

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

OFFICE OF SPECIAL PROJECTS

**Status of U.S. Efforts to Develop Extractive
Tenders: \$125 Million Spent Resulting in No
Active Contracts**



JULY 2018

SIGAR-18-58-SP



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 5, 2018

The Honorable Jim Mattis
Secretary of Defense, Department of Defense

The Honorable Mark Green
Administrator, United States Agency for International Development

Mr. Herbert Smith
Mission Director USAID/Kabul

Dear Sirs:

Improving the Afghan government's ability to sustain itself with reduced donor support has been a key priority for both the U.S. government and international donors. One area identified as having high economic potential is the mineral, oil, and natural gas sector-collectively referred to as "extractives."¹ In 2010, the U.S. government estimated Afghanistan has more than \$1 trillion in extractive reserve that could generate more than \$2 billion in annual revenues for the Afghan government.² Therefore, if progress could be made in this area, it might reduce the Afghan government's dependence on U.S. and other donor funds.

Since 2009, the Department of Defense's Task Force for Business and Stability Operations (TFBSO)³ and USAID have been the two main U.S. entities providing direct assistance to the Afghan government's efforts to develop its extractives sector. SIGAR has previously reported that despite the U.S. government investment aimed at supporting and promoting the Afghan government to develop extractive tenders⁴ that could provide significant revenues to the Afghan government, the TFBSO and USAID efforts yielded limited progress.⁵

¹ SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55, April 24, 2015, p.1.

² In 2016, the Afghan government's total budget was \$6.5 billion. The Department of Defense's Task Force for Business and Stability Operations estimated that the value of Afghanistan's mineral and hydrocarbon deposits was about \$1.1 trillion. In 2010, the Afghan Minister of Mines and Petroleum Wahidullah Shahrani declared that the value was nearly three times that high (see, SIGAR, *Quarterly Report to the United States Congress*, January 30, 2018, IG Sopko introductory letter page, p.6 and p.13; SIGAR, *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 16-11, January 11, 2016).

³ TFBSO was a temporary organization created by the Department of Defense (DOD) in 2006 to support operations in Iraq. However, in 2009, DOD redirected TFBSO to carry out economic development projects in Afghanistan. TFBSO operated in Afghanistan from 2010 through 2014. TFBSO ceased operations in Afghanistan in December 2014 (see, SIGAR, *DOD Task Force for Business and Stability Operations: \$675 Million in Spending Led to Mixed Results, Waste, and Unsustained Projects*, SIGAR 18-19-AR, January 4, 2018).

⁴ 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 (see, SIGAR, *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 16-11-AR, January 11, 2016 p.2).

⁵ SIGAR, *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 16-11-AR, January 11, 2016; SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55, April 24, 2015.

We initiated this review to determine the extent to which the three TFBSO and USAID programs that supported and promoted extractive tender development assisted the Afghan government in generating revenue.⁶ TFBSO and USAID cumulatively spent \$125.4 million on three such programs with a primary goal of assisting the Ministry of Mines and Petroleum (MoMP) to develop and award extractive tenders that would provide a significant increase in revenues to the Afghan government. However, none of the three programs achieved that goal, and not a single extractive tender that TFBSO or USAID supported resulted in a contract that is currently active. Since our last update in January 2015, many of the tenders remain with the MoMP or under ministerial review or have not progressed past the tender negotiation phase. Several other tenders, for which a contract had been issued, have been suspended or cancelled.

We provided a draft of this report to USAID and DOD for comment on June 5, 2018. USAID provided written comments on June 20, 2018. In its comments, USAID generally agreed with our findings and stated that “Afghanistan’s substantial wealth in minerals, oil, and gas has the potential to promote economic growth and stability. But it must be recognized that the many obstacles that impact the Afghan extractives sector will require long-term approaches.” USAID also stated that, “When MIDAS stopped making tangible progress in tender development, USAID took action to safeguard taxpayer dollars and reduced the scope of the project.” We also received technical comments from DOD on June 20, 2018, which we incorporated, as appropriate. DOD noted that its authority to support TFBSO-like extractive activities in Afghanistan ended in December 2014.

We conducted this Special Project in Kabul, Afghanistan and in Washington, D.C. from July 2017, through May 2018, in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and Evaluation. SIGAR performed this Special Project under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978 and the Inspector General Reform Act of 2008. Should you or your staff have any questions about this project, please contact Mr. Matthew Dove, Director of Special Projects, at (703) 545-6051 or matthew.d.dove.civ@mail.mil.

Sincerely,



John F. Sopko

Special Inspector General
for Afghanistan Reconstruction

⁶ The three programs we identified with a primary goal of assisting the MoMP to develop and award extractive tenders include: (1) TFBSO’s Mining Contract Tender Support and Promotion Project; (2) TFBSO’s Hydrocarbon Contract Tender Support and Promotion Project; and (3) USAID’s Mining Investment and Development for Afghanistan Sustainability Program. Two other USAID extractive support programs were not included in this review because neither the Sheberghan Gas Development Program (SGDA) nor the Sheberghan Gas Generation Activity (SGGA) specifically promoted the development of tenders (see, SIGAR, *DOD Task Force for Business and Stability Operations: \$675 Million in Spending Led to Mixed Results, Waste, and Unsustained Projects*, SIGAR 18-19 Audit Report, January 4, 2018 p. 24 and p. 26; SIGAR, *Afghanistan’s Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55, April 24, 2015, p.4; SIGAR, *Quarterly Report to Congress*, January 30, 2018, p.11 and p.12).

Since 2002, Congress has appropriated \$126.0 billion for the reconstruction of Afghanistan.⁷ Improving the Afghan government's ability to sustain itself with reduced donor support has been a key priority for both the U.S. government and international donors. According to the International Monetary Fund, the Afghan government's revenue collection amounts to approximately 11 percent of its gross domestic product and covers only half of recurrent expenditures, such as government employee salaries, which the Afghan government pays through its operational budget. The Afghan government relies on donors to fund the other half of its operational budget.

One largely untapped economic area identified as having the potential to generate substantial revenue for the government is in the development of Afghanistan's mineral and hydrocarbon reserves, collectively referred to as "extractives."⁸ In fact, in September 2017, President Ghani stated that, "The economic development and prosperity of Afghanistan depends on its mining sector, which will enable Afghanistan to pay its military expenditure and achieve self-reliance."⁹

The U.S. government has estimated that Afghanistan has more than \$1 trillion in untapped extractive reserves that could generate more than \$2 billion in annual revenues for the Afghan government.¹⁰ Thus the sector could play a significant role in the government's long term sustainability. According to the World Bank, "These 'projections' [of very high mineral values] refer mainly to the value of minerals in the ground: they assume that the minerals are in large enough concentrations to be mined profitably and that the necessary infrastructure either will be available or can be built profitably to extract and sell them."¹¹

Despite all the hopeful rhetoric about the promises of minerals, mining constitutes only a small share of Afghan economic activity. In 2011, the mining share of Afghan GDP was still under one percent of all licit domestic output. According to the Congressional Research Service, "Afghanistan's mining sector has been largely dormant since the Soviet invasion [of 1979]," partly for lack of rail-line investment and lack of action by the Afghan government on mining-law revisions.¹² Additionally, the Afghan Ministry of Mines and Petroleum's (MOMP's) September 2017 Roadmap for Reform pointed out that the major impediments to developing the Afghan extractives sector included: weak policy and legislative frameworks, low managerial and technical capacity at MOMP, an inadequate information-management system for geological data, lack of a strategy to link extractives to the broader economy, corruption, insufficient infrastructure, illegal mining, and insecurity.¹³

⁷ SIGAR, *Quarterly Report to Congress*, April 30, 2018, p.8.

⁸ SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55, April 24, 2015, p.1.

⁹ Office of the President of Afghanistan, "President Ghani meets President Trump," <http://president.gov.af/en/news/president-ghani-meets-president-trump/>, 9/21/2017.

¹⁰ SIGAR, *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 16-11-AR, January 11, 2016 p.1.

¹¹ SIGAR, *Quarterly Report to the United States Congress*, January 30, 2018, p. 17.

¹² CRS, *Afghanistan: Post-Taliban Governance, Security, and U.S. Policy, updated report RL30588*, December 13, 2017, pp. 62–63.

¹³ Within the Afghan government, the MoMP has the following responsibilities over the extractives sector to include: providing information on the geology of Afghanistan; promoting interest in the country's extractives resources; establishing mining policy; negotiating mining contract tenders, and regulating Afghanistan's extractive industries.

Since 2009, the Department of Defense's Task Force for Business and Stability Operations (TFBSO) and USAID have been the two main U.S. entities providing direct assistance to Afghanistan's extractive industries. Through its Hydrocarbon Contract Tender Support and Promotion project, TFBSO spent \$44.9 million¹⁴ for legal, technical, and commercial experts who supported the MoMP in tendering contracts for Afghanistan's hydrocarbon deposits.¹⁵ TFBSO also spent \$46.5¹⁶ million through its Mining Contract Tender Support and Promotion project for legal, technical, and commercial experts who supported the MoMP in tendering mining contracts to international mining companies. For its part, in 2013, USAID began the Mining Investment and Development for Afghanistan Sustainability (MIDAS) project to assist the MoMP in developing the institutional capacity to develop and regulate Afghanistan's extractive industries.¹⁷ One of the two MIDAS budget components provided on-budget funding¹⁸ for MoMP to procure, implement, and monitor the completion of prioritized mining tender packages under direct contract with international consulting firms.¹⁹ According to USAID, it had allocated approximately \$86 million to MIDAS through 2017, and disbursed about \$34 million.

SIGAR has previously reported that despite the U.S. government investment aimed at supporting and promoting the Afghan government to develop extractive tenders that could provide significant revenues to the Afghan government, TFBSO and USAID's efforts have shown limited progress. We initiated this review to assess the extent to which the Afghan government has made progress in generating revenues associated with extractive tenders developed through the three TFBSO and USAID programs that had a primary goal of developing tenders in the extractives sector.

To complete our review, we obtained and analyzed relevant documents and emails, and interviewed officials from USAID and the Afghan government. We conducted this review in Kabul, Afghanistan and in Washington, D.C. from July 2017, through May 2018, in accordance with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and

¹⁴ SIGAR, *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 16-11-AR, January 11, 2016 p.5.

¹⁵ 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 (see, SIGAR, *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 16-11-AR, January 11, 2016 p.2).

¹⁶ SIGAR, *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 16-11-AR, January 11, 2016 p.4.

¹⁷ Two other USAID extractive support programs were not included in this review because neither the Sheberghan Gas Development Program (SGDA) nor the Sheberghan Gas Generation Activity (SGGA) specifically promoted the development of tenders (see, SIGAR, *DOD Task Force for Business and Stability Operations: \$675 Million in Spending Led to Mixed Results, Waste, and Unsustained Projects*, SIGAR 18-19 Audit Report, January 4, 2018 p. 24 and p. 26; SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55, April 24, 2015, p.4; SIGAR, *Quarterly Report to Congress*, January 30, 2018, p.11 and p.12).

¹⁸ On-budget assistance is funding that is channeled through the Afghan government's core budget (see, SIGAR, *Quarterly Report to the United States Congress*, January 30, 2018, p.12. and p.13).

¹⁹ The second component of MIDAS provided off-budget funding to build institutional and technical capacity at MoMP (see, SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55, April 24, 2015 p. 8).

Evaluation. SIGAR performed this Special Project under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978 and the Inspector General Reform Act of 2008.

NO EXTRACTIVE TENDER THAT TFBSO OR USAID SUPPORTED RESULTED IN A CONTRACT THAT IS CURRENTLY ACTIVE

TFBSO and USAID cumulatively spent \$125.4 million on three programs with the primary goal of assisting the MoMP to develop and award extractive tenders that would provide a significant increase in revenues to the Afghan government. However, none of the programs achieved that goal, and not a single extractive tender that TFBSO or USAID supported resulted in a contract that is currently active. Since our last update in January 2015, many of the tenders remain under ministerial review or have not progressed past the tender negotiation phase.

TFBSO's Mining Contract Tender Support and Promotion Project

As we have previously reported, TFBSO spent \$46.5 million for its Mining Contract Tender Support and Promotion project to provide legal, technical, and commercial experts who supported the MoMP in tendering large-scale mining contracts to international mining companies.²⁰ Initially, TFBSO intended for the ministry to award several cement and at least eight mineral contracts—referred to as Round 1 and Round 2 tenders. TFBSO's Round 1 tenders included four mineral deposits: (1) a gold deposit spread over a 1,000-square kilometer area in Badakhshan province, (2) a copper and gold deposit contained in a 484-square kilometer area in Ghazni province, (3) a copper deposit located in a 457-square kilometer area in Balkhab, Sar-i-Pul and Balkh provinces, and (4) a copper deposit spread over a 250-square kilometer area in Herat province. However, because of extensive and unexpected challenges—including scheduling issues, delays in translating mining agreements, and capability and staffing gaps at the MoMP, and need for additional rounds of negotiation between the government and bidding companies—TFBSO later scaled back its ambitions to focus exclusively on only the four Round 1 tenders.²¹

In January 2016, and again in January 2018, we reported that the Mining Contract Tender Support and Promotion project met few to none of its objectives or contract deliverables and that none of the eight mineral exploration tenders and three cement tenders that TFBSO supported had resulted in a signed contract when TFBSO ceased its operations in Afghanistan in late 2014. A combination of inadequate planning by TFBSO, weak definition of contract requirements, lack of TFBSO oversight over its contractors, and changing priorities of the Afghan government contributed to the failure at that time.

SRK Consulting advisors, who formed a part of TFBSO's mineral tender advisory team, stated in their fiscal year 2012–2013 closeout report that without continued assistance, there is a chance that current contract and tender processes would not be implemented to industry best practices or could

²⁰ SIGAR, *DOD Task Force for Business and Stability Operations: \$675 Million in Spending Led to Mixed Results, Waste, and Unsustained Projects*, SIGAR 18-19 Audit Report, January 4, 2018 p. 24.

²¹ TFBSO's prospective Round 2 tenders included an additional four mineral deposits: (1) a rare earth elements deposit in Khanneshin in Helmand province, (2) an industrial minerals deposit in Dudkash in Baghlan province, (3) a copper deposit in North Aynak in Logar province, and (4) a copper deposit in Dusar in Herat Province (see, SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55-AR, April, 24, 2015, p. 7; and, SIGAR, *DOD Task Force for Business and Stability Operations: \$675 Million in Spending Led to Mixed Results, Waste, and Unsustained Projects*, SIGAR 18-19 Audit Report, January 4, 2018, p.53).

end in a failed round of tenders. In April 2017, we searched the MoMP website and did not find any published contracts related to the Round 1 tenders. However, Afghan government websites are often outdated or incomplete, and we contacted the MoMP and requested a status update on the Round 1 tenders and the cement tenders.²²

As shown in table 1, the Afghan government has made little to no progress in awarding contracts associated with the TFBSO tenders since January 30, 2015.

Table 1 - Status of TFBSO Cement and Round 1 Mineral Tenders

Tender	Date	Description	Status as of JAN 30 2015	Status as of DEC 2017
Shaida (Herat)	Tender awarded in November 2012	Mineral, Copper	Contract initiated by MoMP and preferred bidder. Awaiting Ministry approval, but may need another review by MoMP for compliance with new minerals law.	Limited or No Progress. The MoMP continues to review the project for compliance with new mineral law and is re-examining bidding and award documents.
Badakhshan	Tender awarded in November 2012	Mineral, Gold	Contract initiated by MoMP and preferred bidder. Awaiting Ministry approval, but may need another review by MoMP for compliance with new minerals law.	Limited or No Progress. The MoMP continues to review the project for compliance with new mineral law and is re-examining bidding and award documents.
Balkhab	Tender awarded in November 2012	Mineral, Copper	Contract initiated by MoMP and preferred bidder. Awaiting Ministry approval, but may need another review by MoMP for compliance with new minerals law.	Limited or No Progress. The MoMP continues to review the project for compliance with new mineral law and is re-examining bidding and award documents.
Zarkashan (Ghazni)	Tender awarded in December 2012	Mineral, Gold, Copper	Contract initiated by MoMP and preferred bidder. Awaiting Ministry approval, but may need another review by MoMP for compliance with new minerals law.	Limited or No Progress. The MoMP continues to review the project for compliance with new mineral law and is re-examining bidding and award documents.

²² We did not request information regarding the Round 2 tenders because TFBSO had not made any tangible progress on awarding them at the time they ceased operations in Afghanistan.

Jabul Seraj	Tender awarded in February 2014	Mineral, Cement	Contract negotiations are ongoing.	Limited or No Progress. Negotiations remain ongoing.
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Source: SIGAR analysis of MoMP data.

TFBSO's Hydrocarbon Contract Tender Support and Promotion Project

As we have previously reported, TFBSO spent \$44.9 million for its Hydrocarbon Contract Tender Support and Promotion project to provide legal, technical, and commercial experts who supported the MoMP in tendering contracts for Afghanistan's hydrocarbon deposits.²³ The project concluded in 2014. The Afghan government concluded three of the TFBSO-supported hydrocarbon tenders for the award of exploration and production sharing contracts. The TFBSO-supported hydrocarbon tenders resulted in three signed contracts with Chinese, Emirati, and Afghan companies. When TFBSO ceased operations, two other hydrocarbon tenders remained stalled in the bidding stage, and their futures were uncertain.

Through the Hydrocarbon Contract Tender Support and Promotion project, TFBSO also helped establish and train a new division at the Ministry of Mines and Petroleum, named the Afghan Petroleum Authority, to manage, oversee, and regulate the signed contracts. In January 2018, we reported that shortly after TFBSO ceased operations in 2014, the Afghan Petroleum Authority laid off 72 of its 97 employees, and technical consultants who worked on the project expressed concerns that the ministry now lacks the capacity to tender new contracts or manage the three existing contracts effectively.

We have previously reported that, although the Hydrocarbon Contract Tender Support and Promotion project partially met its objectives, and partially fulfilled or fulfilled after significant delay, its contract deliverables, the hydrocarbon tenders and contracts TFBSO supported may not have resulted in successful or sustainable outcomes. In December 2017, we obtained information from the MoMP to determine whether the Afghan government has continued to receive economic benefits from the three previously signed hydrocarbon contracts and made progress in awarding contracts for the remaining two hydrocarbon tenders.

As shown in table 2, the five TFBSO-supported tender projects have either regressed or have shown either limited or no progress since January 30, 2015.

²³ SIGAR, *DOD Task Force for Business and Stability Operations: \$675 Million in Spending Led to Mixed Results, Waste, and Unsustained Projects*, SIGAR 18-19 Audit Report, January 4, 2018. P. 54.

Table 2 - Status of TFBSO Hydrocarbon Tenders

Tender	Date	Description	Status as of JAN 30 2015	Status as of DEC 2017
Angot Oil Field (Kashkari Block of Amu Darya Basin)	Tender awarded in June 2011	Hydrocarbon, initial proof of concept to garner attention of international oil and gas investors.	Oil produced, six-month contract expired, allowing next tender to include field.	Project Regressed. Contract is suspended.
Amu Darya Oil	Tender awarded in December 2011	Hydrocarbon, Three blocks of basin estimated to contain 87 million barrels of crude oil. Awarded to China National Petroleum Corporation Watan Energy Afghanistan.	Contract is ongoing, crude oil is being produced and some revenue generation for Afghan government.	Project Regressed. Contract is suspended and MoMP is considering terminating the contract.
Afghan-Tajik Phase I	Tender awarded in October 2013	Hydrocarbon, Six blocks of the Afghan-Tajik Basin tendered. Two received bids and under Exploration Production Sharing Contract (EPSC).	Contract negotiations are ongoing and on schedule.	Limited or No Progress. Exploration and production sharing contract between MoMP and the consortium is still being negotiated between the parties.
Afghan-Tajik Phase II	Tender awarded in March 2014	Hydrocarbon, Remaining four blocks of the Afghan-Tajik Basin tendered. Three received bids; two blocks redrawn into one.	Two Exploration and Production Sharing contracts were initiated by MOMP and preferred bidder; sent to cabinet for approval.	Project Regressed. Ministry rejected project.
Totimaidan Block of the Amu Darya Basin	Tender awarded in September 2014	Hydrocarbon, 1 block in Amu Darya Basin.	Awaiting Inter ministerial Commission review and approval of Exploration and Production Sharing contracts in advance of submission to the Ministry for approval.	Limited or No Progress. Contract negotiations are at a standstill.

Source: SIGAR analysis of MoMP data.

USAID's Mining Investment and Development for Afghanistan Sustainability Program

USAID began its MIDAS project in 2013 to assist the MoMP in exploration and development of new mining tender packages, and support the growth of local Afghan businesses involved in or delivering services to the mining industry. The MIDAS budget is split into two components: (1) off-budget funding to build MoMP institutional and technical capacity, and (2) on-budget MoMP funding to procure, implement, and monitor the completion of prioritized mining tender packages under direct contract with international consulting firms. According to USAID's Mining and Natural Gas subject matter expert, when USAID began developing the MIDAS project in 2011, the project was expected to support the development of 8-10 mineral tenders with a focus on large scale mining that could produce significant revenues for the Afghan government. According to USAID, it had allocated approximately \$86 million to MIDAS through 2017, and disbursed about \$34 million.

When MIDAS began its activities in Afghanistan in 2013, TFBSO was still operating its two projects in Afghanistan aimed at assisting the Afghan government develop extractives tenders—its Mining Contract Tender Support and Promotion project and its Hydrocarbon Contract Tender Support and Promotion project. TFBSO ceased activities in Afghanistan in late 2014, having achieved very little tangible progress on its tender support projects, but MIDAS officials decided against pursuing those partially completed, but unfinished, tender packages.²⁴ Instead, despite the fact that MIDAS shared many of the same objectives as the TFBSO projects, MIDAS pursued other tenders. USAID's contractor said they were “strongly inclined” to develop new contract tenders rather than continue work on TFBSO's incomplete contract tenders.²⁵

The ultimate goal of USAID's MIDAS project was to assist the government in the collection of \$2 billion²⁶ in mining operation royalties. Unfortunately this 4-year project, did not achieve its goal developing 8-10 large scale mineral tenders, did not result in any active contracts coming from such tenders, and has not generated any revenues for the Afghan government.

USAID and its MIDAS contractor cited many reasons for MIDAS's failure to achieve intended outcomes. For example, the success of MIDAS was predicated on the expectation that both an improved mining law would be passed by the Afghan Parliament at project inception, and high international demand for extractives would continue. MIDAS struggled when neither of these conditions was realized. In addition, they noted a lack of government political will, leadership challenges within MOMP, and government corruption were all cited as contributing to MIDAS's failure to achieve intended outcomes. For example, according to a USAID official we spoke with who is a subject matter expert in the field of extractives, in many cases, Afghan government officials did not

²⁴ We previously reported that, at the time TFBSO concluded operations in Afghanistan, not a single one of the mineral or cement tenders supported by the Task Force resulted in a signed contract, and TFBSO officials stated that the Task Force had only provided the MoMP and the Afghan Geological Survey (AGS) the data and technical documents for its Round 2 tenders. According to senior representatives from USAID's MIDAS program, these data and documents were insufficient, and the MoMP would need to do significant additional fieldwork and analysis before it could realistically begin marketing TFBSO's Round 2 tenders (see, SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55-AR, April 24, 2015 p. 14).

²⁵ We previously reported that, unless TFBSO's unfinished initiatives are integrated with USAID programs and completed, millions of dollars of U.S. taxpayer funds spent on TFBSO programs may be wasted (see, SIGAR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR 15-55-AR, April 24, 2015; and, SIGAR, *DOD Task Force for Business and Stability Operations: \$675 Million in Spending Led to Mixed Results, Waste, and Unsustained Projects*, SIGAR 18-19 Audit Report, January 4, 2018. P.14).

²⁶ SIGAR, *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 16-11-AR, January 11, 2016.

want mines legalized because many illegal mining operations were in the hands of members of parliament, their families, or other powerful Afghans.

Ultimately, the MIDAS project only resulted in Afghan government approval for two small cement tender packages in Herat and Samangan provinces. The two cement tenders were seen as quick wins in support of economic growth for the government. However, according to December 2017 information provided by the MOMP to SIGAR, the Herat cement contract has been terminated and the Samangan contract bidding process remains incomplete. Speaking at a November 2017 Center for Strategic and International Studies event, Assistant to the USAID Administrator for the Office of Afghanistan and Pakistan Affairs Greg Huger confirmed SIGAR's assessment when he commented that these and other previous U.S. efforts to develop Afghanistan's extractives sector "really weren't very successful."²⁷ In March 2017 USAID said it has no major active mining or hydrocarbon programs, and none are currently planned.

CONCLUSION

In January 2016, we reported that TFBSO left nearly all of its extractive projects in Afghanistan incomplete and that the future of the TFBSO-supported tenders remained in question, because USAID did not advance them under its MIDAS project and instead pursued different tenders, and the Afghan government may not have the capacity to complete them and award contracts. Unfortunately, nothing appears to have changed in the intervening two years, and TFBSO's \$91.4 million dollar efforts did not result in a single active contract. Similarly, USAID's \$34 million MIDAS program fell far short of its goal to develop 8-10 mineral tenders focused on large scale mining to produce significant revenues for the Afghan government, yielding only two completed small-scale cement tenders—neither of resulted in a contract that was active as of December 2017. TFBSO ceased operations in December 2014 and USAID has no active programs for promoting Afghan government revenue through the development of new tenders.

MOMP's September 2017 Roadmap for Reform described the major impediments to developing the Afghan extractives sector such as: weak policy and legislative frameworks, low managerial/technical MoMP capacity, an inadequate geological data information-management system, lack of a strategy to link extractives to the broader economy, corruption, insufficient infrastructure, illegal mining, and a lack of security.²⁸ However, these issues plagued U.S. government efforts in the extractives sector long before the roadmap pointed them out, and the inability of TFBSO and USAID to mitigate these issues resulted in \$125.4 million spent to develop extractives tenders that has yielded virtually no return on investment.

AGENCY COMMENTS

We provided a draft of this report to USAID and DOD for comment on June 5, 2018. USAID provided written comments on June 20, 2018. In its comments, USAID generally agreed with our findings and stated that "Afghanistan's substantial wealth in minerals, oil, and gas has the potential to promote economic growth and stability. But it must be recognized that the many obstacles that impact the Afghan extractives sector will require long-term approaches." USAID also stated that, "When MIDAS stopped making tangible progress in tender development, USAID took action to safeguard taxpayer

²⁷ CQ, Newsmaker Transcripts: Center for Strategic and International Studies Holds Forum on Private Sector Engagement in Afghanistan, 11/27/2017.

²⁸ GIROA, *Roadmap for Reform Extractive Industries Sector in Afghanistan*, September 2017, p. 4.

dollars and reduced the scope of the project.” We also received technical comments from DOD on June 20, 2018, which we incorporated, as appropriate. DOD noted that its authority to support TFBSO-like extractive activities in Afghanistan ended in December 2014.

APPENDIX I – USAID COMMENTS




USAID | **AFGHANISTAN**
FROM THE AMERICAN PEOPLE

MEMORANDUM

June 19, 2018

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

FROM: Herbert Smith, Mission Director 

SUBJECT: Mission Response to Draft SIGAR Review titled
“Status of U.S. Efforts to Develop Extractive Tenders:
\$113 Million Spent Resulting in No Active Contracts”
(SIGAR-18-XX-SP)

REF: SIGAR Transmittal email dated 6/6/2018

USAID thanks SIGAR for the opportunity to comment on this review. At the July 2012 Tokyo Donors’ Conference on Afghanistan, Afghanistan presented a roadmap for achieving economic self-reliance by 2024. Given the optimistic projections that the country possessed a significant diversity of mineral wealth, international donors focused on developing the extractives sector.

SIGAR correctly states that the success of USAID’s Mining Investment and Development for Afghanistan Sustainability (MIDAS) project was predicated on several expectations: that an improved mining law would be passed by the Afghan Parliament; that a strengthened Ministry of Mines and Petroleum (MoMP) would be able to facilitate the bid and tender process; that high level support from the Afghan Government existed for development of the sector; and that high international demand for mineral commodities would continue. If Afghanistan hoped to compete in global markets and benefit from its mineral wealth, it had to develop its extractives sector through large capital investment from international investors. Unfortunately, the Minerals Law in place during the project’s life span was generally considered an obstruction to private sector involvement, as was the lack of support from the relevant government ministries and political leadership. The many challenges in the extractives sector have resulted in its failure to reach its potential

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The Task Force for Business and Stability Operations (TFBSO) suspended operations in 2014. USAID and State Department officials decided that those existing mineral and natural gas projects being managed by TFBSO should be turned over to the MoMP. MIDAS did not have the technical capacity to take over those activities, nor was it designed or funded to do so.

Leadership changes at the MoMP in 2014 and a new approach to the extractives sector were each inconsistent with the original MIDAS program objectives, particularly with respect to field investigations, drilling, and data collection.

When MIDAS stopped making tangible progress in tender development, USAID took action to safeguard taxpayer dollars and reduced the scope of the project. The on-budget funding for drilling was removed. As mentioned in this report, USAID obligated approximately \$86 million, but only disbursed about \$34 million for legal advisory and technical capacity building. USAID continues to benefit from our earlier work, as the lessons we learned under MIDAS have informed our current activities, allowing us to narrow our focus and seek greater engagement from the Afghan government.

Afghanistan's substantial wealth in minerals, oil, and gas has the potential to promote economic growth and stability. But it must be recognized that the many obstacles that impact the Afghan extractives sector will require long-term approaches. That in no way means we should not continue trying, with the Afghan government, to develop the extractives sector; the mineral wealth the country possesses is the most viable option for the country to begin the long road toward financial self-sufficiency. USAID and other U.S. government partner agencies working in the sector are now very focused on providing 'transactional capacity building' support that will open up opportunities to domestic and international private sector investment in the form of direct investment, joint ventures, and public private partnerships.

The U.S. government's and the international donor communities' continued effort to support the growth of Afghanistan's extractives sector is and will continue to be a complex endeavor that will require time and a sustained commitment on multiple fronts, including the establishment of a base of advanced technical expertise within the Afghan government, the creation of an attractive environment for investment, and active engagement with the private sector.

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