

ECONOMIC CONTENTS

Key Issues and Events	149
U.S. Reconstruction Funding for Economic and Social Development	150
Economic Profile	150
Banking and Finance	156
U.S. Economic and Development Support	162
Essential Services and Development	167
Economic Growth	174
Education	177
Health	180

ECONOMIC AND SOCIAL DEVELOPMENT

KEY ISSUES AND EVENTS

Afghanistan began Fiscal Year (FY) 1396, which runs from December 21, 2016, through December 20, 2017, without an approved budget.⁵⁶⁸ The lower house of parliament twice rejected the draft budget submitted by the executive, arguing that project funds were not well balanced between provinces.⁵⁶⁹ Parliament rejected a draft FY 1395 budget with the same critique.⁵⁷⁰ On January 16, 2017, the parliament passed a AFN 429 billion budget (more than \$6.4 billion in current dollars) on its third attempt with only 57% of lower house members participating in the vote. Domestic revenues are to pay for 38% of the budget with donor assistance covering the rest.⁵⁷¹

Domestic revenues collected in the first 11 months of FY 1395 rose 32.0% above the same period in the previous year, but still covered only about 46.4% of total government expenditures.⁵⁷²

The World Bank projected Afghanistan's real (net of inflation) gross domestic product (GDP), excluding opium, to grow 1.2% in 2016, marginally higher than 0.8% in 2015.⁵⁷³ In contrast, Afghanistan's FY 1395 (December 21, 2015 through December 20, 2016) budget estimated GDP growth at 4.4% and its target growth rate is 4.0% for the next three years.⁵⁷⁴

Current economic growth remains far below what is necessary to increase employment and improve living standards, according to the IMF.⁵⁷⁵ It is being outpaced by Afghanistan's rapid population growth, estimated at 3% per year. As a result, per capita GDP is falling, employment opportunities are limited, and the budget is pressured. Afghanistan's labor market is unable to absorb what the World Bank estimates are 400,000 people entering the work force every year. Nearly 23% of Afghanistan's labor force was unemployed in 2013–2014, almost triple the level of the 2011–2012 years of the Coalition surge with its accompanying spending.⁵⁷⁶

U.S. RECONSTRUCTION FUNDING FOR ECONOMIC AND SOCIAL DEVELOPMENT

As of December 31, 2016, the U.S. government has provided approximately \$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, \$17.9 billion has been obligated, and \$14.8 billion has been disbursed.⁵⁷⁷

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.⁵⁷⁸ Increased revenues would mitigate Afghanistan's heavy reliance on foreign aid donors.

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, which are critical components of the United States' economic-growth strategy for Afghanistan.⁵⁷⁹

ECONOMIC PROFILE

The World Bank reported that past gains are eroding: poverty, unemployment, underemployment, violence, out-migration, internal displacement, and the education-gender gap have all increased, while services and private investment have decreased. High levels of crime and corruption undermine Afghanistan's delivery of public services, deter private investment, and reflect weak institutions.⁵⁸⁰ The IMF added that Afghanistan's inadequate infrastructure and human capital, and a large illicit narcotics sector were also notable elements preventing robust and inclusive economic development.⁵⁸¹ The World Bank said Afghanistan will remain dependent on aid beyond 2030.⁵⁸²

The Afghan government acknowledged that lower foreign-military spending since the drawdown of the Coalition in 2014 has reduced demand for goods and services, causing large-scale job loss. Meanwhile, the strength of the insurgency has caused the government to spend more on the military and less on job-creating investments.⁵⁸³ The World Bank said Afghanistan's deteriorating security environment has resulted in weak confidence as demonstrated by lower new-business and new-vehicle registrations in the first half of 2016, and weak demand reflected by a decline in imports.⁵⁸⁴ Insecurity also enters into foreigners' decision making about new or expanded business investments in Afghanistan.

Agriculture has the potential to drive strong economic growth and improve livelihoods, according to the World Bank, and the Afghan government acknowledged that the country's GDP rises and falls with it.⁵⁸⁵ Agricultural output and income fluctuate with the weather, so economic growth based on this sector is necessarily volatile.⁵⁸⁶ Agricultural growth continued to decline in 2016 at a projected rate of -0.5%.⁵⁸⁷

Industry and services, which benefited from the Coalition's large presence, security spending, and aid flows prior to 2015, have grown much more slowly than historical average.⁵⁸⁸ Weak human capital has limited this kind of labor-productivity-driven growth. Therefore, the World Bank predicts that natural resources will continue to play a key role in the economy with new production geographically concentrated around resource locations rather than in cities.⁵⁸⁹

Afghanistan's Fiscal Outlook

Improving Afghanistan's fiscal position, according to the World Bank, will require a large increase in revenues, which is plausible only with mining development and sustained levels of aid. While domestic revenues have increased, the World Bank said, so have Afghanistan's security costs.⁵⁹⁰

According to DOD, the Afghan National Defense and Security Forces (ANDSF) costs in FY 2016 were \$5.01 billion, of which the United States paid \$3.65 billion. Afghanistan budgeted AFN 158.1 billion (roughly \$2.3 billion) for the Ministry of Interior and Ministry of Defense. Of that, Afghanistan planned to contribute AFN 23.0 billion (\$336 million), which would amount to 17% of Afghanistan's total estimated domestic revenues for the year. DOD expects the FY 2017 ANDSF requirement to cost \$4.9 billion.⁵⁹¹ The World Bank said the government's non-security spending will need to increase rapidly just to sustain current service levels due to population growth, operations-and-maintenance requirements on existing assets, and civil service salaries.⁵⁹²

Afghanistan's currency has also depreciated significantly, which the World Bank attributes to a decline in aid, the preference of Afghan consumers for the U.S. dollar, and possibly capital outflows associated with emigration. The main causes of the out-migration are lack of employment opportunities, increasing poverty, and the deteriorating security environment.⁵⁹³

FY 1395 Revenues and Expenditures—First 11 Months

According to Afghan treasury department data, domestic revenues and expenditures both increased on paper in the first 11 months of FY 1395 compared to the same period in FY 1394. Total domestic revenues—a figure that excludes donor grants—stood at AFN 140.9 billion (\$2.1 billion in current dollars), about 32.0% above the same period last year. Afghan government expenditures, AFN 303.4 billion (\$4.6 billion), grew by about 13.7%,

While opium is not counted in official GDP estimates, its earnings boost domestic demand and are a significant source of foreign exchange. The 2016 farm-gate value of opium production was almost \$900 million, roughly 5% of GDP, and a 57% increase over 2015.

Source: Asian Development Bank, *Outlook 2015*, 3/2015, p. 167; UNODC, *Afghanistan Opium Survey 2016, Cultivation and Production*, 12/2016, pp. 7, 9.

with big increases in student and other social benefits, employee benefits, subsidies, and cultural-heritage-preservation costs.⁵⁹⁴

While domestic revenues increased by 32.0% year-on-year, recurrent revenue streams like taxation and customs revenues increased by a more modest, yet still respectable, 9.7%. According to an Afghanistan Analysts Network (AAN) report, this is partially due to stronger revenue-collection efforts and the impact of new taxes at higher rates implemented in the latter part of 2015. As shown in Table 3.19, sales-tax revenues increased about 39.5%, while income-tax revenue increased more than 10%. Revenue from administrative fees increased nearly 75%. Administrative fees are levied on passports and visas, vehicle registrations, professional and commercial licenses, and airspace-overflight charges, among other items.⁵⁹⁵ Customs duties and fees made up 18% of the government's total domestic revenues in the first 11 months of 2016. However, customs revenue dropped 4.8% compared to the same period last year.⁵⁹⁶ It is unclear whether this is due to lower imports or reduced collections.⁵⁹⁷

Revenues from natural resources almost doubled to AFN 1.2 billion (\$18.3 million) from the same period last year—largely due to royalty fees and the sale of minerals—an unexpected gain given the ongoing constraints in that sector. The Afghan government also received an AFN 10.3 billion (\$153.8 million) revenue boost from what appears to be a one-time receipt from an unspecified sale of government property. Additionally, revenue from the sale of land and buildings was substantially higher than the prior period.⁵⁹⁸

Are Revenue Increases Sustainable?

Afghanistan's fiscal sustainability is at risk, according to the World Bank.⁵⁹⁹ Monetary depreciation of the afghani against the U.S. dollar may affect the government's purchasing power and reduce the impact of the improved revenue collection to the extent the government makes dollar-denominated purchases or disbursements.

The AAN report said depreciation caused the afghani value of customs duties on imports and other taxes levied on foreign-exchange flows to increase artificially. As a result, billions of AFN-denominated revenue in FY 1395 (2016) consisted of a central bank transfer of paper profits from exchange-rate changes to the budget. It was not a result of any substantial improvement in the economy, greater revenue collection, or recurrent revenue streams like new or higher tax rates. The report also said one-time revenue injections from public enterprises such as the sale of state-owned land and buildings, passport fees, and Kabul Bank recoveries are likely unsustainable.⁶⁰⁰

The Afghan fiscal gap—the difference between domestic revenues and expenditures—is large.⁶⁰¹ Domestic revenues paid for only 46.4% of Afghanistan's total budget expenditures through month 11 in FY 1395,

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.19

DOMESTIC REVENUES, AS OF DECEMBER 4, 2016 (AFN)				
	Category	1394 (Through Month 11)	1395 (Through Month 11)	% Change
Taxation & Customs Revenues	Fixed Taxes	8,943,235,446	8,843,374,290	-1.12%
	Income Taxes	17,964,460,569	19,812,428,104	10.29%
	Property Taxes	686,367,455	335,257,974	-51.15%
	Sales Taxes	17,683,886,523	24,667,010,361	39.49%
	Excise Taxes	0	0	—
	Other Taxes	3,950,685,838	4,175,776,238	5.70%
	Tax Penalties and Fines	0	0	—
	Customs duties	26,655,714,979	25,374,861,269	-4.81%
Social Contributions	Retirement contributions	3,690,559,940	3,713,929,234	0.63%
Other Revenue	Income from Capital Property	2,369,104,650	1,534,228,279	-35.24%
	Sales of Goods and Services	3,870,931,051	5,251,631,827	35.67%
	Administrative Fees	11,721,186,846	20,291,590,029	73.12%
	Royalties	141,523,405	215,072,276	51.97%
	Non-Tax Fines and Penalties	750,118,729	915,449,439	22.04%
	Extractive Industry	471,600,579	1,001,855,537	112.44%
	Miscellaneous Revenue	7,814,762,204	13,402,415,719	71.50%
	Sale of Land and Buildings	22,714,059	1,096,934,939	4729.32%
	Major One of Revenue/Dorment [sic]	—	10,256,709,000	—

Note: The exchange rate on the date the MOF pulled financial data for FY 1395, month 11 was AFN 66.68 to one U.S. dollar. The exchange rate on the date the MOF pulled financial data for FY 1394, month 11 was AFN 66.88 to one U.S. dollar. The other-revenue statement line "Major One of Revenue Dorment" was unexplained, but appears to refer to a one-off revenue gain from sale of a government asset.

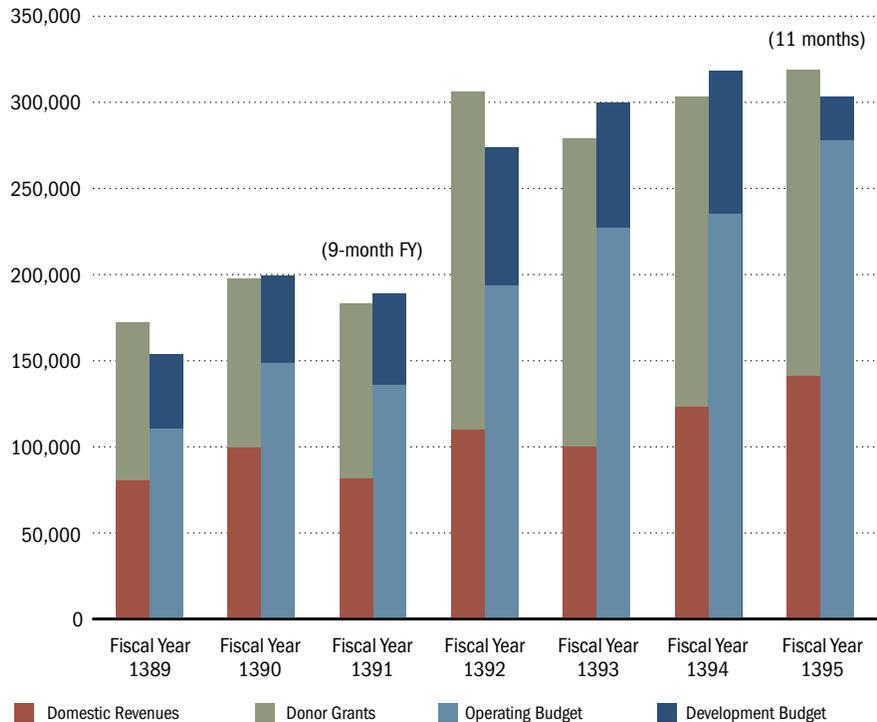
Source: MOF, Aqrah Financial Statements FY1395, 12/4/2016; MOF, Aqrah Financial Statements FY1394, 12/3/2015; Da Afghanistan Bank, Exchange Rates, 12/4/2016 and 12/3/2015.

representing a net deficit of AFN 162.5 billion (\$2.4 billion). Donor assistance reduces or closes the gap, as depicted in Figure 3.28. Afghanistan's fiscal gap of 53.6% rose sharply from the 48.1% reported last quarter, but narrowed compared to 60.0% for the same period in FY 1394. With donor contributions included, the budget showed an AFN 15.5 billion (\$231.9 million) surplus.⁶⁰² Other factors that can widen or shrink the fiscal gap include budget-execution rates, qualification for donor incentive funds, revenue collection, and changing expenditures.⁶⁰³

In October 2016, the World Bank projected Afghanistan's revenue potential to increase from 10.2% of GDP in 2015 to 14.5% by 2030 under its baseline assumption.⁶⁰⁴ In April 2016, the Bank projected expenditures to rise to 36% of GDP by 2020.⁶⁰⁵ Even with a 23% improvement in actual

FIGURE 3.28

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. AFN yearly average exchange rates versus one U.S. dollar: FY 1389: 46.63, FY 1390: 47.76, FY 1391: 51.68, FY 1392: 56.53, FY1393: 57.48, FY 1394: 63.91, FY 1395: 67.61.

Source: MOF, *Aqrab Financial Statements FY 1395*, 12/4/2016; 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; Da Afghanistan Bank, "Currency Hijri Monthly Average USD," accessed 1/10/2017.

revenue collections in FY 1394 (2015) compared to the previous year, and a 32.0% revenue increase in the first 11 months of FY 1395 (year-on-year), the Bank said that it would be unrealistic to expect Afghanistan to cover the current level of expenditures, even if its revenue potential were realized in all sectors. Therefore, the World Bank said the government must also reduce expenditures, especially in the security sector.⁶⁰⁶ This would be a difficult feat, given the continuing insurgency.

Trade

Afghanistan's trade balance was an IMF-estimated negative \$7.2 billion (equivalent to 36.6% of GDP) in 2015 and is projected to be negative

\$7.3 billion (equivalent to 39.6% of GDP) in 2016. Afghanistan's legal exports consist of goods (31.6%) and services (68.4%).⁶⁰⁷ 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.⁶⁰⁸

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 4.7% of GDP (\$925 million) in 2015. This is projected to fall to 4.5% of GDP (\$825 million) in 2016. Without donor assistance, the IMF estimated Afghanistan to have a current-account deficit equivalent to 33.5% of its GDP in 2015 (\$6.6 billion) and projected it to grow to the equivalent of 36.6% of GDP in 2016 (\$6.7 billion).⁶⁰⁹

During 2013–2015, Afghanistan exported \$2.1 billion to \$4.0 billion worth of goods and services annually, compared to imports ranging between \$8.9 billion and \$11.3 billion a year. The IMF projected Afghanistan's 2016 exports at \$2.1 billion, not including illicit narcotics (valued at \$2.7 billion in 2014). Afghanistan's 2016 imports were projected to be around \$9.0 billion, with more than \$6.7 billion paid for by official donor grants.⁶¹⁰

IMF staff said that Afghanistan needs to increase and diversify its exports, which will stimulate innovation and good management.⁶¹¹ The Afghan government pledged to reduce regulatory and operational barriers to facilitate this.⁶¹² 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.⁶¹³ Weather and rainfall would, of course, continue to exert a significant influence on agricultural output and income potential.

Afghanistan Trade and Revenue Project

USAID's four-year, \$78 million Afghanistan Trade and Revenue (ATAR) project is a trade-facilitation program designed to (1) improve trade-liberalization policies, including support for Afghanistan in implementing its World Trade Organization (WTO) commitments; (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.⁶¹⁴

This quarter, ATAR helped develop a draft post-WTO-accession strategy framework for interministerial discussion and completed a needs assessment for establishing the Afghan WTO representative office in Geneva. Concurrently, ATAR continued to help the Afghan government amend and draft laws to comply with WTO rules and commitments, including on income tax, consumer protection, customs valuation, anti-dumping,

and anti-subsidies. ATAR also supported the Ministries of Commerce and Industry (MOCI), Agriculture, Irrigation, and Livestock (MAIL), and Public Health (MOPH) in developing procedures and regulations to implement trade laws that have already been enacted. In addition, ATAR is providing technical support to parliament as it considers three WTO-required intellectual-property-rights conventions—the Madrid Protocol, the Paris Convention, and the Singapore Treaty.⁶¹⁵

While no specific progress in modernizing Afghanistan’s customs administration was reported this quarter, ATAR facilitated Afghan industry access to regional markets. It helped about 60 Afghan exporters participate in the annual India International Trade Fair; helped promote high-end Afghan products at an exhibition in the UAE; and worked to organize participation of 10 Afghan marble producers at India Stone Mart 2017 in February.⁶¹⁶

BANKING AND FINANCE

The World Bank said Afghanistan’s financial sector is challenged by the country’s security environment⁶¹⁷ and remains vulnerable with what the IMF called “lingering governance concerns, deteriorating asset quality, and weak profitability.”⁶¹⁸ The banking sector is dominated by 15 banks—three state-owned, nine private-sector-owned, and three foreign-owned branch banks.⁶¹⁹ However, public confidence has not been fully restored in the wake of the 2010 Kabul Bank crisis. Use of bank financing remains low with an average loan-to-deposit ratio of 19.2%. For Afghanistan’s three state-owned banks, that ratio was only 4.6% at the end of 2015.⁶²⁰ In comparison, Pakistan’s commercial loan-to-deposit ratio was 58.7% and India’s was 78.7% (January 2016); the United States’ was 107.3% (February 2016).⁶²¹

According to the IMF, 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 for them, including enhanced governance and regulatory enforcement.⁶²²

In October 2016, the World Bank reported that the quality of commercial and state-owned bank assets continued to deteriorate in the first half of 2016. Commercial-bank loans to the private sector were valued at \$740 million in June 2016, about 8.5% higher than in December 2015. Most loans were U.S. dollar-denominated, largely due to the effect of afghani currency depreciation that inflated the value of assets held by commercial banks.

Net profits of the banking sector increased by AFN 4 billion (about \$60 million in current dollars) from the same period last year, but were derived primarily from customer banking fees.⁶²³ The World Bank previously attributed Afghanistan’s weak commercial lending to its overall economic slowdown, low investor confidence, stricter implementations of

regulations governing foreign-exchange-denominated loans, and banks' risk aversion following the Kabul Bank crisis.⁶²⁴

In 2016, the Afghan government declared a dual strategy for financial sector reform by addressing weaknesses and providing for more robust banking regulation and oversight. This is to include risk-based audits and reviews, establishing a unit to monitor risks from state-owned banks, ensuring government oversight regulations are appropriate and not duplicative, providing incentives for banks to lend to private enterprises, and a financial inclusion strategy to improve customer access to banking services.⁶²⁵

Financial Action Task Force Compliance Update

At its most recent plenary session in Paris, France, on October 19–21, 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.⁶²⁶ This is the eighth consecutive FATF review in which Afghanistan has maintained this status since being downgraded to the “dark gray” list in February 2014.⁶²⁷

FATF said Afghanistan has improved its AML/CFT administration, and “nearly addressed the technical requirements of its action plan,” but still needs to show progress by providing additional information on its legal framework for identifying, tracing, and freezing terrorist assets. The U.S. Department of Treasury (Treasury) said this includes information on the compliance of Afghanistan's AML/CFT laws by private sector financial institutions. FATF encouraged Afghanistan to further implement its action plan. Treasury said it remains concerned about the government's ability to implement AML/CFT laws and reform, but reported that Afghanistan's financial intelligence unit revoked the licenses of 95 money-service providers in Kabul and imposed \$45,000 in fines for failure to comply with AML laws.⁶²⁸

Kabul Bank Theft Accountability—Reality Check

As of December 19, 2016, Afghanistan's Attorney General's Office (AGO) has not acted on the 114 Kabul Bank-related cases currently referred to it. In a meeting with the U.S. Department of Justice (DOJ), the Afghan attorney general said he was disinclined to enforce or pursue current judgments or investigate the Kabul Bank case any further.⁶²⁹ That statement directly contravened President Ghani's October 2014 decree requiring the AGO to indict and prosecute all those involved in the approximately \$987 million stolen from Kabul Bank, and to monitor enforcement of the courts' decisions.⁶³⁰

The Kabul Bank Receivership (KBR), which is responsible for managing the bad assets (for example, loans that are not being repaid), said that the vague language used in the Special Appellate Court's decision in

Financial Action Task Force: 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.

“Pursuing recovery of Kabul Bank assets and holding perpetrators accountable is a critical priority. This would signal a shift in governance and accountability of the banking sector.”

Source: World Bank, *Afghanistan Country Snapshot*, 10/2016, p. 1.

November 2014 and the Supreme Court's final judgment in December 2014 make enforcement problematic. Much of the property and assets purchased with the stolen Kabul Bank funds are located in the United Arab Emirates (UAE), but the Dubai courts view the language—particularly regarding the identification and seizure of properties and assets—as “conditional” and lacking “legal certainty or legitimacy.” A KBR representative said the entire judgment/decision is not legally enforceable in Afghanistan either. It is therefore unclear how the Afghan government should address violations.⁶³¹

“Sincere efforts to recover funds continue to be impeded by intimidation of those attempting to do their jobs,” according to a U.S. Institute of Peace report.⁶³² In at least one instance this quarter, debt-collection efforts were directly hindered. According to DOJ, the Kabul Bank Court of First Instance, created to address the cases of individuals involved in the scandal, undermined an order of the higher court and tried to preclude attempts to collect assets from identified companies and individuals. DOJ said this will encourage other debtors to also try to undermine their existing judgments by appealing their assessed liabilities to the Special Court.⁶³³

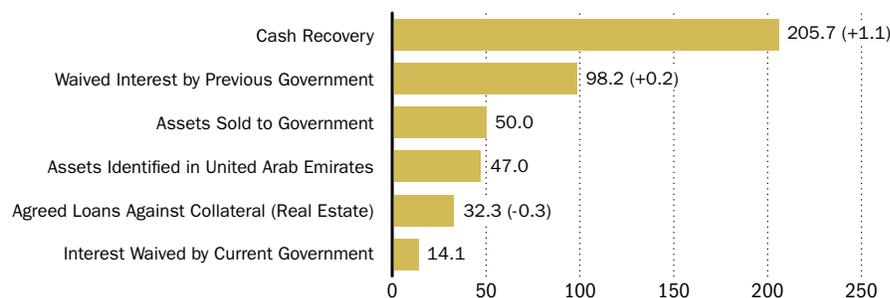
Although President Ghani has asked SIGAR to help detect and retrieve Kabul Bank assets in foreign countries,⁶³⁴ Afghan authorities have not pursued all options for international assistance in their Kabul Bank recovery effort. In April 2015, DOJ received a one-page diplomatic note from the Afghan government requesting its assistance in seizing the U.S. bank accounts of two Afghan debtors. The accounts presumably belonged to ex-Kabul Bank chairman Sherkhani Farnood and CEO Khalilullah Ferozi. In its May 2015 response, DOJ noted several deficiencies in the request, along with the corrective actions needed to move forward. As of December 2016, the Afghan government has not responded or corrected the deficiencies.⁶³⁵

Additionally, since much of the stolen money was laundered to Dubai and subsequently invested in real estate there, the Afghan government prepared and signed an official request to United Arab Emirate authorities in June 2016 to “identify, locate, provide documents and records, and conduct a search and seizure of any and all records and balances associated with the bank accounts listed.” However, it was not delivered until August 2016. It was resubmitted in September 2016 after the UAE said it could not read the original copy. The UAE has not responded to the request, as of November 2016.⁶³⁶

The Afghan government's approach so far has had no apparent consequences, even though the current basis of donor support, the Self-Reliance through Mutual Accountability Framework (SMAF), includes a general “zero-tolerance” corruption policy and calls for transparent and accountable governance.⁶³⁷ Meanwhile, U.S. government officials have said in meetings with Afghan officials that the United States will hold the Kabul government to its promises to address endemic corruption, including taking action against those responsible for Kabul Bank's near collapse.⁶³⁸

FIGURE 3.29

KABUL BANK DEBT RECOVERIES, AS OF DECEMBER 17, 2016 (\$ MILLIONS)



Note: Figures in parentheses represent the change from reported amounts last quarter.

Source: Kabul Bank Receivership, "Kabul Bank's Assets Recovery Brief Report," 12/17/2016 and 9/18/2016.

Cash and Asset Recoveries—A Closer Look

The Kabul Bank Receivership (KBR) informed the State Department that as of December 17, 2016, "total recoveries"—a category introduced in the last quarter of 2015—stand at \$447.3 million, as shown in Figure 3.29. The reported recoveries comprise cash, waived interest, and assets recovered or seized (but not necessarily liquidated), and collateral, as well as amounts still owed by major debtors who signed loan-repayment agreements.⁶³⁹ Amounts owed by 283 debtors have been paid off. Arrangements have yet to be reached with 114 others (individuals and corporations). The KBR reported \$539.7 million remains outstanding from the original theft. Including interest, the total is approximately \$597.1 million.⁶⁴⁰ However, no U.S. government agency has been able to verify these figures.⁶⁴¹

Until October 2014, soon after President Ghani's presidential decree to hold accountable and recover stolen public money from those responsible for the Kabul Bank theft, a total of \$225.4 million had been recovered or obtained as assets. Since then, only an additional \$30.3 million has been recovered in cash; another \$32.3 million worth of loan-repayment plans have been agreed to.⁶⁴²

If the reported figures are accurate, only \$205.7 million of the \$447.3 million has been truly recovered so far, according to the State Department (State). Upon further examination,

- The \$50 million in bank "assets sold to government entities" that was originally recovered by the KBR were transferred or "loaned" by the Karzai government to various ministries and agencies, but not paid for. The KBR has been unable to reclaim the value of these assets from the government, despite numerous requests.

- The “agreed loans against collateral” merely represents an agreement by an identified group of debtors to repay their loans. Actual repayments have been limited and many have not kept to the agreed-upon schedule. Of the 34 signed repayment agreements, only \$13.3 million of \$45.6 million has been repaid; \$32.3 million remains outstanding.
- “Interest waived” by the previous and current governments (\$112.3 million collectively) represent accounted-for losses, not recoveries. Waivers were given as incentive to enter repayment agreements.
- The \$47 million in total “assets in the United Arab Emirates” were only identified, not recovered. The Dubai courts deem Afghanistan’s court decisions on the Kabul Bank case to have no legal merit.⁶⁴³

No money has been recovered this quarter from convicted ex-Kabul Bank chairman Sherkhan Farnood and CEO Khalilullah Ferozi. Their assets are hidden under other people’s names, according to the DOJ. This follows a pattern of the Afghan government’s being unable to compel full repayment from the main architects of the fraud, both of whom are in jail, as of December 2016. According to the KBR, Farnood still owes \$336.2 million; Ferozi owes \$175.9 million. Both amounts include principle and interest.⁶⁴⁴

The KBR found an increasing number of debtors defaulting on their required payments in 2016, with collections declining significantly.⁶⁴⁵ The IMF recently reported that the collections process was “losing steam” with diminishing chances of success for claims against assets located in foreign jurisdictions.⁶⁴⁶ In December 2016, the KBR reported that 10 major debtors with combined debts of almost \$7.9 million have defaulted on their repayment plans. Four minor debtors owing \$182,142 combined have also defaulted. The cases of these 14 debtors have been referred to the AGO, but again, no action has been taken.⁶⁴⁷

U.S. Treasury Assistance

The U.S. Treasury’s Office of Technical Assistance (OTA) continued implementing its March 2015 agreement with Afghanistan’s Ministry of Finance (MOF) to develop technical-assistance and capacity-building programs.⁶⁴⁸

OTA assistance is focusing on:⁶⁴⁹

- **Budgeting:** developing baseline budgets and out-year estimates, and reviewing fiscal performance-management-improvement plans. In November, OTA completed an in-depth peer review of the MOF’s biannual fiscal performance- and management-improvement plans. As a result, OTA has been asked to organize a meeting with key donors to present its findings and encourage similarly constructive feedback to the MOF’s public financial-management team. There was no technical assistance in developing baseline budgets and forward estimates this

OTA Funding: USAID provided \$2 million in April 2016 to support OTA assistance in budget, banking, and revenue through September 30, 2019. State provided \$178,437 in September 2016 to help combat economic crimes through May 30, 2017.

Source: Treasury, response to SIGAR data call, 12/30/2016.

quarter, but a joint work plan was to be finalized by OTA leadership and Minister of Finance Hakimi in December 2016.

- **Economic crimes:** developing the capacity and effectiveness of Afghanistan's financial-intelligence unit and evaluating the central bank's capability to supervise money-service providers for compliance with measures against money laundering and terror financing. An initial assessment mission took place in March 2015, but technical assistance has not yet begun. OTA plans on-site evaluations of these Afghan entities and subsequent assistance to strengthen analytic capacities, standard operating procedures, and outreach to stakeholders.
- **Banking:** electronic reporting and risk management, and state-bank restructuring (this assistance can be provided from the U.S. Embassy-Kabul and remotely). The assessment mission of September 2015 has not yet been followed by technical assistance.
- **Revenue:** collaborating with the new customs and tax academy in curriculum design, course delivery, and supplying course materials. An assessment mission took place in March 2016; technical assistance has not yet begun.

OTA has carried out six program-assessment missions to Afghanistan, but has been unable to conduct any new missions since March 2016 due to security concerns. OTA assistance to the MOF since then has been carried out remotely. Treasury reported that security conditions continue to be a major constraint on establishing a more sustained presence in Afghanistan. However, once security conditions in Afghanistan allow OTA to reengage in-country, Treasury said the ultimate effectiveness of their efforts will largely depend on a strong and sustained political commitment to reform by those Afghan government entities responsible for public financial management, financial-sector strength, and oversight.

Source: Treasury, response to SIGAR data calls, 4/5/2016, 6/29/2016, 9/27/2016, and 12/30/2016.

Afghanistan Public Financial Management Assistance

USAID's three-year, \$22 million, Afghanistan Public Financial Management (APFM) program is the United States' principal off-budget effort to help strengthen the Afghan government's ability to generate and collect domestic revenue, manage its budget, and become more fiscally sustainable. The program aims to build the government's capacity for forecasting revenue, increasing payment compliance, collection, and transfers to the treasury, as well as budget planning, execution, monitoring, reporting, and coordination.⁶⁵⁰

This quarter, APFM provided training to Afghanistan's revenue department in tax-dispute resolution, and to the MOF budget directorate in government-finance statistics and classification of government functions. APFM began a quantitative assessment of the socioeconomic impact of proposed amendments to the income-tax law, and continued its efforts to

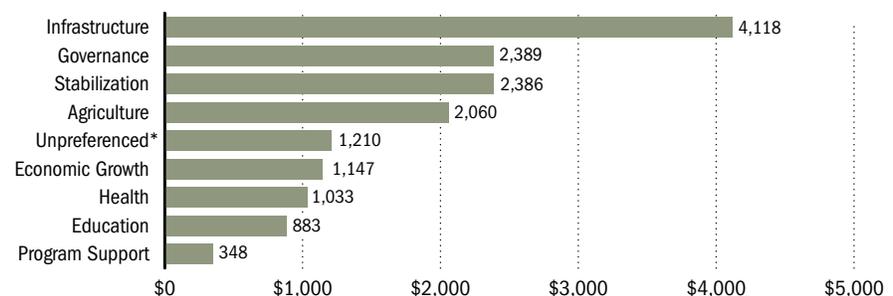
help increase revenues from existing non-tax revenue streams as well as identify new sources of non-tax revenue. APFM managers and advisors also embedded at several Afghan ministries, including the MOF’s provincial-budget unit, where they helped guide the FY 1396 (2017) operations and maintenance (O&M) budget process; the Ministry of Public Health, where they helped expand O&M reform from 13 to 24 provincial hospitals to increase health-service delivery in an additional 21 provinces; and at the Ministry of Agriculture and Livestock, where they helped draft a report used to determine staff levels and resources needed for disaster support for six insecure provinces, and provided technical input for “emergency development packages.”⁶⁵¹

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.⁶⁵² Figure 3.30 shows USAID assistance by sector.

FIGURE 3.30

USAID DEVELOPMENT ASSISTANCE, CUMULATIVE DISBURSEMENTS, AS OF DECEMBER 31, 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, 1/18/2017; SIGAR analysis of World Bank, *ARTF Administrator’s Report on Financial Status*, as of November 20, 2016, accessed 1/15/2017.

Development of Natural Resources

Developing Afghanistan’s natural-resources sector and reforming the fiscal administration for its extractives industries are essential to strengthening domestic revenue collection. However, 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.⁶⁵³ Additionally, the MOMP has lacked a permanent minister since March 2016, leading some to suggest that the national unity government has not prioritized this industry.⁶⁵⁴

USAID cited other issues contributing 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 agreed to in 2010 and 2011 remain unsigned by President Ghani; and a combination of corporate income taxes, export and import duties, production royalties, and other charges that constitute an uncompetitive levy of about 80% on mineral production.⁶⁵⁵

Although geological surveys show that Afghanistan has significant mineral resources, mining has so far contributed only slightly to the country's GDP.⁶⁵⁶ Actual government receipts from minerals activity in FY 1394 (2015) were only about 38% of the budget projection.⁶⁵⁷ In the first 11 months of FY 1395, actual receipts were AFN 1.2 billion (approximately \$18.3 million) largely due to royalty fees and the sale of minerals. This is a 98.5% increase compared to the same period last year.⁶⁵⁸ The Afghan government, however, had set a \$400 million revenue target for the MOMP in 2016.⁶⁵⁹

Illegal Mining

The MOMP contends illegal extraction is taking place at 1,400 mining sites across Afghanistan, but others estimate the country has 2,000–3,000 illegal sites.⁶⁶⁰ Illegal mining steals non-renewable natural resources, damaging Afghanistan's economic development.⁶⁶¹ The Afghan government estimates \$300 million in revenues is lost annually by illegal mining, which not only denies Kabul much-needed funds, but also fuels the insurgency and drives criminality.⁶⁶² This quarter, the UN reported that the Taliban controls many illegal mining sites, particularly those located in Afghanistan's south and east, which provides them a significant income stream. The Taliban are involved in illegal mining in three ways: extraction (control of mining operations), extortion (threatening or committing violence if not paid off), and as service providers (transport and smuggling).⁶⁶³

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.⁶⁶⁴ 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.⁶⁶⁵ Oil and gas represent roughly one-fourth of all annual Afghan imports, or approximately \$1.5 billion.⁶⁶⁶

USAID's implementing partner for the now-completed Sheberghan gas-development project reported that "sufficient levels of proven reserves

will likely not be available to allow moving forward with large scale power production for at least five to seven years.”⁶⁶⁷ USAID is exploring a follow-on program to help the MOMP develop and exploit Afghanistan’s petroleum and gas resources.⁶⁶⁸

Mining Investment and Development for Afghan Sustainability

USAID’s, four-year, \$38.7 million Mining Investment and Development for Afghan Sustainability (MIDAS) program aims to strengthen the MOMP’s capacity to develop Afghanistan’s natural resources in accordance with international standards. It focuses on legal and policy frameworks for the sector as well as mineral exploration.⁶⁶⁹ USAID said the MOMP currently cannot administer the approximately 488 existing extractives contracts. This caused MIDAS to be rescoped to provide technical assistance and transaction-advisory services to the MOMP in its effort to either cancel or renegotiate some or all of these contracts.⁶⁷⁰

Activities This Quarter

MIDAS consultants provided technical and legal support to help the MOMP move forward on the multi-billion-dollar oil and gas contracts: Amu Darya (signed December 2011), Afghan-Tajik (phase I signed October 2013; phase II awarded March 2014), and Totimaidan (awarded September 2014). Negotiations on Amu Darya and Afghan Tajik are ongoing, but no exploration or production work is taking place. The bidders chosen for the Totimaidan block of the Amu Darya Basin have walked away from negotiations.⁶⁷¹

In addition, MIDAS advisors also completed a rapid assessment of the Afghanistan Petroleum Authority’s (APA) structure, staffing, and roles to help inform two new directorates created by the interim MOMP administration—the General Directorate of Petroleum and the Petroleum Support Unit—that will take over APA responsibilities plus hydrocarbon exploration. MIDAS reported that the General Directorate of Petroleum’s organizational structure is currently flawed, has limited capacity, and inadequate staffing to manage exploration contracts.⁶⁷²

Also this quarter, MIDAS advisors helped draft procedures to help the ministry collect outstanding financial obligations owed to it by mineral-rights owners; continued to draft and revise amendments to the Minerals Law; and helped develop technical, financial, bidding, and contract-oversight regulations.⁶⁷³ MIDAS has disbursed \$32.5 million, as of December 31, 2016.⁶⁷⁴

MOMP Capacity Challenges Remain

USAID’s implementing partner reported “extremely low levels of capacity and motivation of MOMP and Afghan Geological Survey employees.” There

are also over 250 vacant positions in the ministry, with many key departments understaffed by at least half. Twenty-three of 26 director positions were either unfilled or staffed by lower-level employees, as of November 2016. Additionally, there have been two permanent and three acting ministers of mines and petroleum since the MIDAS program began in 2013, each bringing their own sets of policy and priority changes. MOMP efforts and MIDAS programmatic activities are negatively affected absent a permanent minister. USAID said Acting Minister Ghazaal Habiby does not have the authority to set the long-term strategic direction for minerals and natural gas.⁶⁷⁵

Agriculture

Agriculture continues to be the main source of real GDP growth, employment, and subsistence for the Afghan population. It accounts for about 22% of GDP, employs 44% of the population, and affects the 61% of Afghans who depend on agricultural activities for their livelihoods.⁶⁷⁶

The Afghan government said that aside from weather volatility, agricultural growth has been hampered by underinvestment in developing water resources, poor-quality inputs such as seeds and fertilizer, degrading natural resources, and weak domestic- and export-product marketing. It wants to move from an agrarian-subsistent and importing nation to an agro-industrial exporting one. The government said it will focus on promoting agro-industry, increasing quality control, expanding cold-storage facilities, and introducing better packaging to reduce waste and spoilage—areas that show the largest potential to improve economic growth.⁶⁷⁷

USAID's agricultural projects are designed to enhance food security, create jobs and export markets, increase incomes and productivity, and strengthen the government's ability to promote broad-based growth. USAID aims to bolster the Ministry of Agriculture, Irrigation, and Livestock's (MAIL) "farmer-focused" approach through the production and marketing of high-value horticultural crops and livestock products, the rehabilitation of irrigation and drainage systems, and the greater use of new technologies.⁶⁷⁸

Since 2002, USAID has disbursed more than \$2 billion to improve agricultural production, increase access to markets, and develop income alternatives to growing poppy for opium production.⁶⁷⁹ USAID reported \$157.6 million worth of various Afghan agricultural commodities were sold in FY 2016, and \$531.9 million cumulatively from 2008 to September 2016.⁶⁸⁰ Pages 193–199 of this quarterly report discuss USAID's agriculture alternative-development programs. A list of active USAID agriculture programs is found in Table 3.20 on the next page.

Agricultural Credit Enhancement II

The Agricultural Credit Enhancement (ACE) II project is the technical-assistance/advisory-support component of the conditions-based Agricultural

TABLE 3.20

USAID ACTIVE AGRICULTURE PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2016 (\$)
Strengthening Watershed and Irrigation Management (SWIM)	11/15/2016	11/14/2021	\$87,905,437	\$0
Capacity Building and Change Management Program II (CBCMP II)	7/10/2014	7/9/2017	20,874,464	18,079,729
Afghanistan Agriculture Extension Project II (AAEP-II)	10/1/2014	9/30/2017	20,229,771	15,115,537
Agriculture Credit Enhancement II (ACE II)	6/24/2015	6/23/2018	18,234,849	5,761,252
Strengthening Afghan Agricultural Facilities (SAAF)	3/25/2011	8/31/2017	7,824,209	6,812,590
SERVIR	9/14/2015	9/30/2020	3,100,000	100,000
Texas A&M University's Agrilife Conflict Development	11/8/2012	11/7/2017	133,976	133,976

Note: Some of the USAID programs listed receive both Alternative Development and Agriculture Development funds. For more information on Alternative Development programs, see pages 193–199 of this report.

Source: USAID, response to SIGAR data call, 1/18/2017.

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.⁶⁸¹ USAID reported that with ACE II help, ADF has cumulatively provided more than \$82.7 million in credit to over 36,401 beneficiaries.⁶⁸² However, ACE II implementers reported that the continuing deterioration of both security and the economy is reducing demand for agricultural credit and negatively impacting loan repayments.⁶⁸³

This quarter, ACE II began preparations for a national survey of agricultural financial services and began baseline data collection for a loans-impact assessment. ACE II also submitted a plan to reshape the ADF to broaden credit access to more borrowers, which will require a number of strategic and operational changes, including additional credit-delivery channels, and accompanying technical support to stakeholders within each channel. Additionally, ACE II helped identify areas of training to strengthen the capacity of ADF's management team, including executive skills courses, advanced agricultural-credit skills, and loan arrears and collections.⁶⁸⁴

ACE II also continued to engage financial institutions to provide credit financing to the agricultural sector, in part through an Innovation Grant Fund, which supports developing and testing new ways to facilitate agriculture-related financial services. Last quarter, ACE II awarded its first grant under the Innovation Grant Fund to OXUS Afghanistan, a microfinance organization, to support lending to borrowers in remote districts. The AFN 10.5 million grant (approximately \$160,000 in current dollars) will be used to develop 10 OXUS cashless branches inside Roshan provincial offices using the telecommunications provider's mobile-money platform for loan disbursements and repayments.⁶⁸⁵ As of October 2016, 1,450 loan

disbursements and 2,841 loan repayments have been made; 27 new loans worth \$30,984 were initiated, including three loans to women totaling \$1,700.⁶⁸⁶ Two new grant packages were being finalized this quarter for USAID's evaluation.⁶⁸⁷

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.⁶⁸⁸ 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.⁶⁸⁹

Afghanistan's limited domestic electric capacity consists of hydropower and thermal sources, plus diesel generators. It therefore imports 77% of its total electricity. Of that imported energy, Uzbekistan provides 35.2%, Tajikistan 30.5%, Iran 20.9%, and Turkmenistan 13.4%.⁶⁹⁰ The World Bank noted that limited access to electricity is one of Afghanistan's biggest constraints to private-sector development.⁶⁹¹ Afghanistan will need regional cooperation to meet its energy demands.⁶⁹²

U.S. Power Sector Assistance

USAID believes that economic expansion and increased employment depend on maintaining and improving Afghanistan's electrical infrastructure. Since 2002, USAID disbursed more than \$1.5 billion in Economic Support Funds to build power plants, substations, and transmission lines, and provide technical assistance in the sector.⁶⁹³ It is also helping Afghanistan's national electric utility, Da Afghanistan Breshna Sherkat (DABS), to increase electricity supply and revenue generation by improving sustainability, management, and commercial viability.⁶⁹⁴ For its part, the Department of Defense (DOD) has disbursed approximately \$180 million for power projects through the Commander's Emergency Response Program, as of July 2015, and roughly \$390.4 million through the Afghanistan Infrastructure Fund (AIF), jointly managed by DOD and State.⁶⁹⁵

Afghanistan's two primary power systems are the **Northeast Power System (NEPS)** and the **Southeast Power System (SEPS)**. USAID's ongoing effort to connect and increase the electricity supply in both systems is its

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.

Power Transmission Expansion and Connectivity (PTEC) project, which aims to construct a transmission line connecting Kabul with Kandahar and build the capacity of DABS to sustain energy-infrastructure investments.⁶⁹⁶ USAID’s active power-infrastructure projects are listed in Table 3.21.

SIGAR AUDIT

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

Kajaki Dam–Unit 2 Turbine Installation

After years of effort, a third turbine, known as Unit 2, was installed in the powerhouse at Kajaki Dam and commissioned on October 1, 2016. The installation represented a major advance in DABS’s efforts to increase long-term, sustainable hydropower from Kajaki Dam to Kandahar and Helmand Provinces.⁶⁹⁷

Unit 2 is operational and 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. Unit 2 was generating power up to 15MW, and all three turbines were online this quarter supplying up to 28MW of power into the 110kV and 12MW into the 13.8kV SEPS transmission lines. This power, combined with DABS’ upgrades, increased the 110kV system’s transmission capacity by 50%, according to USAID.⁶⁹⁸ It is not known how long this level of power generation will last in the short term. The Kajaki Dam reservoir was entering its seasonal low point this quarter, and coupled with chronic reservoir mismanagement, all three turbine units will be unable to stay online for more than a few weeks.⁶⁹⁹ Unit 3 is also scheduled to go offline for repairs in 2017,⁷⁰⁰ though no timeline for the work was provided. However, USAID said once upgrades to the 110kV system are completed in about two years through its SEPS Completion, Phase 2 project, transmission capacity will exceed Kajaki Dam’s power generating capacity.⁷⁰¹

USAID was funding \$22.9 million for technical support, site security, life-support services, and helicopter support to DABS through March 2017. More than \$13.8 million has been disbursed, as of January 8, 2017.⁷⁰² DABS is to assume full responsibility for the Kajaki power plant, including operations and maintenance (O&M), in April 2017.⁷⁰³

TABLE 3.21

USAID ACTIVE POWER-INFRASTRUCTURE PROJECTS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2016 (\$)
Power Transmission Expansion and Connectivity (PTEC)	1/1/2013	12/31/2018	\$725,000,000	\$124,878,220
Contributions to the Afghanistan Infrastructure Trust Fund (AITF)	3/7/2013	3/6/2018	153,670,184	113,000,000
Engineering Support Program	7/23/2016	7/22/2019	125,000,000	6,448,390
Utility Executive Exchange	9/30/2007	9/30/2017	698,555	698,555
Kajaki Energy Outage Public Relations Campaign	8/22/2016	11/15/2016	55,288	55,288

Source: USAID, response to SIGAR data call, 1/18/2017.

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.⁷⁰⁴ PTEC's DABS commercialization and capacity-building components aim to help the utility become financially sustainable by increasing revenues using utility-management software in Kabul, Mazar-e Sharif, Herat, and Jalalabad, while reducing technical and commercial losses through training and support.⁷⁰⁵ Technical losses include line heating and current leakage; commercial losses include nonpayment of bills and energy theft.

Construction on the transmission line and substations between Arghandi and Ghazni, the first segment of the NEPS-SEPS connector, continued this quarter. As of January 8, 2017, 98% of the transmission lines and 93% of the substations were completed. However, damage caused by fighting between Afghan security forces and the Taliban, as well as lags in equipment ordering and shipping times, have impacted completion deadlines by six months. Construction is now scheduled to be completed by July 31, 2017, at a cost of \$104 million. Approximately \$80.4 million has been disbursed as of December 15, 2016.⁷⁰⁶ 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.⁷⁰⁷

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 with winning bidders selected last quarter. Awards were still pending a decision by the National Procurement Authority as of December 2016. USAID said security will be a major challenge to implementing this project.⁷⁰⁸

For the SEPS Completion, Phase 2, \$55 million was transferred to USAID through the Afghanistan Infrastructure Fund to design and construct a transmission line from Tangi to Sangin North and from Maiwand to Kandahar, install electrical equipment, and commission three substations. Funding will be provided on-budget and implemented by DABS.⁷⁰⁹ Bid evaluations and document verification, which began last quarter, are now complete. USAID was in the process of issuing its consent to execute the award, as of January 8, 2017.⁷¹⁰

Power Availability in Kandahar

U.S. fuel subsidies totaling \$141.7 million for power generation at two industrial parks in Kandahar City ceased at the end of September 2015.⁷¹¹ USAID reported that since then, power output has fallen from the diesel generators in Shorandam and Bagh-e Pol industrial parks. Five generators

This quarter, DABS announced that it compiled a list of 73 major debtors—including top government officials—who have not paid their electricity bills. These reportedly include First Vice President General Abdul Rashid Dostum, Mohammad Karim Khalili, (former vice president to then-President Hamid Karzai), former Jihadi commander Abdul Rab Rassoul Sayaf, and a number parliamentarians.

The largest delinquents were government agencies, which owed AFN 1.6 billion (\$24.3 million)—representing 48.2% of all amounts due the utility—followed by commercial institutions at AFN 773 million (\$11.7 million), and residential customers at AFN 700 million (\$10.6 million). Another outstanding AFN 247 million (\$3.8 million) was for residential properties that were relocated for roads construction.

Source: DABS, “DABS Reveals the Names of Major Electricity Bill Defaulters in Kabul,” 10/17/2016; Tolo News, “DABS Says Top Govt Officials Not Paying Electricity Bills,” 11/16/2016.

at Bagh-e Pol in need of major overhauls and shipments of critical spare parts have stopped altogether, while three generators were transferred to Shorandam to replace units needing scheduled maintenance.⁷¹²

The Shorandam generators are currently producing between 40,000 and 48,000 kilowatt-hours (kWh) daily, running 16 hours a day, six days a week, which USAID said is insufficient to provide full electrical service to the industrial park’s commercial customers. For other commercial and residential customers in Kandahar, electricity supply is also inadequate. Some additional power can be supplied from Kajaki Dam in Helmand Province and diesel generators in Breshna Kot in Kabul, but USAID said the cost per kilowatt-hour is unaffordable for most customers. USAID added that DABS has no business incentive to generate the necessary power if it cannot recover the costs of doing so. This results in significant load shedding—the deliberate interruption of power supply to certain areas.⁷¹³

To help bridge the gap between Kandahar’s electric-generation capacities and demand until the NEPS-SEPS transmission line is completed, PTEC funded a reverse auction held on July 11, 2016, whereby independent power producers competed to construct and sell power to DABS from a solar-power plant that may be able to operate at an installed capacity of 10 MW. A bidder was chosen and has successfully concluded negotiations with DABS and USAID on the provisions of the incentive contract and power-purchase agreement. The contract signing was still pending as of December 22, 2016.⁷¹⁴

Afghanistan Infrastructure Fund Power Programs

Afghanistan Infrastructure Fund (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 implementing AIF power projects to complete its portion of the NEPS and SEPS.⁷¹⁵

Ongoing fighting in Helmand Province, 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.⁷¹⁶ This quarter, President Ghani charged his ministers with ensuring a quick resolution to right-of-way land issues and was formulating a presidential decree to streamline the process by which the Ministry of Energy and Water (MEW), the Afghanistan Independent Land Authority, and the MOF secure agreements with landowners. U.S. Forces-Afghanistan (USFOR-A) said multiple NEPS and SEPS contract-completion times are coming due, and it anticipates receiving requests for extensions.⁷¹⁷

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

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.

City while turbine-installation work at Kajaki Dam was under way. USFOR-A has six other ongoing power projects, while USAID has three, as shown in Table 3.22 on page 172.⁷¹⁸

AIF projects use FY 2011–FY 2014 appropriated funds. No additional AIF money was 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 projects.⁷¹⁹

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. They also hold back the mining industry, future revenues from which the Afghan government and international donor community are hoping will offset declining international aid.⁷²⁰

This quarter, the Afghan government made additional progress in establishing regional connectivity. On October 30, 2016, Turkmenistan and Afghanistan inaugurated a rail line connecting the Atamyrat-Imamnazar railway in Turkmenistan to Aqina in Afghanistan.⁷²¹

Roads

Afghanistan has more than 76,400 miles of road, 28,000 of which have been rehabilitated or improved.⁷²² Last quarter SIGAR auditors assessed the conditions of approximately 1,020 miles of Afghanistan's U.S.-funded national and regional highways, and found that most were in need of repair and maintenance.⁷²³ The World Bank similarly reported that 85% of Afghanistan's roads are in poor shape; the majority cannot be used year-round.⁷²⁴

Since 2002, USAID has provided more than \$2 billion for more than 1,240 miles of road construction, operations and maintenance (O&M), and capacity-building activities.⁷²⁵ For its part, DOD provided at least \$847 million on 4,687 road-related projects under the Commander's Emergency Response Program. Despite this investment, SIGAR auditors determined that USAID and DOD have had only limited success in ensuring the long-term sustainability of those roads.⁷²⁶

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, but that is \$100 million less than the Asian Development Bank says is needed.⁷²⁷ USAID told SIGAR it would cost an estimated \$8.3 billion to replace Afghanistan's roads if they were not maintained.⁷²⁸

Money aside, a USAID assessment from May 2015 found that the Ministry of Public Works needed structural reform, citing ongoing critical weaknesses, including a lack of skilled staff, poor communication, antiquated

The United Nations reported that the Taliban is increasingly using improvised explosive devices to disrupt economic and social activity in Afghanistan, not only beyond areas of direct conflict, but also on economically important roads.

Source: UN, *Report of the Analytical Support and Sanctions Monitoring Team*, 10/5/2016, pp. 3, 7.

ECONOMIC AND SOCIAL DEVELOPMENT

TABLE 3.22

AFGHANISTAN INFRASTRUCTURE FUND POWER PROJECTS, AS OF NOVEMBER 23, 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	58.9	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 project	101.0	104.0 ^e	80.4	Transmission lines 97% complete; substations 90.5% complete. Six-month extension requested due to damage from ANDSF-Taliban fighting and ordering/shipping lags (completion: 7/2017)
	NEPS - Arghandi to Pul-e Alam	Design, construct transmission line, towers, and power substation	93.7	50.3	27.2	Transmission line, towers, and substation under construction; community land issues affecting some tower locations (completion: 12/2016 delayed) ^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	Design, construct transmission line; rebuild and construct substations	40.0	28.7	13.9	Under construction; tower excavation, tower erection, civil work ongoing; security challenges (completion: 9/2017) ^b
	NEPS - Pul-e Alam to Gardez	Design, construct transmission line and power substation	77.5	69.2	60.6	Transmission line completed (55 km); substation under construction; security and land issues affecting schedule (completion: 2017) ^c
	NEPS - Charikar to Gul Bahar and Nejrab	Design, construct transmission lines and power substation	42.5	39.1	33.8	Transmission line and substation under construction; security and land issues affecting schedule (completion: 12/2016 delayed) ^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	Design, construct transmission lines and power substation	33.0	24.1	22.3	Transmission line and substation under construction; security and land issues affecting schedule (completion: 12/2016 delayed) ^d
	SEPS Completion - Phase 1	Civil, structural, architectural improvements to substations in Tangi, Sangin North and South	75.0	63.1	26.0	Civil work ongoing (continued delays); major security challenges (completion: 6/2017) ^e
		Design, construct, transmission lines from Sangin North to Lashkar Gah				Civil work ongoing; transmission towers under construction; community issues affecting some tower locations; rerouting and schedule modifications under review; security challenges (completion: 12/2016 delayed) ^f
NEPS - SEPS Connector, Ghazni to Kandahar	Design, construct transmission line and substations. Final phase of NEPS-SEPS connector. USAID: PTEC project	179.5	350.0 ^e	0.0	Final stages of procurement process; contract awards pending National Procurement Authority approval (completion: 12/2018)	
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 USAID: PTEC project	55.0	55.0	0.0	Transferred to USAID for on-budget implementation through DABS; bid certificate verification under evaluation; contract awards pending National Procurement Authority approval.
	NEPS - Gardez to Khowst	Design, construct transmission line and substation. DOD's final contribution to NEPS.	130.0	121.3	9.9	Distribution-line design descoped; transmission-line design, route approved; partial substation designs require resubmission for review; right of way under review (completion: 12/2017) ^g

Note: Project completion dates in parentheses reflect the most recent information provided to SIGAR by USFOR-A and USAID, and are subject to change. In some cases, updated completion dates have not been determined. 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 10/31/2016. All other information is as of 11/23/2016.

^a177 of 247 towers completed. Another 60 tower excavations and 1 foundation complete. Pul-e Alam substation 48% complete. Two of four transformers descoped based on estimated electricity demand and being transferred to Gardez substation. Community land issues stalled 11 towers (4.5%). The U.S. Army Corps of Engineers (USACE) is working on schedule adjustments.

^b105 of 114 towers completed. Another 4 tower excavations and 4 foundations complete. Pushmol and Maiwand substations 50% and 51% complete, respectively. Recommended completion date change to 9/2017 under review.

^cGardez substation 85% complete. Cannot test/commission this segment until NEPS, phase 1 segment is energized to Pul-e Alam. Completion date pushed into 2017. USACE working on schedule adjustments.

^d41 of 44 towers completed. Another 1 tower excavation and 1 foundation complete from Charikar to Gul Bahar; Conductor lines 50% strung. 100% of transmission towers erected from Gul Bahar to Nejrab; Conductor lines 87.5% strung. Gul Bahar substation 98% complete. Community land issues affecting 2 tower locations and conductor or ground wire stringing across 59 towers. USACE working on schedule adjustments.

^eTangi substation 55% complete. Sangin North substation 71% complete. Sangin South substation 64% complete. Contract modification to replace Sangin North living quarters will require revised completion date schedule.

^fSangin to Durai Junction segment: 22 of 205 towers completed. Another 120 tower excavations and 77 foundations complete. Durai Junction to Lashkar Gah segment: 55 of 212 towers completed. Another 120 tower excavations and 55 foundations complete. Community land issues affecting 22.6% of tower locations; Security issues. USACE working on schedule adjustments.

^gIncludes additional, non-AIF USAID funding.

^hClearance issued to begin tower construction on government-owned land.

Source: DOD, OSD-P response to SIGAR data call, 12/28/2015, 6/29/2016 and 9/29/2016; DOD, OSD-P response to SIGAR vetting, 7/16/2016 and 1/4/2017; USFOR-A, response to SIGAR data call, 12/22/2016; USACE, Garrison and Infrastructure Working Group, AIF LIR, 9/15/2016 and 11/23/2016; USAID, OI, response to SIGAR data calls, 9/23/2016 and 12/22/2016; USAID, OI, response to SIGAR vetting, 10/11/2016.



Workers grade an Afghan roadbed for a USAID-funded project. (USAID photo)

systems and processes, and a lack of will to implement necessary reforms. SIGAR recommended that USAID condition future roads-related funding on the successful creation of an independent road authority, road fund, and transportation institute in order to boost MOPW's capacity. USAID concurred.⁷²⁹

Technical Assistance for the Ministry of Public Works Project

USAID's three-year, \$25.5 million, Technical Assistance for the Ministry of Public Works (TA-MOPW) project, a component of the Road Sector Sustainability Project (RSSP), aims to improve the capacity and effectiveness of the Ministry of Public Works (MOPW) to manage Afghanistan's road network. TA-MOPW is working with Afghan authorities in establishing a road authority, road fund, and transportation institute.⁷³⁰ USAID approved a final transition plan on October 11, 2016.⁷³¹ This quarter, TA-MOPW reviewed the first draft of laws to govern the road authority and road fund. Changes to the roads-authority law were proposed to bring it in line with international best practices. TA-MOPW completed its short- and long-term plans for road-maintenance funding, and designs for the road fund. It also completed its targets to finish designs for the transportation institute study.⁷³² Approximately \$19.1 million has been disbursed for this program, as of December 31, 2016.⁷³³

Afghanistan Infrastructure Fund Road Projects

DOD has obligated \$62.2 million and disbursed \$59.2 million for five road projects under the AIF, as of October 31, 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 on the following page.⁷³⁴

TABLE 3.23

AFGHANISTAN INFRASTRUCTURE FUND ROAD PROJECTS, AS OF NOVEMBER 23, 2016 (\$ MILLIONS)						
AIF Project	Description	Notified Amount	Obligated	Disbursed	Status	
AIF FY 11	Lashkar Gah to Nawar Road	Design, construct 22.5 km road in Helmand Province	\$22.0	\$20.5	\$20.5	Complete
	RC-East Border Transportation Corridor	Saracha Bridge	35.6	6.8	6.8	Complete
Ghulam Khan Corridor		12.7		11.8	Complete	
AIF FY 12	Parwan to Bamyan Road - Section 6	Section 6.1	10.0	3.0	3.0	Complete
		Section 6.2		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	5.0	2.0	8 of 28 culverts placed; bridge pile foundations, post-tension beam forming in progress; road work under way; addressing right-of-way issue at north end of construction (Completion: 9/2017)

Note: Notified amount reflects estimated project ceiling cost. Obligations and disbursements are as of 10/31/2016. All other information is as of 11/23/2016.

Source: DOD, OSD-P response to SIGAR data calls 12/28/2015, 9/29/2016, and 12/22/2016; USACE, Garrison and Infrastructure Working Group, AIF LIR, 11/23/2016. Source: DOD, OSD-P response to SIGAR data calls 12/28/2015, 9/29/2016, and 12/22/2016; USACE, Garrison and Infrastructure Working Group, AIF LIR, 11/23/2016.

ECONOMIC GROWTH

Afghanistan ranked 183rd of 190 countries in the World Bank's *Doing Business 2017* report on regulatory quality and efficiency—a six-place fall from 2016.⁷³⁵ While Afghanistan ranks high in starting a business (42nd), a doubling of the business-receipts tax rate from 2% to 4% in the latter part of 2015 made it more costly to do so. Afghanistan is nearly last in dealing with construction permits (186), getting electricity (159), registering property (186), trading across borders (175), and enforcing contracts (180). It is considered the second-to-worst country in protecting minority investors, partly a reflection of the country's corporate-governance rules and the weakness of its legal institutions.⁷³⁶

Although Afghanistan's rank for trading across borders stayed about the same, the World Bank reported that the government made exporting and importing easier by introducing a number of technical, human, and infrastructure improvements as well as ASYCUDA WORLD, a computerized customs-management system. Traders spent fewer hours and less money complying with Afghan documentary and border requirements.⁷³⁷



A speaker discusses USAID's Access to Finance program for conference attendees. (USAID photo)

Beyond security challenges that make it difficult to ignite private-sector-led and inclusive growth, the IMF 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, not all of which require major funding to carry out.⁷³⁸

USAID has cumulatively disbursed more than \$1.1 billion for economic-growth programs in Afghanistan.⁷³⁹ USAID active economic-growth programs have a total estimated cost of \$531.4 million and can be found in Table 3.24 on page 176.

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 female Afghan entrepreneurs with business-development training so they can gain access to financing and opportunities for economic and professional growth.⁷⁴⁰

In FY 2016, FAIDA reported that it facilitated the approval of 211 loans worth \$7,185,417 for Afghan enterprises, created 1,086 full-time-equivalent jobs, and helped 59,179 people find either new or better employment as a result of participating in U.S.-funded workforce-development programs.⁷⁴¹

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 12/31/2016 (\$)
Financial Access for Investing in the Development of Afghanistan (FAIDA)	2/7/2011	2/5/2017	\$113,981,225	\$107,693,355
Assistance in Building Afghanistan by Developing Enterprise (ABADE)	10/16/2012	4/15/2017	104,997,656	95,564,285
Afghanistan Trade and Revenue Project (ATAR)	11/7/2013	11/6/2017	77,754,267	55,361,043
Women in the Economy (WIE)	7/1/2015	6/30/2020	71,571,543	12,233,322
Afghanistan Workforce Development Program (AWDP) Off Budget	4/5/2012	6/30/2018	44,919,458	33,273,995
Multi-Input Area Development-Global Development Alliance	3/23/2013	3/22/2018	30,481,436	13,953,990
Afghanistan Public Financial Management (APFM)	7/27/2015	7/26/2018	22,130,033	8,425,654
Afghanistan Investment Climate Program	3/27/2015	3/26/2020	13,300,000	580,192
Afghanistan Workforce Development Program (AWDP) On Budget	9/18/2013	12/31/2016	11,500,000	4,832,843
Commercial Law Development Program	3/1/2014	9/30/2019	10,000,000	5,301,676
Rebranding Afghanistan: Creating Jobs, Changing Perceptions, Empowering Women	11/2/2015	11/1/2018	4,800,000	2,100,000
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	1,308,132
E-Government Resource Center II	8/28/2013	12/1/2017	3,900,000	1,205,000
Afghanistan International Bank Guarantee Agreement	9/27/2012	9/27/2020	2,000,000	520,800
Development Credit Authority (DCA) with FINCA, OXUS, and First Microfinance Banks	9/25/2014	9/24/2020	1,953,875	0
Turquoise Mountain Smithsonian Exhibition	3/9/2015	3/31/2017	535,055	485,494
Mobile-izing Saving Study	9/11/2012	9/30/2018	50,022	50,022

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, 1/18/2017; Innovations for Poverty Action, "Mobile-izing Savings with Defaults in Afghanistan," 12/8/2015; USAID, Development Credit Authority, "Overview," 2/2/2015.

Between January and March 2016, FAIDA grants facilitated the installation of dozens of kiosks in Kabul for banking customers to repay loans and for mobile-network customers to receive telecom services.⁷⁴² As of September 30, FAIDA reported that 1,105 loans were repaid through these kiosks, totaling \$58,130, and recorded another 162,680 electronic transactions worth \$213,600 to replenish mobile-money accounts. Additionally, almost 26,000 DABS (electricity utility) customers have paid their electricity bills using mobile-money services, totaling almost \$3.2 million.⁷⁴³

This quarter, FAIDA reviewed the new banking law on behalf of the central bank and suggested changes for improvement. Pending approval by parliament, the law will provide the legal framework for a dual system of conventional and Islamic banking. FAIDA's regulatory team also began

to review, align, and suggest revisions to strengthen the country's deposit-insurance program as it relates to mobile-money banking. Also this quarter, FAIDA and Roshan Telecommunication Company helped the Ministry of Labor, Social Affairs, Martyred, and Disabled launch mobile-money payments of 4,500 employee salaries.⁷⁴⁴

Assistance in Building Afghanistan by Developing Enterprises

USAID's \$105 million, Assistance in Building Afghanistan by Developing Enterprises (ABADE) program 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 two components: implementing approved PPAs and identifying, selecting, and supporting the alliances with technical assistance and business advisory services; and working with the government to improve the environment for business.⁷⁴⁵

In FY 2016, ABADE reported 49 PPAs were formed worth \$85.5 million, more than 85% of which was invested by private-sector partners. Of the 116 PPAs whose deliverables were completed, ABADE contributed \$10.2 million of USAID funds (including \$4.5 million worth of equipment transferred to alliance partners), while more than \$77.5 million was invested by the SMEs—more than a 7-to-1 ratio. Also during this time, ABADE provided technical assistance and nine training programs. Five aimed to improved women's skills in the information and communication technology, and health sectors. The others focused on food safety, marble cutting and polishing, and new construction materials and technologies. Cumulatively in FY 2016, ABADE trained 174 people and 105 SMEs.⁷⁴⁶

EDUCATION

After suffering decades of upheaval in the 1980s and 1990s, Afghanistan's public education system has since 2002 become one of Afghanistan's success stories, according to the World Bank. The number of boys and girls enrolled in school has increased dramatically, as have the numbers of teachers and schools. However, the education sector faces many challenges. The World Bank reported that only about half of all registered schools in Afghanistan have proper buildings, and only 55% of teachers meet the minimum requirements with the rest receiving in-service training. While the sector is growing steadily, the quality of education and administration remains weak.⁷⁴⁷

In a December 18, 2016, interview, Minister of Education Assadullah Hanif Balkhi said that after adjusting numbers for more than three million permanently absent registered students from school records, only six million students were actually attending classes in Afghanistan. Former Deputy Minister of Education Sediq Patman added that the numbers touted by the

Karzai administration added two million students, including those whose schools had been closed.⁷⁴⁸ On January 1, 2017, acting Minister of Education Assadullah Mohaqiq (Minister Balkhi lost a vote of confidence in the lower house of parliament on November 13), told the upper house of parliament that more than 1,000 schools across the country were closed because of security issues.⁷⁴⁹

Education Management Information System Data

The Ministry of Education (MOE) had previously acknowledged a large number of children are out of school, but was unaware of how many, who or where they are, or their backgrounds.⁷⁵⁰

To better help the MOE gather school data to guide their decision making—and indirectly understand how donor funding is benefiting Afghanistan’s education system—donors funded the **Education Management Information System (EMIS)**, which tracks critical educational statistics such as the numbers of teachers working and students enrolled. Barriers to data collection have resulted in imprecise and inaccurate EMIS data, prompting further concern from donors. To understand the scope of the problem, USAID funded an assessment of the data-quality in EMIS to identify and address gaps in the system.⁷⁵¹

Despite its shortcomings and inability to answer key questions, the initial assessment found that EMIS has developed the capacity to manage a nationwide information system. However, there remains a gap between its actual capacity and what is needed to ensure the information is accurate and reliable. Key weaknesses were identified, including lack of oversight, inconsistent monitoring at schools, insufficient capacity and training on EMIS forms and procedures, inadequate financing and overreliance on donor-funded assistance, and lack of coordination resulting in duplicative data collection and inefficiencies.⁷⁵² USAID reported that the second round of assessment results is expected to be released next quarter.⁷⁵³

USAID Programs

USAID aims to improve equitable access to quality education in Afghanistan through community-based classes in remote regions. USAID also seeks 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.⁷⁵⁴ USAID had disbursed approximately \$883 million for education programs in Afghanistan, as of December 31, 2016.⁷⁵⁵ USAID’s active education programs have a total estimated cost of \$403.1 million and can be found in Table 3.25.

USAID also funds other donor-administered education programs. On October 24, 2016, USAID approved the disbursement of \$5 million to the Afghanistan Reconstruction Trust Fund for the World Bank’s Higher

Education Management Information

System: a centralized, computerized network system used to gather school data to support decision making in the Ministry of Education.

Source: USAID, *Data Quality Assessment of the Ministry of Education’s Education Management Information System*, 7/2016, p. 1.

TABLE 3.25

USAID ACTIVE EDUCATION PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursements, as of 12/31/2016 (\$)
Afghanistan University Support and Workforce Development Program	1/1/2014	12/31/2018	\$91,927,769	\$39,686,575
Increasing Access to Basic Education and Gender Equality	9/17/2014	12/31/2019	77,402,457	77,402,457
Afghans Read Program (ARP)	4/4/2016	4/3/2021	69,547,810	3,394,637
Support to American University of Afghanistan	8/1/2013	11/29/2019	45,902,538	27,109,261
Strengthening Education in Afghanistan (SEA II)	5/19/2014	9/30/2020	44,835,920	12,739,126
Basic Education, Literacy, and Technical-Vocational Education (BELT), Textbooks	11/16/2011	12/31/2016	26,996,813	24,970,742
Let Girls Learn Initiative and Girls' Education Challenge Program (GEC)	6/29/2016	6/28/2021	25,000,000	0
Early Grade Reading Survey	7/27/2015	3/27/2017	12,487,469	8,899,407
Assessment of Learning Outcomes and Social Effects in Community-Based Education	1/1/2014	12/31/2017	7,262,016	3,188,796
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	472,585	450,326

Source: USAID, response to SIGAR data call, 1/18/2017.

Education Development Project (HEDP). This money, to be disbursed incrementally, will fund 200 additional graduate-degree scholarships to the 300 already approved under the project. HEDP aims to increase the number of graduate-degree recipients and significantly improve the quality of teaching in the public university system. With this disbursement, combined with prior contributions, USAID will cover \$22 million of the \$50 million project cost (44%) and plans to contribute another \$10 million by December 2017.⁷⁵⁶

Basic Education, Learning, and Training (BELT)/Education Quality Improvement Project (EQUIP) II

Basic Education, Learning, and Training (BELT) aims to expand and improve basic-education access and quality. BELT activities include a national early-grade reading program and textbook printing and distribution, covering Afghanistan's entire primary-school population.⁷⁵⁷ 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 154,811 educators and awarded 11,436 female students scholarships to attend teacher-training colleges.⁷⁵⁸

EQUIP II administrators undertook two missions—in May and September 2016—to review teacher activities and discuss upcoming observation studies, to design EMIS-technology evaluations, update EQUIP II-performance indicators, and to assess progress in implementing civil

An Independent Joint Anti-Corruption Monitoring and Evaluation Committee 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.

works for 110 stopped and 415 incomplete construction for 525 schools. Overall, it found that considerable progress has been made in the number of teachers trained, the provisions given to schools, and the establishment of electronic data-collection systems for schools and provincial directorates of the MOE. However, with 3.4 million girls enrolled, the program has not yet reached its targets of 3.8 million girls enrolled by December 2016 or its girl-boy student ratio targets (68% achieved versus 79% target for grades 1–3; 66% achieved versus 69% target for grades 4–6; 57% achieved versus 62% target for grades 7–9; and 52% achieved versus 57% target for grades 10–12. Substantial progress has been made in all but one of these indicators compared to their corresponding baselines in 2008.⁷⁵⁹

EQUIP II also agreed to finance 83 of 110 schools where construction has stopped provided there is no evidence of the misuse of funds or construction cost overruns. The remaining 27 stopped schools will be not be rehabilitated due to their locations in very insecure areas, and because the poor quality of existing work has deteriorated over time. Once security improves in their respective areas, new school construction will commence. For the 415 incomplete schools (down from around 900 schools in 2012), the MOE will pursue legal remedies for all cases of misuse of funds and corruption and reach out to those communities that did not adhere to their 10% required cost-share to try to mobilize funding. In addition, the government will make available either its own or donor funds to complete construction.⁷⁶⁰

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.⁷⁶¹

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 (MOPH) includes capacity-building, training, and quality-assurance activities to strengthen the ministry's management and control over healthcare delivery across Afghanistan.⁷⁶² U.S. on- and off-budget assistance to Afghanistan's health sector totaled more than \$1 billion as of December 31, 2016.⁷⁶³

On-budget assistance to the MOPH provides basic health care 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

TABLE 3.26

USAID ACTIVE HEALTH PROGRAMS				
Project Title	Start Date	End Date	Total Estimated Cost (\$)	Cumulative Disbursement, as of 12/31/2016 (\$)
Initiative for Hygiene, Sanitation, and Nutrition (IHSAN)	5/11/2016	5/10/2021	\$75,503,848	\$553,175
Helping Mother and Children Thrive (HEMAYAT)	1/7/2015	1/6/2020	60,000,000	20,820,048
Health Sector Resiliency (HRS)	9/28/2015	9/27/2020	37,936,471	5,693,512
Strengthening Pharmaceutical System	8/28/2011	7/10/2017	34,399,936	31,722,233
Disease Early Warning System Plus (DEWS Plus)	1/1/2015	12/30/2020	32,728,000	19,788,615
Central Contraceptive Procurement	3/11/2009	9/8/2022	25,000,000	13,035,571
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	3,699,334
Demographic and Health Surveys	9/9/2013	9/8/2018	6,699,863	5,453,731
Sustaining Health Outcomes through the Private Sector (SHOPS Plus)	1/1/2016	9/30/2017	6,000,000	2,927,320
Weekly Iron Folic Acid Supplementation	11/7/2014	12/31/2017	5,610,012	5,408,826
Mothers and Under-Five Nutrition and Child Health (MUNCH)	12/16/2014	12/31/2016	5,000,000	5,000,000
Global Health Supply Chain Quality Assessment	1/2/2015	1/1/2020	1,500,000	1,500,000
Family Planning and Assessment	5/16/2015	12/31/2016	634,833	634,833
Coordinating Comprehensive Care for Children (4 Children)	9/15/2014	9/16/2019	20,000	20,000

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, 1/18/2017; Global Alliance for Improved Nutrition, "Regional Fortification in the Central Asian Republics," accessed 1/15/2016.

undernutrition, improve the use of modern family-planning methods, and eliminate polio.⁷⁶⁴

USAID believes that the MOPH's ability to deliver quality health care 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.⁷⁶⁵ USAID's active health programs have a total estimated cost of \$321.0 million, and are listed in Table 3.26.

Helping Mothers and Children Thrive

USAID's Helping Mothers and Children Thrive (HEMAYAT) program aims to increase access to and utilization of family-planning and maternal-health services through BPHS and the private sector, and also strengthen referral systems to hospitals through EPHS at the provincial level.⁷⁶⁶

In FY 2016, HEMAYAT exceeded performance targets against several indicators, including the percentage of BPHS facilities that provide modern

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, vices, and medications while promoting a health-referral system that integrates the BPHS with hospitals.

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

SIGAR AUDIT

A SIGAR audit published this quarter focused on USAID's efforts to support and improve Afghanistan's health-care services, 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. It found that USAID did not disclose data-quality limitations when citing numerous achievements in Afghan health metrics; USAID's project evaluations and performance reports were not linked to the broader healthcare-assistance objectives included in its performance-monitoring plan for Afghanistan; USAID's performance-monitoring effort lacked the information needed to prove that its efforts helped achieve its objectives; and USAID does not require a final, independent project evaluation. For more information, see Section 2.

contraceptives; the percentage of BPHS facilities that are implementing harmonized quality-improvement methods; the number of health workers trained through HEMAYAT's family planning project support; the percentage of U.S. government-assisted community health workers (CHWs) that provide family-planning information, referrals or services; the percentage of health workers that counsel on the correct use and distribution of misoprostol (to prevent postpartum bleeding); the percentage of women giving birth at home who receive misoprostol in the third stage of labor; and the percent of provinces with active maternal-death surveillance and review systems.⁷⁶⁷

HEMAYAT narrowly missed planned performance targets, but maintained the baseline levels found in the 2015 Demographic Health Survey, in the following areas: modern contraceptive use; the percent of births by mothers receiving at least four antenatal care visits during pregnancy; percent of births attended by a skilled doctor, nurse or midwife; and the percent of children who received the third and final dose of the diphtheria, pertussis (whooping cough) and tetanus vaccine by 12 months. HEMAYAT also slightly missed its goal in the percentage of U.S.-assisted health-service-delivery sites that provide family planning (compared to the MOPH's baseline metric).⁷⁶⁸

In addition to deteriorating security conditions that affected several programmatic efforts in FY 2016, there was an insufficient supply of misoprostol due to a lack of dedicated funding and institutionalized MOPH procurement of the drug. While a temporary solution was found, HEMAYAT was working with Ministry of Public Health directorates to buy a sustainable supply through existing contracts with the World Bank-administered System Enhancement for Health Action in Transition national health program.⁷⁶⁹

Initiative for Hygiene, Sanitation, and Nutrition

USAID's five-year, \$75.5 million, Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) project aims to improve nutrition for women and children less than five years old, with a focus on the first 1,000 days—from conception to age 24 months. The goal is to decrease stunting by at least 5% and reduce anemia among reproductive-age women by 10% over five years. To accomplish this, IHSAN is working with the Afghan government, civil society, and the private sector to implement nutrition and water, and sanitation and hygiene interventions beginning in 10 priority provinces—Badakhshan, Badghis, Bamyan, Farah, Ghor, Kunar, Nangarhar, Nuristan, Paktiya, and Samangan.⁷⁷⁰

Since project implementation in May 2016, IHSAN began developing a work plan, drafting contractual documents for its implementing partners, and hiring staff. IHSAN representatives also met with departments in the Ministry of Public Health, Ministry of Agriculture, Irrigation, and Livestock, Ministry of Rural Rehabilitation and Development. Meetings also took place

with relevant international organization stakeholders to understand existing nutritional improvement efforts, avoid duplication, and identify gaps that IHSAN could fill.⁷⁷¹

Polio

Afghanistan and Pakistan are two of only three countries where polio is still endemic.⁷⁷² Both countries, which share a 1,500-mile border, suffer from the Taliban's opposition to vaccination campaigns.⁷⁷³ USAID said the Taliban, and those living in Taliban strongholds in Afghanistan and Pakistan, have spread misinformation that polio-immunization campaigns are American conspiracies, that their volunteer workers are spies, and that the polio vaccine is an anti-fertility drug or that it has side effects.⁷⁷⁴

Afghanistan reported 12 new polio cases in 2016, as of December 28, down from 17 cases at this point last year. The most recent case was on October 12 in Paktika Province, close to the Pakistan border. Half of Afghanistan's polio cases in 2016 came from Paktika.⁷⁷⁵ The United Nations estimates that 600,000 children in Afghanistan—up from 320,000 reported last quarter—have not been vaccinated, mostly due to fighting and insurgents' blocking access to children. Almost half the children are from Farah Province and southern Afghanistan.⁷⁷⁶ USAID obligated more than \$25.7 million for polio eradication in Afghanistan since FY 2003.⁷⁷⁷