanistan Breshna Sherkat (DABS) Project Management Unit	No subcontractors have been retained to advise DABS; however, an SGGa resident third-country national engineer has provided full-time support to DABS.	
Award and implement the rehabilitation and drilling contracts	A contract was awarded to the Turkish Petroleum Corporation. SGGa has provided ongoing support to the MoMP in its efforts to enforce compliance with the contract.	
Prepare and deliver capacity-building programs to the MoMP and other relevant stakeholders	SGGa provided technical assistance, training, and capacity enhancement to the MoMP for the development and effective utilization of Afghanistan's hydrocarbon reserves.	
Support the work of the Legal Transaction Advisors for essential legal agreements	No legal transaction advisors were contracted due to SGDP delays and the reported efforts of the Afghan Ministry of Finance to tax the activities of SGDP's international investors.	
Coordinate with Afghan government to formalize Project Management Units and recommend staffing for each open position	The MoMP decided not to use the Project Management Unit model, and in lieu of this, SGGa provided support and mentorship to the SGDP project manager at the APA.	
	SGGa completed several mentoring and coaching activities for both the MoMP/ APA and DABS, focusing particularly on providing training to the SGDP project managers at the MoMP and DABS.	
Provide intensive training courses to support completion of SGDP's critical milestones	SGGa provided over 23,000 participant hours of training for more than 600 trainees in both Kabul and Jowzjan provinces. However, USAID's failure to vet subcontractors in a timely manner prevented SGGa from providing 8 additional planned courses.	
Participate in the Monitor, Negotiation, and Operation Teams	SGGa dropped these items from its work plans due to setbacks in the SGDP schedule.	
Deliver drilling and rehabilitation training course	SGGa completed this program in December 2013 with a training in Abu Dhabi for employees from the APA and its components.	
Deliver bid evaluation and financial analysis courses	SGGa completed a bid evaluation training in 2013, but the financial analysis course was delayed due to USAID's vetting delays as described above.	
Deliver tender contract award and finalization courses	SGGa provided trainings on Afghan procurement procedures and contract management to the APA.	
Deliver well rehabilitation oversight work course	Completed as a component of the December 2013 training in Abu Dhabi.	
Deliver drilling oversight work course	Completed as a component of the December 2013 training in Abu Dhabi.	
Select expert team of two to four professionals	SGGa's task order was revised to eliminate this requirement.	
Provide courses in gas gathering, gas compression, gas processing, gas sweetening, and sulfur plant operation and management	SGGa conducted gas processing training complimentary to TFBSO's training for the amine plant in Sheberghan. However, SGGa experienced significant difficulties indentifying qualified experts willing to accept USAID's maximum salary rate. SGGa's task order was revised to eliminate this requirement for courses in gas gathering, gas compression, and sulfur plant operation.	
Travel to Turkmenistan or another country with a sour gas processing plant for 3-month internship program	SGGa's task order was revised to eliminate this requirement.	
Provide training by monitoring construction of TFBSO-funded gas plant	SGGa provided some classroom training on gas processing that was complimentary to the on-site training provided by TFBSO contractors to the same trainees. SGGa did not organize a field visit as planned to the TFBSO-funded gas plant.	
Deliver energy project development course	SGGa completed a course in project management fundamentals for the APA, and plans for a hydrocarbons sector-specific management course in the future.	
Deliver contract negotiation course	SGGa partially delivered this training through its coaching program for the SGDP project manager at the APA.	
Deliver power fundamentals course	SGGa's task order was revised to eliminate this requirement.	
Deliver contract management in power sector course	SGGa's task order was revised to eliminate this requirement.	
Deliver legal aspects in the energy sector course	SGGa provided training for MoMP personnel on environmental laws and regulations for the energy sector.	
Deliver general management course	SGGa provided an organizational development course to the APA in 2013. SGGa intended to provide a management course in FY 2014 through a subcontractor; however, this effort was delayed due to USAID's vetting delays as described above.	
	 <b>Met</b>  <b>Partially Met</b>  <b>Unmet</b>	

Source: SIGAR analysis of SGGa Annual Report for FY 2014

Note: Da Afghanistan Breshna Sherkat operates as the national power utility for Afghanistan.



As noted above, USAID designed SGGA to be an off-budget training complement to the on-budget activities under the SGDP program. However, delays in SGDP's progress resulted in delays in the technical capacity building efforts under the SGGA program. According to SGGA documents and officials, two major delays have affected SGDP timelines. The first delay was due to the need to rebid the rehabilitation and drilling contract for the Juma and Bashikurd fields, and the second delay resulted from the failure of the Turkish National Petroleum Corporation—the eventual winner of the aforementioned contract—to obtain the required security guarantee within the mandated time frame.<sup>26</sup> Further, SGGA officials stated that the Turkish National Petroleum Corporation has also been slow to mobilize its rigs for drilling.<sup>27</sup>

SGGA's November 2014 update reported that in response to delays by the Turkish National Petroleum Corporation, SGGA submitted a memo to the MoMP recommending contract termination options. In its monthly reports for December 2014 through February 2015, Advanced Engineering Associates International, USAID's implementing partner for SGGA and SGDP, repeatedly reported delays to the SGDP natural gas well drilling project caused by the Turkish National Petroleum Corporation and noted the MoMP's limited capabilities to conduct effective coordination with and oversight of the contractor.<sup>28</sup> For example, one delay resulted when trucks carrying drilling equipment were reportedly detained at Afghan border crossings for customs clearance, an issue that the ministry and the contractor should have resolved prior to the commencement of activities. According to USAID officials, all trucks were later released, and drilling operations were underway at the time we issued this report. Fearing that termination of the project might result in the loss of investors for the planned 200-megawatt power plant, the MoMP rejected USAID's recommendation to terminate the Turkish National Petroleum Corporation's contract, and instead extended it through August 2015.

According to SGGA's FY 2013 annual report, of the 28 objectives, SGGA fully met 6 and partially met another 6. The remaining 16 objectives were postponed or cancelled for several reasons, including finding contractors able to meet USAID contracting requirements, MoMP staff turnover, and difficulties coordinating planned joint training efforts with TFBSO—which SGGA reported was due both to the lack of communication from the Task Force and delays in the execution of its projects. For example, SGGA advisors initially planned to coordinate with TFBSO by bringing in Afghan technicians to observe the construction and operation of the TFBSO-funded amine plant in Sheberghan; however, this was not accomplished due to the fact that the amine plant was never put into operation by TFBSO.

## MoMP Lacks Commitment to Make the Necessary Regulatory and Structural Reforms to Sustain Project Gains with On-Budget Assistance

Although other factors also played a role, our review found that the MoMP and its component organizations have hampered MIDAS and SGGA program efforts due to their poor management of SGDP on-budget assistance and lack of commitment to making needed reforms.<sup>29</sup> For example, the APA, the Afghan government authority responsible for the oversight of the petroleum and natural gas industries, and the subject of TFBSO and USAID capacity-building efforts, lacks the funding to retain its most qualified staff. According to USAID, until December 2014, all APA salaries had been subsidized by international donor funding; when that funding was discontinued, 72 employees were laid off, leaving only 35 staff on board. Among those who lost their jobs were the SGDP program manager and employees participating in the SGDP's monitoring, evaluation, and reporting committee, severely hampering USAID's capacity-building efforts due to the loss of

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<sup>26</sup> Founded by the Turkish government, the Turkish National Petroleum Corporation is engaged in virtually all aspects of the oil and gas industry, including exploration, production, refining, marketing, and transportation.

<sup>27</sup> SGGA officials stated that, in order to recover time lost, natural gas can be pumped from wells in the nearby gas field of Jarquduq, which they discovered were previously drilled by another international donor. They say this should allow the project to continue regardless of when the Turkish National Petroleum Corporation contract commences.

<sup>28</sup> Advanced Engineering Associates International is a global engineering energy and environmental services company.

<sup>29</sup> Other factors include delays in forming a unity government and the lack of a Minister at the MoMP for several months.

institutional knowledge and expertise. Additionally, the MoMP has shown an unwillingness to address basic program management issues by, for example, refusing to terminate the USAID-funded contract with the Turkish National Petroleum Corporation despite recurring delays and USAID's repeated recommendations for it to cancel the drilling contract. Furthermore, a senior MoMP official stated that the MoMP has not pursued arbitration with the Metallurgical Corporation of China on the Mes Aynak copper mine contract, despite potential breaches of that contract, because the MoMP believes the company has more resources and more influence with the Afghan government than the ministry.<sup>30</sup> Finally, the MoMP has consistently failed to fund necessary infrastructure improvements. One USGS report stated that the AGS headquarters building lacked critical laboratory equipment, reliable access to electricity, and adequate heating, cooling, and ventilation systems; a MIDAS report further stated that funding from the Afghan government for AGS is not "readily available due to chronic under spending of budget allocations." According to one SGGA study, the Afghan Gas Enterprise "used the vast majority of its revenue in 2012 for salaries and profits, dedicating nothing into reinvestment in production or processing infrastructure," and "is clearly not operated with the intention of sustaining current minimal production or managing assets of this size."<sup>31</sup>

USAID has already recognized the problems within the MoMP and responded by first reducing, and then discontinuing, on-budget assistance to the MoMP under MIDAS in December 2014. The *Administrator's Sustainability Guidance for USAID in Afghanistan* generally calls for conditions to be created for the successful and lasting transition of USAID programs to host nations.<sup>32</sup> The guidance states that programs "must increase Afghan ownership, Afghan capacity to manage and lead, and Afghan commitment to sustain. If these characteristics are not present in the programs now, there must be a realistic plan for achieving these in the short-to-medium term." One SGGA monthly report stated that the "APA's lack of understanding about their 'on-budget' responsibilities continues to lead to requests of SGGA that either disregard conditions of the on-budget grant agreements or place SGGA in a position that APA considers non-supportive."<sup>33</sup> This monthly report noted that "APA project staff continue to show excessive dependence on SGGA for even small and simple matters, reflecting a lack of project support and willingness to assume responsibility for conducting the on-budget portion of the SGDP." Additional USAID guidance notes that implementation letter financing—the type of agreement used for the on-budget assistance SGDP, and until recently, MIDAS—is best utilized when the "host government has capacity to manage activity and takes transparency and anti-corruption seriously."<sup>34</sup>

Neither the MoMP nor its component organizations have demonstrated capacity for responsibly managing on-budget funding or a seriousness in addressing transparency and anti-corruption concerns as called for by USAID's guidance. Unless the MoMP and its component organizations take concrete steps to address the identified deficiencies, it appears that the MoMP may not meet USAID's guidance for receiving further assistance from the agency and that the MIDAS and SGGA programs are not generating the necessary Afghan support.

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<sup>30</sup> 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.

<sup>31</sup> SGGA, *Gas Feasibility Study Update*, March 2015.

<sup>32</sup> USAID, *Administrator's Sustainability Guidance for USAID in Afghanistan*, June 2011.

<sup>33</sup> SGGA, *SGGA Monthly Report*, February 2014.

<sup>34</sup> USAID, *USAID Implementing Mechanisms: An Additional Help for ADS Chapters 200-203*, September 2008.

# SUSTAINABLE GROWTH OF EXTRACTIVE INDUSTRIES IS HAMPERED BY THE NEED FOR ADDITIONAL LEGAL REFORMS, A LACK OF TRANSPARENCY, CORRUPTION, A LACK OF INFRASTRUCTURE, AND INADEQUATE SECURITY

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Despite U.S. efforts to develop Afghanistan's extractive industries, numerous problems remain that the Afghan government must overcome if the oil, gas, and minerals industries are to become profitable and sustainable. Specifically, significant issues remain in the areas of corruption, infrastructure, security, and regulation.

## The Afghanistan Minerals Law Was Improved, but Has Not Been Fully Reformed

In order to address deficiencies in the 2009 law, the Afghan government drafted an entirely new Minerals Law, which was passed by the Afghan Parliament and signed by the President in August 2014. Representatives from TFBSO and State noted several improvements in the 2014 Minerals Law over its previous iterations. For example, the law now authorizes the MoMP to “grant both an Exploration License and an Exploitation License in a single bidding process,”<sup>35</sup> which according to a MoMP official, will make Afghanistan more attractive for investment. The law also states that the conditions for determining royalty rates “shall be set forth in separate regulations,”<sup>36</sup> which, according to ECC Water & Power LLC, USAID's implementing partner for the MIDAS program, is consistent with international norms.<sup>37</sup> Global Witness cited the Afghan government's inclusion of Article 100, which explicitly requires the ministries to comply with Extractive Industries Transparency Initiative financial reporting standards, as a positive step as well.<sup>38</sup>

While the 2014 Minerals Law improved upon the 2009 law, according to USAID, several significant issues remain:

- The law defines “rare earth elements” to include lithium, beryllium, and tantalum, three minerals that, according to MIDAS officials, “are not considered rare earths by any competent mineralogist or geologist.” The definition of these minerals as rare earths leads, under Afghan law, to a requirement that any license to mine these elements must receive the approval of the Afghan National Assembly,<sup>39</sup> creating an additional hurdle for potential investors to overcome.
- The law requires exploration, exploitation, and artisanal mining licenses be granted “based upon a bidding process.”<sup>40</sup> According to representatives from TFBSO and ECC Water & Power LLC, Afghan government officials have insisted on using the bidding or tender process because they believe it incentivizes the highest royalty rates and promotes transparency. However, internal MIDAS documents state that the vast majority of countries award mining exploration licenses based on when applications are received, because tendering is slow, cumbersome, and ultimately unprofitable. Additionally, according to MIDAS, awarding mineral exploration contracts by tender, except in very specific cases, is both cost and time prohibitive. Finally, according to MIDAS, the current process for awarding early-

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<sup>35</sup> Afghanistan Minerals Law, Article 19, par. (3).

<sup>36</sup> Afghanistan Minerals Law, Article 10, par. (5).

<sup>37</sup> According to TFBSO and USAID representatives, by making royalty rates subject to the competitive bidding process, rather than normalizing them through regulation, the prior version of the Afghan Minerals Law created a perverse incentive for companies to offer unrealistically high royalty rates in order to win a mineral contract, knowing that they could later refuse to begin work until the Afghans agreed to lower royalty rates.

<sup>38</sup> The Extractive Industries Transparency 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. For more on the Extractive Industries Transparency Initiative, see appendix IV.

<sup>39</sup> Afghanistan Minerals Law, Article 14, par. (2).

<sup>40</sup> Afghanistan Minerals Law, Article 19, par. (2).

stage exploration tenders is simply too expensive for smaller, publicly traded Australian and Canadian mining companies, the most likely qualified investors.<sup>41</sup>

## Medium- and Large-Scale Mine Contracts and Operations Suffer from a Lack of Transparency

In general, aid from the U.S. government and other donors has focused on improving Afghanistan's ability to transparently award contracts for medium- and large-scale extractive operations. One significant example of a lack of transparency and potential corruption in medium- and large-scale mining tenders is the Mes Aynak tender of 2008, which resulted in the award of a high-value copper mine contract to the Metallurgical Corporation of China. The MoMP kept the terms of the Mes Aynak contract secret for nearly 7 years, only releasing the contract to the public in May 2015. According to MoMP officials, the Metallurgical Corporation of China has not constructed any of the agreed-to infrastructure, and, aside from an initial signing bonus, the Mes Aynak contract has produced few of the expected revenues for the Afghan government. Delays in the execution of the Mes Aynak project have had repercussions elsewhere in the mining sector. For example, Hajigak iron, another major mining concession which the Afghan government awarded to the Steel Authority of India Ltd.,<sup>42</sup> remains unsigned, unexecuted, and unpublished partly because of concerns that the project will not be viable without the infrastructure that was expected to be constructed by the Metallurgical Corporation of China.

Since 2009, both the Mineral and Hydrocarbon Laws have included provisions designed to promote transparency, such as a requirement for all relevant ministries to comply with Extractive Industries Transparency Initiative financial reporting requirements and standards.<sup>43</sup> According to international organizations monitoring Afghanistan's extractive industries, in July 2012, then-Afghan President Karzai issued a decree requiring the MoMP to publish the details for all extractives contracts. TFBSO advisors stated that, as part of its hydrocarbon and mineral tender development efforts, the Task Force helped to develop model contracts for small-, medium-, and large-scale properties to avoid the legal missteps of the Mes Aynak contract. TFBSO also contracted with the Marx Group, LLC to review the MoMP's implementation of these new transparency standards during the tenders for the hydrocarbon and mineral contracts, which the ministry developed with TFBSO support.<sup>44</sup>

However, according to international non-governmental organizations, the Afghan government's compliance with its own transparency laws has been inconsistent, despite TFBSO contracted oversight. In a report analyzing the revenue reporting that the Afghan government has released thus far, Integrity Watch Afghanistan highlighted significant discrepancies between the payments reported by companies and the revenues reported by the government.<sup>45</sup> A senior Afghan government official stated to us that Afghanistan is 3 years behind on its revenue reporting requirements due to capacity deficiencies and bureaucratic red tape. According to one Global Witness representative, Afghanistan's application of the Extractive Industries Transparency Initiative is "extremely problematic at this point." The Global Extractive Industries Transparency Initiative Secretariat decided on May 7, 2015, against suspending Afghanistan even though the country had not reached full compliance with the "Extractive Industries Transparency Initiative Rules." Instead, the Secretariat gave

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<sup>41</sup> The MIDAS documents state that smaller, publicly traded mining companies generally cannot afford to spend the time and resources required to win competitive tenders, especially given the fluid nature of international commodity prices, which can quickly render exploration properties unprofitable. Oftentimes, according to the MIDAS contractor, this situation results in mining companies only submitting bids for areas with known geological potential and some degree of prior exploration work.

<sup>42</sup> Steel Authority of India Ltd. is a state-owned steel making company based in New Delhi, India.

<sup>43</sup> See, e.g., Afghanistan Minerals Law, Article 100.

<sup>44</sup> The Marx Group, LLC describes itself as "an international transparency consultancy that specializes in promoting international investment and global commerce" in developing countries.

<sup>45</sup> Integrity Watch Afghanistan, *Shadow Validation: Analysis of Afghanistan EITI Reconciliation Reports and Civil Society Participation*, February 1, 2012.

Afghanistan an additional 18 months to comply with the new “Extractive Industries Transparency Initiative Standards,” with the next validation scheduled for October 2016.<sup>46</sup>

## Corruption in Small-Scale Mine Contracts and Operations Promote Insecurity within Afghanistan

According to TFBSO, USAID, and State officials, small-scale mines may never generate significant revenues for the Afghan government, and donor funds would be better used supporting the Afghan government in transparently regulating medium- and large-scale mining operations. The MoMP Artisanal and Small-Scale Mining Policy, however, states that the ministry considers the artisanal mining sector to have great potential for alleviating poverty, reducing rural-urban migration patterns among unemployed youth, creating alternative economic activities, contributing to national gross domestic product, and bolstering state revenues. According to Integrity Watch Afghanistan, a non-governmental organization monitoring the development of Afghanistan’s extractive industries, the MoMP has awarded numerous mining contracts and licenses for artisanal and small-scale mines, however, not all of these were reported to the public. One senior official in the Afghan government told us that many mines in Afghanistan operate illegally because the licensing process is inefficient and corrupt. Integrity Watch Afghanistan told us that they estimate 1,400 mines operating illegally throughout Afghanistan, with 710 mines operating illegally in the Kabul area alone. The Afghan government reports that only 300 mines are licensed and are paying taxes, and many of these mines are relatively small in size. Although the MoMP has made public more than 300 mining contracts, in accordance with an Afghan presidential decree, representatives from Global Witness have noted that some of the TFBSO-supported contracts have not been published on the MoMP website, and other contracts have been only partially published, omitting exhibits containing important information.

According to representatives from Integrity Watch Afghanistan and Global Witness, if the practice of unlicensed small-scale mining continues, there is a risk that it will cause Afghanistan’s security situation to further deteriorate, resulting in a minerals resource war like that seen in the Democratic Republic of Congo. Despite the 2014 Minerals Law’s prohibition against granting mining licenses to employees of Afghanistan’s national security ministries<sup>47</sup> and senior members of the national government,<sup>48</sup> watchdog organizations say that many mining operations are still controlled by political elites, warlords, military personnel, and the police. According to representatives from Global Witness and Integrity Watch Afghanistan, this has fostered instability in mineral-rich areas, creating the potential for further struggles for control of valuable deposits. Additionally, the Taliban and other insurgency organizations receive income from illegal mining operations, as well as from charging “protection” fees from miners, turning artisanal mining into a source of revenue for the insurgency.

## Infrastructure and Security Issues Slow Extractive Industry Development

In general, Afghanistan’s poor roads and lack of rail networks remain inadequate to support the needs of its mining industry. According to the Afghan government, many of Afghanistan’s roads are not easily passable by motor vehicles, and only half are serviceable throughout the year, making it difficult to move necessary equipment to often remote mining sites. Further, Afghanistan’s rail network is almost nonexistent, and according to representatives from TFBSO, the few railroad lines that it does have use gauges that are incompatible with each other. In Afghanistan, bulk commodities like iron and copper generally require transport by rail to customer or port in order to be economically feasible. Meanwhile, the hydrocarbon sector faces a different set of infrastructure problems. Although crude oil can be profitably transported by truck,

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<sup>46</sup> See appendix IV for more information about the Global Extractive Industries Transparency Initiative and the commitments required of the Afghan government.

<sup>47</sup> Afghanistan’s national security ministries are the Ministry of Defense, which is responsible for the Afghan National Army, and the Ministry of Interior, which is responsible for the Afghan National Police.

<sup>48</sup> Afghanistan Mining Law, Article 16, par. (2).

representatives from State stated that this is not economically feasible given current global prices for crude. Even if prices were to rise, USAID subject matter experts stated that Afghanistan lacks the infrastructure necessary to refine and load oil onto trucks. TFBSO and USAID officials agreed that transportation of Afghanistan's natural gas will require rehabilitation and expansion of its existing pipeline infrastructure.

Afghanistan's poor security environment is another ongoing challenge for the extractive industries. According to both Afghan and U.S. government officials, mineral- and hydrocarbon-rich areas in Afghanistan are often located in remote areas outside of the government's control, rendering them dangerous to explore and develop. Other areas are contaminated by landmines and unexploded ordinance that will need to be cleared before these areas are suitable for exploration. TFBSO and USAID have reported a number of attacks by insurgents and criminals over the past three years. For example, TFBSO officials told us that they and their contractors suffered attacks at Sheberghan–Mazar pipeline repair locations and during both seismic reflection survey attempts in the Kushka Basin. USGS representatives stated that they had to conduct flyover surveys rather than ground expeditions at several locations due to the security environment, resulting in less reliable data. Additionally, two contracted engineers hired by the Afghan government to drill natural gas wells using SGDP funds were captured by insurgents near Sheberghan in 2014 and allegedly ransomed for \$35,000. These security issues will likely constrain Afghan government personnel working in the extractive industries. For example, Afghan geologists and hydrologists may not be willing or able to conduct field studies in insecure areas, and government inspectors may not be willing or able to conduct inspections of mines and wells.

Despite the issues highlighted above, U.S. assistance to the MoMP has resulted in several positive developments. The Afghan government now has updated geological data for several dozen areas of interest, which it can use to attract investors. According to non-governmental organizations monitoring the extractive industries in Afghanistan, Afghanistan's Minerals Law, while still deficient in several critical areas, has become more investor-friendly and conforms better to internationally accepted best practices. Afghan government officials stated that the MoMP has begun to transition away from a centralized planning model for its extractive industries towards a private sector-led model. Additionally, the MoMP and its component organizations have developed both greater capacity and greater confidence to market, negotiate, and regulate competitive contracts with some level of transparency. However, Afghanistan has not yet developed the capacity to tender, regulate, transport, and sell its natural resources. Without addressing the above mentioned problems, it is unlikely that Afghanistan's extractive industries will develop to their full potential.

## CONCLUSION

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As we previously reported, TFBSO spent \$215 million of U.S. taxpayer funds on short-term projects intended to achieve immediate results. However, after operating in Afghanistan for 5 years, TFBSO left with nearly all of its extractive projects incomplete. TFBSO's apparent failure to complete much of its work was due to a variety of circumstances both within and outside its control. While TFBSO made contributions to Afghanistan's library of geological data, it is unclear whether the Afghans have the technical capacity to use this data to attract investors. While TFBSO helped fund some construction of extractive infrastructure, it remains to be seen whether this infrastructure will be completed or can be sustainably used by the Afghan government. While TFBSO helped educate MoMP officials in international best practices for extractives, it is uncertain how much of this knowledge has been retained within the ministry.

As noted in our April 2015 report,<sup>49</sup> 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. As a result,

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<sup>49</sup> SIGAR 15-55-AR.

no U.S. agency remaining in Afghanistan has any plans to provide continued monitoring, evaluation, or support for TFBSO extractive initiatives.

In response to a recommendation in our April 2015 report, USAID noted it has not received funding to oversee or support remaining TFBSO projects. USAID also found that some former TFBSO projects were not feasible or cost-effective, and, therefore, did not warrant further funding.

With the conclusion of TFBSO's activities in Afghanistan, USAID became the lead agency for U.S. efforts to develop Afghanistan's extractive industries. USAID's efforts to develop capacity within the MoMP have been partially successful, but have faced substantial challenges, some of which are endemic to Afghanistan or beyond USAID's control. Nevertheless, unless the MoMP takes concrete steps to address these problems, USAID efforts to develop capacity and improve the operating environment for private sector investors in the extractive industries may be wasted. Our audit highlighted, among other examples, the MoMP's failure to maintain the APA—the only technically capable oversight component of hydrocarbons within the ministry.

We recognize that USAID has discontinued the on-budget portion of the MIDAS program due to the numerous structural issues, delays in reform, staff turnover, and other persistent problems within the MoMP. However, if USAID does not fully leverage the more than \$200 million obligated to support the MoMP's development to gain concrete commitments for needed MoMP reforms, the risk remains that its programs will fail to achieve their objectives, resulting in wasted taxpayer dollars. USAID guidance calls for conditions to be created for the successful and lasting transition of USAID programs to host nations, including obtaining assurances that they have the willingness, resources, and capacity to implement USAID investments and programs into the future. In the absence of a concrete MoMP agreement and commitment to take action on the most critically needed regulatory and structural reforms, future on-budget assistance from USAID—and possibly off-budget assistance—is at risk.

## RECOMMENDATIONS

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Due to the discontinuation of TFBSO's activities in Afghanistan on December 31, 2014, and the absence of an organization responsible for continuing its programming, we are not making any recommendations to TFBSO.

To ensure that the technical assistance objectives of the SGGA and MIDAS are met, we recommend that the USAID Administrator:

- 1. Using the results of the assessments done to date, develop a plan with the MoMP and its component organizations addressing the structural reforms needed at the ministry and establishing milestones for achieving them.**
- 2. Condition any future on-budget assistance to the MoMP on the ministry achieving the milestones in the agreed-upon plan.**

## AGENCY COMMENTS

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We provided a draft of this report to State, USAID, and DOD for comment. We received technical comments from State, which we incorporated, as appropriate. We received written comments from DOD and USAID, which are reproduced in appendices V and VI, respectively.

In its response, DOD did not comment on the findings or other content of the draft report, despite submitting its comments to this report more than two months after we sent the report to the agency for comment. Instead, DOD's response directed SIGAR to an analysis of TFBSO conducted by the RAND Corporation. The RAND study states that its purpose is to "critically examine the choices made by the Task Force and to preserve knowledge

of its activities, and the challenges it encountered...”<sup>50</sup> The RAND study does not attempt to measure the overall effectiveness or cost-effectiveness of TFBSO projects, instead citing TFBSO’s internal Economic Impact Assessment and the work of SIGAR to quantify TFBSO’s effectiveness. The department also stated that it remains committed to accommodating SIGAR in its reviews and investigations.

USAID concurred with both of SIGAR’s recommendations. In response to the first recommendation, USAID stated that it will develop a plan with the MoMP that addresses the structural reforms needed within the ministry and establish milestones for achieving those reforms, noting that some of these reforms are already included in existing plans. USAID stated that future capacity building will be targeted to achievable objectives and outcomes with direct buy-in from the Afghan government. USAID expects the plan to be completed by March 31, 2016.

In response to the second recommendation, USAID stated that it does not plan to provide any on-budget assistance beyond its current programming. USAID noted that no on-budget assistance is planned for MIDAS and that the SGDP program will disburse its funding upon approval of the contractor’s vouchers.

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<sup>50</sup> S. Rebecca Zimmerman, Daniel Egel, and Ilana Blum, *Task Force for Business and Stability Operations Lessons from Afghanistan*, The Rand Corporation, 2016.



## APPENDIX I - SCOPE AND METHODOLOGY

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The objectives of this audit were to (1) assess Task Force for Business and Stability Operations (TFBSO) efforts to develop the extractive industries in Afghanistan, (2) assess U.S. Agency for International Development (USAID) efforts to develop the extractive industries in Afghanistan, and (3) identify the challenges to creating stable and lasting extractive industries as a source of revenue for the Afghan government. In coordination with the USAID Office of Inspector General's review of Sheberghan Gas Development Program (SGDP), we focused our audit solely on the Sheberghan Gas Generation Activity (SGGA), the off-budget portion of USAID's hydrocarbon projects. We reviewed documents dated from June 2004 through July 2015.

To determine the extent to which TFBSO efforts to develop the extractive industries in Afghanistan met their stated project objectives, we reviewed TFBSO contract documents, task orders, and purchasing orders, as well as progress reports, final summary reports, and other deliverables prepared by TFBSO's contractors. Specifically, in order to determine whether each TFBSO project achieved its project objectives, we reviewed the contractual requirements and the latest status reports for each project. We reviewed contracting officer's representative status reports, where available. 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, 2013, and 2014 Activities Reports to Congress to document the accomplishment of TFBSO's stated objectives for the development of Afghanistan's extractive industries. Finally, we interviewed officials from the U.S. Embassy in Kabul, USAID, TFBSO, the U.S. Geological Survey (USGS), the Ministry of Mines and Petroleum (MoMP), the Afghan Petroleum Authority, the Ministry of Finance, the Ministry of Energy and Water, Integrity Watch Afghanistan, and Global Witness, as well as contractor representatives. We did not attempt a cost-benefit analysis.

To determine the extent to which two USAID efforts to develop the extractive industries in Afghanistan met their stated outcomes, we reviewed USAID contracts and task orders, as well as the planning documents, progress reports, final summary reports, and other deliverables prepared by USAID's implementing partners.<sup>51</sup> Specifically, in order to determine whether each USAID program made progress toward meeting its stated outcomes, we reviewed the annual reports submitted to USAID by the implementing partners. These annual reports provided summaries of the accomplishment of program outcomes, as well as additional analysis of challenges facing those programs that hindered the accomplishment of the assigned program outcomes. Additionally, we interviewed officials from the U.S. Embassy in Kabul, USAID, TFBSO, USGS, the MoMP, the Afghan Petroleum Authority, the Ministry of Finance, the Ministry of Energy and Water, Integrity Watch Afghanistan, and Global Witness, as well as implementing partner representatives.

To identify the challenges to creating stable and lasting extractive industries as a source of revenue for the Afghan government, we reviewed analytical documents prepared by or for TFBSO and USAID. We interviewed officials from the U.S. Embassy in Kabul, USAID, TFBSO, USGS, the MoMP, the Ministry of Finance, the Ministry of Energy and Water, Integrity Watch Afghanistan, and Global Witness, as well as contractors for TFBSO's projects and implementing partners for USAID's programs.

We did not use or rely on computer-processed data for purposes of our objectives. However, for analysis of TFBSO disbursements, we relied on unverified data provided to us by the auditee. 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 January 2016 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

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<sup>51</sup> In order to minimize overlap with the USAID Office of Inspector General, this audit did not perform a full review of the SGDP.

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 - STATUS OF RECOMMENDATIONS MADE TO USAID IN SIGAR 15-55-AR, AS OF JULY 6, 2015

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**USAID | AFGHANISTAN**  
FROM THE AMERICAN PEOPLE

**MEMORANDUM**

**July 6, 2015**

**TO:** Jeffrey Brown, Recommendation Follow-up Coordinator  
Special Inspector General Audits Office of the Special  
Inspector General for Afghanistan Reconstruction (SIGAR)

**FROM:** Anne Dix, Acting Director, Office of Economic Growth  
and Infrastructure (OEGI) *amh*

**SUBJECT:** 60-days Status Update to SIGAR Report titled  
“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 Report 15-55)

**REF:** A) SIGAR Transmittal email dated 04/25/2015

As requested in referenced email, provided below is a status update and actions taken on recommendations Nos. 1 and 3 pertaining to USAID under the subject audit report.

*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.*

**Actions Taken/Planned:**

As indicated in our response to the SIGAR draft report, the Task Force for Business and Stability Operations (TFBSO) initiatives was not transitioned to USAID and 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. Nonetheless, we have conducted a review in coordination with the Ministry of Mines & Petroleum (MoMP) of the incomplete TFBSO initiatives which was transferred to MoMP. The specific details of the projects were reviewed and the results are provided as follows:

### **TFBSO Mineral Projects**

As of mid-June 2015, MoMP negotiated four copper-gold exploration projects (Badakhshan, Balkhab, Shaïda and Zarkashan) that were offered for tender in December 2011 with TFBSO assistance. We believe but cannot confirm that, the four contracts were negotiated with the preferred bidders and received all necessary GIROA approvals, except for signature of the Afghan President.

Nevertheless, GIROA stated over the past several months that they do not plan to promptly sign any of the four contracts. A very high probability exists that the MoMP and GIROA will seek an independent legal review of the terms and structure of the contracts prior to finalizing them. At the same time, it became known that the Aynak copper contract won by the Chinese parastatal company Metallurgical Corporation of China (MCC) had taken priority, and the Ministry's attention was focused on arranging an independent legal review of the contract with MCC. The independent legal review of the contract is likely to be conducted by Columbia University Law School prior to beginning renegotiations under the contract. It is our understanding that the Badakhshan, Balkhab, Shaïda and Zarkashan agreements may not be signed until the Aynak contract renegotiations are completed.

The projected costs and staffing required to complete the four pending copper-gold contracts may be estimated as follows:

- \* If contracts are accepted and signed in their current negotiated version, no material costs or labor costs are envisioned;
- \* If MoMP opts for independent review, the costs associated with the review are estimated at \$50,000 - \$75,000 per each contract reviewed. Additionally, renegotiations depending on the scope of each contract may require over \$100,000 per contract. For renegotiation purposes Mining Investment and Development for Afghan Sustainability (MIDAS) staff may include one ex-pat attorney and one local national attorney for an estimate of up to two months to review each contract. Any staff commitments for renegotiation are difficult to estimate at this time;
- \* If MoMP and any of the preferred bidders fail to reach an agreement, or the bidder is unable to complete the terms of the contract, this has a very high probability on at least two of the pending contracts, then the costs for re-tendering including marketing, site visits, legal and financial advisory services, travel and administrative costs may equal about \$500,000 per project to replicate the work previously done by TFBSO. USAID cannot fund this.

## 1. TFBSO Cement Projects

Concerning the cement projects, three projects were offered for tender in September 2013 by MoMP and TFBSO. However, these tenders received little interest from investors culminating in three offers only received in May 2014 for two of the three cement operations: Herat and Jabal Seraj. The Ghori III area tender was withdrawn, and ultimately, no preferred bidder was selected for the Herat area cement operations.

It is believed that negotiations have not been concluded for the Jabal Seraj cement project, and that the proposed transaction still requires Interministerial Council (IMC) and Council of Ministers approvals.

No further information is available as to the status of the negotiations between the preferred bidder and MoMP, so it not possible to provide a reasonable estimate of the costs and manpower that could be required to assist the Ministry in either closing the transaction or re-tendering some or all of the government-owned cement assets.

## 2. USAID on TFBSO Energy Infrastructure Projects

Incomplete TFBSO projects include the following:

- \* Repair of the existing 90 km gas pipeline from the area of the Yatimtaq and Khoja Gogerdak gas fields to the Northern Fertilizer Power Plant (NFPP) in Mazar-e-Sharif;
- \* Construction of a new, parallel gas pipeline to the fertilizer factory;
- \* Installation of a small scale gas treatment unit dehydration units and compressors at the beginning point of the two pipelines;
- \* Promotion of 50MW power plant in Mazar-e-Sharif.

As for the Gas Line Rehabilitation project, TFBSO asserted that the rehabilitation was complete, but, despite numerous requests from the US Embassy and serious concerns about the safety of un-replaced segments, the line was not tested before being turned over to MoMP. Additionally, replacement section six of the pipeline has never been completed due to security concerns. The safety and sustainability of the line are questionable, especially in view of expert reports from as early as 2004 stating that the line could not be repaired economically. Despite the safety issues, the Ministry is

using the line at low pressure. Moreover, the complete environmental review and permission required under Afghan law has never been obtained. Finally, every study of the NFPP over the past number of years has concluded that it cannot be made economically sustainable, even at the cost of the gas that has currently subsidized sale price of \$34 MCM (the commercial price paid by MoMP's privately operated compressed natural gas (CNG) provider is \$150 MCM).

For the purpose of the New Gas Pipeline project, TFBSO imported pipes for the proposed new line, but has not started the construction, completed design, or obtained environmental permits. The pipes were transferred to MoMP and are stored in two locations (Mazar and Sheberghan).

For the Gas Treatment and Compression project, TFBSO procured and shipped in a small scale (maximum of 960 MCM/day) amine gas treatment unit at a reputed \$24 million along with dehydration unit and compressors. Upon TFBSO's departure, this equipment was transferred to MoMP without having been commissioned for use and without any funding for operations and maintenance. The gas processing unit is of limited use due to its design that does not allow removal of corrosive contaminants from the high-sulfur natural gas comprising the great majority of the gas produced in the area, and does not have sufficient capacity. Sweeter gas is not available to cover the demand that is much higher than the capacity of the fertilizer plant. Sheberghan's production of sweeter gas is in rapid decline and it is technically impracticable and environmentally harmful for the amine plant to flare the more plentiful and also higher contaminated gas, which constitutes the bulk of Afghanistan's remaining gas reserves.

MoMP does not have either the funds or the technical or management ability to complete or to operate any of the above projects, and is unlikely to receive any funding for operations or technical support from Afghan government sources. The only concrete estimate for the cost of the above operations is an approximately \$6 million proposal from the private firm, Quimex, to commission and operate the small gas processing unit for one year. Adequate testing and proper further work on the existing gas line would cost millions of U.S. Dollars. Proper installation of a new parallel high-pressure pipeline (using the pipe imported by TFBSO) by a reputable and experienced pipeline contractor is estimated to cost between \$15M and \$20M.

The incomplete TFBSO initiatives were not USAID projects and USAID does not have funding to assist in concluding the incomplete initiatives that have been transferred to the MoMP. Therefore, we request SIGAR to close this 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.*

**Actions Taken/Planned:**

USAID implementing partner for MIDAS project is working on update of the performance management plan and will provide documentation by August 1.

**Target Closure Date:** August 31, 2015

cc: Walter Hammond, OFM  
HDorcus, OAPA  
DTravis, M/CFO/APC  
PHeard, SIGAR

## APPENDIX III - DETAIL AND HISTORY OF TFBSO EXTRACTIVE PROJECTS

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The Task Force for Business and Stability Operations' (TFBSO) extractive efforts can be categorized into 11 separate projects, all supporting mineral and hydrocarbon development. Table 3 below provides a summary of those projects. We received the figures presented in Table 3 from TFBSO's contracts and internal calculations.



**Table 3 - Summary of TFBSO Projects as of December 31, 2014**

<b>MINERAL DEVELOPMENT</b>					
<b>Project</b>	<b>Prime contractor(s)</b>	<b>Obligated funds</b>	<b>Disbursed Funds</b>	<b>Time frame</b>	<b>Included activities</b>
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"> <li>· Support for Round 1 tenders</li> <li>· Support for Round 2 tenders</li> <li>· Support for cement tenders</li> <li>· Legal, technical, and commercial advising at MoMP</li> <li>· Tender promotion at international conferences</li> <li>· Promotional materials</li> <li>· Mining industry seminars at the Afghan Parliament and Cabinet</li> </ul>
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"> <li>· Drilling for core samples at potential mining project sites</li> <li>· Drill rig training for AGS staff</li> </ul>
<b>HYDROCARBON DEVELOPMENT</b>					
<b>Project</b>	<b>Prime contractor(s)</b>	<b>Obligated funds</b>	<b>Disbursed Funds</b>	<b>Time frame</b>	<b>Included activities</b>
Tender support and promotion	PricewaterhouseCoopers Hickory Ground Solutions, LLC Curtis, Mallet-Prevost, Colt & Mosle LLP Zantech IT Services, Inc.	\$61,977,029.04	\$44,872,088.00	7/3/2009 - 7/2/2010 12/14/2010 - 12/31/2014	<ul style="list-style-type: none"> <li>· Tender support for Amu Darya contract</li> <li>· Tender support for Afghan-Tajik I contracts (2)</li> <li>· Tender support for Afghan-Tajik II contract</li> <li>· Tender support for Amu Darya (Totimaidan Block) contract</li> <li>· Legal, technical, and commercial advising at Afghanistan Petroleum Authority</li> <li>· Promotion of tenders to international investors</li> </ul>
Landmine removal	EOD Technology, Inc.	\$46,698.00	\$46,659.60	2/27/2011 - 4/13/2011	<ul style="list-style-type: none"> <li>· Removal of landmines from the Kashkari Block of the Amu Darya Basin in preparation for development</li> </ul>
Seismic reflection surveys	Terraseis 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"> <li>· Collection of seismic data for approximately 480 kilometers in Afghan-Tajik and Amu Darya Basins</li> <li>· Collection of seismic data for approximately 300 kilometers in Kushka Basin of which 52 km was collected</li> </ul>
<b>ENHANCING ACCESS TO ENERGY RESOURCES</b>					
<b>Project</b>	<b>Prime contractor(s)</b>	<b>Obligated funds</b>	<b>Disbursed Funds</b>	<b>Time frame</b>	<b>Included activities</b>
Sheberghan-Mazar natural gas pipeline	Defense Logistics Agency U.S. Army Corps of Engineers SAIC, Inc.	\$39,618,400.15	\$33,709,102.39	8/24/2012 - 11/21/2014	<ul style="list-style-type: none"> <li>· Refurbishment of 15 km of pipe for existing Sheberghan-Mazar pipeline</li> <li>· Provision of methane gas detector and other pipeline safety equipment</li> <li>· Provision of gas processing equipment and 94.5km of line pipe for construction of new Sheberghan-Mazar natural gas pipeline</li> </ul>
Compressed Natural Gas <sup>a</sup>	Central Asian Engineering Construction Company United Independent Afghan Trading	\$5,059,447.47	\$5,051,267.68	8/14/2011 - 3/23/2012 7/22/2012 - 7/9/2013	<ul style="list-style-type: none"> <li>· Construction and tender of a Compressed Natural Gas filling station</li> <li>· Conversion of 4 existing diesel generators to bi-fuel (Compressed Natural Gas and diesel)</li> <li>· Provision of, and training for, installation and maintenance of Compressed Natural Gas engine conversion kits for more than 150 vehicles</li> </ul>

VILLAGE STABILITY OPERATIONS					
Project	Prime contractor(s)	Obligated funds	Disbursed Funds	Time frame	Included activities
Management and technical support for Village Stability Operations projects	Alion 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"> <li>Assessment of how TFBSO can work in concert with units and support special operations strategy and priorities</li> <li>Provision of geologic expertise and field management support for village stabilization operations projects</li> <li>Response to requests to provide natural resource development based economic development assistance to base commanders</li> </ul>
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"> <li>Purchase, rush delivery, and training for rock crushing equipment to support artisanal chromite miners in Khas Konar</li> </ul>
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"> <li>Consultation on and support for tender and bidding processes</li> <li>Field studies, remote sensing studies, and laboratory studies for mining areas of interest</li> <li>Construction of data center at AGS headquarters in Kabul</li> <li>Population of data in AGS data center, and training for MoMP staff on use of data center</li> <li>Capacity building in geology, hydrology, mapping, and sampling analysis</li> </ul>
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"> <li>Training and curriculum development for professors specializing in Geology and Mining</li> </ul>

Source: SIGAR analysis of TFBSO documents

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

<sup>a</sup> In October 2015, we released a special project report questioning the decision to build the filling station (see SIGAR 16-2-SP, *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived \$43 Million Project*, October 22, 2015). The report cites a TFBSO study which states that the filling station's total costs, including overhead, was \$42.7 million. We attempted to investigate the composition of the \$42.7 million, but the Department of Defense was unable to provide information on the amount. For purposes of this report, we are using the amounts tied directly to the contracts.

## TFBSO Disbursed \$46.5 Million for Mineral Tender Support

Between September 2010 and December 2014, TFBSO contracted with a number of consulting organizations—including GTW Consultants & Associates, SRK Consultants, Canaccord Genuity, Bell Pottinger, and Mayer Brown—to provide the Ministry of Mines and Petroleum (MoMP) with commercial, technical, and legal expertise for the minerals tendering process.<sup>52</sup> Expertech Solutions also assisted TFBSO with its mineral tender development projects.<sup>53</sup> TFBSO obligated \$65.7 million and disbursed \$46.5 for these contracts

<sup>52</sup> GTW Consultants & Associates provides administrative, technical, and professional support services to the federal government; SRK Consulting provides a variety of mining and geology advisory services; Canaccord Genuity is a banking and financial services firm; Bell Pottinger (formerly known as Pelham, Bell, Pottinger) is a financial public relations company; and Mayer Brown is a global law firm.

<sup>53</sup> Expertech Solutions, Inc., now known as Afilon, Inc., is a Washington, D.C.-based company that purports to engage in strategy, systems engineering, innovation, and program support.

altogether. According to the performance work statement for the SRK Consultants contract and statements from Task Force officials, TFBSO expected these activities would result in at least eight new mineral contracts—ideally with reputable multinational mining companies with expertise in developing mines in post-conflict states—and improved capacity at the MoMP to execute future contracts.

TFBSO's mineral tender consultants, in conjunction with the U.S. Geological Survey (USGS) and the MoMP, identified four areas of interest for development, referred to as the "Round 1" tenders. On December 6, 2011, the MoMP and its U.S.-financed advisors formally launched the Round 1 tenders, promoting the four sites at various mining conferences around the world. According to their internal timetables, Canaccord Genuity and SRK Consultants expected all four Round 1 tenders to conclude with signed contracts by December 2012. TFBSO signed follow-on contracts with Canaccord Genuity and SRK Consultants in September 2012 in order to support the launch of tenders for four additional sites, referred to as the "Round 2" tenders.<sup>54</sup> These projects were scheduled to begin in March 2013 and conclude before June 2014. For several months, TFBSO advisors worked to assist the MoMP in managing the Round 1 tenders and to prepare technical documents, such as "NI 43-101-like documents," for the Round 2 tenders concurrently.<sup>55</sup>

TFBSO's Round 1 tenders required significantly more time than expected. TFBSO's monthly monitoring reports indicate that, soon after the bidding process opened for each of the Round 1 tenders in July and August 2012, TFBSO encountered a series of setbacks. These included scheduling issues, delays in the translation of mining agreements, capability and staffing gaps at the MoMP, and need for additional rounds of negotiation between the ministry and bidding companies. By June 2013, it became clear to TFBSO that the Round 1 tenders would not be completed by the end of SRK Consultants' initial contract in June 2013. TFBSO amended the SRK Consultants contract twice to extend the period of performance through March 2014 and signed a third contract with SRK Consultants on April 2014, all in an effort to bring the Round 1 tenders to a conclusion.

As of July 2015, the Round 1 mineral tenders and cement tenders remained incomplete, and the Round 2 mineral tenders have not advanced beyond the NI 43-101 phase. In a follow-up response to our first audit the U.S. Agency for International Development (USAID), reported that there is a very high probability that the Afghan government and the MoMP will seek an independent legal review of the terms and structure of all mining contracts negotiated under the previous administration before finalizing these contracts. USAID further stated that, depending on the depth of the Afghan government's legal review of the Round 1 mineral tenders, it could cost USAID up to \$500,000 per contract if it provided continued support to the Round 1 tenders, an amount USAID stated it cannot fund. According to senior representatives from USAID's Mining Investment and Development for Afghanistan Sustainability (MIDAS) program, the NI 43-101-like documents that TFBSO prepared for the Round 2 tenders are substantively incomplete and will require further work before the MoMP can utilize them in future tenders. These same MIDAS representatives told us that they do not intend to assist the MoMP in managing the Round 1 contracts, researching and executing the Round 2 tenders, or further negotiating TFBSO's cement tenders unless directly requested to do so by the Afghan government.

Furthermore, even if TFBSO's tenders become finalized contracts, the tendering model that TFBSO followed does not appear to be sustainable for the Afghan government. In an internal memorandum, MIDAS officials wrote that the Afghan government does not have the resources to pay for consultants similar to those hired by TFBSO. In its Comprehensive Report for Mineral Targets for Exploration and Tender Process Development,

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<sup>54</sup> TFBSO's first contracts with SRK, issued in July 2012, allowed only for work on the development of the four Round 1 tenders. TFBSO signed its second contract with SRK only 3 months after signing the first, and the two contracts ran concurrently for the next 9 months.

<sup>55</sup> National Instrument (NI) 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. NI 43-101 requires companies to submit standardized feasibility studies and technical reports vouched for by a "qualified person," who is defined as an engineer or geoscientist who has at least 5 years of experience in mineral exploration and is a member in good standing of a recognized professional association. NI 43-101-like documents are considered a de facto industry reporting standard by other jurisdictions that lack similarly rigorous regulatory regimes for mining.

MIDAS subject matter experts suggested that it might be 10 to 15 years before any of the early-stage exploration projects currently underway will produce significant revenue for the Afghan government.

## TFBSO Spent \$35.9 Million on Seismic Reflection Surveys

During its hydrocarbon tender development efforts, TFBSO determined that seismic reflection surveys could help to confirm prior data collected by geologists during the Soviet era, and that this, in turn, would help spur further exploration investment by international oil and gas companies. To this end, TFBSO contracted Terraseis Trading Limited in September 2011, March 2012, and August 2012 to provide seismic reflection data within the Afghan-Tajik, Amu Darya, and Kushka basins in Northern Afghanistan, respectively.<sup>56</sup> Together, TFBSO obligated \$21.7 million and disbursed \$17.4 for these contracts. TFBSO activities reports indicate that Terraseis successfully collected the 460 kilometers of seismic data required under the Afghan-Tajik and Amu Darya contract. However, according to TFBSO, Terraseis failed to collect any data for the Kushka basin project after delaying the project for several months, citing security concerns and inclement weather. In March 2013, TFBSO terminated the contract for default.<sup>57</sup> In September 2013, TFBSO contracted Leidos Holdings, Inc. to collect seismic data in the Kushka Basin area.<sup>58</sup> TFBSO obligated another \$20.6 million and disbursed \$18.5 million for this contract. TFBSO officials stated that TFBSO leadership proceeded with the second and more expensive cost-plus-fixed-fee contract over the objections of the project managers and subject matter experts. Those personnel feared the same weather and security problems would cause the second contract to fail, which ultimately occurred. Further, one TFBSO field representative stated that TFBSO management suppressed negative field reports that might have led to the earlier cancellation of the contract. TFBSO ended the contract following the collection of 52 kilometers of 300 contracted kilometers. TFBSO attempted to recover funds from Leidos after the contract's period of performance expired, but the Defense Contract Audit Agency released a report in August 2014 stating that they discovered no unallowable charges.

## TFBSO Spent \$7.8 Million for Consultants to Provide Management Support to Mining Projects in Strategic Villages

TFBSO contracted the advising services of the Transformation Advisors Group LLC, Metis Solutions LLC, and Alion Science and Technology in order to develop a concept of operations and provide management support for mining sector-oriented Village Stability Operations projects.<sup>59,60</sup> TFBSO intended for these contractors to support Combined Joint Special Operations Task Force and Special Operations Task Force teams in training local partners in proper artisanal mining methods and identifying potential small-scale mineral development

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<sup>56</sup> Terraseis is a provider of geophysical data acquisition services with a focus in the Middle East, Asia, and Africa.

<sup>57</sup> According to Federal Acquisition Regulation (FAR) 49.401, "Termination for default is the U.S. government's contractual right to completely or partially terminate a contract because of the contractor's actual or anticipated failure to perform its contractual obligations." FAR 49.402-2 states that under a termination for default, "the Government is not liable for a contractor's costs on undelivered work and is entitled to repayment of advance and progress payments." Termination for default also exposes construction contractors to potential liability for the consequences of its breach, including any costs incurred by the Government in completing the work. See also FAR 52.249-10.

<sup>58</sup> Leidos Holdings, Inc., previously known as Science Applications International Corporation, was formed on September 30, 2013, after Science Applications International Corporation separated its technical, engineering, and enterprise information technology services.

<sup>59</sup> Transformation Advisors Group LLC is a small business specializing in providing technology services and program management consulting for the U.S. federal government and commercial businesses in the Middle East, Asia, Africa, and North America; Metis Solutions LLC is a 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; and Alion Science and Technology delivers advanced engineering, information technology, and operational solutions to customers in defense, civilian government, and commercial industries.

<sup>60</sup> TFBSO decided to terminate its contract with Metis Solutions for convenience in October 2013, only 1 month after signing it.

opportunities in strategic villages. Excluding the Metis contract, TFBSO obligated \$14.3 million and disbursed \$7.8 million for these efforts between September 2012 and December 2013.

TFBSO did not provide us with any documentation of activities by Alion Science and Technology. According to its final monthly status report, the Transformation Advisors Group commissioned remote sensing analysis to identify tracts that might be favorable for future Village Stability Operations and coal exploration projects, and provided capacity building to Afghanistan Geological Survey geologists. However, the Transformation Advisors Group reported nearly every other Village Stability Operations milestone as incomplete or premature. Transformation Advisors Group advisors noted in this report that, as of the end of the contract period, they were still waiting for TFBSO to authorize the start of any specific Village Stability Operations assignment.

TFBSO did authorize one Village Stability Operations-related project, for the purchases of chromite processing equipment to be utilized by artisanal miners in Khas Kunar, Kunar province.<sup>61</sup> TFBSO purchased and rush delivered this equipment between December 2011 and April 2012 at a total cost of \$54,900. According to an Integrity Watch Afghanistan report, TFBSO trained the local commander and deputy commander of the Afghan Local Police to set up a small chromite processing unit for the local community without first consulting MoMP officials about the project. When TFBSO officials later consulted with Afghan legal experts, they learned that the chromite facility in fact violated Afghan Minerals Law, which prohibits the granting of mining licenses to, among other officials, employees of the Ministry of Interior Affairs.<sup>62</sup> A senior TFBSO official told SIGAR Investigations that, upon learning this, he wrote a letter to the Minister of Mines and Petroleum explaining the violation, and the project was later cancelled at the Minister's behest. According to TFBSO officials, there were plans to conduct two more projects related to Village Stability Operations; however, the MoMP did not approve these projects.

## **TFBSO Supported Development of the Afghan Petroleum Authority and Assisted With the Tender of Three Hydrocarbon Contracts**

TFBSO funded six contracts dedicated to providing the MoMP, and later the Afghan Petroleum Authority (APA), with support in tendering exploration and production sharing contracts for Afghanistan's hydrocarbon resources. Together, these contracts amounted to \$62.0 million in obligations and \$44.9 million in disbursements.<sup>63</sup>

TFBSO's hydrocarbon tender development efforts resulted in three hydrocarbons contracts. TFBSO documents estimate that the lifetime worth in government revenues for these contracts could be as high as \$6.29 billion. However, for Afghanistan's extractive industries to become profitable and sustainable, they must overcome the issues highlighted in this report, including regulatory, corruption, transportation, and security issues. According to TFBSO, the APA received a total of \$6.1 million in 2013 for these three contracts, and TFBSO projected that the APA would receive \$10 million in 2014. Additionally, TFBSO officials stated that they had another two contract tenders "well underway," and the Afghan government had received several bids for one of these contracts. However, the MoMP did not complete the tender process for these two projects before TFBSO departed Afghanistan in December 2014. TFBSO estimates that these contracts, once signed, could be worth between \$3.9 and \$6.4 billion in government revenues, depending on how much gas is discovered during the exploration phase.

TFBSO officials stated that it was also instrumental in helping the MoMP to establish the APA as the ministry's central authority for hydrocarbons. TFBSO served an advisory role, retaining personnel and consultants in

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<sup>61</sup> Chromite is the only economically viable ore of chromium, an essential element for a wide variety of metal, chemical, and manufactured products, such as stainless steel and paint pigments.

<sup>62</sup> Afghanistan Mining Law, Article 16, par. (2).

<sup>63</sup> Additionally, TFBSO provided \$46,660 in funds to EOD Technology, Inc. to remove landmines from the Amu Darya Basin in preparation for tenders in that area. EOD Technology was a defense contractor specializing in explosive ordinance disposal. It merged with Sterling International in October 2012.

various departments of the hydrocarbon regulator. However, the contractor for USAID's Sheberghan Gas Generation Activity (SGGA) program reported in December 2014 that the Afghan government did not approve continued funding for the salaries of the "vast majority of APA staff members"; 72 APA employees were laid off in December 2014, leaving only approximately 35.

## TFBSO Participated in the Rehabilitation of the Sheberghan-Mazar Natural Gas Pipeline

Between 2011 and 2014, TFBSO provided materials and technical assistance for an initiative to rehabilitate the 45-year-old, 89.1-kilometer pipeline connecting the Khoja Gorgordak natural gas field near Sheberghan, Jowzjan province to the Northern Fertilizer and Power Plant in Mazar-e-Sharif, Balkh province. Between 2012 and 2014, TFBSO procured and delivered 15 kilometers of pipe for the Afghan Gas Enterprise to use in replacing corroded sections of the existing pipeline and 94.5 kilometers of pipe for a new pipeline to be constructed alongside the existing one.<sup>64</sup> TFBSO also procured and delivered all ancillary materials necessary for installation of the new pipe, as well as a compressor facility and an amine plant to "sweeten" the gas. TFBSO reported that the procurement costs for this equipment amounted to more than \$39.6 million in obligations and \$33.7 million in disbursements.

Based upon evidence gathered during this audit, in December 2014, we released an inquiry letter expressing concern about the safety of the existing pipeline that TFBSO helped to rehabilitate.<sup>65</sup> By the time TFBSO ceased field operations in Sheberghan on November 21, 2014, the Afghan Gas Enterprise had connected 12 of the 15 kilometers of replacement pipe with TFBSO guidance and support. In its response to our letter, TFBSO stated that targeted repairs to the damaged sections would enable this pipeline to operate at minimal pressure. The Task Force also claimed that the Afghan Gas Enterprise has the capacity to regularly survey the pipeline and repair leaks.

However, USAID and Department of State (State) officials say that they remain skeptical of the partially rehabilitated pipeline's safety. USAID reported in July 2015 that the Afghan Gas Enterprise has not yet managed to complete the remaining 3 kilometers of planned repairs due to security concerns in the project areas. According to USAID, TFBSO stated that all pressure testing and leak repairs would be fully documented and submitted to the U.S. Embassy in Kabul; however, no such documents were provided. As far as USAID is aware, TFBSO only tested the 15 kilometers of the pipeline it targeted for repair, and never performed pressure testing on the remaining 75 kilometers of pipeline. Finally, USAID contends that the Afghan government recently signed a purchasing agreement that would require them to increase the pressure in the pipeline significantly from its current levels—an action that USAID believes would "almost certainly" result in an explosion or other serious incident.

In addition to its efforts to rehabilitate the existing Sheberghan-Mazar pipeline, TFBSO purchased and delivered another 94.5 kilometers of pipe and associated materials for the construction of a new 89.1-kilometer pipeline to run alongside the old one. TFBSO reportedly expedited delivery of this new pipe into Afghanistan and shipped primarily via air, as opposed to ground transportation; however, these construction materials remain unused. According to TFBSO officials, the new pipe is split between locations in Sheberghan and Mazar-e-Sharif, with U.S. officials unable to visit the Sheberghan location due to security concerns. The pipe will remain unused until additional donor funding can be raised to finance the actual construction of the replacement pipeline. A TFBSO official estimated that it will cost \$16.6 million to procure the necessary equipment, engineering, construction, advising, and quality control support to construct the pipeline. Representatives from the Asian Development Bank have expressed interest in financing the construction of the pipeline, but an agreement has not yet been reached.

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<sup>64</sup> TFBSO purchased an additional 5.4 kilometers of pipe to account for losses incurred during the shipping and installation processes. Some of the pipe was destroyed during an insurgent attack on a shipping convoy.

<sup>65</sup> See SIGAR 15-15-AL, *Alert Letter: Task Force for Business and Stability Operations Pipeline Project*, December 11, 2014.

Alongside these pipeline projects, TFBSO provided \$3.7 million to support the construction of an amine plant, for processing the sulfur out of natural gas, and another \$3.7 million on a compressor facility, to increase the pressure of natural gas flowing through the Sheberghan pipelines. TFBSO completed the compressor facility, and successfully constructed (but did not commission) the amine plant in 2014.<sup>66</sup> One TFBSO subject matter expert stated that the Afghan Gas Enterprise has been operating the compressors independently and would be taught basic maintenance for these facilities. Another TFBSO subject matter expert stated that the Afghans will not need to commission the amine plant for some time, as the existing fields in Sheberghan produce natural gas that does not need processing, and are currently producing more gas than the nearest power plant can handle. However, this subject matter expert stated that, at their current levels of knowledge and capacity, it would be “irresponsible” for the Afghans to operate and maintain the amine plant absent an outside service provider. He estimated that it would cost about \$5 million to hire four expatriate contractors to perform operation and maintenance for this facility; however, USAID experts claim that it may cost even more, as the Afghans will need to purchase additional materials in order to get the plant running. By contrast, a SGGA report estimated that the Afghan Gas Enterprise, the entity responsible for Afghanistan’s gas transmission infrastructure, averaged only \$4 million to \$5 million annually from gas sales, the majority of which was used for salaries and profits in 2012. When we asked USAID whether they had any plans utilize TFBSO’s amine plant for the SGGA and Sheberghan Gas Development Program natural gas projects in Sheberghan, they stated that they do not at present. Additionally, USAID claimed that TFBSO’s amine plant will be of limited use to the Afghan government, should it ever be commissioned, as its design does not allow for the removal of certain corrosive contaminants prevalent in the gas produced in the Sheberghan area, and it does not have sufficiently high capacity.

## TFBSO Sponsored Drilling Expeditions

From 2012 through 2014, TFBSO funded technical support and on-the-job training for the preliminary mineral exploration and core sampling. TFBSO contracted with Central Asian Mining Services to conduct exploratory drilling for copper deposits in North Aynak, and with CENTAR American Technical Services, Inc. to do the same for lithium deposits in Dasht-e-Newar, Ghazni province.<sup>67</sup> Additionally, TFBSO tasked Transformation Advisors Group, LLC with senior-level management support and oversight for the drilling, sampling, mapping, and potential mine planning and design of between three and seven sites, and Emissary Transition Group, LLC with developing and implementing a training curriculum for the Chinese-manufactured drilling rigs that the MoMP owned but did not know how to use.<sup>68</sup> TFBSO obligated and disbursed \$7.2 million for these efforts.

The Central Asian Mining Services drilling project in North Aynak was completed successfully. The contract required the contractor to mobilize all equipment to the drilling site, conduct 1,500 meters of core drilling and 1,000 meters of reverse circulation, and then restore the drilling site to its approximate preexisting condition. According to the contractors’ final report, Central Asian Mining Services successfully performed 2,101 meters of core drilling and reverse circulation alongside 12 embedded Afghan Geological Survey (AGS) personnel. For the lithium drilling project in Dasht-e-Newar, TFBSO required CENTAR American Technical Services to conduct 400 meters of sonic drilling. In its Activities Report to Congress for Fiscal Year 2014, TFBSO stated that the lithium drilling project successfully confirmed the quality of lithium in the area.

Emissary Transition Group reported some successes for its drill rig training program. Despite several unplanned and unavoidable delays—including unexpected extensions of government holidays and walkouts by

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<sup>66</sup> According to TFBSO, the plant is mechanically complete and ready to be formally commissioned, and can begin operating within a week of instrumental testing.

<sup>67</sup> Central Asian Mining Services is a drilling and mining support company headquartered in Kabul, Afghanistan. CENTAR American Technical Service, Inc. is a U.S.-based company that provides exploration and mining services in Afghanistan and Central Asia.

<sup>68</sup> Emissary Transition Group, LLC is a small business that provides security and logistics services for businesses operating in fragile states.

AGS employees demanding back pay—the contractor reported that the program resulted in the successful commissioning and operationalization of three AGS-owned drills, and the graduation of two drillers, three driller assistants, five driller helpers, two senior mechanic/welders and two mechanic/welders.<sup>69</sup> Emissary Transition Group stated that the AGS now has several drilling rigs as well as an adequate and experienced driller and crew who can operate drilling machines under supervision.

The contractor also voiced several concerns with the project. Emissary Transition Group reported that the AGS did not appear to screen the trainees it nominated, resulting in the majority of the trainees being functionally illiterate and innumerate, and in approximately half the trainees openly acknowledging that they only attended the drill rig trainings for the free lunches and salary benefits. The contractor also reported that the AGS leadership constantly worked at cross-purposes with the training program, which they claimed reflected poor coordination and expectations management between TFBSO, the AGS, and the contractor. Additionally, Emissary Transition Group noted that the poor quality of several of the Chinese drill rigs resulted in breakages and delays. Finally, the contractor expressed reservations about the program length itself, which it felt was far too short. They wrote that training a person to become a driller who can safely and independently operate a drill can be a 1- to 2-year process, longer than the 3-month program contracted by TFBSO.

## TFBSO Executed Pilot Natural Gas Projects

TFBSO contracted and spent \$5.1 million to test whether Afghanistan's automotive fleet could transition from reliance on diesel to cheaper, locally produced natural gas by funding construction of a "pilot" compressed natural gas fueling station in Sheberghan. TFBSO also funded the conversion of four Afghan National Defense and Security Forces power generators from diesel to bi-fuel (diesel/compressed natural gas). According to a TFBSO management report, the pilot compressed natural gas fueling station it constructed in Sheberghan has been operational since May 2012, serving more than 120 taxis and personal vehicles in the Sheberghan area. According to TFBSO, in 2014 the Afghan government successfully concluded a tender to award a contract that granted operational rights to a local Afghan company. The two generators TFBSO converted to bi-fuel in 2013 continue to be used at Sheberghan Regional Police Training Center. TFBSO authorized funding for the conversion of two additional generators at Camp Shaheen, the largest Afghan National Army base in northern Afghanistan, but it is unclear whether this effort was carried out.

In October 2015, we released a special project report questioning the decision to build the filling station.<sup>70</sup> The report cites a TFBSO study which states that the filling station's total costs, including overhead, was \$42.7 million. Furthermore, we found no indication that TFBSO considered the feasibility of achieving the station's broader objectives or considered any of the potentially considerable obstacles to the project's success before construction. While we attempted to investigate the high cost of the project, DOD stated that the March 2015 close of TFBSO resulted in the Office of the Secretary no longer possessing the personnel expertise to address these questions or to assess properly the TFBSO information and documentation retained by Washington Headquarters Services in the Office of the Secretary of Defense Executive Archive.

In our review of TFBSO documents and discussions with TFBSO officials, we learned that the Task Force originally planned to expand Afghanistan's compressed natural gas fueling network from Sheberghan into Mazar-e-Sharif, which has a comparatively larger market of 100,000 registered cars. However, TFBSO officials said they could not carry out this expansion because of the lack of adequate pipeline infrastructure between Sheberghan and Mazar-e-Sharif. Afghanistan will need to make significant investments in pipeline construction before it will be able to build additional compressed natural gas fueling stations.

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<sup>69</sup> Emissary Transition Group placed program graduates into these categories based on their proficiency in meeting the requirements of the program and specific technical competencies.

<sup>70</sup> See SIGAR-16-2-SP, *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived \$43 Million Project*, October 22, 2015.



## TFBSO Directed and Funded USGS Efforts that Resulted in New Data for 24 Areas of Interest

TFBSO spent approximately \$33.8 million to support USGS activities in Afghanistan.<sup>71</sup> According to its interagency agreements with TFBSO, USGS's requirements between 2009 and 2014 included:

- Conducting sampling and ground assessments within 24 areas of interest previously identified by USGS;<sup>72</sup>
- Developing technical documents for these areas of interest in preparation for tender;
- Collecting both existing geological records and new data, compiling and organizing it within a new TFBSO-funded data center at the AGS headquarters in Kabul; and
- Conducting institutional capacity building at the AGS and the MoMP.

According to one of its interagency agreements with TFBSO, the USGS successfully compiled digital data during fiscal years 2009 through 2011 for the 24 areas of interest, as well as an additional 33 sub-areas. These data included previously published data by the USGS, as well new data that were generated in partnership with TFBSO. USGS geologists and hydrologists performed laboratory studies and remote sensing studies within and outside the areas of interest, and one USGS representative stated that they were able to take samples from all of the original 24 areas of interest. The USGS compiled these maps and data, along with digitized versions of older Soviet maps and records, into a new data center constructed at the AGS headquarters in Kabul, which TFBSO officials say they planned to turn over to the Afghans in 2014.

USGS capacity-building efforts included database training, geographic information system software training, remote sensing training, and on-the-job training at field sites and at the AGS headquarters; however, TFBSO did not provide any program reporting that would be useful for assessing the successes or failures of these initiatives. One USGS representative stated that, in their assessment, the AGS is now capable of producing new data and information packages without outside assistance. However, they also said that security, funding, transportation, and infrastructure problems will continue to hinder the AGS's work.

## TFBSO Sponsored Kabul Polytechnic Capacity-building Program

TFBSO spent \$500,000 to sponsor an intercollegiate information exchange for Kabul Polytechnic University professors specializing in geology and mining. TFBSO and USGS officials told us that between May and October 2014, the Task Force partnered with three international universities in order to update Kabul Polytechnic's mining curriculum and train professors in contemporary mining practices. According to representatives from TFBSO and the MoMP, schools such as Kabul Polytechnic University needed this support because their curricula still reflected Soviet central planning practices. According to a TFBSO program officer, TFBSO supported seven senior professors, who then mentored younger associate professors. USGS officials also hosted several classes that were open to anyone in the Afghan government who was involved or interested in the extractives industries. Although TFBSO did not provide us with program reports, TFBSO and USGS representatives both claimed that the training efforts at Kabul Polytechnic were highly successful. According to these same TFBSO and USGS representatives, TFBSO was looking into the possibility of securing private funding to continue these inter-university partnerships with Kabul Polytechnic. TFBSO representatives say they

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<sup>71</sup> This figure includes \$0.87 million spent on a contract with IBM and \$99,137 spent on a contract with the Simorg Homa Industrial Group in support of the new data center.

<sup>72</sup> In 2005, the USGS and the AGS, with the support of USAID, initiated a 2-year program to review Afghanistan's national resources. At the conclusion of the data review in 2007, the USGS published a preliminary assessment of the country's mineral resources claiming that there are "abundant" resources present in Afghanistan. Working with TFBSO between October 2009 and September 2011, the USGS conducted another assessment with the goal of identifying particular deposits that could be relatively easily developed. This study identified 24 areas of interest where the USGS deemed there to be potential for early and low-risk exploitation of minerals and hydrocarbons.

met with State and USAID to try to reach an agreement for transitioning the program. However, to our knowledge, none of these efforts were successful, and the program has been discontinued.

## APPENDIX IV - OVERVIEW OF EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

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Activities related to the exploration and extraction of Afghanistan's extractive resources were originally regulated under the Minerals 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. 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.<sup>73</sup> 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 a public, financially sustainable work plan to accomplish all of the above.

Adam Smith International assisted the Afghan government in meeting its requirements under the Extractive Industries Transparency Initiative. Adam Smith International also assisted in drafting a revision of the Minerals Law in order to include statutes otherwise improving transparency and accountability in the mining industry.<sup>74</sup> The Hydrocarbons Law was revised around the same time with support from the Norwegian Agency for Development Cooperation.<sup>75</sup> Substantial revisions to the old laws were enacted by the Afghan government in 2009. In February 2010, Afghanistan was accepted by the global Extractive Industries Transparency Initiative Board.

Despite the legislative revisions and Afghanistan's acceptance by the Extractive Industries Transparency Initiative Board, officials from the U.S. government, contractors responsible for implementing U.S. extractives programs, the Ministry of Mines and Petroleum, and Afghan civil society organizations agreed that the 2009 Minerals Law created regulatory confusion and stymied investment in the minerals industry. As part of the 2012 Tokyo Mutual Accountability 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.<sup>76</sup>

According to the Department of State, the director of the Afghanistan Extractive Industries Transparency Initiative and other Afghan government officials claim they are making progress on implementing the criteria above, but they will depend on outside donor support to overcome human, resource, and software capacity shortfalls.

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<sup>73</sup> The World Bank implements the Extractive Industries Transparency Initiative in Afghanistan.

<sup>74</sup> Adam Smith International is a professional services business that supports economic growth and government reform.

<sup>75</sup> 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.

<sup>76</sup> The Tokyo Mutual Accountability Framework, the document resulting 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 framework committed the donor community to providing \$16 billion in assistance to Afghanistan through 2015 and sustaining support through 2017, and established a mechanism to monitor and review these commitments.

## APPENDIX V - COMMENTS FROM THE DEPARTMENT OF DEFENSE

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PRINCIPAL DEPUTY UNDER SECRETARY  
OF DEFENSE  
2100 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-2100

POLICY  
The Honorable John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction  
2350 Crystal Drive  
Arlington, Virginia 22202-3940

JAN - 8 2016

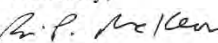
Dear Mr. Sopko:

I am replying on behalf of the Department of Defense to the opportunity to review the draft Special Inspector General for Afghanistan Reconstruction (SIGAR) report, "Afghanistan's Oil, Gas, and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth," pursuant to an email from Gabriele Tonsil, Assistant Inspector General for Audits and Inspections, on November 5, 2015.

The Department has reviewed the response submitted by the USAID on July 6, 2015, and December 6, 2015. We appreciate that USAID has conducted a review, in coordination with the Afghanistan Ministry of Mines and Petroleum (MoMP), of the former TFBSO initiatives that were transferred to MoMP. Pursuant to section 1534 of the National Defense Authorization Act for Fiscal Year 2014, TFBSO ended operations in Afghanistan on or before December 31, 2014, and worked with the Government of Afghanistan, as well as the Department of State and USAID, in transferring or shutting down programs. The Department recognizes that the Department of State and USAID were not in a position to assume responsibility for legacy TFBSO programs, which operated under a unique status and combination of authorities.

SIGAR states that one objective of this audit is to assess TFBSO efforts to develop the extractive industries in Afghanistan. Prior to the closure of TFBSO, the former director of TFBSO commissioned RAND to produce a study with the purpose of deriving lessons from the task force's Afghanistan operations. The report did not attempt to measure the overall effectiveness or cost-effectiveness of TFBSO projects, deferring to SIGAR for such analysis, and instead drew on qualitative analysis and public and internal TFBSO documentation to make independent assessments on the TFBSO business model. The RAND report contains an overview of the extractives industry work that TFBSO conducted before its disestablishment, and is enclosed. The Department completed a security review of the report on October 30, 2015, and RAND has now made it available for public dissemination.

The Department remains committed to accommodating SIGAR in its reviews and investigations.

Sincerely,  
  
Brian P. McKeon

Enclosure: As stated.



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

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### MEMORANDUM

**DATE:** December 6, 2015

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

**FROM:** Herbert Smith, Mission Director *W*

**SUBJECT:** Mission Response to Draft SIGAR Report titled  
“Afghanistan’s Oil, Gas, and Minerals Industries:  
\$488 Million in U.S. Efforts Show Limited Progress  
Overall, and Challenges Prevent Further Investment  
and Growth” (SIGAR Report 16-XX under Code  
097A-2)

**REF:** SIGAR Transmittal email dated 11/07/2015

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

USAID is committed to helping Afghanistan develop the extractives sector in a deliberate and responsible way that will pay off in the long run for both Afghans and Americans - in jobs for Afghan citizens, in a new revenue stream for an Afghan Government striving for self-reliance, and ultimately our own national security. To achieve this, USAID has supported the Ministry of Mines and Petroleum (MoMP) since 2005 in the areas of mineral exploration, natural gas development and general technical assistance. As SIGAR indicated in its report, USAID assistance has enabled the Government of Afghanistan to enact investor-friendly extractive legislation, improve the ability to market, negotiate, and regulate contracts, and generate geological data to identify areas of interest to attract investors.

The extractives industry could become a fundamental pillar of a robust Afghanistan economy and is poised to attract high levels of private foreign direct investment. U.S. Government coordination with the Government of Afghanistan (GoA) and the private sector will help to develop Afghan mineral and natural gas resources in a responsible, environmentally friendly manner. Through the Sheberghan Gas Development Program (SGDP) and the Mining Investment and

Development for Afghan Sustainability (MIDAS) projects, USAID is supporting 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 GoA 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 decades.

The international donor community has had a collaborative approach to develop the Afghan extractive industry. An initial priority has been the establishment of the legal framework to enable an optimal business environment; however, as the industry and the country mature, capacity building at the Ministries will take priority. With USAID's assistance, MoMP will prepare the necessary legislative documentation to ensure that the Afghan extractives sector will operate in an efficient, transparent, and legally acceptable manner. These are fundamental requirements to the long-term sustainability of the sector and the GoA's ability to manage Afghanistan's natural resource endowment.

The goal in Afghanistan is not extraction of minerals for its own sake, but the harnessing of the extractives industry to provide for the development of the country and its people. Any conclusions about the state of policy reforms in Afghanistan needs to be substantially tempered by the reality that mining is a long-term endeavor -- extremely long term-- in the case of larger mining projects. Some project horizons likely approach a 20-year range before any project will be able to generate significant revenue of a magnitude that will significantly impact Afghan Gross Domestic Product.

### **RESPONSE TO SIGAR'S RECOMMENDATIONS**

*To ensure that the technical assistance objectives of the SGGA and MIDAS are met, we recommend that the USAID Administrator:*

*1. Using the results of the assessments done to date, develop a plan with the MoMP and its component organizations addressing the structural reforms needed at the ministry and establishing milestones for achieving them.*

**USAID Comments:** The Mission concurs with Recommendation 1.

### **Actions Taken/Planned:**

USAID will develop a plan with MoMP that addresses the necessary structural reforms and establishes milestones for achieving them. This may require scope adjustment and/or expansion of the projects; however, many of these issues are already addressed in existing project work plans. Based upon results achieved to date, USAID is revising the MIDAS program to respond to MoMP capacity limitations. Future capacity building will be targeted to achievable objectives and outcomes with direct buy-in from Minister Saba and support from the Office of the President of Afghanistan.

The plan for MoMP will include the following priorities:

- Develop a foundation for sustainable and efficient utilization of natural resources by building capacity in the institutional, regulatory and human resource frameworks for the sector. USAID programs will focus on structural reforms within MoMP that will develop near term results. Activity milestones will build MoMP capacity to reach measurable goals, such as verifying gas reserves and producing the tendering documentation for a gas sweetening facility.
  - GoA recognizes private sector exploration as an integral element of a vibrant mining industry and endeavors to promote favorable conditions conducive for Afghanistan to compete as a global exploration investment destination.
  - Where communities located in mine areas or may reasonably be expected to be negatively impacted by mine development, detailed social impact assessments of impacts and mitigation measures must be provided to the MoMP for review and approval.
  - USAID will help MoMP build capacity in land use planning and environmental protection strategies.
- Help MoMP prioritize developing and utilizing energy resources, such as natural gas and oil, followed by the secondary hard minerals exploration.
  - USAID will focus capacity building activities on institutional reforms that will deliver earliest results. MoMP can leverage existing oil and gas exploration data to verify reserves and support the economic potential of future exploration.
  - USAID will support MoMP to promote the value of oil and gas exploration rights to international developers. This may include

conferences with MoMP presenting extractives resources to prospective international developers.

- In the minerals sector, shorter-term USAID efforts will focus on helping MoMP to develop small to medium size resources and establish a reliable platform for larger-scale projects. This may be achieved through intervention in several strategic areas:
  - Increase the MoMP community interaction to gather local support for regulatory and enforcement reforms. .
  - Train MoMP to develop private sector outreach programs, including capacity building of local small and medium enterprises (SMEs) through on-the-job trainings and workshops to ensure understanding of regulations.
  - Help MoMP structure mineral rights tenders with an understanding of the banking sector requirements to for loans, lines of credit, and working capital.
  - Help MoMP promote the capital investments required in new technology such as modern machinery, equipment, and tools to increase the efficiency, profitability and safety of mining and mining support services.

**Target Closure Date:** March 31, 2016

**2. Condition any future on-budget assistance to the MoMP on the ministry achieving the milestones in the agreed-upon plan.**

**USAID Comments:** The Mission concurs with Recommendation 2.

**Actions Taken/Planned:**

USAID does not plan any on-budget assistance beyond the current programming. No on-budget assistance is planned for MIDAS. As for SGDP that ends in August 2016, the funding for the drilling activity in Sheberghan will be disbursed upon approval of the contractor's vouchers. Also for SGDP, USAID will contribute funding towards the gas processing "sweetening" plant once the public private partnership is finalized.

Based on the above, we request SIGAR's concurrence to the closure of Recommendation 2.

**Cc: U.S. Embassy/Kabul Coordination Directorate**



## APPENDIX VII - ACKNOWLEDGMENTS

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Preston Heard, Senior Program Manager

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Jerome Goehring, Senior Program Analyst

This performance audit was conducted  
under project code SIGAR-097A-2.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
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