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ECONOMIC AND SOCIAL DEVELOPMENT

As of June 30, 2016, the U.S. government has provided more than \$32.8 billion to support governance and economic and social development in Afghanistan. Most of these funds—more than \$19.4 billion—were appropriated to the U.S. Agency for International Development’s (USAID) Economic Support Fund (ESF). Of this amount, \$17.1 billion has been obligated and \$14.5 billion has been disbursed.⁶⁶⁶

U.S.-funded civilian-assistance programs in Afghanistan focus on the country’s long-term development, self-reliance, and sustainability. They aim to bolster gains in health, education, and gender equality. They also seek to increase government revenue through private-sector-led investment and growth, and stronger regional market connectivity.⁶⁶⁷

ESF investments are made in key sectors like agriculture, extractives, and information technology. ESF programs promote improved governance, rule of law, anticorruption initiatives, and alternatives to illicit narcotics production. The ESF is also being used to help the Afghan government finish and maintain major infrastructure investments to build electric-power grids in the north and south, critical components of the United States’ economic-growth strategy for Afghanistan.⁶⁶⁸

KEY EVENTS

Several events this quarter are likely to affect Afghanistan’s prospects for economic and social development:

- Afghanistan’s parliament ratified the World Trade Organization’s terms of accession, putting Afghanistan on track to become the WTO’s 164th member as of July 29, 2016.⁶⁶⁹
- Having recently completed an informal IMF Staff-Monitored Program, the Afghan government reached an agreement with the IMF for funding support under a more formal, three-year, \$45 million Extended Credit Facility (ECF) loan agreement.⁶⁷⁰
- Domestic revenues collected in the first half of FY 1395 (December 21, 2015–December 20, 2016) rose 53.2% above the same period in FY 1394, covering 60.1% of total budget expenditures. Expenditures increased 5.5% compared to FY 1394.⁶⁷¹ However, the afghani has depreciated

approximately 22% against the dollar since 2012.⁶⁷² The change affects purchasing power and reduces the impact of the improved government revenue collections by raising the cost of dollar-denominated imports like fuel and electric power.

- In June, the Independent Joint Anti-Corruption Monitoring & Evaluation Committee released a report on the Ministry of Public Health's (MOPH) vulnerability to corruption. It found "deep and endemic" corruption problems in the public-health sector and broadly confirmed a 2013 SIGAR audit that warned that due to the MOPH's financial management deficiencies, U.S. funds to the MOPH were at risk of fraud, waste, and abuse.⁶⁷³

ECONOMIC PROFILE

In April, the International Monetary Fund (IMF) called the Afghan outlook for 2016 and beyond "very difficult" and weaker than when last assessed in November 2015. The IMF reported that Afghanistan's "perilous" security environment, political uncertainties, and endemic corruption negatively affect development spending, private investment, institutional reforms, economic efficiency, and equality.⁶⁷⁴ Despite these risks, the World Bank said Afghanistan has maintained overall macroeconomic stability and set the conditions for slow economic recovery.⁶⁷⁵

The IMF lowered its medium-term revenue assumptions for Afghanistan this quarter, no longer forecasting revenue increases from a value-added tax or the extractives sector due to government-capacity constraints and poor investment climate. Instead, revenue increases will stem from the government's strengthened tax enforcement and compliance reforms, and electricity-transit fees starting in 2018.⁶⁷⁶

The IMF and World Bank projected Afghanistan's real (net of inflation) gross domestic product (GDP), excluding opium, to grow 1.9–2.0% in 2016, slightly higher than the IMF-estimated 0.8% in 2015, which it said was far below what is necessary to increase employment and improve living standards.⁶⁷⁷ In contrast, Afghanistan's FY 1395 (2016) budget estimated GDP growth at 4.4%.⁶⁷⁸

The World Bank expects slow economic recovery over the next three years with Afghan growth prospects dependent on stronger government progress on reforms, political stabilization, and improved security.⁶⁷⁹ It added that Afghanistan suffers from weak domestic demand with no signs of recovery in either private consumption or investment.⁶⁸⁰ Lower foreign-military spending has reduced demand for goods and services, causing the loss of tens of thousands of jobs. Although the Afghan government is working with the IMF and other donors on long-term economic reforms, the World Bank reported that the country is suffering from a major economic downturn. Meanwhile, the strength of the insurgency

has caused the government to spend more on the military and less on job-creating investments.⁶⁸¹

Consumer prices dropped to a World Bank-estimated average of -1.5% in 2015, compared to a 4.6% rise in 2014. This was attributed to declining global commodity prices and waning domestic demand. Exchange-rate depreciation would normally cause higher consumer prices for an import-dependent nation like Afghanistan, but this was offset by declining global prices.⁶⁸²

Afghanistan's lack of security threatens not only personal safety but also the delivery of public services and private investment.⁶⁸³ Economic growth has not been inclusive and has not reduced poverty rates, according to the World Bank. It reflects GDP growth that is lower than population growth, limiting employment opportunities. Nearly 23% of Afghanistan's labor force was unemployed in 2013–2014, almost triple the level of the 2011–2012 surge years.⁶⁸⁴

Industry and services, which benefited from the Coalition's large presence, security spending, and aid flows prior to 2015, have grown at the slowest pace since 2013.⁶⁸⁵ Yet they still led economic growth in 2015, offsetting the contraction in agriculture, which declined by an estimated 2% in 2015, according to the World Bank.⁶⁸⁶ Agricultural output and income fluctuate with the weather, so economic growth based on this sector is necessarily volatile.⁶⁸⁷

Afghanistan's Fiscal Outlook

Afghanistan's fiscal vulnerability remains high, according to the World Bank, and will require a large increase in revenues and sustained levels of aid. Its medium-term economic outlook is "unfavorable."⁶⁸⁸ While domestic revenues have increased, the World Bank said security costs have grown beyond donors' initial projections.⁶⁸⁹

Afghan National Defense and Security Forces (ANDSF) costs in FY 2016 are \$5.01 billion, of which the United States is paying \$3.65 billion. Other donors and Afghan funds cover the gap between U.S. payments and total costs. The 2012 NATO summit in Chicago predicted Afghanistan's contribution to ANDSF costs would be at least \$500 million in 2015, however Afghanistan did not achieve this in 2015 if its cost share is denominated in dollars (Afghanistan contributed \$421 million); it did if denominated in afghanis (AFN) due to the AFN's approximately 22% depreciation against the dollar since 2012.⁶⁹⁰

The World Bank attributes Afghanistan's currency depreciation to a decline in aid, the preference of Afghan consumers for the dollar, and possibly capital outflows associated with migration out of the country. This out-migration is mostly caused by few employment opportunities, increasing poverty, and the deteriorating security environment.⁶⁹¹ At the time of the summit, Afghanistan's \$500 million commitment to security was equivalent to roughly AFN 25 billion, about \$369 million, which is what the government

“Most assessments suggest that Afghanistan’s economy will not grow rapidly enough in the next five years to allow the government to assume a significantly larger share of the cost of their security.”

Source: DOD, *Enhancing Security and Stability in Afghanistan*, 6/2016, p. 100.

Donor-funding commitments made at the Chicago summit were for ANDSF only, which comprises the Afghan National Army and Afghan National Police. Afghanistan's other security-related expenditures—the National Directorate of Security and the Presidential Protective Service, for example—are funded through other means.

Source: DOD, *Enhancing Security and Stability in Afghanistan*, 12/2015, p. 79.

Donors are expected to finance approximately 69% of Afghanistan's FY 1395 national budget, mostly through grants. This covers approximately 55% of the operating budget and 89% of the development budget.

Source: MOF, *National Budget Document, 1395 Fiscal Year, 1/18/2016*.

budgeted for in 2015. Afghanistan's cost share is increasing.⁶⁹² The 2016 national budget allocated AFN 27 billion for security, roughly \$393 million—approximately 20% of expected revenues.⁶⁹³

FY 1395 Revenues and Expenditures—First Six Months

Afghanistan's domestic revenues and expenditures both increased in the first six months of FY 1395 compared to the same period in FY 1394. Total collected domestic revenues—a figure that excludes donor grants—stood at AFN 80.2 billion (\$1.17 billion), about 53.2% above the same period in FY 1394. Afghan government expenditures, AFN 133.4 billion (\$1.95 billion), increased by about 5.5%.⁶⁹⁴ Afghanistan's currency depreciation against the U.S. dollar may affect purchasing power and reduce the impact of improved government revenue collections.

The fiscal gap—the difference between domestic revenues and expenditures—is large, with donor assistance narrowing or closing it, as depicted in Figure 3.32. However, Afghanistan's fiscal gap (39.9%) narrowed compared to the same period in FY 1394 (58.6%). Still, domestic revenues paid for 60.1% of Afghanistan's total non-security budget expenditures so far in FY 1395, representing a net deficit of AFN 53.3 billion (\$779.9 million). With donor contributions, the budget surplus was AFN 53.5 billion (\$783.3 million).⁶⁹⁵ A fiscal gap can widen or shrink, depending on variables including budget-execution rates, donor grants received, qualification for donor incentive funds, revenue collection, and changing expenditures.⁶⁹⁶

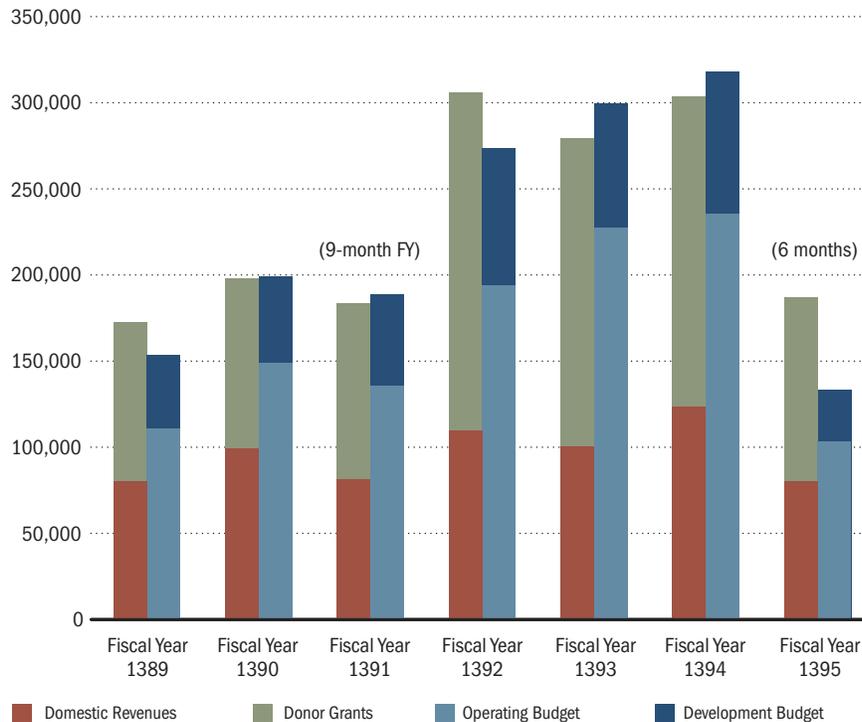
The World Bank estimates that Afghanistan has a government-revenue potential of 17% of GDP; expenditures in 2014, however, were 26% of GDP and are expected to rise to 36% of GDP by 2020.⁶⁹⁷ Even with a 23% improvement in actual revenue collections in FY 1394 compared to the previous year, and a 53% revenue increase in the first half of FY 1395 (year-on-year), the World Bank said that it would be unrealistic to expect Afghanistan to cover the current level of expenditures, even if its revenue potential was realized in all sectors. Therefore, the World Bank said the government must also reduce expenditures, especially in the security sector, to achieve fiscal sustainability.⁶⁹⁸

Customs Revenue and Administration

Customs duties and fees made up 33.9% of the government's total domestic revenues in 2015, and 31.4% in the first six months of 2016.⁶⁹⁹ This quarter, the Ministry of Finance announced a phased, nationwide expansion of a program that allow customs duties to be paid electronically from any commercial bank, rather than only at central bank offices within customs houses.⁷⁰⁰ This follows pilot programs in Balkh Province, at Kabul International Airport, and at Kabul's inland customs office. The State Department said electronic payments expedite the release of goods at the border, reduce the need to carry cash, and reduce opportunities for graft.⁷⁰¹

FIGURE 3.32

AFGHANISTAN'S DOMESTIC REVENUES AND DONOR GRANTS COMPARED TO OPERATING AND DEVELOPMENT BUDGET EXPENDITURES (AFN MILLIONS)



Note: Until recently, Afghan fiscal years ran approximately March 20 to March 20 of Gregorian calendar years. FY 1389 corresponds to March 20, 2009, to March 20, 2010, and so on. Nine-month data for fiscal year 1391 reflect a change in the timing of the Afghan fiscal year. Afghan fiscal years now generally run December 22 through December 21. Grants represent funds received from donors. Donor grants are often for specific projects or activities, but can sometimes be spent at GIROA's discretion.

Source: MOF, *Jawza Financial Statements FY 1395*, 6/29/2016; MOF, *Qaws Financial Statements FY 1394*, 2/27/2016; MOF, "Annual Fiscal Report 1393," 3/12/2015; MOF "1394 National Budget," 1/28/2015; MOF, "1393 National Budget," 2/1/2014.

The World Bank acknowledged Afghan government progress in its customs administration, but said improvements in operational performance—management, declaration processing, risk management, and inspections—would help the customs department realize more of its customs revenue-collection potential.⁷⁰²

International Monetary Fund Support Agreement Reached

On April 13, 2016, having recently completed an informal IMF Staff-Monitored Program, the Afghan government requested IMF funding support under a more formal **Extended Credit Facility (ECF)** loan agreement.⁷⁰³ ECF negotiations were held in May and June. On July 2, the IMF announced

The Extended Credit Facility (ECF): a three-year program that provides financial assistance to Afghanistan, as well as other countries, and is the primary IMF tool for providing medium-term assistance to low-income countries. ECF financial support is generally provided through loans at zero percent interest rates.

Source: IMF, "IMF Extended Credit Facility," Factsheet, 3/16/2016.

a staff-level agreement was reached on an economic program supported by a three-year, \$45 million ECF. The IMF executive board approved it on July 20.⁷⁰⁴

The ECF will focus on structural reforms to support private-sector development, including mobilizing revenue and strengthening public financial management. It will also aim to preserve macroeconomic and financial stability by helping Afghanistan maintain low public debt and sufficient international reserves; strengthen vulnerable and weak banks, reform state-owned banks; maintain price stability and a flexible exchange rate; and instill confidence in Afghanistan's domestic currency.⁷⁰⁵ Afghanistan's poor record with its two previous ECF arrangements, the most recent of which expired in November 2014, caused program reviews to be suspended. The IMF said both ECFs fell short of their goals.⁷⁰⁶

Trade

Afghanistan's trade balance was an IMF-estimated negative \$7.4 billion (equivalent to 38.5% of GDP) in 2015 and is projected to be negative \$7.6 billion (equivalent to 44% of GDP) in 2016. Afghanistan's legal exports consist of goods (29.4%) and services (70.6%).⁷⁰⁷ However, about 15–20% of the total value of Afghanistan's trade is said to be unrecorded, generally involving smuggled goods, according to the World Bank.⁷⁰⁸

World Trade Organization Terms of Accession Ratified

Afghanistan's lower house of parliament ratified the country's terms of accession to the World Trade Organization (WTO) on June 18, 2016. The upper house of parliament ratified them on June 21, 2016.⁷⁰⁹ Afghanistan will become the WTO's 164th member on July 29, 2016.⁷¹⁰

Afghanistan applied for WTO membership in 2004 for several reasons: its exports could benefit from favorable trade terms guaranteed between WTO-member countries;⁷¹¹ a trade dispute or violation, especially with a more economically powerful country, could be remedied or compensated through WTO mechanisms; the government expects the WTO's trade rules will provide sufficient stability to allow Afghan businesses to better compete domestically and internationally; and it anticipates greater government revenues through customs collections and taxes from increased trade and business activity.⁷¹²

Integration into the world economy is one of Afghanistan's key development goals and WTO-aligned institutional reforms can promote economic efficiency. However, a recent study published in the *South Asia Economic Journal* said Afghanistan faces WTO compliance and other post-accession challenges. It contended that WTO-mandated tariff cuts on imported goods may bring down consumer prices, but it may also lower government revenues by the amount of tariff reduction, or raise them if imports rise.⁷¹³ Customs duties and fees—the revenue stream most directly affected by

“The principal connection between the Afghan economy and the rest of the world are donor inflows. These inflows finance most imports and dwarf (licit) exports.”

Source: IMF, *Staff Report for the 2015 Article IV Consultation and the First Review Under the Staff-Monitored Program*, 11/3/2015, p. 13.

tariff rates—supplied 34% of the government’s total domestic revenues in 2015, and 31.4% so far in 2016.⁷¹⁴

The study also noted that Afghanistan’s producers are in a nascent stage. WTO-mandated import liberalization may negatively affect those that are already vulnerable to competition from cheap imports. The Afghan government will lose certain policy-making freedoms, like protecting its long-term industrial development. Afghanistan must have competent institutions to benefit economically from WTO membership. The study argued that Afghanistan’s capacity—industrial, human, and legal—as well as its ability to manage trade and investment in a rule-based trading system are major concerns. Given Afghanistan’s lack of competence and efficiency in domestic production, it concludes that the country’s sensitive production sectors—agriculture, textiles, cement, and services—will lose in global competition.⁷¹⁵

USAID noted that WTO membership will not necessarily result in lower government revenue. It said tariff rates negotiated with the WTO are higher for a majority of Afghan goods than the current rate, which would allow the Afghan government to preserve enough policy space to offset potential revenue decreases on some goods with tariff increases on others. These decisions could lead to revenue increases.⁷¹⁶

Afghanistan Trade and Revenue Project

USAID’s four-year, \$77.8 million Afghanistan Trade and Revenue (ATAR) project is a trade-facilitation program designed to (1) improve trade-liberalization policies, including support for Afghanistan’s accession to the WTO; (2) improve and streamline the government’s ability to generate revenue by modernizing Afghanistan’s customs institutions and practices; and (3) facilitate bilateral and multilateral regional-trade agreements.⁷¹⁷

This quarter, ATAR continued helping the government amend its laws to comply with WTO rules and commitments. ATAR ran baseline economic models for the Ministry of Commerce and Industry that showed some similar conclusions to the *South Asia Economic Journal* study—when Afghan tariffs would be lowered to comply with WTO-negotiated rates, trade would increase, consumer prices would lower, and government revenue would decrease slightly. The baseline model also concluded that potential revenue losses could be offset by other unnamed taxes; that prices of inputs and services could decrease in the long-term, making Afghan producers more competitive; and that Afghan exports could double by 2021 from AFN 30 billion (approximately \$437 million in current dollars) to AFN 60 billion (\$874 million). However, this is all contingent on the Afghan government’s policy decisions.⁷¹⁸

Iran-India-Afghanistan Transit Trade Agreement Signed

The presidents of Iran, India, and Afghanistan signed a transit trade agreement on May 23, 2016, that will provide sea access through Iran’s Chabahar

A 2015 USAID Afghanistan Trade and Revenue midterm program evaluation found that the Afghan government showed little capacity to implement or comply with WTO-related legislation. USAID said the evaluation took place in the early stages of ATAR’s capacity-building efforts; these efforts are ongoing with better results expected over the next two years.

Source: USAID, *The Afghanistan Trade and Revenue Project, Mid-Term Evaluation (June 4–August 12, 2015)*, 7/23/2015, pp. 3, 17; USAID, OEG, response to SIGAR vetting, 1/14/2016.

port.⁷¹⁹ The Afghan government said this will allow it and India to reduce its dependency on Pakistani ports to transit commercial goods, as well as lower time and cost to trade with Europe.⁷²⁰

Pakistan is Afghanistan's largest trading partner, but implementation of the Afghanistan-Pakistan Transit Trade Agreement (APTTA), which gives Afghanistan access to three Pakistani ports, as well as border access to China and India, has been contentious. Both countries complain of transit and clearance delays at the border.⁷²¹ This quarter, ATAR helped prepare revisions to the APTTA to be finalized at the next Afghanistan Pakistan Transit Trade Coordination Authority meeting, which was not yet scheduled as this report went to press.⁷²²

Export and Import Data

Although Afghanistan routinely sustains a large trade deficit, donor aid helped the country maintain an IMF-estimated current-account surplus equivalent to 4.5% of GDP (\$872 million) in 2015. This is projected to fall to 3.3% of GDP (\$578 million) in 2016. Without donor assistance, the IMF estimated Afghanistan to have a current-account deficit equivalent to 35.7% of its GDP in 2015 (\$6.86 billion) and is projected to grow to 41.2% of GDP in 2016 (\$7.13 billion).⁷²³

During 2013–2015, Afghanistan exported \$2.3 billion to \$4.0 billion worth of goods and services annually, compared to \$9.2 billion to \$11.3 billion in imports. The IMF projected Afghanistan's 2016 exports at \$2.3 billion, not including illicit narcotics (valued at \$2.7 billion in 2014). Afghanistan's 2016 imports were projected to be around \$9.5 billion, with more than \$7.1 billion paid for by official donor grants.⁷²⁴

Unsurprisingly, IMF staff said that Afghanistan needs to increase and diversify its exports, which will stimulate innovation and good management.⁷²⁵ Exports are heavily dependent on agricultural outputs, which the World Bank said can increase if Afghanistan develops supply chains for higher value-added products. However, this will require investments to develop and improve irrigation and extension services, and to build downstream agro-processing capacities.⁷²⁶

BANKING AND FINANCE

The World Bank said access to finance remains low and is a major constraint to Afghan economic growth. On the demand side, only 5.7% of Afghan firms are reported to have a bank loan, and only 2% use banks to finance investments.⁷²⁷ Less than 10% of the Afghan population uses banks, according to a State Department report, with approximately 90% of financial transactions going through the informal money-services businesses (MSB)/*hawala* system.

There is no clear division between MSBs/hawala and formal banking systems—*hawaladars* keep bank accounts and use wire-transfer services, while banks occasionally use hawalas to transmit funds to remote areas in Afghanistan. MSBs and hawaladars, which likely account for a substantial portion of illegal proceeds moving through Afghanistan’s financial system, are generally not as closely scrutinized by the Afghan government as formal financial institutions.⁷²⁸

The IMF reported that state-owned banks remain strategically and operationally deficient, contributing to significant fiscal risk. While the fiscal positions of these banks are improving, IMF staff noted that Afghanistan must urgently implement a public-policy framework—including enhanced governance and regulatory enforcement—for them.⁷²⁹ The World Bank reported that the quality of bank assets (generally, not state banks specifically) has deteriorated and profitability declined. Commercial bank loans to the private sector grew 6.2% in 2015 and were valued at \$685 million (equivalent to 3.6% of GDP). The World Bank attributes this weak commercial lending to Afghanistan’s overall economic slowdown, low investor confidence, stricter implementations of regulations governing foreign exchange-denominated loans, and banks being risk averse following the Kabul Bank crisis.⁷³⁰

U.S. Treasury Assistance

The U.S. Treasury’s Office of Technical Assistance (OTA) continued implementing its March 2015 agreement to develop technical assistance and capacity-building programs for Afghanistan’s Ministry of Finance (MOF). OTA assistance is focusing on:

- Budget: linking policy to national and provincial budget processes, developing baseline budgets and out-year estimates
- Economic crimes: improving Afghanistan’s financial intelligence unit and evaluating the central bank’s capacity to supervise money-service providers for compliance against money laundering and terror financing
- Banking: electronic reporting and risk management, and state-bank restructuring (this assistance can be provided from the U.S. Embassy-Kabul and remotely)
- Tax: setting up a customs and tax academy, including curriculum design, course delivery, and supplying course materials⁷³¹

OTA has conducted six assessment missions to Afghanistan so far, but none this quarter due to security concerns. Treasury said security conditions continue to be a major constraint in establishing a more sustained presence in Afghanistan.⁷³²

“Money laundering, tax evasion, corruption, and other practices have dominated 65% of Afghanistan’s financial transactions.”

Source: Integrity Watch Afghanistan, “Curbing Illicit Financial Flows in Afghanistan,” press release, 4/21/2016.

Financial Action Task Force (FATF): an intergovernmental policy-making body that sets standards and promotes effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system. Its 36 members include the United States, United Kingdom, Switzerland, and the European Union; observers include the United Nations and the Asian Development Bank.

Source: Financial Action Task Force website, “Who We Are,” and “Members and Observers,” accessed 1/3/2016.

Money Laundering

The State Department lists Afghanistan as a major money-laundering country whose financial institutions either engage in, or are vulnerable to, transactions involving significant criminal proceeds, all of which “continue to pose serious threats to the security and development of Afghanistan.” Narcotics, corruption, and contract fraud are major sources of the country’s illegal revenues and laundered funds. State found Afghanistan’s laws to be largely in line with international standards, but still deficient, with implementing regulations lacking clarity and effectiveness. Afghanistan has weak or nonexistent supervisory and enforcement administration, and weak political will to combat corruption.⁷³³

Financial Action Task Force

At its most recent plenary session in Busan, Korea on June 22–24, 2016, the **Financial Action Task Force (FATF)** chose to keep Afghanistan on its “Improving Global Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Compliance” document, also known as the “gray list.” This means that while Afghanistan has strategic AML/CFT deficiencies, its government has developed an action plan, made a high-level political commitment to address those deficiencies, and is making progress.⁷³⁴ This is the seventh consecutive FATF review in which Afghanistan has maintained this status since being downgraded to the “dark gray” list in February 2014.⁷³⁵

FATF said Afghanistan has improved its AML/CFT administration since it met in February 2016. However, Treasury said Afghanistan still needs to show progress by further implementing its legal framework for identifying, tracing, and freezing terrorist assets, and by establishing regulations for declaring cross-border cash transactions.⁷³⁶

Afghanistan made progress toward that this quarter. Treasury reported that Afghanistan’s attorney general continued to freeze terrorist accounts under United Nations (UN) resolutions, albeit inconsistently and with delay. Afghanistan aims to improve its freeze order process to within seven days of UN terrorist designations being issued. Also, Afghanistan’s financial intelligence unit revoked the licenses of 69 money service providers in Kabul for either not complying with the banking law or for suspected terrorist financing. Additionally, Afghanistan announced its first successful conviction of an individual for money laundering under its 2014 AML law for drug trafficking-related financial transactions.⁷³⁷

Kabul Bank Theft Accountability

The U.S. Departments of State and Justice continued to engage with the Kabul Bank Receivership and attorney general’s offices this quarter. However, no new information was available on the Afghan government’s efforts to hold accountable those responsible for economic crimes related to Kabul Bank.⁷³⁸ For the most recent information on cash and asset

recoveries, repayments, and accountability challenges, see pages 176–177 in the SIGAR April 2016 *Quarterly Report to the United States Congress*.

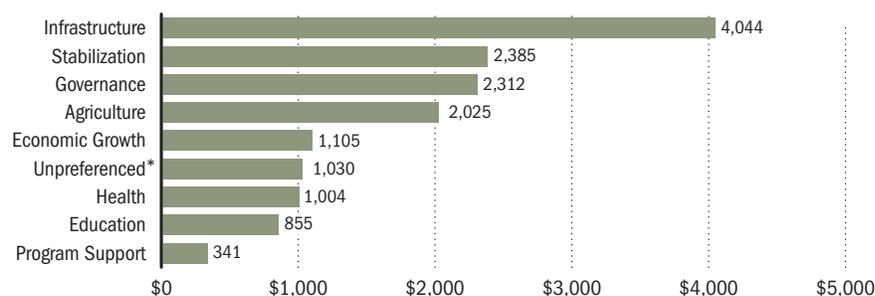
U.S. ECONOMIC AND DEVELOPMENT SUPPORT

Most assistance from the Economic Support Fund goes toward USAID’s development programs. In September 2015, USAID published an updated Performance Management Plan to guide and measure its development objectives, and to articulate its development strategy through 2018. The plan will be reviewed at least annually and updated as necessary.⁷³⁹

Figure 3.33 shows USAID assistance by sector.

FIGURE 3.33

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF JUNE 30, 2016
(\$ MILLIONS)



Note: Numbers rounded. Agriculture programs include Alternative Development. Infrastructure programs include power, roads, extractives, and other programs that build health and education facilities.

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

Source: SIGAR analysis of USAID, response to SIGAR data call, 7/11/2016; SIGAR analysis of World Bank, ARTF, Administrator’s Report on Financial Status, as of May 20, 2016, accessed 7/13/2016.

Development Of Natural Resources

Minister of Mines and Petroleum Daud Shah Saba resigned on March 28, 2016.⁷⁴⁰ President Ghani has not formally accepted his resignation, but Dr. Saba has reportedly left the country and said he will not return. Former ministry policy director Ghazaal Habibyar was appointed Acting Minister.⁷⁴¹ Absent a permanent minister, though, USAID said that no significant foreign or domestic mining investments were made this quarter.⁷⁴²

Although geological surveys show that Afghanistan has significant mineral resources, mining has so far contributed only slightly to the country’s GDP.⁷⁴³ Actual receipts in FY 1394 were only about 38% of the budget projection.⁷⁴⁴ In the first six months of FY 1395, actual receipts were AFN 198.1 million compared to AFN 366.9 million in the same period last year (46% lower).⁷⁴⁵

Developing Afghanistan’s natural-resources sector and reforming the fiscal administration for its extractives industries are essential to strengthening domestic revenue mobilization. The security environment, insufficient infrastructure, declining global commodities prices, and inadequate capacity at the Ministry of Mines and Petroleum (MOMP) have all hampered the development of this sector.⁷⁴⁶

USAID cited other issues attributing to investor uncertainty: regulations to support implementation of the new mining law passed in November 2014 are still being developed; amendments to the law and several mineral tenders remain unsigned by President Ghani; and a combination of corporate income taxes, export and import duties, production royalties, and other charges constitute an uncompetitive levy of about 80% on mineral production.⁷⁴⁷

Under the WTO, Afghanistan has until January 2021 to remove legal provisions that require mining contractors and license holders to procure Afghan services that are similar or equivalent to foreign services in quality, quantity, and price; and that give priority to Afghan suppliers and create conditions less favorable for foreign than for Afghan services suppliers.⁷⁴⁸

Mining Investment and Development for Afghan Sustainability

USAID’s Mining Investment and Development for Afghan Sustainability (MIDAS) program aims to strengthen the MOMP and relevant private-sector-entity capacities to exploit Afghanistan’s natural resources in accordance with international standards.⁷⁴⁹ MIDAS and USAID’s other extractives-assistance programs are listed in Table 3.18.

USAID said the MOMP is currently incapable of administering the approximately 339 existing extractives contracts. This caused MIDAS to be rescoped last quarter to encourage national and international investment in Afghanistan’s natural resources. It now provides technical assistance and transaction advisory services to the MOMP in its effort to either cancel or renegotiate contracts and amend the 2014 mining law. MIDAS advisors helped develop a package of amendments last quarter that was approved by then-Minister of Mines Saba and sent to the Ministry of Justice for review (it will then have to be submitted to the council of ministers and then parliament for review and approval). It continued to help modify the mining law

TABLE 3.18

USAID EXTRACTIVES-ASSISTANCE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 6/30/2016 (\$)
Mining Investment and Development for Afghan Sustainability (MIDAS)	3/31/2013	3/31/2017	\$38,718,320	\$29,428,865
Sheberghan Gas Generation Activity (SGGA)	12/21/2011	7/31/2016	30,440,958	26,380,845
Sheberghan Gas Development Project (SGDP)	5/15/2012	8/31/2016	90,000,000	23,295,875

Source: USAID, response to SIGAR data call, 7/11/2016.

this quarter, but no amendments advanced because USAID said the acting minister is not yet familiar with MIDAS activities and has no authority to make decisions.⁷⁵⁰

Some efforts did progress this quarter. A MIDAS advisor helped the MOMP redraft procedures for artisanal mining contracts; continued to draft regulations that will govern bidding, licensing, and future mineral tender processes; helped review the long-delayed draft Aynak copper mine feasibility study submitted by Chinese state-owned Metallurgical Corporation of China, which was awarded the excavation rights in 2008; and completed a report on talc and barite/gypsum deposits that will be included in several smaller tenders the acting minister wants to advance quickly.⁷⁵¹

Hydrocarbons

Afghanistan's efforts to develop its oil and gas reserves focus on the Amu Darya Basin and Afghan-Tajik Basin, both in northern Afghanistan.⁷⁵²

Afghanistan has only small-scale topping plants—early-stage refineries that can process only limited petroleum components of crude oil—and remains heavily dependent on fuel imports.⁷⁵³ The country imports 10,000 tons of oil products a day from Turkmenistan, Uzbekistan, Russia, Pakistan, and Iran, representing roughly one-fourth of all annual Afghan imports, or approximately \$1.5 billion.⁷⁵⁴

Sheberghan Programs

The Sheberghan gas fields hold the potential for cheap natural-gas-generated power that could be competitive with imported power from Uzbekistan, according to the World Bank.⁷⁵⁵ USAID is supporting the Sheberghan project to help Afghanistan identify and manage gas resources to be used for power generation through two mechanisms: (1) the \$90 million, on-budget Sheberghan Gas Development Project (SGDP) to rehabilitate and drill wells in the Amu Darya Basin and fund a gas-gathering system and gas-processing plant; and (2) the \$30.4 million, off-budget Sheberghan Gas Generation Activity (SGGA) for capacity building and technical assistance to the MOMP.⁷⁵⁶

SGDP drilling activities in the Juma and Bashikurd gas wells were completed in January 2016; core-sample testing showed better-than-predicted commercial prospects. Construction for a gas processing plant has not yet started.⁷⁵⁷ This quarter, McDaniel & Associates, which was contracted to evaluate data and reserve estimates for up to seven Sheberghan-area gas fields, found gas resources in three main producing fields to be significantly lower than what was reported in 2005.⁷⁵⁸

This quarter, SGGA continued to gather and provide additional information for further well and field examinations, but reported a “pattern of non-cooperation from almost all staff levels at MOMP” in providing data for McDaniel's gas-field studies, even though the analyses are for the ministry.

SGGA also completed a library of core samples in Sheberghan and was nearing completion of a larger repository in Mazar-e Sharif to help the Afghan government with future planning and decision making. SGGA will complete its program assistance on July 31, 2016.⁷⁵⁹ USAID intends a follow-on program—Extractives Technical Assistance Activity—to help the MOMP develop and exploit Afghanistan’s petroleum and gas resources.⁷⁶⁰

AGRICULTURE

Agriculture continues to be the main source of employment and subsistence for the Afghan population, accounting for about 25% of GDP, employing more than 50% of the labor force, and affecting 75% of Afghans who depend on agricultural activities for their livelihoods.⁷⁶¹ USAID believes agriculture can stimulate and sustain Afghan-led economic growth. Its agricultural projects focus on wheat, high-value horticultural crops, and livestock. They aim to help farmers improve their output and sales through new technology, management practices, and the cultivation of key high-value crops, while also focusing on improving natural-resource management, and creating or rehabilitating irrigation and drainage systems.⁷⁶²

Since 2002, USAID has disbursed more than \$2 billion to improve agricultural production, increase access to markets, and develop income alternatives to growing poppy.⁷⁶³ This quarter, USAID reported \$30.6 million worth of various Afghan agricultural commodities were sold in FY 2015, and \$324.8 million cumulatively from FYs 2008–2015.⁷⁶⁴ Pages 123–128 of this quarterly report discuss USAID’s alternative-development programs. A list of active USAID agriculture programs is found in Table 3.19.

TABLE 3.19

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 6/30/2016 (\$)
Capacity Building and Change Management Program II (CBCMP II)	7/10/2014	7/9/2017	\$19,999,989	\$13,789,272
Afghanistan Agriculture Extension Project II (AAEP-II)	10/1/2014	9/30/2017	20,229,771	11,994,650
Strengthening Afghan Agricultural Faculties (SAAF)	3/25/2011	12/31/2016	7,824,209	6,709,755
Mothers and Under-Five Nutrition and Child Health (MUNCH)	12/16/2014	12/31/2016	5,000,000	5,000,000
Famine Early Warning System Network (FEWSNET) Phase III	12/29/2011	12/28/2016	11,340,000	4,420,553
Agriculture Credit Enhancement II (ACE II)	6/24/2015	6/23/2018	18,234,849	3,725,129
SERVIR	9/14/2015	9/30/2020	3,100,000	-

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see pp. 123–128 of this report.

Source: USAID, response to SIGAR data call, 7/11/2016.

Agricultural Credit Enhancement II

The Agricultural Credit Enhancement II (ACE II) project is the technical-assistance/advisory support component of the conditions-based Agricultural Development Fund (ADF) administered by the Ministry of Agriculture, Irrigation, and Livestock. ADF extends agriculture-related credit access to small- and medium-sized farms and agribusinesses in all regional economic zones, particularly to those that add value to agricultural products, such as distributors, producers, processors, and exporters.⁷⁶⁵ USAID reported that with ACE II help, ADF has cumulatively provided more than \$67 million in credit to over 32,000 beneficiaries.⁷⁶⁶

This quarter, ACE II completed a review of ADF's sustainability in terms of its business and strategic plan, and the effect on lenders and borrowers resulting from the afghani's depreciation against the U.S. dollar. ACE II also finalized a draft evaluation report on the ADF loan portfolio to identify causes for delinquency in order to revise ADF credit policies and procedures. Fifty-four loans were classified as overdue since ADF inception.⁷⁶⁷ USAID reported that four loans, cumulatively valued at AFN 32.5 million (approximately \$480,600) were written off in 2015, but none so far in 2016.⁷⁶⁸ ACE II implementers reported that the continuing deterioration of both security and the economy is reducing demand for agricultural credit and loan repayments.⁷⁶⁹



Afghan community leaders and government officials attended a UN-sponsored meeting in Kabul in June 2016 to discuss ways to boost agricultural exports. (UNAMA photo by Fardin Waezi)

ESSENTIAL SERVICES AND DEVELOPMENT

Since 2002, the United States has provided reconstruction funds to increase the electricity supply, build roads and bridges, and improve health and education in Afghanistan. This section addresses key developments in U.S. efforts to improve the government's ability to deliver these essential services.

Power Supply

Afghanistan has one of the lowest rates of electrification in the world, with only an estimated 25–33% of Afghans connected to the power grid.⁷⁷⁰ Most parts of urban areas like Kabul, Herat, Kandahar, and Mazar-e Sharif have 24-hour power, although power outages are not uncommon, but only 10% of the rural population have access to grid-connected power.⁷⁷¹

Afghanistan imports approximately 80% of its total electricity from Iran (16%), Tajikistan (25%), Turkmenistan (12%), and Uzbekistan (27%). The rest comes from its own hydropower and thermal sources.⁷⁷² Electricity imports are expected to rise in the near term, according to the World Bank, which also noted that limited access to electricity is one of Afghanistan's biggest constraints to private-sector development.⁷⁷³ Afghanistan will need regional cooperation to meet its energy demands.⁷⁷⁴

Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan Transmission Line Rerouting and Protests

The Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan (TUTAP) regional power-sharing initiative will enable power to be dispatched from the Central Asian republics and Afghanistan to Pakistan through linked electricity grids. Two-way transmission lines will protect against seasonal power outages in participating countries.⁷⁷⁵ TUTAP is financed by the ADB and the ADB-administered Afghanistan Infrastructure Trust Fund, to which USAID contributes. Work is scheduled to be completed by 2020.⁷⁷⁶

In January 2016, Hazara members of parliament tried to prevent the Afghan government from rerouting the proposed TUTAP route away from their ethnic settlement areas in Bamyān Province to the Salang Pass to better benefit the country's central provinces.⁷⁷⁷ A broader public protest movement emerged in early May after the cabinet's April 30th decision to stick with the Salang rerouting plan, with protestors following President Ghani to an anticorruption summit in London. On May 15, under pressure, President Ghani ordered a TUTAP review commission and sent all related documents to parliament for deliberation.⁷⁷⁸ The commission reaffirmed the Salang route, but ruled that Bamyān Province should get its own 220 kV power line by 2019.⁷⁷⁹ In June 2016, ADB agreed to fund it.⁷⁸⁰

Central Asia-South Asia Electricity Transmission and Trade Project

A groundbreaking ceremony for the long-delayed Afghanistan-Tajikistan-Kyrgyzstan-Pakistan, Central Asia-South Asia Electricity Transmission

and Trade project (CASA-1000) took place on May 12, 2016.⁷⁸¹ Although a final transmission route has yet to be determined, Afghanistan was scheduled to receive up to 300 MW of generation capacity from Tajikistan and Kyrgyzstan, and collect transit-fee revenue from electricity delivered to Pakistan.⁷⁸² The World Bank is covering all of Afghanistan's financing needs for this project—\$316 million.⁷⁸³

Even with TUTAP and CASA-1000-generated power, the Afghan government said it will still face an energy deficit.⁷⁸⁴ Yet, in June, a Pakistani news report surfaced that Afghanistan had opted out of their 300 MW allotment, allegedly due to inadequate demand. Instead, Pakistan would receive Afghanistan's portion, for a total of 1,300 MW.⁷⁸⁵ While these reports are unconfirmed, a 2014 addendum to Afghanistan's power-sector master plan said the 300 MW power imported through CASA-1000 would only flow in the summer, when Afghanistan may not need it because domestic demand is met with domestic hydropower or imported energy at lower prices.⁷⁸⁶

U.S. Power Sector Assistance

Since 2002, USAID disbursed more than \$1.5 billion in Economic Support Funds to build generators, substations, and transmission lines, and provide technical assistance in the sector.⁷⁸⁷ USAID believes that economic expansion and increased employment depend on maintaining and improving Afghanistan's electrical infrastructure. It is helping Afghanistan's national electric utility, Da Afghanistan Breshna Sherkat (DABS), increase electricity supply and revenue generation by improving sustainability, management, and commercial viability.⁷⁸⁸ For its part, the Department of Defense (DOD) has disbursed approximately \$180.1 million for power projects through the Commander's Emergency Response Program, as of July 2015, and roughly \$350.8 million through the Afghanistan Infrastructure Fund (AIF), which is jointly managed by DOD and State.⁷⁸⁹

Afghanistan's two primary power systems are the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**. USAID projects to connect and increase the electricity supply in both systems include: (1) the Power Transmission Expansion and Connectivity (PTEC) project to construct a transmission line connecting Kabul with Kandahar and build the capacity of DABS to sustain energy-infrastructure investments, and (2) the soon-concluding Sheberghan Gas Development Project to attract private investment to develop gas resources in Sheberghan and build power plants.⁷⁹⁰ USAID's active power-infrastructure projects are listed in Table 3.20 on the following page.

Kajaki Dam—Unit 2 Turbine Installation

DABS continued its efforts to increase long-term, sustainable hydropower from Kajaki Dam to Kandahar and Helmand Provinces by installing a third turbine, known as Unit 2, in the powerhouse.⁷⁹¹ USAID transferred

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

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

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

SIGAR AUDIT

An ongoing SIGAR audit is examining U.S. government efforts to increase the supply, quantity, and distribution of electric power from the Kajaki Dam.

TABLE 3.20

USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 6/30/2016 (\$)
Contributions to the Afghanistan Infrastructure Trust Fund (AITF)	3/7/2013	3/6/2018	\$113,670,184	\$113,000,000
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2018	725,000,000	98,566,700
Afghan Engineering Support Program	11/9/2009	11/8/2016	97,000,000	82,954,192
Kajaki Dam Unit 2	4/22/2013	9/28/2016	75,000,000	43,912,559
PEER Grants	7/25/2011	7/24/2016	5,440,647	5,440,647
Utility Executive Exchange	9/30/2007	9/30/2017	698,555	698,555
Claims Related to the Installation of Turbine Generator Unit 2 at Kajaki Dam Hydropower Plant	4/1/2013	5/31/2016	5,000,000	-

Note: The Sheberghan Gas Generation Activity (SGGA), Sheberghan Gas Development Project (SGDP), and Mining Investment and Development for Afghan Sustainability (MIDAS) programs, which are categorized under the power sector in USAID's funding pipeline report, are listed in the extractives-sector programs subsection on p. 170 of this report.

Source: USAID, response to SIGAR data call, 7/11/2016.

In June 2016, Afghanistan's Ministry of Energy and Water signed a memorandum of understanding with the Turkish 77 Construction Company for the expansion of water storage and electricity production at the Kajaki Dam hydropower plant. Four new turbines would be installed under this agreement, increasing production capacity to 151 MW. No timeframe was given for when work would begin.

Source: Pajhwok, "MOU Signed with Turkish Firm on Kajaki Dam Expansion," 6/7/2016.

responsibility for installing, testing, and commissioning the third turbine to DABS, along with a \$75 million commitment, in April 2013.⁷⁹² USAID committed an additional \$5 million last quarter and is funding technical support, site security, life-support services, and helicopter support to DABS.⁷⁹³ DABS, in consultation with USAID, chose not to extend the existing contract with GFA due to poor performance. Tetra Tech is now performing these activities. Unit 2 has a power generating capacity of 18.8 MW. Combined with the other two turbines, the powerhouse has a maximum generating capacity of 51.5 MW.⁷⁹⁴

Ongoing fighting in Kandahar and Helmand Provinces continued to delay contractors at Kajaki Dam and some SEPS construction sites. USAID reported that Route 611—the only road from Kandahar to Kajaki—has been closed since December 2014 due to insurgent activity. In order to overcome the delayed delivery of construction materials, USAID, through Tetra Tech, helicoptered all contractor equipment and material from Kandahar to Kajaki in March 2016. USAID reports that the project is 60% complete, including turbine assembly. The turbine-installation completion date was revised to September 30, 2016, but is subject to change based on security.⁷⁹⁵

Power Transmission Expansion and Connectivity Program

The U.S.-funded PTEC program was designed to strengthen and expand Afghanistan's power-generation, transmission, and distribution systems, including funding the 320-mile transmission line between Kabul and Kandahar to connect NEPS with SEPS.⁷⁹⁶ PTEC's DABS commercialization and capacity-building components aim to help the utility become financially sustainable by increasing revenues using utility management software in



A substation and power lines on rugged hills by the Kajaki Dam are part of the infrastructure needed to expand electric service in Afghanistan. (U.S. Navy photo by Specialist 2nd Class Jonathan David)

Kabul, Mazar-e Sharif, Herat, and Jalalabad, while reducing technical and commercial losses through training and support.⁷⁹⁷

Construction on the transmission line and substations between Arghandi and Ghazni, the first segment of the NEPS-SEPS connector continued this quarter. USAID reported that the transmission line is 90% complete and the substations are 60% complete.⁷⁹⁸ Land acquisition and resettlement issues along the transmission-line path continued to impact timelines, but construction is scheduled to be completed in December 2016. The Arghandi connector substation that will feed this line will not be ready until after December 2017. Alternatives to power the Arghandi-Ghazni project are under consideration.⁷⁹⁹ As of March 2016, the most recent data provided, \$46.2 million has been disbursed to PTEC contractors for this segment.⁸⁰⁰

USAID is providing \$350 million in direct assistance to DABS in support of the second segment of the NEPS-SEPS connector, Ghazni to Kandahar—\$179.5 million was transferred to USAID through the Afghanistan Infrastructure Fund. DABS issued two requests for proposals to construct one transmission line and five substations; bids are still being evaluated. USAID said security will be a major challenge to implementing this project.⁸⁰¹

U.S. fuel subsidies totaling \$141 million for power generation at two industrial parks in Kandahar City ceased at the end of September 2015.⁸⁰² USAID referred SIGAR to DABS this quarter for information on how much power the industrial parks' diesel generators were currently producing, and

for whom.⁸⁰³ Last quarter, USAID reported that the Shorandam Industrial Park's diesel generators, which had been producing an average of 120,000 kilowatt-hours (kWh) daily on a 24-hour basis, were reduced to producing 48,000 kWh daily while running only eight hours a day, six days a week. The generators at Bagh-e Pol, which had also been running 24 hours a day, have stopped. Both of the generation facilities served residential and industrial electrical loads.⁸⁰⁴

To help bridge the gap between Kandahar's electric-generation capacity and demand until the NEPS-SEPS transmission line is completed, PTEC is funding a reverse auction whereby independent power producers will compete to construct and sell power to DABS from a solar-power plant. This plant may be able to operate at an installed capacity of 10 MW of power; the diesel generators in Kandahar City have a combined average operational capacity of about 18 MW.⁸⁰⁵ The project was still under procurement, as of June 24, 2016.⁸⁰⁶

Afghanistan Infrastructure Fund Power Programs

AIF projects were initiated to support critical counterinsurgency and economic-development objectives in Afghanistan. Although DOD's mission has since evolved to advising and assisting Afghan security forces and ministries, as well as counterterrorism operations, it is still focused on completing AIF projects.⁸⁰⁷

U.S. Forces-Afghanistan (USFOR-A) has completed four AIF power projects so far. All were phases of the now-concluded Kandahar Power Bridging Solution, which provided fuel and technical support for diesel power-generation plants in Kandahar City while turbine-installation work at Kajaki Dam was under way. USFOR-A has six other ongoing power projects; USAID has three, as shown in Table 3.21.⁸⁰⁸

Ongoing fighting in Kandahar and Helmand Provinces, as well as bureaucratic delays in getting right-of-way approvals for NEPS and SEPS transmission lines, continued to challenge AIF contractors and some project-completion schedules. However, DOD remained focused on implementing power projects to complete its portion of the NEPS and SEPS using FY 2011–FY 2014 AIF money.⁸⁰⁹ No FY 2015 or FY 2016 AIF funds were requested or appropriated, but up to \$50 million from the FY 2016 Afghanistan Security Forces Fund may be used under limited circumstances to help finish existing AIF projects.⁸¹⁰

Afghanistan's Capacity to Sustain Power Projects

DABS and other government entities will be responsible for sustaining NEPS-SEPS power projects, including operations and maintenance (O&M) costs once they are completed and turned over to the government.⁸¹¹ USAID said DABS faces four critical challenges—reducing losses (which are currently very high by international standards), increasing revenues, improving

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.21

AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS, AS OF JUNE 2, 2016 (\$ MILLIONS)						
AIF Project	Description	Notified Amount	Obligated	Disbursed	Status	
AIF FY 2011	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	\$40.5	\$39.1	\$39.1	Complete
	SEPS - Kajaki Dam to Lashkar Gah	Repair, install transmission lines; rebuild, construct power substations	130.0	66.4	51.0	Terminated due to out-of-scope security cost increases
	NEPS - SEPS Connector, Arghandi to Ghazni	Design, construct transmission lines and substations (first segment of NEPS-SEPS connection) USAID: PTEC	101.0	101.0	65.7	Substations civil works ongoing; transmission tower requirements testing concluded (completion: 12/2016)
	NEPS - Arghandi to Pul-e Alam	Design, construct transmission line and power substation	93.7	50.3	16.3	Transmission line and substation under construction; community land issues affecting some tower locations (completion: 12/2016) ^a
AIF FY 2012	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	67.0	64.7	64.7	Complete
	SEPS - Maiwand to Durai Junction - Phase 2	Design, construct transmission line; rebuild and construct substations	40.0	28.7	8.8	Under construction; tower excavation, tower erection, civil work ongoing; substation design under review (completion: 8/2016) ^b
	NEPS - Pul-e Alam to Gardez - Phase 2	Design, construct transmission line and power substation	77.5	69.1	50.0	Transmission line under construction; substation under review; pending modification for one transformer (completion: 12/2016) ^c
	NEPS - Charikar to Gul Bahar and Nejrab - Phase 3	Design, construct transmission lines and power substation	42.5	38.8	23.2	Transmission line under construction; substation design under review; community issues affecting some tower locations (completion: 12/2016) ^d
AIF FY 2013	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	37.0	34.0	34.0	Complete
	NEPS - Charikar to Gul Bahar and Nejrab - Phase 3	Design, construct transmission lines and power substation	33.0	24.1	21.0	Transmission line under construction; substation design under review; community issues affecting some tower locations (completion: 12/2016) ^d
	SEPS Completion - Phase 1	Civil, structural, architectural improvements to substations in Tangi, Sangin North and South	15.0			Civil work ongoing (continued delays); major security challenges (completion: 6/2017) ^e
		Design, construct, transmission lines from Sangin North to Lashkar Gah	60.0	62.9	33.3	Survey work began in Sangin North; Durai to Lashkar Gah transmission towers, under construction; community issues affecting some tower locations; security challenges (completion: 12/2016) ^f
	NEPS - SEPS Connector, Ghazni to Kandahar	Design, Construct transmission line and substations. Final phase of NEPS-SEPS connector. USAID: PTEC	179.5	350.0 ^g	0.0	Bids under evaluation by DABS; expected award: 9/2016
AIF FY 2014	Kandahar Power Bridging Solution	Provides fuel and O&M for diesel generators in Kandahar City	4.0	3.9	3.9	Complete
	SEPS Completion - Phase 2	Design, construct transmission line, and install equipment and commission substations	55.0	55.0	0.0	Transferred to USAID for on-budget implementation through DABS; expected award: 7/2016.
	NEPS - Gardez to Khowst - Phase 4	Design, construct transmission line and substation. DOD's final contribution to NEPS.	130.0	119.0	5.5	Distribution line design descope; substation design under review; right of way granted (completion:12/2017)

Note: All AIF power projects are to be sustained by Afghanistan's Ministry of Energy and Water, and Da Afghanistan Breshna Sherkat (DABS), Afghanistan's national electric utility. Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 5/30/2016. All other information is as of 6/2/2016.

^a 74 tower foundations complete. Only one of 246 towers completed. Substation design was rejected, resubmitted, and is under review. Two of four transformers descope based on estimated electricity demand and being transferred to Gardez substation. Community land issues affecting 35% of tower locations. Completion date at high risk for delay.

^b 86% of tower excavations completed. 30 tower foundations complete. Transmission tower erection began 6/18/2016. Completion date at high risk for delay.

^c All 214 transmission towers erected. Conductor lines 87% strung. Gardez substation design 100% complete. Substation placement 60% complete.

^d 77% of transmission towers erected from Charikar to Gul Bahar; community land issues affecting nine tower locations. 100% of transmission towers erected from Gul Bahar to Nejrab. Conductor lines 11% strung. Gul Bahar substation 85% complete. Completion date at high risk for delay.

^e Completion date at high risk for further delays.

^f Durai Junction to Lashkar Gah segment: 60% of tower excavations completed; Community land issues affecting 30% of tower locations; Completion date at high risk for delay.

^g Includes additional, non-AIF USAID funding.

Source: DOD, response to SIGAR data call 6/29/2016; DOD, response to SIGAR vetting, 7/16/2016; USACE, Garrison and Infrastructure Working Group, AIF LIR, 6/22/2016; USAID, OI, response to SIGAR data call, 6/24/2016.

business systems, and enhancing effective corporate governance. USAID began assisting DABS in 2009 to improve its commercial performance.⁸¹²

SIGAR has questioned DABS's current capacity and resources—financial and otherwise—to pay for O&M.⁸¹³ USAID said the utility's revenues have increased over the last three years, allowing it to pay for more of its operating expenses, although nonrecurring major capital-infrastructure expenses are still mainly funded by donors.⁸¹⁴

DABS' Electricity Commercialization Program, a 36-month, \$27.5 million component of USAID's PTEC program, began in July 2014. It aims to make the utility financially sustainable—capable of paying for O&M and capital investments—with effective commercial and technical management. One subcomponent of that effort is USAID's Corporate Management Support contract.⁸¹⁵

This quarter, DABS announced that it is raising the electricity tariff by 25% in 15 of Afghanistan's 34 provinces retroactive to March 2016. The utility said it lost between \$17 million and \$18 million last year from having to pay for electricity imports in U.S. dollars. It charges its customers in Afghan currency, which has depreciated significantly against the dollar.⁸¹⁶

A World Bank report cautioned that even though DABS, with donor assistance, has been able to reduce some commercial losses and improve revenue collections, its commercial (meter-reading and billing errors, theft, etc.) and technical (heating, magnetic, and other transmission and distribution) losses “remain significant.” The report added that DABS cannot raise or expect donors to provide the capital necessary to meet Afghanistan's energy infrastructure requirements.⁸¹⁷

Corporate Management Support Program

USAID's 36-month, \$20.8 million Corporate Management Support program aims to help strengthen DABS's financial management and accounting, including oversight of USAID on-budget support invoices. It also aims to help DABS establish a corporate-governance framework and comply with USAID's risk-management requirements. So far, a five-year business plan was approved, DABS automated its accounting and payroll systems, DABS utilized software to report on inventory, procurement, and O&M, and is progressing toward a uniform human-resources system—job descriptions, pay scales, reporting, etc. USAID said payroll process dropped from several weeks to two days and DABS's ability to verify and value assets is improving.⁸¹⁸

SIGAR AUDIT

An ongoing SIGAR audit focuses on DOD and State Department progress in completing FY 2011 Afghanistan Infrastructure Fund projects, the impact on other infrastructure priorities and counterinsurgency objectives, and sustainment challenges.

TRANSPORTATION

Afghanistan's lack of transportation infrastructure hinders internal commerce, foreign trade, and economic growth. The World Bank said Afghanistan's transportation-infrastructure shortcomings constrain the

service and agriculture sectors, which have typically been the leading drivers of the economy. It also holds back the mining industry, whose future revenues the Afghan government and international donor community are counting on to offset declining international aid.⁸¹⁹ This quarter, the United States continued its efforts to develop the capacity of the Ministry of Public Works in the areas of road construction, operations, and maintenance.⁸²⁰

Roads

Since 2002, USAID has provided approximately \$2.2 billion cumulatively for more than 1,240 miles of road construction and O&M.⁸²¹ Afghanistan has more than 76,400 miles of road, 28,000 of which has been rehabilitated or improved. However, the World Bank has reported 85% are in poor shape and a majority cannot be used year-round.⁸²² Afghanistan does not currently have sufficient funding and technical capacity to maintain its roads and highways, according to USAID. Afghanistan is estimated to spend \$17 million annually for O&M, leaving a projected \$100 million annual shortfall.⁸²³

Road Sector Sustainability Project

USAID's three-year, \$25.5 million, Road Sector Sustainability Project (RSSP) aims to provide technical assistance to the Ministry of Public Works (MOPW) to manage Afghanistan's road network. RSSP is working with Afghan authorities in establishing a roads authority, road fund, and transportation institute. All three of these institutions were endorsed this quarter by government representatives, and structure reports for these institutions were submitted and accepted by USAID. Transition and legal plans are ongoing. As of May 31, RSSP has fully reached its year-two milestones for identifying the roads it intends to fund, and short- and long-term plans for road maintenance funding. It almost completed its targets to finish designs for the road authority and road fund, as well as the transportation institute study.⁸²⁴ USAID's active road-construction and O&M programs are listed in Table 3.22.

SIGAR AUDIT

An ongoing SIGAR audit is reviewing U.S. efforts to sustain roads and strengthen the Afghan government's ability to perform road maintenance.

TABLE 3.22

USAID ACTIVE ROAD-CONSTRUCTION AND OPERATIONS-AND-MAINTENANCE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 6/30/2016 (\$)
Support for USAID's Construction of Health and Education Facilities Program	1/19/2008	6/30/2016	\$57,541,288	\$56,465,885
Technical Assistance to Ministry of Public Works	8/3/2014	8/2/2017	25,486,058	15,263,342
Salang Tunnel Maintenance	3/24/2013	3/30/2016	3,533,350	3,522,851
Emergency Road O&M	12/1/2015	11/30/2016	5,000,000	-

Source: USAID, response to SIGAR data call, 7/11/2016.

TABLE 3.23

AFGHANISTAN INFRASTRUCTURE FUND ROAD PROJECTS, AS OF JUNE 2, 2016 (\$ MILLIONS)							
AIF Project	Description	Notified Amount	Obligated	Disbursed	Status		
AIF FY 11	Lashkar Gah to Nawar Road	Design, construct 22.5 km road	\$22.0	\$20.5	\$20.5	Complete	
AIF FY 12	RC-East Border Transportation Corridor	Saracha Bridge	Design, construct 0.16 km bridge over Chaparhar River, along Hwy 7 in Nangarhar Province	8.0	6.8	6.8	Complete
		Ghulam Khan Corridor	Design, construct 24.1 km road, 4 bridges, culverts, switchback repairs in Khowst Province	27.6	12.7	11.8	Complete
AIF FY 12	Panwan to Bamiyan Road - Section 6	Section 6.1	Design, construct 7 km road of Salang bypass in Bamiyan Province	3.0	3.0	3.0	Complete
		Section 6.2	Design, construct 11 km road of Salang bypass in Bamiyan Province	7.0	7.0	7.0	Complete
	Dahla Dam Phase 2 - Site Preparation (Route Bear Road)	Realign 4.7 km road along NW shore of Dahla Dam	11.2	7.2	7.2	Complete	
AIF FY 14	Ghulam Khan Corridor - Phase 2	Design, construct remaining 7 km road to Khowst city and 1 bridge to complete Ghulam Khan Transportation Corridor	10.0	5.1	0.4	Design under review; 18% of culverts placed; limited cleared for construction approval; MOU signed for MOPW quality assurance, capacity building (Completion: 9/2017)	

Note: Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 5/30/2016. All other information is as of 6/2/2016. No FY 2013 funds were appropriated.

Source: DOD, response to SIGAR data call 6/29/2016; USACE, Garrison and Infrastructure Working Group, AIF LIR, 6/22/2016.

Afghanistan Infrastructure Fund Road Projects

DOD has obligated \$62.3 million and disbursed \$56.7 million for five road projects under the AIF, as of May 30, 2016. Four road projects, some consisting of multiple phases, have been completed. Only the final 7 km of the Ghulam Khan Transportation Corridor, Phase II remains, as shown in Table 3.23.⁸²⁵

ECONOMIC GROWTH

The IMF said security challenges make it difficult to ignite private-sector-led and inclusive growth to its full potential. It recommended the government eliminate regulatory and administrative barriers for businesses, improve infrastructure, and provide key business services while simultaneously strengthening structures for macroeconomic management, the financial sector, and economic governance.⁸²⁶

Afghanistan ranked 177th of 189 countries in the World Bank's *Doing Business 2016* report on regulatory quality and efficiency—a six-place rise from 2015.⁸²⁷ USAID, which is assisting in this effort, has disbursed approximately \$1.1 billion cumulatively for economic-growth programs in

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.24

USAID ACTIVE ECONOMIC-GROWTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 6/30/2016 (\$)
Financial Access for Investing in the Development of Afghanistan (FAIDA)	2/7/2011	8/5/2016	\$108,258,374	\$104,766,915
Assistance in Building Afghanistan by Developing Enterprise (ABADE)	10/16/2012	10/16/2016	104,997,656	81,361,936
Afghanistan Trade and Revenue Project (ATAR)	11/7/2013	11/6/2017	77,754,267	47,374,529
Afghanistan Workforce Development Program (AWDP) Off-Budget	4/5/2012	6/30/2018	44,919,458	31,168,118
Multi-Input Area Development-Global Development Alliance	3/23/2013	3/22/2018	30,481,436	10,369,778
Afghan Women's Leadership in the Economy (AWLE)	7/1/2015	6/30/2020	71,571,543	6,950,405
Commercial Law Development Program	3/1/2014	9/30/2019	10,000,000	4,549,156
Afghanistan Public Financial Management (APFM)	7/27/2015	7/26/2018	22,130,033	4,138,849
IFC PIO Grant - Support of Business Environment Reform	10/15/2010	10/30/2017	4,030,000	4,030,000
Strengthening the Revenue Collection Capacity of GIROA	11/30/2014	12/30/2018	4,000,000	4,000,000
Afghanistan Workforce Development Program (AWDP) On-Budget	9/18/2013	4/3/2016	11,500,000	2,748,644
E-Government Resource Center II	8/28/2013	12/1/2017	3,900,000	1,205,000
Rebranding Afghanistan: Creating Jobs, Changing Perceptions, Empowering Women	11/2/2015	11/1/2018	4,800,000	800,000
Afghanistan International Bank Guarantee Agreement	9/27/2012	9/27/2020	2,000,000	520,800
Afghanistan Investment Climate Program	3/27/2015	3/26/2020	13,300,000	420,200
Turquoise Mountain Smithsonian Exhibition	3/9/2015	12/31/2016	535,055	376,931
Mobile-izing Saving Study	N/A	N/A	50,022	50,022
Development Credit Authority (DCA) with FINCA, OXUS, and First Microfinance Banks	9/25/2014	9/24/2020	1,953,875	-
Regional Water Management	10/1/2015	9/30/2020	9,499,795	-

Note: The Mobile-izing Saving Study explores financial inclusion products to encourage Afghans to build savings. USAID's Development Credit Authority (DCA) provides partial credit guarantees to mobilize local financing. FINCA, OXUS, and First Microfinance Banks are to use these guarantees to secure loans from larger lenders, and in turn lend to micro and small businesses in Afghanistan. Afghanistan International Bank is to use the DCA guarantee to mitigate its lending risk and facilitate lending to small and medium-size enterprises.

Source: USAID, response to SIGAR data call, 7/11/2016; Innovations for Poverty Action, "Mobile-izing Savings with Defaults in Afghanistan," 12/8/2015; USAID, Development Credit Authority, "Overview," 2/2/2015.

Afghanistan.⁸²⁸ USAID active economic-growth programs have a total estimated cost of \$526 million and can be found in Table 3.24.

Assistance in Building Afghanistan by Developing Enterprises

USAID's four and a half-year, \$105 million, Assistance in Building Afghanistan by Developing Enterprises (ABADE) aims to help small-to-medium enterprises (SMEs) add jobs, increase investment, and improve sales of domestic products and services through public-private alliances (PPAs). ABADE has three components: implementing approved PPAs; identifying, selecting, and supporting the alliances with technical-assistance and

business-advisory services; and working with the government to improve the environment for business.⁸²⁹

From January through March 31, 2016, 34 PPAs worth \$17.4 million were completed and closed out, meaning that the deliverables from all parties have been completed. Of that, ABADE contributed \$1.7 million worth of equipment; the SMEs covered the rest. Eighteen new PPAs were signed, valued at \$45.4 million, of which ABADE contributed \$7.1 million. As of March 31, 2016, ABADE had 167 active PPAs, valued at \$261.3 million, of which its contribution is \$36.4 million, with the rest invested by the SMEs—more than a 7-to-1 ratio. Also during this time, ABADE provided technical assistance and training in business marketing and brand management, accounting, health and safety, hygiene, and sanitation. It trained 49 people, nine of them women.⁸³⁰

Financial Access for Investing in the Development of Afghanistan

USAID's 66-month, \$108.3 million, Financial Access for Investing in the Development of Afghanistan (FAIDA) program aims to promote an inclusive, diverse, and sustainable financial sector that generates jobs and provides a range of services for micro, small, and medium enterprises. FAIDA helps Afghan partners build capacity to deliver financial services, develop a legal framework and market infrastructure, provide technical assistance to mobile network operators for mobile-money services, and assist Afghan women entrepreneurs with business-development training so they can gain access to financing and opportunities for economic and professional growth.⁸³¹

From January 1, 2016, through March 31, 2016, FAIDA facilitated the approval of 42 loans worth \$767,347 for Afghan enterprises, which are expected to create 181 jobs, 85 of them for women. FAIDA also helped businesses submit 118 loan applications valued at \$3.3 million to create 456 jobs, 97 of which are for women. Additionally, on February 22, FAIDA, along with Afghanistan's central bank and a local partner, helped launch a mobile-money public-awareness campaign to increase the use of mobile money—a key goal of President Ghani's—to help improve transparency and reduce corruption. Dozens of kiosks were set up in Kabul for Islamic-banking customers to repay loans and for mobile-network customers to receive telecom services. Some 56,000 customers registered for mobile-money services, and 7,736 new DABS (electricity utility) customers registered to pay their bills electronically.⁸³²

EDUCATION

According to the Ministry of Education's (MOE) annual joint sector review for FY 1394 (2015), Afghanistan reportedly has 15,249 general-education (government) schools, including 714 closed schools, with 184,024 teachers, and almost 8.7 million students enrolled.⁸³³ The number of enrolled students

is the sum of present and absent students.⁸³⁴ The MOE counts students who have been absent for up to three years as enrolled because it says they might return to school.⁸³⁵ The MOE acknowledged a large number of children are out of school, but is unaware of how many, who or where they are, or their backgrounds.⁸³⁶

Barriers to data collection in Afghanistan have resulted in imprecise and inaccurate Education Management Information System (EMIS) statistical data.⁸³⁷ School administrators are not always instructed on how to fill out EMIS forms, and EMIS officials don't have the staff or resources for data verification, and are impeded by lack of security around the country.⁸³⁸

USAID Programs

USAID aims to improve equitable access to quality education in Afghanistan through community-based classes in remote regions, as well as to develop relevant, in-demand technical skills to better prepare Afghans for employment. Its programs focus on early-grade reading, textbooks and other learning materials, and raising literacy rates through teacher and educator training.⁸³⁹ USAID had disbursed approximately \$855 million for education programs in Afghanistan, as of June 30, 2016.⁸⁴⁰ USAID's active education programs have a total estimated cost of \$382 million and can be found in Table 3.25.



A teacher in a community-based education program reads to a young learner. (UNICEF Afghanistan photo by Mohammad Ali Sheida)

TABLE 3.25

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 6/30/2016 (\$)
Increasing Access to Basic Education and Gender Equality	9/17/2014	12/31/2019	\$77,402,457	\$77,402,457
Afghanistan University Support and Workforce Development Program	1/1/2014	12/31/2018	91,927,769	28,963,619
Basic Education, Literacy, and Technical-Vocational Education (BELT), Textbooks	11/16/2011	12/31/2016	26,996,813	24,970,742
Support to American University of Afghanistan	8/1/2013	7/31/2018	45,902,538	23,124,523
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2020	44,835,920	8,342,828
Early Grade Reading Survey	7/27/2015	3/27/2017	12,487,469	4,800,547
Afghanistan's Global Partnership for Education	10/11/2012	6/30/2017	4,270,954	2,342,163
Assessment of Learning Outcomes and Social Effects in Community-Based Education	1/1/2014	12/31/2017	7,262,016	2,272,019
PROMOTE Scholarships	3/4/2015	3/3/2020	1,247,522	1,247,522
BELT/All Children Reading and Improved Access	7/27/2015	3/27/2017	427,585	437,275
Afghans Read Program (ARP)	4/6/2016	4/5/2021	69,547,810	159,938

Source: USAID, response to SIGAR data call, 7/11/2016; USAID, OED, response to SIGAR vetting, 7/14/2016.

An Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) assessment found that despite some successes, EQUIP has failed to meet its overall goals since it began in 2004. The program suffers from poor planning, weak monitoring, and ineffective coordination among implementers that has caused 30–40% of funds to be misused, schools to be poorly constructed, and students to be inadequately educated.

Source: Independent Joint Anti-Corruption Monitoring and Evaluation Committee, *Vulnerability to Corruption Assessment of the Education Quality Improvement Program in the Ministry of Education*, 11/2015, p. 3.

Basic Education, Learning, and Training/ Education Quality Improvement Project

Basic Education, Learning, and Training (BELT) aims to expand and improve basic education access and quality. BELT encompasses a number of activities, including a national early-grade reading program, and textbook printing and distribution—1.2 million textbooks and other reading material nationwide so far, covering Afghanistan’s entire primary-school population.⁸⁴¹

BELT also does capacity building at the MOE, and pre- and in-service teacher training through the World Bank-administered Education Quality Improvement Project (EQUIP II) program, which has trained more than 154,000 teachers/educators and awarded 11,436 female students scholarships to attend teacher-training colleges.⁸⁴²

This quarter, USAID reported that a third extension will be requested for EQUIP II to implement the civil works (incomplete/stopped school construction) component of the program to compensate for delays and cost overruns. EQUIP II is focused on completing existing activities before it starts new programs.⁸⁴³

This quarter, EQUIP II administrators visited seven general-education schools in Balkh Province, most in Mazar-e Sharif, and found problems with textbook availability, particularly for upper grades that had no books at all and no clear schedule for their delivery.⁸⁴⁴ A USAID-funded technical assessment reported the MOE repeatedly fails to adequately plan for textbook needs and “demonstrated an inability to develop a concrete and realistic distribution plan.”⁸⁴⁵

EQUIP II staff discovered that wealthier families bought MOE textbooks in the market, an issue EQUIP II personnel said should be addressed by MOE officials. Other challenges found include: about 10% of enrolled students in some schools were permanently absent; only 400 of 900 teacher-trainee graduates have been absorbed into the job market despite teacher shortages; and inadequate school infrastructure.⁸⁴⁶

SIGAR AUDIT

An ongoing SIGAR audit is focusing on USAID’s efforts to support and improve Afghanistan’s healthcare services and focuses on the extent to which USAID assessed the overall impact of its efforts and the extent to which USAID collects, verifies, and reconciles healthcare data to determine its accuracy.

HEALTH

Afghanistan’s health indicators have improved since 2002, though they remain below average among low-income countries. Afghanistan’s public health is beset by many challenges—tuberculosis, polio, poor maternal health, and one of the world’s highest levels of child malnutrition, according to the World Bank.⁸⁴⁷

Afghanistan Demographic and Health Survey

This quarter, the Afghan government released key indicators of a USAID-funded Demographic and Health Survey (DHS), a nationally representative June 2015–February 2016 survey designed to help the Afghan government

develop modern health and social programs.⁸⁴⁸ USAID said the DHS is the commonly accepted gold standard of population-based surveys, and utilizes the highest caliber data-collection and quality-assurance methodologies. USAID added that Afghanistan's DHS met that standard and is comparable to DHS results collected in other countries. Since survey methodologies have changed over time, previous Afghan studies are not directly comparable from a statistical modeling perspective.⁸⁴⁹ But cross-country comparisons using the new methods can be made.

Key findings include:⁸⁵⁰

- a fertility rate of 5.3 births per woman (age 15–49), on average (comparable to Zambia and Senegal)
- infant mortality of 45 deaths per 1,000 live births (comparable to Zambia and Cambodia)
- under-5 mortality of 55 deaths per 1,000 live births (comparable to Senegal, Namibia, and Gambia)
- 46% of children received all basic vaccinations (comparable to Democratic Republic of Congo and Uganda)
- 43% of infants under six months of age are exclusively breastfed, while 15% of children 6–23 months eat a minimally acceptable diet (comparison not available)

Corruption Assessment of the Ministry of Public Health

In June, the Independent Joint Anti-Corruption Monitoring & Evaluation Committee (MEC) released a report on the Ministry of Public Health's (MOPH) vulnerability to corruption and ongoing efforts to address structural and procedural deficiencies in Afghanistan's health system.⁸⁵¹ The report broadly parallels a 2013 SIGAR audit that warned of the MOPH's financial-management deficiencies and insufficient oversight, and found strong evidence that U.S. support intended for Basic Package of Health Services (BPHS) and Essential Package of Hospital Services (EPHS) was vulnerable to fraud, waste, and abuse despite USAID's protestations to the contrary. In response to the criticism in SIGAR's audit of the MOPH's management of funds, USAID said that the MOPH's Grants Contract Management Unit (GCMU) greatly enhanced the ministry's ability to manage public funds. Yet the MEC report described the MOPH's contracting processes as "suspect, compromised, corrupted, and inconsistent." The MEC therefore recommended a comprehensive independent investigation of the GCMU to ensure its bid evaluation and negotiation processes are "reviewed, clarified, transparent, standardized, and reliable."⁸⁵²

Generally, the MEC assessment found "deep and endemic" corruption problems in the public-health sector. The report said corruption in the Afghan health sector covers a range of illegal and unethical acts within

an environment of systemic failure. In interviews with MEC investigators, public-health officials, employees and clients said corruption is entrenched, widespread, and dominant, and it affects all stakeholders. They said officials and employees are often powerless to stop it.⁸⁵³ The Minister of Public Health publicly committed to use the MEC's 115 recommendations—three of which include establishing an Independent Council on Health Sector Accountability and Reporting, an Independent Commission on Accrediting Health Organizations, and a High Council on Oversight of Health Sector Integrity—to develop the MOPH's anticorruption strategy.⁸⁵⁴

The report was undertaken at the urging of the Minister of Public Health and facilitated by USAID, which provides funding to both the MEC and MOPH.⁸⁵⁵ USAID directed its Electoral Reform and Civic Advocacy program to develop talking points for the Minister of Public Health's press conference on the public release of the report;⁸⁵⁶ said it will support the MOPH with its anti-corruption strategy;⁸⁵⁷ and planned for a post-MEC-report public-relations campaign to highlight health reforms and how the MOPH is curbing corruption. USAID reportedly saw the MEC report and the MOPH response as helpful in the run-up to the October conference in Brussels at which Afghanistan will seek continued support from the international community.⁸⁵⁸

- less than 1% of women and 2% of men age 15–49 have been tested for HIV in the past year and received the test results (comparable to Madagascar and Chad, respectively)
- only 9% of women and 33% of men age 15–49 know that using condoms and limiting sexual contact to one faithful and uninfected partner helps prevent contracting HIV (comparison not available)

USAID Funding and Health Programs

U.S.-funded health-sector programs aim to preserve and enhance gains made since 2002. USAID assistance to the Ministry of Public Health includes capacity-building, training, and quality-assurance activities to strengthen the ministry’s management and control over healthcare delivery across Afghanistan.⁸⁵⁹

U.S. on- and off-budget assistance to Afghanistan’s health sector totaled more than \$1 billion, as of June 30, 2016.⁸⁶⁰ On-budget assistance to the MOPH provides basic healthcare and essential hospital services. Off-budget assistance includes activities to strengthen health systems, engage the private sector, reduce child and maternal deaths, reduce tuberculosis-related deaths, reduce child undernutrition, improve the use of modern family-planning methods, and eliminate polio.⁸⁶¹

TABLE 3.26

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 6/30/2016 (\$)
Strengthening Pharmaceutical System	8/28/2011	7/10/2017	\$34,399,936	\$27,782,575
Disease Early Warning System Plus (DEWS Plus)	1/1/2015	12/30/2020	32,728,000	16,401,447
Central Contraceptive Procurement	3/11/2009	9/8/2022	25,000,000	13,035,571
Helping Mother and Children Thrive (HEMAYAT)	1/7/2015	1/6/2020	60,000,000	12,091,749
Regional Fortification in the Central Asian Republics and Afghanistan	9/29/2014	9/29/2016	9,722,000	9,722,000
Demographic and Health Surveys	9/9/2013	9/8/2018	6,699,863	5,453,731
Weekly Iron Folic Acid Supplementation	11/7/2014	12/31/2017	5,610,012	5,408,826
Enhance Community Access, Use of Zinc, Oral Rehydration Salts for Management of Childhood Diarrhea	7/21/2015	7/7/2020	15,002,610	4,400,000
Challenge Tuberculosis	1/1/2015	9/29/2019	15,000,000	2,759,164
Health Sector Resiliency (HRS)	9/28/2015	9/27/2020	37,936,471	2,211,932
Sustaining Health Outcomes through the Private Sector (SHOPS Plus)	6/1/2016	6/1/2018	6,000,000	2,133,749
Family Planning and Assessment	5/16/2015	5/15/2016	634,833	634,833
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/5/2016	5/4/2021	75,503,848	-

Note: The Regional Fortification in the Central Asian Republics and Afghanistan project aims to increase iron, zinc, folic acid and vitamin A nutrient intake by 20% through distribution of fortified wheat and edible oil.

Source: USAID, response to SIGAR data call, 7/11/2016; Global Alliance for Improved Nutrition, “Regional Fortification in the Central Asian Republics,” accessed 1/15/2016.

USAID believes that the MOPH's ability to deliver quality healthcare through the **Basic Package of Health Services (BPHS)** and **Essential Package of Hospital Services (EPHS)**—the cornerstone of health-service delivery in Afghanistan—is critical to improve health outcomes.⁸⁶² USAID's active health programs have a total estimated cost of \$324 million, and are listed in Table 3.26.

Sustaining Health Outcomes through the Private Sector Plus

This quarter, USAID instituted a two-year, \$6 million, Sustaining Health Outcomes through the Private Sector Plus (SHOPS Plus), which aims to provide technical assistance to the Afghan Social Marketing Organization (ASMO) in their efforts to delivery family-planning, reproductive-health, and other services to targeted populations. SHOPS Plus will specifically try to improve the health of mothers and children in rural areas and increase the use of contraceptives through social marketing.⁸⁶³

Polio

Afghanistan and Pakistan are the only two countries where polio is still endemic.⁸⁶⁴ Both countries, which share a 1,500-mile border, suffer from the Taliban's opposition to vaccination campaigns.⁸⁶⁵

Afghanistan reportedly had six new polio cases in 2016, as of June 29.⁸⁶⁶ The United Nations estimates that 200,000 children in Afghanistan have not been vaccinated, mostly due to fighting and insurgents' preventing access to children.⁸⁶⁷ Data for FY 2003–FY 2014, the most recent supplied, show USAID provided nearly \$25 million for polio eradication in Afghanistan.⁸⁶⁸

BPHS: provides primary healthcare services—such as immunizations and prenatal care—at small and rural health clinics, and forms the core of health-service delivery for all primary-care facilities in Afghanistan.

EPHS: outlines the medical services each type of hospital in the Afghan healthcare system should provide in terms of general services, staff, equipment, diagnostic services, and medications while promoting a health-referral system that integrates the BPHS with hospitals.

Source: SIGAR, *Health Services in Afghanistan: Two New USAID-Funded Hospitals May Not be Sustainable and Existing Hospitals are Facing Shortages in Some Key Medical Positions*, SIGAR 13-9-AR, 4/2013, p. 1.

