

S. HRG. 114-630

**OVERSIGHT OF TASK FORCE FOR BUSINESS
AND STABILITY OPERATIONS PROJECTS IN
AFGHANISTAN**

HEARING

BEFORE THE

SUBCOMMITTEE ON READINESS AND
MANAGEMENT SUPPORT

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

SECOND SESSION

JANUARY 20, 2016



Printed for the use of the Committee on Armed Services

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OVERSIGHT OF TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS PROJECTS IN AFGHANISTAN

WEDNESDAY, JANUARY 20, 2016

U.S. SENATE,
SUBCOMMITTEE ON READINESS
AND MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 3:03 p.m. in Room SR-232A, Russell Senate Office Building, Senator Kelly Ayotte (chairwoman of the subcommittee) presiding.

Committee members present: Senators Ayotte, Rounds, Ernst, Kaine, McCaskill, Shaheen, and Heinrich.

OPENING STATEMENT OF SENATOR KELLY AYOTTE, CHAIRWOMAN

Senator AYOTTE. Welcome, everyone. I appreciate both of our witnesses being here today for this important hearing to receive testimony on the oversight of the Task Force for Business and Stability Operations in Afghanistan [TFBSO]. This is a hearing of the Subcommittee on Readiness and Management Support.

I want to thank, first of all, my ranking member, Senator Kaine, for joining me in leading this subcommittee and for his hard work every day on behalf of our servicemembers and their families. I look forward to the work we will do together this year.

We begin this subcommittee's first hearing of the year to receive testimony on the Task Force for Business and Stability Operations, TFBSO, projects in Afghanistan. We are joined this afternoon by Secretary Brian McKeon, the Principal Deputy Under Secretary of Defense for Policy, as well as Mr. John F. Sopko, the Special Inspector General for Afghanistan Reconstruction [SIGAR].

I want to thank each of you for your willingness to testify today and for your dedicated service to our country.

TFBSO was a Department of Defense [DOD] task force created to address economic revitalization efforts in Iraq. Then in early 2010, TFBSO began operations in Afghanistan.

The goals of TFBSO in Afghanistan were to reduce violence, enhance stability, and support economic normalcy for Afghanistan. The task force sought to, one, restore productive economic capacity; two, stimulate economic growth; and three, serve as a catalyst for international investment in Afghanistan.

In order to support these goals, according to SIGAR, more than \$820 million was appropriated since fiscal year 2009 for TFBSO programs and operations in Afghanistan. Of that \$820 million, about \$759 million was obligated, and \$638 million was disbursed for the task force's operations and activities in Afghanistan.

The real purpose of today's hearing is to determine, foremost, whether these resources were spent wisely and properly, and whether measurable results were achieved from the hundreds of millions of dollars that were spent on task force TFBSO.

SIGAR has published a number of reports and inquiries on this task force. I am going to briefly touch on them.

First, in July 2014, SIGAR released an inspection report about a cold and dry storage facility, which cost TFBSO nearly \$3 million for this facility to store local produce, provide a location for sorting and packaging produce, and serve as a transit point for trucks. According to SIGAR's report in July 2014, it has never been used and is not being maintained.

In April 2015, SIGAR released the first report about TFBSO and U.S. Agency for International Development [USAID] extractive projects. This report identified a lack of a clear and cohesive development strategy by TFBSO and that TFBSO had not improved interagency coordination, subsequent to issues that were identified by the Government Accountability Office [GAO] as a weakness in 2011, when it evaluated this issue.

In October 2015, SIGAR released a special projects report about TFBSO's compressed natural gas filling station project, which TFBSO paid \$43 million in direct and overhead costs to construct, according to a number originally provided by the DOD to the SIGAR and was not subsequently disputed until we received Mr. McKeon's testimony recently.

A somewhat similar facility in Pakistan, according to SIGAR, would cost only between \$200,000 and \$500,000 to build.

In November 2015, SIGAR sent an inquiry to DOD questioning the expenditure of \$150 million, nearly 20 percent of its total budget, for villas and associated armed security. SIGAR found that TFBSO could have saved tens of millions of taxpayer dollars, if TFBSO members had lived at existing DOD facilities, bases existing in Afghanistan.

Then most recently in January 2016, SIGAR released an audit report on TFBSO's and USAID's efforts to assist Afghanistan's oil, gas, and mineral industries. The report found eight of the 11 TFBSO extractive projects, worth \$175 million of the total \$215 million disbursed, either had little to no or partial project achievement. Further, not a single project was transitioned to the Department of State [State] or USAID when the TFBSO task force ceased operations in Afghanistan.

The totality of these reports, and some of the conclusions reached in a RAND report that was actually commissioned by TFBSO itself, raise very serious questions about how the money that was appropriated by Congress for TFBSO and its work in Afghanistan was spent, and whether this money was wasted.

SIGAR concluded that TFBSO generally has not delivered on its stated goals. According to SIGAR, they have received more com-

plaints of waste, fraud, and abuse relating to TFBSO activities than for any other organization operating in Afghanistan.

These questions have been exacerbated by the failure of the Department of Defense to respond to SIGAR's legitimate questions.

TFBSO ended its programs in Afghanistan in December 2014, and the task force ceased operations in March 2015.

One of the most troubling aspects of this task force and DOD's oversight is that, on multiple occasions, SIGAR asked DOD to answer questions about this task force, including about the compressed natural gas station as early as May 2015, at that point, two months after the task force ceased. Yet, DOD repeatedly failed to provide documents, claiming the department no longer processed the personnel expertise to address these questions.

These assertions were made repeatedly despite the fact that members of TFBSO were still working for DOD, and the former acting director of TFBSO worked in the Office of Secretary of Defense [OSD] beginning in June. In fact, a hard drive of over 100 GB of documents was just recently made available to SIGAR only last week.

In Secretary McKeon's testimony today, DOD disputes SIGAR's numbers on what the compressed natural gas [CNG] station cost. According to SIGAR, DOD actually gave this number to a company called Vestige, the \$43 million figure, that was contracted by DOD, which in turn provided this information to SIGAR.

It is notable that when the draft report was issued by SIGAR on the compressed natural gas station in September, DOD did not dispute the \$43 million figure then, and did not dispute it at the time the final report was issued in October. We have only recently received the dispute of what the number is.

But most importantly to this, putting aside the dispute on how much the compressed natural gas station actually cost, there are many other important questions that need to be addressed today. First of all, what happened to the money, all of it? Second, regardless of cost for this compressed natural gas station, was there even a feasibility study conducted before money was invested on this project and other projects in Afghanistan?

There are other troubling issues raised. Why did we spend \$150 million on villas and security for no more than five to ten TFBSO staff a majority of the time when they could have stayed on base? Why did we spend \$55 million to facilitate an oil lender process that resulted in a Chinese company winning a contract that some have said—and, in fact, this Congress has even noted—could be used to exploit an estimated \$1 trillion worth of Afghanistan mineral resources? What did DOD spend and should DOD have spent money to develop carpet, jewelry, and ice cream businesses in Afghanistan? Why is it that after operating for years and spending millions of dollars that most of TFBSO's extractive projects failed to fully meet project objectives? Finally, why were any of TFBSO's projects not transferred to State or USAID, so that we have continuity after having spent hundreds of millions of taxpayer dollars?

Every dollar the Pentagon wastes is a dollar that we do not have to restore military readiness and provide our troops with what they need to protect themselves and our country. At a time of growing threats and constrained defense budgets, when we have issues like

this raised and where we have serious questions about how taxpayer dollars have been spent, this is a very important inquiry for this committee and for the Senate because of our shared concern that we use every dollar to support our men and women in uniform in what they need to do to defend this station.

So today, I will be asking these questions and many more. I look forward to this hearing, and I thank both of you for being here.

With that, I would now like to call on the ranking member, Senator Kaine, for his opening remarks.

STATEMENT OF SENATOR TIM KAINE

Senator KAINE. I want to thank you, Madam Chair, and my colleagues, the witnesses, and all who are here.

This was a hearing that got its momentum following the release of a SIGAR Office of Special Projects report that was issued in October. The report had an attention-grabbing title, "DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived \$43 Million Project." I read and reviewed the report, and there are a number of issues that are raised by the report.

TFBSO ceased existing at the end of 2014, so it is no longer a project in its own way, but there are a number of lessons here that we need to dig into to make sure: A) that we understand the situation; and B) if there were mistakes, we need to correct them going forward, issues that interest me.

First, in doing economic development or reconstruction work, is the DOD the best agency to do it, or should we rely upon agencies of the United States Government that do it as their normal, everyday work, like USAID, for example. I think that is a very important question for Congress.

Second, to the extent that DOD does work on economic reconstruction or other projects, has money been wasted? Can it be used better? That is a traditional oversight role that this subcommittee and the larger committee needs to take very seriously.

Third, what is the relationship between the Department of Defense and the Inspector General's [IG] office? Is it a cooperative one? Does the DOD provide the information that it is supposed to? We are all human beings. We can understand there might be some natural tension in the relationship of an agency to an IG, but the public looks at us as all part of the same family, and we are all supposed to be working together.

The role of the IG is a critical one. Congress would not pass statutes empowering IGs if we did not think they were important. And one of the issues raised by this report is whether the DOD has been cooperative with the IG or not. That is a very important question.

There are also some questions about the IG. The report with the attention-grabbing headline about the ill-conceived \$43 million expenditure was issued by one division of SIGAR, the Office of Special Projects. But there have been other reports issued earlier in April and subsequently in December from the SIGAR's Audit Division suggesting that the cost of this filling station was not \$43 million but \$5 million.

So if the SIGAR that is charged with providing the facts that we need to exercise oversight is producing different answers depending

upon which division of SIGAR is speaking, that is a question as well. What is the reason for that? Is there communication between the different divisions of SIGAR? Do the different divisions of SIGAR, Special Projects and Audit Division, use different accounting standards?

I think when the \$43 million report came out, a lot of us were outraged. Many took to the floor, put out information about this as a classic example of government waste. But it was generally not put out at the same time that SIGAR had previously and subsequently reached a different calculation about the cost of this gas station.

Now, I am not in the business. I do not know whether \$5 million is an effective figure and \$43 million is not. But the fact that the IG is putting out material with two different numbers is something that I definitely want to dig into today and understand.

If there is a need for us to clarify that the government accounting standards should be used uniformly regardless of which division is looking at a problem, I hope that is something that we will explore as well.

So this is a big hearing because it is about what is the right role for DOD in reconstruction. Has DOD wasted money in this now defunct project? And should there be lessons learned going forward for other projects? Does the DOD fairly cooperate and communicate with the IG, which we expect them to do as Members of the Senate. And why would the IG be producing reports with different numbers about this?

Those are the questions that I am interested in exploring today and in the future.

Madam Chair, I would like to just ask for a few items to be put into the record, with consent, first the TFBSO activities reports to Congress beginning in 2011 through 2014; second, a letter to Chairman McCain and Ranking Member Reed from the former Minister of Mines and Petroleum of Afghanistan; third, a letter to SASC from Jim Bullion, who is a former director of the TFBSO; fourth, a letter to the Readiness Subcommittee from Paul Brinkley, a former Deputy Under Secretary of Defense and director of the TFBSO; and finally, a letter to SIGAR from Paul Brinkley's counsel. I would just like to make those part of the record, without objection.

Senator AYOTTE. Without objection.

[The information referred to follows:]

January 18, 2016

The Honorable Kelly Ayotte
Chairman, Subcommittee on Readiness and Management Support
United States Senate Committee on Armed Services
Russell Senate Office Building Room 228
Washington, D.C. 20510

The Honorable Tim Kaine
Ranking Member, Subcommittee on Readiness and Management Support
United States Senate Committee on Armed Services
Russell Senate Office Building Room 228
Washington, D.C. 20510

Dear Chairman Ayotte and Ranking Member Kaine:

As the Subcommittee considers the oversight of the Task Force for Business and Stability Operations (TFBSO) projects in Afghanistan during the upcoming hearing on Wednesday, January 20, 2016, I want to provide some background and history. I know many of the senior leaders involved in oversight of TFBSO activities have since departed the Department of Defense (DoD), and that has created some confusion about the information emerging as a result of the activities of the Special Inspector General for Afghanistan (SIGAR) Office of Special Projects.

In the five years I spent serving our country as Deputy Under Secretary of Defense and Director of the TFBSO, I saw first-hand the difference we can make if we use economic development as an instrument of foreign policy. Failing to provide a hopeful future for young people in conflict-ridden countries leads to frustration and sympathy with insurgents. I can only speak to the efforts in place during my tenure as director from 2006 to 2011. During that time, we served the mission well. I am proud of the contributions of our team to the overall efforts in that region.

I described this approach in my book, *War Front to Store Front*, because I think both the accomplishments and the lessons of the TFBSO efforts can be instrumental in the months and years to come. Support for the TFBSO mission came from many quarters and from some of the best-known voices among our country's business, military, academic and international leaders.

The TFBSO mission was first launched in Iraq in 2006. In Afghanistan, planning for TFBSO activities began in 2009. TFBSO Afghanistan operations began in 2010 and ended in 2014. The TFBSO mission in Afghanistan, as stated in the fiscal year 2011 National Defense Authorization Act (NDAA), was to "reduce violence, enhance stability, and support economic normalcy in Afghanistan through strategic business and economic activities."

During my time building and leading TFBSO, from its inception in support of the Iraq mission in 2006 through my departure in late June 2011, I can tell you that oversight of TFBSO was very, very rigorous. I personally conducted monthly briefings of the Multi-National Force-Iraq (MNF-I) and International Security Assistance Force (ISAF) Commander in Baghdad and Kabul and of the U.S. Ambassadors to Iraq and Afghanistan, and for the period where our work was focused on the AfPak mission, I conducted monthly briefings and reviews with the Special Representative for Afghanistan and Pakistan.

Here in Washington, I provided monthly reviews for the Chairman of the Joint Chiefs of Staff and the

Undersecretary for Policy, as well as no-less-than-quarterly reviews for the Deputy Secretary of Defense from 2006-2008 and the Secretary of Defense or his chief of staff from 2009-2011. These reviews were project-specific briefings that included budgetary and tactical project status information, and when I left DoD, those briefings were on file within the Pentagon. The priority assigned to the mission from 2006-2011 was clearly indicated by its reporting structure, directly to the Deputy Secretary of Defense from 2006-2008 and directly to the Secretary of Defense from 2009-2011.

TFBSO leaders at many levels provided, over the years, similar briefings to their counterparts within command and embassy leadership structures. Our work generated a lot of discussion as it was a departure from a typical DoD mission. But the work was undertaken because it filled a gap in our national security and development infrastructure, a gap acknowledged by the Congress via its appropriations in support of the mission over the years.

Both internal DoD audits and congressional committees had a transparent view of what we did and what it cost, from start to finish. In 2010 alone, I participated in more than a dozen reviews of our programs and projects as well as associated budgets with committee staffs for the armed services and foreign affairs committees for both the House and Senate. We maintained a constant engagement with the Special Inspector General for Iraq Reconstruction and his Afghan mission counterpart throughout my tenure. While their reviews of our programs were robust and sometimes critical, they were constructive and part of an oversight that benefitted the management of our programs.

As has been widely reported, structural changes mandated by the 2011 NDAA and its perceived direction to move the mission out of the DoD by October 2011 led to the departures of many experienced TFBSO senior leaders. I also submitted my resignation in March of 2011 and finished my service to the Defense Department on June 30, 2011.

Upon my departure, I directed the withdrawal of TFBSO staff from all activities except for conclusion of ongoing agriculture and natural resource development projects in Afghanistan, and recommended the movement of the small remaining team into the command and control of U.S. Forces Afghanistan. At that time, the expectation was that the mission within the DoD was ending, and my primary consideration as the mission was shut down was the safety of remaining personnel. However, to the surprise of many, the mission was not shut down and was instead reconstituted under a different reporting structure in the 2012 NDAA.

The recent media reports about SIGAR studying TFBSO spending appear to be focused on activities that occurred after my departure in mid-2011 following reconstitution of the TFBSO mission. However, to assist in providing some important context and history, I met with four members of the SIGAR study team in mid-December. Based on the discussions at that meeting, it does indeed sound like much of the SIGAR's focus is on events that occurred – and decisions that were made – after I left government service in June 2011.

I obviously cannot speak to anything that happened after my time in government ended on June 30, 2011.

I still closely follow news related to TFBSO activities, and like most other observers, I was surprised to see the headlines a couple of month ago about a “\$43 million gas station,” which understandably resulted in public outrage. But then I noticed last week's report, which now includes a \$5 million figure for what appears to be the same gas station (referenced in the appendix on page 26). In such circumstances, there is a real risk that media headlines and possibly shifting assessments could inadvertently undermine good work done by good people. Because this involves a project that was completed after my tenure at TFBSO, I do not know all of the facts. As such, I hope that there is a balanced and methodical review that will ultimately establish what happened.

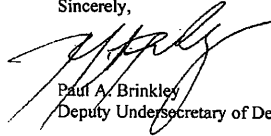
The report about the gas station was followed by an equally provocative story about security and living expenses for TFBSO, claiming opulent living arrangements and excess spending on security. While I cannot comment on the operations of TFBSO after June 2011, during my tenure our accommodations were basic and minimal, with multiple bunks in shared living quarters in our facilities. Where mission requirements supported on-base living arrangements, TFBSO personnel stayed on military installations. When this was not possible or practical, the challenge was to find facilities that did not continually smell of raw sewage, and food that did not frequently sicken our personnel or visiting government and business leaders – a challenge we never fully overcame. There was nothing opulent about the living arrangements we experienced, and by the end of my tenure in government, all remaining TFBSO personnel were moved onto military bases with the expectation that the mission was wrapping up.

To this day, I strongly believe in the mission, and the men and women who worked so tirelessly at the TFBSO under difficult circumstances in Iraq and Afghanistan. That is why I feel obligated to work to make sure that any review of TFBSO is a balanced one.

I respectfully request the Committee to encourage all those reviewing TFBSO's record in Afghanistan to recognize the importance of accurate and consistent reporting of information, of allowing our national security personnel time to respond to requests for information, and of critical but constructive engagement as a necessary element of improvement in the management of development programs.

A meaningful and balanced review cannot be accomplished through a sustained media campaign or a practice of repeating uncorroborated allegations. Evenhanded assessments of corroborated facts should be the focus of this discussion. The American people deserve as much in order to learn from the lessons of the past, both good and bad, so that such lessons may be applied in future efforts at rebuilding conflict-ridden regions of the world.

Sincerely,



Paul A. Brinkley
Deputy Undersecretary of Defense 2004-2011

James L. Bullion

United States Senate
Armed Service Committee
Russell Senate Office Building
Washington, DC

January 17, 2016

Re: Hearings on The Task Force for Business and Stability Operations (TFBSO)

Gentlemen/Ladies:

I was the Director of TFBSO from March 2012 to March 2014. I was recommended for the position by General Stanley McChrystal and selected by the Undersecretary for Policy Michele Flournoy, along with Jim Miller, who succeeded her in that position, and Deputy Assistant Secretary of Defense for Afghanistan David Sedney.

1. Background: I have been in business my entire career, with a parallel career in the US Army Reserve. In business, I have held senior executive positions in the commercial banking, investment management and telecommunications industries, and founded my own management consulting business. I earned an MBA at the Amos Tuck School at Dartmouth College. In 2012 I retired from the Army Reserve as a Colonel after 30 years of service which included two combat tours in Iraq for which I was awarded three Bronze Star Medals and the Combat Action Badge.

I was not a political appointee, have no political ambitions and am in fact a lifelong Republican. My motivation in taking the position at TFBSO was purely to help advance the US mission there by attempting to energize the Afghan economy through the private sector. I had no intentions of remaining in the job long and in fact told my wife that I would do it for no more than three years. I left my family in Massachusetts and moved on my own to Washington, getting home no more than once every two months for the next two years.

In my introductory comments to the TFBSO staff on my first day there, I emphasized that we were stewards of the American taxpayers dollars and that, in every decision we made, we must remember that we were acting on behalf of the American people. I reminded them that the funds we were spending did not belong to TFBSO, did not belong to DoD, did not belong to the US Congress, but only to the American people who expected us to make wise and prudent decisions on their behalf.

2. TFBSO Transition and Oversight: While the TFBSO mission in Afghanistan began in 2009, its first Director, Paul Brinkley, left in 2010 and was succeeded by an interim Director through 2011. These changes in leadership caused the organization to founder and by the time I joined in early 2012 its morale was very low and its reputation at ISAF, in Congress and at the Pentagon had also suffered.

One of my first priorities when I took on the job at TFBSO was to attempt to improve relationships with colleagues at USAID and at the Department of State. I immediately reached out to Alex Their and his team in Washington, and to Mission Director Ken Yamashita and his team in Kabul, and encouraged my staff to engage with and coordinate with their USAID counterparts. After one meeting at USAID headquarters, a senior USAID staffer told me that, in the first two months on the job, my team and I had

been to USAID more times than my predecessor had in his entire tenure. I maintained strong relationships with Ken, with Alex's successor Larry Sampler, and with Ken's successor Bill Hammink throughout my tenure.

I regularly (monthly when possible) met with and discussed plans and activities with Rick Olson, then Coordinating Director for Development and Economic Affairs (CDDEA) at the Embassy (succeeded in that role by Hilda "Bambi" Arellano and then by Ken Yamashita) and with Ambassadors Ryan Crocker and Jim Cunningham and with Generals John Allen and Joe Dunford. Members of my team also briefed USAID and embassy staff regularly and sought their input on our activities and plans. We also coordinated closely with the Afghanistan Task Force at the Department of Commerce as well as with the US Department of Treasury. While there were sometimes differences of opinion on priorities and methodologies, these interactions were healthy and positive.

I met weekly with David Sedney to discuss progress and priorities in Afghanistan and reviewed programs monthly with Jim Miller. I had regular meetings with SASC and HASC senior staff to review programs and budgets. I also met with John Sopko and his staff at SIGAR, detailing our programs and soliciting their input. All of these contacts were designed to continually inform TFBSO constituents and to seek their input into its strategy and operations.

We also complied fully with the congressionally mandated concurrence process which required that the State Department conduct a detailed review of TFBSO programs annually and concur with them before funds could be disbursed. This review was done with input from USAID, ISAF, US Embassy Kabul, CENTCOM and OSD – Policy. Finally, we had quarterly program reviews in Kabul with USAID and embassy staff (A comment in a SIGAR report that the Embassy was not aware of our biggest project, the repair and upgrading of the Sheberghan-Mazar-e-Sharif natural gas pipeline is therefore simply not credible).

As the goal of winding down TFBSO by the end of 2014, which, by the way, I opposed as premature, became more concrete in 2013, we developed detailed plans for transitioning our programs to other US agencies, the Afghan government, or to the private sector and reviewed them with State, the embassy in Kabul, and USAID.

TFBSO's efforts to work closely with our counterparts was not always reciprocated, unfortunately, as we struggled to coordinate with USAID to integrate its "MIDAS" program with ours; a large team of UDAID contractors simply appeared at the Ministry of Mines and Petroleum (MOMP) with no clear mission or coordination with TFBSO nor with MOMP, maintaining a large presence for months there without a clear mandate and confusing MoMP staff. Similarly, working with the Asian Development Bank (ADB), we attempted to coordinate with USAID on the planning and development of the Sheberghan Gas Development Program (SGDP), in order to accelerate the development of a power plant in that region but were rebuffed as USAID's 200-MW power plant (planned since 2007) took precedence, despite withdrawal of the prime contractor, Contour Global, as a result of disarray and lack of progress. That plant has not, to this day, been built.

I cannot speak to the relationships between TFBSO and other agencies after March of 2014, but I am quite proud of the working relationships and level of trust that we built during my tenure at TFBSO.

TFBSO was subject to a significant amount of scrutiny and review, which we welcomed. The input and recommendations from those reviews helped to make the organization more effective and more responsive. I welcomed input and feedback and I am quite proud of the transparency and coordination that were principles of the organization throughout my tenure there.

3. Strategy. SIGAR has charged that TFBSO lacked a unified strategy for economic development in Afghanistan and that TFBSO and USAID pursued divergent approaches to guide their initiatives. I agree with both of those statements but disagree with the statement that "TFBSO did not have multi-year plans or strategies...nor did it establish written guidance for project selection criteria, metrics, and project documentation."

With a temporary mandate and a strong sense of urgency and desire to accomplish our mission, TFBSO could not wait for a unified strategy to be handed down to it. There was no central coordinating function in Afghanistan and we therefore took the initiative to lay out our own mission plans and begin executing – with, of course, concurrence from State and USAID.

USAID and TFBSO did indeed pursue different approaches. TFBSO's was guided by a long-term vision of attracting private investment to Afghanistan by setting the conditions for investment and lowering the costs and risks of investment through the provision of information and analysis and, in the case of the Sheberghan-Mazar pipeline, by helping the Afghan government to help the Afghan government build infrastructure that could spur specific aspects of the economy. TFBSO attempted, as much as possible, to analyze expenditures as if they were investments with an expected return, that return being primarily measured by projected revenues to the Afghan government, a critical factor in the long-term stability of the country as international donor funding declines.

TFBSO engaged closely with the US Geological Survey (USGS) and other technical and legal contractors to build and execute plans for the development of Afghanistan's natural resources, a plan initially framed by a study done by McKinsey and Company. This multi-year plan was designed to enable the Afghan government to develop its natural resources in a transparent, legal and economically beneficial manner. For both petroleum and minerals, the steps involved included data gathering, analysis and prioritization, development of a legal framework and process, marketing, financial analysis and negotiations with bidders. Projects were selected on the basis of their potential to generate revenue for the Afghan government, as well as for their potential impact on local economies and their likelihood for success. Projects were openly discussed and evaluated by TFBSO leaders after extensive research and discussions with experts and Afghan officials. Goals and timeframes were established and progress was monitored through detailed formal monthly reviews.

Statements made by SIGAR about a lack of long-term planning are simply not consistent with the reality of how we operated.

Another critical difference in our approach was that TFBSO was driven by results – as measured by successful tenders, project completions and projected revenues – rather than by feasibility studies, statements of intent or dollars spent.

TFBSO was, because of its short-term mandate and its freedom of movement, able to take risks in project selection and in execution that USAID simply could not. We measured risk carefully, evaluating

obstacles and impact, and managed projects closely – including direct physical oversight by TFBSO leadership. In fact I established a policy not to take on projects that we could not directly oversee, and discontinued several projects that we could not oversee effectively as a result.

4. Accomplishments. TFBSO's mission, as I understood it and as I communicated it to the various constituencies I described above, was to help set conditions for the development and sustainable growth of the private sector in Afghanistan in order to reduce the Afghan government's dependence on foreign aid and to improve conditions for stability by creating long-term employment opportunities and a sense of ownership that would help combat the negative narratives of the Taliban and the Haqqani Network.

TFBSO did considerable work in several sectors (indigenous industries, small business and entrepreneurship and extractives), but I will confine my comments here to the area of greatest effort and potential impact, the natural resources extractives industries.

Afghanistan's mineral potential has been known for many decades, with considerable prospecting having been done by the British and by the Soviet Union. A comprehensive survey of the entire country was begun by the US Geological Survey (USGS) in 2007 using NASA's WB-57 high altitude research jet outfitted with an imaging spectrometer. USGS scientists using data from the flights mapped an area that covers more than 70 percent of Afghanistan. Based on USGS data and analysis, in 2010 TFBSO estimated that the value of Afghanistan's minerals could be close to \$1 trillion.

That information, combined with a study done by McKinsey (attached), focused TFBSO's efforts on helping Afghanistan unlock its vast mineral wealth. As the McKinsey report states "Natural resources are the only game changer available [for Afghanistan]."

Our work consisted of identifying and prioritizing mining and oil and gas development opportunities, helping the Afghan government build and implement a world class tendering process, and attracting international exploration companies to invest in Afghanistan. This work has set the stage for large-scale development of Afghanistan's mining and oil and gas industries. As those industries are developed, the country's ability to attract capital investment to other industries, such as power generation, railroads and other industries that can use those natural resources inside Afghanistan will also grow, creating a truly sustainable economy.

TFBSO's specific accomplishments in this sector include:

- Natural Gas Industry: TFBSO assisted the Ministry of Mines and Petroleum (MOMP) and Afghan Gas Enterprises (AGE) in planning and executing the repair and upgrade of the Sheberghan-Mazar-e-Sharif pipeline, including installation and commissioning of compressors, dehydration and desulfurization equipment that will enable the safe increase of gas transmission to the Northern Fertilizer and Power Plant (NFPP) and to other potential users including a privately-owned glass manufacturing plant and a planned independent power producer. The vast majority of this work was done by AGE employees, trained and coached by TFBSO contractors and staff. While AGE needs on-going support for its operations, its work with TFBSO has dramatically improved its skill levels and positioned it to move forward – with outside help – to become a modern gas production and transmission company that could be privatized. In fact, since

TFBSO ceased operations in Afghanistan, AGE has, on its own initiative and with its own workforce, begun building a new pipeline parallel to the existing one. This will be the first pipeline built in Afghanistan in many decades, and the only one built entirely by Afghans.

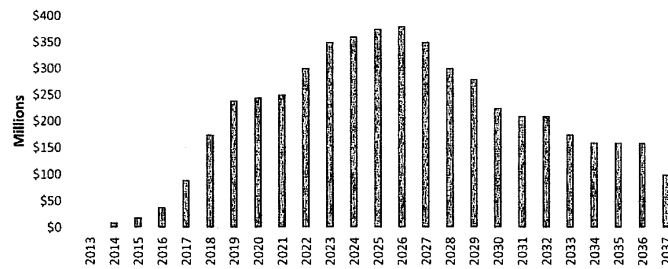
- **Oil Industry:** TFBSO collected over 500 kilometers of seismic data that enabled three successful transparent contract awards from tenders of oil and gas properties to private exploration and development companies and compilation of data that could support future tenders. One of these tenders, to a Chinese-Afghan consortium, resulted in the first commercial oil production in Afghanistan's history and has already generated millions of dollars of revenue to the Afghanistan government. TFBSO also marketed Afghanistan's oil and gas resources to major oil companies, including Exxon-Mobil, Chevron, BP, Shell, and Total, raising the country's profile in the world of "big oil." While production has been slowed as a result of Afghan elections and legal obstacles to cross-border movement of oil, further exploration is continuing, more tenders are in progress and the stage has been set for the development of this industry, including investment in refineries that will allow Afghanistan to become less dependent on imported fuel.
- **Mining Industry:** TFBSO compiled world-class geologic data gathered by USGS covering 70% of Afghanistan, worked with MOMP to prioritize areas of highest development potential, built a multi-year plan for tenders, provided technical and legal tender support, and marketed those opportunities to dozens of international mining companies, resulting in the transparent award of four contracts for significant gold and copper mines to international consortia. Attracting those investors, who have spent tens of millions of dollars in preliminary work and fees in Afghanistan, required a worldwide effort to market the properties, ultimately bringing over two dozen potential bidders to Afghanistan to visit sites and to meet with MoMP. Establishing a credible and transparent tender process required extensive legal work and support by international mining experts. Progress in launching work on those sites has been slowed by the lengthy debate over the new mining law in the Afghan parliament and by the presidential election, but the industry is primed for significant commercial exploration and development.

These achievements have positioned Afghanistan to begin large-scale development of these resources, which will result in billions of revenues to the Afghan people. Unfortunately, although some (albeit insufficient) capacity building of staff at the MoMP was done by USAID, the World Bank, DIFD and other organizations, many trained people left the ministry during the transition to the new Afghan administration, leaving the ministry having to rebuild its human resources, further delaying industry development.

The following chart, based on information developed in detail by SRK Consulting, an international mining expert hired by TFBSO, shows the potential cash flows (although the timeline has shifted to the right) to the Afghan government from 10 mines (including the four tendered in 2013) identified and prioritized by TFBSO. These numbers don't include any revenues from oil and gas tenders, nor from commercial sales of gas by Afghan Gas Enterprises. They also don't include potential revenues from very large mining opportunities (Aynak copper mine and Hajigak iron mine) identified and tendered before TFBSO began its work in Afghanistan. The total revenue over this period, over \$5 billion, equates to a 65% internal rate of return (IRR) on the \$48 million TFBSO spent on minerals development.

Bullion Input - TFBSO

Potential Revenues to Government of Afghanistan
from TFBSO-Identified and Supported Mineral Tenders



These kinds of revenues, combined with the multi-billion dollar revenues that could be generated by Aynak and Hajigak, and billions from oil and gas, could truly transform the Afghan economy.

5. The CNG Project. The Special Inspector General for Afghanistan Reconstruction (SIGAR) has closely scrutinized TFBSO's work on Downstream Gas Utilization (DGU) in Afghanistan, for which I offer the following comments:

- a. One of TFBSO's objectives in helping the Afghan government develop its economy was to find ways in which its natural resources could be used to reduce imports, thus improving its tremendously negative balance of trade. As Afghanistan's biggest imports are diesel fuel and gasoline, finding alternatives to those imports is a high priority.
- b. The DGU project was designed as a demonstration to assess the potential of CNG as an alternative to imported liquid fuels. Both of Afghanistan's neighbors, Pakistan and Iran (as well as Brazil), in fact, fuel millions of vehicles with CNG. TFBSO subsidized the conversion of approximately 150 vehicles in Sheberghan to test the cost and savings model. It was never TFBSO's or MOMP's intent to build a commercial operation, but to allow the private sector to do so.
- c. The compressed natural gas (CNG) conversion and refueling facility referred to by SIGAR was funded and constructed prior to 2012, when I took on the TFBSO leadership, but the information that I have seen indicates that the station was built at a cost of about \$2 million, plus an additional \$2-3 million of related equipment such as CNG transportation trailers and generator conversion kits for large generators on Afghan military bases. The assertion that the station cost \$43 million is simply not credible and, despite much publicity initiated by SIGAR that number has never been audited or verified. Such sloppy and unprofessional work casts doubt on all of SIGAR's reports regarding TFBSO.
- d. Sheberghan, a city of 150,000, was chosen for the project because of its proximity to the gas fields of Khoja Gorgordak, as no existing pipeline capacity was available. The plan from the beginning

was to sell the Sheberghan facility to private investors, along with the rights to expand to Mazar-e-Sharif once the Sheberghan-Mazar pipeline was rehabilitated with expanded capacity.

- e. In early 2014, the facility was sold to a group of private investors from Mazar who had built a business plan that indicated to them that the business of converting vehicles for CNG use and selling them CNG could be profitable. As in other CNG markets, including in the US, the first vehicles to be converted have been high-usage fleet vehicles such as taxicabs. Furthermore, while Afghanistan's average income across the country is very low, it is much higher in Northern Afghanistan and especially in urban centers like Sheberghan and Mazar-e-Sharif, and therefore the cost of converting a vehicle is viable.
- f. When the facility was inaugurated, the cost of a liter of imported gasoline was about \$1.10, whereas the cost of an equivalent amount of CNG was only \$0.68, 61% of the cost. If the cost to convert a vehicle is about \$800, that cost can be recuperated in 48 weeks – less than a year – assuming 40 gallons a week is used.
- g. One of the models we tested was to convert diesel generators at Afghan military bases for CNG use, taking the gas to the bases with special trailers (this model is being used by a US company in Vermont owned by T. Boone Pickens - www.ngadvantage.com), we determined that this model was not economically feasible at the time in Afghanistan and we discontinued it.

This project could thus help launch a new industry in Afghanistan, driven by the private sector, which will expand as pipeline infrastructure is expanded, as is the case in other countries including the United States. In fact, a master energy development plan commissioned by The Asian Development Bank and executed by Fichtner GmbH concluded that transporting gas to Kabul via a pipeline may be feasible; such a pipeline would open the Kabul market to CNG use.

This sale of gas for CNG was the first commercial sale of natural gas by the Afghan government, helping Afghan Gas Enterprise (wholly-owned by the Ministry of Mines and Petroleum) gain experience in pricing and selling gas and servicing a customer, and preparing it for other sales, all of which will generate revenue to the Afghan government.

6. MOMP Capacity Building. By early 2014, MOMP had gained tremendous experience and expertise at identifying development opportunities and managing tenders and, with some outside help, negotiating contracts. TFBSO and its contractors had trained a very capable team at MOMP which had reached some real competence in executing tenders. While they could not tackle very complex tenders without outside support, they had gained the capacity to contract for outside experts as necessary and thus to deploy on-budget funds more effectively. Sadly, as a result of turnover caused by the arrival of the new Afghan administration, many talented and skilled members of the MOMP staff have left for other jobs, and that capacity will have to be rebuilt.

On-going capacity building is supposed to be delivered by USAID's MIDAS program, through its many contractors imbedded at MOMP. It is not clear, however, based on feedback from MOMP that this work is being done effectively. In early 2014, MIDAS attempted to subcontract with the mining consulting firm SRK and with the legal firm Mayer Brown, both of whom had worked closely with TFBSO and MOMP for several years, but neither firm chose to work with the MIDAS program, leaving a significant expertise

and experience gap.

The new Afghan administration is much more hesitant to aggressively develop its natural resources, and the resurgence of the Taliban with the drawdown in NATO forces has made it difficult to convince international investors to pursue opportunities in Afghanistan. These events, combined with the loss of experience people at MoMP and the shut-down of TFBSO, have delayed development of Afghanistan's natural resources.

7. Transition. TFBSO worked closely with DoS and USAID to plan the transition of its projects and conducted detailed analysis to identify positive outcomes for each. In doing so, we briefed those agencies in detail and identified a successor for each project as follows:

- | | |
|--|---------------------------------|
| • Minerals Tenders/Contract Support | USAID MIDAS |
| • Geologic Survey/Data Gathering | Afghan Geological Survey (MOMP) |
| • Oil and Gas Tenders/Contract Support | MOMP |
| • Sheberghan-Mazar Pipeline | Afghan Gas Enterprises (MOMP) |

Each of these project areas required a longer timeline to completion as a result of:

- Delays in the passage of the new mining law;
- Lack of decision-making and execution by MOMP and the cabinet during the election period;
- Inability of the National Unity Government to appoint new Ministers in a timely manner;
- Reluctance of international companies to engage due to uncertainty regarding US/NATO commitments and the new Afghan government's policies; and
- Security issues that slowed pipeline completion.

Afghanistan is one of the hardest, most unpredictable places on Earth to do business, and it would have been astonishing for these projects to have finished on time, given the conditions listed above. As I noted earlier, TFBSO took measured risks to attempt to accomplish very significant results. My conclusion at the time was that they were risks worth taking, given their potential impact, and I would make the same decisions today. We could have scaled back our efforts and wound down our work sooner, but I chose to keep pushing, judging that the need for progress outweighed the risk of balls being dropped in transition.

We also engaged The Boston Consulting Group to review the potential need for TFBSO-like capability in the future and possible options for its continuation. Based on their report, in November of 2014 Jim Miller, then Under Secretary of Defense for Policy, who had oversight of TFBSO, asked me to work with his staff to draft language for inclusion in the NDAA to extend TFBSO. That effort was terminated by Secretary Hagel and his staff in February 2015.

As these projects are vital to the success of the Afghan economy, the shut-down of TFBSO despite the on-going need for its capabilities in order to complete them has resulted in a loss of a significant investment and investor confidence in Afghanistan.

8. Conclusions. As I stated at the outset of this letter, TFBSO was a very important and effective organization that introduced a new way to engage in economic development and stability operations:

Bullion Input - TFBSO

investing funds judiciously in projects designed to attract private sector capital that could build a sustainable economy.

The Boston Consulting Group's analysis of TFBSO, issued in October 2013, found that "TFBSO has provided responsive...capability, focused on catalyzing private sector effects in conflict and post-conflict environments" and that "Senior stakeholders cite a broad need for private sector operations to promote stability and for USG to better leverage private sector effects for strategic security objectives."

I believed then and I continue to believe that the only way to generate long-term economic growth and the resulting stability that comes from the generation of long-term jobs and broad wealth creation, is to promote, enable and support private sector investment. TFBSO was the only US government organization pursuing that strategy and it acted boldly and aggressively to set the conditions for such investments, taking measured risks in the process, and always envisioning a stable, successful Afghanistan as a realistic and achievable outcome.

From 2011 through 2014, TFBSO spent about \$450 million (including an allocation of overhead costs) on projects designed to stimulate development of Afghanistan's natural resources. If that "investment" results, as various projections indicate that they could, in revenues to the Afghan government measured in the billions of dollars and in jobs measured in the tens of thousands, it will have been money very well spent on behalf of the American taxpayer to ensure a world safer for the next generation.

Respectfully submitted,



James L. Bullion



Islamic Republic of Afghanistan

Wahidullah Shahrani
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Date: 19 January 2016

The Honorable John McCain, Chairman Senate Armed Services Committee
The Honorable Jack Reed, Ranking Member Senate Armed Services Committee

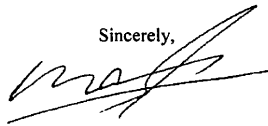
First of all let me express my special thanks and gratitude to all the support you have extended to the people of Afghanistan in their efforts towards security, stability and development and in fact in the last fourteen years despite of numerous challenges and constraints your contribution has been highly significant in our achievements. Second, as a former Minister of Mines & Petroleum (from January 2010 until September 2013) I was a very shocked and disappointed on some recent news regarding the allegations on Task Force for Business & Stability Operations (TFBSO) in wasting the allocated resources in its support to the natural resources sector (both minerals and oil & gas) of Afghanistan from 2010 until 2014. I as a former minister and in charge for this sector worked very closely with the TFBSO's team and it is a matter of fact that TFBSO's support was highly significant in our efforts in promoting Afghanistan's vast but untapped natural resources particularly at a time when the country badly needed foreign and private investment to develop those resources for the benefit of Afghan people and helping the country to move towards financial and economic self reliance and it significantly helped the Government of Afghanistan at that time to aggressively start developing this crucial sector. While in doing so the Government of Afghanistan with the technical support of TFBSO managed to implement all the accepted best practices with regard to the integrity and transparency of deals (process) involved in the management of these resources. With the support of TFBSO we managed to tender and award the first ever oil & gas basin (Amu Darya Basin) as per the Hydrocarbon Laws of the country and also as per international best practices and during the entire process in addition to maintaining the benefits of the country, the highest degree of transparency was also observed and again for the first time, the entire process was being monitored and audited by a reputable international audit firm to ensure that there has not been any deviation from the standard procedures and practices. The next major support of TFBSO was helping the Government of Afghanistan to conduct the seismic tests in another potential oil and gas basin called Afghan-Tajik Basin and as positive result of such tests, with the technical support mobilized by TFBSO we managed to tender and then award the two blocks of this basin and fortunately the entire process was also efficient and transparent and just like the previous oil tender, this was also completely audited and documented. The important achievement was that both of these contracts were structured on international good practices and the contracts were awarded to two international oil firms based on Exploration and Production Sharing Contracts (EPSC). In the same sector, TFBSO based on the priorities of the Afghan Government mobilized very valuable support to utilize the domestic gas potential by increasing the capacity of country's only fertilizer and power producing facility (Northern Fertilizer & Power Plant - NFPP) which had four components: first, the rehabilitation of the old gas pipeline from Shiberghan gas fields to NFPP located in Maza-i-Sharif (90 kms), second; building a brand new gas pipeline along the same route in order to increase the capacity of the NFPP, third; putting a new gas sweetening plant and fourth; was establishing the first ever CNG station in the country in order to introduce this economically efficient and environmental friendly source in the country. As per my information, fortunately all these components have been completed and is delivering the expected benefits to the country. It was very much unfortunate and disappointing that few weeks ago a report was published by SIGAR blaming the TFBSO for wasting around USD 43 million in establishing a CNG station in Shiberghan while the reality and the truth is that the entire allocated budget was USD 43 million for all four above mentioned components and our information suggests that around USD 4 million (out of USD 43 million) was spent on the CNG station. So from this one can judge that this particular report has not been based on accurate figures and I have serious doubts not just on the conclusion but also on the methodology of such a report. Also the report of SIGAR has been solely focused on the cost rather than the amount of benefits these types of projects and investments bring to Afghanistan. In the past I tried to contact and meet the relevant staff of SIGAR here in Kabul and give them my own assessment of TFBSO's support but despite several attempts I was not able to meet them.

In addition to the oil & gas sector, TFBSO also helped the Government of Afghanistan to collect the required geological data, market, tender and conclude the contracting process for four major copper and gold properties (Badakhshan Gold, Zarkashan Gold & Copper, Balkhab Copper and Shaida Copper deposits) according to the best international practices but later because of late approval of amendments in Afghanistan's Minerals Law by the Cabinet and then Parliament, election year (2014) and the new government which still has not been able to form itself completely and conduct its basic functions accordingly) the contract could not be awarded. In this process, TFBSO based on the request of the Government of Afghanistan provided the Afghan Ministry of Mines & Petroleum and other relevant ministries in Inter-ministerial Mining Committee (IMC) such as the Ministry of Finance plus four other ministries with the best and world class technical support on pure mining (oil & gas), financial and the legal aspect of the tender and the contracts (both in minerals and oil & gas) which I as a former Minister of Mines & Petroleum, former Minister of Commerce & Industry, former Deputy Minister of Finance and former Economic Advisor to the President of Afghanistan confirm that no other donor entity has been able to extend support to the Afghan Government in the last 13 years as TFBSO did provide both in terms of efficiency and effectiveness. In summary the support by TFBSO was delivered based on the priorities of the Afghan Government and also it was designed to help Afghan Government in its efforts to increase its revenue, create more employment opportunities and move towards self sufficiency.

At the same I want to clarify one issue that the support by TFBSO was delivered outside the core budget of the Afghan Ministry of Mines & Petroleum as majority of the US supported programs and projects are supported through external budget in a sense that the recipient Afghan Government ministries and institutions do not have authority in the financial management of such a support. In this regard, I believe TFBSO or the Department of Defense retains all the records and documents on the finances of this program and they are in a better position to provide such information in case when there would be a need and based on our experience in the past whenever we needed the information on the finances of the project and its various components, TFBS was sharing those information with the Ministry (Government). But as earlier mentioned the support by TFBSO was delivered based on the priorities of the Afghan Government and it was delivered in the most efficient and effective manner helping the Afghan Ministry of Mines & Petroleum to achieve its defined objectives. With these words, myself and some of my former colleagues who previously worked with TFBSO as their counterparts are available to address any concerns that your good offices or SIGAR might have on sharing more information on the way that TFBSO extended its support to the Minerals and Hydrocarbons sector. I also agree with the findings in the Economic Impact Assessment report created by Vestige and Acertas Consulting in December of 2014 on the potential impact of TFBSO's support to the Afghan Government if it gets properly managed by the Government the contribution to revenues and GDP would be enormous. And like any country in the world, mining and hydrocarbons take long time to get developed and the management (governance) of the sector will also play a crucial role in achieving such objectives.

Once again taking this opportunity I would like to extend my appreciations for your commitment to the people of Afghanistan and we as Afghans look forward in further enhancing the strategic relationship between both countries for values and objectives that we share.

Sincerely,



Wahidullah Shahrani

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January 20, 2016

VIA E-MAIL

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Re: **Prepared Testimony of John F. Sopko**

Dear Chris:

I have been provided with a copy of the prepared testimony of John F. Sopko, Special Inspector General for Afghanistan Reconstruction. I am surprised – and disappointed – in some of its content regarding the December 17, 2015, voluntary meeting that Paul Brinkley and I had with you, David Arlington, and the other members of the SIGAR team. I had hoped, given the tenor of that meeting, that SIGAR's reporting would be fair and balanced going forward. I am concerned that my trust was misplaced. Indeed, I firmly believe SIGAR has done a disservice not only to Mr. Brinkley, but to the effort to thoughtfully examine the work of the Task Force for Business & Stability Operations (TFBSO, or the Task Force) in Afghanistan. It may be that you have not reviewed Mr. Sopko's prepared testimony, so I ask that you do so in advance of its submission for the record, so that anything submitted to the committee is accurate.

While time does not permit me to go through all of Mr. Sopko's prepared testimony, there are a number of statements in which his testimony mischaracterizes important aspects of the December 2015 interview that need to be addressed on a priority basis. *First*, Mr. Spoko, who did not attend our meeting, claims that Mr. Brinkley said he did not know the cost of the projects he authorized:

Another troubling management issue is that Mr. Brinkley told SIGAR that as TFBSO director, he approved programs without knowing what they would cost. Mr. Brinkley said he did not know the cost of any project; his managers simply established requirements and then removed themselves from the contracting process. This is particularly surprising, given that RAND found that most project managers at TFBSO

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were trained as Contracting Officer's Representatives and that Dr. Catalino, who served as TFBSO deputy director to James Bullion and later as director, told SIGAR that he knew program costs and that it was very surprising that Mr. Brinkley did not.¹

This is not what Mr. Brinkley said. As you will recall, what Mr. Brinkley said was TFBSO had no contracting authority – by design. Rather, all TFBSO contracts were executed by warranted contracting offices in the departments of the Army, Navy, and Air Force in full alignment with federal acquisition regulations. This was done, in fact, to ensure proper oversight – not to avoid it. The role of TFBSO was to define requirements for contracting offices use in selecting and awarding contracts to vendors to achieve mission needs. Costs estimates were known and communicated to TFBSO leadership, and cost management within allocated budgets was a critical part of the management process. Mr. Brinkley did say that he did not know the ultimate cost of certain specific projects you discussed, but it was not because he chose not to learn that information or failed to make proper inquiries. Instead, as you will recall, it was because those projects *continued many years after Mr. Brinkley left the Task Force at the end of June 2011*. I ask that SIGAR correct Mr. Sopko's testimony before it is entered into the record, so that Mr. Sopko can avoid providing inaccurate testimony to Congress on this important issue.

Second, Mr. Sopko's prepared testimony states, "Former TFBSO director Brinkley told us that TFBSO and State had a contentious relationship in Iraq and there was a perception that the Task Force had been non-collaborative." While Mr. Brinkley did say this, this statement does not include what Mr. Brinkley said immediately before this comment. As you will recall, Mr. Brinkley was explaining why he asked for a formal invitation from the Department of State for the Task Force to begin working in Afghanistan. Mr. Brinkley explained that he was trying to avoid the contentious relationship in Iraq and ensure a good working relationship in Afghanistan. Given that Mr. Sopko's testimony suggests that lessons from Iraq were not applied by TFBSO in Afghanistan, this seems to be a surprising omission, that is, that this issue was recognized by TFBSO leadership and an effort was made to avoid this problem in Afghanistan. We ask that this be clarified.

Third, in discussing the security and living conditions of the Task Force, Appendix 1 to Mr. Sopko's testimony² entirely omits Mr. Brinkley's statements in December 2015 that were inconsistent with the suggestions contained in SIGAR's November 25, 2015, letter to the Secretary of Defense, that is, that while Mr. Brinkley directed the Task Force in Afghanistan there was no opulent living arrangements and excess spending on security. To the contrary, as you will recall, Mr. Brinkley said that during his tenure the accommodations were basic and

¹ John F. Sopko, Special Inspector General for Afghanistan Reconstruction, Testimony Before the Subcommittee on Readiness and Management Support U.S. Senate: DOD Task Force for Business and Stability Operations in Afghanistan: Preliminary Results Show Serious Management and Oversight Problems at 11 (Jan. 20, 2015 [sic]).

² *Id.* at 20.

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minimal, and that when mission requirements supported on-base living arrangements, TFBSO personnel stayed on military installations. Mr. Brinkley discussed trying to identify facilities that had functioning plumbing (“we didn’t want it to smell like sewer gas”) and food that did not make personnel sick (“how did we keep people from getting sick”). We ask that these statements be reflected in Appendix 1 to Mr. Sopko’s testimony.

Fourth, with regard to the Herat Business Incubator, Appendix 1 to Mr. Sopko’s testimony states that the project cost \$46.8 million and “neither the incubator model nor the businesses it sought to develop appear to have been sustainable.”³ This latter conclusion appears to rely heavily upon James Bullion. While the appendix indicates that SIGAR is still studying this program, I recall David Arlington, the General Counsel of SIGAR, who attended the December 2015 meeting, saying about Mr. Bullion that “everyone has an axe to grind.” Given SIGAR’s recognition that different sources may have different motivations, we ask that you fairly review this program. As you will recall, Mr. Brinkley said in the meeting that the Herat incubator initially had seven information technology startup companies, and he believes that at least one remains, Afghan Citadel Software, which was founded by Roya Mahboob. Mr. Brinkley said he understands that Ms. Mahboob grew this business, launched other IT startups, and in 2013 was named to *TIME*’s 100 Most Influential People in the World, which was for her work bringing IT education to Afghan women and work for women’s education and technology development. As you will also recall, this project was opened in approximately May 2011, about a month before Mr. Brinkley left government service, and as he said during our meeting, the original scope of the project during his tenure was vastly less than the \$46.8 million figure cited during the meeting. None of this information is reflected in Appendix 1.

I recall David Arlington and you taking pride in saying that SIGAR does not issue press releases when we spoke in December 2015. But sending inquiry letters, reports, and prepared testimony to the media in an “embargoed” fashion so that articles can be printed at the same moment as testimony begins, or at the same moment reports and letters are issued, undermines due process and, ultimately, the legitimacy of your oversight role. I firmly believed that our dialogue in mid-December was a productive one, which is why I am so profoundly disappointed in not just the content of Mr. Sopko’s testimony (which I do believe would be at best misleading, if not materially false, if submitted to Congress in its current form) but which undermines the important role that Inspectors General play in our government more broadly.

In the five years Mr. Brinkley spent serving our country as Deputy Under Secretary of Defense and Director of the TFBSO, he saw first-hand the difference it can make if to use economic development as an instrument of foreign policy. While he obviously cannot speak to anything that happened after his departure from TFBSO in June 2011, he continues to strongly believe in the mission. That is why Mr. Brinkley chose to meet with you to assist in ensuring that the review of TFBSO is both balanced and constructive. He believes that the American people

³ *Id.* at 22.

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deserve as much in order to learn from the lessons of the past, both good and bad, so that such lessons may be applied in future efforts at rebuilding conflict-ridden regions of the world.

Evenhanded assessments of corroborated facts should be the focus of this review. A meaningful review cannot be accomplished through a sustained media campaign or a practice of providing inaccurate or incomplete renditions of intermediate "facts," such as some of those currently contained in Mr. Sopko's testimony.

As someone who served for a dozen years as a federal prosecutor, and worked alongside dedicated public servants in the IG community when I was at the Department of Justice, I am concerned that an injustice is being done here. I hope that by bringing these issues to your attention in advance of Mr. Sopko's testimony, you will be able to address the issues I have raised here, and in the process, restore my faith in the process, which included Mr. Brinkley coming to your offices voluntarily and answering all of your questions for as long as you wanted to speak with him.

Very truly yours,

/s/ Charles E. Duross

Charles E. Duross

cc: Paul A. Brinkley



POLICY

THE UNDER SECRETARY OF DEFENSE
2000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2000

DEC 16 2011

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112-1-1019

The Honorable Carl Levin
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Enclosed is the report on the *Task Force for Business and Stability Operations (TFBSO) Activities in Afghanistan, Fiscal Year 2011*. This report is submitted pursuant to section 1535(a)(6) of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (Public Law 111-383).

This report provides Congress an update on how TFBSO supports the Department of Defense (DoD)'s counterinsurgency operations in the near-term as well as sets the conditions for longer-term economic stabilization. We are particularly proud of TFBSO's growing partnership with U.S. Special Operations Forces (SOF)—TFBSO is able to work with our SOF to develop and implement projects that will have economic impact within 30, 60, or 90 days in areas where SOF are conducting Village Stability Operations. This report also includes an appendix that lists all of TFBSO's projects, and associated costs, for Fiscal Year 2011.

DoD continues to coordinate with the Department of State and the U.S. Agency for International Development on TFBSO's activities to ensure projects are complementary or coordinated with other U.S. Government economic initiatives. TFBSO remains an invaluable tool in executing the U.S. strategy in Afghanistan.

Thank you for your continuing support of the outstanding U.S. forces and civilians serving in Afghanistan.

Sincerely,

Enclosure:
As stated

cc:
The Honorable John McCain
Ranking Member

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**Task Force for Business and Stability Operations Report on Activities in Afghanistan
Fiscal Year 2011**

Introduction

The mission of the Task Force for Business and Stability Operations (TFBSO) in Afghanistan is to promote economic stabilization in order to reduce violence, enhance stability, and restore economic normalcy in areas where unrest and insurgency have created a synchronous downward spiral of economic hardship and violence. The TFBSO enables stabilization by developing economic opportunities through a range of efforts, including encouraging investment by U.S. and international businesses, developing a country's natural resources in a way that is economically sound and environmentally responsible, and assisting industrial development and agricultural revitalization.

The Task Force was formed by the U.S. Department of Defense in 2006 to leverage U.S. and international economic power as a strategic tool for promoting economic stabilization and security in Iraq. From its inception until January 2011, the TFBSO operated primarily in Iraq as an on-demand resource to U.S. commanders on the ground. Over time, however, economic operations became a critical element of counterinsurgency operations not only in Iraq, but also in Afghanistan. In the summer of 2009, at the request of the Secretary of Defense and the Commander of the International Security Assistance Force (ISAF)-Afghanistan, the TFBSO and its industry experts conducted a 90-day assessment of critical sectors of the Afghan economy. The assessment concluded that there were four basic building blocks of economic development that were lacking in Afghanistan:

- o Indigenous revenue
- o Development of agriculture and agribusiness
- o International development and investment
- o Intra-Afghan commerce

These conclusions informed the development of a plan, which corresponded to the U.S. military surge in Afghanistan, to undertake activities to build the initial infrastructure for mining operations; develop light industries, agribusiness, and indigenous industries by leveraging U.S. spending in Afghanistan to promote connectivity; and increase spending targets to Afghan businesses, including assisting the Department of Defense's Afghan First program.

Preparation of this report/study cost the Department of Defense a total of approximately \$6,140 in Fiscal Years 2011 - 2012.
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Since January 2010, the TFBSO has been operating in Afghanistan, at the direction of the Secretary of Defense and with the support of the U.S. Embassy Kabul and the Government of Afghanistan, in order to assist U.S. military, diplomatic, and development organizations help Afghanistan achieve economic sovereignty. The TFBSO works in concert with U.S. commanders on the ground and with the concurrence of the Department of State to help Afghanistan tap into its economic potential. The major areas of effort for the TFBSO have been primarily concentrated in the minerals, energy, indigenous industries, agriculture, and information technology sectors of the Afghan economy. This report outlines the primary projects undertaken in accordance with Section 1535 of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011. A full accounting of TFBSO's Afghanistan projects is at the Appendix.

For Afghanistan to become a stable country, it needs an economic base that will enable it to finance its own security and development. Afghanistan's natural resources have the greatest potential to provide the country with an economic base. TFBSO activities are setting the conditions for long-term stabilization of Afghanistan by laying the foundation for utilization of those natural resources, which will become the catalyst for infrastructure development within Afghanistan. TFBSO activities are also helping Afghanistan export goods to neighboring countries, fostering inter-regional connectivity, and restarting the engine of continental trade across Afghanistan and the region.

I. Minerals Program

Afghanistan must develop self-sustaining indigenous revenue sources. Mining is a key area for economic development because of its potential to attract foreign investment and generate significant revenue. Accelerating this development could create an indigenous revenue stream for Afghanistan, and, ultimately, economic sovereignty. In 2010, the TFBSO examined available data and estimated the value of Afghanistan's resources at \$908 billion, including high-value resources such as gold, iron, copper, and lithium. The TFBSO also facilitated an investment transaction, which led to the Government of Afghanistan approving a contract for the extraction of gold in the Dushi district of Baghlan province, estimated at \$50 million.

Building on previous U.S. Geological Survey (USGS) work funded by the U.S. Agency for International Development (USAID) and U.S. Trade and Development Agency, TFBSO has gathered and consolidated data on economically-viable mineral deposits throughout Afghanistan in order to develop a pipeline of investment opportunities for the Ministry of Mines (MoM) to release for tender. This provides the MoM with a balanced portfolio of geographically dispersed deposits, varying in commodity type, size, and complexity. However, the MoM lacks the legal, technical, and financial capability and capacity to prepare mineral tenders based on a transparent process and international standards. With assistance from TFBSO-funded technical, legal, financial experts, as well as technical advisors from USAID, the MoM will release exploration packages of the top five priority areas for tender in late 2011 and early 2012. These areas include: Shaida (copper), Zarkashan (copper and gold), Badakshan (gold), Balkhab (copper), and Namaskar-e-Herat (lithium).

The TFBSO minerals program includes historical data review, remote sensing and imagery, field exploration, capacity building, and support to U.S. commanders responsible for Village Stability Operations. The minerals program translates and digitizes Soviet-era reports and maps to enable the identification of high-potential locations and conducts field visits and assessments to collect data and samples at potential mine locations using modern sensing and imagery to improve the understanding of how these resources developed and how best to attract investors and mining development. The TFBSO, in partnership with the USGS and private sector economic geologists, completed numerous sampling missions to analyze Soviet-era data, which has been compiled in a comprehensive report that USGS recently provided to DoD, the U.S. Department of State, the USAID, as well as the Afghanistan MoM and the Afghanistan Geologic Survey (AGS). The report summarizes new results and interpretations on 24 important areas of interest of nonfuel mineral resources. Most importantly, the report will be used by the MoM and AGS in tendering these areas for exploration.

TFBSO has established a much-needed data center to house centrally both historical and newly-acquired geologic and mineral data the Afghans and potential investors will require to leverage this scientific knowledge to encourage investment in Afghanistan's natural resources. The data center, which was completed in May 2011, will also improve the AGS's technical capability in geology fields such as geophysics, hydrology, mapping, and sampling analysis.

TFBSO mineral experts have also developed a concept of operations for village stability operations (VSO) programs. This concept of operations is in direct support of Combined Joint Special Operations Task Force (CJSOTF) and Special Operations Task Force (SOTF) teams in targeted geographic areas with stabilization requirements to create positive economic effects within 30, 60, and 90 days at VSO locations ready for economic activity. These projects emphasize artisanal mining projects as well as clean water initiatives that can provide fresh well water for local villagers.

II. Energy Program

The TFBSO works in partnership with the Afghan Government, the Afghan private sector, and other U.S. Government agencies to accelerate the development of the hydrocarbon sector in Afghanistan, provide the Afghan population with access to affordable electricity and fuel, and increase domestic oil and gas production to provide a sustainable revenue source for the Afghan Government.

Angot Oil Wells and Amu Darya Tender: The TFBSO provided oil production experts to work with the MoM to rehabilitate and return four oil wells to production in northern Afghanistan. Beyond creating revenue for the government of Afghanistan, the reopening of the Angot oil field helps international oil companies gain confidence that they can produce and sell crude oil in Afghanistan. The rehabilitation of the Angot oil wells created the production capacity for approximately 350,000 barrels annually and enabled the MoM to hold its first oil sale to an Afghan company. The Angot wells are part of the larger Amu Darya blocks recently tendered by the ministry.

To assist further in reducing the entry risk for international oil companies into the Amu Darya tender and the Afghan hydrocarbon sector in general, the TFBSO helped ensure the security and safety around the wells in the Kashkari block of the Amu Darya basin by funding the demining of a 100-meter square area around the four established well-heads in order to make it safely accessible by foot or vehicle.

Building on the success of the Angot well rehabilitation and the Kashkari demining certification, the TFBSO continues to provide technical, commercial, and process support to the MoM during their first major international oil tender, composed of blocks in the northwest Amu Darya basin. The Amu Darya basin is estimated to hold between 70-80 million barrels in reserves and represents a potentially significant long-term revenue stream for the Afghan government. Through technical assistance contracts valued at approximately \$10 million, the TFBSO has:

- 1) Helped the MoM promote the Amu Darya tender to Western and other international companies;
- 2) Provided subject matter experts to assist in the technical and financial analysis of the nine companies that submitted expressions of interest;
- 3) Provided financial modeling and guidance on international contract standards to enable the ministry's team to develop a model Exploration Production Sharing Agreement for the Amu Darya tender which will be the basis for any future oil tenders;
- 4) Highlighted areas to mitigate risk for the Afghan Government in areas of profit sharing, cost recovery, royalty negotiations, production requirements, and exploration incentives; and
- 5) Set up an independent process review and auditing team within the MoM to ensure the most transparent process possible for the tender and to review lessons learned with the goal of strengthening future tenders.

In July 2011, representatives of the Afghanistan Ministries of Mines, Finance, Economy, Foreign Affairs, and Commerce and Industry, and the Environmental Protection Office received and evaluated four bids with technical assistance and support from TFBSO personnel. The MoM and the highest bidder are currently negotiating the final terms of the contract. Rates and terms under review project as much as \$7 billion of revenue to the Government of Afghanistan over the 25-year lifetime of the contract. The tender award is scheduled for late 2011.

TFBSO is also assisting the MoM in laying the groundwork for future tenders in the Afghan-Tajik basin. Current estimates project the Afghan-Tajik basin to be 20 times larger than the Amu Darya, representing significant and sustained revenue to the Government of Afghanistan. To tender this region successfully for hydrocarbon exploration and production, seismic data on the area needs to be collected and included in the tender packets released by the MoM to the international oil and gas community for bidding. The TFBSO has funded a project for conducting and analyzing seismic data in the western section of the Afghan-Tajik basin. This data will be used in marketing, modeling, and documentation before and throughout the tenders of the Afghan-Tajik basin scheduled for early 2012.

Northern Fertilizer and Power Plant. The TFBSO provided technical experts to support the MoM in assessing potential rehabilitation of the Northern Fertilizer and Power Plant in the city of Mazar-e-Sharif. This rehabilitation will enable significant increases in power available to the city and the Northeast Power System, and serve as a proven business model for the successful purchase and sale of gas and power for independent power providers. This will encourage greater private investment in natural gas power generation to increase the supply of energy throughout the country. The TFBSO is working with the U.S. Army Corps of Engineers (USACE), USAID, and ISAF to coordinate the efforts necessary to return this fertilizer and power plant to full capacity.

Compressed Natural Gas (CNG). In Afghanistan, all petroleum oils for power generation and transport fuel are imported, so the need to develop a domestic fuel capacity is critical. Compressed natural gas (CNG), which is used as a transportation and industrial fuel source throughout Central and Southern Asia, is both a potential solution as well as an investment opportunity for the transportation sector. As a pilot project, the TFBSO funded the construction of a CNG complex in Sheberghan City, including the compression station, pipeline extension from the current gas grid, desulfurization and dehydration systems, engine conversion kits, and installation and maintenance training for station operators. The TFBSO is also coordinating with the taxi association in Sheberghan for the first opportunity to convert their fleet of cars to dual-use (CNG/gasoline) engines. The purchase of gas for this station is projected to reap approximately \$1 million of revenue for Government of Afghanistan annually, as well as providing a proven pilot for future private investment in CNG stations in the surrounding areas.

Micro-Hydro Power. Following rehabilitation of the Tira Koh micro-hydro power (MHP) system in Parwan province, the TFBSO funded a project to rehabilitate the Shah Delir micro-hydro system across the river from Tira Koh. The project is designed to complete the interconnection and grid maintenance, allowing local residences and businesses on the Shah Delir network to purchase electricity from the Tira Koh system, while rehabilitation work on Shah Delir is ongoing. When complete at the end of 2011, the Tira Koh-Shah Delir micro-hydro system will be the first interconnected mini-grid capable of buying and selling power between two micro-hydro systems in Afghanistan.

TFBSO technical assistance teams are leveraging this project to develop a commercially viable operational model based on tariffs, technical standards, and collections for maintenance and system sustainability, enabling installation modernization and the future interconnection of micro-hydro systems in Afghanistan. These grid-and-tariff models have been delivered to the Ministry of Rural Rehabilitation and Development, and made available to other interagency and Afghan partners to use when assessing the proposals for MHP and other micro-grid projects. These models allow the Ministry to make better analyses of local proposals and assist in building technically and commercially sustainable solutions. The goal of this project is to increase significantly the percentage of successful micro-grid projects throughout the country and facilitate future mini-grid interconnected power systems, increasing rural access to electricity, which will, in turn, allow for greater growth of local economies.

III. Indigenous Industries Program

The indigenous industries program aims to revitalize traditional Afghan industries, such as carpet weaving, dried fruit processing, and cashmere production. This program reintroduces these historical Afghan products and services to the international market by reengaging these producers in intra-Afghan commerce and reconnecting these goods to the Afghan and international supply chain.

Carpet Production. The Afghan carpet industry has been cut off from the international marketplace for several decades. Wholesale buying of Afghan carpets occurs almost exclusively in Pakistan. The TFBSO has funded the construction of a washing-and-finishing facility in Herat, while advising on the construction of a similar facility in Mazar-e-Sharif that is being funded by ISAF Regional Command-North. Both facilities will be centers of carpet production that will provide carpet traders with an alternative to facilities in Pakistan, where 90 percent of Afghan carpets are currently washed and finished and then sold to international buyers. Most importantly, the washing-and-finishing facilities will provide an economically attractive option with the net value accrued by Afghans for a carpet increasing by 30 to 45 percent. Work began on this project in the spring of 2011; the two facilities are scheduled to be operational by late 2011. In further support of the network of carpet weavers, a child labor prevention program has been developed to monitor child labor in carpet production via an inspection regime.

The TFBSO also facilitated the establishment of an Afghan-owned carpet sales hub in Istanbul, Turkey, which will sell carpets directly to wholesalers and encourage the reintroduction of the Afghan carpet brand to international markets. The Istanbul carpet hub is scheduled to open officially in early 2012.

Kandahar Raisin Processing Facility. Before the Soviet invasion, Afghanistan was the third largest net exporter of raisins in the world. Since then, the country's processing quality has significantly declined, while the world's standards have dramatically increased. The TFBSO provided technical experts to advise on the construction and equipping of a modern raisin processing facility. Once complete, the facility will be run by a recently ISO 9001-certified raisin company in Afghanistan, the only Afghan company with this certification. The facility will have packing and processing capability in accordance with international standards, which will open the door for increased export to international markets. Construction began in the summer of 2011 and the facility is scheduled to be complete by early 2012. The TFBSO also facilitated the first commercial joint venture between an Afghan dried fruit firm and a U.S. dried fruit firm in 40 years.

Food Safety and Inspection Initiative. The TFBSO funded a food safety project to improve farming practices to increase the quality of grapes, raisins, and potatoes to meet the international standards required by Western markets. Training and proof-of-concept demonstration plots will showcase harvesting and drying techniques to farmers in Kandahar and hygiene standards to farmers in Bamyan. Both areas rely heavily on agriculture as an economic base. This project will be complete in April 2012.

Pomegranate Packing Line and Cold Storage. Pomegranates are a lucrative and untapped market in Kandahar, but reaching international markets requires packing according to international standards. Once picked, a pomegranate must be washed, sorted, graded, waxed, packed, and placed in a cold storage container within seven hours. The TFBSO funded a pomegranate packing line and cold storage facility. Once complete, an Afghan company will run the facility, which will be the first fresh pomegranate-packing house and cold storage facility in Afghanistan.

Cashmere. Afghanistan is the world's third largest producer of raw cashmere in the world, after China and Mongolia. Until recently, it has exported almost all of its cashmere in its raw form, though this has begun to change. With the assistance of the USAID-funded Accelerated Sustainable Agriculture Program (ASAP), a facility recently opened in Herat where cashmere can now be cleaned, scoured, and de-haired within Afghanistan, rather than shipping it raw to Pakistan, which will lead to a greater financial gain because of the finishing work. Beginning in August 2010, TFBSO hosted several trips to Afghanistan by a well-known global fashion brand in order to facilitate the company's project to train and employ Afghan women to create products with Afghan cashmere, which would be sold online and in stores around the world. TFBSO has helped to build the relationship between the retailer and the Herat cashmere facility owner. The company has now sourced and bought cashmere fully processed within Afghanistan, the first international company to do so. The TFBSO has also worked with ASAP to identify and invite major international cashmere buyers to Afghanistan.

IV. Agriculture Program

The Agriculture Program works with the Norman Borlaug Institute of International Agriculture, the Howard Buffet Foundation, and other partners to revitalize the Afghan agriculture sector by improving farmer outputs, filling gaps in the agribusiness processing chain, and driving demand for agriculture sector jobs.

Nangahar University Agriculture College Construction and Training and Equipment. Nangahar University is the largest and most prestigious college in eastern Afghanistan, with the potential to be a beacon in the agribusiness sector and aid in the improvement of agricultural practices throughout Afghanistan. The Howard Buffet Foundation is providing funding for construction for the Nangahar University Agriculture College, while the TFBSO is providing technical experts to oversee construction as well as the provision of laboratory equipment and training. Work began in the spring of 2011 and should be complete by spring 2012.

Quality Control Testing for Agricultural Commodities. The TFBSO has identified increased quality control as a way to improve the agricultural value chain in Afghanistan. In Herat Province, one of the greatest needs has been for a grain quality control testing facility that can provide standardization and feedback on growing practices to local wheat farmers. Many farmers in Herat grow wheat; however, it is a low-value crop, largely because of poor growing practices involving over-irrigation. As a result, Herati wheat and flour have extremely low nutritional value, which is detrimental, both to consumers' health as well as farmers' business efforts. Key to breaking this cycle of low-value, locally produced wheat competing with higher-

quality imports is to provide feedback to farmers through scientific quality control testing. TFBSO is funding the equipping of a grain-testing laboratory, which began in the summer of 2011 and is scheduled to be complete by November 2011. Upon completion, Afghanistan's Department of Agriculture, Irrigation and Livestock (DAIL) technicians will operate the laboratory. The TFBSO is also providing training to DAIL technicians on all laboratory equipment. Additionally, the TFBSO will supply basic laboratory equipment to support eight applied research projects conducted through Herat University focused on improving the quality of saffron, soy, cotton, and tomatoes in Herat Province, products that will have the greatest immediate impact on local agribusiness. Equipping of laboratory equipment and training of technicians will be complete by January 2012.

Center Pivot Irrigation Pilot Project. The TFBSO, in partnership with the Howard Buffet Foundation, has initiated a center pivot irrigation pilot project to determine whether center pivot irrigation systems, which have revolutionized agricultural yields, quality, and profitability around the world, could effectively increase the yield and quality of locally-produced wheat and other crops. This pilot project involves installing center-pivot irrigation systems in the village of Rabat Sange and at the Urdo Khan wheat research facility run by the Herat Department of Agriculture, Irrigation and Livestock. The Howard Buffet Foundation is providing funding for the equipment, while the TFBSO is providing subject matter experts to supply training to farmers on the irrigation systems as well as an analysis of the pilot project's results. This project will be complete by October 2012.

Women's Food Processing and Preservation Centers. The TFBSO identified fourteen different cooperatives run by women in the villages surrounding Herat city that specialized in preserving locally grown fruit and vegetables in the form of pastes, jams, and jellies; however, all lacked adequate processing or food safety procedures. The TFBSO concluded that building sanitary food processing centers and providing additional training to the women would increase communal food security and the marketability of locally produced food products. With the help of the Welfare and Development Organization for Afghanistan, an Afghan-run NGO, the TFBSO identified two women's cooperatives to partner with and establish sanitary food processing and preservation facilities. The sites for the facilities (in Rabat Sange village and Karabad village) were chosen because of the commitment demonstrated by the women's cooperatives and local shuras to manage the projects sustainably after completion.

The Howard Buffet Foundation provided funding for the construction and equipping of the two processing facilities, while the TFBSO provided technical experts to conduct training in food safety, preservation techniques, and product marketing for the two women's cooperatives. The project was completed in summer 2011. The Women's Food Processing and Preservation Centers have already begun to reap dividends by creating local and regional expertise among female entrepreneurs.

Construction of College of Agriculture Sciences. Herat University has a highly developed faculty of agricultural and agribusiness scientists with more than 2,000 students. However, the faculty currently shares an inadequate space with the Sharia Law faculty. The facilities lack proper classroom space as well as scientific laboratories and equipment. The TFBSO provided

funding for the completion and equipping of the Agriculture Faculty building, which should be complete by October 2012.

Distribution and Cold Storage Facility. The TFBSO funded a distribution and cold storage facility in Gereschk, Helmand province, which is the hub of a hub-and-spoke concept of consolidation and distribution of fruits and vegetables grown throughout Helmand province. This site was chosen due to its central location within the agriculture areas of the Helmand Valley, as well as its ideal location on the Ring Road, the primary route for commercial transportation in Afghanistan. Produce grown and packed in outlying rural areas will be shipped to this facility on small trucks for short-term or long-term cold storage. Loads can be consolidated and shipped in large trucks to domestic and international markets. When the distribution and cold-storage facility is complete in June 2012, it will stimulate fruit and vegetable farming in Helmand by providing a mechanism for transportation of produce to large markets outside the local farming areas. This project restores the intra-Afghanistan and international agricultural commerce originating in Helmand, which was destroyed by war.

Bost Cotton Factory. The Bost Cotton Factory is located in Lashkar Gah, the capital city of Helmand province. There is a vital need to gin the cotton (remove the seeds) for cotton grown throughout Helmand province. The TFBSO funded the procurement of the repair parts to restore full production capacity to the plant. The installation is now in progress. When the Bost Cotton Factory is repaired, it will stimulate the local cotton growing economy by providing the first step in the cotton supply chain after harvesting.

V. Information Technology (IT) Program

IT Incubator Program. Herat is home to many experienced computer scientists, some of whom have formed their own companies. TFBSO established an IT incubator in May 2011 to spur development of the commercial IT sector in Afghanistan by identifying promising Afghan start-ups and providing them with support such as office space, internet access, business advisory and consulting services, networking with senior western IT executives, and formal business management training. TFBSO provides IT entrepreneurs with expert business development mentoring services and a safe and secure environment in which to work. Eight companies use the facility and program assets every day. Two companies are due to graduate from the program in January 2012 after winning contracts to provide IT networking services to the Afghan Government and Afghan businesses.

Information and Communications Technology (ICT) Small and Medium Enterprise Project. As an offshoot of the IT incubator program, TFBSO launched this project in May 2011 for small and medium size enterprises to create middle market growth in Herat's IT sector by connecting local ICT companies with U.S. and other international investors. This project not only helps drive investment into the start-ups at the IT incubator, but also promotes international investment in other more established Herat-based ICT companies.

**APPENDIX: FY11 TFBSO AFGHANISTAN PROJECTS FUNDED IN ACCORDANCE
WITH SECTION 1535, FY11 NDAA (PAGE 1 OF 2)**

PROJECT DESCRIPTIONS	FY11 FUNDING (MILLIONS \$)
Assistance to Mineral Tender Process: Assist Ministry of Mines in fiscal and legal issues to help execute a fair and transparent tender process for mineral assets.	30.27
USGS Minerals Program: Collaborative effort between USGS and TFBSO to collect data on mineral deposits throughout Afghanistan; provide equipment to Afghan geologic survey for mining modernization.	9.12
Afghanistan Geological Survey Data Center: Build data and archive center for collected geological datasets.	2.09
Western Tajik Seismic Study: Conduct seismic study to provide accurate figures on oil and natural gas reserves to the Ministry of Mines.	10.21
Legal Advisory – Hydrocarbon: Execute a transparent legal process for several of the country's hydrocarbon sites.	4.90
Compressed Natural Gas (CNG) Pilot: Project to supply vehicles with domestically produced CNG.	2.90
Micro-Hydroelectric Site: Connect Tira Koh pumping station to a standard, stable micro-hydroelectric grid with technical capacity to integrate with other micro-hydro grids.	1.32
Kashkari Demining: Provide demining support to the Afghan Ministry of Mines related to the first major international oil tender.	0.05
Center for Afghan Women's Economic Development at the American University of Afghanistan: Construction of a center in Kabul that will coordinate international and Afghan public and private sector efforts to advance the economic role of women.	5.00
Gareshk Distribution Center Cold Storage Facility: Design and construct cold storage cross docking (facilities that will act as hub for local produce packing houses).	3.36
Vocational Training Center for Women: Establish a vocational training school for women in support of promoting indigenous industries.	1.05
Herat Carpet Facility: Construct washing and finishing facility to allow hand-woven carpets to be finished domestically and sold as "Made in Afghanistan."	0.97
Carpet Production: Create Afghan-owned international hub to sell carpets directly to wholesalers and reintroduce the Afghan brand to international markets.	0.85
Food and Safety Inspection: Train potato and grape farmers in food safety and quality control in order to meet international export standards.	0.70
Pomegranate Packing Line & Cold Storage: Provide equipment for the first Afghan fresh pomegranate packhouse to meet international export standards.	0.44
Turquoise Mountain Arts International Business Development: Secure international sales for Afghanistan's indigenous craft industries.	0.40
Bost Cotton Factory: Provide a mechanical components and parts for repair of critical machinery for operation of cotton ginning.	0.08

**APPENDIX: FY11 TFBSO AFGHANISTAN PROJECTS FUNDED IN ACCORDANCE
WITH SECTION 1535, FY11 NDAA (PAGE 2 OF 2)**

Marble Factory Equipment: Purchase marble grinding and polishing machine for a factory producing marble tiles for local construction projects.	0.01
PROJECT DESCRIPTIONS	FY11 FUNDING (MILLIONS \$)
Herat Agricultural College: Improve farm income and productivity by completing an existing, unfinished modern agricultural college facility serving farmers and agribusiness.	8.25
Agricultural Assistance: Provide agricultural expertise to the Afghan Government.	4.97
Quality Control Laboratory: Increase the quality and market value of locally produced wheat, saffron and other commodities through professional laboratory evaluation and research.	0.60
Nangarhar Ag College Equipment: Provide equipment to the Nangarhar Agricultural College to modernize instruction.	0.46
IT Incubator: Provide an IT incubator facility in Herat.	12.73
IT Business Development: Accelerate development of Afghanistan's IT industry by developing IT investment opportunities.	8.25
IT Development Training: Afghan IT students confer with Google, IBM, and other IT corporations.	0.04
Afghan Business Integration Zones: Allow Afghans to view all DoD solicitations through multi-lingual web access to Afghanfirst.org.	3.06
Impact Assessment and Strategic Rail Plan: Conduct an economic impact assessment on the U.S. Forces draw down and reduction in international development assistance funding; develop a strategic rail plan.	2.42
Wireless Community Network: Develop internet web access using homes as transponders in place of cell towers.	6.74
Construction Materiel Testing Labs: Improve Afghan construction firms' ability to compete for contracts by technically evaluating firms' construction materiel.	5.10
Investor Materiel: Creation and production of materials to foster foreign investor interests in Afghanistan.	0.08

FY11 TOTAL NDAA SPECIAL AUTHORITY SPENDING (overseas contingency operations operation and maintenance funds): \$126.42M



POLICY

UNDER SECRETARY OF DEFENSE
2000 DEFENSE PENTAGON
WASHINGTON, DC 20301-2000

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112-2-961

NOV 12 2012

The Honorable Carl Levin
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Enclosed is the report on the *Task Force for Business and Stability Operations (TFBSO) Activities in Afghanistan, Fiscal Year 2012*. This report is submitted pursuant to section 1535 (a)(6) of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011, as amended (Public Law 111-383).

This report provides Congress an update on how TFBSO supports the Department of Defense (DoD)'s counterinsurgency operations in the near-term as well as sets the conditions for longer-term economic stabilization. This report also includes an appendix that lists all of TFBSO's projects and associated costs during this past fiscal year.

DoD continues to coordinate with the Department of State and the U.S. Agency for International Development on TFBSO's activities to ensure projects are complementary or coordinated with other U.S. Government economic initiatives. TFBSO remains an invaluable tool in executing the U.S. strategy in Afghanistan.

Thank you for your continuing support of the outstanding U.S. forces and civilians serving in Afghanistan.

Sincerely,

James N. Miller

Enclosure:
As stated

cc:
The Honorable John McCain
Ranking Member

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112-2-961



Task Force for Business and Stability Operations Report on Activities in Afghanistan Fiscal Year 2012

Introduction

This report outlines activities undertaken by the Task Force for Business and Stability Operations (TFBSO) in accordance with section 1535 of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011, as amended. The attached appendix provides a full accounting of TFBSO's projects.

The mission of the Task Force for Business and Stability Operations is to promote stability in Afghanistan by stimulating private sector growth. TFBSO stimulates private sector growth by:

- Providing detailed geological data and creating and executing a fair and transparent tendering process that enables the Afghan Government to monetize its natural resources through private investment in exploration, development and extraction;
- Creating opportunities for using natural resources in Afghanistan that support industrial development and reduce dependence on imported energy;
- Identifying business opportunities for domestic and foreign investors, and helping to establish financing vehicles for those investments;
- Enhancing the international competitiveness of Afghan businesses;
- Promoting growth of small and medium-sized businesses through business consulting and entrepreneurship training; and
- Communicating a narrative of growth and opportunity inside and outside of Afghanistan.

TFBSO approaches its activities by focusing on outcomes, including measuring the revenue generated for the Afghan government, the number of businesses started or expanded, and the number of jobs created. The Task Force integrates Afghan partners into all of its activities to build ownership and capacity for future execution.

In 2006, the U.S. Department of Defense formed TFBSO to leverage U.S. and international economic power in order to promote stability and security in Iraq. From its inception until January 2010, TFBSO operated in Iraq largely as a resource for U.S. commanders on the ground. Since January 2010, TFBSO has been operating in Afghanistan, working with U.S. commanders and with the support of the U.S. Embassy Kabul and the Government of Afghanistan to help Afghanistan's private sector develop and integrate with the international economy. TFBSO continues to operate at the direction of the Secretary of Defense and with the concurrence of the U.S. Department of State and the U.S. Agency for International Development (USAID).

The estimated cost of report or study for the
Department of Defense is approximately \$4,540
in Fiscal Years 2012 - 2013. This includes \$0 in
expenses and \$4,540 in DoD labor.
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In the summer of 2009, at the request of the Secretary of Defense and the Commander of the International Security Assistance Force (ISAF)-Afghanistan, TFBSO conducted a 90-day assessment of critical sectors of the Afghan economy. That assessment recommended aggressive development of Afghanistan's extractive industries, which are a major source of future revenue for the Afghan government. The assessment also recommended supporting small and medium-sized businesses to maintain economic diversity and to enable rapid job growth. TFBSO has implemented parts of this strategy that include developing industrial opportunities and marketing Afghanistan as a place for international investment.

In April 2012, Mr. Jim Bullion was appointed as the new TFBSO director. Mr. Bullion, a private sector executive, has refocused TFBSO's work toward initiatives that will have the most far-reaching and enduring effect on the Afghan economy, while reinforcing and strengthening those initiatives that were already underway. This approach places a priority on initiatives with demonstrated additive value and measurable results. By creating a results-based environment, Director Bullion has reinvigorated existing TFBSO activities that have the potential to achieve the most good in a limited amount of time. At the same time, Director Bullion has discontinued or curtailed some activities whose potential or long term sustainability were doubtful.

Significant accomplishments of FY 2012 include:

- Providing technical and financial support to Afghanistan's Ministry of Mines (MoM) to establish and implement a world-class extractive resource tendering process;
- Tendering four major mineral sites to international mining companies;
- Launching an artisanal chromite processing business;
- Tendering the Amu Darya oil field;
- Completing 480km of seismic studies and contracting for an additional 300km to identify promising oil and gas fields in multiple areas of northern Afghanistan;
- Completing and launching a Compressed Natural Gas car conversion and filling station;
- Launching six new small companies in Herat supported by TFBSO Business Incubator;
- Opening a carpet cut and wash facility in Herat operated by Afghan partners;
- Suspension of work on a small hydropower project to reassess its potential strategic value in light of its high cost and a changing security environment;
- Evaluating small-scale energy production opportunities using lessons learned from previous micro-hydro power generation projects;
- Providing financial analysis to support the Afghan MoM negotiations with neighboring countries on the Turkmen-Afghan-Pakistan-India (TAPI) pipeline; and
- Identifying and conducting due diligence reviews on more than 500 Afghan companies to identify likely targets for equity investment, and beginning to structure the terms of a potential equity fund.

This report details these and other TFBSO activities in Natural Resources Development, Industrial Development, Support to Investment and Entrepreneurship, and Support to Small and Medium-Sized Business. These activities establish the conditions for the rapid and sustained growth of Afghanistan's economy and for the utilization of the country's natural resources to provide a substantial long-term source of revenue to the government. By assisting small and medium-sized businesses and entrepreneurs to start and grow businesses, TFBSO will help to unlock Afghanistan's human potential and help maintain diversity in the Afghan economy and increase domestic and international trade.

I. Natural Resources Development

Minerals and hydrocarbons are key resources for Afghanistan's economic development because of their potential to generate significant revenue and create large numbers of jobs in exploration, extraction, processing, and other supporting industries such as construction, power, and logistics. In 2010, TFBSO estimated the value of Afghanistan's mineral resources at \$908 billion, including high-value resources such as gold, iron, copper, and lithium. Afghanistan also possesses potentially significant oil and gas deposits. Accelerating development of these resources could create more than \$2 billion in annual royalty and tax revenues for the Afghan government. In FY2012, TFBSO supported MoM's tenders of four major mineral deposits and of a significant oil and gas basin; collected, compiled, and analyzed data to identify and prioritize target sites and attract bidders; and supported the development of a licit artisanal mining industry.

Minerals Tender Support:

TFBSO supports the Ministry of Mines in executing large-scale, long-term investments in mineral resources by marketing areas of geological interest to the international mining community. TFBSO funds and coordinates technical, legal, and financial experts who assist the MoM in establishing international criteria and standards for tenders, bid evaluations, and contract awards in a fully legal and transparent manner.

By helping to develop a prosperous extractive industry, TFBSO is helping the Afghan government create a vital source of revenue that will help fund security and sustain economic growth. Extractive industry development will create Afghan jobs both in mining and in support industries throughout the exploration and extractive phases. As international mining companies explore their leased areas in Afghanistan, they will need to hire local professionals such as engineers, geologists, and scientists, as well as skilled labor (mechanics, welders, drivers, machine operators) and unskilled labor. This demand for local labor will increase as more companies move to extraction and build mines. As villages and towns develop around these mines, companies and local entrepreneurs will open businesses to support the mining camps and the people living and working in the area. International investment from this current round of

tenders will also attract mining support companies to provide drilling, logistics, and laboratory support, all of which can be staffed by Afghans.

On December 5, 2011, the MoM announced four geographically diverse gold and copper deposits for bid: Balkhab, Zarkashan, Shaida, and Badakshan. In July and August 2012, TFBSO took 16 international mining representatives into Afghanistan to visit the four sites and to provide them with firsthand knowledge of Afghanistan's business potential.

Multiple bids have been received for all four tenders. The initial bid fees for the four tenders have generated more than \$2 million of revenue for the Afghan government. As part of the bid package, the MoM required each mining company to provide an estimate of how much money they will invest in exploration as well as in community support activities, which may include school and hospital construction, irrigation projects, and road and rail building. All of these factors are used by the Inner-Ministerial Council in evaluating bids. Through its experts, TFBSO has helped the MoM ensure a fair and fully transparent process for bid evaluation and award that will minimize the likelihood of contested awards or flawed contracts.

Tender	Type	Province
Balkhab	Copper	Balkh and Sar- I-Pul
Zarkashan	Copper/Gold	Ghazni
Shaida	Copper	Herat
Badakshan	Gold	Badakshan

The goal for FY2013 is to assist the MoM in awarding at least four additional mineral deposits. This work will include marketing the properties to prospective companies, transporting potential bidders to the sites, and ensuring that bidders have full access to all geological data. Potential areas for tender may include the Khanneshin Rare Earth Element deposit, the Dudkash industrial mineral deposit, the North Aynak copper deposit, and the Duser copper deposit. The tenders will be staggered throughout 2013 calendar year.

Oil and Gas Tender Support:

TFBSO provides assistance in developing and engaging investment in the Afghan energy sector. Access to affordable domestic energy resources is a critical factor for Afghanistan's economic growth, as these fuel and energy sources will provide economic and political stability and will help move Afghanistan away from dependency on imported fuels. The Afghan National Army (ANA) and Afghan National Police (ANP) consume more than \$1 billion of imported fuel every year, and approximately one-half of Afghanistan's electricity is imported from neighboring countries. The estimated cost of diesel imports for power generation is equivalent to one-third of the national budget.

TFBSO assisted MoM in structuring and managing a transparent tender process that follows internationally recognized standards for hydrocarbon extraction. TFBSO provided technical, commercial, legal, and other subject-matter expert support and training to the MoM in planning and executing these tenders. In FY2012, TFBSO supported the MoM's tender of three blocks in the Amu Darya Basin west of Sar-e Pul and successful negotiation of a \$7.1 billion development and production contract with a joint Chinese-Afghan consortium. This consortium has since engaged Schlumberger Corporation to conduct oilfield development work and has begun limited production. TFBSO also provides advisory services to the Amu Darya Petroleum Authority (ADPA) team responsible for managing the contract.

TFBSO is working with the MoM to build on the success of Amu Darya by providing similar subject-matter expertise and transparency auditing on the tender of six blocks of potential hydrocarbon resources in the Afghan-Tajik basin to the east of Mazar-e-Sharif. TFBSO aims to maximize bidder participation; ensure that the tender is conducted in a transparent manner with minimal accusations of corruption; and achieve optimal commercial terms for the contract. Bids for the Afghan-Tajik Phase 1 tender are due November 12, 2012. TFBSO expects the Afghan-Tajik Phase 1 Tender will yield up to six contracts for oil and gas exploration and production in the Western Afghan-Tajik Basin in the second quarter of FY2013.

In FY 2012, TFBSO contracted with a company to collect and process 300 km of two-dimensional seismic data in Herat and Badghis Provinces' Kushka Basin south of the Turkmenistan border. TFBSO and U.S. Geological Survey (USGS) believe that the Kushka Basin has hydrocarbon potential and that the acquisition of seismic data can help drive private sector hydrocarbon development in the region. TFBSO expects that the data will be fully collected and processed by the end of December 2012.

Following a TFBSO-funded USGS and Afghanistan Geological Survey (AGS) review of the abovementioned Kushka basin seismic data, and building on the success of the Amu Darya and Afghan-Tajik Phase 1 tenders in FY 2011 and FY 2012, TFBSO will continue to provide tender support for those areas with the highest potential oil and gas reserves and to supply advisory services to the petroleum authority responsible for monitoring the new contracts.

Geological Data Collection:

Data collection has been the cornerstone of TFBSO's efforts to lay the foundation for the development of both the mineral and the oil and gas extractive industries.

Since 2009, TFBSO and the US Geological Survey (USGS) have been working together to identify and map Afghanistan's mineral resources.

The USGS, in partnership with TFBSO, produced a complete hyperspectral map of Afghanistan making Afghanistan the first country to be completely mapped using this new technology. The hyperspectral map identifies Afghanistan's geological surface composition and areas of mineral deposits, providing a basis for determining likely sites for further exploration and exploitation. In addition to the 24 areas of mineral interest identified in 2011, four new "boxes" of likely deposits have been identified using this data.

By utilizing USGS expertise and support, TFBSO is able to offer mining companies an accurate and detailed view of Afghan mineral deposit's geological potential. TFBSO and USGS geologists also work with the AGS staff to provide documentation, distribution, and analysis of mineral data and to train the AGS staff so that they can assume responsibility for this work. This geological data is used to prioritize tender sites so that the tenders will produce the greatest economic effect. The systematic collection and storage of this data in readily accessible digital formats greatly reduces the costs and risks to potential investors and increases the likelihood that companies will submit serious bids to tendered sites. TFBSO-supported data collection work also includes hydrologic studies that measure the long-term effect of mining activity by ascertaining baselines for water quality and flow.

North Aynak

At the request of the MoM, TFBSO is conducting intensive drilling and evaluation of the North Aynak copper deposit just outside of Kabul. TFBSO and MoM consider this site to have tremendous potential for development. The North Aynak deposit may be as rich and extensive as the neighboring Aynak site that was leased to the China Metallurgical Group in 2007. The program's key deliverable will be a thorough understanding of the deposit. The North Aynak drilling project will build on previously collected Soviet and USGS data to provide significantly more information to potential investors, allowing them to assess risk and revenue potential more accurately. This data should attract the interest of world-class mining companies, giving them the opportunity to develop the site rapidly with little additional exploration.

Artisanal Mining/Village Stability Operations:

TFBSO has partnered with the Combined Forces Special Operations Component Command-Afghanistan (CFSOCC-A) in Village Stability Operations (VSO) to identify and develop small-scale mining opportunities in strategic sub-district areas. These short-term opportunities help local operators increase revenues and build future growth opportunities. In addition, TFBSO works with the MoM to establish and implement processes to legitimize and legalize these artisanal mines. These processes allow miners to stake and protect their claims while also requiring them to pay royalties and taxes on their ore.

The first VSO pilot project in the Kunar Valley of eastern Afghanistan has enabled a chromite processing facility to increase production of high-quality ore dramatically and to conclude a

contract with Swedish and Turkish buyers at significantly higher prices than the miners could obtain through illicit sales. The Kunar Valley project is expected to start exporting and selling stockpiled chromite ore in the international market by the end of FY 2012. The project has already created 20 direct jobs, and the sale of large amounts of chromite in the international market will generate a substantial flow of income into this region. Indian companies have also expressed an interest in buying Afghan chromite or in developing Afghan chromite mines.

The VSO project in Kunar is a pilot project, but the methodology that this project has developed will be used in additional areas under joint consideration by the Special Joint Operations Task Force and TFBSO. TFBSO will assess other VSO sites during the fall of 2012 to identify additional VSO projects to undertake in 2013. In addition, TFBSO will work closely with MoM to legitimize more artisanal mines throughout the country.

II. Industrial Development

Since the Soviet era, Afghanistan has been unable to generate any significant industrial development due to ongoing conflict; a lack of capital, technical, and business skills; and uncertainty about the country's future. As stability returns to Afghanistan and as its natural and human resources are developed, opportunities will emerge for industrial development, particularly factories that would use Afghanistan's natural resources to produce a wide variety of products for the domestic market and for international export. TFBSO is working with financial sources, such as the Overseas Private Investment Corporation (OPIC), to support organizations and investors who are considering investing in Afghanistan's industrial development, particularly in utilization of natural gas for domestic use.

Utilization and Investment in Natural Gas for Domestic Use:

CNG Station – In FY2012, TFBSO partnered with the MoM to complete the construction of Afghanistan's first compressed natural gas (CNG) station and car conversion center in Sheberghan City. CNG is a cheaper and cleaner alternative to refined fuels. The CNG station has resulted in unprecedented economic opportunity in a new industry, enabling the creation of a domestic fuel source independent of expensive imports. In addition, the station enables the monetization of domestic natural gas reserves, generating revenue for the Afghan government through Afghan Gas, and creating fuel savings 50 percent less than gasoline for consumers. This savings provides consumers hundreds of dollars every year that can be used for food, school books, doctor's visits, cell phones, and clothing.

TFBSO and the Afghan operations team also established and implemented accounting and reporting procedures that control the entire transaction process from the driver's wallet



to the station's bank account. Nearly 100 Afghan cars have already been converted for CNG use, and the CNG station has been fully operational for four months without a single interruption. As of the date of this report, 65 percent of all cars converted to run on CNG are refilling at the station daily.

TFBSO relied heavily on Afghan partners to devise locally tailored solutions to build the facility. Although this approach caused minor delays, it enabled TFBSO's Afghan partners to take greater ownership in the project by solving problems locally when they arose. In addition, because a majority of the personnel building the CNG station were Afghans, those workers gained valuable knowledge and experience in gas technology and in skilled labor techniques, such as welding.

The CNG station project also included skills development for two Afghan engineers trained and licensed to convert cars to CNG in Karachi. These engineers then helped to train four more Afghan engineers to convert cars at the newly built station. In addition, three Afghan engineers have been trained and licensed to operate complex CNG equipment at the station.



The MoM, with TFBSO assistance, will tender the station to a private operator in late 2012. When the winner of the tender begins private operations, the operator will oversee the conversion of hundreds of additional cars to run on CNG. TFBSO will continue to assist the MoM in developing the financial and commercial models, regulatory and technical requirements, and other business support capacity necessary to engage local, regional, and international investors in an effort to expand the CNG sector.

Current activities planned for FY 2013 include the construction of a "daughter station," which is a station supplied with CNG by trailers rather than directly from a natural gas pipeline, in a TFBSO-identified location. The daughter station will provide an additional filling site for cars, thereby expanding the distance that CNG vehicles can be driven and diversifying supply beyond the first station. TFBSO will also begin focusing on facilitating private sector investment in CNG in both Sheberghan and Mazar-e Sharif. By 2014, TFBSO intends to have at least one station constructed in Mazar, with two additional station sites and investors identified. Several neighboring countries, including Pakistan and Iran, have millions of vehicles running on natural gas. Pakistan has the largest CNG sector in the world with nearly 3 million CNG cars; with

targeted private investment, there is no reason why Afghanistan cannot build a similarly successful domestic CNG industry.

CNG Generators - Following the completion of the Sheberghan CNG station, TFBSO is now converting two diesel generators operated by the Afghan Ministry of the Interior to run on CNG from that station. The converted generators eventually will operate on a CNG/diesel mix. This CNG/diesel mix can displace expensive diesel fuel currently purchased for Afghan security forces, thereby decreasing U.S. Government fuel expenditures by more than \$150,000 per year. The use of CNG for power generation will also contribute to the monetization of domestic gas reserves and generate revenue for the Afghan government, while decreasing Afghanistan's reliance on costly fuel imports. This project also includes the option to convert additional generators operated by the Afghan Ministry of Defense. If that option is exercised, the next two generators will be converted by late 2013.

Following the completion of the CNG Generator project, TFBSO will shift focus to facilitating private sector investment in CNG for converted power generators in the Sheberghan and Mazar-e Sharif regions, both of which have significant potential as CNG markets. By 2014, TFBSO intends to have enabled at least four private sector generator conversions in Mazar, with 10 additional sites and generator owners identified.

Gas to Mazar - TFBSO is working with the Ministry of Mines and Afghan Gas to improve gas availability and access in industrial areas, attract foreign investment in gas-intensive industries, and to further monetize Afghanistan's gas resources while reducing the region's dependence on foreign fuels. TFBSO is providing the technical expertise, pipe and pipeline components for a two-phase project that will dramatically increase natural gas availability in Mazar-e-Sharif for industrial use, CNG fuel, and power generation. The project will not only increase Mazar-e-Sharif's access to affordable and reliable energy resources, but will also increase Afghan Gas's level of skill in pipeline engineering, construction, and welding.

In phase one, TFBSO is providing the subject-matter expertise, line pipe, and pipeline components necessary to enable Afghan Gas to rehabilitate the Sheberghan-Mazar pipeline (SMPL). The successful rehabilitation of the pipeline will nearly double the gas flow to the Northern Fertilizer and Power Plant (NFPP) located near Mazar-e-Sharif in Balkh Province. The increased gas flow is expected to attract industries that are dependent on gas for power and processing, which will create a large numbers of jobs for the local economy. This increased gas flow will also increase NFPP power and fertilizer production.

In phase two, TFBSO will provide the subject-matter expertise and line pipe to enable Afghan Gas to construct a new pipeline between the Khoja Gogordak facility in Sheberghan and potential consumers in Mazar-e-Sharif. This pipeline will operate in parallel with the existing

pipeline and will provide up to four times the amount of gas available from the current Sheberghan-Mazar pipeline. The construction of this new pipeline will ensure that Mazar receives a reliable supply of natural gas for more than 30 years and will solidify investments in heavy industry in Mazar-e-Sharif beyond 2014.

The first investment to take advantage of the increased gas flow to Mazar is already in development. An investment group has initiated plans for a \$45 million glass manufacturing plant that will satisfy domestic supply, and may potentially provide exports to neighboring countries. Such a plant will generate hundreds of skilled jobs. Additionally, its success may attract other gas-reliant industries, such as cement production, ceramics manufacturing, and scrap metal recycling, to Mazar.

The Gas to Mazar project will be the first project focused on pipeline infrastructure and development since the Soviet occupation. Up to 50 Afghan Gas employees will be involved in the rehabilitation and construction for both phases of the project. Their involvement in this project will build the technical capacity of Afghan Gas for future gas resource and pipeline projects, perhaps from the Afghan-Tajik basin or other resources in the region.

III. Support to Investment and Entrepreneurship

Capital is the life blood of economic growth. However, Afghanistan's banking and financial system does not yet have the capacity to provide the capital that Afghan companies need to grow. To provide capital to the Afghan business community, TFBSO is encouraging and facilitating private investment in Afghanistan. The TFBSO provides business management consulting and assistance to small and medium-sized enterprises (SMEs) in areas such as communications, technology, consumer goods packaging, and light manufacturing to help them build the systems and capabilities they need to attract that capital. In response to the need for alternative financing options, particularly for SMEs, TFBSO is supporting the engagement of international private equity into Afghan SMEs. After the successful completion of three private equity investments into Afghanistan SMEs currently underway, the intent is to incorporate these deals into a country specific or regional private equity fund to provide a vehicle for Afghan and international investors to participate in the expanding Afghan economy. As part of this effort, TFBSO is conducting due diligence reviews of over 500 Afghan companies to help position them for potential investments. TFBSO's "due diligence" efforts include collecting and analyzing information from Afghan entrepreneurs and managers on their businesses, such as revenues, costs, and profit margins; translating financial information into English; creating investment theses; and building financial models for potential investors.

Business Incubator/Business Advisory:

Since May 2011, TFBSO has operated a business incubator in Herat to help promising Afghan start-ups grow and become profitable by providing them with support, such as office space,

internet access, business advisory and consulting services, and formal business management training. To date, six companies have graduated from the incubator program. An additional twenty companies have been accepted into the program, and twelve more are under review.

Initiated as an effort to build Internet-related information technology companies, TFBSO incubator has adapted its mission to the realities of Afghanistan and is now working with a wide range of companies offering a broad spectrum of products and services. Pure start-ups, although difficult to launch everywhere, face particularly significant problems due to the challenges of the current Afghan business environment. For instance, TFBSO discovered that many Afghan entrepreneurs lack the basic management skills required to run a profitable enterprise capable of expanding beyond a very small scale. As a result, start-ups require a disproportionate amount of resources in entrepreneur mentoring during their initial phases.



Incubator entrepreneurs from Afghan Citadel Software Company.

Google Executive Gothami Ghandi discussing entrepreneurship.



In response, TFBSO adapted its model to work with companies that have existing business models and operations, focusing on developing and improving their management capability in areas such as business plans development and financial management. Companies that have existing business models and operations are better prepared to create jobs and expand more rapidly than pre-revenue concept companies. TFBSO's focus on companies with existing business models and operations has increased company success rates and has enabled TFBSO to realize a quicker and more substantial effect on Afghanistan's economy. Additionally, by implementing a model that includes a mix of start-up and established companies, TFBSO can provide collaborative opportunities for entrepreneurs in different stages of development. Several TFBSO-supported companies from different industries, including pharmaceuticals, agribusiness, and construction materials, have shared ideas and even purchased services from one another, including web design and hosting services.

Herat Incubator Program Metrics (through FY2012)			
Financial		Programmatic	
Revenue	\$4,131,243.42	Number of Women Participated	61
Profit	\$491,429.24	Number of Offerings Supported	24
Profit Margin	11.90%	Acceptance Rate	17.24%
Taxes Paid	\$7,150.00	Number of Stakeholder Updates	42
Number of Projects completed	72	Number of Executive Seminars	13
Number of Companies Prepared for Investment	9	Number of Technical/Business Seminars	23
Company Profiles		Partner Program Participation	19
Number of Employees	522	Number of Companies Sourced	116
Number of Companies Participated	20	Programmatic Documents Developed	21
Number of Companies Graduated	6	Satisfaction Survey	
Number of Entrepreneurs	41	Overall Satisfaction	83.00%
		Recommend to a friend?	88.00%
		Average Offering Rating	3.28/4

TFBSO is working with Afghan universities, including the American University of Afghanistan, to establish and run additional business incubators that will provide similar support to Afghan entrepreneurs and companies in other cities across Afghanistan. By the 2014 transition, these incubators should be operating with a sustainable business model without outside support.

Foreign Direct Investment and Private Equity Fund:

To connect Afghan companies with each other and with potential international partners or investors, TFBSO has built a database of more than 600 Afghan companies. TFBSO has visited each of these companies to conduct basic due diligence reviews and will continue to expand this database.

TFBSO is working with a respected, established, international emerging markets investment fund manager and advisor to establish a fund that will specifically target Afghanistan. TFBSO will not participate directly in the fund, but will provide the fund with extensive research, due diligence review support, and business advisory services, thereby reducing the fund's up-front risk and cost. The fund aims to accelerate the growth of promising Afghan businesses and thus increase employment and economic options for Afghanistan. By spurring the development and expansion of the Afghan economy, this fund will provide incentives and opportunities for Afghans to invest their money in Afghanistan, further enhancing stability and unity and reducing uncertainty as the security transition progresses.

TFBSO is coordinating its foreign direct investment and private equity fund development work with the USAID-backed Afghan Growth Finance (AGF), which provides SME credit facilities,

and with OPIC for loans to larger business ventures. TFBSO is also working with other partners, such as the Aga Khan Foundation, the Asian Development Bank, the World Bank, and the International Monetary Fund, to help provide funding to promising Afghan enterprises.

Strategic Business Communications:

To encourage international awareness of investment and business opportunities in Afghanistan, TFBSO is launching a campaign to help change Afghanistan's image around the world and to move Afghanistan "off the front pages and onto the business pages." This campaign will include providing Afghan business success stories to journalists, creating media pieces that highlight the potential of Afghanistan, sponsoring Afghans to speak at various business forums, introducing successful Afghan business people to international companies, and supporting Afghan participation in international trade shows and other business events. The intent will be to counter the broadly accepted narrative that Afghanistan is a country mired in war, corruption, and poor governance with few prospects for profitable business investment.

IV. Support To Small and Medium-Sized Business:

As elsewhere in the world, small and medium-sized businesses create jobs in Afghanistan. TFBSO has focused on a few key business sectors to help small and medium-sized businesses become more competitive both within Afghanistan and internationally. These key business sectors include agribusiness/food processing, handmade carpets, cashmere, and artisan products. The TFBSO has also been involved in efforts to stimulate small and medium-sized business growth through branding and trade shows and by encouraging women's participation in business ventures.

Agribusiness Assistance:

Although TFBSO will no longer initiate agricultural development programs, it has been very active over the past two years in a number of agribusiness projects. TFBSO's focus in this sector has been to help agribusinesses expand and improve their operations, particularly in areas heavily dependent on agricultural production for their livelihood. Developing and expanding food processing techniques that meet international certification standards for export will add value to Afghanistan's numerous raw agricultural products and reconnect Afghanistan to the global business community.

In FY 2012, TFBSO completed two projects focusing on improved agricultural techniques and training:

- TFBSO provided laboratory equipment to the Nangahar Agricultural College to advance analytical and diagnostic curriculum. Nangahar is often called the "food basket" of Afghanistan because much of its agricultural production is sold throughout Afghanistan.

Equipment provided by TFBSO will help establish food quality standards and reference data previously unavailable in Afghanistan. The analytical information from the laboratory will provide feedback to producers, quality control information to processors, and data points for wholesalers.

- TFBSO oversaw the construction of a new state-of-the-art agricultural studies building at Herat University that will host more than 1,800 students and 7 agriculture departments (including the new Food Technology and Forestry departments). The facility opened on July 10, 2012, and has become known as the standard of excellence for agricultural schools throughout Afghanistan. This college will provide an improved curriculum, thereby increasing productivity, adherence to environmental standards, and use of best practices.



TFBSO also undertook a number of other projects at key points in the agricultural supply chain in southern Afghanistan:

- Trained more than 1,000 farmers in Kandahar province in improved agriculture and food-handling practices;
- Assisted with the installation of pomegranate cold storage equipment at the Kandahar industrial park;
- Developed an agribusiness park in Gereshk and identified a food processing business to invest and establish operations there;
- Funded a produce packing house in Marjah managed by a cooperative of traders and farmers; and
- Built demonstration plots for growing grapes and drying them into raisins, and trained farmers on new grape farming techniques.

TFBSO has partnered with the Bamyan District Department of Agriculture, Irrigation, and Livestock (DAIL), a local farmers' cooperative, and a local private investor to fund modernized operations of a potato packing house in the district. The packing house will be owned and operated by a public-private partnership. The best potatoes in Afghanistan are grown in the Central Highlands of Bamyan, and an estimated 60 percent of households in that region grow potatoes. Lack of facilities for washing, sorting, grading, and



Potato fields in Bamyan

packing has kept Bamiyan potato prices well below their potential. Because processed potatoes generate double the price of unwashed potatoes, a mechanized packing house will substantially improve the local economy and create employment. The packing house will employ 20-40 workers daily for 8 months of the year and will process 50 metric tons of potatoes per day for annual revenues of approximately \$4 million. This project will also serve as a proof of concept for the region and may convince other investors to build additional packing houses.

Indigenous Industries:

TFBSO seeks to create economic opportunities for the Afghan people by strengthening indigenous industries for which the value chain is weak or suboptimal. Because Afghanistan has failed to keep pace with global quality control standards and value-added infrastructure, Afghan industries are precluded from exporting finished goods directly to lucrative foreign markets. Thus, Afghan industries are heavily dependent on neighboring countries to add value and access customers. TFBSO initiatives are intended to increase the value and volume of Afghan exports, to create and strengthen Afghan businesses, and to raise worldwide awareness of Afghan industry and products.

TFBSO is helping to revitalize traditional Afghan industries, such as hand-knotted carpet weaving, cashmere production, artisan products, and food processing to reintroduce these high-value goods to the international market. These sectors represent Afghanistan's largest exports and hundreds of thousands of jobs across Afghanistan, in both urban and rural areas. TFBSO works closely with Afghan businesses to match their products to international standards and to facilitate access to international buyers. In parallel, TFBSO also connects international companies with Afghan business opportunities to source Afghan goods and services.

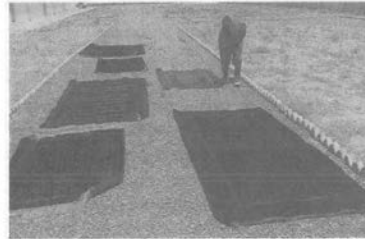
Carpets - Hand-knotted carpets are Afghanistan's largest legal export. More than one million Afghans, one in eight families, work directly or indirectly in the supply chain of this industry and derive their economic security from the production of and trade in hand-knotted carpets. For the past 35 years, however, the Afghan carpet industry has been cut off from the global marketplace. This has had an enormous effect on the quality of Afghan carpets and the ability of Afghan producers to realize the market value of their carpets. According to the Afghan Investment Support Agency statistics, Afghan carpet exports declined from \$150 million in 2004 to \$70 million in 2010.

TFBSO is adding value along the carpet value chain by

- Completing cut-and-wash facilities to keep carpet value in Afghanistan;
- Connecting Afghan carpet producers with international buyers;
- Introducing new carpet designs to Afghan producers; and
- Introducing Afghan carpets to the world through a branding campaign and participation in key international trade shows.

A fundamental problem in Afghanistan's carpet industry has been the lack of finishing facilities. As a result, unfinished carpets have been sold to buyers in neighboring countries at very low prices. In FY 2011, TFBSO financed and oversaw the construction of a carpet cut-and-wash facility in Herat and provided funding for the hiring and training of workers. Today, a Herati company with deep roots in the carpet industry operates the new facility. It processes 200-300 carpets per week. A cut-and-wash facility in Mazar-e-Sharif, completed through an FY 2010 Afghanistan Commander's Emergency Response Program project implemented with input and assistance from TFBSO, is expected to open before the end of 2012.

With the global carpet industry facing a worldwide shortage in hand-weaving capacity, international companies are looking to Afghanistan as one of the last major sources of hand-woven carpets. TFBSO's international partners refer to this initiative as the "Rug Revolution." In support of this initiative, international investors will introduce innovative production methods and designs that Afghans have never seen before. They expect their investment in Afghanistan to increase carpet production on a global scale. The successful opening of cut-and-wash facilities in Herat and Mazar-e-Sharif is a critical first step in this value-building process.



Having been cut off from the global marketplace, Afghan carpet producers lack awareness of changing tastes and designs in international markets. Starting in FY 2012 and continuing into FY 2013, TFBSO has engaged international designers and carpet buyers as partners and investors in the Afghan carpet industry. TFBSO facilitates partnerships between international designers, who need access to more high-quality hand-knotted weaving capacity, and Afghan carpet companies and weavers, who need access to new designs. Thus far, TFBSO has successfully connected five international carpet companies with Afghan partners. These partnerships give the Afghan carpet industry direct access to high-end international markets using exclusive designs provided by their design partner. The high value of these carpets coupled with the large production rate will result in a significant revenue increase for both weavers and distributors.

Finally, TFBSO is expanding global market awareness of the quality and availability of hand-knotted Afghan carpets through tradeshow and investor visits. These partnerships and increased exposure to the international market are expected to produce up to 75 percent more earnings for Afghan weavers and to create several thousand new jobs.

In FY 2013, TFBSO will continue matching international carpet companies with Afghan carpet companies, thereby re-establishing Afghanistan as a source of high-quality carpet weaving and forging partnerships that will establish Afghanistan's position as new source of production.

Cashmere - Afghanistan is the world's third largest producer of raw cashmere. As with carpets, most value-added processes for cashmere take place outside of Afghanistan due to a lack of domestic processing capability. TFBSO will provide multiple value-added processes to domestic production and deliver a higher return on exported cashmere by:

- Introducing new breeding and husbandry techniques to improve goat herds;
- Introducing new harvesting, cleaning, and spinning techniques; and
- Connecting Afghan cashmere producers with international buyers and fashion houses.

As these techniques are implemented, Afghanistan could increase its output of raw cashmere by 1,000 metric tons annually, a value of \$13.5 million annually. Since much of Afghanistan's cashmere is shipped illegally in raw form contaminated with rocks, dirt, and other debris, Afghan cashmere is sold at a very low price. Implementation of new cleaning, spinning, and grading processes will dramatically increase the value of Afghanistan's cashmere exports.

TFBSO has also purchased a \$60,000 sliver machine for Afghanistan's only cashmere processing plant currently in operation. The sliver machine will produce a projected \$500,000 increase in annual value-added revenue along the supply chain. The machine produces top-form cashmere that can be spun in textile spinning machines throughout the world, including in Kabul.

TFBSO is also working in partnership with Afghanistan's cashmere business leaders to raise the international profile of Afghan cashmere. The fashion company *kate spade new york* has requested spun cashmere for its own purposes as well as for use in products associated with a major brand name, which is interested in purchasing Afghan cashmere. With this increased demand, new processing facilities could create up to 200-250 jobs and increase the value of exported cashmere.

Artisanal Products -TFBSO partners with small and medium-sized Afghan producers of traditional handmade goods to present a new image of Afghanistan to the world. These artisanal products are made from the country's raw materials, such as gemstones, marble, and wood.

TFBSO provides support to Turquoise Mountain Arts (TMA), an Afghan organization focused on regenerating Afghanistan's traditional arts and architecture and creating skills for young people. TFBSO has introduced TMA to international retail outfits, creating opportunities for mainstream U.S. retail sales that had never been available before in Afghanistan. Notably, TFBSO introduced TMA to *kate spade new york*, resulting in a major jewelry order for TMA. To build on this initial success, TFBSO is working with TMA to secure further international

sales, develop and define product lines, improve standards, and establish production capacity to supply larger international demand.

Gemstones are one of Afghanistan's most unique and lucrative mineral resources. Currently, there is almost no value-added processing of gems in Afghanistan. Most cutting, polishing, jewelry manufacturing, wholesaling, and retailing takes place outside of the country, with uncut gemstones illegally exported to neighboring countries. Processing and polishing can add up to 45 percent to the value of uncut stones, and finished jewelry can add up to 200 percent.

In an effort to build Afghan competence in this sector, TFBSO has partnered with the non-profit Future Brilliance | Afghanistan to create a master-level training program in India for 30 Afghan artisans in gem-cutting, jewelry design and brand development, and jewelry sales and marketing. Advanced training in gem-cutting will help students reach the highest international standards. Some graduates of the program will return as master trainers to Afghanistan where they will teach at regional training programs and form cooperative businesses to market their products. It is anticipated that future trainers will earn more than double their previous income as gem cutters.

Branding and Trade Shows:

To help promote Afghan small and medium-sized businesses that produce carpets, cashmere, and jewelry, TFBSO is enabling Afghan artisans and traders to participate in strategically selected industry trade shows around the world. TFBSO initiated planning for trade show and branding support in FY2012 and throughout FY2013 will set up booths showcasing Afghan products and produce promotional and marketing materials designed to raise Afghanistan's profile in the international market. At these trade shows, Afghan businesses will be exposed to their target markets and new audiences, introduced to potential international clients, and exposed to new trends and technologies in the industry. An advertising campaign prior to each trade show will generate interest and elevate Afghanistan's reputation. Afghan partners will be trained in how to interact with international clientele, how to present their raw materials and products most effectively, and how to communicate the unique story of Afghanistan.



Altering the perception of Afghanistan as a land of opportunity instead of a land of conflict is crucial in order to attract future investment in all business sectors. This change in perception is a key ingredient for Afghanistan's long-term economic health and stability. Connecting the best of Afghanistan's handmade artisanal products to the global marketplace will create jobs, increase revenue, and raise Afghanistan's profile as a country of great natural and human resources.

Women's Economic and Business Center:

Over the past year, TFBSO has worked with the American University of Afghanistan (AUAF) to fund and develop the International Center for Afghan Women's Economic Development. The center will lead and coordinate international and Afghan public and private sector efforts to advance women's role in helping to lead Afghanistan's economic growth. TFBSO has funded the state-of-the-art, 5,500 square meter facility building on AUAF's new campus. The center will house a variety of programs targeting women's business and economic advancement as well as a TFBSO-funded business incubator and entrepreneurship center.



V. Way Forward

TFBSO's work in helping the Afghan people unlock their natural and human resources will set the conditions for sustained long-term economic growth in Afghanistan. This economic growth, built on the development of the private sector through international and domestic investment and entrepreneurship, will allow the Afghan people to build a strong society that can gradually reduce its dependence on international donors, deal with its neighbors as an equal, and deliver opportunity with dignity to all Afghan people.

By emphasizing full Afghan participation in every aspect of economic decision-making, including ownership and investment, TFBSO provides a fundamentally different approach to post-conflict economic development. Such an approach will lead to a better allocation of resources, lower levels of corruption, and greater sustainability of economic assets.

For 2013, TFBSO will continue to help the Afghan people develop their natural resources, and increasingly support the development of capabilities and skills needed to build, manage, and protect those resources. TFBSO will also focus on helping to attract investment in other industries to create more sources of jobs and to maintain Afghanistan's economic diversity.

These activities will continue to be closely linked with the broader U.S. Government planning for transition and coordinated closely with the U.S. Embassy in Kabul. Projects initiated in FYs 2012 and 2013 are structured to reach completion by the end of the security transition, as defined by the NATO Lisbon Summit (December 31, 2014). Any potential continuation via transfer to another entity, will be made on a case-by-case basis in coordination with the appropriate U.S. or Afghan Government departments and agencies.

**Task Force for Business and Stability Operations Report on
Activities in Afghanistan
ANNEX – FY12 PROGRAM FUNDING**

	FY12 COMMITMENT
Mining Sector Development	
PR firm: marketing/media relations support including: develop presentation materials to support the tender process; develop and place ads announcing winners of bidding process	\$50,160.00
Natural Resource SMEs: general management services to identify mining investment and dvmp needs, prioritize investment needs, apply strategic marketing, promote favorable business climate, knowledge transfer, field management, engineering and tech services, project management and archival work.	\$9,030,172.06
Geological Consulting Tender for Legal Support (SRK/Mayor Brown) - phase 1: facilitate the tender of bids to explore and exploit mineral wealth in Afghanistan by domestic and foreign investors.	\$3,238,771.98
Helo Support and mining missions: Support for site visits of the various mining projects	\$4,121,000.00
Geological Consulting Tender for Legal Support (SRK/Mayor Brown) Phase 2: facilitate the tender of bids to explore and exploit mineral wealth in Afghanistan by domestic and foreign investors.	\$6,405,000.00
Financial Tender - 6 month bridge: Assist MoM in fiscal/legal issues to help execute a fair and transparent tender process for mineral assets	\$4,018,256.55
Natural Resources Drilling SMEs (5% Fees included)	\$7,372,167.92
Mining - North Aynak	\$6,300,250.15
Data Room: contract space at a Data Room to store data for interested bidders	\$1,327,400.00
USGS Annex 2 - collaborative effort between USGS and TFBDO to collect data on mineral deposits throughout Afghanistan; provide equipment to Afghan geologic survey for mining modernization	\$5,000,000.00
USGS Annex 3 - Geological Hydrology & Hyperspectral Hosting	\$425,000.00
USGS Annex 4 - North Aynak Lab and Ground	\$475,000.00
Artisanal Chromite Mining Rock Crusher: equipment for development of artisanal mining practices and processing in Konar Province	\$29,950.01
Artisanal Chromite Development: equipment for development of artisanal mining practices and processing in Konar Province	\$24,950.00
VSO Project SMEs for Mining (SOCOM)	\$2,078,398.00
MINING PROJECT FY12 TOTAL	\$49,896,476.67

Private Investment: Hydrocarbon	
Energy SMEs: advisory services, technical assessment, training materials and other non-personal services in support of the design, implementation and operation of energy development and access projects in Afghanistan and other conflict areas.	\$15,494,004.06
USGS Annex 1-hydrocarbon development: provide technical assistance to TFBSO regarding hydrocarbon resources in AFG; in managing the contract for seismic data collection/analysis; and reviewing seismic data collection for accuracy	\$394,711.00
Hydrocarbons tender advisory support: Tender support and auditing capability for Western Afghan-Tajik tender, Amu Darya close-out and follow up, Scoping any further hydrocarbon tender requirements	\$7,351,493.10
Seismic 1 modification: addtl areas around the Afghan-Tajik for shooting seismic as part of original seismic contract from FY11. This amount covers the additional 100km being shot and processed under the contract modification.	\$2,500,000.00
Kushka Seismic: collect and process 322km of 2D seismic data in Kushka Basin in support of Ministry of Mines	\$9,000,000.00
CNG station modification: for CNG pilot project to supply vehicles with domestically-produced CNG (additional funds on FY11 contract)	\$45,560.00
CNG Generators: Conversion of 2 diesel generators to run on CNG (with option for 2 more/4 total)	\$1,913,664.00
CNG Conversion Kits	\$117,000.00
Pipeline Rehabilitation - Pipe: Identifying and rehabilitating existing pipelines in to increase the SMPL flow volume from MCM/d to 680 MCM/d affecting Sheberghan to Mazar	\$10,131,886.42
Pipeline Replacement - Pipes: capital to support increased gas flow to Mazar I Sharif, providing the groundwork for investment in domestic electricity generation through an independent power producer; to support Afghan Gas in constructing a new pipeline, increasing investor confidence in consistent gas supply to Mazar I Sharif for investment in the IPP and other gas-related ventures.	\$10,122,848.46
HYDROCARBON PROJECT TOTAL	\$57,071,167.04
Private Investment: Small-Mid Size Business	
Herat Business Incubator and Investment Project: Source and provide due diligence on companies to support a \$30M emerging market investment fund; Find and negotiate with potential fund partners, including DFIs and a brand-name private equity firm	\$10,251,908.72
Heart Life Support (includes contract fees): to sustain support for housing and security for TFBSO IT Incubator Project in Afghanistan	\$11,291,569.75

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OFFICE OF THE UNDER SECRETARY OF DEFENSE
 SENATE ARMED SERVICES COMMITTEE
 2000 DEFENSE PENTAGON
 WASHINGTON, DC 20301-2000

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FEB -7 2014

POLICY

The Honorable Carl Levin
 Chairman
 Committee on Armed Services
 United States Senate
 Washington, DC 20510

Dear Mr. Chairman:

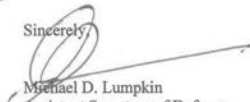
Enclosed is the report on the Task Force for Business and Stability Operations (TFBSO) Activities in Afghanistan, Fiscal Year 2013. This report is submitted pursuant to section 1535(a)(6) of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (Public Law 111-383), as amended.

This report provides appropriate congressional committees an update on how TFBSO supports the Department of Defense's (DoD) counterinsurgency operations in the near-term as well as sets the conditions for longer-term economic stabilization. This report also includes an appendix that lists all of the TFBSO's projects, and associated costs, for Fiscal Year 2013.

DoD continues to coordinate with the Department of State and the U.S. Agency for International Development on TFBSO's activities to ensure projects are complementary or coordinated with other U.S. Government economic initiatives in Afghanistan. The TFBSO remains an invaluable tool in executing the U.S. strategy in Afghanistan.

Thank you for your continuing support of the outstanding U.S. military and civilian personnel serving in Afghanistan. A similar letter is being sent to the appropriate congressional committees, as defined by section 1536(d).

Sincerely,


 Michael D. Lumpkin
 Assistant Secretary of Defense
 (Special Operations & Low Intensity Conflict)
 Performing the Duties of the Under Secretary
 of Defense (Policy)

Enclosure:
 As stated

cc:
 The Honorable James M. Inhofe
 Ranking Member





Department of Defense Task Force for Business and Stability Operations Fiscal Year 2013 Activities Report

Report to Congress in Accordance with
Section 1535 of the Ike Skelton National Defense
Authorization Act for Fiscal Year 2011, as amended
(P.L.111-383)

December 2013

The estimated cost of report or study for the
Department of Defense is approximately
\$4,520 for the Fiscal Year 2013. This includes
\$0 in expenses and \$4,520 in DoD labor.

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**TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS
FISCAL YEAR 2013 ACTIVITIES REPORT**

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Executive Summary

This report describes activities undertaken by the Task Force for Business and Stability Operations (TFBSO), in accordance with section 1535 of the Ike Skelton National Defense Authorization Act for Fiscal Year (FY) 2011, as amended. The appendix provides a full listing of the TFBSO's program expenditures for FY2013.

In 2006, the U.S. Department of Defense (DoD) formed the TFBSO to leverage U.S. and international economic power in order to promote stability and security in Iraq. From its inception until January 2010, the TFBSO operated in Iraq largely as a resource for U.S. commanders on the ground. Since January 2010, the TFBSO has been operating in Afghanistan, in coordination with U.S. commanders, U.S. Embassy Kabul, and the Government of Afghanistan to help Afghanistan's private sector develop and integrate with the international economy. The TFBSO operates at the direction of the Secretary of Defense and with the concurrence of the U.S. Department of State (DoS) and the U.S. Agency for International Development (USAID).

The TFBSO's mission is to promote stability by stimulating economic growth through the private sector. In Afghanistan, the TFBSO does so by:

1. Assisting the Afghan government in developing its natural resources in an open and fair manner that maximizes the benefit to the Afghan people;
2. Creating opportunities for using natural resources in Afghanistan to support industrial development and to reduce dependence on imported resources;
3. Identifying business and investment opportunities for domestic and foreign investors and helping to connect financing sources to those opportunities;
4. Enhancing the international competitiveness and value creation potential of Afghan businesses;
5. Promoting the growth of small and medium-sized businesses through business consulting and entrepreneurship training;
6. Helping to enhance the value content of indigenous products connecting Afghan producers with international markets; and
7. Communicating Afghanistan's economic potential and the reality of its increasing normalization and stability to investors and partners around the world.



Figure 1: TFBSO Principles

The TFBSO measures the results of activities by projecting and tracking: new investment in Afghanistan; future revenues to the Afghan government; the number of businesses started or expanded; and the projected number of jobs created through these activities. The TFBSO's business model focuses on the private sector and requires Afghan involvement in each step of the process, from planning to training to execution to full ownership and responsibility.

After two years of preparing opportunities for investment and developing and building the necessary legal and regulatory framework for these activities, several opportunities were launched in FY2013 and are expected to begin producing significant results over the coming year(s). These initiatives demonstrate the potential of the Afghan economy and have the potential to attract additional investment to accelerate the growth of the Afghan economy.

In FY2013, the TFBSO:

1. Continued to work with the Ministry of Mines and Petroleum (MoMP) on the tender of four copper and gold areas of interest by setting conditions for the generation of up to \$2B in royalty, tax, and fee revenues to the Afghan government over the next 10-15-year life of a mine. Exploration activities in all of these fields will commence in 2014.
2. Supplied subject matter experts to assist the MoMP with the tender of two oil and gas blocks in the Afghan-Tajik basin which will expand exploration and production of oil and gas, increase foreign direct investment, and generate approximately \$16B of revenue to the Afghan Government during the next 25 years.
3. Worked with the Afghan Geological Survey (AGS) to complete geology work for a new round of tenders for the lease of three cement production licenses and associated mineral rights as well as the sale of two existing cement plants to private investors and operators. These plants will help reduce Afghanistan's dependence on imported cement and help sustain the rebuilding of Afghanistan.
4. Trained and mentored Afghan Gas employees to repair and rebuild the Sheberghan to Mazar-e-Sharif natural gas pipeline and to install and operate compressors and gas processing equipment. The TFBSO also delivered all pipe and equipment for this project which will facilitate the first commercial sale of natural gas in Afghanistan, setting the conditions for industrial development in Mazar-e-Sharif, which could lead to more than \$1B in revenue to the Afghan Government during the next 25 years.
5. Provided business consultancy services to facilitate loans to expand the production line of a Herat-based agribusiness, allowing the company to triple revenue during the next four years and double its use of domestic dairy products.
6. Awarded a grant to the American University of Afghanistan (AUAF) to establish a sustainable business development center, the "Kabul Business Accelerator". The accelerator will support the growth of small and medium-sized enterprises (SMEs) by utilizing models and best practices provided by the TFBSO's Herat Business Accelerator. The accelerator will be housed within the TFBSO-funded International Center for Afghan Women's Economic Development Center at AUAF.

7. Trained 65 Afghan technicians, hydrologists, geophysicists, and geologists on proper drilling techniques and sample core management, increasing the capabilities of the Afghan Geological Survey (AGS) to conduct exploration on their own to identify future development sites for tendering to international mining companies.
8. Launched an Afghan jewelry line to increase the value of the Afghan gemstone industry. Trained 36 Afghan artisans in India in new methods of jewelry craftsmanship and taught them critical business management skills to enable them to launch their own businesses and jewelry-making cooperatives. The TFBSO also connected these craftsmen and women with major international retailers who are eager to carry Afghan-made products.
9. Built a consortium of 11 major international buyers and nine Afghan carpet producers to promote Afghanistan as a center for outsourced production of hand-knotted carpets. Introduced new designs, weaving and finishing methods; marketed carpets internationally with an "Afghan Made" brand campaign. By the end of FY2013, this initiative supported 7,500 jobs.
10. Worked with Afghan and international investors and Colorado State University to increase the quality and quantity of cashmere being exported from Afghanistan, and helped the industry move up the value chain from sale of raw cashmere to production of processed cashmere as well as finished product. The TFBSO facilitated investors to re-outfit unused mills, which had been closed for decades. This initiative will help Afghanistan become a force in the world market (i.e., it is now the number three producer of cashmere), creating many production jobs and potentially restarting unused cotton mills.
11. Worked with a consortium of farmer's cooperatives and Afghan investors to establish mechanized potato packing and storage facilities in Bamyan and Kabul that will allow them to process and store their potatoes and to be more responsive to domestic and export markets. This model could be replicated throughout Afghanistan with potatoes and other agricultural products to greatly increase farmers' incomes.
12. Provided expert advice to Ariana Airlines, Afghanistan's state-owned airline, to improve its operating efficiency and position it for potential privatization.

ACCOMPLISHMENTS IN DETAIL

The TFBSO activities are categorized as Natural Resources Development, Industrial Development, Promotion of Investment and Entrepreneurship, and Support to Indigenous Industries. These activities are all designed to help create a diverse and sustainable economy that relies on the private sector for its growth and affords opportunities for growth and wealth creation to a cross-section of society.

These activities will not necessarily generate jobs in the short-term but they are expected to set the conditions for significant growth in the medium and long-term (3-5 years and beyond). A fundamental principle of the TFBSO's approach has been to harness the discipline of the market to attract capital and investments and to create strong enterprises. The TFBSO does not provide grants to businesses, but instead helps them build realistic business plans and connects them with sources of capital that can help them turn those plans into successful enterprises.

A. Natural Resource Development

The development of Afghanistan's natural resources is the key to the country's future. Unlocking these resources will enable Afghanistan to generate significant export revenues as well as to provide a basis for industrial development. Afghanistan's mineral resources, including gold, copper, iron, coal, chromite, lithium, marble, and limestone, are not yet exploited on a large scale. Additionally, Afghanistan potentially holds very significant oil and gas deposits. There is a strong possibility for this sector to generate considerable revenue for the Afghan government, as well as tens of thousands of jobs. In FY2013, the Ministry of Mines and Petroleum (MoMP), with the TFBSO's support, negotiated four major mining contracts, concluded two major oil and gas contracts, collected and packaged data for additional tenders, and conducted training for Ministry and AGS employees.

MINERAL TENDERS AND CONTRACTS

The TFBSO staff -- supplemented by international technical, legal, and financial experts -- assisted MoMP in executing four tenders of copper and gold fields and in negotiating exploration contracts for those fields. This work has involved collecting and compiling geological data, marketing the fields to international mining companies, conducting financial analysis of the fields, and providing support to contract negotiations. Four sites (Balkab, Badakshan, Zarkashan, and Shaida) could potentially generate an estimated \$2.6B in royalties, taxes and fees to the Afghan government during the mines' life spans. Exploration of these fields will begin in FY2014 and will last 2-5 years. This exploration will create a number of skilled and unskilled Afghan jobs. The private mining companies that sign these contracts will invest an estimated \$50M to build the infrastructure necessary to conduct exploration and will invest millions for facilities, infrastructure, and training at each location in preparation for future full-scale mining operations.

Figure 2: TFBSO-Assisted Mineral Tenders

Name of Field	Minerals	Winning Bidder(s)	Nationality of Bidders/Investors
Balkab	Copper/Gold	Afghan Minerals Group	Afghan
Badakshan	Copper/Gold	Turkish Afghan Gold	Turkish and Afghan
Zarkashan	Copper/Gold	Sterling/Belhasa	Afghan and UAE
Shaïda	Copper/Gold	Silk Road Mining	UAE/Canada/US

The MoMP, with the TFBSO's help, also launched the tender of cement production facilities with the requisite mineral deposits of limestone. Afghanistan is almost completely dependent on imports for its cement production; therefore, domestic production will lower costs, improve quality, create jobs, and take Afghanistan another step toward economic sovereignty. The goal of domestic production is to eliminate significant transportation costs from importing material from outside of Afghanistan which could lead to a comparative advantage for these companies.

The TFBSO, in support of the MoMP, also prepared four additional sites for potential tender in FY2014, contingent on the passage of a revised minerals law by the Afghan parliament. The TFBSO and MoMP have been actively educating members of parliament on the impact and importance of this new law for full development of this industry. To date, the TFBSO and its consultants have spent four days at the lower house of the Afghan parliament (the Wolesi Jirga), providing expertise on international best practices within the mining sector. This effort has enabled the Afghan Natural Resource Committee to move this critical piece of legislation forward.

HYDROCARBON TENDERS AND CONTRACTS

The TFBSO's work in the hydrocarbons sector this year focused on assisting the Afghan Government: launched Afghanistan's first commercial oil production from the Amu Darya blocks; concluded two exploration and production sharing contracts for blocks in the Afghan-Tajik Basin; prepared for the tender of the Totimaidan block in the Northern Amu Darya basin; tendered the compressed natural gas station in Sheberghan; repaired/uprated (to rehabilitate an existing structure) the gas pipeline from Sheberghan to Mazar-e-Sharif; and collected seismic data from the Kushka Basin in Western Afghanistan.

The TFBSO has also continued to support efforts to launch the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline to carry gas through Afghanistan to its neighbors. The TFBSO provided a world-class expert to advise the State Department team and the Afghan government in coordinating negotiations between the multiple parties involved. This project could have tremendous economic and geo-political impact for all four countries involved, and progress was made this year to move it toward reality.

The TFBSO provides technical and commercial support to Afghanistan to promote the responsible development of the oil and gas industry. Transparent tenders and solid contracts will set the stage for Afghanistan to use its resources as a driver for national revenue and economic development, contributing to stability and security. To sustain the progress made in this area, the

TFBSO assisted with the implementation of processes and procedures for effective oversight on the first few oil and gas projects.

Amu Darya Exploration and Production Sharing Contract: The TFBSO helped the Afghan Petroleum Authority (APA) oversee the first hydrocarbon contract, signed in 2011, through legal, technical, and financial advisory services. The total amount of money invested in Afghanistan through this contract has exceeded \$120M as of October 2013 and the fields produced 15,000 barrels of crude oil this year. Production will increase to 5,000 barrels per day (bpd) once the export agreements are concluded. During the 25-year life of this contract, the

TFBSO estimates that the Afghan government will net more than \$6B from these blocks.



Figure 3: New well being drilled in the Kashkari oil field

The TFBSO further supported the APA by helping it to plan and structure its administrative operations and by assisting it in recruiting and training staff that will be responsible for overseeing and regulating future contracts.

Afghan-Tajik Basin Tender: With the TFBSO's technical and financial support, the Afghan Government signed two contracts with an international consortium to explore and develop the Afghan-Tajik oil and gas fields east of Mazar-e-Sharif. This coalition consists of the Turkish National Petroleum Corporation (TPAO), Dragon Oil of the UAE, and the Afghan Ghazanfar Group. Based on preliminary models, the TFBSO estimates that this contract could generate upwards of \$16B in revenue to the Afghan government during the next 25 years. Oil production from this basin could also provide the impetus for private sector investment in Afghan refineries.

As a result of a marketing campaign undertaken by the TFBSO, eight international oil companies (IOCs) formally expressed interest in the Afghan-Tajik blocks including: ExxonMobil (U.S.), Dragon Oil (UAE), Kuwait Energy (Kuwait), TPAO (Turkey), ONGC Videsh (India), PTT (Thailand), Petra Energia (Brazil), and Pakistan Petroleum Limited (Pakistan). This level of interest is a good indicator of the potential for future tenders.

Northern Amu Darya Tender: The TFBSO began the process of helping the MoMP prepare to tender a very large block in the northern Amu Darya Basin, in the country's northwest. The tender was approved for execution by the Afghan Government Inter-Ministerial Commission. This large block includes proven natural gas reserves and shares many of the characteristics of very large gas fields across the border in Turkmenistan. There was interest shown by IOCs in the Amu Darya basin and the potential natural gas resources.

Companies interested in developing this possibly gas rich region have the option to build gas distribution networks north to connect into the Central Asia-China networks, or south to connect to Pakistan and India. Gas from these fields could generate billions of dollars in revenue to the Afghan Government and domestically fuel power plants and other industrial plants, generating thousands of jobs for the Afghan people.

Kushka Seismic: The Kushka Basin, north of Herat, is a largely geologically unexplored region that appears to have many of the same geological traits as the Turkmen gas fields across the border. Data on the basin's potential could lead to it being tendered in the coming year or two. Eventually, this gas could also fuel power plants and industry in Herat and in Kandahar and

Helmand, helping to spur the economy in southern Afghanistan and to provide alternatives to the regional opium trade.



Figure 4: Vibraseis truck being prepped

The TFBSO contracted to have 300 kilometers of seismic data collected in this region. Data from this work, if promising, could lend further momentum to the development of Afghanistan's natural gas resources.

U.S. GEOLOGICAL SURVEY (USGS) SUPPORT

The USGS, funded by the TFBSO, delivered critical on-going support to AGS and the MoMP in developing the minerals sector. In FY2013, USGS and the TFBSO provided the following support:

1. Provided hydrology, Geographic Information Systems (GIS), and geophysics training for 47 AGS employees, enabling the AGS to provide analysis, documentation, and distribution of mineral data as MoMP conducts future tenders of mineral sites on its own.
2. Provided drilling and core handling training. To equip the AGS to identify and document geological data, USGS and an Afghan drilling company, together with the AGS, conducted drilling in North Aynak, an area for potential tender in 2014.
3. Provided data management instruction to AGS staff in both the classroom and the field in geology, geophysics, drilling, and hydrology. These efforts dramatically improved AGS employees' sample preparation skills, fieldwork capability, and their management and administrative practices.
4. Provided geologic data analysis supporting the Badakshan, Balkhab, Shaïda and Zarkashan mineral tenders.
5. Partnered with the Colorado School of Mines to provide training of AGS employees in understanding and documenting Afghanistan's coal resources. An understanding of the quality of Afghanistan's coal reserves is important as coal could be a crucial resource in developing industries

Figure 4: AGS geologists sorting samples for testing



such as steel production.

B. Industrial Development

INDUSTRIALIZATION STRATEGY

The TFBSO is committed to setting the conditions for responsible industrial development of Afghanistan's natural resources, specifically natural gas. The TFBSO promoted diverse initiatives to utilize these resources for domestic industrial use, including working with the Afghan government to streamline investment, provided market analysis of key industries to potential investors, and marketed Afghanistan's economic potential to international investors. By promoting domestic utilization of natural gas, the TFBSO helped Afghanistan increase its energy independence from imports and reduce overhead costs for industry, encouraging competitiveness and economic stability.

The TFBSO funded the development of a 200-acre industrial area adjacent to the Northern Fertilizer and Power Plant (NFPP) in Mazar-e-Sharif. Basic construction for the site is complete, and once all improvements are finished, the TFBSO will facilitate the entry of industrial natural gas users to the area. These initial tenants will not only deliver economic impact through direct employment, the production of goods, and supporting sectors, but will also demonstrate the viability of Afghanistan's natural gas industry and send a powerful signal to both international and domestic investors.

To promote industrial investments in Afghanistan, the TFBSO planned, coordinated, and hosted a three-day tour of Afghan business opportunities for a group of international business leaders. Participants included the Global Managing Director of McKinsey Group, the former CEO of Rio Tinto, the world's third largest mining company, a major international metals trader and emerging markets investor from London, and a major international investor and railroad developer from Hong Kong. They met with President Karzai, several ministers of the Afghan Government, dozens of businessmen and women, and young entrepreneurs. This TFBSO-facilitated visit generated visibility for Afghanistan's viable business opportunities, promoting continued, targeted investment necessary for Afghanistan's long term stability.

Figure 5: Afghan Gas construction team



NATURAL GAS DISTRIBUTION

Afghan Gas, a wholly-owned subsidiary of the MoMP, with the TFBSO's assistance, is repairing and upgrading a natural gas pipeline that runs from Sheberghan to Mazar-e-Sharif. The TFBSO provided pipe and equipment manufactured in the United States as well as training to Afghan welders and planning, design, operations and management support to Afghan Gas management. The TFBSO sent several Afghan welders to Abu Dhabi for welding training and conducted more training of welders and other workers in Afghanistan. This pipeline will nearly

double the gas supply to Mazar-e-Sharif, thus enabling industrial development in Mazar-e-Sharif and expansion of fertilizer production at the Northern Fertilizer and Power Plant in Mazar-e-Sharif. Approximately 40 percent of the work on the pipeline is complete and the gas processing equipment was delivered and installed in Sheberghan. This project will be complete in early 2014, after which Afghan Gas will begin construction of a new parallel line to increase capacity further and spur more industrial development.

The TFBSO also provided Afghan Gas with a framework for pricing and selling gas to industrial users and a roadmap for corporatization as a state-owned company.

MARKET RESEARCH

The TFBSO continued to support ongoing improvements to the Northern Fertilizer and Power Plant (NFPP) natural gas pipeline by marketing gas-centric green field opportunities. As part of this effort, the TFBSO conducted market analysis of Afghan markets for cement, steel, electricity, natural gas, petrochemicals, and a number of smaller domestic industries to catalyze the growth of existing firms and encourage the entry of large ventures into promising sectors. Marketing materials are being created and shared with the MoMP, the Afghanistan Investment Support Agency, and the Ministry of Commerce and Industry (MoCI) for presentation to potential investors. These sector-specific analyses presented critical data that could reduce the risks of initial costs associated with entering the Afghan market and provide the Afghan government with the tools to open doors to continued investment that would otherwise be unfeasible, particularly beyond 2014.

COMPRESSED NATURAL GAS

In 2012, the TFBSO built Afghanistan's first compressed natural gas (CNG) station in Sheberghan to demonstrate the potential to use natural gas as an alternative to expensive imported gasoline and diesel fuel. In neighboring countries Iran and Pakistan and in other gas-rich countries such as Brazil, millions of cars are fueled by CNG. The CNG station sells to consumers at a cost savings of nearly 50 percent compared with gasoline resulting in a roughly \$100 monthly savings for each converted car, so the conversion cost is paid back in less than a year.

The potential for use of CNG will increase dramatically as gas pipelines are built to carry the gas to other population centers. The pipeline from Sheberghan to Mazar-e-Sharif in particular will enable CNG stations to be built to service the much larger population of Mazar-e-Sharif. The next major step in CNG market development in Afghanistan is tendering the Sheberghan CNG station to a private businessperson who will be able to invest in additional stations as gas distribution expands. An initial tender conducted in 2013 was unsuccessful due to an overly complex structure and the tender was greatly simplified, attracting several initial expressions of interest.

In addition, the TFBSO converted two generators at the Sheberghan Regional Police Training Center to run on dual fuel (CNG and diesel) as a pilot program to assess the potential for significant savings to the Afghan security forces by using CNG instead of diesel to power its

bases. The TFBSO evaluated the potential of converting diesel generators at Camp Shaheen, the largest Afghan National Army (ANA) base in Northern Afghanistan. This project could result in multi-million dollar savings to DoD, which pays for fuel for those bases.

C. Investment and Entrepreneurship

The TFBSO's Investment and Entrepreneurship Program is committed to increasing the rate of investment between responsible investors and legitimate Afghan firms, setting the conditions for sustainable and responsible industrial development using Afghanistan's natural resources, and enhancing the ability of Afghan companies to compete in Afghan and regional markets through professional consulting services. By promoting legitimate investment, the TFBSO helps build the foundation for a strong private sector and stable economy.

BUSINESS ACCELERATOR AND BUSINESS ADVISORY SERVICES

Since May 2011, the TFBSO has operated a business accelerator in Herat to help promising Afghan entrepreneurs grow and become profitable by providing them with business advisory and consulting services and formal business management training. To date, 13 companies graduated from the accelerator program. Overall, the business accelerator assisted 34 companies and 62 entrepreneurs in Kabul and Herat. The ten largest business accelerator companies, which operate in the manufacturing, food service, healthcare, and mining sectors, employ approximately 6,500 Afghans.

Figure 6: Afghan light manufacturing firm



In FY2013, the accelerator continued to improve the operating efficiency of small to medium sized enterprises (SMEs). The accelerator helped firms develop business and marketing plans, loan applications, and business process improvements. On average, micro businesses in the accelerator program increased revenues by 450 percent per year; small businesses increased revenues by more than 300 percent per year. Roya Mahboob, the Founder and CEO of one of the accelerator's original seven companies, was named to TIME Magazine's 100 Most Influential People in the World for 2013 for her work related to women's entrepreneurship. Her success is the direct result of the accelerator's intensive program and training.

The TFBSO awarded a grant to AUAF in FY2013 to launch a business accelerator housed at the International Center for Afghan Women's Economic Development at the AUAF in Kabul, which was funded by the TFBSO. The Kabul Business Accelerator will use lessons learned from the Herat incubator and international best practices. In addition to funding this new center, the TFBSO is assisting the AUAF with its launch, hiring, and conduct of operations. The business model for this Business Accelerator is for it to be self-sustainable within two years.

SMALL BUSINESS INVESTMENTS AND PRIVATE EQUITY

The TFBSO worked to increase the rate of investment into the SME sector by pairing responsible investors with legitimate Afghan firms. Successful deals help set the conditions for long-term stabilization by assisting Afghanistan in restoring its indigenous economic base and demonstrating the viability of private investment. To achieve this, the TFBSO conducted extensive due diligence reviews on Afghan companies, sourced potential investments, and worked to reduce transaction costs to potential investors through investment advisory services. To connect Afghan companies with each other and with potential international partners and investors, the TFBSO sourced more than 600 Afghan companies. The most promising companies were vetted and presented for potential investment to a network of established emerging market investors and development finance institutions (DFIs).

In FY2013, the TFBSO facilitated commercial deals for a food manufacturing and a light manufacturing company, and has several other deals in process. The TFBSO also planned and facilitated an investment conference at the New York University Stern School of Business, presented a regional spotlight session on Afghan SMEs at the Sakalp Impact Investment Conference in Mumbai, India and presented Afghan opportunities at the Emerging Markets Private Equity Association (EMPEA) Annual Global Private Equity Conference in Washington, DC. These efforts educate investors about the real potential of the Afghan economy and promote continued investment in Afghanistan's viable opportunities.

In FY2013, the TFBSO worked with the AUAF to fund and develop the International Center for Afghan Women's Economic Development. The Center will lead and coordinate international and Afghan public and private sector efforts to advance women's role in helping to lead Afghanistan's economic growth. The TFBSO funded the construction of a state-of-the-art, 5,500 square meter facility, building on AUAF's new campus. The Center opened in May 2013, and an executive director and deputy director were hired. The Center is focused on two primary missions: 1) to provide education and research to support women-led businesses and enhance women's role in economy, and 2) to advocate for policies that further women's integration into the Afghan economy. In June 2013, the Center hosted a conference: "New Perspectives on Women and Business." The Center will house a variety of programs targeting women's business and economic advancement as well as a business incubator and entrepreneurship center.

D. Indigenous Industries

The TFBSO creates economic opportunities for Afghans by strengthening indigenous industries that have recognizable international market potential. Because Afghanistan has not kept pace with global quality control standards and value-added infrastructure, Afghan industries are precluded from exporting finished goods directly to lucrative foreign markets. Thus, Afghan industries are heavily dependent on neighboring countries to add value and access customers. TFBSO initiatives are designed to increase the value and volume of Afghan exports, strengthen Afghan businesses, and raise worldwide awareness of Afghan industries and products.

In FY2013, the TFBSO helped revitalize traditional Afghan industries, including agricultural products, hand-knotted carpet weaving, cashmere production, and jewelry. The TFBSO worked

closely with Afghan businesses to conform products to international standards and facilitate access to international markets. The TFBSO also connected international companies with Afghan business opportunities to source Afghan goods and services.

AGRIBUSINESS

Agriculture is a critical component of the Afghan economy. Much work has been done by various aid agencies and non-governmental organizations (NGOs) in helping Afghan farmers become more productive. The TFBSO is focusing on the other side of this industry – demand. In order to grow and generate more revenues for farmers, Afghanistan needs to develop the markets for its agricultural products through better processing, storage, and transportation and linkages to domestic and international markets. As the majority of the population supports itself through agriculture, supporting agribusinesses helps Afghanistan's long-term stabilization by creating jobs while raising income for farmers and traders.

In FY2013, the TFBSO shifted its focus from direct support to producers to identifying ways to build more lucrative markets for Afghan farmers. This was done by encouraging investment in processing, packing, storage and exporting companies. The TFBSO teams provided business consulting services to a fruit juice manufacturer in Kabul, ice cream and nut processing companies in Herat, and a potato processing facility in Bamyan. These consulting services, including sales, marketing, and quality control training, provided higher quality projects.

The TFBSO also helped a partnership of farmers' cooperatives and an Afghan investor build a potato processing, packing and storage facility in Bamyan and an intake and washing facility in Kabul. Lack of facilities for sorting, grading, and packing has kept Bamyan potato prices well below their potential. Because processed potatoes generate double the price of potatoes, this mechanized packing house will substantially improve the local economy and create employment. The TFBSO supplied equipment and training for this pack house while the Afghan investors purchased the land and built the facility that will be owned and operated by a partnership of investors' and farmers' cooperatives. The facility will benefit approximately 800 farmers, processing and estimated 7,200 metric tons of potatoes in its first year, generating approximately \$1.8M in total revenue. As the facility expands operations, it could process up to 21,600 metric tons, generating up to \$6.4M in revenue. The facilities currently employ 30 people, which are expected to expand to 49 next year as operations expand. The potatoes will be sold in domestic markets, but the company may expand into international markets as the product has export potential. This project also serves as a model for similar processing facilities in this and other regions as well as for other Afghan products.

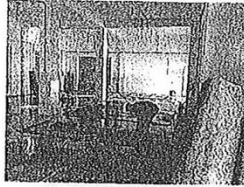
Since 2011, the TFBSO has assisted in the planning and restoration of a cold storage center in Gereshk, in Helmand Province. In May 2013, the TFBSO facilitated the transfer of this cold storage processing center to the Afghan government. The completed facility, combined with private investment, will create economic opportunities for the local community and improve regional agricultural production activities.

CARPETS

Afghanistan has the potential to become a major center of outsourced hand-made carpet manufacturing. Rather than selling carpets with traditional patterns that are semi-finished through Pakistan or Iran, Afghan carpet producers are now learning to weave modern patterns that have much greater appeal to world markets. A network of dealers brought together throughout FY2013 by the TFBSO, and supported by an "Afghan-Made" marketing campaign, began bringing Afghan carpets directly to international markets.

Hand-knotted carpets are Afghanistan's largest legal export. More than one million Afghans, one in eight families, work directly or indirectly in the supply chain of this industry and derive their economic security from hand-knotted carpets. However, for the past 35 years, the Afghan carpet industry has been cut off from the global marketplace. This has an enormous effect on the quality of Afghan carpets and the ability of Afghan producers to realize the market value of their carpets.

Figure 7: Carpet cut-and-wash facility in Herat



A fundamental problem in Afghanistan's carpet industry was the lack of finishing facilities. As a result, unfinished carpets were sold to buyers in neighboring countries at very low prices. In FY2012, the TFBSO helped establish carpet cut-and-wash facilities in Herat and Mazar-e-Sharif. By the end of FY2013, the Herat facility processed 50% of local market carpets, approximately 1,000 square meters of carpet per month, and the Mazar facility processed 100% of international orders, approximately 1,500 square meters of carpet per

month. With these facilities as models, the TFBSO is now soliciting Afghan investors to build more such operations, expanding the volume of carpets that can be sold directly into world markets.

With the global carpet industry facing a worldwide shortage in hand-weaving capacity, international companies are looking to Afghanistan as one of the last major sources of hand-woven carpets. Throughout FY2013, the TFBSO created partnerships between international designers who need access to high-quality hand-knotted weaving capacity and Afghan carpet companies and weavers, who need access to new designs and markets.

To date, the TFBSO has facilitated partnerships of eleven international companies with nine Afghan companies to produce their designs. These partnerships give the Afghan carpet industry direct access to high-end international markets using exclusive designs provided by their design partners. The high value of these carpets, coupled with the increased production rate, will result in a significant revenue increase for both weavers and distributors. New sales from this initiative support more than 7,500 jobs and will continue to increase in coming years as capacity and awareness increase. The TFBSO's role for this initiative consists of providing subject matter experts and project planning, management, and oversight. In FY2013, the TFBSO also addressed the challenge of high shipping costs by negotiating competitive rates for shipment with Ariana Airlines. This activity is promoting economic stability in Afghanistan as it supports artisan jobs,

generates revenue, and is setting the stage to establish Afghanistan as a new source of production.

The TFBSO expanded global market awareness of the quality and availability of hand-knotted Afghan carpets through tradeshows, investor visits, and sponsoring an international carpet design competition.



Figure 8: The Rug Show in New York City

The International Carpet Design Competition aims to inspire students and young designers to create modern designs through traditional weaving techniques while promoting Afghan women artisans. These designs will showcase the high quality of Afghan carpets and highlight Afghanistan as a viable source of production. The TFBSO partnered with the leading industry publication, HALLI Magazine, and the largest carpet trade show, DOMOTEX, to sponsor this competition. The results will be announced at DOMOTEX Hannover Germany in January 2014.

CASHMERE

Afghanistan is the world's third largest producer of raw cashmere. As with carpets, most value-added processes for cashmere take place outside Afghanistan because there is no suitable domestic processing capability. Since much of Afghanistan's cashmere is shipped illegally in raw form contaminated with rocks, dirt, and other debris, Afghan cashmere is sold at very low prices.

The TFBSO introduced value-added processes to enable Afghan producers to earn a higher return on exported cashmere. In FY2013, the TFBSO engaged Colorado State University to introduce new breeding and husbandry techniques to improve goat herds; initiated new harvesting, cleaning, and spinning techniques; and connected Afghan cashmere producers with international investors, buyers, and fashion houses. These improved cleaning, spinning, and grading processes will dramatically increase the value of Afghanistan's cashmere exports. As new techniques are implemented, Afghanistan could increase its output of raw cashmere by 1,000 metric tons annually, a conservative estimate of \$13.5M in added revenue per year. With cashmere goats being raised throughout Afghanistan, this additional value will directly impact thousands of farmers and herders and create jobs in processing, dying and weaving.

ARTISANAL PRODUCTS

The TFBSO has helped to rebuild Afghanistan's traditional craft capability, restoring pride in its history, training a new generation of skilled artisans and entrepreneurs, and presenting a positive image of Afghanistan to the world. Connecting the best of Afghanistan's handmade artisanal products to the global marketplace creates jobs, increases revenue, creates national pride and raises Afghanistan's profile as a country of great natural and human resources. By supporting artisan businesses, this initiative helps promote long-term stability in Afghanistan by presenting Afghanistan as a land of talent and opportunity instead of a land of conflict. This is crucial to

attract investments in all areas of business, and this change in perception is a key ingredient in Afghanistan's long-term economic health and stability.

In FY2013, the TFBSO partnered with Turquoise Mountain Arts (TMA), an Afghan organization focused on regenerating Afghanistan's traditional arts and architecture and on training young people in jewelry making, calligraphy, ceramics, and wood working. The TFBSO introduced TMA to international retail companies, enabling access to new markets. Thanks in part to these efforts, the Museum of Islamic Art in Doha, Qatar commissioned a large exhibition to showcase the skill and talent of TMA artisans. In FY2013, with the TFBSO's business development support, TMA mentored 27 small businesses, assisting them with planning, management, product design and production, quality control and marketing. To date, TMA's activities created more than 130 jobs and generated more than \$1.2M in new sales. With TMA's support and mentorship, Afghan businesses are learning to become reliable and independent production partners.

JEWELRY

Gemstones are one of Afghanistan's most unique and potentially lucrative natural resources. There is currently almost no value-added processing of gems in Afghanistan. Most cutting, polishing, jewelry manufacturing, wholesaling, and retailing take place outside of the country, and most gemstones are therefore exported uncut through illegal channels to neighboring countries. Cutting and polishing can increase the value of gemstones by 50 percent, and incorporating stones in jewelry can increase value up to 200 percent.

To increase Afghan competence in gemstone cutting and jewelry production, the TFBSO partnered with Future Brilliance Afghanistan to create a master-level training program in Jaipur, India. Starting in January 2013, 36 Afghan artisans received six months of training in jewelry craftsmanship, gem-cutting, bead-making and business management. U.S. and British designers collaborated with the artisans in Jaipur to develop an Afghan-branded line of jewelry, Aayenda, which could potentially create work for an estimated 1,200 artisans in Afghanistan. The TFBSO has been working to create an artisan cooperative to produce the line of jewelry in Afghanistan. This initiative helps stability efforts by generating employment and connecting Afghan jewelry artisans to the international market, thus enabling them to expand their business and generate more revenue.

WAY FORWARD

As the transition to a smaller international and U.S. presence takes place in a time of reduced military spending, sustained efforts to help build the private sector in Afghanistan will continue to be important. The TFBSO will responsibly draw down its efforts by December 2014, and we remain committed to assisting the Department of State, the United State Agency for International Development as well as other organizations, and the Government of Afghanistan in transferring programs and assisting in future planning for this transition.

Annex FY2013 Program Funding**Task Force for Business and Stability Operations Report on Activities in Afghanistan**

CATEGORY	FY2013 COMMITMENT
MINING SECTOR DEVELOPMENT	
SRK Mayer Brown Round 1 - Contract option 1: Facilitated the tender of bids to explore and exploit mineral wealth in Afghanistan by domestic and foreign investors.	\$ 1,623,885.99
SRK Mayer Brown Round 1 - Contract option 2	\$ 1,582,599.99
Geological Consulting Tender for Legal Support	\$ 2,272,977.00
Afghanistan Geological Survey (AGS) - Drilling Training Program: Designed, implemented and evaluated a 3.5 month general drilling training curriculum aimed at enabling AGS personnel and the wider Afghan Government to have a sustainable drilling entity.	\$ 222,861.00
Intrepid TV purchase	\$ 5,000.00
USGS Annex 1: Collaborative effort between USGS and TFBSO to collect data on mineral deposits throughout Afghanistan; provided equipment to Afghan Geologic Survey (AGS) for mining modernization	\$ 5,000,000.00
SRK Mayer Brown AGS Training Modification - Round 2: Added funds to the contract for scoped training work with the AGS	\$ 351,889.58
Natural Resources Drilling Subject Matter Experts: Services contract that provided subject matter expertise and operational assistance to the TFBSO Natural Resources Division.	\$ 4,899,350.76
Mining Project Total	\$ 15,958,564.32
PRIVATE INVESTMENT – HYDROCARBON	
Pipeline Shipping Cost - #1: shipped through TRANSCOM, via Transportation Accounting Code "TAC"	\$ 1,500,000.00
Pipeline Shipping Cost - #2: TRANSCOM (via TAC)	\$ 6,300,000.00
Pipeline Shipping Cost - #3: TRANSCOM (via TAC)	\$ 3,000,000.00
Pipeline Shipping - #4: TRANSCOM (via TAC)	\$ 6,500,000.00
Seismic: Seismic data collection in the Kushka basin to gather valuable information for future tenders. .	\$ 20,637,939.00
Compressed Natural Gas (CNG) Station - Phase 2	\$ 6,555.00
Hydrocarbon Advisory Services: Added funds for the Advisory Services in International Hydrocarbon Sector	\$ 26,956.28

USGS Energy Annex - hydrocarbon development: Provided technical assistance to TFBSO regarding hydrocarbon resources in AFG in managing the contract for seismic data collection/analysis, and reviewing of seismic data collection for accuracy	\$ 391,900.00
CNG station	\$ 11,974.88
Energy Subject Matter Experts	\$ 509,456.88
Ancillary Materials for Pipeline	\$ 494,979.60
Hydrocarbons tender advisory support: Developed tender support and auditing capability for Western Afghan-Tajik tender, Amu Darya close-out and follow up, Scoping any further hydrocarbon tender requirements	\$ 9,089,713.40
Welding Equipment/Training	\$ 409,106.25
Welding Equipment Purchase	\$ 151,277.96
Energy Subject Matter Experts contract option 1: Provided advisory services, technical assessment, training materials and other non-personal services in support of the design, implementation and operation of energy development and access projects in Afghanistan and other conflict areas	\$ 7,846,620.60
Hydrocarbon Project Total	\$ 56,876,479.85
PRIVATE INVESTMENT: INVESTMENT ENTREPRENEUR	
Incubator and Investment Project: Bridge funding for Herat business incubator operations funding and investment facilitation services	\$ 249,999.00
Herat Incubator & Investment Project Re-compete: Continuation of business incubator services in Herat and investment facilitation services.	\$ 2,918,079.95
Incubator and Investment Project: Contract option; continuation of business incubator services in Herat and investment facilitation services.	\$ 2,664,618.38
Herat Incubator and Invest Project: American University of Afghanistan Grant: Six month grant to AUAF to stand up sustainable business incubator in Kabul.	\$ 1,348,255.00
Private Investment Total	\$ 7,180,952.33
PRIVATE INVESTMENT: INDIGENOUS INDUSTRY	
Indigenous Industry Trade Shows: Showcased Afghan products at international trade shows, produce promotional materials, execute marketing and media outreach.	\$ 2,608,550.00

Cashmere Supply Chain Improvement: Improved the quality/quantity of cashmere by intervening along the value chain to increase revenue; bring value to the processes to create jobs; bring long-term sustainment into the sector	\$ 1,752,181.20
Potato Pack House Contracting offices: Cost for application service fee	\$ 2,444.95
Potato Pack House: Supported the design, purchase, deliver and install potato packing line equipment to Bamyan	\$ 323,792.70
Gemstone/Jewelry Export: Trained 30-40 Afghan artisans annually on advanced technical training and business development skills in gem cutting, jewelry design and brand development in order to scale current demand for Afghan indigenous products and promote entrepreneurship.	\$ 500,000.00
Artisanal Products Business Development (Turquoise Mountain): Provided marketing support to Afghan vendors and producers of indigenous products	\$ 799,615.96
Indigenous Industry Total	\$ 5,986,584.81
MISCELLANEOUS	
Acquisition Support Subject Matter Experts: Contracted acquisition asset located in Afghanistan to assist Contracting Office.	\$ 67,138.76
Afghan Rail Project travel funds	\$ 36,447.50
Study on the future need for TFBSO capabilities	\$ 1,612,000.00
Economic Impact Assessment of TFBSO programs in Afghanistan/Metrics of ROI in Afghanistan	\$ 3,431,603.75
Miscellaneous Total	\$ 5,147,190.01
FY2013 FUNDED TOTAL	\$ 91,149,771.32

(c) FUNDING LIMITATION.—Paragraph (4) of such subsection is amended—

(1) by inserting before the period at the end of the second sentence the following: “for fiscal year 2012, except that not more than 50 percent of such amount may be obligated until the plan required by subsection (b) is submitted to the appropriate congressional committees”; and

Deadline.

(2) by adding at the end the following new sentence: “The funds shall be available for projects under paragraph (1) that begin in one fiscal year and end in the following fiscal year.”.

SEC. 1535. LIMITATION ON AVAILABILITY OF FUNDS FOR TRANS REGIONAL WEB INITIATIVE.

Certification.

None of the amounts authorized to be appropriated by this Act may be obligated or expended on any program under the Trans Regional Web Initiative of the Department of Defense, or any similar initiative, until the Secretary of Defense certifies, in writing, to the Committees on Armed Services of the Senate and the House of Representatives that such program—

Certification.

(1) appropriately defines its target audience;

(2) is determined to be the most effective method to reach such target audience;

(3) is the most cost-effective means of reaching such target audience; and

(4) includes measurement mechanisms to ensure such target audience is being reached.

SEC. 1536. REPORT ON LESSONS LEARNED FROM DEPARTMENT OF DEFENSE PARTICIPATION ON INTERAGENCY TEAMS FOR COUNTERTERRORISM OPERATIONS IN AFGHANISTAN AND IRAQ.

(a) ASSESSMENT AND REPORT REQUIRED.—The Secretary of Defense shall direct a federally funded research and development center to conduct an assessment on lessons learned from the use of interagency teams for counterterrorism operations in Afghanistan and Iraq. Not later than one year after the date of the enactment of this Act, the Secretary shall submit to the congressional defense committees a report containing the results of the assessment, together with the comments of the Secretary regarding the assessment and each of the elements of the assessment specified in subsection (b).

(b) ELEMENTS.—The assessment and report required by subsection (a) shall include the following:

(1) An assessment of the value of interagency teams in counterterrorism operations.

(2) An explanation of how and why the requirements for effective interagency teams differ from teams composed entirely of Department of Defense personnel.

(3) A description of the best practices of such interagency teams and efforts to codify such best practices.

(4) A description of the challenges in forming and operating effective interagency teams.

(5) An assessment whether the lessons learned through Department of Defense participation on such interagency teams is applicable to other interagency teams in which Department personnel participate.



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POLICY

MAY 21 2015

The Honorable John McCain
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Enclosed is the final report on the *Task Force for Business and Stability Operations (TFBSO) Activities in Afghanistan, Fiscal Year 2014*. This report is submitted pursuant to Section 1535(a)(6) of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011 (Public Law 111-383), as amended. The report also fulfills the reporting requirements of the TFBSO's final Transition Brief.

A similar letter is being sent to the other appropriate congressional committees.

Sincerely,

Brian P. McKeon

Enclosure:
As stated

cc:
The Honorable Jack Reed
Ranking Member





Department of Defense Task Force for Business and Stability Operations Fiscal Year 2014 Activities Report

Report to Congress in Accordance with
Section 1535 of the Ike Skelton National Defense
Authorization Act for Fiscal Year 2011 (P.L. 111-383),
as amended

January 2015

The estimated cost of this report or study for the Department of Defense is approximately \$3,920 in Fiscal Year 2015. This includes \$0 in expenses and \$3,920 in DoD labor.

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Executive Summary

This report describes activities undertaken by the Task Force for Business and Stability Operations (TFBSO), in accordance with Section 1535 of the Ike Skelton National Defense Authorization Act for Fiscal Year (FY) 2011, as amended. The appendix provides a full listing of TFBSO's program expenditures for FY 2014.

In 2006, the U.S. Department of Defense formed TFBSO to leverage U.S. and international economic power in order to promote stability and security in Iraq. From its inception until January 2010, TFBSO operated in Iraq largely as a resource for U.S. commanders on the ground. Beginning in January 2010, TFBSO operated in Afghanistan, in coordination with U.S. commanders, U.S. Embassy Kabul, and the Government of Afghanistan, to help Afghanistan's private sector develop and integrate with the international economy. TFBSO operated at the direction of the Secretary of Defense and with the concurrence of the U.S. Department of State (DOS). TFBSO ceased operations on December 31, 2014.

TFBSO's mission was to promote stability by stimulating economic growth through the private sector. In Afghanistan, TFBSO sought to:

1. Assist the Afghan Government in developing its natural resources in an open and fair manner that maximized the benefit to the Afghan people;
2. Create opportunities for using natural resources in Afghanistan to support industrial development and to reduce dependence on imported resources;
3. Identify business and investment opportunities for domestic and foreign investors and help to establish financing sources to help realize those opportunities;
4. Enhance the international competitiveness and potential value of Afghan businesses;
5. Promote the growth of small- and medium-sized businesses through business consulting and entrepreneurship training;
6. Enhance the value of indigenous products by connecting Afghan producers with international markets; and
7. Communicate a narrative of Afghanistan's economic potential, its increasing normalization, and stability to investors and partners around the world.

TFBSO measured the results of its activities by projecting and tracking: new investments in Afghanistan; future revenue to the Afghan Government; the number of businesses started or expanded; and the projected number of jobs created through TFBSO activities. In order to capture these and other statistics, TFBSO commissioned an Economic Impact Assessment and an economic model that was transitioned to the Afghan Government.

In FY 2014, TFBSO:

1. Assisted the Ministry of Mines and Petroleum (MoMP) in clarifying questions for the exploration contracts of four copper and gold areas in Afghanistan. Exploration activities in all of these fields can commence upon contract approval by the Afghan Government. Once in operation, significant taxation and royalty revenue to the Afghan Government could be generated.
2. Supplied subject matter experts (SMEs) to assist the MoMP with the tender of one oil and gas block in the Amu Darya basin (Totimaidan tender), and the tender of multiple oil and gas blocks in the Afghan-Tajik basin (Afghan Tajik II tender), as well as the completion of the Afghan Tajik I tender. Assuming commercial discovery and extraction of oil and gas, these tenders could expand exploration and oil and gas production and increase foreign direct investment. Additionally, the SMEs provided the MoMP with technical and financial advisory services in support of the Afghan-Tajik I Exploration and Production Sharing Contracts (EPSC) and the Amu Darya Oil contract, signed in 2011.
3. Worked with the MoMP by providing legal, regulatory, and transparency advisors to assist with the Jabul Seraj cement tender. Once in operation, this plant could help reduce Afghanistan's dependence on imported cement and help sustain the rebuilding of Afghanistan.
4. Awarded a grant to an international consortium of universities — Missouri University of Science and Technology (MST), University of Nebraska at Omaha, and Middle East Technical University — to work with Kabul Polytechnic University (KPU). This was to increase the quality of their geology and mining engineering program using a "Train the Trainer" model. The professors selected for this program may in turn train their colleagues with the goal of producing a more educated population of homegrown employees working in the geologic and mining industry.
5. Trained and mentored Afghan Gas employees to repair and rebuild the Sheberghan-to-Mazar-e-Sharif natural gas pipeline, and to install and operate compressors and gas processing equipment. TFBSO completed the commissioning of newly installed gas dehydration and compression equipment that enabled an increase in gas flow to Mazar-e-Sharif.
6. Provided technical training for oil and gas production monitoring and regulatory compliance through a partnership with the U.S. Bureau of Land Management and the U.S. Geological Survey. TFBSO undertook the training to ensure the MoMP had an understanding of international standards for the regulation and oversight of hydrocarbon extraction operations.
7. Worked with 36 Afghan small- to medium-sized enterprises to improve their operations and financials.

8. Facilitated the development and signing of a memorandum of understanding (MOU) among an international investment consortium, the World Bank, and the Afghan Government for Afghanistan's first Independent Power Producer.
9. Provided diligence and investment analysis support that directly resulted in Afghanistan International Bank's largest loan to date—for Afghanistan's first large-scale media studio.
10. Marketed Afghanistan internationally as a center for hand-knotted, modern rugs. The orders have generated an additional 3,000 medium-term jobs in FY 2014, creating more than 9,700 total jobs..
11. Continued the development of an Afghan jewelry line designed to increase the value of the Afghan gemstone industry. In FY 2014, TFBSO's efforts resulted in \$120,000 worth of jewelry sales, a \$110,000 increase from FY 2013 sales. TFBSO also connected craftsmen and women with major international retailers who were eager to carry Afghan-made products.
12. Worked with the Ministry of Commerce and Industry (MoCI) to pass an export ban on raw/greasy cashmere containing anthrax. TFBSO facilitated analysis of state-owned textile mills to re-outfit unused cotton and wool mills for cashmere processing and determine their economic feasibility. In addition to conforming to international standards, Afghanistan's private sector may save an estimated \$400,000 on shipping charges for export per year and earn an additional \$900,000 in value-added processing per year.
13. Provided assistance to the Ministry of Agriculture, Irrigation and Livestock for the tender of the pilot breeding model farm, which aims to improve the color and quality of the cashmere in Afghan herds.
14. Provided expert advice to Ariana Airlines, Afghanistan's state-owned airline, to improve its operating efficiency and position it for potential privatization.

Accomplishments in Detail

TFBSO activities fall into the categories of: (1) Natural Resources Development, (2) Industrial Development, (3) Promotion of Investment and Entrepreneurship, and (4) Support to Indigenous Industries. These activities were designed to help create a diverse and sustainable economy that relies on the private sector for its growth and affords opportunities for growth and wealth creation to a cross-section of society.

These activities were designed to foster conditions for longer-term economic growth (3-5 years and beyond). A fundamental principle of TFBSO's approach was to harness the discipline of the market to attract capital and investments to create strong enterprises. TFBSO did not provide grants directly to businesses, but instead helped them build realistic business plans and connected them with sources of capital that helped them turn those plans into successful enterprises.

1. National Resource Development

The development of Afghanistan's natural resources is the key to the country's future. Unlocking these resources could enable Afghanistan to generate significant export revenues as well as to provide a basis for industrial development. Afghanistan's mineral resources, including gold, copper, iron, coal, chromite, lithium, marble, and limestone, have not been exploited on a large scale. Additionally, Afghanistan potentially holds very significant oil and gas deposits. There is a strong possibility for this sector to generate considerable revenue for the Afghan Government, as well as tens of thousands of jobs. In FY 2014, the MoMP, with TFBSO's support, successfully completed the negotiations for four major gold and copper mining contracts, tendered and negotiated a contract for a green field cement facility, and concluded five major oil and gas contracts that are ready for the Afghan Government's approval.

Mineral Tenders and Contracts

In FY 2011 and FY 2012, TFBSO staff, supplemented by international technical, legal, and financial experts, assisted the MoMP in executing four tenders of copper and gold fields and in negotiating exploration contracts for those fields. The four sites (Balkab, Badakshan, Zarkashan, and Shaida) could potentially generate an estimated \$2.6 billion in royalties, taxes, and fees to the Afghan Government during the mines' life spans. This exploration may create a number of skilled and unskilled Afghan jobs. The private mining companies that have initialed these contracts were slated to invest an estimated \$50 million to build the infrastructure necessary to conduct exploration and may invest millions for facilities, infrastructure, and training at each location in preparation for future full-scale mining operations. These four contracts completed negotiations in FY 2014 and were initialed by the individual bidders and the MoMP. They are currently awaiting approval by the Afghan Government.

The MoMP, with TFBSO's assistance, continued negotiations for the tender of the Jabul Seraj green field cement project, an area of interest with limestone mineral deposits. Afghanistan is almost completely dependent on imports for its cement production; therefore, domestic production would lower costs, improve quality, and create jobs. The goal of domestic production is to eliminate significant transportation costs from importing material from outside Afghanistan, which could lead to a comparative advantage for these companies.

Kabul Polytechnic University (KPU) Academic Initiative Project

In FY 2014, TFBSO awarded a grant to three universities — MST, University of Nebraska — Omaha, and Middle East Technical University — to work with KPU's geology and mining engineering faculty. The goal was to provide KPU faculty with the necessary knowledge to continue their advancement of curricula and professional development. This was done by training KPU faculty on advanced curriculum development, along with advanced research preparation and developing knowledge on how to create partnerships with the international mining community.

The goal of this grant was to increase the knowledge base of not only the faculty but the students, with the expectation that those students would go on to work within the government or for mining companies in Afghanistan. KPU faculty will be responsible for implementing the program after 2014 through these established relationships and partners. KPU built upon this

completed grant by planning for two faculty members to travel to the United States to receive Master's degrees in mining engineering from MST.

Hydrocarbon Tenders and Contracts

TFBSO's FY 2014 work in the hydrocarbons sector focused on executing tenders and continuing to provide assistance to the Afghan Government and transitioning that knowledge to the MoMP. TFBSO assistance included: providing SMEs to assist the MoMP in concluding the Afghan Tajik I tender (two contracts), executing two concurrent tenders for multiple oil and gas blocks in the Afghan Tajik Basin (Afghan Tajik I), executing one gas block in the Amu Darya Basin (Totimaidan), and commissioning the dehydration and compression units to enable increased gas flow from the Sheberghan-to-Mazar-e-Sharif pipeline.

TFBSO concluded its support to the U.S. Department of State (in the form of a contracted SME) to promote progress on the Turkmenistan-Afghanistan-Pakistan-India pipeline, which is planned to carry gas through Afghanistan to its neighbors.

Contracts and Tenders

Amu Darya Oil Exploration and Production Sharing Contract: TFBSO helped the Afghan Petroleum Authority (APA) oversee the first hydrocarbon contract, signed in 2011, through legal, technical, and financial advisory services. The total amount of money invested in Afghanistan through this contract exceeded \$148 million as of November 2014, and the fields produced more than 260,000 barrels of crude oil in 2014. Afghanistan received more than \$12.2 million in revenue, consisting of royalties and land rents, from January 2012 to October 2014.

In order to support the management of all current contracts between international oil companies (IOC) and the Afghan Government, TFBSO provided legal, financial, and technical advisory support and training to the APA to enhance the agency's ability to perform contractor communications, facilitate contract requirements with other government agencies, calculate and project revenue, fees, royalties and production share, monitor contractor expenditures and technical work plans, compile geological and production data, and monitor environmental, health, safety, and community relations.

TFBSO further supported the APA by helping it plan and structure its administrative operations and assisting in recruiting and training staff that will be responsible for overseeing and regulating future contracts. As part of this support, TFBSO partnered with the U.S. Bureau of Land Management to provide training to MoMP employees in understanding the regulatory and accountability requirements in documenting Afghanistan's oil and gas production. An understanding of the financial, environmental, and regulatory effects of oil and gas production helped to ensure proper collection of revenues and helped to enable the Afghan Government to enforce all Health, Safety, and Equipment requirements in their EPSC agreements. TFBSO ended its support to the APA in November 2014.

Afghan-Tajik I Basin Tender: With TFBSO's support, the Afghan Government signed two contracts with an international consortium to explore and develop the Afghan-Tajik oil and gas fields around and to the northwest of Mazar-e-Sharif. This consortium consists of the Turkish National Petroleum Corporation, Dragon Oil of the UAE, and the Afghan Ghazanfar Group. The

government of Afghanistan has received more than \$2.1 million in surface rental fees and \$2 million in signing bonuses from this contract.

As a result of a marketing campaign undertaken by the MoMP and TFBSO, eight IOCs formally expressed interest in the Afghan-Tajik blocks.

Afghan-Tajik II Basin Tender: With the TFBSO's support, the Afghan Government administered a tender for the remaining blocks that were previously unassigned through the Afghan-Tajik I tender. Two contracts have been initiated by the Afghan Government.

Northern Amu Darya (Totimaidan) Tender: In FY 2013, TFBSO helped the MoMP prepare to tender a large block in the Northern Amu Darya Basin, in the country's northwest. The tender was approved for execution by the Afghan Government Inter-Ministerial Commission, with the process taking place in FY 2014. The MoMP initialed the Exploration and Production Sharing Contract on November 15, 2014. The international consortium selected as the preferred bidders for this contract includes the Turkish Petroleum Corporation (Turkey), Bayat Energy (Afghanistan), and Calik Enerji (Turkey). This large block includes proven natural gas reserves and shares many of the characteristics of very large gas fields across the border in Turkmenistan. The contract execution and resulting expected start of work date are dependent on the Government of Afghanistan assigning a new Cabinet to review and approve the contract. Companies interested in developing this possibly gas-rich region have the opportunity to build gas distribution networks in Afghanistan – north to connect into the Central Asia-China networks, or south to connect to Pakistan and India.

U.S. Geological Survey (USGS): TFBSO partnered with the USGS to produce scientific data to help Afghanistan define and develop its mineral resources. The data and reports contained all available information for each mineral area of interest. Sixty hyperspectral maps were released in an event held at the Afghanistan Embassy in March 2014. These maps display superficial materials observed from a hyperspectral sensor that was flown across Afghanistan and is now stored at the Afghanistan Geological Survey Data Center.

Kushka Seismic: TFBSO contracted to have seismic data collected in the Kushka basin of Western Afghanistan. Due to a number of challenges, only 52 kilometers of data was collected. Despite collecting less data than anticipated, the seismic data validated the previous Soviet gravity and magnetic data in the basin and could provide value for a future tender, to be managed by the Government of Afghanistan.

2. Industrial Development

Part of TFBSO's mission was to set the conditions for responsible industrial development of Afghanistan's natural resources, specifically natural gas. TFBSO promoted diverse initiatives to utilize these resources for domestic industrial use, including working with the Afghan Government to try to streamline investment, provide market analysis of key industries and market Afghanistan's economic potential to international investors.

Natural Gas Distribution

Afghan Gas, a wholly owned subsidiary of the MoMP, with TFBSO's assistance, concluded the repair and uprate of a natural gas pipeline that runs from Sheberghan to Mazar-e-Sharif. TFBSO provided pipe and equipment manufactured in the United States, sought to train Afghan welders, and sought to provide planning, design, operations, and management support to Afghan Gas management. The rehabilitated pipeline, in conjunction with a new pipeline to be constructed by the Afghans, has the potential to double the gas supply to Mazar-e-Sharif, which could enable industrial development in Mazar-e-Sharif and expansion of fertilizer production at the Northern Fertilizer and Power Plant in Mazar-e-Sharif. The pipeline uprating is 95 percent complete, with only one section remaining to be tied-in. The Afghan Gas Pipeline Team is capable of completing the tie-in without advisor oversight. The compressors are fully operational and the gas processing facility was completed on November 1, 2014. The entire pipe required for the construction of the new Sheberghan-to-Mazar-e-Sharif Pipeline has been delivered, giving Afghan Gas the capability to construct the new pipeline when the demand for gas in Mazar-e-Sharif rises.

As part of this project, TFBSO also sought to provide Afghan Gas with a framework for pricing and selling gas to industrial users and a roadmap for corporatization as a state-owned company.

Compressed Natural Gas

In 2012, TFBSO built Afghanistan's first compressed natural gas (CNG) station in Sheberghan to demonstrate the potential to use natural gas as an alternative to expensive imported gasoline and diesel fuel.

The potential for use of CNG could increase as gas pipelines are built to carry the gas to other population centers. The pipeline from Sheberghan to Mazar-e-Sharif may enable CNG stations to be built to service the much larger population of Mazar-e-Sharif.

The CNG station in Sheberghan was successfully tendered to Qashqari Oil and Gas, a private Afghan company, in the spring of 2014. Qashqari Oil and Gas has the right of first refusal to build the first CNG station in Mazar-e-Sharif once the pipeline uprating is completed and increases the gas availability in the city. MoCI has approved four additional 10-year CNG licenses, and Qashqari Oil and Gas has indicated that it will start construction of a sister station in Mazar-e-Sharif. This should enable drivers to go from Sheberghan to Mazar-e-Sharif and back on CNG as opposed to returning to Sheberghan on imported diesel fuel. The signing of the CNG license between the Afghan government and Qashqari Oil and Gas signaled the end of this project for TFBSO.

3. Investment and Entrepreneurship

TFBSO's Investment and Entrepreneurship Program sought to increase the rate of investment between responsible investors and legitimate Afghan firms, set the conditions for sustainable and responsible industrial development using Afghanistan's natural resources, and enhance the ability of Afghan companies to compete in Afghan and regional markets through professional consulting services.

Business Accelerator

From May 2011 to July 2014, TFBSO operated a business accelerator in Herat, which sought to help promising Afghan entrepreneurs grow and become profitable by providing them with business advisory and consulting services and formal business management training.

The business accelerator began as an Information and Communication Technology (ICT) incubator, focusing on Herat's university community and affiliated ICT startup firms. As the program evolved, the scope broadened to include a variety of sectors, such as food processing, light manufacturing, and chemicals. It also shifted from startups to working with small- to medium-sized Enterprises, which were more capable of taking advantage of the business advisory services the program offered.

TFBSO worked closely with Small- to Medium-sized Enterprises, helping to articulate their intentions for growth or improvement, assisting in the creation of business plans to realize those aspirations, and providing coaching throughout the execution process. Consultants often emphasized financial accounting practices, efficient production planning, and sales and marketing strategies.

At the close of the program, 13 companies graduated from the accelerator program. Overall, the business accelerator assisted 34 companies and 62 entrepreneurs in Kabul and Herat. Nearly 1,000 employees have been assisted either directly or indirectly by the accelerator program.

In FY 2014, the accelerator continued to improve the operating efficiency of small- to medium-sized Enterprises. On average, micro-businesses in the accelerator program have increased revenues by 450 percent per year; small businesses have increased revenues by more than 300 percent per year.

In accordance with TFBSO transition strategy, the business accelerator campus in Herat was closed in July 2014. Afghan national consultants remained in Herat until December 2014, responsibly closing relationships with client firms.

TFBSO awarded a grant to the American University of Afghanistan (AUAF) in FY 2013 to establish its own business accelerator program. Housed at the International Center for Afghan Women's Economic Development at the AUAF in Kabul, which was also funded by TFBSO, the AUAF "Business Innovation Hub" operates as an independent entity within the university. It has the advantage of drawing upon lessons learned from the Herat incubator and international best practices. The AUAF is serving clients in Kabul, and is in the process of opening its first branch office in Herat.

Small- to Medium-sized Enterprises and Strategic Investments

TFBSO identified the most commercially attractive opportunities in Afghanistan that have significant economic development impact. TFBSO sought to increase the rate of investment into the small- to medium-sized enterprises sector by pairing responsible investors with legitimate Afghan firms or introducing them to specific viable sectors within Afghanistan. TFBSO conducted extensive due diligence reviews on Afghan companies, sourced potential investments, conducted extensive market research, and worked to reduce transaction costs to potential

investors through investment advisory services. The most promising companies were vetted and presented for potential investment to a network of established emerging market investors and development finance institutions.

In FY 2014, TFBSO facilitated a \$27.5 million deal to fund the completion of a pharmaceutical manufacturing plant in western Afghanistan. This may result in the development of one of the largest pharmaceutical factories in western Afghanistan.

TFBSO facilitated a loan between an Afghan media company and two Afghan loan providers. The deals centered on assisting a highly reputable firm obtain funding to purchase land and develop its own purpose-built studio in Kabul. In the food processing area, TFBSO facilitated a licorice sourcing company in the United States to supply high-quality product for domestic and international processing.

For strategic investments, TFBSO sought out sustainable foreign direct investment opportunities with significant growth potential, attractive product margins, and abundant resources. TFBSO assisted an investor interested in a steel manufacturing project, which could contribute to creating jobs, and potentially millions of dollars per year in tax revenue.

TFBSO sought to facilitate a U.S. communication equipment manufacturer seeking a long-term partner in Afghanistan to engage in future business with the Ministry of Defense (MoD). The U.S. company will continue to supply the Afghan National Army (ANA) with premium products and services. There is no transition needed.

TFBSO sought to assist an ongoing U.S. Agency for International Development-funded investment project in Afghanistan's nascent hospital sector. Three newly built hospitals in Kabul, donated to the Afghan Ministry of Public Health (MoPH) by foreign governments, were prepared for tendering by the Afghan Government to private investors. The MoPH intended to create public-private partnerships (PPPs) with private hospital operators to inaugurate the first internationally accredited hospitals in Afghanistan. TFBSO provided private sector perspectives to the Ministry, communicated the opportunities to top-tier potential investors, and facilitated information gathering and site visits by interested candidates.

There has been no transition of these investment projects as the relationships are between the private companies. TFBSO worked as an intermediary to reduce transaction costs, and has helped prepare all parties to continue these efforts.

Natural Gas Independent Power Producer (IPP)

TFBSO helped coordinate a private sector investment to build, own, and operate an IPP in Mazar-e-Sharif. The IPP will use approximately 300,000 cubic meters of natural gas per day, which is delivered to the plant in the recently refurbished Sheberghan-Mazar pipeline. The IPP is planning to use this gas to generate electricity to be sold to the national power company, Da Afghanistan Breshna Sherkh (DABS). TFBSO conducted due diligence reviews on investors, evaluated the potential economic impact, and then facilitated meetings between the investors and the Afghan government. The investor consortium includes a Fortune 500 U.S.-based firm, the World Bank Group, and a prominent Afghan company headquartered in Mazar-e-Sharif.

TFBSO co-hosted an investor conference in Kabul in July 2014 during which the Afghan Government signed a MOU agreeing to key aspects of the deal. During the past year, TFBSO provided three SMEs in the area of international investment. No other funding or resources have been used to support this initiative.

The IPP could reduce the need for imported power by \$44 million each year and could promote as much as \$440 million in economic growth per year. Once contracts are signed between the Afghan Government and the investor consortium, the IPP can be operational within 6-9 months. This may be realized by the end of calendar year 2015, provided political uncertainty in Afghanistan does not delay progress.

The primary challenge facing this IPP project was Afghan and investor fatigue related to power projects given past failures. To mitigate this obstacle, TFBSO completed extensive financial modeling to show that this deal was truly bankable and helped highlight the unique characteristics of this project. Furthermore, to keep key stakeholders confident that this investment was moving forward, TFBSO led efforts to have the parties start negotiations and sign an MOU. Although this amounted to genuine progress, the continued optics of progress helped build support within the Afghan Government.

The International Finance Corporation (IFC), a division of the World Bank Group, is providing equity and debt financing, and leading all World Bank efforts related to the IPP. TFBSO has transitioned all project management roles to the IFC representatives in Dubai. Additionally, the IFC has personnel located in Kabul who will be able to continue to engage the Afghan stakeholders and, as investors in the project, have a financial interest in seeing it move forward.

4. Indigenous Industries

TFBSO sought to create economic opportunities for Afghans by strengthening indigenous industries that have recognizable international market potential. Afghanistan has not kept pace with global quality control standards and value-added infrastructure, and Afghan industries are not competitive in exporting finished goods directly to lucrative foreign markets. Thus, Afghan industries are heavily dependent on neighboring countries to add value and access customers. TFBSO initiatives were designed to increase the value and volume of Afghan exports, strengthen Afghan businesses, and raise worldwide awareness of Afghan industries and products.

In FY 2014, TFBSO sought to assist revitalize traditional Afghan industries, including agricultural products, hand-knotted carpet weaving, cashmere production, and jewelry. TFBSO worked closely with Afghan businesses to adapt products to international standards and facilitate access to international markets. TFBSO also worked to connect international companies with Afghan business opportunities to source Afghan goods and services.

Carpets

Hand-knotted carpets are Afghanistan's largest legal export. More than one million Afghans work directly or indirectly in the supply chain of this industry and derive their economic security from hand-knotted carpets. With the global carpet industries facing a worldwide shortage in hand-weaving capacity, international companies are looking to Afghanistan as one of the last

major sources of hand-woven carpets. Throughout FY 2014, TFBSO continued previous work helping create partnerships between international designers who need access to high-quality hand-knotted weaving capacity and Afghan carpet companies and weavers, who need access to new designs and markets. A network of dealers brought together throughout FY 2013 and FY 2014 by TFBSO, and supported by the “AfghanMade” sales campaign, now market Afghan carpets directly to international marketplaces.

A fundamental problem in Afghanistan’s carpet industry was the lack of finishing facilities. As a result, unfinished carpets were sold to buyers in neighboring countries at very low prices. In FY 2012, TFBSO helped establish carpet cut-and-wash facilities in Herat and Mazar-e-Sharif. By the end of FY 2014, the Herat facility processed 55 percent of local market carpets, approximately 1,000 square meters of carpet per month and the Mazar facility processed 100 percent of international orders, approximately 1,500 square meters of carpet per month.

At the close of this project, TFBSO facilitated partnerships of 15 international companies with nine Afghan companies to produce their designs. These partnerships gave the Afghan carpet industry direct access to high-end international markets using exclusive designs provided by their design partners. The high value of these carpets, coupled with the increased production rate, has resulted in a significant revenue increase for both weavers and distributors. New sales from this initiative support more than 9,700 jobs and should continue to increase in coming years as capacity and awareness increase. TFBSO’s role for this initiative consisted of providing SMEs and project planning, management, and oversight.

TFBSO sought to expand global market awareness of the quality and availability of hand-knotted Afghan carpets through tradeshows, investor visits, and sponsoring an international carpet design competition. The International Carpet Design Competition aims to inspire students and young designers to create modern designs through traditional weaving techniques while promoting Afghan women artisans. These designs showcased the high quality of Afghan carpets and highlighted Afghanistan as a viable source of production. TFBSO partnered with the leading industry publication, HALI Magazine, and the largest carpet trade show, DOMOTEX, to sponsor this competition.

Carpets under the “AfghanMade” brand were also exhibited at the following venues: the Atlanta International Rug Market in January 2014; DOMOTEX in Hannover, Germany in January 2014; Maison & Objet in Paris in January 2014; “designjunction” during Salone del Mobile in Milan, Italy in May 2014; the Rug Show in New York in September 2014; and designjunction during the London Design Festival in September 2014. TFBSO carpet program ended in December 2014.

Cashmere

Afghanistan is the world’s third largest producer of raw cashmere. As with carpets, most value-added processes for cashmere take place outside Afghanistan because there is no suitable domestic processing capability. Afghan cashmere is sold at very low prices because much of Afghanistan’s cashmere is shipped illegally in raw form contaminated with rocks, dirt, and other debris.

TFBSO sought to introduce value-added processes to enable Afghan producers to earn a higher return on exported cashmere. In FY 2013, TFBSO engaged Colorado State University to introduce new breeding and husbandry techniques to improve goat herds; initiated new harvesting and cleaning techniques; and connected Afghan cashmere producers with international investors, buyers, and fashion houses. These improved cleaning, spinning, and grading processes could increase the value of Afghanistan's cashmere exports.

Artisanal Products

TFBSO sought to assist in the rebuilding of Afghanistan's traditional craft capability. Connecting the best of Afghanistan's handmade artisanal products to the global marketplace can create jobs and increase revenue.

In FY 2013, TFBSO partnered with Turquoise Mountain Arts (TMA), an Afghan organization focused on regenerating Afghanistan's traditional arts and architecture, and on training young people in jewelry making, calligraphy, ceramics, and wood working. TFBSO introduced TMA to international retail companies, enabling access to new markets. Thanks in part to these efforts, the Museum of Islamic Art in Doha, Qatar, commissioned a large exhibition to showcase the skill and talent of TMA artisans. In FY 2013 and FY 2014, with TFBSO's business development support, TMA mentored 27 small businesses, assisting them with planning, management, product design and production, quality control, and marketing. To date, TMA's activities have contributed to the creation of more than 130 jobs and generated more than \$1.2 million in new sales, including a contract to furnish a new hotel in Mecca, Saudi Arabia, with hand-crafted furniture.

Jewelry

Afghanistan represents one of the last mostly untapped sources of gemstones in the world. Unfortunately, there is currently almost no value-added processing of gems in Afghanistan. Most cutting, polishing, jewelry manufacturing, wholesaling, and retailing take place outside of the country, and most gemstones are exported uncut through illegal channels to neighboring countries. Cutting and polishing can increase the value of gemstones by 50 percent, and incorporating stones in jewelry can increase their value by up to 200 percent.

To promote Afghan competitiveness in gemstone cutting and jewelry production, TFBSO worked with Partners for Sustainable Development/Future Brilliance Afghanistan (FBAO) on phase two of their program – creating sustainable market linkages for Afghan jewelry artisans and workshops. FBAO coordinated the design and launch of Aayenda Jewelry, an Afghanistan-branded line of jewelry. Starting in October 2013, five collections of Afghan-inspired designs were launched. Sales in the first six months amounted to approximately \$60,000 across 25 key accounts. The program established training workshops in Kabul where any artisan can learn to make Aayenda pieces. There are currently five jewelry workshops employing 38 Afghans working on a 700-piece cast jewelry order – this is the largest casted jewelry order ever created in Afghanistan. Though TFBSO's work with FBAO has concluded, the project is continuing with additional donor funding.

TFBSO Close Out

TFBSO ended work on all projects on or before December 31, 2014, and worked with the Government of Afghanistan, as well as the U.S. DOS and the USAID, in transferring or shutting down tasks. TFBSO concluded its administrative shut-down by March 31, 2015.

ANNEX 1: FY 2014 Program Funding

CATEGORY	FY14 COMMITMENT
MINING SECTOR DEVELOPMENT	
Advertisement for Cement Tender: Advertisement for Cement Tenders on globalcement.com and the International Cement Review website.	\$ 3,970.00
DOI contract administrative fees - cancelled Transaction Advisory contract	\$ 159,793.92
Mineral Tender and Geological Services: Provided TFBSO with information on the current position of governmental and legal infrastructure related to mining, applying the firm's global experience in advancing the tender targets, and assisted the Government of Afghanistan in developing a world-class tender process.	\$ 5,878,133.63
SRK-MB 2-month ext. (geological legal tender support): See above description.	\$ 473,032.35
USGS Annex 1 - Collaborative effort between USGS and TFBSO to collect data on mineral deposits throughout Afghanistan; provided equipment to Afghan geologic survey for mining modernization.	\$ 5,000,000.00
Kabul Polytechnic University Grant: Enhance the Geology and Mines Department at Kabul Polytechnic through hands-on training. Kabul Polytechnic's Geology and Mines Department will be paired with 2-3 U.S. universities that have established Geology and Mines programs.	\$ 500,000.00
Airlift Support: General management of airlift services in direct support of TFBSO's programs in Afghanistan; two rotary-wing aircraft and one fixed-wing aircraft primarily to transport investors and conduct geological missions throughout Afghanistan.	\$ 1,398,464.00
Lithium Drilling: Confirmed the quality of lithium extraction and lab testing.	\$ 1,823,336.00
Mining Total	\$ 15,236,729.90
PRIVATE INVESTMENT - HYDROCARBON	
Pipeline Shipping Phase 6: For the gas to Mazar project, enabled the final shipment of remaining materials for the pipeline rehabilitation project.	\$ 750,000.00
USGS Energy Annex: Provided technical assistance to TFBSO regarding hydrocarbon resources in Afghanistan in managing the contract for seismic data collection/analysis.	\$ 523,123.79
Energy SMEs - Option 2: Primary contract vehicle for all energy-related labor/travel/ODCs.	\$ 8,872,881.38
Energy SMEs - Option 3: Primary contract vehicle for all energy-related labor/travel/ODCs.	\$ 3,515,310.17
USACE Engineering Tech Assist of Sample project: Reviewed the Khoja Gogorda-to-Northern Fertilizer Power Plant 89.1 km pipeline plan for TFBSO.	\$ 2,700.00
Legal Advisory Services in International Hydrocarbons & Minerals Sector Option 1: Legal support services for TFBSO energy team programs in	\$ 1,658,587.96

Afghanistan.	
Gas to Mazar equipment purchase.	\$ 103,900.00
BLM training project: Provided funding for the training of MoMP personnel on oil/gas regulations and implementation.	\$ 349,450.00
Hydrocarbon Total	\$ 15,775,953.30
PRIVATE INVESTMENT: INVESTMENT ENTREPRENEUR	
AUAF Grant: Implemented a sustainability plan created in FY 2013 to create a long-term business accelerator in Afghanistan.	\$ 2,799,702.00
Business Accelerator & Investment SMEs (Herat Incubator Investment Program): Business Accelerator and Investment facilitation subject matter support services.	\$ 2,964,140.55
Herat Business Innovation Hub: Established a sustainable, long-term business innovation hub in Herat to provide management consulting services.	\$ 1,111,629.00
Business Accelerator & Investment SMES - final 6-month option: See above description.	\$ 2,869,974.45
Investment Total	\$ 9,745,446.00
PRIVATE INVESTMENT: INDIGENOUS INDUSTRY	
Mazar Water Pump: Water Pump to assist in repairs for removing water from floods at Carpet Cut & Wash in Mazar.	\$ 5,000.00
FY 2013 Tradeshows contract additional funds: Showcased Afghan products at international trade shows produced promotional materials, and executed marketing and media outreach.	\$ 93,420.00
Cashmere: Cashmere supply chain development grant.	\$ 547,617.00
Indigenous trade show Option 2: Showcased Afghan products at international trade shows, produced promotional materials, executed marketing and media outreach.	\$ 1,647,880.96
ITOs: Invitation Travel Orders to bring U.S. artists to Afghanistan to collaborate on carpet designs for Hammer Museum exhibition.	\$ 28,912.47
Jewelry Grant modification: Enabled the continuation of project 3 (only resources, not time extension). This project will offer 30 semi-skilled Afghan gemstone artisans advanced technical training and business development skills.	\$ 215,290.00
Turquoise Mt - additional funds for FY 2013 contract: Compensation for inaccurate allocation for insurance required by the Defense Base Act.	\$ 1,000.00
Indigenous Industry Total	\$ 2,539,120.43
MISCELLANEOUS	
TF Tradeshow and Media Support Services: Provided services to help promote Afghan products, firms, and industries, as well as TFBSO's mission, work, and services in Afghanistan through strategically selected industry events.	\$ 3,038,584.82

NDAA SME contract: SME Services for Minerals, Investments, Indigenous Industries, and Energy.	\$ 2,379,947.40
Import-Export Project: Assessed the feasibility of exporting products from Afghanistan.	\$ 393,255.00
EIA Extension: Collected macro and micro-economics data and developed a model to run qualitative and quantitative data using a contextual frame work to conduct analysis and write an Economics Impact Assessment for Congress and key stake holders.	\$ 783,521.00
EIA Extension contract administration fee for contracting office overhead.	\$ 39,176.10
Import/Exports Option 1: See above description.	\$ 200,024.00
Lessons Learned Study: Evaluated TFBSO operations in Afghanistan and documented lessons learned; facilitated exposure of TFBSO program to think tanks and academic institutions in the Washington, D.C. with an interest in post-conflict stabilization and counterinsurgency operations.	\$ 204,258.00
Limited Technical Assistance: Provided critical analysis and information to enhance trade throughout Afghanistan.	\$ 751,282.00
Misc. Total	\$ 7,790,048.32
FY 2014 FUNDED TOTAL	\$ 51,087,297.95

Senator KAINE. Thank you, Madam Chair.

Senator AYOTTE. Thank you.

First, we are going to receive testimony from the Principal Deputy Under Secretary for Defense Policy, Secretary Brian McKeon.

**STATEMENT OF HONORABLE BRIAN P. McKEON, PRINCIPAL
DEPUTY UNDER SECRETARY OF DEFENSE FOR POLICY**

Mr. McKEON. Thank you very much, Senator Ayotte, Senator Kaine, members of the committee. You have my longer statement for the record. Let me focus on a few key elements, including the genesis and purpose of the Task Force for Business and Stability Operations, and the oversight of the task force.

Ultimately, time will tell whether the task force succeeded in its objectives. Independent assessments tell us that it had mixed results with some successes and some failures.

The origins of the task force are rooted in the chaos of Iraq before President George Bush ordered the military surge early in 2007. It was created in June 2006 by then-Deputy Secretary Gordon England. He charged the task force with transforming military contracting in Iraq so that the task force could generate stability through economic development and job creation.

In March 2010, Secretary Bob Gates directed the task force to expand its efforts to support Operation Enduring Freedom. In my statement for the record, I provide a detailed timeline of the task force's authority to operate in Afghanistan, including planning to transition the task force's projects to other government agencies and the Government of Afghanistan.

Consistent with the direction from Congress and the Secretary of Defense and plans to draw down U.S. force levels in Afghanistan, the task force ceased its operations at the end of 2014. I requested authority for an additional three-month administrative sunset period, during which a small number of the task force employees engaged in closeout activities, as well as responded to SIGAR's request for information.

I was not serving in the Department for most of the period during which the task force operated, but I have spoken to many former senior U.S. officials involved in Afghanistan policy, including Generals Stanley McChrystal, David Petraeus, and John Allen, and Ambassadors Karl Eikenberry and Ryan Crocker, to understand the history and rationale for the task force. These conversations make clear there was a strong demand signal from the field, strong support in the Pentagon, and strong support in the Government of Afghanistan for the work of the task force, the objective of which was to assist that government to generate economic activity in support of the military campaign plan.

You asked me to address DOD's oversight of TFBSO activities. Let me make two broad points. There are a lot more in my statement for the record.

First, the task force did not have independent contracting or procurement authority. All task force contracting and disbursement of funds and other support functions were handled either by U.S. Army Central in Kuwait, by DOD headquarters elements, or by other U.S. Government entities.

Second, the reporting chain of the task force to the Under Secretary for Policy only commenced in August 2011. Prior to that time, the task force reported directly either to the Secretary or the Deputy Secretary. I have spoken to all of my predecessors in OSD Policy, who have reported they had regular meetings with task force leadership.

In April 2014, as the task force was winding down, Michael Lumpkin, then performing the duties of the Under Secretary for Policy, asked the Department Inspector General to perform an overarching audit of the task force's operations, financial actions, and contracts. The IG declined to do so due to limited resources and the need to focus its efforts on "projects with the greatest potential return on investment."

After my arrival in DOD of August 2014 until the final administrative closeout in March of 2015, I met every few weeks with the acting director. My primary focus was on ensuring the orderly shutdown of the task force and responsible preservation of the records. In the fall of 2014, I requested a financial audit of the task force, which was completed last April.

My written statement examines in some detail OSD's policy engagement with SIGAR over the last two years. Let me comment on the issue of SIGAR's access to the task force records.

First, at all times, SIGAR had unfettered access to TFBSO records, consistent with the Inspector General Act of 1978.

Second, SIGAR now possesses a hard drive containing the unclassified records of the task force. The provision of the hard drive followed a meeting that I initiated with SIGAR, and followed an exchange of letters between myself and Mr. Sopko setting forth the conditions of our doing so.

With regard to the CNG station project that has been mentioned, I would offer two observations and point you to my statement for the record for more detail.

First, SIGAR has issued two reports conducted by its Office of Audits on U.S. Government support for the extractives industry in Afghanistan, one issued last April and one issued last week, both of which review the CNG project in some detail. Notably, in the most recent report, one of the projects that SIGAR concluded had generally met project objectives is the CNG station project.

Second, in preparing this report on the CNG station project, SIGAR relied on information provided by an economic impact assessment [EIA] prepared by a consulting firm that was hired by TFBSO. That assessment stated that the task force spent \$43 million to fund the station, of which \$12.3 million were direct costs and \$30 million were overhead costs. We believe the methodology used by the EIA is flawed, and that the project costs are far lower.

The consulting firm that conducted the assessment has also reviewed its work, and we have seen a copy of their memo to the committee staff indicating that total costs of the station are likely well under \$10 million.

With that, let me break down the costs of the station, as we understand them.

First, the cost for the entire station project was \$5.1 million. Of this amount, the gas station itself cost \$2.9 million. This is con-

sistent with the amount reported by SIGAR in its April 2015 audit report.

Second, the data that the EIA team reviewed suggests that approximately \$7.3 million was spent on subject matter experts, or SMEs. These experts were also involved in a broader effort to advise the Afghan Government to develop a natural gas industry. The figure of \$7.3 million appears to be an average of all labor costs across the energy sector work by the task force divided by the number of projects. We believe the assumption that the labor costs were equal across all projects is likely flawed.

Third, we cannot validate the figure of \$30 million in overhead costs as being directly attributable to the CNG station. As with the labor costs, this appears to encompass the entire amount spent to support all natural gas or energy projects, which is a flawed method of accounting.

I would note that in the most recent SIGAR audit on the extractives industry, when analyzing the costs of projects, it also appears to apply similar methodology to the one I just described.

Reports that we commissioned to assess the task force work as well as SIGAR's work tell us that the task force had a mixed record of success. As was highlighted by both Senator Ayotte and Senator Kaine, the most recent audit on the extractives industry portrayed a mixed record of the various projects in the energy sector by the task force, some meeting their objectives, some not, some partially meeting their objectives.

The overarching question of how we promote economic development during a contingency operation, the point which Senator Kaine emphasized, remains a challenge for all of us in the U.S. Government. I personally am skeptical that the Department of Defense is a natural home for that mission. As a government, we need to consider and develop a functioning mechanism so that we are prepared for future contingencies, and I commend the committee for engaging in that discussion.

Thank you for listening.

[The prepared statement of Mr. McKeon follows:]

PREPARED STATEMENT BY BRIAN MCKEON

Chairwoman Ayotte, Ranking Member Kaine, and Members of the Subcommittee, thank you for convening this hearing, which gives us a chance to review two important national security challenges that have confronted our government in the last decade: how to use non-military tools in concert with a military campaign, and how to strengthen our financial management and accountability in conflict zones.

My testimony will address several subjects – the history of the Task Force for Business and Stability Operations, including the decision to close it down, OSD Policy's engagements with the Special Inspector General for Afghanistan Reconstruction regarding the work of the Task Force, the specifics of the Compressed Natural Gas Station project, and finally, lessons learned.

I was not serving in the Department of Defense for most of the period of the operation of the Task Force. To prepare for this hearing, I have reviewed many reports, including reports by SIGAR, some of the records of the Task Force, and spoken to many former senior U.S. officials, civilian and military, involved in Afghanistan policy during the operation of the Task Force in Afghanistan, including Generals McChrystal, Petraeus, and Allen, and Ambassadors Eikenberry and Crocker.

These conversations make clear that there was a strong demand signal from the field, strong support in the Pentagon, and strong support in the government of Afghanistan, for the work of the Task Force, the objective of which was to assist the government of Afghanistan to generate economic activity in support of the military

campaign plan. Many of the commanding generals in Afghanistan had seen the work of the Task Force in Iraq, and welcomed its contributions in Afghanistan.

The Task Force was, in a sense, expeditionary, operating not under Chief of Mission authority but under authority of the military commander. This unique status gave them a certain freedom to move around the country and engage more directly with Afghans than employees of the U.S. Embassy.

During the course of its operation in Afghanistan, the Task Force obligated close to \$800 million and disbursed over \$600 million, which was roughly evenly divided between projects and support costs. These support costs are undoubtedly higher in Afghanistan due to the security requirements of operating in a war zone. The Task Force's work in Afghanistan was focused on a few major lines of effort, particularly efforts to assist Afghanistan benefit from its mineral resources and fossil fuels.

Time will tell whether the Task Force succeeded in its objectives. Independent assessments tell us that it had mixed results, with some successes and some failures. We welcome continued oversight of the Task Force to help us understand lessons that can be applied to any future contingency operation.

I. HISTORY OF THE TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS

The origins of the Task Force for Business and Stability Operations (TFBSO) are rooted in the chaos of Iraq in 2006, before President Bush ordered the military surge early in 2007.

On June 22, 2006, Deputy Secretary of Defense Gordon England issued a memo entitled "Accelerating Reconstruction and Stability Operations in Iraq." The memo stated that the formation of a government in Iraq had created a "short window to accelerate stabilization and reconstruction operations." Toward that end, Deputy Secretary England appointed Paul Brinkley, then Deputy Under Secretary of Defense for Business Transformation, to head a Task Force to Support Improved DOD Contracting and Stability Operations in Iraq. As the name implied, it was charged with adapting and unifying military contracting in Iraq such that the Task Force could become an engine for stability through economic development and job creation. The mandate of the Task Force was also to look forward to examine possible changes to acquisition law and practice to address future contingency operations, as well as to accelerate the definition of contingency operations doctrine in the business mission area. In short, the Task Force was born from the concept that economic development and job creation were necessary conditions for building a stable and secure Iraq.

On March 11, 2009, Secretary Gates issued a memo indicating that he had asked Mr. Brinkley to continue the Task Force's economic revitalization efforts in Iraq for "an appropriate transitional period into the new Presidential Administration" and shifted the chain of command to have Mr. Brinkley report directly to him.

A year later, on March 25, 2010, Secretary Gates issued a new memorandum, directing that Mr. Brinkley extend the efforts of the Task Force to support Operation ENDURING FREEDOM, and directing that it focus on "development of economic opportunities including private investment, industrial development, banking and financial system development, agricultural diversification and revitalization, and energy development."

Later that same year, some uncertainty about the status of the Task Force arose when the Office of General Counsel cast doubt on the legal authority of the Department of Defense to conduct economic development activities in a foreign country, as they appeared to be inconsistent with the Department's authorities. Many activities of the Task Force were suspended.

Congress clarified the situation in the FY 2011 National Defense Authorization Act, providing statutory authority for activities of the Task Force in Afghanistan. The NDAA provided, however, that this authority would expire on September 30, 2011, and directed a plan to transition the activities of the Task Force to the Department of State and the Agency for International Development.

The sunset provision caused an impression within the Department that the Task Force would continue only through Fiscal 2011, and contributed to a decision by Mr. Brinkley and other senior staff at the Task Force to depart in the summer of 2011. Consequently, Senators Levin and McCain, then the Chairman and Ranking Member of this Committee, wrote to Secretary Gates on April 19, 2011, stating that the NDAA provision should not be read as requiring the shutdown of the Task Force. Citing congressional testimony in support for the Task Force by then-Chairman of the Joint Chiefs Michael Mullen and by General David Petraeus, the two senators urged the Department to keep the Task Force in operation so that it could "continue to serve as an important strategic tool for General Petraeus' counterinsurgency campaign in Afghanistan."

On August 10, 2011, Secretary Panetta issued a new memo, underscoring that the activities of the Task Force remained “critical to the current mission in Afghanistan.” The memo altered the reporting chain, and required the Director of TFBSO to report directly to the Under Secretary of Defense for Policy. The Task Force was further directed to emphasize areas of indigenous industries, mineral development, and energy development.

Consistent with the transition recommendation provided to Congress on May 1, 2012, indicating the agreement of the State Department, USAID, and DOD that Task Force operations should continue through 2014, Secretary Panetta issued a memorandum on October 18, 2012, reiterating TFBSO’s mission and the expectation that it would continue through 2014, stating that, “TFBSO will focus on developing economic opportunities, including mining sector development, private sector investment, and industrial development.”

In the FY 2014 NDAA, Congress made a parallel amendment to law, authorizing the Task Force through calendar 2014. The Senate report on the legislation said that the TFBSO “has contributed to the stability of Afghanistan’s economy, particularly the development of its mining sector.”

Consistent with this statutory provision, policy guidance, and plans to drawdown U.S. force levels in Afghanistan, the Task Force ceased operations in Afghanistan in December 2014. The Task Force requested authority for an additional three-month administrative sunset period, during which a small number of Task Force employees engaged in close-out activities, as well as responded to information requests by SIGAR.

II. SHUTTING DOWN THE TASK FORCE—RECORDS MANAGEMENT, AUDITS, AND LESSONS LEARNED

You asked me to address DOD’s oversight of TFBSO activities. Let me start by making two broad points before I detail specific oversight that occurred.

First, I wish to emphasize that TFBSO did not have independent contracting authority. All Task Force contracting and disbursement of funds and other support functions were handled by U.S. Army Central (ARCENT), by a DOD headquarters element, or by other U.S. government contracting offices.

Second, I can only speak to the period of oversight by the Office of the Under Secretary for Policy, which commenced in August 2011. I have spoken to all of my predecessors, all of whom reported that they had regular meetings with Task Force leadership and that the Deputy Assistant Secretary of Defense for Afghanistan and Pakistan also engaged closely on all activities. This level of oversight and engagement is similar to that is provided by OSD Policy to the two defense agencies and one field activity that report to the Under Secretary. I have no insight into the oversight during the period that the Task Force reported directly to the Secretary or Deputy Secretary.

In 2014, the Task Force focused its efforts on bringing projects to completion or getting them to a point where the Afghan government or another U.S. entity might be able to continue the Task Force’s work. From the Office of the Under Secretary of Defense for Policy’s perspective, the emphasis during that period was on ensuring an orderly and responsible shutdown, including an effort to gather lessons learned.

In February 2014, with the departure of the Task Force Director, the Deputy Director was appointed Acting Director. He commissioned two studies: the RAND Corporation was hired to conduct a study of lessons learned, while Vestige Consulting, LLC was hired to conduct an Economic Impact Assessment of Task Force work. This latter project was completed December 29, 2014. The RAND study was completed last fall and published last week, January 12, 2016. We have provided both of these studies to the Committee.

On April 7, 2014, Assistant Secretary of Defense (Special Operations & Low Intensity Conflict) Michael Lumpkin, then Performing the Duties of the Under Secretary of Defense for Policy, asked the DOD Inspector General (IG) to perform an overarching audit of the Task Force’s operations, financial actions, and contracts to “help to ensure DOD captures lessons learned and closes the TFBSO books efficiently.” On August 26, 2014, the DOD IG replied that it could not undertake the requested audit based on limited resources and the need to focus its efforts “on projects with the greatest potential return on investment.”

Under Secretary Wormuth and I assumed our current positions in OSD Policy in the summer of 2014. Ms. Wormuth began her service as Under Secretary in late June, and I assumed the role of her Principal Deputy in mid-August. I oversaw the closure of the Task Force.

After my arrival in August, until the final administrative closeout in March 2015, I met every few weeks with the Acting Director of the Task Force. My primary focus

in these meetings was on ensuring the orderly shutdown of the Task Force and the responsible preservation of the records. In the fall of 2014, I requested that the Washington Headquarters Services (WHS), which provided administrative and financial support services for the Task Force, undertake a financial audit of the Task Force. WHS engaged the firm of Williams Adley for this purpose. It began work in early January 2015, and provided a final report on April 30, 2015.

III. OSD POLICY ENGAGEMENT WITH SIGAR IN 2014 AND 2015 REGARDING TFBSO

In 2014, the Task Force provided SIGAR with several tranches of documents and content, in response to specific queries, on the Task Force's extractives industry programs.

In late November 2014, a media account in a defense trade publication reported that Mr. Sopko intended to conduct an in-depth review of the TFBSO, which he asserted had been an "abysmal failure" and that, as far as he could determine, had "accomplished nothing." On December 9, 2014, I phoned Mr. Sopko, and explained that following the administrative sunset period, the Department would not be in a position to retain TFBSO personnel for the purpose of responding to SIGAR requests.

The SIGAR sent a letter to me the following day, requesting the preservation of Task Force records to enable ongoing SIGAR work. As noted, records preservation was already a focus of shutdown efforts.

On January 15, 2015, the TFBSO staff provided information requested by SIGAR the previous December regarding travel and spending by Task Force employees and contractors, information on the program working with indigenous jewelry makers, the Economic Impact Assessment contract and draft deliverable, and copies of other consulting contracts. On January 29, 2015, SIGAR requested significant additional information on all Task Force work, including a list of all Task Force employees and their titles from 2010 to the present. All of the requested information was provided on March 3, 2015. During this period, SIGAR staff continued to interview a number of TFBSO staff, including the Acting Director.

On March 30, 2015, I sent a letter to SIGAR with information regarding TFBSO records preservation, the location of the records, and points of contact following the March 31, 2015, closedown. On March 31, 2015, the sunset period was concluded and all records had been provided to WHS Executive Archives. At that point, the Task Force ceased to exist.

SIGAR's release of CERP data

On May 18, 2015, we discovered that a media organization had published nearly 18,000 records on projects DOD implemented in Afghanistan under the Commander's Emergency Response Program (CERP) on its website. The data, which the media organization received pursuant to a Freedom of Information Request (FOIA) submitted to SIGAR, included names and, in some cases, contact information for U.S. military personnel and civilians and Afghan civilians who received CERP funding.

OSD expressed concern to SIGAR about the release of this information, and the security implications for our personnel and our Afghan partners. SIGAR's Chief of Staff conceded by email that the release was a breach of policy saying, "The SIGAR FOIA clerk who handled this request did not follow SIGAR's procedures for processing FOIA requests. She is no longer with the agency. I am consulting with SIGAR's Office of General Counsel about this issue, but any future FOIA requests for data will be held until we can resolve how to handle the data." SIGAR requested DOD assistance to review the data, as SIGAR contended that it was too big a project for them to handle in way that fully addressed DOD concerns. The Department also asked the media organization to remove the data from its website.

Engagement regarding the compressed natural gas station

Also on May 18, 2015, DOD received a letter from SIGAR requesting additional information on the compressed natural gas (CNG) station project that is the subject of this hearing. The Task Force had already provided extensive information about the CNG station in response to a SIGAR audit that commenced in the summer of 2014 that examined all U. S. Government efforts, including the Task Force's, in the extractives sector. That audit report, released in April 2015, explains the purpose of the CNG station, and notes that \$5.1 million was expended on the construction and tender of the station, conversion of four existing Ministry of Interior diesel generators, and provision of and training for the installation and maintenance of CNG engine conversion kits.

On June 17, 2015, DOD's reply indicated that with the closure of TFBSO, OSD no longer possessed the personnel expertise to address the questions about the gas

project or to assess properly the information in the Executive Archive. DOD also indicated it was fully prepared to arrange for access to TFBSO information, and suggested that our staffs meet to work out the modalities of SIGAR's access to the information requested.

On June 30, 2015, our staffs met. DOD made clear that SIGAR would have unrestricted access to the TFBSO records in a reading room managed by WHS. If SIGAR wanted to obtain copies of any documents, the documents would first need to be reviewed by DOD attorneys to protect information that may be withheld from release under FOIA. DOD believed this step was necessary following the unwarranted release of the CERP data, which I outlined above. No limitation was placed SIGAR's access to unredacted documents. SIGAR never responded to this offer.

On September 24, 2015, SIGAR sent us the draft version of its report on the CNG filling station. DOD was troubled by SIGAR's apparent decision not to undertake due diligence in reviewing the records, so our October 9, 2015, reply indicated both our continued willingness to provide access to the documents and to any DOD personnel that SIGAR wished to interview.

On October 22, 2015, SIGAR's report on the CNG station was published.

Access to TFBSO records

I wish to underscore that at no time has SIGAR been denied access to any available records of TFBSO.

The Department believes that providing SIGAR unfettered access to review unredacted TFBSO archived materials via a reading room, as outlined previously, satisfies the objective of providing access while mitigating the risk of inappropriate release of FOIA-exempt information. Such an arrangement is fully consistent with the statutory requirement for Inspector General "access" under the Inspector General Act (5 USC App. § 6). Further, this approach has been used with other SIGAR staff as part of a separate SIGAR Afghan war lessons learned project, without any objections from SIGAR.

On December 15, 2015, pursuant to my suggestion, Mr. Sopko and I met in his offices in Crystal City to discuss SIGAR's access to TFBSO records. Following an exchange of letters, and receipt of certain assurances from SIGAR, DOD agreed to provide a copy of the hard drive of TFBSO's unclassified records. That hard drive and a list of TFBSO personnel that we have determined still work within DOD was delivered to SIGAR last week.

IV. THE COMPRESSED NATURAL GAS (CNG) FILLING STATION

SIGAR's report on the Compressed Natural Gas filling station asserts that the project cost the United States Government \$43 million, and was ill-conceived.

A report to Congress on FY2011 Task Force activities (transmitted on December 16, 2011) explained the purpose of the project: "As a pilot project, the TFBSO funded the construction of a CNG complex in Sheberghan City, including the compression station, pipeline extension from the current gas grid, desulphurization and dehydration systems, engine conversion kits, and installation and maintenance training for station operators. The TFBSO is also coordinating with the taxi association in Sheberghan for the first opportunity to convert their fleet of cars to dual-use (CNG/gasoline) engines." That report indicated that construction of the station and its associated refining and conversion facilities cost \$2.9 million.

A SIGAR report on extractive industries in Afghanistan, issued in April 2015, described the project in a similar fashion:

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

the Afghan Ministries of Interior and Defense to run on compressed natural gas.¹

The CNG station was part of a larger effort to create a viable energy market within Afghanistan. The SIGAR Extractives report notes that TFBSO was working with the Afghan authorities to refurbish an existing pipeline running between natural gas fields in Sheberghan and a power plant near Mazar-e-Sharif. TFBSO also planned to build an entirely new pipeline alongside this older pipeline. In parallel, USAID was investing funds to rehabilitate and develop natural gas wells in Sheberghan, and construction of a nearby natural gas processing plant. The Task Force's focus on the natural gas sector was consistent with guidance from the Secretary of Defense, and with the overall effort to assist in the development of Afghanistan's natural resources.

The CNG project was detailed in the annual TFBSO activities reports to Congress and referenced in several quarterly SIGAR reports. In its July 30, 2012, quarterly report to Congress, SIGAR noted as follows:

This quarter, the compressed natural gas station (CNG) in Sheberghan was handed over to the Ministry of Mines. It began commercial operation in May. Construction of the station had been funded by [TFBSO]. Because CNG is 50% cheaper than gasoline, as well as cleaner, the TFBSO said the CNG station should reduce fuel imports and provide greater security.²

In preparing its report on the CNG station project issued last October, SIGAR relied on information provided by the Economic Impact Assessment (EIA) prepared by a consulting firm engaged by TFBSO. That EIA report stated that the Task Force spent \$43 million to fund the CNG station, of which there were \$12.3 million in direct costs and \$30 million in overhead costs.

We believe the methodology used by EIA, and relied on by SIGAR, is flawed, and that the costs of the station are far lower. I believe the consulting firm has also reviewed its work and engaged the Committee staff, and we have received a copy of their memo to one of your staff that indicates that the total costs of the station are likely "well under \$10 million."

CNG Station Cost Breakdown

In preparation for this hearing, DOD has examined records to ascertain the costs of the CNG station.

Let me breakdown the costs of the CNG station as we understand them today.

First, the costs for the entire station project were \$5.1 million. As noted previously, the costs for the station portion of the project were \$2.9 million. The \$5.1 million covered the costs of the fueling station, two dispensers, one CNG trailer filling point, a car conversion center, an administrative office building, gas compression and processing equipment, and the conversion of two generators to power Ministry of Interior bases. This is consistent with the amount reported by SIGAR in its April 2015 audit report.

Second, the data provided to the EIA team suggests that approximately \$7.3 million was spent on subject matter experts (SMEs) working to support the technical, legal, financial, policy and governance requirements for a natural gas consuming industry. The SME work supported the gas station project as well as a broader effort to help the Afghan government develop a natural gas industry. The SMEs supported the Afghan government as they went through the process of setting a price for natural gas, creating a framework for licensing a station, creating safety standards, and creating a legal framework for distributing natural gas to individual consumers for the first time. The figure of \$7.3 million is based on an average of all labor costs by the SMEs across the entire energy sector, divided by the number of projects. The assumption that the labor costs were equal across all projects is likely flawed. The consulting firm estimates that the more accurate allocation of the SME costs to the CNG station project is two to four percent of the total labor costs of \$36.4 million.

DOD cannot validate the figure of \$30 million in overhead costs set forth in the SIGAR report as directly attributable to the CNG station project. This appears to represent an effort to capture the amount shared across all natural gas or energy projects. This is a flawed method to determine overhead costs for a given project. The preferred method is to use actual cost data attributed to the specific project, because each project has unique support requirements. The support costs data avail-

¹SIGAR Audit Report 15-55, "Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk," April 2015, page 27.

²SIGAR quarterly report to Congress, July 30, 2012, page 123.

able to us do not provide the necessary fidelity to determine overhead costs in support of the CNG project.

The SIGAR report also compares the cost of this station to a comparable station in neighboring Pakistan. We believe that there are several reasons this station was more expensive than a station in Pakistan.

First, this station was the prototype for all of Afghanistan. In 2012, Pakistan had one of the most established and largest CNG distribution networks, with 2.9 million CNG vehicles and 3,330 refueling stations.³ With a large and established market, along with the ability to source locally or import construction materials by sea and rail, building new CNG stations is substantially less expensive in Pakistan.

Second, this station had several additional components not included in a basic filling station. It had the ability to fill trailers for use by future stations, to convert cars, and to refine the sour gas coming into the station.⁴ The ability to fill trailers was critical to the business model being established as it eliminated the need for direct pipeline access. DOD understands that the Afghan government continues to plan for a future station in Mazar-e-Sharif, and that these trailers will assist in that effort.

Third, the costs of construction in Afghanistan are much higher than in neighboring countries due to the lack of existing production and manufacturing capacity related to construction in general and for extractive industries specifically, the landlocked nature of the country, and the costs of security in a war zone.

SIGAR noted that the cost of converting cars would be prohibitive to the average Afghan. To be sure, the average Afghan does not own a vehicle. As the Fiscal Year 2011 report to Congress highlighted, a primary focus of this project was those who do own vehicles, primarily taxi drivers. In addition, it was expected that the government would seek to convert its vehicle fleets. For taxi drivers, conversion would reduce monthly fuel consumption costs by 50 percent. DOD understands that, in many neighboring nations, conversion costs are paid upfront by station owners, who then charge vehicle owners more for gas until the conversion cost is paid for, generally within a year, due to the price differential. In this case, the Task Force committed to paying for conversion of 120 vehicles to ensure the targeted community of vehicle owners would be able to demonstrate the value of conversion.

Last, SIGAR's report questioned whether the station is still operating. My staff contacted the operator of the CNG station by email on November 15, 2015. The operator indicated that the station was working normally, that 230 cars had been converted, and that every day approximately 160 cars obtain fuel from the station.

V. LESSONS LEARNED

You asked me to address the lessons learned and how these lessons will inform DOD activities going forward.

At the Task Force's request, Vestige Consulting, LLC provided an Economic Impact Assessment (EIA) for TFBSO work done in Afghanistan. DOD also commissioned reports by CSIS in 2010 and RAND in 2015. In addition, GAO, the Special Inspector General for Iraq Reconstruction (SIGIR), and SIGAR have all conducted reviews of TFBSO activity. The two reports from SIGIR (2008 and 2009) highlighted the difficult environment in which the Task Force was operating, suggested some process improvements, and clarified the resources and activities of Task Force work in Iraq. I commend all of these reports to the Committee.

The CSIS lessons learned report endorsed the value of the Task Force and its approach in Iraq, stating that, "The Task Force needs to retain its essential attributes of entrepreneurial leadership, a broad mandate that enables flexibility in approach and operations, and responsiveness to military commanders in theater . . . The Task Force has demonstrated value to DOD field commanders and to Iraqis. It serves a useful and key role as part of economic operations in conflict zones, and it helps fill the gap between initial stabilization and longer-term economic development."⁵

One important point made by CSIS was that it was difficult to measure the real value and merit of specific Task Force projects, saying, "CSIS concludes that many of the activities the Task Force pursued were worthwhile, with the caveat that for a specific activity, it is difficult to ascertain whether the value the Task Force generated or received – economic or otherwise – exceeded the money spent. Some re-

³Data from the International Association for Natural Gas Vehicles.

⁴As SIGAR notes in the April 2015 extractive industries audit, "Sour gas is natural gas that contains measurable amounts of hydrogen sulfide. It is colorless, flammable, poisonous to humans and animals, and, unlike sweet natural gas, it is extremely corrosive and requires refining before use", page 27.

⁵CSIS, "Final Report on Lessons Learned: Department of Defense Task Force for Business and Stability Operations," June 2010, page 5.

sults achieved by the Task Force can be reasonably quantified, though calculation of a return on investment or similar metric is often not possible and perhaps not meaningful.”⁶

The report also recommends developing a more sustainable approach to economic operations in combat zones, “There is a substantial gap in U.S. government capability with regard to economic operations. That gap in capability is caused in part by resource shortfalls but also by significant and unresolved policy differences . . . Further action to address these challenges is needed . . .”⁷ The report then provides more detailed findings, including recommending “an effort to analyze and develop longer-term options for organization both for DOD civilian support for expeditionary operations and for DOD economic operations in conflict environments.”⁸

The RAND lessons learned report’s review of TFBSO project implementation concludes “TFBSO’s record is very mixed overall. Stakeholders who discussed these projects and other sources pointed to numerous instances of both success and failure. Respondents who discussed the business accelerator, the carpet program, Ariana Airlines, and, to some extent, the Amu Darya tender often commented that the programs were helpful. In several of these cases, project successes grew out of early failures, but it was possible to see learning and improvement. Respondents saw other projects, such as the Sheberghan Gas Pipeline and the Khas Kunar chromite crusher, as more problematic. In general, TFBSO had problems implementing large, complicated infrastructure investments. In the cases in which TFBSO interventions were more in the vein of advising, matchmaking, and closing small gaps in value chains, the implementation seems to have been smoother.”⁹

RAND offered the overarching recommendation that, “Economic development is likely to remain a key component of U.S. contingency operations. And regardless of today’s perceived effectiveness of the Task Force in Afghanistan, or Iraq, it is likely that these future economic development efforts will contain private sector-focused elements akin to those employed by TFBSO. The U.S. policy community should plan for future organizational solutions to these same challenges.”¹⁰

The just released second SIGAR Audit on extractives also highlighted TFBSO’s mixed record, saying, “TFBSO’s 11 projects achieved mixed results, with 3 of those projects showing little to no achievement of their project objectives, 5 partially met project objectives, and the final 3 generally met project objectives.”¹¹

In closing, the overarching question of how we promote economic development during a contingency operation remains a challenge for all of us in the U.S. government, both in the legislative and executive branches. I am skeptical that the Department of Defense is the natural home for that mission. We have struggled with this challenge over the last decade or more, and as a government we need to develop a functioning mechanism so that we are prepared for future contingencies. I commend the Committee for engaging in this discussion.

Senator AYOTTE. Thank you. I would now like to call on Mr. Sopko. Mr. Sopko is the Special Inspector General for Afghanistan Reconstruction.

STATEMENT OF JOHN F. SOPKO, SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

Mr. SOPKO. Thank you very much, Chair Ayotte, Ranking Member Kaine, and other members of the subcommittee. Thank you for inviting me to testify today about our ongoing work related to the Task Force for Business and Stability Operations, or TFBSO.

TFBSO, as has been stated, was an \$800 million experiment in which DOD attempted to attract private sector investment to Afghanistan to stimulate the economy and create jobs. Unfortunately,

⁶ Ibid, page 29.

⁷ Ibid, page 5.

⁸ Ibid, page 51.

⁹ RAND, “Task Force for Business and Stability Operations: Lessons from Afghanistan,” January 12, 2016, page 82.

¹⁰ Ibid, pages xviii-xix.

¹¹ SIGAR 16–11 Audit Report, “Afghanistan’s Oil, Gas, and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth,” January 2016, page i.

what might have seemed like a good idea on paper seems to have turned out rather differently in reality.

SIGAR's review of the construction of the compressed natural gas filling station in Sheberghan, Afghanistan, highlights many of the problems we have found in other TFBSO programs dealing with planning, management, coordination, and oversight.

I would like to address two issues right now in my oral statement. My written statement covers a lot more issues.

The first issue is this question about the cost of the CNG station. It is important to note that the \$43 million number is not a SIGAR number. That number came from the Department of Defense. Although Mr. McKeon's testimony glosses over this and makes it sound like the number came from their consultant Vestige or SIGAR, the truth is that number came from the Department of Defense.

SIGAR had an obligation to report that number when we found it. It was the best evidence we had at the time. It would have been irresponsible for SIGAR not to report it.

In addition, yesterday, the Department of Defense made available to us for the first time the DOD Comptroller who reviewed that \$43 million number for Under Secretary McKeon. That comptroller told our staff that he confirmed, first of all, the \$12 million of direct costs, but he also said that while his "gut feeling" was that the overhead charge was wrong and was probably less than \$30 million, due to the poor records maintained by TFBSO, the \$43 million number with the \$30 million overhead was the best number available.

I would remind all of the members, our requirement is to report the best number available. We do not make numbers up. We do not call people in Afghanistan to get their opinion or send an email to someone in Afghanistan to get their opinion on what the number is. We tend to rely on the Department of Defense when we ask for records about DOD expenditures.

Remember, we asked the Department of Defense to comment on that number and explain that number as far back as May 18, 2015. Again, along with the rest of our draft report that we sent to Under Secretary McKeon on September 24, we again repeated our request to please explain that number, explain that overhead, because we ourselves realized it was a very extraordinarily high number.

We never got an answer. You never got an answer. The American taxpayer never got an answer, until last night when apparently DOD discovered that the number was in error.

Now, if DOD now repudiates that number and says it was actually \$10 million or \$7 million or \$5 million or some other number, we are glad they finally decided to look at their own records and take a second look. But I have to say, Senators, I wish they had done so earlier, but I guess it is better late than never.

In the end, whether it is \$43 million or \$20 million or \$10 million, it is still a lot more than should have been spent in Afghanistan, and DOD to date still has no real explanation for the expenditure and what benefit the U.S. taxpayer got from that expenditure.

It is very clear at this point that DOD never did a cost-benefit analysis before they spent whatever the amount is in Afghanistan.

Right now, essentially, this is a giveaway that apparently benefits 150 taxi drivers in Sheberghan. That is all the U.S. taxpayer got out of it.

The second issue I want to address—and, Senator Kaine, I am glad you raised it—is the mistaken notion that special reports issued by SIGAR for some reason do not follow professional standards. That is simply incorrect.

All SIGAR reports are fact-based. All SIGAR reports note the sources. And all SIGAR reports comply with relevant, professional standards, including CIGIE, which is the Council of Inspectors General on Integrity and Efficiency Silver Book standards.

Senator Kaine, you pointed out that we have used different numbers in different reports. I am certain your staff has read the reports and has told you that the reports where we use the \$5 million number was because we were comparing TFBSO programs and AID programs, and we did not have overhead numbers for those reports. So in fairness to TFBSO, in fairness to AID, we did not want to compare apples and oranges. So we used just direct costs to make the comparison.

With the special projects report, which was a discrete report that was based upon work that our auditors and investigators uncovered, we had seen this tremendously high expenditure of overhead, we had the overhead cost numbers. We had them from the DOD contractor. I must say, it is surprising now that it turns out DOD spent \$2 million for that contract report and apparently DOD is now saying that they wasted the \$2 million because they did not know how to figure overhead costs.

Now only late last Thursday, my office received from DOD a hard drive containing what DOD claims to be all of TFBSO's unclassified records. My staff has spent the weekend doing a preliminary review. What does that review show us? It again corroborates the \$43 million number.

The records show that TFBSO managers, including senior managers of TFBSO, reviewed the draft economic impact statement numerous times, even corrected numbers, because the initial draft was \$50 million. They backed out \$10 million that had been erroneously put in, and TFBSO accepted the overhead charges.

But now, mysteriously last night, the numbers are wrong.

In addition, we have not been able to find in our preliminary review any cost-benefit analyses done by TFBSO.

However, I will say this and caution you, the data provided is substantially inadequate. There is obviously a lot of data missing in this hard drive that we got, so much so that we have forensic accountants now reviewing it to determine if the data has been manipulated. We are also concerned that we are missing emails, major email files.

We are also concerned that this is supposed to be all of the records of TFBSO and it only amounts to 100 GB of data. That seems extraordinary for an organization that lasted for 5 years and employed up to 80 people. As one younger staffer in my office has said, 100 gigabytes of data is what I have on my iPhone. We are surprised by the assurances from DOD that these are all the records of TFBSO.

Finally, I want to raise one last issue, which is again a larger issue beyond how much money a gas station costs in Afghanistan. That is the issue that, since December 2014, the Department of Defense has been telling us, because of legislation Congress passed, they have no authority, no money, and no bodies to explain this important program to an Inspector General who is required by statute to investigate allegations of fraud, waste, and abuse.

Now I worked for Sam Nunn for approximately 15 years, worked for John Dingell for other years. In my 20-some years working in Congress, I have never heard of that excuse. My deputy worked for 38 years for GAO. He has looked at many closed programs. He has never heard that excuse.

As a matter of fact, USAID and State Department and other elements of DOD have been reporting to us on a regular basis on closed programs. Only TFBSO has this institutional amnesia.

I close by saying if that institutional amnesia continues, it will be bad for oversight, bad for criminal investigations that we are conducting, and bad for the U.S. taxpayer.

Thank you very much, Senators.

[The prepared statement of Mr. Sopko follows:]

Special Inspector General for Afghanistan Reconstruction



SIGAR

Testimony

Before the Subcommittee on Readiness and
Management Support

U.S. Senate

DOD Task Force for Business
and Stability Operations in
Afghanistan: Preliminary Results
Show Serious Management and
Oversight Problems

Statement of John F. Sopko,
Special Inspector General
for Afghanistan Reconstruction
January 20, 2015

Chairman Ayotte, Ranking Member Kaine, and Members of the Subcommittee,

I am pleased to be here today to discuss SIGAR's completed and ongoing work examining the Department of Defense's Task Force for Business and Stability Operations (TFBSO or Task Force) in Afghanistan. The nearly \$800 million Task Force was DOD's principal vehicle for stimulating private sector growth and investment in Afghanistan's war-torn economy.¹

One of SIGAR's most recent TFBSO reviews examined a TFBSO-funded compressed natural gas (CNG) filling station in the city of Sheberghan, Afghanistan. This project is just one example of well-intentioned TFBSO projects that had little-to-no chance of achieving desired outcomes.

Over the past two years, SIGAR has received more complaints of waste, fraud, and abuse relating to TFBSO activities than for any other organization operating in Afghanistan. Since SIGAR began investigating TFBSO activities, we have conducted more than 50 interviews with former TFBSO officials and contractors, and several dozen more with other U.S. and Afghan government officials with knowledge of TFBSO activities. In addition, SIGAR obtained documents and records related to TFBSO activities from the Task Force before it ceased operations, as well as from contractors, in part through subpoenas. As a result of this work, SIGAR has issued several reports and initiated a number of active criminal investigations.² Appendix I contains detailed descriptions and associated outcomes of TFBSO projects examined by SIGAR, and Appendix II contains a complete list of TFBSO activities and associated outcomes.

TFBSO's goals were to "reduce violence, enhance stability, and support economic normalcy" in Afghanistan.³ TFBSO was intended to contribute to U.S. government objectives in Afghanistan by bolstering a very weak Afghan economy. The Task Force produced some

¹ Our reviews to date have shown that TFBSO was authorized \$822 million and reportedly obligated \$759 million. SIGAR has not yet performed a comprehensive financial audit of TFBSO or its activities.

² See *Afghanistan's Oil, Gas, and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth*, SIGAR-16-11-AR, January 2016; *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived \$43 Million Project*, SIGAR-16-2-SP, October 22, 2015; *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015; Alert Letter, *TFBSO Pipeline Project*, SIGAR 15-15-AL, December 11, 2014; and, *Gereshk Cold and Dry Storage Facility: Quality of Construction Appears To Be Good, but the Facility Has Not Been Used to Date*, SIGAR 14-82-IP, July 16, 2014.

³ *Jke Skelton National Defense Authorization Act for Fiscal Year 2011*, Pub. L. No. 111-383, §1535(a)(1), 124 Stat.4426, January 7, 2011. In addition to TFBSO efforts, the Commander's Emergency Response Program, Afghanistan Infrastructure Fund programs, and the Afghan First policy included efforts to stimulate economic activity and fight unemployment.

modest achievements, primarily related to its work in the extractives industries, about which SIGAR recently reported.⁴

Unfortunately though, SIGAR's cumulative work to date has shown that TFBSO's nearly \$800 million investment in Afghanistan has generally not delivered on its stated goals. The CNG filling station is a glaring example of TFBSO projects SIGAR has examined that were ill-conceived, poorly planned, or left unfinished. Further, it appears that TFBSO's activities in Afghanistan were stymied by several avoidable problems and repeated mistakes from its Iraq experience that hindered Task Force operations and outcomes.

Background: Started in Iraq Then Migrated to Afghanistan

TFBSO was originally created by the Deputy Secretary of Defense to help revive the post-invasion economy of Iraq. The Task Force reported to the Office of the Secretary of Defense. At its inception, TFBSO was not envisioned to execute projects and programs, but rather to advise and assist DOD entities on ways to improve contracting processes and procedures. The memorandum establishing the Task Force stated,

"The Task Force will not be responsible for contracting, but will advise existing DoD contracting offices on improved contracting processes and associated systems solutions consistent with applicable statutory and regulatory requirements as a means to create economic opportunity."⁵

Over time, TFBSO evolved to take a larger role in identifying economic development needs in Iraq and directly executed programs and projects in response to those needs. In 2009, the Secretary of Defense formalized a new TFBSO mission and called on the Task Force to leverage economic development in Iraq as a strategic and operational tool.⁶ Later in 2009, TFBSO was redirected to Afghanistan, and it began operations there in early 2010.

In Afghanistan, TFBSO documents state that it administered initiatives to assist the Commander of U.S. Forces–Afghanistan and the U.S. Ambassador to Afghanistan in support of U.S. security interests by pursuing three broad objectives: (1) restoring productive capacity in the Afghan economy wherever possible, across all industrial sectors; (2) stimulating economic growth; and (3) serving as a catalyst for private investment in Afghanistan by linking the international business community with Afghan business leaders and government officials.

⁴ *Afghanistan's Oil, Gas, and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth*, SIGAR-16-11-AR, January 2016.

⁵ Memorandum from Deputy Secretary of Defense Gordon England to the Secretaries of the Military Departments, et al., June 22, 2006.

⁶ Memorandum from Secretary of Defense Robert Gates to the Secretaries of the Military Departments, et al., March 11, 2009.

As of September 30, 2015, TFBSO had been appropriated more than \$822.85 million since fiscal year 2009 for operations in Afghanistan. Of this amount, \$758.79 million was obligated and \$638.54 million disbursed.⁷ TFBSO ended its programs in Afghanistan on December 31, 2014, and ceased all operations on March 31, 2015.

CNG Filling Station: An Ill-Conceived \$43 Million Project

In October 2015, SIGAR issued a report analyzing the TFBSO Downstream Gas Utilization Project (the formal name of the CNG filling station project). This project was intended to take advantage of Afghanistan's natural gas reserves and reduce the country's reliance on expensive imported gasoline and consisted of the construction and initial operation of a CNG automobile filling station in the city of Sheberghan, near Afghanistan's natural gas fields.⁸

TFBSO initiated the CNG filling station project, the first of its kind in Afghanistan, to demonstrate that compressed natural gas is commercially viable as an automobile fuel in Afghanistan and to promote its wider use in the country. According to TFBSO documents, the overall goals of the project were to:

- Build the first ever CNG complex in Afghanistan, consisting of a fully-functional fueling station with two dispensers/four hoses, one CNG trailer filling point, a car conversion center, an administrative office building, and gas compression and processing equipment;
- Prove that there is an interest on the part of the Afghan government in CNG, thereby reducing the risk to the investor through government support;
- Provide subject matter experts and legal support to the CNG office in the Ministry of Mines and Petroleum in tendering the TFBSO built CNG station;
- Create a market value for a CNG station;
- Expand the CNG industry to Mazar-e-Sharif, the second-largest city in Afghanistan (sic), with a market of 100,000 cars;
- Provide subject matter expert support to the CNG station to increase the size of the CNG market; and

⁷ For its operations in Iraq, the Task Force received \$175 million in appropriations, of which \$86 million was obligated and \$65 million disbursed (see Special Inspector General for Iraq Reconstruction, *Learning from Iraq*, March 2013, p. 56).

⁸ Vestige Consulting, LLC; Acertas, LLC, *Economic Impact Assessment, Task Force for Business & Stability Operations (TFBSO) in Afghanistan*, December 29, 2014, p. 96.

- Increase the value of CNG investments in Afghanistan, reduce the risk to investment, and increase the domestic consumption of natural gas.⁹

In August 2011, TFBSO awarded a construction contract to Central Asian Engineering, to build the station on land belonging to the Afghan Ministry of Mines and Petroleum (MOMP).¹⁰ The CNG station became operational in May 2012. TFBSO personnel worked with MOMP and the Ministry of Commerce and Industry to develop the tender and licensing procedures for the station and Qashqari Oil and Gas Services took over operation of the station in May 2014.

The Reported Cost of Building the Filling Station Far Exceeded the Cost of Building CNG Filling Stations Elsewhere

The contract awarded to Central Asian Engineering to construct the station was for just under \$3 million. SIGAR identified approximately \$2.1 million more in contract costs directly associated with the CNG filling station, bringing the total contract costs to \$5.1 million. However, the actual cost was evidently much higher. SIGAR learned that near the end of its operations in Afghanistan, TFBSO commissioned Vestige Consulting, LLC/Acertas, LLC (referred to as "Vestige") to perform an economic impact assessment of the contributions that TFBSO programs made to the Afghan economy.¹¹ In order to complete the assessment, DOD provided TFBSO cost data to Vestige. According to the assessment and SIGAR interviews with Vestige's Chief Executive Officer, the total cost associated with the CNG filling station project was approximately \$43 million. Specifically:

*"The Task Force spent \$42,718,739 between 2011 and 2014 to fund the construction and to supervise the initial operation of the CNG station (approximately \$12.3 [million] in direct costs and \$30.0 [million] in overhead costs)."*¹²

While the DOD-reported \$43 million cost to construct the CNG filling station has been confirmed by senior officials from DOD and Vestige, some questions remain unanswered. Specifically, DOD has not explained the additional \$7.2 million reported as direct costs or the methods for calculating the reported \$30 million in overhead costs associated with this project.¹³

⁹ TFBSO, *Energy Program Management Report*, November 10, 2014, p. 36.

¹⁰ Department of Defense, Contract awarded to Central Asian Engineering Construction Company. Awarded August 14, 2011; contract modification number P0008, March 12, 2012.

¹¹ Vestige Consulting, LLC, and Acertas, LLC, *Economic Impact Assessment, Task Force for Business & Stability Operations (TFBSO) in Afghanistan*, Dec. 29, 2014.

¹² Vestige Consulting, LLC; Acertas, LLC, 2014, p. 98.

¹³ In accordance with our normal practice, SIGAR sent a draft of this report to DOD on September 24, 2015, for review and comment. Per DOD's request, we extended the comment period by seven days. On October 9, 2015, Principal Deputy Under Secretary of Defense for Policy Brian P. McKeon replied to the report. Under

Furthermore, the \$43 million total cost of the CNG filling station far exceeds the estimated cost of CNG stations elsewhere. According to a 2010 publication of the International Energy Association, “the range of investment for a public [CNG] station serving an economically feasible amount of vehicles varies from \$200,000 to \$500,000. Costs in non-OECD [Organization for Economic Co-operation and Development] countries are likely to be in the lower end of this range.”¹⁴ Consistent with that finding, a 2005 CNG station feasibility study conducted by Pakistan’s Small and Medium Enterprise Development Authority concluded that the total cost of building a CNG station in Pakistan would be approximately \$306,000 at current exchange rates.¹⁵ In short, at \$43 million, the TFBSO filling station in Afghanistan cost 140 times as much as a CNG station in Pakistan.

It Appears TFBSO Never Examined the Feasibility of its CNG Filling Station Project Prior to Committing Millions of Dollars to Construction

SIGAR was unable to find any evidence that TFBSO considered the many potential obstacles to the CNG filling station’s success before initiating the project. On May 18, 2015, SIGAR sent an inquiry letter to DOD requesting information concerning the CNG filling station. Part of that request included copies of any feasibility study conducted prior to building the CNG station. In response, DOD did not provide any such document and instead stated that the Department no longer possessed the personnel expertise to address our questions.¹⁶ The absence of such a study is consistent with what SIGAR learned in the field: an engineer working for USAID on CNG projects in Afghanistan told SIGAR that TFBSO did not regularly conduct feasibility studies for their projects.

If TFBSO had conducted a feasibility study of the project, the Task Force might have noted that Afghanistan lacks the natural gas transmission and local distribution infrastructure necessary to support a viable market for CNG vehicles. According to the World Bank, “[t]he cost of distribution of natural gas to a large number of small consumers can be expensive. The development of such markets often depends on the proximity of gas transmission pipelines which have been financed already through major gas supply projects to the power and industrial sectors.”¹⁷ Similarly, an International Energy Agency analysis found that

Secretary McKeon’s comments did not dispute any of the facts or findings contained in our draft report, or provide any new information.

¹⁴ Michiel Nijboer, International Energy Agency, *The Contribution of Natural Gas Vehicles to Sustainable Transport*, 2010, p.22.

¹⁵ Small and Medium Enterprise Development Authority, Government of Pakistan, *Pre-Feasibility Study CNG Filling Station*, May 2005, p. 7.

¹⁶ *Inquiry Letter: Downstream Gas Utilization Project*, SIGAR-15-60-SP, May 18, 2015.

¹⁷ John Homer, The World Bank, *Natural Gas in Developing Countries, Evaluating the Benefits to the Environment*, January 1993, p. 19.

natural gas was not competitive with gasoline in markets that lacked “well-developed” transmission and distribution infrastructure.¹⁸

Furthermore, TFBSO believed that the private operator who took over the Sheberghan station would build a second station in Mazar-e-Sharif (Afghanistan’s fourth largest city which is approximately 120 kilometers from Sheberghan). TFBSO documents state “[r]eliable gas availability at the site of the potential [Mazar-e-Sharif] CNG Station” as essential for expansion of CNG use by automobiles in that city.¹⁹

However, Mazar-e-Sharif has only a limited supply of natural gas, via a Soviet-built pipeline from Sheberghan to an industrial user in Mazar-e-Sharif. As we previously reported, the pipeline has limited excess capacity and is apparently unsafe to operate at high pressure, which is necessary to increase output and CNG availability in Mazar-e-Sharif, despite a recent partial refurbishment funded by TFBSO.²⁰ Nevertheless, even if Mazar-e-Sharif were to obtain a reliable supply of natural gas, there is no way to deliver it to small consumers, such as filling stations, because the city’s local distribution network is currently defunct and a USAID study estimates that it would cost \$50 million to rehabilitate it.²¹

Finally, it appears that the cost of converting a gasoline-powered car to run on CNG may be prohibitive for the average Afghan. TFBSO’s contractor, states that conversion to CNG costs \$700 per car; other sources estimate that it costs up to \$800. According to the World Bank, the average annual income in Afghanistan is \$690. This may explain why the U.S. Government paid for the conversion of over 120 Afghan vehicles to CNG so that they could use the filling station: ordinary Afghans simply couldn’t afford to do it. Not surprisingly, SIGAR found no evidence that any other vehicles were converted to CNG during the course of our review and investigation.

CNG Filling Station Found to be a “Net Loss” of \$31 Million and its Current Status is Unknown

TFBSO’s own economic impact assessment found that the CNG filling station (Downstream Gas Utilization project) would have “little-to-no” impact on Afghanistan’s gross domestic product (GDP) through 2018 and that the project was generally a failure, in economic

¹⁸ Michiel Nijboer, International Energy Agency, 2010, p.37.

¹⁹ TFBSO, Energy Program Management Report, November 10, 2014, p. 36.

²⁰ Alert Letter, *TFBSO Pipeline Project*, SIGAR 15-15-AL, December 11, 2014.

²¹ TFBSO’s January 2015 report to Congress stated that Qashqari Oil and Gas Services, the firm that purportedly was licensed to operate the Sheberghan CNG filling station, “indicated that it will start construction of a sister station in Mazar-e-Sharif.” However, SIGAR was unable to find support for this statement in TFBSO documents and Afghan government documents obtained by SIGAR indicate that the business license of Qashqari Oil and Gas Services expired in November 2014—only six months after Qashqari purportedly began operating the filling station—and has not been renewed.

terms.²² The assessment went on to state that the project produced no discernable macroeconomic gains and resulted in a discounted net loss of \$31 million.²³

DOD has been unable to provide any data or assessments indicating the current status of the station or any contributions it has made to the local economy. Further hindering efforts to determine any positive localized outcomes associated with the project is that TFBSO closed without State or USAID having any plans to provide continued monitoring, evaluation, or support for TFBSO initiatives, including the CNG filling station.²⁴

As noted in our April 2015 audit report on extractives, the Ike Skelton National Defense Authorization Act for Fiscal Year 2011, Pub. L. No. 111-383, 124 Stat. 4137, 4427, required DOD, State, and USAID to jointly develop and submit to Congress a plan for transition of TFBSO activities in Afghanistan to State or USAID.²⁵ In that report, we also found that the agencies never developed specific transition procedures for particular projects or specific initiatives. In response to a recommendation in our April 2015 extractives report, USAID noted it has not received funding to oversee or support TFBSO projects.²⁶ USAID also stated that some former TFBSO projects were not feasible or cost-effective, and, therefore, did not warrant further funding.

TFBSO Activities in Afghanistan Stymied by a Lack of Strategy, Leadership, and Coordination

Based on our work to date examining TFBSO's activities in Afghanistan, SIGAR has identified several factors that appear to have stymied Task Force outcomes. Several such issues with project development and execution, stemming from reviews of TFBSO successes and failures in Iraq, were reported to DOD and TFBSO in the very early stages of its operations in Afghanistan.²⁷ Addressing its failures in Iraq should have served as the starting point for any similar DOD efforts in Afghanistan. If TFBSO had acted on those observations as it shifted its

²² Vestige Consulting, LLC and Acertas, LLC, 2014, p. 98.

²³ *Id.*, pp. 98-101.

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

²⁵ *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015, pp. 4-5.

²⁶ William Hammink, USAID Mission Director in Afghanistan, *Mission Response to SIGAR Report titled "Afghanistan's extractives Industries: \$500 Million in U.S. Funding Is at Risk" (SIGAR Report 15-XX under Code 097A-1)*, April 15, 2015.

²⁷ See Center for Strategic and International Studies, *Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations*, June 2010; GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011; and, RAND National Defense Research Institute, *From Insurgency to Stability Volume I: Key Capabilities and Practices*, 2011.

activities to Afghanistan, the Task Force might have avoided making many of the same mistakes it made in Iraq.

However, TFBSO failed to implement changes based on observations from Iraq into its operations in Afghanistan. We have identified three key issues that marred the TFBSO experience in Afghanistan: (1) the absence of a clear strategy; (2) a lack of focused and consistent management and leadership; and (3) a failure to coordinate efforts with other U.S. government agencies.

Lack of a Strategy

In Afghanistan, TFBSO and its counterparts (including State and USAID) failed to develop a common strategy for considering and implementing projects and programs in critical sectors of the economy. For example, SIGAR found that there was no overarching, government-wide strategy for the development of Afghanistan's extractive industries—even though developing this sector constituted 36 percent of TFBSO's total contract obligations and had been identified as vital to Afghanistan's long-term economic development and viability.²⁸

A senior official from the U.S. Embassy in Kabul told SIGAR that the U.S. government's approach to Afghanistan's extractive industries is articulated in U.S. development strategies, such as the *Afghanistan and Pakistan Regional Stabilization Strategy* and the *U.S. Civil-Military Strategic Framework for Afghanistan*.²⁹ However, while these two documents discuss the U.S. government's broader development goals for Afghanistan's extractive industries, they do not describe how the U.S. government will work to achieve these goals and State has not otherwise developed a unified strategy specific to Afghanistan's extractive industries. In the absence of a government-wide strategy to guide project development, TFBSO and USAID pursued differing approaches and implemented sometimes competing projects and programs aimed at the development of Afghanistan's extractive industries.

Lack of Focused and Consistent Management and Leadership

SIGAR's April 2015 report examining TFBSO investments in Afghanistan's extractives industries found that senior TFBSO officials claimed that the uncertainty around TFBSO's annual budget and high turnover among its leadership led to frequent shifts in TFBSO's

²⁸ The World Bank has stated that the development of Afghanistan's natural resources could underpin future economic growth in the face of declining external aid (see, World Bank, *Afghanistan Economic Update*, April 2015, p. 22). Similarly, President Ghani listed mining as one of the country's most important economic assets in his recent interview with SIGAR (see, SIGAR, *Quarterly Report to Congress*, October 30, 2015).

²⁹ The U.S. *Civil-Military Strategic Framework* was originally issued in October 2012 and focused on ensuring that civilian and military efforts were fully integrated and complimentary. The updated version, issued in August 2013, includes the addition of a stand-alone section on transition, greater emphasis on preserving gains, and further clarity on the Transformation Decade (see, U.S. *Civil-Military Strategic Framework for Afghanistan*, August 2013). State's *Afghanistan and Pakistan Regional Stabilization Strategy* includes broad development objectives applicable to the extractive industries but not concrete strategies for achieving them (see, State, *Afghanistan and Pakistan Regional Stabilization Strategy*, February 2010).

organizational direction. For example, TFBSO senior officials stated that while the organization's overall goals for developing Afghanistan's extractive industries did not change, the various TFBSO directors' "rearticulations" of the roadmap for achieving these goals resulted in little documentation because of the fluid nature of the plans.³⁰

One such example of these "rearticulations" of the TFBSO roadmap came after the Afghan government used the TFBSO-developed tenders and initial exploratory data to award a hydrocarbons exploration and production sharing contract for three oil blocks in the Amu Darya Basin to a Chinese company, CNPC. Following that award, Paul Brinkley (TFBSO's first director) told us that he issued a directive stating that TFBSO would not conduct seismic testing for oil and gas deposits in Northern Afghanistan because the successful bidder should pay for the exploration.³¹ Nevertheless, following Mr. Brinkley's departure, the Task Force spent more than \$35 million conducting seismic testing in Northern Afghanistan. When we asked Dr. Joseph Catalino (TFBSO's last director) why the prohibition on seismic testing was overturned, he responded that he did not know that seismic testing had begun prior to his time at TFBSO and that he was unaware of any directive prohibiting the use of TFBSO funds for seismic testing.³²

During TFBSO's five years in Afghanistan, it had five different directors—three of whom were acting in the role while DOD searched for a more permanent replacement—and experienced persistent fluctuations within other senior positions. For example, a year after the start of TFBSO operations in Afghanistan, much of the Task Force's senior staff resigned, including founding director Paul Brinkley. According to Mr. Brinkley, nine of his 11 most senior leaders resigned within 60 days following the passage of the National Defense Authorization Act for fiscal year 2011, which effectively shut down operations in Iraq and required the Task Force to prepare to transition its activities to USAID.³³

Mr. Brinkley also told SIGAR that without experienced, senior level people making decisions, young and inexperienced managers made decisions that put lives in danger. According to a RAND report commissioned by TFBSO to derive lessons from TFBSO's experience in Afghanistan, Mr. Brinkley sent a memorandum to the Secretary of Defense on June 3, 2011 stating that TFBSO had insufficient managerial capacity to support its operations beyond the

³⁰ *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015, p.10.

³¹ Paul Brinkley, interview by SIGAR, December 17, 2015.

³² Dr. Joseph Catalino, interview by SIGAR, January 6, 2016.

³³ Paul Brinkley, interview by SIGAR, December 17, 2015. According to RAND's 2016 report and a SIGAR interview with Paul Brinkley in December 2015, the provisions of the fiscal year 2011 National Defense Authorization Act came after a spring 2010 decision by DOD's Office of General Counsel that stated that the TFBSO mission violated DOD's legal authorities because it was a foreign assistance mission, rather than a military mission.

end of that month, and Mr. Brinkley called for a reduction in Task Force activities.³⁴ However, TFBSO spending peaked in 2012.³⁵

Another troubling management issue is that Mr. Brinkley told SIGAR that as TFBSO director, he approved programs without knowing what they would cost. Mr. Brinkley said he did not know the cost of any project; his managers simply established requirements and then removed themselves from the contracting process.³⁶ This is particularly surprising, given that RAND found that most project managers at TFBSO were trained as Contracting Officer's Representatives and that Dr. Catalino, who served as TFBSO deputy director to James Bullion and later as director, told SIGAR that he knew program costs and that it was very surprising that Mr. Brinkley did not.³⁷

This lack of consistent program management and strategic direction had direct, negative implications for TFBSO efforts to achieve its overarching goals, and those issues were identified even as TFBSO transitioned from Iraq to Afghanistan. As the Center for Strategic and International Studies (CSIS) warned in 2010,

*There has been no coordinated way to integrate the private sector (whether U.S. or foreign) into economic operations in conflict zones. Both the government of Iraq and the Task Force have sought to attract foreign direct investment since 2006. As with the other policy issues, CSIS was unable to find this issue being addressed in an organized manner within the U.S. government.*³⁸

Additionally, in 2011, GAO found that there was no written guidance for TFBSO personnel managing Task Force projects in Afghanistan.³⁹ Specifically, GAO found that while senior leadership provided broad goals, an operating philosophy, and management practices, there were no established project selection criteria, requirements to establish project metrics,

³⁴ According to RAND National Defense Research Institute, *Task Force for Business and Stability Operations Lessons from Afghanistan*, 2016, p.18, which cites Paul A. Brinkley, Deputy Under Secretary of Defense and Director, "Proposed Succession Plan," *TFBSO Memorandum to Secretary of Defense, Robert M. Gates, U.S. Department of Defense*, June 3, 2011. As of January 13, 2015, SIGAR has not obtained this memorandum from the Department of Defense.

³⁵ Ultimately, on December 16, 2014 President Obama signed the Consolidated and Further Continuing Appropriations Act, 2015, which cut off TFBSO funding; the Task Force shut down a few months later.

³⁶ Paul Brinkley, interview by SIGAR, December 17, 2015.

³⁷ See RAND National Defense Research Institute, 2016, p.101, and Dr. Joseph Catalino, interview by SIGAR, January 6, 2016.

³⁸ Center for Strategic and International Studies, *Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations*, June 2010, p.3.

³⁹ GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011, p.9.

monitoring and evaluation processes, or requirements for the type of project information to be collected and documented.⁴⁰

To date, our work has shown that TFBSO does not appear to have applied these lessons from its Iraq experience or from its early experiences in Afghanistan. This lack of strategic direction and inconsistent management resulted in a scattershot approach to economic development, in which the Task Force invested in everything from importing rare blond Italian goats to bolster the cashmere industry in Herat, to landmine removal, to biofuel research, to funding large-scale projects to support the development of extractives industries (see appendix II for a list of all TFBSO programs and their status). Based on TFBSO's own economic assessment, this inconsistent, unfocused approach has done little to spur economic growth in Afghanistan.⁴¹

Lack of Coordination

Strategic and project-based coordination between government departments and agencies, as well as with host government structures, other donors, and the local populace, is critical to executing a whole-of-government approach and achieving U.S. government objectives in Afghanistan. As we previously reported, TFBSO and its counterparts in Afghanistan, including State and USAID, failed to coordinate their activities in several critical sectors, such as extractives.⁴²

Failures in coordination were identified as an issue in Iraq, as well, and those same challenges might have been mitigated in Afghanistan had DOD and TFBSO leadership learned from its Iraq experience. For example, in 2011, RAND noted that many TFBSO projects in Iraq, "were designed and implemented without U.S. civilian agency input or coordination."⁴³ Similarly, the Special Inspector General for Iraq Reconstruction found that, "...Defense's Task Force for Business and Stability Operations was not sufficiently coordinated with local, provincial, or regional initiatives" and "it failed to integrate its

⁴⁰ Although an October 2013 assessment by Boston Consulting Group noted improvements in TFBSO's strategic-level analysis, project evaluation, and planning activities, a separate Boston Consulting Group study released the same month concluded that TFBSO's temporary mandate and the limited historical record of its activities continued to be limitations to its effectiveness (See Boston Consulting Group, *TFBSO Operations Playbook, October 2013* and *TFBSO Summary Report: Private Sector Operations as Stability and Security Tool*, October 2013.).

⁴¹ As envisioned by the economic impact assessment, TFBSO programs would have resulted in an additional \$1.28 billion growth in GDP in 2015. No such growth has occurred; in fact, the International Monetary Fund estimated a decline in Afghanistan's GDP from approximately \$20.4 billion in 2014 to \$19.7 billion in 2015 and 2016. See, Vestige Consulting, LLC and Acertas, LLC, 2014, p.15, and IMF, *World Economic Outlook Database*, October 2015

⁴² *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015.

⁴³ RAND National Defense Research Institute, *From Insurgency to Stability Volume I: Key Capabilities and Practices*, 2011, p. 46.

ambitious initiatives into the ongoing work [of other organizations]."⁴⁴ Former TFBSO director Brinkley told us that TFBSO and State had a contentious relationship in Iraq and there was a perception that the Task Force had been non-collaborative.⁴⁵

A statement from the 2010 CSIS lessons learned report on the TFBSO experience in Iraq warned, "Successful economic operations will need better communication and coordination within the U.S. government and across the multilateral and NGO communities."⁴⁶ Unfortunately, former TFBSO director James Bullion told SIGAR that, from the beginning of operations in Afghanistan, the Task Force did not establish effective relationships with either USAID or State.⁴⁷

In Afghanistan, this lack of coordination manifested itself in hundreds of millions of dollars' worth of unfinished projects that failed to deliver intended outcomes. In April 2015, we found that nearly all of TFBSO's large extractive projects remained incomplete when TFBSO concluded activities in Afghanistan and not one TFBSO initiative in the extractives sector was transferred to State or USAID.⁴⁸ For example, none of the mineral or cement tenders supported by the Task Force resulted in a signed contract and two hydrocarbon tenders were incomplete.⁴⁹

When SIGAR asked USAID and State officials why their agencies would not continue any TFBSO initiatives, they stated that it was because their leaderships were not interested. In fact, USAID and State considered some TFBSO initiatives, such as the Sheberghan-Mazar pipeline, to be liabilities due to safety concerns, lack of sustainability, and other problems.⁵⁰

TFBSO's last director, Dr. Joseph Catalino, confirmed this, telling SIGAR that during planning meetings with USAID and State in the summer of 2013, it became clear that neither State nor USAID had any interest in continuing TFBSO programs. Dr. Catalino also told SIGAR that the word "transition" was overused when referring to the conclusion of TFBSO and its programs.⁵¹ According to Dr. Catalino, the word "transition" was only used because it was specifically referenced in the National Defense Authorization Act for fiscal year 2011 and

⁴⁴ Special Inspector General for Iraq Reconstruction, *Learning from Iraq*, March 2013, p.27.

⁴⁵ Paul Brinkley, interview by SIGAR, December 17, 2015.

⁴⁶ Center for Strategic and International Studies, Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations, June 2010, p.4.

⁴⁷ James Bullion, interview by SIGAR, January 23, 2015.

⁴⁸ *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015.

⁴⁹ *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015, p.14.

⁵⁰ SIGAR 15-15-AL.

⁵¹ Dr. Joseph Catalino, interview by SIGAR, January 6, 2016.

that the Task Force was really working to close out the projects by shutting them down or transitioning them to private sector interests or the Afghan government.⁵²

Equally troubling is the apparent lack of coordination between the Task Force and the military commanders it was intended to support. CSIS reported in June 2010 that in Iraq, TFBSO “added value and met its charter by supporting theater commanders’ goals for reconstruction and economic development.”⁵³ However, RAND found that in Afghanistan, TFBSO was a tool that should have benefited the military effort, but that “it ‘stayed out on an island’ rather than becoming a team player.”⁵⁴

Closure of TFBSO has Hindered Oversight of Task Force Activities and the Ability of DOD to Respond to Requests for Information

While not the focus of our initial efforts related to TFBSO, the closure of TFBSO on March 31, 2015, has raised serious concerns regarding the lack of institutional knowledge within DOD related to TFBSO activities and decisions. Since April 2015, DOD has stated that since Congress ended funding for TFBSO, the Department does not have the expertise, authority, or funding to respond to investigations related to TFBSO activities in Afghanistan.

At the time TFBSO shut down, its reporting structure within DOD had been clearly established through various memoranda and directives.⁵⁵ However, it appears that structure did not help retain institutional knowledge within DOD of TFBSO activities following the dissolution of the Task Force. For example, on March 16, 2015, two weeks before DOD shut down TFBSO, SIGAR provided a draft audit report to DOD for review and comment.⁵⁶ DOD declined to comment on the findings of the report or the associated recommendation because TFBSO had since closed.

⁵² Dr. Joseph Catalino, interview by SIGAR, January 6, 2016.

⁵³ Center for Strategic and International Studies, Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations, June 2010, p. 4.

⁵⁴ RAND National Defense Research Institute, 2016, p.50.

⁵⁵ The 2006 Deputy Secretary of Defense memorandum that first established TFBSO, stated that the Task Force would report directly to the Secretary of Defense. Five years later, a 2011 memorandum from the Secretary of Defense clarified TFBSO reporting and coordination responsibilities and called for the director of TFBSO to coordinate closely with the Under Secretary of Defense for Acquisition, Technology, and Logistics, and with the Deputy Chief Management Officer regarding TFBSO’s day-to-day functions. The memorandum also required the TFBSO director to keep the Chairman of the Joint Chiefs of Staff and the Under Secretary of Defense for Policy apprised of TFBSO activities. See Memorandum from Deputy Secretary of Defense Gordon England to the Secretaries of the Military Departments, et al., June 22, 2006; Memorandum from Secretary of Defense Robert Gates to the Secretaries of the Military Departments, et al., March 25, 2010.

⁵⁶ *Afghanistan’s Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, SIGAR Audit 15-55-AR, April 24, 2015.

Similarly, in response to a SIGAR request in May 2015 for a meeting to discuss the findings of another draft audit report that included issues related to the efficacy of TFBSO programs, a senior official within the Office of the Under Secretary of Defense for Policy told SIGAR via e-mail that

"DoD no longer works on TFBSO issues (Congressional authority to do any TFBSO related work has lapsed) so we don't have anyone or any expertise to comment on the report."⁵⁷

One month later, in June 2015, in response to SIGAR's request for information about the CNG filling station, the Principal Deputy Under Secretary for Policy stated that the closure of TFBSO resulted in the Office of the Secretary of Defense "no longer possessing the personnel expertise to address these questions or to assess properly the TFBSO information and documentation retained by WHS in the OSD Executive Archive."⁵⁸ And again, on October 9, 2015, DOD reiterated its earlier position that it was unable to respond to inquiries related to TFBSO.⁵⁹

As recently as January 8, 2016, after an extended 60-day comment period, the Principal Deputy Under Secretary for Policy did not comment on the findings or other content of our most recent audit examining the outcomes of TFBSO initiatives to develop the extractive industries in Afghanistan. Instead, DOD's response simply directed SIGAR to a RAND analysis of lessons it derived from the Task Force's experience.

DOD's responses to SIGAR requests since March 2015 raises a question whether TFBSO operated independent of any internal DOD management and oversight, even though TFBSO was created by the Deputy Secretary of Defense and throughout its existence reported directly to the Office of the Secretary of Defense.⁶⁰ Moreover, for the last seven months of its existence, TFBSO reported to the Principal Deputy Under Secretary of Defense for Policy.

DOD's inability to respond to our inquiries also raises some questions since it appears that several former TFBSO officials, including the most recent director of the Task Force, Dr. Joseph Catalino, still work for the Department and other former TFBSO employees remain in

⁵⁷ E-mail from DOD official in the Office of the Secretary of Defense for Policy to SIGAR Senior Audit Manager, May 27, 2015.

⁵⁸ See SIGAR-15-60-SP and Principal Deputy Under Secretary of Defense, *Letter to The Honorable John F. Sopko*, June 17, 2015. In an October 2015 letter to SIGAR responding to the SIGAR report on the \$43 million CNG filling station, DOD reiterated its earlier position that because TFBSO closed in March 2015, the Department no longer has the expertise to answer any of SIGAR's questions about this project or about any other TFBSO activities.

⁵⁹ Letter to the Honorable John F. Sopko, Principal Deputy Under Secretary of Defense Brian P. McKeon, October 9, 2015.

⁶⁰ Memorandum from Deputy Secretary of Defense Gordon England to the Secretaries of the Military Departments, et al., June 22, 2006

the military and under the general purview of DOD.⁶¹ SIGAR recently learned that Dr. Catalino has been working in the Office of the Under Secretary of Defense for Policy since June 2015 and the Department had not tasked him with responding to any TFBSO-related inquiries since the Task Force shut down.⁶² Similarly, Dr. Catalino told SIGAR that DOD had not asked for his input in reviewing the draft report RAND submitted to DOD in June 2015, which was finally published in January 2016. At this point, it remains unclear who at DOD was tasked with reviewing the contents of the RAND report between June 2015 and January 2016.

DOD's failure to identify and use its existing internal expertise to respond to information requests, comment on findings and recommendations made to the Department, and review lessons learned reports is unfortunate. More troubling though are the circumstances and timing of Dr. Catalino's return to the Office of the Under Secretary of Defense for Policy.

Specifically, Dr. Catalino stated that the Acting Chief Operating Officer for the Office of the Under Secretary of Defense for Policy was the individual who contacted, interviewed, and hired him in June 2015 for his new position as Senior Advisor to the Office of the Deputy Assistant Secretary of Defense for Special Operations and Combating Terrorism; a position that also falls under the purview of the Chief Operating Officer and the Principal Deputy Under Secretary Policy. Thus, despite statements made in formal letters and in meetings with SIGAR, it appears that senior officials in the Office of the Under Secretary of Defense for Policy clearly knew that the most recent TFBSO director had returned to work for them.

Lastly, DOD's apparent unwillingness or inability to respond to inquiries related to TFBSO operations is cause for broader concern for both Congress and other oversight bodies as activities continue to wind down in Afghanistan. The stated failure of the Department to retain any institutional knowledge, and its apparent failure to seek input from what institutional knowledge remained at DOD, indicates a fundamental lack of planning that has resulted in adverse effects on oversight and accountability. This failure inhibits oversight of the activities of a Task Force that obligated approximately \$760 million and was a unique experiment in economic development by DOD. Furthermore, the manner in which TFBSO was shut down, and the purported effect of its closure on DOD's ability to respond to inquiries, raises the specter that future oversight of multi-billion programs now unique to Afghanistan (such as the Commander's Emergency Response Program and the Afghanistan Infrastructure Program) will no longer be possible once the programs conclude.

⁶¹ On January 14, 2016, SIGAR received a letter from Principal Deputy Under Secretary of Defense Brian P. McKeon identifying a number of former TFBSO employees that now work for DOD. On January 14, 2016, Under Secretary McKeon also provided SIGAR with a hard drive that he stated contains a copy of TFBSO records stored at the Office of the Secretary of Defense Archives of the Washington Headquarters Service. SIGAR has not yet performed a full review the records contained in the hard drive.

⁶² Dr. Joseph Catalino, interview by SIGAR, January 6, 2016.

Conclusion

After 14 years, hundreds of billions spent to support U.S. military operations, and almost \$110 billion appropriated for the largest reconstruction effort in U.S. history, the United States has shown an enduring commitment to the mission in Afghanistan. Although many U.S. troops have come home and Congress has reduced annual appropriations for Afghanistan reconstruction, there was still approximately \$8.9 billion left to be spent for reconstruction as of September 30, 2015.⁶³ Further, the U.S. government has committed to providing tens of billions more in reconstruction aid over the course of Afghanistan's "Transformation Decade" and recently committed to an extended military presence to support the Afghan government until it is able to sustain itself and independently secure itself from insurgent threats.⁶⁴

Despite those commitments, managing and overseeing this massive, ongoing effort is being left to a decreasing number of U.S. military and civilian personnel in Afghanistan. The reduction in resources means that oversight and active learning from the U.S. government's experience in Afghanistan and Iraq are more important than ever. Together, with Congress, we must ensure that every dollar is spent as effectively and efficiently as possible and used as intended. In that same vein, we must seek to understand where we, as a nation, did not accomplish our goals, learn from those mistakes, and take meaningful corrective action as we move forward in Afghanistan's reconstruction. Failing to do so reduces the likelihood that Afghanistan will become a secure and stable nation, thus risking all the United States, the Afghan government, and our allies have invested.

Although TFBSO is now shut down, this nearly \$800 million program was DOD's principal vehicle for stimulating private sector investment in Afghanistan in order to reduce violence, enhance stability, and stimulate the economy. An understanding of the successes and failures of TFBSO activities is critical for Congress and future administrations when considering economic development activities in future contingency operations.

To date, SIGAR has not been able to find credible evidence showing that TFBSO's activities in Afghanistan produced the intended economic growth or stabilization outcomes that justified its creation. On the contrary, TFBSO's legacy in Afghanistan is marred by unfinished, poorly planned, and ill-conceived projects. The CNG filling station is an example. Given the high cost of the project, the absence of national or even regional natural gas transmission

⁶³ On December 16, 2014, President Obama signed the Consolidated and Further Continuing Appropriations Act, 2015, funding the U.S. government for the rest of the fiscal year and providing an additional \$5.20 billion to four of the seven major Afghanistan reconstruction funds. As of September 30, 2015, more than \$2.17 billion of FY 2015 funding had been obligated and more than \$1.93 billion of that amount had been disbursed.

⁶⁴ In August 2013, the Departments of Defense and State released the most recent revision of the U.S. Civil-Military Strategic Framework for Afghanistan. The framework provides strategic guidance for all American civilian and military personnel serving in Afghanistan and outlines U.S. priorities through what the framework calls the "Transformation Decade" of 2015 – 2024.

and local distribution infrastructure to support a network of CNG stations, and the absence of any consumer market for such a station (and with no clear incentive for motorists to convert their vehicles to CNG), it remains unclear why TFBSO believed the CNG filling station project should have been undertaken in the first place.

Finally, it does not appear that DOD or Task Force leadership responded to and applied lessons identified early in its Afghanistan operations. Specifically, TFBSO operations in Afghanistan: (1) lacked a comprehensive strategy; (2) focused and consistent processes and leadership, and (3) coordination with other U.S. and Afghan government stakeholders, as well as with other donors and local populations. DOD's and the Task Force's failure to respond and implement changes based on prior lessons appears to have contributed to the unfulfilled expectations for TFBSO activities in Afghanistan.

The National Defense Authorization Act for Fiscal Year 2012 allowed the continuation of TFBSO. However, the accompanying House Armed Services Committee Report noted that "the function of private sector business development falls outside the core competency of the Department of Defense."⁶⁵

That cautionary statement now seems quite prescient in light of our findings to date of TFBSO activities. Specifically, our analysis has shown that the Task Force did not achieve most of its goals, both in the short-term and, it would appear, in the long-term. In addition, SIGAR's ongoing review of TFBSO activities in Afghanistan raises several key questions that remain unanswered and should be considered by Congress and any Administration contemplating such TFBSO-like programs in the future. For example:

- Should DOD be leading these types of economic development activities in future contingency operations?
- What impediments inhibited TFBSO, State, and USAID coordination and ultimately led to duplicative and sometimes competing activities and how can they be addressed in the future?
- How much private sector direct investment did TFBSO's \$760 million obligation yield and how does that compare to traditional reconstruction models using USAID and the Department of State?
- What impact did TFBSO projects and programs have on stabilizing Afghanistan, even at the local level and can any of its successes be sustained?
- Were there systemic problems with DOD's management and oversight of TFBSO activities in Afghanistan which need to be addressed?

⁶⁵ United States House of Representatives, *National Defense Authorization Act for Fiscal Year 2012, Committee Report (to Accompany H.R. 1540)*, 2011, Section 1533

DOD's apparent final word on TFBSO, the 2016 RAND report, does not sufficiently answer these questions and declares lessons learned without making an attempt to determine if TFBSO was effective in advancing its congressionally mandated goals.⁶⁶ While we appreciate that RAND has left the questions of TFBSO effectiveness—either at the level of an individual project or the overall effort—to SIGAR, we worry that DOD has yet to provide any evidence that TFBSO reduced violence or increased stability despite its expenditure of nearly \$800 million dollars of taxpayer funds..

SIGAR remains committed to uncovering the successes and stumbles of the Task Force in Afghanistan and answering these questions in order to inform Congress, the Administration, and the American people.

Thank you for the opportunity to testify today. I look forward to answering your questions.

⁶⁶ RAND National Defense Research Institute, *Task Force for Business and Stability Operations Lessons from Afghanistan*, 2016, p.xi.

Appendix I - Detailed Descriptions and Outcomes of Select Task Force for Business and Stability Operations Projects

SIGAR has published reports on many Task Force for Business and Stability Operations (TFBSO or Task Force) projects and examined available documentation and conducted interviews related to several others. In addition to SIGAR's work related to the TFBSO compressed natural gas filling station, SIGAR's work has found the following:

- SIGAR-16-11-AR, *Afghanistan's Oil, Gas, and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth* is the second of two SIGAR reports focused on the U.S. efforts to develop Afghanistan's extractive industries. Related to TFBSO projects, SIGAR found that Task Force assistance to Afghanistan's extractive industries has been directed toward developing capacity at the Afghan Ministry of Mines and Petroleum (MOMP) and its component organizations, and toward making regulatory reforms to attract private sector investment. TFBSO generally pursued short-term projects seeking immediate results and its 11 effort produced mixed results, with three of those projects showing little to no achievement of their project objectives, five partially met project objectives, and the final three generally met project objectives.
- SIGAR-16-2-SP, *TFBSO Security Inquiry Letter*, sought answers to questions related to the costly decision by TFBSO leadership to protect, house, and feed its personnel primarily on facilities that were not operated by the U.S. government at a cost of nearly \$150 million. SIGAR has not yet found any data or documentation that analytically demonstrates the return on investment the Task Force gained from its decision to operate in Afghanistan from locations not controlled by either the U.S. military or Chief of Mission.

Former TFBSO director Paul Brinkley told SIGAR that TFBSO's mission dictated that TFBSO operate on its own, but that DOD personnel, including General Stanley McChrystal, were aware of the living, security, and travel arrangements of TFBSO.⁶⁷ Mr. Brinkley and others have repeatedly cited the Task Force's freedom of movement as a key advantage over embassy-bound USAID and State Department personnel who were subject to the Embassy's Regional Security Office's decisions and protocols.⁶⁸ In 2016, RAND stated the freedom of movement enjoyed by Task Force personnel was widely cited as "vital to the successes of the Task Force."⁶⁹ However, other than those (and similar) broad assertions pertaining to the need for, and effect of,

⁶⁷ Paul Brinkley, interview by SIGAR, December 17, 2015.

⁶⁸ RAND National Defense Research Institute, 2016, pp.97-99.

⁶⁹ RAND National Defense Research Institute, 2016, p.98.

TFBSO's freedom of movement on stimulating investments, project execution, or oversight, SIGAR has not yet seen evidence that TFBSO performed a cost-benefit analysis of its \$150 million dollar expenditure prior to making the decision to live outside of established U.S. government facilities or any analysis identifying the ultimate return on that investment. To date, DOD has failed to respond to our requests for information related to this inquiry.

- SIGAR 15-55-AR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, found TFBSO and the USAID have been the two U.S. government entities that provided assistance in direct support of Afghanistan's extractive industries. TFBSO documents state that it administered 11 initiatives aimed at developing Afghanistan's extractive industries by pursuing three broad objectives: (1) restoring productive capacity in the Afghan economy wherever possible, across all industrial sectors, (2) stimulating economic growth, and (3) serving as a catalyst for private investment in Afghanistan by linking the international business community with Afghan business leaders and government officials. In addition to minerals and hydrocarbons development, TFBSO activities included projects to facilitate private investment, industrial development, and other projects that the Secretary of Defense, with the concurrence of the Secretary of State, determined would strengthen stability or provide strategic support to the counterinsurgency campaign in Afghanistan. TFBSO implemented these efforts through contracts, purchase orders, and interagency agreements totaling \$282 million. SIGAR also found that there was no overall U.S. government strategy for the development of Afghanistan's extractives industries, poor interagency coordination, and a lack of planning.
- SIGAR 14-82-IP, *Gereshk Cold and Dry Storage Facility: Quality of Construction Appears To Be Good, but the Facility Has Not Been Used to Date*, found that TFBSO spent nearly \$3 million to build a facility intended to improve the ability of local Afghan farmers to preserve fruits and vegetables for sale to national and international markets, which could generate revenues far greater than selling their produce locally. The facility appeared well-built and ready for productive use. However, TFBSO contracted for and built the facility without buy-in and formal commitment from a private investor and the facility remains unused, resulting in a nearly \$3 million waste.

- Herat Business Incubator: TFBSO funded the \$46.8 million⁷⁰ Herat Incubator Project to "create an environment with necessary network and computing resources that fostered a creative atmosphere and begin linking the international IT industry to this center" and established what was intended to be a "true Silicon Valley-style start-up incubator" in Herat.⁷¹ According to Paul Brinkley, he had the idea for the incubator following the revelation that there were "long-haired" Silicon Valley-type Afghans already operating businesses in the city that could benefit from TFBSO assistance.⁷² Additionally, Herat was appealing because the city was generally stable with a relatively high quality of human capital, stable electricity, and airport access.⁷³

However, neither the incubator model nor the businesses it sought to develop appear to have been sustainable. In an interview with SIGAR, one former TFBSO employee told us, "In fact, nothing was sustainable."⁷⁴ Similarly, a former TFBSO director, James Bullion, told SIGAR that the contractor implementing the project, "did nothing" and that contractor staff were rarely on site in Herat.⁷⁵ Ultimately, Mr. Bullion stated that refused to renew the contract for the incubator project because it appeared to him it "did nothing." SIGAR is still investigating this program.

- Village Stability Operations: TFBSO's Village Stability Operations initiative is perhaps the Task Force program most explicitly tied to TFBSO's mandated stabilization mission. This \$14.4 million program was intended to support a bottom-up counterinsurgency strategy that was supposed to expand security while connecting local governance to district government, and district governance to the national government.⁷⁶ Of these funds, TFBSO obligated \$14.3 million to identify potential small-scale mineral development opportunities in strategic villages and to develop a plan for training local partners in proper artisanal mining methods. From these plans, TFBSO undertook only one \$55,000 activity for purchases of chromite-processing equipment.

⁷⁰ In June 2015, in response to SIGAR questions, counsel for the TFBSO contractor implementing the incubator project stated the company had received \$46,832,494.64. According to TFBSO's Economic Impact Assessment report issued in December 2014, the project cost \$42,352,992.20. Here, SIGAR is using the \$46.8 million figure since it is more recent.

⁷¹ Paul A. Brinkley, *War Front to Store Front: Americans Rebuilding Trust and Hope in Nations Under Fire* (New York, NY: Turner Publishing Company/Wiley General Trade, 2014), p. 291.

⁷² Paul Brinkley, interview by SIGAR, December 17, 2015.

⁷³ RAND National Defense Research Institute, 2016, p. 32.

⁷⁴ By 2012, analysis of lessons identified from the incubator led to a gradual shift of the model to one that became called an "accelerator," which focused on taking local companies with track records of success across a range of sectors and helping them grow.

⁷⁵ James Bullion, interview by SIGAR, January 23, 2015.

⁷⁶ SIGAR, *Quarterly Report to the U.S. Congress*, January 30, 2014, p. 121.

The cost difference between developing plans and actual programming was not the most egregious aspect of this program. The one activity TFBSO actually executed was for the purchase and delivery of chromite-processing equipment that would allow a commander and deputy commander of the Afghan Local Police to begin chromite processing. When TFBSO officials later consulted with Afghan legal experts, they learned that their chromite facility violated the Afghan Minerals Law, which prohibits the granting of mining licenses to, among other Afghan officials, employees of the Ministry of Interior. Fortunately, once TFBSO learned of this violation, they contacted the Minister of Mines and Petroleum to explain the violation, and the project was later cancelled at the minister's behest. TFBSO's ignorance of the minerals law, despite significant investments in planning this activity, is particularly concerning since TFBSO provided the MOMP with legal advice to help Afghanistan meet worldwide standards for transparency and social responsibility in mineral exploitation.⁷⁷

- Amu Darya Oil Basin: TFBSO's \$73 million efforts to assist the MOMP and the Afghanistan Petroleum Authority in initiating and managing contract tenders for the development of Afghanistan's oil and natural gas reserves focused primarily on the Amu Darya and Afghan-Tajik Basins in northern Afghanistan.⁷⁸ Building from TFBSO's work in December 2011, the Afghan government approved a hydrocarbons exploration and production sharing contract with CNPC and its Afghan partner, Watan Oil and Gas, for three oil blocks in the Amu Darya Basin.⁷⁹ The CNPC award prompted the Senate Armed Services Committee to include the following language in its Committee Report accompanying the fiscal year 2014 National Defense Authorization Act, "The TFBSO has contributed to the stability of Afghanistan's economy, particularly the development of its mining sector. However, the committee strongly believes that TFBSO funds for the development of Afghanistan's mining should not go towards subsidizing the ability of foreign companies, in particular the Chinese mineral extraction industry, to exploit the estimated \$1.0 trillion worth of Afghanistan resources. The committee believes that companies who mine Afghanistan's rare earth minerals should be the ones investing in the mining infrastructure of Afghanistan."⁸⁰

⁷⁷ Vestige Consulting, LLC and Acertas, LLC, 2014, pp. 66–69.

⁷⁸ The total costs included support for multiple hydrocarbon tenders and seismic testing at Amu Darya and Afghan-Tajik Basins; the discrete costs associated with TFBSO work supporting the Amu Darya Oil Basin could not be disaggregated from the total expenditures with available documentation.

⁷⁹ Also in the Amu Darya Basin, TFBSO experts worked with MoMP to rehabilitate and reopen an additional four oil wells. To reduce the security risk for international oil companies to enter the Amu Darya region, TFBSO also funded the clearance of 41,200 square meters of landmines.

⁸⁰ Committee on Armed Services, United States Senate, *Report 113-44 to Accompany S.1197*, June 20, 2013.

In August 2015, Tolo News reported that an Afghan government investigation found that CNPC had violated the terms of its 2011 contract to extract oil from three blocks in the Amu Darya Basin.⁸¹ The Afghan government accused CNPC of owing the government \$68 million for not developing land surrounding their operations as stipulated, and of improper extractions leading to corruption.⁸²

⁸¹ Tolo News, "Ministry Looks to Enforce Contract Signed with Chinese Firm for Amu River Oil Fields," August 6, 2015.

⁸² While TFBSO provided technical assistance to the MOMP for this award, USAID, which funds the only U.S. government extractives assistance program in Afghanistan, is not involved and could provide further information.

Appendix II - Summary of All Select Task Force for Business and Stability Operations Projects

This summary utilizes Task Force for Business and Stability Operations (TFBSO) cost and expenditure data from Economic Impact Assessment (denoted by "*" next to the project name) and cost and expenditure data from project contracts reviewed by SIGAR (denoted by "**" next to the project name) ⁸³

Project	Project Cost	Dates Active	Purpose	Outcome
Hydrocarbon Tender Development \$104,375,666.04				
First Hydrocarbon Tender**	\$1,900,000.00	2009-2010	The purpose of this program was the provision of promotion and advisory services for TFBSO's first hydrocarbon tender round, as well as a follow-up hydrocarbon tender.	This program failed to garner significant interest or tender offers from the international business community, and resulted in the failure of TFBSO's first hydrocarbon promotion efforts.
Subsequent Hydrocarbon Tender Support**	\$60,077,025.04	2010-2014	This program was dedicated to providing the MoMP, and the APA, with support in tendering exploration and production sharing contracts for Afghanistan's hydrocarbon resources.	TFBSO's hydrocarbon tender development efforts resulted in three finalized hydrocarbons contracts. Additionally, TFBSO officials stated that they had another two contract tenders "well underway," and the Afghan government had received several bids for one of these contracts. However, the MoMP did not complete the tender process for these two projects before TFBSO departed Afghanistan in December 2014. TFBSO officials stated that it was also instrumental in helping to establish the APA as

⁸³ This list and associated costs may not be exhaustive and we have not verified all data. However, the list contains the best available information as of January 13, 2016.

Project	Project Cost	Dates Active	Purpose	Outcome
				the Ministry's central authority for hydrocarbons. However, the contractor for USAID's SGGA program reported that the new central government did not approve continued funding for the salaries of the "vast majority of APA staff members". 72 APA employees were laid off in December 2014, leaving only approximately 35.
Afghan-Tajik and Amu Darya Seismic**	\$12,714,000.00	2011-2012	During its hydrocarbon tender development efforts, TFBSO determined that seismic reflection surveys could help to confirm prior data collected by geologists during the Soviet era, and that this would help spur further exploration investment by international oil and gas companies. To this end, TFBSO contracted to collect seismic reflection data from the Afghan-Tajik and Amu Darya basins in Northern Afghanistan.	TFBSO activities reports indicate that it successfully collected the 460 kilometers of seismic data required under the Afghan-Tajik and Amu Darya contract. During an interview with SIGAR, Mr. Brinkley, TFBSO's first director, stated that he issued a memorandum prohibiting seismic testing in northern Afghanistan. This memorandum was ignored or overturned by later directors.
Kushka Seismic**	\$29,637,939.00	2012-2014	Similar to efforts to collect seismic reflection data within the Afghan-Tajik and Amu Darya basins in Northern Afghanistan, TFBSO twice contracted to collect data in the Kushka basin.	According to TFBSO, its first, firm fixed-price contract did not result in the collection of any seismic data from the Kushka basin due to security concerns and inclement weather. After granting several months of delays, in March 2013, TFBSO terminated this contract for default. In September 2013, TFBSO executed a second contract to collect seismic data in the Kushka Basin. TFBSO officials stated that TFBSO leadership proceeded with the second and more expensive cost-plus-fixed-fee contract over the objections of the project managers and subject

Project	Project Cost	Dates Active	Purpose	Outcome
Landmine Removal**	\$46,698.00	2011	TFBSO funded the removal of landmines at prospective hydrocarbon well sites in the Annu Darya basin.	The contractor cleared 41,200 square meters of landmines.
Enhancing Access to Energy Resources \$82,337,139.15				
Compressed Natural Gas Station*	\$42,718,739.00	2011-2013	This program funded the construction and operation of a CNG fueling station, two dispensers, one CNG trailer filling point, car conversion center, administrative office building, and gas compression and processing equipment.	We found no indication that, prior to construction, TFBSO considered the feasibility of achieving the station's broader objectives or considered any of the potentially considerable obstacles to the project's success. The station was purportedly passed to a private company. However, kits to convert a vehicle to CNG cost the equivalent of the average Afghan's annual salary, leaving them out of reach for many Afghans.
Sheberghan - MeS Pipeline**	\$39,618,400.15	2012-2014	The purpose of this project was (1) to rehabilitate the 45-year-old, 89.1-kilometer pipeline connecting the Khoja Gorgordak natural gas field near Sheberghan, Jowzjan province to the Northern Fertilizer and Power Plant in Mazar-e-Sharif, Balkh province; and (2) to facilitate the construction of a new 89.1-kilometer pipeline to run alongside	With materials and technical assistance provided by TFBSO, ACE completed repairs for 12 of the 15 kilometers of pipeline targeted. USAID reported in July 2015 that ACE has not yet managed to complete the remaining 3 kilometers of planned repairs due to security concerns in the project areas. USAID and Department of State officials say that they remain skeptical of the

Project	Project Cost	Dates Active	Purpose	Outcome
			the old one.	partially rehabilitated pipeline's safety.
			Alongside these pipeline projects, TFBSO provided materials and support for the construction of an amine plant, for processing the sulfur out of natural gas, and a compressor facility, to increase the pressure of natural gas flowing through the Sheberghan pipelines.	TFBSO reportedly expedited delivery of 94.5 kilometers of pipe for construction of the new pipeline. However, these construction materials remain unused at locations in Sheberghan and Mazar-e-Sharif. U.S. officials are unable to visit the Sheberghan location and confirm the status of these materials due to security concerns.
				TFBSO completed the compressor facility, and successfully constructed (but did not commission) the amine plant in 2014. A TFBSO subject matter expert stated that, at their current levels of knowledge and capacity, it would be "irresponsible" for the Afghans to operate and maintain the amine plant. He estimated that it would cost about \$5 million to hire four expatriate contractors to perform operation and maintenance for this facility. USAID claimed that TFBSO's amine plant will be of limited use to the Afghan government, should it ever be commissioned, as it cannot remove certain corrosive contaminants prevalent in the gas produced in the Sheberghan area, and it does not have sufficiently high capacity.
Mineral Development Projects				
			\$72,859,440.64	

Project	Project Cost	Dates Active	Purpose	Outcome
Mineral Tenders**	\$65,686,294.89	2010-2014	The purpose of this program was to provide the MoMP with commercial, technical, and legal expertise for the minerals tendering process. TFBSO expected these activities would result in at least eight new mineral contracts—ideally with reputable multinational mining companies with expertise in developing mines in post-conflict states—and improved capacity at the MoMP to execute future contracts.	TFBSO's mineral tender consultants, in conjunction with the USGS and the MoMP, identified four areas of interest for development, referred to as the "Round 1" tenders. TFBSO signed follow-on contracts in September 2012 in order to support the launch of tenders for four additional sites, referred to as the "Round 2" tenders. These projects were scheduled to begin in March 2013 and conclude before June 2014. TFBSO's Round 1 tenders required significantly more time than expected. As of July 2015, the Round 1 mineral tenders and cement tenders remained incomplete, and the Round 2 mineral tenders have not yet been launched. In a follow up response to our first audit, USAID reported that there is a very high probability that the Afghan government and MoMP will seek an independent legal review of the terms and structure of all mining contracts negotiated under the previous administration before finalizing these contracts. Furthermore, according to senior representatives from USAID's MIDAS program, the documents that TFBSO prepared for the Round 2 tenders are substantively incomplete and will require further work before the MoMP can utilize them in future tenders. Finally, even if TFBSO's tenders become finalized contracts, the tendering model that TFBSO followed does not appear to be sustainable for the Afghan government. In a report, MIDAS subject matter experts suggested that it might be 10 to 15 years before any of the early-stage exploration projects

Project	Project Cost	Dates Active	Purpose	Outcome
North Aynak Drilling**	\$5,126,948.75	2012-2013	This program was designed to conduct capacity building and exploratory drilling for copper deposits in North Aynak.	The drilling program in North Aynak was completed successfully. The contract required the contractor to mobilize all equipment to the drilling site, conduct 1,500 meters of core drilling and 1,000 meters of reverse circulation, and then restore the drilling site to its approximate preexisting condition. According to the contractors' final report, 2,101 meters of core drilling and reverse circulation alongside 12 embedded AGS personnel was performed. SIGAR has been unable to determine if the exploratory drilling found significant copper deposits in North Aynak.
Lithium Drilling**	\$1,823,336.00	2014	This program was designed to perform exploratory drilling for lithium deposits in Dasht-e-Newar, Ghazni Province.	In its Activities Report to Congress for Fiscal Year 2014, TFBSO stated that the lithium drilling project successfully confirmed the quality of lithium in the area. SIGAR has not conducted an independent analysis of the lithium drilling program.
Drill Training Support**	\$222,861.00	2013	The purpose of this program was to develop and implement a training curriculum for the Chinese-manufactured drilling rigs that the MoMP owned but did not know how to use.	Unplanned and unavoidable delays resulted in the completion of only 9.5 weeks of the planned 12-week curriculum. Nonetheless, the contractor reported that, as a result of the program, the AGS now has several operational drilling rigs as well as an adequate and experienced driller and crew who can operate drilling machines under supervision. However, the contractor also voiced

Project	Project Cost	Dates Active	Purpose	Outcome
				several concerns with the project, including the fact that the AGS did not appear to screen the trainees it nominated, resulting in the majority of the trainees being functionally illiterate and innumerate, and approximately half the trainees openly acknowledge that they only attended the drill rig trainings for the free lunches and salary benefits. Additionally, the contractor expressed reservations about the program length, which it felt was far too short. They wrote that training a person to become a driller who can safely and independently operate a drill can be a one- to two-year process, longer than the 3-month program executed by TFBSO.
Banking and Finance Support \$69,219,230.00				
Banking and Financial Systems Development Support*	\$69,219,230.00	2010-2012	The purpose of this program was to promote the electronic transfer of funds between government agencies and Afghan businesses. This program also resulted in the Economic Roundtable Conference, which pushed a holistic approach to business transformation in Afghanistan.	SIGAR has not conducted an independent analysis of the banking and financial systems development programs.
Business Advisory Sector Support \$42,352,992.00				
Business	\$42,352,992.00	2011-2014	The purpose of the program was to	SIGAR is currently conducting a review of the

Project	Project Cost	Dates Active	Purpose	Outcome
Incubator and Accelerator*			develop a Silicon Valley-modeled start up incubator in Afghanistan. As the program grew, it shifted to small-and-medium sized businesses, paying for consultants to work with enrolled businesses.	business advisory programs and has found that the program lacked a way of measuring success and appears to be a failure. Mr. Bullion, a former director of TFBDO stated that he refused to renew IBM's contract because IBM "did nothing" on the project and that IBM staff were "never there."
Capacity Building for MoMP and AGS \$38,511,289.57				
USGS Support**	\$36,157,563.18	2009-2014	The purpose of this program was to support USGS activities in Afghanistan. According to USGS officials, the USGS requires a sponsoring agency in order to conduct operations outside of the U.S. USAID provided initial support to USGS, and TFBDO later became the sponsoring agency for the USGS activities in Afghanistan.	The USGS successfully compiled digital data for the 24 areas of interest, as well as an additional 33 sub-areas. USGS geologists and hydrologists performed laboratory studies and remote sensing studies within and outside the areas of interest. The USGS compiled these maps and data, along with digitized versions of older Soviet maps and records, into a new data center constructed by TFBDO at the AGS headquarters in Kabul. USGS led capacity-building efforts included database training, geographic information system software training, remote sensing training, and on-the-job training at field sites and at the AGS headquarters. However, TFBDO did not provide any program reporting that would be useful for assessing the successes or failures of these trainings. One USGS representative stated that, in their assessment, the AGS is now capable of producing new data and information packages without outside assistance. However, this representative also said that security, funding, transportation, and infrastructure problems will

Project	Project Cost	Dates Active	Purpose	Outcome
Contractor Support for Data Center**	\$1,504,276.39	2010-2012	Provision of equipment and support to the creation and operation of the AGS data center in Kabul to contain USGS collected and analyzed geologic data.	continue to hinder AGS's work. The contractors provided equipment and support to the creation and operation of the AGS data center in Kabul. The AGS data center was turned over to the Afghan government when TFBSO concluded operations in Afghanistan at the end of 2014. The USGS collected and analyzed geologic data is available at the data center as well as on a related website.
Educational Exchange**	\$500,000.00	2014	The purpose of this program was to update Kabul Polytechnic's mining curriculum and train its geology professors in contemporary mining practices. According to representatives from TFBSO and the MoMP, schools such as Kabul Polytechnic University needed this support because their curricula still reflected Soviet central planning practices.	TFBSO sponsored an intercollegiate information exchange between Kabul Polytechnic University and three international universities. Seven senior professors received training and then mentored younger associate professors. USGS officials also hosted several classes at Kabul Polytechnic that were open to anyone in the Afghan government who was involved or interested in the extractives industries. Although TFBSO did not provide us with program reports, TFBSO and USGS representatives both claimed that the training efforts at Kabul Polytechnic were highly successful. In an attempt to secure continued funding, TFBSO representatives say they met with State and USAID to try to reach an agreement for transitioning the program. However, none of these efforts were successful, and the program has been discontinued.
BLM Support**	\$349,450.00	2014	BLM provided training in support of USGS activities in Afghanistan.	BLM supported USGS activities in Afghanistan.

Project	Project Cost	Dates Active	Purpose	Outcome
Private Sector and Public Private Partnership \$37,692,232.00				
Private Sector and Public Private Partnership Support*	\$27,876,331.00	2012-2014	This program was designed to facilitate large investment projects by private sector actors and the Afghan government. TFBSO worked to bring international investors and the Afghan government together to create an independent power producer, a glass tempering facility, and develop a scrap steel industry.	SIGAR has not conducted an independent analysis of the Private Sector and Public Private Partnership programs.
Private Investment Support*	\$9,815,901.00	2013-2014	This program was designed to vet and market small-to-medium sized businesses to the international investment community. Additionally, TFBSO helped the Afghan businesses with loan applications, financial models, and marketing materials.	SIGAR has not conducted an independent analysis of the Private Investment programs.
Agriculture Sector Support \$28,425,689.00				
Agricultural Diversification Support*	\$28,425,689.00	2010-2013	The purpose of the program was to improve crop yields, quality, and distribution processes. TFBSO provided equipment, built facilities, including the Gereshek cold storage facility, and provided training to farmers and	SIGAR has performed an inspection of the Gereshek cold storage facility constructed under this program and found it to be unused by Afghan farmers and businesses. SIGAR has not conducted a full, independent analysis of the remainder of the agricultural diversification

Project	Project Cost	Dates Active	Purpose	Outcome
Local Industries Support \$20,970,007.00				
Carpet Support*	\$7,560,758.00	2011-2014	The program was designed to increase the sales of hand knotted carpets from Afghanistan through the construction of two cut and wash facilities, training in new weaving techniques with Afghan carpet businesses, and presenting products at tradeshows.	SIGAR has not conducted a full, independent analysis of the carpet support program. TFBSO claims to have created nearly 10,000 carpet weaving jobs through this program, however our initial analysis has left us questioning the veracity of this figure.
Artisanal Industry Support*	\$7,316,112.00	2011-2014	The program was designed to develop a market for high-end artisanal gemstone, woodworking and ceramic products from Afghanistan in international markets. TFBSO focused on training jewelry makers, developing a market for Afghanistan branded jewelry, and generating employment.	SIGAR has not conducted a full, independent review of the artisanal support program. Initial analysis has found concerns related to the sustainability of the program, as well as personnel costs.
Cashmere Support*	\$6,093,137.00	2012-2014	This program was designed to improve the quality and quantity of Afghan cashmere and increase Afghanistan's international profile. TFBSO worked to increase expertise at the farm level, obtain quality certifications for companies and technicians, and increase product visibility at trade shows.	SIGAR has not conducted an independent analysis of the cashmere support program. TFBSO's EIA claims to have created 250 - 350 jobs with this program. Additionally, TFBSO worked with the Afghan government to ban the export of raw/greasy cashmere. According to SIGAR's initial analysis, TFBSO purchased 9 male goats from Italy, constructed a farming facility, and provided funding and built and staffed a laboratory to certify Afghan cashmere according

Project	Project Cost	Dates Active	Purpose	Outcome
TFBSO Funded Reviews of Operations \$20,643,214.90				
TFBSO Funded Reviews of Operations	\$20,643,214.90	2010-2015	TFBSO or DOD TFBSO funded a series of reviews of its operations, management, and close-out. Boston Consulting Group was paid approximately \$1.6 million. McKinsey and Company approximately \$17 million for a series of assessments, Leidos approximately \$2 million for an economic impact assessment (ultimately completed by Acerius LLC and Vestige LLC), and RAND approximately \$204,000 for another lessons learned report.	SIGAR has not conducted a full, independent review of TFBSO funded reviews of operations to internationally-recognized standards.
Village Stability Operations \$14,404,816.69				
Village Stability Operations Planning**	\$14,349,916.68	2012-2013	The purpose of this program was to contract with private sector business to develop a concept of operations and provide management support for mining sector-oriented VSO projects. TFBSO intended for contractors to support Combined Joint Special Operations Task Force and Special Operations Task Force teams in training local partners in proper artisanal mining methods and identifying	TFBSO did not provide us with any documentation of activities for one contractor. According to the final monthly status report of a second contractor, remote sensing analysis was commissioned in order to identify tracts that might be favorable for future Village Stability Operations and coal exploration projects, as well as provide capacity building to ACS geologists. However, this contractor reported nearly every other Village Stability Operations milestone as

Project	Project Cost	Dates Active	Purpose	Outcome
			potential small scale mineral development opportunities in strategic villages.	Incomplete or premature. Following the cancellation of TFBSO's first VSO project, the MoMP refused to approve any other TFBSO supported VSO projects. This resulted in the waste of remaining project funds.
Chromite Mining**	\$54,900.01	2011-2012	TFBSO executed one Village Stability Operations-related project, for the purchases of chromite processing equipment to be utilized by artisanal miners in Khas Kunar, Kunar Province.	TFBSO purchased and rush delivered the chromite processing equipment between December 2011 and April 2012. TFBSO trained the local commander and deputy commander of the Afghan Local Police to set up a small chromite processing unit for the local community. When TFBSO officials later consulted with Afghan legal experts, they learned that the chromite facility violated the Afghan Minerals Law, which prohibits the granting of mining licenses to employees of the Ministry of Interior Affairs. A senior TFBSO official told SIGAR Investigations that, upon learning this, he wrote a letter to the Minister of Mines and Petroleum explaining the violation, and the project was later cancelled at the Minister's behest. Following the cancellation of this project, the MoMP refused to approve any additional TFBSO supported VSO projects.
Alternative Energy Development Support				
				\$11,042,402.00
Micro hydroelectric Support*	\$10,792,492.00	2011-2012	The goal of this program was to connect the Tira Koh pumping station to a micro hydroelectric grid along with the capacity to expand to other grids.	SIGAR has not conducted an independent analysis of the micro hydroelectric program. According to TFBSO's EIA, this project was cancelled before any gains were realized.

Project	Project Cost	Dates Active	Purpose	Outcome
Biofuel Research**	\$249,910.00	2010-2011	The purpose of this program was to fund an Afghan biofuels study.	SIGAR has not conducted an independent analysis of the Afghan biofuels program
Women's Advancement Support \$10,856,233.00				
Women's Advancement Support*	\$10,856,233.00	2011	The purpose of this program was to enhance women's involvement in the information, communications, and indigenous industries. The program worked to establish the International Center for Afghan Women's Economic Development at the American University of Afghanistan.	SIGAR has not conducted an independent analysis of the women's advancement programs.
Cross Program Support \$5,917,173.60				
Transportation Support**	\$5,519,464.00	2012-2014	The purpose of this program was to provide fixed and rotary wing transportation support for TFBSO initiatives.	SIGAR has not conducted an independent analysis of the transportation support program.
Accounting Transparency Support**	\$215,000.00	2011	This program was designed to promote accounting transparency.	SIGAR has not conducted an independent analysis of the accounting transparency program.
Advisory Support for Resource	\$159,793.92	2014	The purpose of this program was to provide natural resource exploration advisory support services.	SIGAR has not conducted an independent analysis of the mineral exploration advisory program as the contract was cancelled for the

Project	Project Cost	Dates Active	Purpose	Outcome
Exploration**				government's convenience.
Liaison Services**	\$22,915.68	2010-2011	The purpose of this program was to provide a liaison between TFBSO and the Afghan government.	SIGAR has not conducted an independent analysis of the liaison services program
Industrial Development Support				
			\$451,760.00	
Industrial Development Support*	\$451,760.00	2010-2012	The purpose of this program was to develop infrastructure in Afghanistan. The program built security infrastructure at Herat government buildings; constructed the Enaar Girls School, Herat Teacher's Training Institute, and Herat University's women's dormitory; and equipped the Lashkar Gah marble factory with grinding machines.	SIGAR has not conducted an independent analysis of the industrial development programs.
TFBSO Security Costs				
			\$148,000,000.00	
TFBSO Security Costs	\$148,000,000.00	2010-2014	TFBSO paid security contractors to provide continuous security and life support services.	TFBSO utilized housing and life support functions outside of Embassy and DOD control. This allowed TFBSO employees and contractors greater freedom of movement throughout Afghanistan. SIGAR is currently conducting a review of TFBSO's security costs.
Total:	\$560,059,285.59			

Appendix III - Relevant Reports on TFBSO

SIGAR

1. SIGAR-16-11-AR, *Afghanistan's Oil, Gas, and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth*, January 2016.
2. SIGAR-16-2-SP, *DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived \$43 Million Project*, October 22, 2015.
3. SIGAR Audit 15-55-AR, *Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk*, April 24, 2015.
4. SIGAR 15-15-AL, *TFBSO Pipeline*, December 11, 2014.
5. SIGAR 14-82-IP, *Geresnik Cold and Dry Storage Facility: Quality of Construction Appears To Be Good, but the Facility Has Not Been Used to Date*, July 16, 2014.
6. SIGAR, *High-Risk List*, December 2014.

Others

1. Center for Strategic and International Studies, *Final Report on Lessons Learned Department of Defense Task Force for Business and Stability Operations*, June 2010.
2. GAO, *DOD Task Force for Business and Stability Operations: Actions Needed to Establish Project Management Guidelines and Enhance Information Sharing*, GAO-11-715, July 29, 2011.
3. GAO, *Agencies Could Benefit from a Shared and More Comprehensive Database on U.S. Efforts*, GAO-13-34, November 7, 2012.
4. RAND National Defense Research Institute, *From Insurgency to Stability Volume I: Key Capabilities and Practices*, 2011.
5. RAND National Defense Research Institute, *Task Force for Business and Stability Operations Lessons from Afghanistan*, 2016.
6. Special Inspector General for Iraq Reconstruction, *Learning from Iraq*, March 2013.
7. Vestige Consulting, LLC and Acertas, LLC, *Economic Impact Assessment Task Force for Business and Stability Operations (TFBSO) in Afghanistan*, December 29, 2014.

Senator AYOTTE. Thank you, Mr. Sopko.

I want to start with a basic question, Secretary McKeon. That is, there was roughly \$638 million disbursed over the life of the TFBSO task force. Can the DOD account for how each of those dollars was spent? As I look at the big picture here, and a lot of the questions that have been raised on recordkeeping, can you fully account to the taxpayers as to how each of those \$638 million was spent?

Mr. McKEON. Senator Ayotte, we can give you a list of the contracts, and I believe we can tell you how all the money was disbursed broadly by sector. In answering the question about the CNG station, it points to an inadequacy in the way they kept the books in the task force in terms of allocating the support costs to specific projects. They did not do it on a project-by-project basis, which gives us the challenge of coming up with the right number for the CNG station.

But it is my understanding, based on what I have been told and what I have seen in reviewing some of the records, that we know where all the money went. The money was contracted or disbursed through other parts of the Department, either U.S. Army Central in Kuwait or other DOD entities, such as the Washington Headquarters Services, or contracts that went through the Department of the Interior, for example. So I think we have all the paper that shows—

Senator AYOTTE. Let me just ask you a basic question, then. If we can account for each of these dollars—but I have serious questions given even this dispute listening to this that we can—was it worth it? What did we get for the taxpayers? That is the fundamental question. What can we say in terms of deliverables for the mission that is anything sustainable that we get to accomplish the purpose of economic development in Afghanistan?

Mr. McKEON. That is the big question, Senator, and it is the right one. As I said in my statement, I think it is a mixed record. I also think it is a little early to say.

So, for example, some of the work the task force did and USAID has done in advising the Ministry of Mines and Petroleum on governance, competitive tenders, administration of the ministry, that kind of thing, the jury is still out on that. There are number of tenders that I am told are still in a decision making process within the government. The Ghani government is looking closely at and reviewing a number of decisions by the Karzai government.

As I think even the task force's most recent audit on the extractives industry says, it is ultimately up to the Government of Afghanistan to carry the ball forward.

Senator AYOTTE. Right. So did we keep metrics or anything like that for this task force?

Mr. McKEON. I have not seen, in all the materials I have reviewed, specific metrics.

Senator AYOTTE. Is Mr. Sopko right when he said, using the gas station as an example, that there was no feasibility study?

Mr. McKEON. I cannot dispute that, Senator. We have not found in our search of the records what we would understand to be a feasibility study.

Senator AYOTTE. So there are a number of other issues, one that I wanted to ask about as well, and I am going to give Mr. Sopko an opportunity to comment on the questions that I have raised, but there was a letter that was written about \$150 million that was spent on villas and security for TFBSO staff. That is 20 percent, roughly, of the money appropriated by Congress.

Why could they have not stayed on base? And why was that decision made? And why is it justifiable for 20 percent of the money allocated for economic development for that purpose?

Mr. McKEON. Senator, we owe SIGAR an answer to that letter. We are still digging into the questions that he asked about the housing in Kabul and Herat and a couple other places.

What I understand was the reason for this was, first, the task force was unique insofar it was not under the Chief of Mission authority. They were somewhat entrepreneurial and took a little risk.

I think part of the reason for the housing was housing for staff coming from Washington in and out. I do not think a lot of people lived there permanently. They were also used as offices, and they were used to show international businesses and executives that they could come to Afghanistan to do business.

Senator AYOTTE. So did we get any deliverable contracts of international businesses there because we spent \$150 million on villas versus having them stay on base?

Mr. McKEON. Senator, I cannot tie a specific visit of an executive in one of these houses to a later investment. I would not make that claim.

The other thing I would say is the task force had their own private security to help them with security movements. They were not relying on the United States military for movements within the country, by and large. There is a document that we have seen in the records that—

Senator AYOTTE. Could they not have? I mean, they were a DOD task force. Could they not have asked the DOD and allocated some of the cost to support that?

Mr. McKEON. I have not asked that question of Central Command [CENTCOM], whether that would have been feasible at the time. I have seen one document where they signed an Memorandum of Understanding [MOU] between U.S. Forces Afghanistan [USFOR-A] and the task force as a contingency, essentially, for the task force to go on base or to be supported by the military. It was signed by a one or two star general who wrote a note to the commander and said he had a little misgivings about this because he was not sure if they were going to be able to support it completely.

Senator AYOTTE. Well, it just seems to me as a DOD task force, \$150 million, this is very important question. And obviously, I think we as a committee would like to know why those decisions were made and what were the justifications, and what return on investments we think we got from taking 20 percent of the appropriations to do that.

I also wanted to follow up on the issue of the \$55 million that was spent to facilitate an oil lender process that resulted, essentially, in the Chinese company winning a contract for extractives in Afghanistan. Do you think that was a wise use of taxpayer dollars?

Mr. McKEON. Senator, what I know about that is the task force assisted the Afghan Ministry of Mines to offer a tender in accordance with general international principles, and the Chinese company competed and won. I cannot tell you whether it was completely transparent and followed all the rules that we would expect in such a tender.

Senator AYOTTE. But stepping back for a second, my time is expiring and I know a number of others have questions, and I am, certainly, going to want another round of questions, but I am just trying to think how I tell the people of New Hampshire that we spent \$55 million to facilitate an oil tender process so that we could pave the way for the Chinese to get a contract in Afghanistan, where apparently what is at issue is their ability to exploit an estimated \$1 trillion worth of Afghanistan mineral resources.

I am laying it out there. Just in your opinion, do you think that was a wise use of our resources?

Mr. McKEON. Senator, it is my opinion, the foundational work, as I said, of advising the Ministry of Mines may pay off in the future. There are a lot of ifs. It will require some significant advances in security, significant advances in the rule of law, and significant embedding, essentially, of a culture of openness and transparency in business practices.

So I am not going to tell you that we are happy about the Chinese Government winning that tender. I do not think we tried to skew the results toward a non-Chinese firm. I do not know great detail about who else bid on the contract. We will go back and try to look at that.

But, as I understood it, the task force was going in to try to advise them about how to do an international tender the way that international businessmen would expect. That was the objective.

Senator AYOTTE. Mr. Sopko, did you want to add on that?

Mr. SOPKO. Yes, Madam Chairman. If I could just add one thing about the Ministry of Mines—and I think, Senator Kaine, this is also important to you, because I know you got a letter from a former minister. There has been a lot of analysis of that one tender, but there has been even more analysis done by Afghans themselves that during the time that tender was done—remember, this is the Karzai regime—the Ministry of Mines was the most corrupt ministry in a very corrupt government. It was so corrupt that USAID pulled back any direct assistance because they did a study on that, and it is a public study provided to all government agencies about how corrupt and incompetent that ministry was under the leadership of Minister Wahidullah Shahrani.

Now what is important about this, and some of you know I am a former prosecutor, but I also was an attorney and partner for Akin Gump, representing a lot of Fortune 100 firms. One thing you know when you deal with corporate America, American businesses know their customers, they know where they are going to be selling the products, and they know what the bottom line is. If you look at TFBSO and apply just reason and common sense, what we are talking about is here the Department of Defense still does not know who their clients were and what the bottom-line cost was for all of this.

So I would caution, before we have this pie in the sky that this is all going to come to fruition, we understand what we are dealing with. I think that is the big picture question about TFBSO. They did not know where they were working.

Senator AYOTTE. Thank you.

Senator Kaine?

Senator KAINE. Thank you, Madam Chair.

I, basically, have three lines of questioning, but the testimony has knocked off the first one. I wanted to ask DOD about the efficacy of DOD doing these kinds of reconstruction projects.

Secretary McKeon, I gather from your testimony that, in analyzing this, you think they should be placed somewhere other than DOD. I strongly believe that. I am a member of the Senate Foreign Relations Committee. I am ranking on the committee that oversees USAID. Whether it is USAID or another agency that does economic development as their daily work—we would not ask USAID to do military operations, for sure. I appreciate your concession that activities of this kind are probably best done somewhere else in government. So I am not going to beat that one. I think we have established that.

I have then one line of questioning for SIGAR, and one other one for DOD.

So on SIGAR, just looking at the record, I have the April 2015 audit report, Audit Report 1555. There is a discussion on page six of the compressed natural gas station. There is a listing of its cost, distributed funds, \$5.051 million.

By my read of this, I see no caveat that does not include overhead or this is an incomplete number. Maybe that is somewhere else in the report, but I do not see a caveat or qualification with respect to that.

I will get to my question in a second, and I would love to hear if there is a caveat there.

I see, after that, an April 2015 report saying the cost is \$5.051 million, and the October 2015 special projects report with the title, "DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-Conceived \$43 Million Project."

Then I am looking at the January Audit Report 1611, basically saying TFBSO spent at least \$39.4 million, \$5.1 million toward a compressed natural gas infrastructure development, and \$33.8 million for other activities. I do not see a caveat on that \$5.1 million number, that it does not include overhead costs, although in the next paragraph, there is a reference to the special projects report and the \$42.7 million number.

So the questions that I have are basically these, and you testified to this, and I want to make sure I understand this. Does SIGAR's special projects unit use the government accounting standards? You mentioned the standards that are unique to IGs. But are these done according to Generally Accepted Government Auditing Standards [GAGAS], the special project department's work?

Mr. SOPKO. By definition, GAGAS, which is the Generally Accepted Government Auditing Standards, only apply to audits. This is not an audit. SIGAR, like 11 other inspectors general, have other reports than audits. They use different terms.

Senator KAINE. Okay, this is very helpful.

Mr. SOPKO. Of those 11 other IGs—and actually, the GAO issues reports that are not GAGAS. Now we follow the general overarching policies of GAGAS in all of our reports, and that is that you have to be factual, you have to be independent, you have to be free of any conflicts of interest, and you have to support all the statements you make.

In some areas, and it is very interesting, even in GAGAS for audits, you are not required to do indexing and referencing, but we do indexing and referencing for even our special project reports.

Senator KAINE. Do you believe the audit reports of April and January from your agency were performed in accordance with GAGAS?

Mr. SOPKO. Yes.

Senator KAINE. Because they are audits?

Mr. SOPKO. Yes, they are audits. By definition, they have to. They take longer because of—

Senator KAINE. They take longer. Are they more elaborate?

Mr. SOPKO. Well, yes, the whole audit process, and that is one of the reasons why we created special projects and why other IGs have created it. For an audit, usually, and the way we work, we get together with the GAO, State, AID, the Department of Defense IGs, and do an audit plan based upon what the big issues are out there.

When we do an audit, there is a set policy of sitting down, having an entrance conference, and do planning. Audits usually take up to a year to get out.

When I took this job four years ago, I met with the staff of this committee and the staff of many other committees, including the Foreign Relations Committee—

Senator KAINE. Just really quickly, because I am going to be out of time. I just want to put on the record that there is a little bit of a challenge for those of us who are exercising an oversight function if the auditing division of SIGAR issues reports that are consistent with GAGAS standards with one number and they are consistent, and the special projects division uses a different set of standards—I am not saying they are inappropriate; I gather that they are the standards that are used by IGs—that come up with a different number. That kind of leaves us in a jump ball as to which we believe and how we harmonize those.

Some I am just going to put on the record that that may be a point for some additional conversation, because I, certainly, find it confusing to see that \$5 million number in two audits, and the \$43 million number on the headline of the report. So that is something that we want to dig into.

I want to come back to DOD with a minute and 20 seconds.

Mr. Sopko's testimony was not too complimentary about this "we will turn over the records at the 11th hour." I mean, I find that pretty disappointing, because while I certainly get the natural human tension between an agency and Inspector General—I have been in this business for a while—we are all on the same team. This is all of our taxpayer dollars. We have to be accountable for them.

So, Secretary McKeon, you spoke first, then you heard his testimony. How do you respond to the notion that it was only when we

had this hearing and it was going to happen finally that DOD said, okay, here are all the records that you ought to take a look at?

Mr. McKEON. Sure. Senator, I would point you to my written statement for more detail on this, but let me try to talk through the story as quickly as I can.

Last year around this time from January to March, the task force responded to voluminous requests for information from SIGAR and turned over about five discs of CD-ROMs of material, including a list of the former staff of the task force for the last several years.

When we got the request for information in the spring, we made available to SIGAR the task force records that were set aside in a reading room at the Washington Headquarters Services. They had full access to those records, which is what the IG Act requires, which is access to records. What we said to them is that if you want to copy any of these documents and take them back to your office, we need to review them for Freedom of Information Act [FOIA] releasability.

The reason we did that, sir, is, in a prior case, working closely with SIGAR, our Afghanistan and Pakistan Office had given over 18,000 records from the Commander's Emergency Response Program [CERP]. Those records were then released to media organizations subject to a FOIA request submitted to SIGAR. There were names of soldiers and Afghan partners in that dataset that was put on the Internet. It is still on the Internet. We have asked this media organization to take it down because of our security concerns for our soldiers and their Afghan partners. They have refused to do so. So that is why we did not simply hand over the records.

Secondly, we did not have task force employees. In the normal case, our Office of Afghanistan and Pakistan works very closely with SIGAR. They come in and say, "We want to examine this program. Can you give us your records on these issues?" We never hand over full hard drives and computer drives in the way that we have here. It is a dialogue. "Tell us what you need and we will provide it to you."

So there were two reasons that we set aside this reading room for SIGAR to access. But there were no restrictions on what they could read, absolutely none. They could read the full records unredacted.

The question was, could they come back, take those records back to their office. After I met with Mr. Sopko in December, and we exchanged letters expressing our concern about the issue of the release of the information, and we came to a meeting of the minds on that, we agreed to turn over the hard drive, which SIGAR now has.

Senator KAINE. Thank you, Madam Chair.

Thank you to the witnesses.

Senator AYOTTE. Senator Rounds?

Senator ROUNDS. Thank you, Madam Chair.

Mr. Sopko, I am just curious, maybe just in terms of the top lines that we have been looking at, a lot of discussion has been occurring based upon the CNG station. It would appear that this is just part of the overall number of projects. You did a pretty good job of lay-

ing out a series of projects down the line that this particular operation was responsible for.

But we started out by saying that there was about \$822 million that was appropriated, and we have approximately \$638 million that was disbursed. The delta between the two, was it simply a matter that the other money was not released? Where is that, the delta between the \$822 million that was appropriated and the \$638 million that was actually spent, or that we can find disbursements for?

Mr. SOPKO. Senator, I do not have a good answer on that. I will ask one of my auditors, who probably knows.

What he is saying is that the numbers could have been obligated, but not yet disbursed. And that is delta we are talking about.

Mr. McKEON. Senator, my understanding is this is not atypical for assistance programs, that an amount is allocated and put on the contract, but then over the course of the contract, they decide they do not need to spend as much of it. So the actual disbursements are lower. I do not know whether the ratio here is typical in an aid setting, but having that kind of delta is not atypical.

Senator ROUNDS. The reason why I ask is I just want make sure we had an understanding of where we are beginning from, in terms of what the TFBSO was actually responsible for disbursing. That appears to be \$638 million. A fair statement? The big picture, that is what we are talking about?

Mr. McKEON. I think we have a slightly different number, but we are in the ballpark, yes, sir.

Senator ROUNDS. Okay. Of the \$638 million, there seems to be a question of how we would appropriate or at least allocate the resources for overhead, travel, and so forth, and whether it was appropriately laid out project-by-project.

I will direct this to Mr. McKeon. Is there a broad understanding between both you and Mr. Sopko's office that there is an understandable appropriation or at least allocation among the different projects for overhead?

Mr. McKEON. Senator, I do not know that we have had that discussion.

Senator ROUNDS. You have not quite gotten to that point?

Mr. McKEON. I am happy the engage in—

Mr. SOPKO. I think that probably both of our staffs feel that it is very difficult to find out how they did allocate.

Mr. McKEON. Senator Rounds, I think we can say that the spending was roughly evenly divided between project spending and overhead and security. Security costs are quite high because it is in a warzone. I talked about this at length with General Petraeus, and he sort of walked me through why it was so expensive.

Mr. SOPKO. Senator, if I can just add, the comptroller who helped Mr. McKeon take a look at it actually contacted one of our staff and gave some data. In that data, it looks like the overhead costs actually exceeded the amount of the actual programs. But I cannot confirm that yet. That was just something he shared with our staff recently.

Senator ROUNDS. Mr. McKeon, did TFBSO personnel actually attend a designer and tradeshow event in Europe in support of the TFBSO's Afghanistan carpet initiative?

Mr. McKEON. I do not know the precise answer to your question about the show, Senator. I know it is listed in our activities reports, the task force activities reports to Congress. There was support for the indigenous carpeting industry in Afghanistan. They thought it was one of the high-end industries that could be advanced through regional and international markets.

Senator ROUNDS. Could you then perhaps, just for the record, provide a summary of where the TFBSO personnel traveled in Europe in support of the carpet initiative, how long they stayed, and the total costs of those trips?

Mr. McKeon, I just want to add, is it true that the TFBSO actually imported a large number of Italian goats via air shipment from Italy to Afghanistan?

Mr. McKEON. I have not heard that, Senator. We will have to check.

Senator ROUNDS. Okay, will you provide that for the record for us as well, please?

Mr. McKEON. Yes.

Senator ROUNDS. Thank you.

I was going to ask whether or not the goat initiative was a success or failure, but apparently you are not in a position to find that out.

Mr. McKEON. I am pretty sure if it happened, it happened before my time.

Senator ROUNDS. My time has expired. Just looking at this project, I have one question for Mr. Sopko. That is, if you are not already looking at the entire \$638 million in disbursements, do you have the capability to look through and to gain access to lay out where these disbursements were at? And do you have the capabilities to find the individuals who were working for us who are within the Armed Forces or contractors responsible to the Armed Forces? Do you have the legal capabilities right now to follow this through with your existing powers, sir?

Mr. SOPKO. In part. We can only find all of that and answer those questions if we have the total, full cooperation of the Department of Defense, because we need to find these individuals, and we need access to all the records. That is the only way we can do it.

Now, we lack subpoena authority to get testimonial subpoena. I think there was legislation pending, but that would be very helpful. I am probably not allowed to pontificate on pending legislation, but I think you can see right now, if we had had subpoena authority to actually bring some of these people in, we may have gotten to the bottom of this a lot earlier than now.

Right now, we have to basically beg people to talk to us who are nongovernment employees. We were trying to get Mr. Brinkley. He is an excellent witness, but we kept contacting him, and he kept blowing us off. It was not until we put his name in the report explaining why we were quoting his book but not him that all of a sudden he contacted us. Then, I must say, he submitted to an interview, which was very helpful.

But if I had subpoena authority, like most prosecutors do, I could have dropped paper on him and gotten him in here for an interview, so that would have been helpful.

Senator ROUNDS. Mr. McKeon, I just want to give you an opportunity to respond. Based upon the discussion that we have had here today, it would seem as though you are in a position to where we are going to be looking back at you for additional answers in the future. Can you make a commitment to this committee to provide as much information as possible or that you have available to you, and that that information would also be made available to Mr. Sopko on a timely basis?

Mr. McKEON. Yes, Senator. To the extent we can help find additional records, if Mr. Sopko thinks there are shortcomings, we will do that. I believe the records that we turned over are the unclassified records. There may be other records elsewhere in the Department not owned by the task force relative to this work.

Senator ROUNDS. By that, would you be suggesting that in a classified setting, you would have it additional information that you would share with this committee?

Mr. McKEON. No. I do not have additional information. For example, as I said, the contracting was done by other elements, not by the task force. There may be records in those components that are not on the hard drive that we gave Mr. Sopko.

Senator ROUNDS. Meaning the Department of the Interior?

Mr. McKEON. Department of the Interior or U.S. Army Central or Washington Headquarters Services.

Senator ROUNDS. One last question. Do you have the ability to follow through with the Department of the Interior, Mr. Sopko?

Mr. SOPKO. Yes, sir. We will pursue wherever we can, where the records are. I think we are probably going to do either a complete financial audit—we have been asked by some Senators to do that—or we will do an entire programmatic audit of TFBSO.

Senator ROUNDS. Thank you, sir.

My time is expired. Thank you, Madam Chair.

Senator AYOTTE. Thank you. I would just say that we would appreciate that audit. I think it would be very important for us to have a financial audit, so that we can ensure that each of the dollars that were disbursed, how they were spent, we can account to taxpayers for that.

I would like to call on Senator Shaheen.

Senator SHAHEEN. Thank you, Madam Chair.

And thank you both for being here.

I found the history of the task force very instructive, Secretary McKeon, because one of the things that you point out is, in March 2009, Secretary Gates issued a memo indicating he had asked Mr. Brinkley to continue the task force efforts. Then there was a new memorandum in 2010 directing Mr. Brinkley to continue the efforts. I think it was in 2009 that the chain of command was shifted so that he reported directly to Secretary Gates.

But what I particularly found instructive was looking at the role that this committee played, which I confess I did not remember with respect to continuing the organization in the 2011 National Defense Authorization Act, where we initially said that the authority should expire in September 2011 and because of concerns by General Petraeus and the Chairman of the Joint Chiefs, Mike Mullen, they came back and asked Chairman Carl Levin and Sen-

ator John McCain to change the provision and not require the shutdown of the task force.

So clearly, there were a lot of hands in why we got to the place that we got on the TFBSO.

I wonder if, Mr. Sopko, you can suggest the kinds of questions that this committee should have asked or what kind of information we should have been looking for, as this issue of whether we should continue what they were doing came up before this committee.

Mr. SOPKO. I would be happy to provide that to you. I think right now I will go back to the point I made to Senator Kaine based upon my experience dealing with companies, corporations. Corporate America understands whom they are selling to. They understand their market.

Again, this may have been the problem. We are asking the Department of Defense to start thinking like corporate America. I represented clients who knew how many pickles were being used on any particular day in a city, when I worked for Akin Gump. DOD does not think in those terms.

I remember having a nice conversation with a three star general who said, "Look, we are good at blowing things up. We are not really good at building things." Now, they will do it, and they may do it, if the State Department and AID are not there and are not sitting at the table. Like on many of these provincial reconstruction teams, we knew there were seats for State and AID, and we actually reported on it, but State and AID for financial reasons, they did not have the bodies, they are not there. So DOD is then forced to take up the slack.

I think, Senator, it is great that you are sitting on both committees because you realize—and you, too, I am sorry, Senator Shaheen—it is going to be a whole-of-government approach the next time we do this. And if we just plus-up DOD and do not plus-up State and AID, then who is going to be left doing this kind of work?

I agree with Secretary McKeon, but I cannot speak from a GAGAS point of view or audit point of view. We have not done the report yet. That is a serious question that needs to be asked: Is this the proper role for DOD?

Senator SHAHEEN. Well, I would, certainly, agree with Secretary McKeon and with Senator Kaine. I think that this is not the proper role for DOD. I appreciate the challenges that we were facing in Afghanistan, but it seems to me that one of the things that we do need to look at is what the role for DOD is, and what the role for the Department of State is, and how diplomacy figures in to what we are doing as we are facing conflicts in places like Afghanistan.

We had a hearing before the Armed Services Committee today where we heard comments from the people who were speaking about the need for military action sometimes to get to diplomacy, but they were not making the connection that we needed to do economic development through DOD in order to get diplomacy.

So I do think it raises serious questions.

And I guess I would ask you, Mr. Sopko, are there other takeaways from your analysis of the TFBSO that you would urge us as a committee to look at?

Mr. SOPKO. Senator, I think it is important to look at lessons learned. Now, the TFBSO hired CSIS, the Center for Strategic and

International Studies, to do lessons learned on Iraq. What we found out is that issued a pretty good report, but it does not seem like anybody ever read it and followed up on it.

The RAND Corporation has been hired, and I give credit to TFBSO, and I think maybe Under Secretary McKeon was involved with that. RAND is a reputable organization. They came in and developed some lessons learned.

The problem with the RAND report is they even admit in the beginning they did not consider the cost-benefit analysis, so they are leaving that to us to do.

So I think lessons learned is so important. You may want to require every agency that participated that is under your jurisdiction in Afghanistan, ask them if they are doing real lessons learned.

Now, we are trying to do that, because we are required to do it. Actually, General Allen said we are the only agency in the government that has this broad ability, because we are not housed in any government agency. We can do an across-the-board, whole-of-government approach. So we are doing that. But each particular agency can also help.

Clearly, not only lessons observed, but you have to apply them. I do not think this was done in this case at all.

Senator SHAHEEN. Just a final comment because you raised the question of being able to subpoena people to come before SIGAR. I would point out that, as you said, I was one of the people who introduced that legislation in August 2012 that would have allowed subpoena power for SIGAR. I think it is something that we actually ought to consider again. I do not know if either of you would like to comment on whether that is helpful.

Secretary McKeon, I think we have already heard Mr. Sopko's view of that. Do you have thoughts about whether that is legislation that should be in existence that might help deal with some of these questions before we get to this point?

Mr. McKEON. Senator Shaheen, the power of the IGs is a little bit outside my lane in OSD policy. What I have said and committed to is any former task force employees who work in the department, we will obviously make them available, and any former employees that we can help try to find, we will do that. Whether he needs subpoena power or the IGs need subpoena power, that is not really for me to say.

If I could comment on your other statement about lessons learned, first, quickly, I suspect the Army Corps of Engineers would take exception to the unnamed general that said the Army does not know how to build things.

But I think one thing to think about, as you think about this issue, is the task force was a startup, and they brought in a lot of business folks from outside the Department and were outside of Chief of Mission authority. There is a law in the Foreign Service Act of 1980 that says everybody is under the Chief of Mission except Voice of America correspondents and people under combatant commander authority.

It is unusual for civilians, unless they work directly for the combatant command [COCOM], to be under COCOM authority and not Chief of Mission. So you already had this very unusual animal of the task force being under COCOM authority. The other parts of

the Department and other agencies—and now I am just speaking impressionistically—some of the antibodies in government and human nature come out. They look at who are these people, and why are they in our swim lanes? I think it is quite clear that there were challenges in cooperation across interagency at least in the beginning, and then it was mandated that the State Department concur on projects, and I think it got a little bit better.

But there is an opportunity cost any time you stand something up and you bring in people from outside the department who are not really of the department.

Now Mr. Brinkley would say that is what made us different. We were entrepreneurial. We did not follow the normal government rules. We were able to do things quickly. Those are some of the comments I heard from General Petraeus and General Allen.

So it is a trade-off. If you want to do it that way, you are breaking a little china in the normal governmental systems, and the other side of the ledger is institutionalizing them in normal government entities.

So I do not have a clear answer for you. Obviously, I have a bias that this is not a DOD function, but that is something you need to think about.

Senator SHAHEEN. Well, my time is up, but I would just say I think we would all be okay with breaking a little china if they were efficient and effective in doing it. The challenge here is that there are real questions about how effective and efficient they were.

Thank you, Madam Chair.

Senator AYOTTE. Senator McCaskill?

Senator MCCASKILL. This is like déjà vu all over again, over and over and over and over again.

We had an ugly morphing of CERP to this task force to the Afghanistan Infrastructure Fund [AIF], no proof that the metrics worked on any of it in terms of fighting counterinsurgency. There has never been any data presented that the walking-around money in CERP helped. There has never been any data presented that the ridiculous fuel station in Afghanistan helped anything. It was dual fuel and totally impractical and not sustainable. There has never been any data that the highway that we had to spend more on security to build than actually it cost to build it did any good.

So the idea that we are worried about Yellow Book standards today, give me a break. We have almost \$1 billion—no metrics, no cost-benefit analysis, no sustainability analysis, a program that is dumb on its face.

The average person in Afghanistan, their annual income is \$690. It costs \$800 to convert a car to natural gas. Did anybody in the room sit there and say, is there anybody in Afghanistan that can afford this? The 120 cars we did, we paid for.

Now what I want to know, Secretary McKeon, is who made this decision? Was it Brinkley? Was it Petraeus? Who decided it was a brilliant idea when the people of a country makes \$690 a year that we are going to spend—I do not care if it was \$2.9 million or \$200 million. Who made the brilliant decision that this was a good idea to put a natural gas station in Afghanistan?

Mr. McKEON. Senator McCaskill, the project started in 2011. Mr. Brinkley left in June 2011. I am not sure if it was in the first half

or second half that this decision was made to start it. I think it was under Mr. Brinkley, but I will have to get that—

Senator MCCASKILL. I want to know, because I want to talk to that person and find out what they were on that day, because that is bizarre.

Do you not agree that sounds improbable on its face that we are going to get a good result out of that?

Mr. McKEON. Senator, there is a long excerpt that I would point you to in the SIGAR report about what the theory of the case was and how this was a proof of concept. It is in the SIGAR audit report of April 2015. That is what we have is evidence of what the plan and what the thinking was behind it.

Senator MCCASKILL. Okay.

When SIGAR asked questions about this, you said in a letter that DOD lacked personnel expertise to address the questions. I am quoting from your letter.

Is it true that Dr. Joseph Catalino, a former acting director of TFBSO, was actually working in your office at the time?

Mr. McKEON. He was not working in my office at the time. He was employed after that letter was written.

Senator MCCASKILL. Okay. But when he was, did you offer him up, since now you had personnel that obviously knew an awful lot about it because he was the director of the program?

Mr. McKEON. Senator, he started as the director in 2014. He was interviewed at length by SIGAR before the task force shut down. He was interviewed again earlier this month. So he has been available to the task force.

Senator MCCASKILL. You know, the point I am trying to make, Secretary, is the program has been shut down for five months and all of a sudden nobody is home, nobody knows nothing. We have nobody here to help you. We have no personnel to help you, because nobody is here. And it has been shut down for five months.

Do you think you would be frustrated if you were trying to get to the bottom of what occurred and why the money was spent and how it was spent?

Mr. McKEON. Senator, it was a unique task force, as we discussed. It is far from the core competency of the Department of Defense. We do not have investment bankers and energy sector advisers working in OSD Policy or even in Acquisition, Technology, and Logistics [AT&L].

So what we thought and understood was SIGAR was set up for success. We provided a lot of information in the first quarter of 2015. We made the records available. They had a list of all the former employees. We let the task force people go, and we brought back Mr. Catalino to perform a different function. He has been advising me and helping me respond to these queries that the committee has given us, and the SIGAR questions. But this expertise does not normally reside in OSD Policy, ma'am.

Senator MCCASKILL. Well, there is a lot of expertise that normally does not reside in the Department of Defense. It does not mean that they did not start building highways and they did not start building a lot of other things in both Iraq and Afghanistan that never were good investments of taxpayer money because of sustainability and security issues.

So let us talk about security. If you are spending close to \$800 million and 20 percent of the money has to be spent on security in order to convince businesses to come do business in Afghanistan, once again, common sense, do you see a problem with that scenario? And you do not want them to be military because you do not maybe want the businesses to know that they are going to have to spend multiples of millions just to be secure in this country, if they want to come in and do business? Do you see the fallacy in the logic there that you have one company making \$50 million. You have 24/7—I mean, I wish our embassies had the security these villas had.

We have a whistleblower who says they sat empty except for the security personnel most of the time. I mean, it was amazing the security they had in place, besides the queen-size bed, flat-screen TVs in each room 27 inches or larger, a DVD player in each room, a mini refrigerator in each room, and an investor villa that had even upgraded furnishings.

But we are talking about \$51 million for secured accommodations 24 hours a day, 7 days a week by armed guards and a closed-circuit television [CCTV] monitoring system where you can view the entire perimeter and surrounding area. They paid another person \$40 million to provide transportation and personal protection from terrorists or criminal attacks.

I mean, look at the money we are spending supposedly keeping the people safe that we are trying to get there to come open businesses.

This is not exactly a traditional Chamber of Commerce move. If you have to spend that much money on security, do you think most businesses are going to go, “We cannot afford to open a business here, especially if the average Afghan makes \$690 a year?”

Mr. McKEON. Senator McCaskill, I am not a businessman. You make a lot of valid points. Investing in a warzone and conducting activities is dangerous and high cost. What I said at the outset is I think there was an understandable imperative and desire on the part of the commanding generals to get something going, recognizing that it was high cost.

Whether it has succeeded, the jury is out, but it is a pretty mixed picture. I agree with a lot of what you have said. The costs sound quite exorbitant. We are digging into this villas question.

Senator McCASKILL. I apologize for being so short but you have no idea how many hearings like this I have sat in and gone through project after project not well thought out. These all began before we passed the contracting bill where you have to show sustainability, and you have to show some other measures.

But I will tell you that not cooperating and pulling the Band-Aid off as quickly as possible just makes it worse. The argument that has been put forth in the press that somehow the figures in this are not correct, I mean, frankly, all you did was fan the flames that somehow it was not \$43 million when you cannot even say where the \$30 million went.

This is a terrible waste of taxpayer money when we have so many other uses for it.

Mr. Sopko, I wish we could get you testimonial subpoena power. A bunch of us are trying for both you and the IGs. We are running

into roadblocks, but we are going to keep trying, and thank you for your work.

Senator AYOTTE. Thank you, Senator McCaskill.

I fully support what Senator McCaskill and Senator Shaheen have said, that our IGs deserve subpoena authority and full access to records, which they are not getting right now. And important legislation is being blocked by the Department of Justice, of all people.

But anyway, I would like to call on Senator Heinrich.

Senator HEINRICH. Thank you, Madam Chair.

I want to get back to this issue of core competency. At this point, it seems very clear to all of us that this was not a natural place or function for DOD. I want to pick at a little bit why this occurred in the first place. I am trying to remember back.

What years, for starters, Secretary, did this task force exist? From what fiscal years?

Mr. McKEON. It was created in June 2006 by Deputy Secretary England to operate initially in Iraq. Then Secretary Gates in 2010 directed them to operate in support of Operation Enduring Freedom, which technically would have put them in places other than Afghanistan. Mr. Brinkley's book details exploratory efforts in Pakistan.

Senator HEINRICH. That is consistent with my memory. In 2009, I was a new Member of Congress in the House and trying to understand why we would fund some of these things through DOD as opposed to through USAID and other State and other more appropriate places.

If my memory serves me right, there was, to some degree, an attitude that things that could get appropriated through DOD would never ever get appropriated if they were sought through USAID or State. Do you have an opinion as to whether or not some of these things landed in DOD's lap because it seemed at the time easier to put them in the budget there and actually get appropriations, as opposed to where the core competencies would have existed to execute more appropriately?

Mr. McKEON. Senator Heinrich, at the time, I was working at the Senate Foreign Relations Committee for then-Senator Biden. So that was the conventional wisdom, that the Department of Defense could more easily get the funds from Congress, and there was some skepticism about State and AID's ability to operate, particularly in a warzone. There was even a case in the second term of President Bush where there was a lot of criticism of the police and security forces training program in Iraq, and I cannot remember exactly how it got done, but essentially Secretary of State Condoleezza Rice pushed over a lot of the authority for that kind of training to the Department of Defense. So that was what was sort of in the atmosphere at the time.

Senator HEINRICH. That is actually quite helpful. I am in no way justifying the sort of lack of analysis or execution that may have gone into this CNG project or any other projects. But I do think we need to learn some lessons in terms of when you sort of play those games, what the potential ramifications are, because, obviously, this simply has not worked.

Mr. Sopko, do you have any opinion on that matter whatsoever? Or is that outside the scope of what you look at, at SIGAR?

Mr. SOPKO. As to how this came about, in our analysis we basically identify, and I think we reported in some of our audits, similar to what the Under Secretary said. There was a view that State or AID could not move fast enough and was not quite attuned to it.

Now, again, State and AID, and particularly AID, they have implementing partners who have the same flexibility in movement that TFBSO did. We were a bit surprised when we interviewed Mr. Brinkley that Mr. Brinkley had never known that. He had never talked to an implementing partner.

So there seemed to have been a parallel track, and they were not well coordinated.

Senator HEINRICH. Clearly.

Mr. SOPKO. One of our audits said that. They did not coordinate very well.

It did cause a lot of resentment. When we say we heard so many complaints, many of the complaints came from people inside our own Embassy about how this program was being run.

So there were warning bells about this program from the beginning.

Senator HEINRICH. Would you ever think it would be appropriate to have an agency or task force that could pay contractors who do not keep project-by-project financial numbers?

Mr. SOPKO. I would never do that, particularly in Afghanistan. You are just basically asking to lose all your money.

That is the big problem now. We do not really know how much money of this was stolen. I mean, I can understand why the Minister of Mines loved this program and sent that letter. I saw a copy of it. Of course he did. I mean, his predecessor disappeared to Germany with \$35 million in cash, as reported in the press.

Senator HEINRICH. As a standard matter, should access to those kinds of records be contractually obligated for any contract?

Mr. SOPKO. Absolutely. And the interesting thing is, USAID did an analysis of the ministry it is dealing with and withheld money because they did not trust it. TFBSO, no problem, let us just give them the money.

I think that is a good analysis of how USAID is used to this. They deal with this all the time. They work in some very difficult places. And they understand the terrain and who they are dealing with.

The TFBSO team was just short of a scattershot approach. I know one of the members started talking about the things with the goats and everything else. It sounded like they just got together and said, "Hey, this sounds like a great idea and we have an unlimited budget, let us just do it and see if it works."

That is why no one can really say with any credibility that the programs were effective.

Senator HEINRICH. Thank you, Madam Chair.

Senator AYOTTE. Thank you.

I am actually going to call on the ranking member, Senator Kaine, first, and then I am going to go to my questions.

Senator KAINE. Thank you, Madam Chair.

She knows I just have one question while she has multiple.

My question, actually, Mr. Sopko, I want to give you a chance to respond to some of what Secretary McKeon said in response to one of my questions. Your testimony had a litany of kind of instances where it was difficult for SIGAR to get the records that you needed to basically offer the oversight that you want to. I find that troubling. I think it is not a capital offense, but at least it is a cardinal offense to not cooperate with an IG that Congress has put in place to give us information that we need to exercise oversight.

Since you testified after he testified, I asked him to respond, and he kind of went through a response. One of the elements of his response was the concern that kind of came up in this relationship over material that had been delivered from the DOD to SIGAR that was, I guess, mistakenly released via a FOIA that led to the identities of U.S. personnel and some contractors being disclosed in ways that could jeopardize them.

He said that, and I did not give you a chance to respond, so I wanted to just see if you had any response.

Mr. SOPKO. Yes, I do. I mean, I think the claim that DOD has made that the individual names were covered under the Privacy Act is in error. The names that were in that CERP data—remember, we did not put it up on the Web. Somebody filed a FOIA, and we responded to the FOIA. Our staff normally as just a courtesy will take names out, if we are asked. But we did release some names.

The point is that names of soldiers, names of civilian employees, are not covered or barred from being released. We have actual DOD regs that talk about the Department of Defense privacy program dated 2007, which says civilian records can be revealed that include the names, titles, et cetera. I can give you a copy of that. So they are not covered.

The other thing is the Privacy Act does not really protect names. It protects records about the names. The name itself you can reveal. I am happy to put into the record, if you want to, dozens of press releases from the Office of Secretary of Defense where they not only name the soldiers serving in Iraq, they name their wives, they name their kids, and they give their addresses.

So we find this as a red herring. It is not Privacy Act material.

Now what I also find is a red herring is this access was restricted only for TFBSO. No other element of the Department of Defense restricted our access to records, and we deal with classified information all the time. Nobody had this concern. Only for TFBSO was there some concern, and they put in these restrictions that basically violate the IG Act.

Remember, I am supposed to be independent. I cannot let the Department apply FOIA exemptions to my request for documents, and that is what Mr. McKeon was suggesting. “All” means all under the IG Act.

Senator KAINE. Let me just follow up. You indicated that it is your normal practice, and I think you used the word courtesy, when releasing information pursuant to FOIA of this kind, to take the names out, but in this case that did not happen.

Mr. SOPKO. There was a mistake because it was a multiple filing and you had to dig down. We accepted that the person did not understand. We do that just as a courtesy, if we are asked to do it.

Senator KAINE. Is that a courtesy that you do because you are aware that there could be security sensitivities to names?

Mr. SOPKO. If there is specific security sensitivity, we will definitely do that. We do not release—we follow that.

But this was a case where you had a name of so-and-so was a CERP official or did something three or four or five years ago at some Provincial Reconstruction Team [PRT]. I doubt there was any security implication from that.

Senator KAINE. There is a statement in Secretary McKeon's written testimony, not in his verbal testimony, I went back and checked, that as result of the release of these names via the FOIA, somebody at SIGAR was removed from a position for doing that. Is that accurate or not?

Mr. SOPKO. She was not removed. She left. She got a job somewhere else. We are a temporary agency. A lot of our people move on. No, nobody was fired or anything.

Mr. McKEON. I did not mean to imply that she was fired. I do not know.

May I respond, briefly, Senator?

Senator KAINE. Yes, please.

Mr. McKEON. So my colleague from the Office of General Counsel has handed me a statute—which I will read to you, and which I assume came from this committee—title 10 U.S. Code section 130b, which gives the Secretary the authority notwithstanding the Freedom of Information Act to withhold from disclosure to the public personally identifying information regarding any member of the Armed Forces assigned to an overseas unit or routinely deployable unit.

But putting aside the legal debate about this provision or what Mr. Sopko just said about the Privacy Act, as a generic matter, we do not like to release names of personnel who are downrange our Afghan partners who are getting money from us on CERP. Mr. Sopko is no doubt right that we have press releases that praise soldiers in this place or that, but that is our decision. That is the Department's decision. It is not SIGAR's decision to release those names.

That is what animated our concern. You can go on the Web site of this media organization today—I did it last weekend—and still find these names of Afghan partners and soldiers. The information is still there.

Senator KAINE. But what about Mr. Sopko's position that the restricted nature of their access to these documents is highly unusual within the IG's interaction with DOD departments?

Mr. McKEON. I am happy to address that, sir.

Section 6 of the Inspector General Act of 1978, which is one of the authorities that SIGAR has, says that the Department shall provide access to records. Those are the words of the statute. We provided full access to the records in this reading room. We never said you cannot go see this record or that record. He had full access to the records.

The issue, as I highlighted, was whether he could take the full records and whether we would review them for releasability under FOIA.

This is now water under the bridge, in a sense, because we have now come to a meeting of the minds on this issue. And he has the hard drive. It is in his control. He has agreed that it is not the policy of SIGAR to release names.

So with that assurance and some other conditions that are set forth in the letters, he has these materials.

Senator KAINE. Thank you. I do not have any other questions.

Senator AYOTTE. Thank you, Senator Kaine.

I wanted to ask, as I looked at sort of the course of information here, one of the things that troubled me was that SIGAR either provided draft reports to DOD for comment or requested TFBSO information in March 2015, May 2015, June 2015, October 2015, and, of course, this month again. And in each instance, the OSD or you, Secretary McKeon, responded by saying that the task force was shut down and that you could not answer questions about TFBSO because the task force was shut down.

Now this task force shut down in March 2015. You yourself are who this task force reported to nine months prior to its shutting down. And as I understand it, as soon as June 2015, Dr. Catalino, who had a significant role in the task force, was actually working at DOD, I think in OSD itself. Yet the repeated answer to SIGAR's question was, "Listen, we cannot answer your questions, because the task force is shut down."

So to follow up on what Senator McCaskill asked, I mean, if that is the case, how are we ever going to have oversight on any task force? Can you explain to me why that was the answer each time?

The other issue is that, as I understand it, there were also military personnel who had assisted in the task force and had roles in the task force that were still serving that could have been made available as well. And yet, the answer was the same each time. Why would we answer in such a way, instead of just trying to get to the bottom of answering their questions?

Mr. McKEON. Senator, if I could go back to about a year ago this time during the administrative shut down period from January to March, this task force and Mr. Catalino responded to fairly voluminous information requests from SIGAR, and I know Mr. Catalino was interviewed.

So after the task force staff dispersed and were gone from the roles of the Department, we thought we had set up SIGAR for a way to successfully do its review. We provided access to the record. We already provided this information on several discs. And we provided a list of the former employees of the task force from 2010 to 2014.

Senator AYOTTE. Can I ask you a question? When you provide a list of the employees on the task force, did you include in that list current members who were serving in the military?

Mr. McKEON. Ma'am, I have not seen the list. I looked at the letter that was written from Mr. Catalino to SIGAR, setting forth what it was we provided. I have not seen the list of personnel, so I cannot tell you what level of detail about their assignments are.

Senator AYOTTE. I will, certainly, want to come back to that. But I think, Mr. Sopko, you had a comment on this issue? I mean, obviously, with your history and experience in doing these types of investigations, this struck you as unusual, as I understand it?

Mr. SOPKO. Extremely unusual. As I said, my deputy was in GAO for nearly 40 years, and I did this for almost 20 years on the Hill, and I never heard of an organization—it would be like Harry Truman in 1945 saying, “I cannot answer any questions about dropping the bomb. The war is over. We have shut down.” This organization was not a dining facility [DFAC] out in Omaha. This was an organization that reported to the Secretary of Defense. It was the premier organization on developing the economy in Afghanistan by the Department of Defense. It was an organization that reported to my good colleague here for seven months. And then all of a sudden, it is like, poof, amnesia.

It is not just access to individuals. They have a responsibility to answer some of the questions. It is not our responsibility to track down—and again, I have no subpoena authority. Once they retire or once they leave the military—like Mr. Catalino. We interviewed him when he was working for TFBSO. He then left. Ironically, he was recruited in May and June by Mr. McKeon’s Deputy Chief Operating Officer [COO], who in that June 30 meeting where his Deputy COO had just hired back Mr. Catalino, he makes a statement in front of everybody, including multiple staff members, that I know of no one in the Department who can answer any of your questions.

Senator AYOTTE. So you were told no one in the Department, in this meeting, can answer your questions, yet at the time, they recruited or already hired—

Mr. SOPKO. They had already hired. We interviewed Mr. Catalino, and he told us he had been hired ten days before that meeting by the Deputy Chief Operating Officer, Mr. Steve Schleien.

Now I have no idea. Maybe Mr. Catalino is mistaken. It is very easy to pull out his hiring documents. We know he knows Mr. Schleien. I do not know why Mr. Schleien then makes a pronouncement to us at this June 30 meeting, after he hires back Catalino, that I do not know anybody in the department who can answer your questions.

Now that is what I am saying is an enigma. I have never faced this before in my dealings with the Department of Defense, both as a congressional staffer as well as a private attorney. I have never heard of this before.

Senator AYOTTE. The reason I wanted to ask whether when you provided a list of employees, whether you provided the names also of currently serving members of our military is because we have someone in the audience that I want to thank who is here, who has given me, I think, permission to recognize him, and that is Colonel John C. Hope, who is here with his wife.

Colonel Hope actually was assigned to the TFBSO task force and served as Director of Operations of TFBSO from August 2014 until March 2015.

Mr. Sopko, I want to ask you, is this someone who you spoke to in this investigation?

Mr. SOPKO. We normally do not say whom we have spoken to, but in this case, since I believe Colonel Hope has already mentioned that he has given his permission, yes, he has been very helpful to us and we are dealing with him and have followed up on some of his allegations.

Mr. McKEON. Senator, can I respond briefly to what Mr. Sopko just said about the June 30 meeting?

Senator AYOTTE. Yes.

Mr. McKEON. I do not know what was said. I was not at the meeting. We are not trying to hide Mr. Catalino. We have made him available and will make him available again. If Mr. Schleien made a mistake about the fact that Mr. Catalino had already started, that is on us. We are accountable for that.

But the irony is that if he was not in the Department, as Mr. Sopko has said, he would be free to decline to talk to SIGAR, because of the lack of subpoena power for testimonial purposes.

So he is available to SIGAR, as are other former employees who are in the department.

Senator AYOTTE. So I want to raise the issue of Colonel Hope's service, which we are grateful for, because I think it is very important, as I look at the role that he played on this task force. When he was assigned to this task force, he started to raise issues immediately of deep concern. There is a long list of things he raised, about the lack of operation and financial oversight, about the lack of metrics or analysis to measure success, that essentially the oversight was lacking, no accounting of cost expenditures or money transfers, and serious questions about excessive travel, both from security and financial standpoints. I mean, this is a laundry list, that TFBSO had no property book or no property book officer over the lifetime of its existence.

He claims, and I have to say I am very troubled as I see this whole course of record, that not only him but the entire Afghanistan military team was subjected to and continues to be subjected to retribution and retaliation after their return from the task force and after he, in particular, raised issues about this task force.

As I understand it, when the list of employees was given to SIGAR, people like Colonel Hope were not listed on that list, and they obviously would have knowledge as current serving members of our military that were involved in important roles in this task force. That raised a flag for him that caused him to not only bring information to the attention of SIGAR but also, as result of him raising this, he had to file a retribution complaint with the Inspector General's Office of the department.

And he was given a review that was different than four other reviews he had received from very, very respected and senior members of our military. Really from you, Secretary McKeon, is one that any member of our military would view as a career-ender.

As result, not only was this review one where it should have been issued in March and then was not issued until December, in violation of existing DOD policy, but essentially he raised all these issues about TFBSO and now, again, as someone who I would describe as doing the right thing as a whistleblower and who has really nothing to gain, and at this point, obviously, I am concerned

about being the subject of retribution, is now in a position where this has been harmful to his military career.

So I guess my question to you, Secretary McKeon, is, as Colonel Hope's senior rater, what was it in his role, why was his evaluation so late, why were his concerns not taken seriously? As I understand it, he sent to you an after-action report by email in 2015. In fact, he told me that he sent it actually in I believe March 2015, and he never received a response from you by email.

So I guess what worries me is I hear this course of conduct where SIGAR asks a series of questions and they are told, well, the task force ended and no one can answer your questions right now. We had questions as a committee. I pushed to have this hearing. And we did not get the new numbers on the gas station even though you had the draft report in September, and you had the final report in October, you had a follow-up written letter in December on this issue, we did not get the numbers until the night before.

I have to ask, what is going on here? This worries me. Can you address Colonel Hope? Can you address that we should not be concerned that somehow this is being covered up, because all this course of conduct raises this flag that very much concerns me as to why this is not being played out in a way that we would normally see this type of investigation, the questions being answered and answered not without having to call a hearing on it but immediately?

Mr. McKEON. Senator Ayotte, let me first address the issue of Colonel Hope. He was the Director of Operations in the Kabul office starting I believe in September 2014 until the end of the task force operation. He asked me probably about a year ago at this time to be a senior rater because I was the next person above Mr. Catalino. He emailed me and asked me to do that and asked to come see me so I could put a face with the name, and I did meet with him last January.

His Officer Evaluation Report [OER] did not come to me until September. I cannot account for the delay.

Senator AYOTTE. What does OER stand for?

Mr. McKEON. I am sorry, ma'am. Officer evaluation report.

His OER came to me in September, and I filled it out. Let me look at the dates that I have here. It was signed by Mr. Catalino on the 2nd of September. I signed it on the 11th of September.

At that time, I am a little embarrassed to say this, when I filled out the form, in filling out one part of the form, I did not completely fill it out. But the computer program that the Army has for its personnel allowed me to hit the signature box even though I had not completed the form. You know, with a lot of merchants or government Web sites, if you go through and you do not fill out the key one, it will not let you sign it and hit submit. But this one did.

That is on me. It is my fault. I am not blaming the Army system. But that is what happened.

When it was called to our attention that it had not been completed, it was completed in mid-November, on November 19 by Mr. Catalino, and I signed it also the same day. Then the system pushed it to Colonel Hope.

That is my understanding of how it works, based on an Army colonel who works in our front office.

Our records show that Colonel Hope signed it on 15 December. I read the after-action report only in the last month or so. If Colonel Hope emailed it to me last March—I will go back and look at my records—I do not remember seeing it at that time or reading it at that time.

As to what the report says, it says some of the things you said about the lack of a property book and property accountability, and Colonel Hope recites how he and his colleagues sought to remedy that. I do not recall that the report says some of the other things you said about travel abuse.

But I would unequivocally deny that the rating he received had anything to do with that report. As to the rating received, I do not feel it is my place to discuss that in this open hearing.

As to the other issue raised, Senator, about trying to answer SIGAR's questions, I think I tried to answer it earlier, but I will do it again, which is, I know it may sound odd that we did not have the expertise to dig through these records and understand them, but other than Mr. Catalino, we really had no one who had familiarity with these records. He was not steeped in the energy project. It was started before his time as deputy director. I talked to him about it, about his knowledge about it. It was not deep.

We have spent a lot of time in the last couple months by grabbing staff from other projects to try to help sort through these records. The comptroller that Mr. Sopko referred to earlier is not in Mr. McCord's part of the organization. He is the comptroller for the Defense Security Cooperation Agency who reports to the Under Secretary for Policy.

I asked him to take a few days to sift through these records and see if he could make sense of the CNG project as somebody who understands DOD financial practices. The statements I make in my written testimony are derived directly from what he told me.

So we have conveyed that, and we made him available to SIGAR to do explain his analysis.

So what I am trying to say, ma'am, is, as I said before, because of the unique nature of this task force and because we shut it down and chose not to keep legacy employees around, it has been a challenge for us to go back and try to reconstruct these records. But we are doing that now in response to your requests and response to SIGAR's requests. I am trying to see if we can find a former employee of the task force to come work on a temporary basis to assist us.

So we will work in good faith to try to respond to these requests, but they had 150, 200 employees, a lot from the business sector. They are all gone. To try to recreate what happened five and six years ago is going to be a very hard challenge for us.

We welcome the audit that you and other Senators have asked for. As I said, Mr. Lumpkin, when he was performing the duties of the Under Secretary in April 2014, asked the DOD IG to perform a full audit. I requested a financial audit at the end of 2014, which Washington Headquarters Services paid for. I think we have provided that to you, but if we have not, we will.

So we are an open book on these records. SIGAR has them. If there are other records that he thinks that are out there that we have not provided, we will look. We are not trying to hide anything. I think it is very useful to find out what happened, but it is going to be hard for us to recreate some of this history with all the task force employees gone except for a handful of people who might still be in the Department.

Senator AYOTTE. Just so I can finish up this circle on Colonel Hope, because I am very appreciative of his service, I want to ask, Mr. Sopko, do you know generally when Colonel Hope started speaking at least to SIGAR about his concerns about TFBSO?

Mr. SOPKO. Offhand, I do not. I would have to check with the staff.

Senator AYOTTE. Can you get that for me, for the record?

Mr. SOPKO. Absolutely.

Senator AYOTTE. I would appreciate it.

Secretary MCKEON. Senator, if I can say one more thing about Colonel Hope. I did not witness his work firsthand. I read his report. It is my understanding he did perform a critical function in Kabul. When I saw him here today before you arrived, I apologized to him for the delay in the OER. So I do apologize publicly for the delay. I deny and believe to my core there was no retaliation.

Senator AYOTTE. Well, I think the concern is also when Colonel John C. Hope was rated by General Odierno, who many of us know has a distinguished record of service, he called him a top 1 percent officer and one of the top 20 of the 100 colonels he had served with in his 40-plus years in the Army. So I just want to make sure that that is in the record, because having certainly had the opportunity to know General Odierno, we know he is one of the finest generals to serve our Nation.

So this issue does raise a flag for me, and I want to make sure that every member of our military or our civilian workforce understands that they can fully come forward with any issue that they have or concern about not only how taxpayer dollars are spent but also how the business of the government is conducted in a way that they know that they will not face any potential for retribution.

I want to follow up on a couple specific issues to make sure that this committee, as we get information about the activities of TFBSO, in follow-up not only to Senator Rounds' questions, in addition to the goats and the carpet, I would like to make sure that we get travel records of where people traveled for the carpet industry, the purchase and shipment of the goats. But also I would like to have the same type of information about the jewelry manufacturing initiative. We have been given information that TFBSO traveled to India and other locations as part of that. I do not know if you have information on that today.

But I would like to understand that on the jewelry initiative, and also the ice cream initiative.

Apparently, TFBSO had a Herat ice cream project run out of the villa in Herat, Afghanistan. And a former TFBSO employee says this initiative was one of the primary reasons that they had a villa or safe house established in Herat. So I would like to understand, as we get the answer on the villa issue, the information about the

ice cream initiative, the jewelry initiative, the goat initiative, and the carpeting initiative.

And one of the issues that, as I heard you talking, Secretary McKeon, about the challenges of not having the employees, when we had the wind-down of the task force, did it not occur to anyone at that point that the Congress would want to have a full accounting of how the taxpayer dollars were spent, and whether we actually got any return on the investment?

Secretary MCKEON. It did, Senator. That is why Mr. Lumpkin asked for the Inspector General to conduct an audit. That is why I asked for the financial audit. That is why we contracted the RAND Corporation to help us with the lessons learned examination.

Senator AYOTTE. But that RAND report by its own admission is not an audit and does not fully account for how dollars were spent and also a cost-benefit analysis of those dollars.

Secretary MCKEON. That is correct. It is a general, impressionistic review based on interviews of whether projects were meritorious and succeeded. We do not have an audit ability in OSD Policy. We asked the IG to do it. He declined based on resources and wanting to work on current projects rather than backward-looking. I only know that from his letter. This is the former IG, Mr. Jon Rymer. He has now left the Department. I spoke to him briefly.

That is why I asked for the financial audit, which WHS contracted for, which I believe you have.

We support if SIGAR wants to undertake a full audit at your request or the committee's request. We have no objection to that.

Senator AYOTTE. I would like to request that audit. I think the members of the committee would like to see that. And obviously, we would hope that you would fully cooperate in getting whatever information is needed so that the SIGAR could conduct a full audit, so that we could account for not only the initiatives that we talked about today but we are able to account for each of the dollars that were expended and how they were expended in this task force.

I do have to ask though on the gas station issue, why it took so long for DOD—I mean, when there was draft report in September, when there was the final report in October, where there were issues raised even in December in a follow-up letter about the villas that again reiterated the \$43 million number for the gas station, in each of those instances, DOD did not challenge the number. I am just curious why it took basically the night before this hearing, or day before this hearing, for that to come forward and for you to then challenge the number.

I am not disputing whether the number is right or wrong in that. I am just trying to understand what took so long.

Secretary MCKEON. As I said, Senator, we have been borrowing staff from other functions to try to answer the inquiries over the last few months on this issue and trying to drill down on the data and the records. I cannot remember when the comptroller from the Defense Security Cooperation Agency came up with his analysis.

We knew you were planning this hearing, so I think it was before yesterday. We, certainly, had some of this information and were preparing to provide it to the committee.

Senator AYOTTE. Do you agree it would have at least been helpful to say to SIGAR we think there is a huge problem with this number and we are going to have a financial analysis done on it?

Mr. SOPKO. Senator, if I can interject to maybe help Mr. McKeon, we spoke to that comptroller. As I told you, we just got his name. We have been asking Mr. McKeon for his name and contact information since December. He actually told us that he started his review on November 17 and finished it on November 20. Like yourself, he finished it on November 20, it would have been useful if we had gotten a copy of it before last night. We still do not have a copy of his final report. We have just interviewed him.

Senator AYOTTE. Again, as I understand your testimony, Mr. Sopko, even that individual cannot fully answer the question about the number because of the lack of recordkeeping.

Mr. SOPKO. You are absolutely correct, Senator. He basically said that the analysis underlying the overhead number is probably incorrect, but due to poor recordkeeping, there is no way to get a better number. Again, I reiterate that under GAGAS, under CIGIE standards, we are required to get the best number. So, therefore, he basically makes our case that the number we gave—which came from DOD, again—it was the best number.

His gut feeling, he indicated, it is probably less, but he stated that there is no fidelity in the overhead numbers. It would be impossible to arrive at a more accurate estimate of the total overhead costs for CNG.

I think this is critical not because of the number. The gas station number is really not that important. This goes back to the underlying problems that I think the Senators have pointed out, and that there is poor planning, poor management, and poor coordination at TFBSO. They cannot even get their overhead numbers right. No wonder we do not know how much money was spent on goats or if the goats were even eaten or not. We do not know. This is so poorly managed.

That is a problem that was identified by the General Accounting Office years ago when they first did their first audit. We have been identifying that since then.

Senator AYOTTE. That brings me to my final question, which is, there was the 2011 GAO report based on what happened with TFBSO in Iraq before the decision was made to transition to Afghanistan. And it strikes me that as you look at what is in the GAO recommendations, the lessons learned from Iraq, none were taken into account as this transitioned to Afghanistan. In fact, I do not think that Mr. Brinkley could account for costs or feasibility. And, in fact, projects seem to have been approved without knowing what they would cost.

As you look at the GAO report, about how you should establish project criteria, metrics, monitoring, these were all lessons taken from Iraq and also from the CSIS report, similar lessons, all that information, it does not appear to me, Secretary McKeon, that any of that was considered or addressed based on the lessons we learned in Iraq as this task force undertook its activities in Afghanistan.

Would you disagree with me on that?

Secretary MCKEON. I was not there at the time, Senator. Based on the record I have seen, I am not sure I can disagree.

What I would say is that Mr. Brinkley left in the summer of 2011 and a lot of senior people left with him. There was a gap before there was a new director hired. In 2012, there was an acting director. I think they probably had to reinvent the wheel a little bit.

When they first went into Afghanistan, it is my understanding they asked McKinsey & Company to do an analysis of what sectors might be productive in terms of economic generation. They focused on a few set issues, including particularly the extractives industries, minerals and fossil fuels.

We have not found this review or study. In my experience with McKinsey, it is a ten-page slide deck, so I am not sure it is going to answer many questions anyway. But I am told that the McKinsey work helped to direct and guide the focus of the task force.

I think in terms of mineral resources that Afghanistan has, as I said earlier, there are a lot of ifs here, if you had security, if you had strong companies, if you had an open and noncorrupt government, there is a lot of potential there for Afghanistan to benefit from its natural resources. There are a lot of countries in the world who have as many natural resources as Afghanistan, and they have not managed them well, corrupt governments have not shared prosperity with all. So it is a pretty big challenge even in the absence of a war.

So whatever useful work was done by the task force and USAID to lay the foundation for the Government of Afghanistan, I am not sure we are going to see a payoff anytime soon from that, if, indeed, there ever is a payoff.

Senator AYOTTE. Yes, I think that is one of the problems when we look at \$800 million of taxpayer dollars, and we cannot show any metrics or deliverables. I think that is where my constituents, certainly, become upset about how we are spending their dollars.

I would just end with how can we make sure that this does not happen again? I think we heard today that DOD is not the best place for this type of work. But unfortunately, as we look at what we do going forward, how do we make sure that this does not happen again?

And how do we make sure that you have what you need, Mr. Sopko, to properly conduct oversight and to make sure that the Inspector General's Office has the teeth that it needs to get us information that we need to ensure that we are doing our job on oversight for the taxpayers of this country?

Mr. SOPKO. Senator, I think you can make certain this does not happen again by having hearings like this. Oversight is important. Congressional oversight, and I am a little biased, having spent 25 years doing it for Sam Nunn, Carl Levin, and John Dingell, among others, and Warren Rudman from your State. You need oversight.

Senator AYOTTE. You have worked for really good people.

Mr. SOPKO. I learned from the best. It is important. It has to be done. I can tell you, I am usually not shy in expressing my concerns about issues.

One of the reasons why I am not shy is I realize, and I learned from those Senators, that you sometimes have to publicize an event to reach over the heads of the people who are trying to protect their bosses from hearing bad news.

I say, Senators, you have already done quite a bit. By announcing this hearing, for the first time, we have access to records. We have a list of names. We have, for the first time in years, Mr. McKeon's shop actually looking at some of those numbers. I think you have a success already.

Now there are many more miles to go on this, but that is the importance of congressional oversight. Your hearing itself has started the ball rolling in the right direction. And I think with Secretary McKeon and myself working together on this, we can help give you more answers to these questions.

Secretary MCKEON. Senator, may I respond? I think I said it a few times, but I have to rebut what Mr. Sopko just said. He had access to records and he had the names of employees all of last year.

The point I would make in response to your question is that we welcome oversight from the IG or from SIGAR. It is unfortunate that some of this oversight of the task force work did not come earlier so we could have had course corrections. We are now doing retrospective history, which is still useful in its own right, but it is going to be a challenge, I wish to underscore, for us, without the people who were there, to recreate what happened, but we will do our best to respond.

Senator AYOTTE. I appreciate that.

I want to thank both of you for testifying today. I would just say that we had the lessons learned from the CSIS report and the GAO report from 2011. We just have to stop repeating these lessons over and over again.

It is my hope, and I think the point that Senator McCaskill made today, that this is not the first instance where we have seen big issues with how taxpayer dollars have been spent and wasted. So we need to take the work that has been done, take it to heart, and actually apply the lessons from it, and I hope that we will.

But this committee still does expect to be able to account to the people of this country for how this money was spent, so I hope that every effort will be made to do that. I would like to insert a letter and its attachments from Mr. Sopko for the record.

See APPENDIX A.

Thank you.

[Whereupon, at 5:12 p.m., the hearing was adjourned.]

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR KELLY AYOTTE

DEPARTMENT OF INSPECTOR GENERAL

1. Senator AYOTTE. Secretary McKeon: During the hearing you stated that in, “April of 2014, as the Task Force was winding down, Michael Lumpkin, then performing the duties of the Under Secretary for Policy asked the department Inspector General to perform an overarching audit of the Task Force’s operations, financial actions and contracts. The IG declined to do so, due to limited resources and the need to focus its efforts on quote ‘projects with the greatest potential return on investment.’”

Please provide a copy of the DOD Inspector General’s response, declining to conduct this audit.

Secretary McKEON. Please find enclosed the request by Assistant Secretary of Defense (Special Operations & Low Intensity Conflict) Michael Lumpkin, then Performing the Duties of the Under Secretary of Defense for Policy, as well as the DOD Inspector General’s response.

See APPENDIX B.

FINANCIAL AUDIT

2. Senator AYOTTE. Secretary McKeon: You stated that, “In the fall of 2014 I requested a financial audit of the Task Force, which was completed last April.”

Are you referring to the April 30, 2015, report by Williams Adley entitled, “Agreed-Upon Procedures Report for the Task Force for Business and Stability Operations in Afghanistan?”

Secretary McKEON. Yes. In the fall of 2014, I requested that the Washington Headquarters Services (WHS), which provided administrative and financial support services for the Task Force, undertake a closeout audit of the Task Force. WHS developed a statement of work, solicited contract support, and awarded a contract (GS-23F-8184H) to conduct an independent audit of the TFBSO operations. The audit focus was to validate and fully support forensic documentation of TFBSO’s operation from inception to closure. WHS awarded this contract to the firm of Williams Adley, a small business, for this purpose of determining if the TFBSO office complied with applicable National Defense Authorization Acts and DOD fiscal guidelines. It began work in early January 2015, and provided a final report on April 30, 2015. The final report was entitled “Agreed-Upon Procedures Report for the Task Force for Business and Stability Operations in Afghanistan.” The agreed-upon procedures were developed to support WHS’s management objective of determining whether TFBSO transactions were in compliance with Authorization Acts and fiscal guidance. These procedures were arranged, and agreed to, between Williams Adley (the contractor) and WHS (the client). The audit results concluded that while there were transactional discrepancies there were no identifiable material weaknesses, deficiencies, or reportable conditions of the procedures and/or practices that guided TFBSO’s financial operations.

See APPENDIX C for the report.

3. Senator AYOTTE. That report says the following: “Because the procedures did not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the TFBSO’s financial information, nor do we express any form of assurance on (1) the TFBSO’s or WHS’s overall compliance with laws, federal regulations or DOD policies and procedures, or (2) the overall effectiveness with which the TFBSO carried out its mission. Had we performed additional procedures or conducted an audit in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.”

If this is what you were referring to, in light of the statement above which is contained in the report, why do you consider this an audit? Why did DOD’s Washington Headquarters Services (WHS) not have the contractor perform a financial audit as you stated in your testimony?

Secretary McKEON. As stated previously, Mr. Lumpkin had requested that the Department’s Inspector General (DOD IG) conduct an overarching audit of TFBSO operations, financial actions, and contracts in order to help to ensure DOD captured lessons learned and closed the TFBSO books efficiently. As a result of DOD IG denial to conduct such a review, I asked WHS leadership to fulfil the intent of this request by contracting for an independent audit of TFBSO operations. The statement of work which guided the audit was focused on verifying the compliance of the TFBSO activities (to include financial transaction) with established authorities. As TFBSO was one of the organizational elements within the overall WHS financial

statement, they did not have a separate financial statement. A full financial audit can only be completed on the total WHS financial statement. WHS has recently completed an independent financial examination on the Schedule of Budgetary Activities. This examination resulted in corrective action plans that will improve control activities and supporting documentation for all organizational entities within the WHS financial statement.

DOD SUITABILITY

4. Senator AYOTTE. Secretary McKeon: In your oral testimony, you said, “I am personally skeptical of the Department of Defense as a natural home for [economic development during a contingency operation]. As a government, we need to consider, and figure, and develop a functioning mechanism so that we’re prepared for future contingencies.”

How have your observations of TFBSO made you skeptical that DOD should be involved in these kinds of economic development activities during a contingency?

Secretary McKEON. When the Task Force was created in 2006, it was charged with transforming military contracting in Iraq so that the Task Force could generate stability through economic development and job creation. TFBSO was specifically designed to be expeditionary, operating not under Chief of Mission authority but under authority of the military commander. This status gave it certain freedom to move around the country and engage more directly with Afghans than employees of the U.S. Embassy. Although there was a rationale for how the Task Force was structured and operated, the Task Force was ultimately a multi-year experiment in how to generate economic growth in Iraq and later in Afghanistan. Economic development overseas is not a core DOD competency, and as such, it does not appear that the Department of Defense was the natural home for the Task Force’s mission. For this reason, the Department is not contemplating assuming this mission again and we are instead focused on capturing lessons learned.

RESPONSE TO SIGAR

5. Senator AYOTTE. Secretary McKeon: You testified that, “There may be other records elsewhere in the department not owned by the task force relative to this work.” You also said that TFBSO “contracting was done by other elements, not by the task force. There may be records in those components that are not in the hard drive that we gave Mr. Sopko.”

Has the DOD provided SIGAR all of the TFBSO-related documents and hard drives, both unclassified and classified, that DOD has in its possession?

Secretary McKEON. On January 14, 2016, OSD Policy provided to SIGAR a copy of the unclassified records that SIGAR requested. These records have been archived at the Washington Headquarters Services Executive Archives. On March 8, 2016, SIGAR requested any classified information on TFBSO that was retained by the Executive Archives. On March 14, 2016, OSD Policy delivered to SIGAR the TFBSO records from DOD’s Secret Internet Protocol Router Network that are stored at the Executive Archives.

6. Senator AYOTTE. Which TFBSO-related questions posed to DOD by SIGAR has DOD not yet answered?

Secretary McKEON. On February 19, 2016, the Department of Defense received a notification that SIGAR is initiating a comprehensive performance audit of TFBSO’s programs and activities in Afghanistan. The notification requested that the Department notify the appropriate officials of this work, which we did. On March 17, 2016, SIGAR conducted the entrance conference with OSD Policy. The Department will work with SIGAR as SIGAR notifies us of subsequent steps. To our knowledge, as of March 29, the Department of Defense had answered all other TFBSO-related questions and inquiries that we received from SIGAR.

TFBSO CONTRACTS

7. Senator AYOTTE. Secretary McKeon: In your oral testimony, you said that DOD “can give you a list of the [TFBSO] contracts. And I believe we can tell you how all the money was disbursed broadly by sector.”

Please provide a list of all TFBSO contracts and all available details on how all \$638 million was disbursed. For all contracts, please provide the purpose of the contract, who received the contract, how much was disbursed for the contract, and whether DOD has evidence that a feasibility study was conducted. Please include the total costs of the “gem program,” “carpet program,” and “cashmere goat program.”

Secretary McKEON. I am enclosing the spreadsheet with the list of contracts that I referenced during the January 20, 2016, hearing. The spreadsheet provides a detailed account of all contract obligations. The project names are listed, but not the purpose of each contract. The enclosed Economic Impact Assessment provides more detailed information on each project.

See APPENDIX D for the report.

ACCOUNTING FOR COSTS

8. Senator AYOTTE. Secretary McKeon: In your oral testimony you testified that TFBSO did not account for costs “on a project-by-project basis.”

How is it acceptable or possible that DOD cannot provide cost information on a “project-by-project basis” for TFBSO projects? If you can’t provide this information, how can TFBSO or DOD assess the performance of a project or ensure the money was not stolen? Has this problem been fixed for all present DOD task forces? If not, what steps are you taking to rectify this unacceptable situation? When do you expect this shortcoming to be remedied?

Secretary McKEON. As was common practice, TFBSO did not directly attribute overhead costs to individual programs or projects. As such, we are unable to list all TFBSO projects in which the overhead costs exceeded the direct costs of the program. The preferred method is to use actual cost data attributed to the specific project, because each project has unique support requirements. In the case of the CNG project, the support costs data available to us do not provide the necessary fidelity to determine overhead costs in support of the CNG project itself.

In fiscal year (FY) 2015, each of the Military Departments began an audit of its FY 2015 General Fund Schedule of Budgetary Activity in December of 2014. These initial audits are already proving invaluable by testing our systems, process controls, and our audit infrastructures while also highlighting key dependencies between organizations that could represent financial reporting weaknesses. Over the next two years, we will continue to expand the scope of audits until full audit readiness is achieved.

Senior leadership remains fully engaged and is taking a risk-based approach to achieving audit readiness and proceeding into full financial statement audits in FY 2018, as required by the NDAA for FY 2010 and subsequent years. To accelerate progress in the high-risk areas, the Office of the Under Secretary of Defense (Comptroller) developed critical path milestones along with target dates for completion. Progress in these areas is being carefully tracked and monitored by both the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer.

9. Senator AYOTTE. For each TFBSO project, provide the written performance metrics that were established for that project and whether each of those performance metrics were met. For which TFBSO projects is there no evidence that there were written performance metrics?

Secretary McKEON. TFBSO maintained metrics for all projects across each focus areas (Energy, Minerals, Indigenous, and Investment). Each metric report per focus area was updated at least monthly. Enclosed are the final close-out metric reports for each sector.

Documents retained in Committee files.

CNG FILLING STATION

10. Senator AYOTTE. Secretary McKeon: In your oral testimony, you said that you could not dispute that there was not a feasibility study conducted for the CNG filling station project.

Please confirm whether TFBSO conducted a feasibility study for the CNG filling station project. If one was performed, please provide a copy of the feasibility study. Who made the decision to proceed with the CNG filling station project?

Secretary McKEON. Although the Economic Impact Assessment (EIA) cited in SIGAR’s report on the CNG filling station references a cost-benefit analysis (CBA) of the CNG station covering the years 2011 to 2018, we were unable to find such a CBA in the TFBSO archive. A CBA is a feasibility study that is typically performed prior to project initiation to determine if the project has a positive return on investment. According to the EIA, the total discounted value of benefits for this project were estimated to be \$1.2 million while the total discounted value of costs was estimated to be \$32.5 million between 2011 and 2018. If this recitation of the data is correct, it suggests that the costs exceeded the benefits of pursuing the CNG station.

A technical feasibility study that focused on the type of gas (e.g., CNG, diesel) and whether the Afghanistan's existing wells and infrastructure were sufficient to provide natural gas to the CNG station was produced. I have enclosed this technical feasibility study. The project began in fiscal year 2011, but I have no further insights into who made the decision to proceed with the CNG station project.

See APPENDIX E.

11. Senator AYOTTE. Secretary McKeon: In your testimony, you mentioned that you asked the Defense Security Cooperation Agency comptroller to review records related to the cost of the CNG filling station.

Please provide the comptroller's cost analysis of the CNG filling station, including all related work papers and records used to produce the cost analysis.

Secretary McKEON. I have enclosed the two slides that the Defense Security Cooperation Agency (DSCA) comptroller compiled after reviewing the records for the CNG filling station. I am also enclosing the records that were sent to the DSCA comptroller.

Documents retained in Committee files.

ACCOMMODATIONS "VILLAS"

12. Senator AYOTTE. When do you expect DOD to provide SIGAR a response to its November 25, 2015, letter related to the TFBSO 'villas'?

Secretary McKEON. The Department of Defense provided an interim reply to SIGAR's November 25, 2015, letter on December 4, 2015. On February 5, 2016, the Department provided a final response to the November 25 letter with a commitment to continue looking into a couple matters related to TFBSO's private security and housing expenditures.

13. Senator AYOTTE. Secretary McKeon: In response to my questions about TFBSO living in 'villas', as well as their private security, you cited a memorandum of understanding (MOU) between USFOR-A and TFBSO which apparently discussed the possibility of TFBSO living on base or being supported by the military.

Please provide a copy of that MOU.

Secretary McKEON. I have enclosed a copy of the memorandum of understanding (MOU) between USFOR-A and TFBSO.

See APPENDIX F.

14. Senator AYOTTE. Provide any documentation related to the 'villas' and the decision to use them instead of staying on base, including any cost-benefit analysis used as a basis for this decision.

Secretary McKEON. I have enclosed the documentation on private housing and security expenditures that was provided to SIGAR in conjunction with our reply dated February 5, 2016.

Documents retained in Committee files.

CHINA NATIONAL PETROLEUM CORPORATION

15. Senator AYOTTE. Secretary McKeon: During the hearing, I raised the issue of the Chinese National Petroleum Corporation—International (CNPC-I) winning the oil tender process that TFBSO spent \$55 million to facilitate.

Please provide details regarding this TFBSO project. Was a feasibility study conducted? Did that study anticipate a country like China winning the contract? Did TFBSO, DOD, or the U.S. government make any effort to encourage Afghanistan to award the contract to a company from the U.S. or other member of ISAF?

Secretary McKEON. TFBSO engaged many U.S.-based mining companies regarding Afghanistan opportunities. The majority of large U.S. mining companies were not interested in exploration projects in Afghanistan. One exception was Chevron, which engaged in discussion on the Turkmenistan, Afghanistan, Pakistan, India (TAPI) pipeline. TFBSO's interest in Afghanistan's mining industry was to Train, Advise, and Assist the Afghan ministry to develop the capability to let mineral contracts. TFBSO facilitated the processes used by the Afghans in this industry. The Afghans received bids from various companies, many state-owned, such as CNPC-I. Given that China has significant economic and political interests in the region, it was not surprising there would be bidders from China and other countries. As TFBSO was in an advise and assist role, the task force was not in a position to ask the Afghan ministry to reject the CNPC-I bid.

TFBSO PROGRAM COSTS

16. Senator AYOTTE. Please provide a list of all TFBSO projects in which the overhead costs exceeded the direct costs of the program.

Secretary McKEON. As was common practice, TFBSO did not directly attribute overhead costs to individual programs or projects. As such, we are unable to list retroactively all TFBSO projects in which the overhead costs exceeded the direct costs of the program.

17. Senator AYOTTE. Please provide a list of all foreign travel of TFBSO personnel outside Afghanistan or the United States. Include the date of the trip, the number of individuals who traveled, where they went, the purpose of the trip, and the total cost of the trip. Please include suspected trips to Europe for the carpet project and India for the jewelry project.

Secretary McKEON. I understand that SIGAR was examining allegations of travel fraud, waste, and abuse of 15 TFBSO employees. Enclosed are the records provided to SIGAR in January 2015 from its data call.

We have been unable to find a list of all the foreign travel of TFBSO personnel outside Afghanistan or the United States. TFBSO's mission to facilitate investment in Afghanistan required personnel to travel to investor conferences, trade shows, or other events attended by potential investors. These meetings occurred in various locations with specific focus areas (e.g., gemstones, carpets, investment).

Documents retained in Committee files.

18. Senator AYOTTE. Did TFBSO import goats from Italy to Afghanistan? Please provide details, including activities and costs. Was a feasibility study conducted for this project? Who approved this project? How were they transported to Afghanistan? How much was spent to bring the goats to Afghanistan? What were the results of bringing the goats to Afghanistan?

Secretary McKEON. Afghanistan is the third largest producer of cashmere in the world and there are varying degrees of cashmere quality. A large percentage of Afghan-produced raw cashmere is illegally sold to China where it may or not be treated before it is harvested for clothing manufacturing and sold around the world. TFBSO engaged goat farmers and developed an Afghan cashmere coop. The intent was to improve the quality of Afghan cashmere as well as the value chain of the commodity in the market. TFBSO partnered with Colorado State University through a \$2.3 million grant to develop a cashmere certification lab and goat farm. The grant funded testing equipment and the purchase and shipment of nine bucks from Italy to breed with the Afghan goats at the farm. The certification farm ensured international standards were met related to cashmere production and distribution. TFBSO also helped Afghanistan pass a law banning the export of raw cashmere. The cashmere lab and goat farm was tendered off to an Afghan cashmere producer and continues to operate today. The cashmere lab and farm preliminary financials are enclosed.

See APPENDIX G.

19. Senator AYOTTE. Does DOD have classified information related to TFBSO? If so, why hasn't that information been provided to SIGAR?

Secretary McKEON. On January 14, 2016, OSD Policy provided to SIGAR a copy of the unclassified records that SIGAR requested. These records had been archived at the Washington Headquarters Services Executive Archives. On March 8, 2016, SIGAR requested any classified information on TFBSO that was retained by the Executive Archives. On March 14, 2016, OSD Policy delivered to SIGAR the TFBSO records from DOD's Secret Internet Protocol Router Network that are stored at the Executive Archives.

LESSONS LEARNED

20. Senator AYOTTE. I appreciate that TFBSO sponsored a RAND study of the task force. However, the fact that many concerns from the 2010 CSIS report and the 2011 GAO report were not addressed increases my concern that DOD will likely make the same mistakes again if a concerted effort is not made to garner and codify lessons learned.

What are DOD's specific lessons learned from TFBSO and how are those lessons being codified within DOD, in coordination with other relevant agencies, to avoid similar mistakes in the future? What office or agency is responsible for maintaining those lessons learned for future application? Please provide a detailed answer. If DOD expects other agencies to take certain steps, please detail what DOD has done

to request certain actions from other agencies and how those agencies have responded.

Secretary McKEON. The Department sent to Congress transition reports for fiscal years 2012, 2013, and 2014, as well as a final closeout plan in May 2015. Prior to its disestablishment, TFBSO worked with interagency partners and the Government of Afghanistan to determine, where possible, an appropriate entity to assume responsibilities for TFBSO programs. No U.S. government agencies were in a position to assume responsibility for legacy TFBSO programs.

As I expressed during the January 20 hearing, I am personally skeptical that the Department of Defense is the natural home for the Task Force's mission of generating economic development overseas because it does not appear to be a core DOD competency. The Department is not currently planning for another undertaking of this nature. Instead, the Department will focus on its responsibility to be prepared to conduct stability operations activities through all phases of conflict and across a range of military operations, including in combat and non-combat environments, pursuant to DOD Directive 3000.05.

TFBSO PERSONNEL

21. Senator AYOTTE. When DOD provided the list of TFBSO employees to SIGAR, did that list include military servicemembers assigned to the task force? If not, why not? Do DOD cost estimates of TFBSO include the costs associated with military servicemembers assigned to TFBSO? How many military servicemembers worked for TFBSO during its tenure in Afghanistan?

Secretary McKEON. The list of former TFBSO employees that the Department provided to SIGAR on January 14, 2016, did include some military servicemembers who were previously assigned to the task force. There may be other former employees who are still currently employed by the Department of Defense and we are not aware of their employment status. The Department does not maintain records regarding the current employment of former TFBSO employees, but OSD Policy has created our own list based on our own due diligence.

22. Senator AYOTTE. What was the specific date when former TFBSO Director Joseph Catalino was hired by the Department of Defense to work in the Office of the Undersecretary of Defense for Policy after he departed TFBSO?

Secretary McKEON. Mr. Joseph Catalino resumed employment with the Department of Defense on June 29, 2015.

SUPPORT FOR WARFIGHTERS

23. Senator AYOTTE. Some have suggested that one of the justifications for a DOD task force like TFBSO is that it filled a niche supporting military commanders that the State Department and USAID did not. Yet, the January RAND report, sponsored by TFBSO, concluded that, "... integrating TFBSO operations into tactical and strategic military operations remained a challenge through the organization's life in Afghanistan." The report found that, "there was a significant gap with the U.S. military on types of activities that TFBSO should be engaged in ..." The RAND report also concluded that, "A prevailing view among the military respondents was that TFBSO was a tool that should have benefited the military effort, but that it 'stayed out on an island' rather than becoming a team player."

What is your assessment of those RAND findings in a report sponsored by TFBSO?

Secretary McKEON. The findings of the RAND report are similar to questions and concerns I expressed during the January 20 hearing. New organizations often have difficulty integrating into established agencies or operations, and RAND's findings suggest that TFBSO, despite being a DOD entity, may have experienced problems integrating into military operations and considerations.

24. Senator AYOTTE. Were any TFBSO projects in Afghanistan transitioned to USAID or any other U.S. government entity? If not, why not? Is there any evidence that TFBSO made an effort to transition their projects to other agencies?

Secretary McKEON. USAID did not assume any former TFBSO projects. TFBSO worked to transition projects to USAID, the Afghan government, or other entities. Each project was tracked through a formal metric process, including a transition plan. As early as January 2012, TFBSO participated in an interagency steering committee, and continued to engage the Department of State and USAID through the end of 2014. Ultimately, the Department of State and USAID declined to assume any TFBSO projects.

25. Senator AYOTTE. In 2013 the Special Inspector General for Afghanistan Reconstruction (SIGAR) issued a report saying the Afghanistan Government has levied nearly a billion dollars in business taxes on contractors supporting U.S. efforts in Afghanistan despite agreements exempting them from such.

Have you followed up on the Inspector General's initial report as requested?

Mr. SOPKO. SIGAR contacted the Department of Defense, Department of State, and the U.S. Agency for International Development 60 days after issuing its May 2013 business taxes audit report,¹ and regularly thereafter, to determine the implementation status of its recommendations. In August 2014, SIGAR closed all remaining report recommendations as implemented.

26. Senator AYOTTE. Can you report back on the current situation regarding business taxes on contractors supporting U.S. efforts in Afghanistan?

Mr. SOPKO. The United States and the Afghan government signed the Bilateral Security Agreement (BSA) on September 30, 2014. The BSA defines requirements for U.S. defense contractors for taxation, registration, and entry and exit. The U.S. military also operates an International Agreements Branch to help ensure that U.S. defense contractors comply with Afghan government law and regulations. Since SIGAR issued its audit report in May 2013, private sector companies supporting U.S. government efforts in Afghanistan have reported to SIGAR that the Afghan government continues to levy taxes and associated penalties from which they should be exempt. SIGAR has on-going criminal investigative work in this area.

27. Senator AYOTTE. What is DOD doing to address the issues raised in the 2013 SIGAR report (SIGAR audit 13-8)?

Secretary McKEON. Of the \$921 million in tax assessments that SIGAR asserts were improperly levied against US contractors, \$93 million was identified by SIGAR as levied on DOD contractors. By comparison, in a January 2015 report to Congress, DOD noted that following an extensive data call by the Office of the Undersecretary of Defense for Acquisition, Logistics and Technology, DOD contractors reported being levied \$83 million in taxes in 2013, of which they paid \$7 million in taxes to the Afghan government. Almost all of the remaining \$921 million in reportedly illegitimate assessments that SIGAR identified was, according to SIGAR, levied against State Department contractors, but State strongly questioned the basis for SIGAR's claim.

In the 2013 audit, SIGAR made three recommendations for DOD, all of which were implemented in 2013:

- Develop procedures to help contractors obtain appropriate documentation of tax exempt status with the Afghan Government;
- Issue guidance and training to contracting officer on how to properly identify taxes in contracts and invoices; and
- Ensure through guidance and training that contractors are reimbursed only for eligible tax payments.

DOD is preparing a required report for Congress describing efforts to address taxation of DOD contractors by the Afghan government that will be submitted upon completion of intra-Department coordination.

¹ SIGAR Audit 13-8, *Taxes: Afghan Government Has Levied Nearly a Billion Dollars in Business Taxes on Contractors Supporting U.S. Government Efforts in Afghanistan*, 5/14/2016.

APPENDIX A



SIGAR

Office of the Special Inspector General
for Afghanistan ReconstructionJohn F. Sopko
Special Inspector General

January 29, 2016

Via Electronic Transmission

The Honorable Kelly Ayotte
Chair, Subcommittee on Readiness and Management Support
United States Senate Committee on Armed Services

The Honorable Tim Kaine
Ranking Member, Subcommittee on Readiness and Management Support
United States Senate Committee on Armed Services

Dear Chair Ayotte and Ranking Member Kaine,

Thank you for the recent opportunity to testify before your subcommittee about SIGAR's oversight of the Department of Defense Task Force for Business and Stability Operations (TFBSO) and its activities in Afghanistan. I think we can all agree the hearing raised important concerns and questions about TFBSO.

The enclosed information addresses issues raised at the hearing and documents that were submitted for the record at the hearing, but which SIGAR had not had a prior opportunity to review. Among them are letters to the Senate Armed Services Committee from former TFBSO directors and a former minister of the Afghan Ministry of Mines and Petroleum. I think it would benefit the subcommittee to review SIGAR's analysis of the statements made in these letters. Additionally, the enclosure provides further clarification on three important issues discussed during the hearing: standards followed by SIGAR's Special Projects Office, the Defense Department's cost figure for the CNG filling station, and SIGAR's views on pending legislation that would grant testimonial subpoena authority for inspectors general. I hope you find this additional information to be helpful and informative.

Again, thank you for the opportunity to appear before your subcommittee. I look forward to working with you to ensure that Congress and the American people have a fulsome and accurate accounting of TFBSO's spending and the outcome of its efforts. Should you have further questions, please feel free to contact me directly, or your staff may contact Jaryd Bern, my Director of Congressional Relations and Government Affairs, at jaryd.m.bern.civ@mail.mil or (703) 545-5985.

Sincerely,

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

Enclosures (4)

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SIGAR Office of Special Projects

SIGAR conducts special projects under the authority of SIGAR's authorizing statute, Public Law 110-181 and the Inspector General Act of 1978, as amended, and in accordance with the principles of integrity, objectivity, and independence in the *Quality Standards for Federal Offices of Inspector General*, which incorporate Generally Accepted Government Accounting Standards (GAGAS) by reference, and the policies and procedures described in *SIGAR's Special Project Policy and Procedures Manual*. SIGAR is a fact based organization and our processes and procedures, for all projects, are aimed at ensuring that all facts are supported and sourced to sufficient and reliable evidence and the best information available.

SIGAR created the Office of Special Projects in response to requests from senior military leaders, ambassadors, Members of Congress, and Congressional staff for a way to provide information much more quickly on emerging issues and other matters than is possible with full scale audits. The total cycle time for a typical audit is 10-18 months, whereas the total cycle time for a Special Project is typically 2-3 months.¹

Special projects may be initiated as the result of an issue that arises during an ongoing audit, investigation, or inspection, or which is brought to the attention of SIGAR by whistleblowers or other informants. The products are intended to inform the Executive Branch agencies and Congress about issues requiring immediate attention, to obtain information on a specific issue, or to communicate the results of an inquiry.

The type of products issued by the Office of Special Projects include the following:

- Limited Reviews and Review Letters – report the results of information garnered through targeted research on specific and/or narrow topics. The reports are supported by sufficient, appropriate evidence, with key facts, figures, and findings traceable to the evidence.
- Inquiry Letters – highlight an issue that requires the agency to produce answers in response. The letters generally request additional information and request confirmation of the facts presented in the letter.
- Alerts – point out an issue(s) that require immediate attention by an agency due to safety or other concerns. Timely issuance is critical to be of maximum use. These

¹ The duration of any individual audit or special projects varies widely depending on issue area and complexity.

communications alert officials to matters needing immediate attention and allow them to promptly take corrective action.

- Fact Sheets –products that provide information on a particular topic but do not contain findings, conclusions, and recommendations.
- Follow-Up Letters – based on responses received from an agency, SIGAR may send a follow-up letter regarding a review, inquiry, alert, or fact sheet.

Prior to the hearing, SIGAR responded to numerous written questions from the Committee staff members Jennifer White and William Monahan related to this issue. Copies of those questions and SIGAR's responses are appended.

The Cost of the CNG Filling Station

At the hearing, Ranking Member Kaine inquired as to why SIGAR's April 2015 audit report on extractives states that the CNG project cost \$5.1 million, while SIGAR's October 2015 Office of Special Projects report on the CNG project says it cost \$42.7 million, and, in January 2016, SIGAR issued a second extractives audit that again states that the cost of the CNG project was \$5.1 million. However, there is no substantive discrepancy between the two extractives audits and the CNG report.

Both SIGAR audits cover a wide range of major U.S. reconstruction activities in the extractives sector in Afghanistan, including 14 initiatives implemented by two separate U.S. agencies. These two audit reports included only the cost figures on the face of the known contracts, purchase orders, and interagency agreements that funded these initiatives. SIGAR did not include other costs, including indirect costs, because more detailed information, such as associated overhead costs, was not available for every TFBSO and USAID program included in the audits, and therefore did not allow for valid comparison.

In our October 2015 CNG report, SIGAR again cited core contract data.² However, because the report was focused on an individual project, rather than 14 initiatives implemented by two different U.S. government entities, SIGAR was able to add additional DOD cost data. Specifically, the CNG report included direct and indirect cost data for the CNG project that was provided by DOD to an outside consultant, Vestige Consulting, which had been retained by DOD to evaluate the economic impact of TFBSO projects.

² DOD's *Compressed Natural Gas Filling Station in Afghanistan: An ill-Conceived \$43 Million Project*, SIGAR-16-2-SP, October 22, 2015.

According to the Vestige report, it was, “a best-in-class political feasibility-weighted cost-benefit analysis of Task Force projects.”³ The final Vestige report states,

“The Task Force spent \$42,718,739 between 2011 and 2014 to fund the construction and to supervise the initial operation of the CNG station (approximately \$12.3 [million] in direct costs and \$30.0 [million] in overhead costs).”⁴

Beginning in May 2015, SIGAR repeatedly requested additional information from DOD regarding the cost data associated with the CNG filling station. SIGAR interviewed the CEO of Vestige, who stated that the TFBSO comptroller gave Vestige the \$42.7 million cost number that Vestige used in its report. In a meeting with SIGAR in December 2015, DOD officials reconfirmed the \$42.7 million cost figure provided by TFBSO to Vestige. However, at the hearing on January 20, 2016, for the first time in eight months, DOD raised questions about this figure and it appears that the Department now believes the total cost of the project may have been misreported. For example, Mr. McKeon’s written testimony states,

“We believe the methodology used by EIA, and relied on by SIGAR, is flawed, and that the costs of the station are far lower.”

“DoD cannot validate the figure of \$30 million in overhead costs set forth in the SIGAR report as directly attributable to the CNG station project.”⁵

However, the Department has not provided any data that supports its new assertion that the project did not cost \$43 million. In fact, on January 19, 2016, the Defense Security Cooperation Agency (DSCA) comptroller who had been asked by DOD to review the CNG project cost, told SIGAR that the \$12.3 million in direct costs was correct, and that while his “gut feeling” is that the \$30 million in overhead costs were too high, it is not possible to derive a more accurate estimate of the project cost, due to poor record keeping by TFBSO.

In addition, late in the afternoon on January 14 and six days before the hearing, DOD finally delivered to SIGAR a copy of the hard drive purporting to contain all TFBSO unclassified records. In a rapid review of the hard drive over the weekend, SIGAR analysts discovered that DOD officials had reviewed a draft of the Vestige TFBSO Economic Impact Assessment prior to it

³ Vestige Consulting, LLC, and Acertis, LLC, *Economic Impact Assessment, Task Force for Business & Stability Operations (TFBSO) in Afghanistan*, Dec. 29, 2014, p.13.

⁴ *Id.*, p. 98.

⁵ Principal Deputy Secretary of Defense for Policy Brian McKeon, *Statement for the Record Senate Armed Services Subcommittee on Readiness and Management Support*, January 20, 2016, pp. 8-9.

being finalized. While these reviewing officials changed figures pertaining to other projects listed in the report, they approved the \$42.7 million cost figure for the CNG project.

In sum, the \$42.7 million cost figure for the CNG project came from DOD. DOD determined that the CNG project cost \$42.7 million and provided that number to Vestige Consulting for the Economic Impact Assessment. The \$42.7 number was reviewed again by DOD and approved by DOD officials prior to the Vestige Report being finalized. Finally, at the request of Principal Deputy Under Secretary McKeon, the DCSA comptroller also reviewed the \$42.7 million cost figure and confirmed it, stating that there was no better figure available.

Letter from Former Minister of Mines and Petroleum Shahrani to the Senate Armed Services Committee

During the hearing, Ranking Member Kaine submitted for the record, a letter to the Committee dated January 19, 2016, from Mr. Wahidullah Shahrani, former Minister of the Afghanistan Ministry of Mines and Petroleum (MoMP) under then-President Karzai. In his letter, Mr. Shahrani expresses his support for TFBSO's efforts in Afghanistan during the time he was Minister.⁶ His letter states that "TFBSO based on the priorities of the Afghan government mobilized very valuable support." He also states that, "TFBSO managed to implement all the accepted best practices with regard to the integrity and transparency of deals (process) involved in the management of these resources" and that "the highest degree of transparency was also observed."⁷

Mr. Shahrani's assertions about the MoMP's "best practices" and "transparency" are unsupported, and seem somewhat ironic given the well-known reputation of the MoMP during his tenure. In fact, USAID ordered a Ministry Assessment of MoMP to determine whether the ministry was capable of handling on-budget assistance. The USAID Ministry Assessment, conducted by Ernst & Young on behalf of the agency, found several material weaknesses in MoMP's financial and procurement systems, among other things. The assessment determined that these weaknesses left MoMP unable to address fraud and conflicts of interest in connection with ministry programs, and unable to account for the use of funds and property held by the ministry. In particular, the assessment found that MoMP did not sufficiently monitor and evaluate its programs to detect fraud, and did not have adequate controls to mitigate the misappropriation of cash stored at the ministry. MoMP did not have a Financial

⁶ Letter from Wahidullah Shahrani, Former Minister of Mines and Petroleum, Islamic Republic of Afghanistan, to Senator John McCain, Chairman, Senate Armed Services Committee, and Senator Jack Reed, Ranking Member, Senate Armed Services Committee (January 19, 2016).

⁷ *Id.*, p. 1.

Management and Accounting System, and maintained only partial, manual accounting records. MoMP also lacked processes that might have enabled it to maintain and generate financial reports to donor nations. Furthermore, the assessment found no evidence that MoMP was reconciling the revenue it collected in the form of fees and royalties from the Afghan extractives industry. MoMP also apparently failed to comply with Afghan procurement laws and did not require disclosure of conflicts of interest associated with bids for agency contracts.

Following completion of the Ministry Assessment, USAID conducted a Risk Review that found the MoMP financial management/accounting system is not adequate to handle donor funds, that the internal control environment is not adequate to mitigate the risk of corruption, and that it is unclear whether the MoMP has the will to combat corruption. USAID's review also found a lack of accountability of public officials, financial data susceptible to manipulation, lack of standards to prevent undue preferential treatment, such as nepotism and cronyism, and the likelihood of kickbacks and collusion. It should also be noted that USAID planned to make approximately half of the Mining Investment and Development for Afghanistan Sustainability (MIDAS) program on-budget (approximately \$45 million), however following a third assessment in 2014, USAID removed the on-budget component of MIDAS stating that the MoMP lacked the ability to handle on-budget assistance.

Mr. Shahrani also cites the “valuable support” provided by TFBSO on four particular projects:

- First, Mr. Shahrani discusses the Sheberghan-Mazar-e-Sharif pipeline that TFBSO assisted in refurbishing. This is the same pipeline that USAID and the State Department believe is unsafe and which is the subject of a December 2014, SIGAR alert letter warning that it is hazardous. Furthermore, in July 2015, USAID reported that this pipeline refurbishment was still incomplete.
- Second, Mr. Shahrani touts the construction of a new pipeline connecting Sheberghan and Mazar-e-Sharif, that TFBSO assisted with. In fact, SIGAR found that this pipeline had never been built, and the pipe procured for this purpose was still sitting in storage yards in Mazar-e-Sharif and Sheberghan, after being flown into Afghanistan by TFBSO.
- Third, Mr. Shahrani cites the gas sweetening plant TFBSO purchased. SIGAR found that this plant is not operational, will require at least \$5 million more to become operational, that the Afghan government lacks the capability to responsibly run the plant, and that USAID has no plans to use the plant because the plant's design does not allow the removal of all corrosive contaminants from natural gas. In other words, even if it were operational, the plant could not do its job, due to poor design.

- Fourth, Mr. Shahrani cites the CNG filling station. While construction of the CNG filling station was completed, its value and sustainability, and the wisdom of spending US taxpayer funds to build it, is questionable, as discussed in SIGAR's October 2015 report. Mr. Shahrani goes on to state that the \$43 million cited in SIGAR's CNG report was for all four of these projects, which is unsupported by any of SIGAR's work to date or by DOD.

Mr. Shahrani states that minerals and hydrocarbons take a long time to develop and require good governance, but he notes that TFBSO helped the Afghan government tender four mineral deposits. However, these contracts have not been finalized due to delays by the Afghan government, as SIGAR reported in its January 2016 extractives audit. SIGAR's audit report also states that the longer these contracts remain unsigned, the greater the risk that the companies will pull out because commodity prices and world events will make them un-economic.

Finally, Mr. Shahrani made some closing points:

- He claims he tried to meet with SIGAR staff on multiple occasions. As far as SIGAR can determine, SIGAR was not contacted by Mr. Shahrani, but if it had been, would have been more than happy to meet.
- He praises TFBSO for its capacity building efforts, and notes no other donor agency is doing what TFBSO is doing. SIGAR states in the January 2016 extractives audit that the USAID MIDAS program is doing nearly exactly the same tender development TFBSO was undertaking.
- He notes that DOD and TFBSO should be in possession of program and financial documents. SIGAR agrees that DOD *should* have those files, but so far, it appears they may not.

Letter from James Bullion to the Senate Armed Services Committee

Mr. James L. Bullion, a former Director of TFBSO, sent a letter to the Senate Armed Services Committee on January 17, 2016.⁸ Mr. Bullion made multiple claims in his letter about TFBSO's planning, coordination, and strategy. Additionally, he cited several of what he believes to be TFBSO's accomplishments. SIGAR has concerns about some of the statements and claims Mr. Bullion makes in his letter.

⁸ Letter from James L. Bullion, Former Director, Department of Defense Task Force for Business and Stability Operations, to the Senate Armed Services Committee (January 17, 2016).

With regard to Mr. Bullion's discussion of weekly, monthly, and quarterly coordination meetings with representatives from USAID and State, and the coordination and strategy that resulted from those meetings, SIGAR notes that the April 2015 extractives audit found that officials at the U.S. Embassy stated that "coordinating with TFBSO was a particular challenge because embassy officials lacked policy making authority and effectively had little influence over TFBSO. One senior TFBSO official stated that the Task Force viewed coordination with the embassy officials as a "courtesy" rather than a requirement, and that they answered to the DOD chain of command, not the Ambassador."⁹ SIGAR also found that, "Officials at USAID, State, and TFBSO all stated that they had met with each other in the past to discuss current and planned activities. However, they all agreed that these meetings were perfunctory in nature and that coordination efforts had all but fallen apart by the time TFBSO activities in Afghanistan concluded."¹⁰

With regard to Mr. Bullion's discussion of compliance with congressionally mandated concurrence processes and that the concurrence plans kept other agencies full aware of TFBSO activities, SIGAR notes that our first extractives report found that "TFBSO submitted annual concurrence plans, high level overviews of planned activities, to State for approval... However, although the concurrence plans for fiscal years 2011 through 2014 describe current and past activities in relative detail, the descriptions of proposed activities lack similar detail."¹¹

With regard to Mr. Bullion's criticism of USAID's MIDAS program for not coordinating with MoMP staff, SIGAR would largely concur with that assessment and note that the first extractives report found that while the MIDAS program had a comprehensive strategy in place for the program, "the MIDAS team has not adequately communicated its development strategy and goals to all the relevant stakeholders at MoMP, despite clear guidance from USAID policy and MIDAS's internal reports"¹²

With regard to Mr. Bullion's assertion that TFBSO had multi-year plans or strategies, SIGAR notes that the April 2015 extractives report found no evidence of multi-year plans and stated that the single year concurrence documents submitted to State and USAID "represent the clearest articulation of TFBSO's year-to-year strategy and project selection process"¹³

⁹ SIGAR 15-55-AR, Afghanistan's Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding is at Risk, April 24, 2015. p. 9.

¹⁰ Id., p. 10.

¹¹ Id.

¹² Id., p. 11.

¹³ Id., p. 10.

Furthermore, the first extractives report found “senior TFBSO officials claimed that the uncertainty around TFBSO’s annual budget and high turnover among its leadership led to frequent shifts in TFBSO’s organizational direction. TFBSO senior officials stated that while the organization’s overall goals for developing Afghanistan’s extractive industries did not change, the various TFBSO directors’ “rearticulations” of the roadmap for achieving these goals resulted in little documentation because of the fluid nature of the plans.”¹⁴

With regard to Mr. Bullion’s general assertions about TFBSO’s accomplishments, SIGAR notes that the second extractives report found “TFBSO’s projects achieved mixed results. Three projects worth \$54.3 million showed little to no achievement of their project objectives, five projects worth \$121.7 million partially achieved their objectives, and three projects worth a total of \$39.4 million generally met their objectives.”¹⁵

With regard to the specific accomplishments that Mr. Bullion cites:

- SIGAR notes that the repair and upgrade of the Sheberghan-Mazar-e-Sharif pipeline was never completed, and was in fact, the subject of a December 2014 alert letter by SIGAR discussing safety concerns with the pipeline.¹⁶
- Mr. Bullion goes on to cite seismic testing as an accomplishment of TFBSO, however, the January 2016 extractives audit found that following one successful seismic testing expedition, TFBSO conducted two more failed seismic testing expeditions in the Kushka basin, “the second and more expensive cost-plus-fixed-fee contract over the objections of the project managers and subject matter experts.”¹⁷
- Mr. Bullion then cites capacity building and the successful award of three tenders for oil and gas properties as additional TFBSO accomplishments. One of these tenders was awarded to a Chinese-Afghan consortium and was the subject of significant criticism from Congress.

¹⁴ Id.

¹⁵ SIGAR 16-11-AR, Afghanistan’s Oil, Gas and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth, January 11, 2016, p. 4.

¹⁶ See SIGAR 15-15-AL, Alert Letter: Task Force for Business and Stability Operations Pipeline Project, December 11, 2014.

¹⁷ SIGAR 16-11-AR, Afghanistan’s Oil, Gas and Minerals Industries: \$488 Million in U.S. Efforts Show Limited Progress Overall, and Challenges Prevent Further Investment and Growth, January 11, 2016, p. 29.

- Mr. Bullion cites the work of the U.S. Geological Survey in compiling the geological data of Afghanistan's mineral wealth. SIGAR would agree that the USGS work may be the most valuable work to date aimed at exploiting Afghanistan's mineral resources.
- Mr. Bullion cites the award of four mineral contracts to international consortiums. While these contracts have been awarded, the second extractives report found that these mineral tenders remained unsigned. Furthermore, as we noted in our audit report, "In a follow-up response to our first audit the U.S. Agency for International Development (USAID), reported that there is a very high probability that the Afghan government and the MoMP will seek an independent legal review of the terms and structure of all mining contracts negotiated under the previous administration before finalizing these contracts. USAID further stated that, depending on the depth of the Afghan government's legal review of the Round 1 mineral tenders, it could cost USAID up to \$500,000 per contract if it provided continued support to the Round 1 tenders, an amount USAID stated it cannot fund."¹⁸ Additionally, the January 2016 extractives audit found that "even if TFBSO's tenders become finalized contracts, the tendering model that TFBSO followed does not appear to be sustainable for the Afghan government. In an internal memorandum, MIDAS officials wrote that the Afghan government does not have the resources to pay for consultants similar to those hired by TFBSO."¹⁹

Mr. Bullion's assertion that many of the beneficiaries of the U.S. government's capacity building efforts have left the MoMP is correct. SIGAR's January 2016 extractives audit found "the Afghan government did not approve continued funding for the salaries of the vast majority of APA staff members; 72 APA employees were laid off in December 2014, leaving only approximately 35."²⁰

Mr. Bullion asserts that the \$43 million cost of the CNG project is not credible, but he provides no support for his assertion. As discussed in detail above, in SIGAR's written testimony, and in SIGAR's October 2015 report, the \$43 million cost figure for the CNG project was provided by DOD, not SIGAR, and is the best number available.

With regard to Mr. Bullion's discussion of the transition of TFBSO projects to enduring stakeholders, SIGAR's April 2015 extractives audit found that "no U.S. agency remaining in

¹⁸ Id., p. 28.

¹⁹ Id.

²⁰ Id., p. 31.

Afghanistan has any plans to provide continued monitoring, evaluation, or support for TFBSO extractive initiatives.”²¹

Letter from Paul Brinkley to SIGAR

On the morning of the hearing, SIGAR Associate General Counsel Christopher Staszak received a letter from an attorney for Mr. Brinkley requesting changes to SIGAR testimony. SIGAR strongly disagrees with the claims made in the letter. A copy of Mr. Staszak’s reply is appended here.

Letter from Paul Brinkley to Senate Armed Services Committee

SIGAR was not provided with a copy of Mr. Brinkley’s letter to the Committee until after the hearing. However, upon review, Mr. Brinkley’s letter speaks in generalities, without factual support.

Testimonial Subpoena Authority for Inspectors General

SIGAR strongly supports giving testimonial subpoena authority to inspectors general. All IGs, including SIGAR, currently have the authority to subpoena documents, but cannot subpoena individuals. This has hampered investigative efforts in the past and will continue to hamper investigative efforts in the future. Currently, the DOD IG appears to be the only IG with testimonial subpoena authority.²² SIGAR is unaware of any instances in which that authority has been abused. Nevertheless, if Congress is concerned that testimonial subpoena authority might be abused by IGs, it could require that issuance of such subpoenas would require prior approval by the Department of Justice.

²¹ SIGAR 15-55-AR, Afghanistan’s Mineral, Oil, and Gas Industries: Unless U.S. Agencies Act Soon to Sustain Investments Made, \$488 Million in Funding Is at Risk, April 24, 2015, p. 15.

²² See Inspector General Act of 1978, as amended, Section 8(i).

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

January 29, 2016

Mr. Charles E. Duross
 Partner
 Morrison Foerster LLP
 2000 Pennsylvania Avenue, N.W.
 Washington, D.C. 20006

Dear Chuck,

Thank you for the January 20, 2016 letter you sent on behalf of Mr. Brinkley pertaining to Inspector General Sopko's testimony before the Senate Armed Services Committee, Subcommittee on Readiness and Management Support (Committee).

When three of my colleagues and I interviewed Mr. Brinkley on December 15, 2015, he stated that the CNG facility that was the subject of a SIGAR report was "not on his watch." However, Principal Deputy Undersecretary for Policy Brian McKeon testified at the Committee hearing that "...the project started in 2011. Mr. Brinkley left in June of 2011. I'm not sure if it was in the first half or the second half that this decision was made to start it. I think it was under Mr. Brinkley, but I'll have to get to that." Please let me know if Mr. Brinkley had any involvement with the CNG facility, including knowledge of its planning, approval, construction, or operation.

When I received your letter approximately five hours before the hearing, I was already familiar with Mr. Sopko's prepared testimony. I also reviewed it again after I read your letter. There is nothing in his testimony that is inaccurate or that mischaracterizes the statements Mr. Brinkley made during his interview at SIGAR. I recognize the negative information regarding TFBSO that has been exposed by many parties, including Members of Congress and former TFBSO employees, may not be welcome, but Mr. Brinkley was a high-ranking government official who led TFBSO and is responsible for the operational and fiscal decisions he made. To his credit, he accepted full responsibility for all of his decisions during the interview.

In your letter, you quote a portion of Mr. Sopko's testimony and state, "[t]his is not what Mr. Brinkley said..." but you failed to cite anything that was inaccurate and you proceeded to explain that Mr. Brinkley said TFBSO "had no contracting authority." In the relevant quotation, Mr. Sopko accurately characterized Mr. Brinkley's statement that he was not aware of the cost of TFBSO projects prior to approving them. Whether TFBSO had contracting authority has nothing to do with Mr. Brinkley's prior knowledge of costs associated with projects he approved.

You are correct in asserting that Mr. Brinkley stated TFBSO did not have contracting authority, but nothing in Mr. Sopko's statement suggests otherwise. Moreover, the relevant fact, which Mr. Brinkley did not dispute, is that it was the TFBSO director at any given time who made the decision

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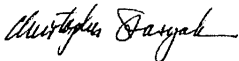
to initiate projects, not a separate entity that merely handled the technical aspects of contract execution. Stated another way, responsibility for TFBSO decisions to spend taxpayer dollars on a given project was at all times with TFBSO. The argument that TFBSO did not have contracting authority, which I have seen repeated in other places, is misleading.

If Mr. Brinkley is now saying that he did know the cost of the projects he approved before he approved them, please provide a list of the projects he approved and the cost of those projects. Specifically, during the interview Mr. Brinkley expressed pride in the TFBSO business incubator initiative for which IBM ultimately received \$46.8 million. SIGAR is eager to understand how much of that money Mr. Brinkley approved and how much was approved by subsequent TFBSO directors. Similarly, Mr. Brinkley explained in some detail his rationale for choosing to obtain private living and security arrangements, which ultimately cost approximately \$150 million. If Mr. Brinkley had a prior understanding of how much these arrangements initially cost, please provide that.

In regard to the living and security arrangements that you also raise in your letter, Mr. Sopko's testimony was again entirely accurate. Mr. Brinkley's apparent objection is that his opinion of these arrangements was not included in Mr. Sopko's testimony. As you know, Mr. Brinkley has written a book about his experience with TFBSO, which included a discussion of the living arrangements. Mr. Brinkley is also free to submit his opinion on this matter to Congress or anyone else he chooses. Mr. Sopko's testimony regarding these living arrangements, and the information discussed in SIGAR's inquiry letter to DOD on this topic, which you also mention in your letter, was based on actual government contract documents. For example, contractors were required to provide TFBSO with at least "three star meals" and "western style hotel accommodations..." We certainly encourage Mr. Brinkley to speak out about these living arrangements, but the government contract documents speak for themselves.

In summary, there is nothing in Mr. Sopko's prepared testimony or his oral testimony at the hearing that is inaccurate or misleading. Neither Mr. Brinkley, nor any other person I am aware of, has identified any factual inaccuracy in any SIGAR report on TFBSO. I also think it is worth noting that a number of other responsible parties, including Members of Congress, the RAND Corporation, and former TFBSO senior managers and employees, have called into question TFBSO's spending. Moreover, Mr. Brinkley himself noted during the interview that he was "disconcerted" by DOD's lack of cooperation with SIGAR. Moving forward, if Mr. Brinkley has any additional information he wants to share, including the information requested in this letter, SIGAR is eager to receive it.

Sincerely,



Christopher Staszak
Senior Investigative Counsel



SIGAR | Office of the Special Inspector General
for Afghanistan Reconstruction

John F. Sopko
Special Inspector General

December 4, 2015

The Honorable John McCain, Chairman
The Honorable Jack Reed, Ranking Member
Senate Committee on Armed Services
Russell Senate Office Building, Room 228
Washington, D.C. 20510

Dear Chairman McCain and Ranking Member Reed:

Thank you for your letter of November 23, 2015 inquiring about SIGAR's Office of Special Projects. I appreciate your support of SIGAR and I am pleased to respond to your questions.

I created Special Projects in response to feedback I received from Members of Congress, Congressional staff (including Senate Armed Services Committee staff), former ambassadors, and senior military commanders regarding the need for timely, actionable reports that would assist Congress, DOD, and the State Department in evaluating issues and making policy determinations. When I was appointed to be Special Inspector General, I was told that I was selected because my predecessor was not aggressive enough or responsive enough, and that had to change. Special Projects is one aspect of the change I brought to SIGAR to carry out that demand, but it is not an entirely unique idea. At least 11 other inspectors general at major federal agencies also have a special projects office or equivalent function.

With your support, SIGAR has been able to identify billions of dollars in waste, conduct audits to determine the effectiveness of government spending, investigate serious crimes, and expose potentially dangerous situations resulting from incomplete or substandard construction. I am proud of the work SIGAR has done in these areas, and I am particularly proud of our Office of Special Projects, which conducts important work on emerging issues in a manner that provides Congress, federal agencies, and the military the opportunity to react to critical issues in a timely fashion.

For example, the Office of Special Projects exposed contract fraud that jeopardized the lives of U.S. military personnel in Afghanistan; alerted the military to the risk of deadly fires associated with a substance being used to construct housing for the Afghan National Army; and investigated and exposed the construction of a \$36 million command and control facility (the 64K Building) that was never used. I sincerely appreciate the public support Chairman McCain expressed in connection with the latter Special Projects report.

However, I would like to address an apparent misunderstanding. Your letter states that, "In 2012 almost 90 percent of SIGAR's publicly issued products were reports conducted in accordance with GAGAS or CIGIE standards. This has dropped to just over 50 percent in fiscal year 2015; by

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contrast Special Project products represented more than 40 percent of SIGAR's publicly issued products."

This is not correct. In FY 2012, 70 percent of SIGAR products were conducted in accordance with GAGAS or CIGIE standards.¹ By FY 2015, this number actually increased, so that 73 percent of SIGAR products were conducted in accordance with GAGAS or CIGIE standards. In addition, in FY 2015 Special Projects reports and Alert Letters accounted for less than 11 percent of all SIGAR products. Because the SIGAR Office of Special Projects was not created until FY 2013, there were no FY 2012 contributions from that office. Finally, I'd like to note that since I took office in 2012, the total number of products produced annually by SIGAR more than tripled from FY 2012 to FY 2015.

As explained in detail in the attached responses to your questions, SIGAR's Office of Special Projects has performed outstanding work that has consistently benefitted Congress and the American taxpayer. I would be happy to meet with you in person to discuss the achievements of the Office of Special Projects and its ongoing work. Should you have any questions or need additional information, please do not hesitate to contact me directly, or your staff may contact Jaryd Bern, SIGAR's Director of Congressional Relations and Government Affairs, at 703-545-5985 or jaryd.m.bern.civ@mail.mil.

Sincerely,



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

Enclosures:
SIGAR Response Document
Committee Request Letter (11/23/2015)
Attachment 1: Draft Report before Referencing
Attachment 2: Draft Report after Referencing
Attachment 3: Draft Report Sent to DOD for Comment
Attachment 4: Final Report

¹ This excludes Inquiry Letters, which are requests for information and therefore not subject to GAGAS or CIGIE Blue Book standards.

1. Why and when did SIGAR establish the Office of Special Projects?

SIGAR established the Office of Special Projects in 2013 in response to requests from Members of Congress, Congressional staff (including Senate Armed Services Committee staff), former ambassadors, and a former commander of U.S. forces in Afghanistan, to address emerging and critical issues in a timely fashion, and to address important issues that may not require a full audit. However, issues uncovered by a Special Projects inquiry may later result in an audit or criminal investigation.

The Office of Special Projects provides SIGAR with the flexibility to respond to Congressional inquiries, conduct an initial review of an emerging issue to determine whether it warrants further action, and to alert the Defense Department, the State Department, USAID, and others to immediate threats to life, health, safety, and security. Special projects may later result in audits or criminal investigations.

Since it was established, SIGAR's Office of Special Projects has completed a number of oversight projects that could not have been handled in a timely fashion as either an audit or an inspection. SIGAR is not the only IG office that conducts special projects. An informal survey of major Federal agency IGs indicates that at least 11 IGs, including the DOD IG and the State Department IG, have established a special projects office or equivalent function.

2. What is the organizational structure and leadership of the Special Projects office, and any differences from the other SIGAR directorates that conduct work and publish reports in support of SIGAR's mission, vision and values?

The Office of Special Projects consists of a Director, a Deputy Director, and five analysts. This staff is supplemented with individuals from other SIGAR offices as needed. Special Projects also has routine access to a variety of subject matter experts within SIGAR. Special Projects reports are subject to a rigorous fact checking process through a GAGAS-style full indexing and referencing, as well as a final legal review by the Office of General Counsel. The Office of Special Projects is headed by Jack Mitchell, who has 25 years of experience in Congressional and federal program oversight. Mr. Mitchell previously directed the Office of Special Investigations (OSI) in the Commissioner's Office at the Food and Drug Administration, and served in lead investigative positions with the Oversight of Government Management Subcommittee of the Senate Committee on Governmental Affairs (the name at the time) and the Senate Special Committee on Aging.

3. How many staff have you had working in the Office of Special Projects (broken down by each fiscal year since it was established)?

FY13 (the first year Special Projects was in operation): One Director, an Engagement Manager, four Senior Analysts.

FY14: One Director, four Senior Analysts.

FY15: One Director, one Deputy Director, four Senior Analysts.

As noted above, the Special Projects staff is regularly augmented by personnel from other SIGAR offices as needed.

4. How do you determine whether to undertake work as an Audit, Investigation, Inspection, or Special Project?

The majority of SIGAR's audits and inspections are performed pursuant to a plan that is adopted up to a year in advance and coordinated with the inspectors general of the Defense Department, the State Department, and USAID. Investigations relate to potential violations of criminal law. Investigations can result from the initiative of SIGAR's Special Agents, tips to SIGAR's fraud hotline (both in the U.S. and Afghanistan), information shared by other law enforcement organizations, information obtained from contractors, information obtained in the course of audits, inspections, or special projects, and information obtained from any other source that may indicate a potential violation of law.

Matters assigned to Special Projects normally fall outside SIGAR's scheduled audit and inspection program, or arise quickly as the result of a complaint or other unforeseen development. For example, SIGAR became aware of a potentially life-threatening situation where housing for Afghan National Army soldiers was being constructed with a highly flammable substance. The most timely and effective way to address this issue, and others like it, was to assign it to Special Projects, which reported this hazard to the Defense Department. Special Projects also issues Alert Letters, which concern the health, life, or safety of individuals. For example, SIGAR issued an Alert Letter to the Secretary of Defense when we discovered that certain culvert denial systems designed to prevent the planting of improvised explosive devices under roads in Afghanistan had not been properly installed.

5. When you begin a Special Project and request information from an agency, do you advise the agency that the work is a Special Project versus an Audit, Inspection or Investigation?

Yes. Typically, initial requests for information related to a special project are transmitted by the Director of Special Projects in the form of inquiry letters. The Director and his staff make themselves available to answer any questions concerning these inquiries. The Special Projects Director and his staff also participate in regular, biweekly calls downrange with representatives of USAID, the Embassy in Kabul and various military commands, along with SIGAR's Kabul staff. These conference calls are intended to address any questions concerning ongoing SIGAR audits, inspections, and special projects.

6. Do you conduct your Special Projects work under standards other than GAGAS or CIGIE, and if so, what are those standards?

While Generally Accepted Government Auditing Standards (GAGAS) apply only to audits (by definition), Special Projects follows GAGAS standards as closely as possible while still trying to meet urgent timeframes. Special Projects reports go through rigorous fact checking through a GAGAS-style full indexing and referencing, as well as a final legal review by the Office of General Counsel. The Office of Special Projects also issues Inquiry Letters, which are requests for information and therefore not subject to GAGAS; and Alert Letters, which, as discussed above, are used to alert an agency to immediate, potential threats to human life, health, safety, and security. Because of their unique purpose, Alert Letters also are not subject to GAGAS.

7. Please provide a list of all Special Projects reports (including Alerts) that were associated with a subsequently issued Audit, Inspection, or Investigation report (report titles and numbers).

SIGAR 14-12-SP, *Comprehensive Risk Assessments of MOD and MOI Financial Management Capacity Could Improve Oversight of Over \$4 Billion in Direct Assistance Funding*. This report resulted in a congressionally-requested audit of MOI and MOD capacity to manage U.S. Direct Assistance funding.

SIGAR 13-8-SP, *Improvised Explosive Devices: Unclear Whether Culvert Denial Systems to Protect Troops Are Functioning or Were Ever Installed*. This report led to a criminal investigation and subsequent prosecution of an individual who had failed to properly oversee the U.S. military's Culvert Denial program in Afghanistan, resulting in a U.S. fatality.

Additional special projects have resulted in criminal investigations and audits that are still open and ongoing.

8. How do you assure the quality of the publicly issued reports associated with Special Projects?

In addition to the process outlined in the response to question 6, every draft Special Project report is sent to the relevant agency for comment. Agency comments are then reviewed and incorporated in the final report, as appropriate. SIGAR requests agency comments to ensure that the facts and findings contained in the draft report are accurate. A good example of a SIGAR report in which comments were received from the agency, analyzed by SIGAR, and included and discussed in the final report is SIGAR's report on the 64K Building, *\$36 Million Command and Control Facility at Camp Leatherneck, Afghanistan: Unwanted, Unneeded, and Unused*, SP-15-57-SP, May 2015.

9. How have Special Project reports been incorporated into internal and/or external quality assurance reviews such as Peer Review?

SIGAR's Special Project reports undergo the rigorous internal review and quality assurance process described in the answers to questions 6 and 8. In addition, as noted in the response to question 8, SIGAR submits its draft Special Project reports to the relevant

agency for comment. Agency comments are then reviewed and incorporated in the final report, as appropriate.

10. Please provide in detail, the quality assurance process that was followed [for the CNG report], including, to the extent that such documentation exists: evidence of stakeholders or special expertise; type of referencing used (partial or full); versions of the draft report before and after referencing, including indexing and referencing comments; draft report with management/review signature.

In a letter to the Secretary of Defense dated May 18, 2015, the Special Inspector General requested specific information about the CNG filling station. On June 17, 2015, Principal Deputy Under Secretary of Defense for Policy Brian P. McKeon asserted that no one remained at the Department who could answer SIGAR's questions about the CNG project. While DOD cooperation would certainly have provided valuable information about TFBSO's CNG project, SIGAR was able to obtain sufficient evidence from other sources, including TFBSO contractors under subpoena, to prepare a draft report. The report was drafted by Special Projects staff, then submitted to SIGAR's quality control staff, where it was fully indexed and referenced (a copy of the referenced draft is attached). It was then reviewed by the General Counsel, the Deputy Inspector General, and the Inspector General. The draft report was then sent to DOD for review and comment on September 24, 2015. In a letter dated October 9, 2015, DOD failed to offer any comments on the facts or findings contained in the draft report. Instead, the Principal Deputy Under Secretary for Policy stated that DOD is "ready to facilitate access to TFBSO records and, reversing his June 17, 2015 representation, acknowledged that former TFBSO employees were "now working in the Department." DOD's refusal to provide information on the CNG station and unconditional access to TFBSO records is summarized in the final CNG report at pages 8-9, and copies of the relevant correspondence are provided in Appendices I-III of the final report.

Evidence of stakeholders or special expertise (for example, methodologist, economist, general counsel):

The team working on the TFBSO CNG issue has over 60 combined years of experience at the Government Accountability Office (GAO), over 60 years of legal experience, over 50 years of Congressional oversight experience, and over 25 years of law enforcement experience. More specifically, the team consists of:

SIGAR's Deputy Inspector General

The Deputy Inspector General served for 38 years with the Government Accountability Office (GAO). In his most recent position there, he served as director on the U.S. and International Nuclear Security and Cleanup Team. He has decades of experience developing, leading, and managing GAO domestic and international work. His diverse experience includes assignments with congressional committees as well as various offices within GAO. He has testified before Congress more than 50 times and was responsible for hundreds of reports while with GAO.

SIGAR's General Counsel

The General Counsel has 40 years experience as an attorney, during which he worked for the federal government, think tanks, and the private sector. He has represented the United States in large corporate litigation, served as chief counsel to two congressional committees, and spent over ten years in the property and casualty insurance industry. While on Capitol Hill, he led numerous high-profile investigations, including investigations on the implementation of economic sanctions against Iran; the transition of the U.S. effort in Iraq from the Defense Department to the State Department; the cost and capabilities of the V-22 Osprey; the rise of the Mexican drug cartels and the implications for U.S. national security; flu vaccine production and distribution; the proliferation, operation, and security of high-containment biological laboratories; food and drug safety; and a long-term investigation of the collapse of the financial services sector. He began his federal civilian service with the Congressional Research Service. He also spent four years in the U.S. Army, including a year in Vietnam (1968), and completed his service as an infantry captain.

SIGAR's Chief of Staff

The Chief of Staff previously served as SIGAR's Deputy Assistant Inspector General for Investigations, where she oversaw scores of felony investigations involving bribery, corruption, and contract fraud. Prior to that, she served as the Director of the Defense Criminal Investigative Service (DCIS) where she led the investigative efforts of over 700 Special Agents and Analysts located throughout the world. She began her career as a Naval Investigative Service (now NCIS) Special Agent where she investigated serious felony charges, including murders, rapes, drug dealing, and large scale thefts. She joined the ranks of the Senior Executive Service with DCIS and has 30 years of federal law enforcement experience.

SIGAR's Director of Special Projects

The Director of Special Projects previously served as chief investigator for the Oversight of Government Management Subcommittee of the Senate Committee on Governmental Affairs (the name at the time) and Chief of Oversight and Investigations for the Senate Special Committee on Aging. He previously served as Director of the Office of Special Investigations at the Food and Drug Administration. He held Senior Executive Service positions with the Department of Health and Human Services and with the National Science Foundation. He has over 30 years of experience in the federal government and private sector.

SIGAR's Deputy Director of Special Projects

The Deputy Director of Special Projects has almost 9 years of GAO and other auditing experience. He previously served as the Deputy Assistant Inspector General for Audits & Inspections for SIGAR in Afghanistan, where he served for 3 years. He was also a Senior Program Manager and Senior Program Analyst with SIGAR's Audits Directorate.

Senior Investigative Counsel

The Senior Investigative Counsel assigned to the CNG matter has over 20 years of experience in the federal government, state government, and the private sector. Immediately prior to joining SIGAR, he led complex, nationally publicized investigations as an Assistant Attorney General with the New York State Attorney General's Office and as a Senior Investigative Counsel with the U.S. House of Representatives, Committee on Oversight and Government Reform. He served as an Assistant Counsel to the Governor of New York, clerked for a U.S. District Court judge, and served as a staff member of the U.S. Senate Committee on Banking, Housing and Urban Affairs, and on the personal staff of a former U.S. Senator. In the private sector, he worked at an international law firm and a financial services firm in Manhattan.

Senior Analyst

SIGAR's Senior Analyst on this matter has ten years of experience producing complex analytical products concerning U.S. national security policy. He has worked for the Office of the Under Secretary of Defense (Policy) Afghanistan Desk in the Pentagon; as a deployed analyst based in Mazar-i-Sharif, Afghanistan; as an analyst on the OSD Policy Security Cooperation Reform Task Force; and as an analyst supporting the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics International Cooperation Directorate. He is a graduate of the Paul H. Nitze School of Advanced International Studies at Johns Hopkins University.

11. Type of referencing used (partial or full):

The draft CNG report was fully indexed and fully referenced. The person who referenced it has 33 years of experience at GAO, where he most recently served as an Assistant Director. There were two phases of indexing and referencing. Please see attached drafts.

12. Versions of the draft report before and after referencing, including indexing and referencing comments: Please see attachments one and two.

13. Draft report with management/review signature: Please see attachment four.

14. Draft report that was sent to DOD for comment: Please see attachment three.

15. Reviewed and approved project management file: As noted above, the CNG report was not an audit and therefore not subject to GAGAS rules, so there is not a "project management file."

CHRYSLER PGM, STATE DEPT
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The Honorable John Sopko
Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

Your report issued October 22, 2015 titled, "DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-conceived \$43 Million Project" has captured media headlines and the attention of members of the Senate Armed Services Committee. The strongly worded title, the nature and tone of some of the findings and the methodology of the report have led this committee to take a particular interest in understanding the basis for its findings and conclusions.

This report is based on work conducted by your Office of Special Projects rather than the Audits or the Investigations directorates. We understand based on SIGAR's Agency Protocols that Special Project reports are not Audits, Inspections, or Investigations, and as such they are not conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) or the Council of Inspectors General on Integrity and Efficiency (CIGIE) standards.

In 2012 almost 90 percent of SIGAR's publicly issued products were reports conducted in accordance with GAGAS or CIGIE standards. This has dropped to just over 50 percent in fiscal year 2015; by contrast Special Project products represented more than 40 percent of SIGAR's publicly issued products.

Accordingly, we would like to know more about the purpose and scope of the Special Projects office and its publicly issued products in the context of SIGAR's mission, vision, and values for conducting its work in an independent and objective fashion.

Please provide a response to the following questions by December 4, 2015:

- Why and when did SIGAR establish the Office of Special Projects?
- What is the organizational structure and leadership of the Special Projects office, and any differences from the other SIGAR directorates that conduct work and publish reports in support of SIGAR's mission, vision, and values?
- How many staff have you had working in the Office of Special Projects (broken down by each fiscal year since it was established)?

- How do you determine whether to undertake work as an Audit, Investigation, Inspection, or Special Project?
- When you begin a Special Project and request information from an agency, do you advise the agency that the work is a Special Project versus an Audit, Inspection, or Investigation?
- Do you conduct your Special Projects work under standards other than GAGAS or CIGIE, and if so, what are those standards?
- Please provide a list of all Special Project reports (including Alerts) that were associated with a subsequently issued Audit, Inspection, or Investigation report (report titles and numbers).
- How do you assure the quality of the publicly issued reports associated with Special Projects?
- How have Special Project reports been incorporated into internal and/or external quality assurance reviews such as Peer Review?

In discussion with your staff on November 23, 2015, we understand that the report "DOD's Compressed Natural Gas Filling Station in Afghanistan: An Ill-conceived \$43 Million Project" went through a quality assurance process that included referencing.

- Please provide in detail, the quality assurance process that was followed, including, to the extent that such documentation exists:
 - Evidence of stakeholders or special expertise (for example, methodologist, economist, general counsel)
 - Type of referencing used (partial or full)
 - Versions of the draft report before and after referencing, including indexing and referencing comments
 - Draft report with management/review signature
 - Draft report that was sent to DOD for comment
 - Reviewed and approved project management file

If you have any questions, please contact Jennifer White at (202) 224-9348 or Bill Monahan at (202) 224-9353.


 Jack Reed
 Ranking Member

Sincerely,


 John McCain
 Chairman

1. In your response you note that 11 other inspectors general have “a special projects office or equivalent function.” Please provide the list referenced, including the name of the equivalent function if not a special projects office.

SIGAR conducted an informal survey of 19 inspectors general at major federal agencies and found that 11 of those inspectors general have a special projects office or equivalent function. SIGAR also reviewed a number of publicly available reports issued by those offices and found that seven of the 11 offices did not include statements in their products indicating the standards (GAGAS or CIGIE) followed by the offices in the conduct of their work. Table 1 identifies the 11 inspectors general with a special projects office or equivalent function as well as whether the reports are publicly available and were identified as having been completed in accordance with GAGAS or CIGIE standards.

Table 1: Inspectors General with a Special Projects office or equivalent function

Inspector General	Description of special projects function	Public Reports*	GAGAS or CIGIE Statement in Public Reports*
State	Has an Office of Evaluations and Special Projects	Yes	No
GSA	Has a special projects function	Yes	Not in all cases
FHFA	Has an Office of Compliance and Special Projects	Yes	Yes
SEC	Has an Office of Program Administration and Special Projects	Yes	Not in all cases
VA	Does not have a unit solely for special projects but occasionally the units (Investigations, Audits and Evaluations, and Healthcare Inspections) will partner together for joint reports when an allegation or issue is cross-cutting. These units also regularly perform "assists" for one another as needed.	Yes	Not in all cases
NRO	Has an Office of Special Projects	No	N/A
HHS	Does not have an office of special projects but has an Office of Evaluation and Inspections that does similar work on an as-needed basis	Yes	Not in all cases
HUD	Has an Office of Evaluations that does similar work	Yes	Not in all cases
SSA	Does not have an office of special projects but performs a special project function within their Office of Audit and	Yes	Yes

	issues fast track reports on emerging issues when needed		
DOD	Office of Special Plans and Operations does I&E work and Technical Assessment Division provides experts to support audits and other evaluations	Yes	Yes
EPA	Has an office of Special Reviews within Office of Program Evaluation	Yes	Not in all cases**

*Based on our cursory review of a number of readily accessible products on agency websites. Additionally, in some cases, it was not possible to identify the discrete office within the inspector general that completed the product. In such cases, we reviewed a number of all publicly available products, rather than solely those issued by the equivalent office.

**Includes cases where there was a statement that the product did not adhere to GAGAS or CIGIE requirements.

In addition, to the 11 inspectors general described above, the National Archives Office of Inspector General stated that it is working to establish an office of special projects and the Inspector General of the Smithsonian Institute stated that its General Counsel addresses projects outside of the normal audit function.

For specific information pertaining to the policies, procedures, and standards used by the 11 other inspectors general we identified with a special projects office or equivalent function, please contact CIGIE or the inspectors general offices directly.

2. Please provide the data and explain the methodology used (i.e. the specific products counted) to calculate the following numbers in the letter:

a. 2012 – 70% of SIGAR products conducted in accordance with GAGAS and CIGIE standards

In FY2012, SIGAR issued 20 products. Fourteen of those products (or 70%) met GAGAS and/or CIGIE standards.

b. 2015 – 73% of SIGAR products conducted in accordance with GAGAS and CIGIE standards

In FY2015, SIGAR issued 64 products, not including inquiry letters. Inquiry letters are a request for information and as such are not subject to GAGAS or CIGIE standards. Forty-seven of the 64 products (or 73%) SIGAR issued were GAGAS and/or CIGIE compliant.

c. 2015 – Special Projects reports and Alert Letters accounted for less than 11% of all SIGAR products.

Of the 64 products, excluding inquiry letters, issued in FY2015, the Office of Special Projects issued 7 reviews and alert letters. These reviews and alert letters account for 11% of SIGAR products.

If inquiry letters are added to the total number of SIGAR products produced in FY2015, the total increases from 64 to 89. Of the 89 products issued, 42 were not GAGAS and/or CIGIE compliant. Thirty-one of the 42 products were issued by the Office of Special Projects products. As such, 35% of all products issued in FY2015 were from the Office of Special Projects (31 out of 89 is equal to 35%).

3. Offices of Inspectors General are required to establish and maintain a quality assurance program to ensure that work performed adheres to established policies and procedures, and meets established standards of performance, including applicable professional standards. All products issued by Offices of Inspectors General are required to comply with applicable professional standards and conform with OIG policies and procedures, and be adequately supported.

a. In the response to question 2, you indicate the “Special Projects reports are subject to a rigorous fact checking process through a GAGAS-style full indexing and referencing...” Please explain what is meant by the term GAGAS-style.

SIGAR’s Office of Special Projects, like the rest of SIGAR, conducts its work in accordance with the principles outlined in GAGAS §1.04, which states that the professional standards and guidance established by GAO are meant to, “provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence.” To that end, the Office of Special Projects ensures that key findings, facts, and figures are supported by sufficient and appropriate evidence that includes indexing and referencing. The process used requires an experienced analyst, who is independent of the work, to verify that statements of facts, figures, and dates are reported correctly. This process is what we mean by “GAGAS-style.”

b. Please provide us with any and all policies, procedures, and quality standards for quality assurance for conducting Special Projects work and the associated products that you publicly issue (e.g. inquiry letters, alert letters, and reports).

SIGAR’s Agency Protocols are publicly available at www.sigar.mil. As stated in Q3(a) and below in Q3(c), SIGAR’s Office of Special Projects follows a quality control process that includes indexing and referencing and Special Projects staff are highly qualified and have the technical knowledge required to perform their duties. As part of the quality control process, an independent, senior auditor with over 30 years of federal auditing experience at GAO, provided referencing for the CNG report. Furthermore, the approval process for an Office of Special Projects product includes a review by the Office of General Counsel, the Deputy Inspector General, and the Inspector General. In light of the Committee’s concerns and questions, we are reviewing our agency protocols and quality control procedures for the Office of Special Projects to identify any areas for possible improvement and clarification.

c. With respect to “GAGAS-style” quality assurance, one aspect of GAGAS is having and maintaining qualifications of personnel to conduct work in accordance with GAGAS. Do Special Projects staff have and maintain qualifications like this?

The professional standards established by GAO in the 2011 revision of the Yellow Book (GAGAS requirements) apply specifically to auditors, analysts, practitioners, evaluators, inspectors, or other similar titles (§1.07a) responsible for conducting financial audits, attestation engagements, or performance audits. As clearly stated in our publicly available agency protocols, the Office of Special Projects staff do not perform financial audits, attestation engagements, or performance audits and thus are not subject to any specific GAGAS requirements, including those related to continuing professional education. However, SIGAR management ensures that *all* SIGAR staff are highly qualified, competent, free from any conflicts of interest, and have the technical knowledge required to perform assigned duties. Special Projects staff have extensive and diverse experience in the private sector and at federal agencies, including the Department of Defense, Department of State, USAID, Department of Health and Human Services, National Science Foundation, and GAO. Moreover, nearly all hold advanced degrees in relevant fields, including public administration, business administration, international relations, and law.

4. As an IG, under what authority are you publicly issuing products that are not audits, investigations, inspections or evaluations? Please cite the specific authority and your rationale for how the authority enables you to issue a subset of products not subject to published professional standards?

The Inspector General Act of 1978 (“IG Act”) and section 1229 of Pub. L. No. 110-181 (“section 1229”) authorize SIGAR to issue products that are not audits, investigations, inspections, or evaluations. Special projects products are made available to the public as required by section 8M of the IG Act.

Section 1229(g)(1) provides SIGAR with “the authorities provided in section 6 of the Inspector General Act of 1978, including the authorities under subsection (e) of such section.” Section 6(a)(2) of the IG Act authorizes Inspectors General to “make such investigations and reports relating to the administration of programs and operations of the applicable establishment as are, *in the judgment of the Inspector General*, necessary or desirable” (emphasis added). SIGAR’s authority to issue special projects products derives from its authority to issue reports “as are, in the judgment of the Inspector General, to be necessary or desirable.” In the judgment of the Inspector General, in addition to audits, investigations, inspections, and evaluations, special projects products are a desirable way of keeping agencies and Congress fully and currently informed.

Similarly, section 1229(f)(3) provides SIGAR with the “duties and responsibilities of inspectors general under the Inspector General Act of 1978.” Section 4(a)(5) of the IG Act states that

Inspectors General have a duty “to keep the head of such establishment and the Congress fully and currently informed, by means of the reports required by section 5 *and otherwise*, concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by such establishment” (emphasis added). The general phrase “and otherwise” establishes a discretionary authority to determine additional ways to keep agencies and Congress fully and currently informed. As noted in our December 4th response to the Committee, SIGAR created its Office of Special Projects in response to concerns expressed across government about the need for timely, actionable oversight reporting concerning Afghanistan reconstruction.

Although sections 6 and 4 of the IG Act, as referenced in section 1229 of Pub. L. No. 110-181, each provide SIGAR with sufficient authority to issue products that are not audits, investigations, inspections, or evaluations, section 1229 contains some additional relevant authorities. For example, section 1229(f)(2), titled “Other Duties Related to Oversight,” states that the “Inspector General shall establish, maintain, and oversee such systems, procedures, and controls *as the Inspector General considers appropriate* to discharge the duties under paragraph (1)” (emphasis added). Section 1229(f)(2) provides SIGAR with the discretionary authority to determine the procedures that it “considers appropriate” to discharge its duties under paragraph (f)(1). Among other things, paragraph (f)(1) authorizes SIGAR to monitor and review Afghanistan reconstruction activities. As noted in our December 4th response to the Committee, work conducted by the Office of Special Projects has contributed significantly to SIGAR’s audit and investigative work.

Additionally, section 1229(a)(3) states that one of the purposes of SIGAR is to “provide for an independent and objective means of keeping the Secretary of State and the Secretary of Defense fully and currently informed about problems and deficiencies related to the administration of such programs and operations and the necessity for and progress on corrective action.” The Office of Special Projects helps fulfill this purpose by enabling SIGAR to expeditiously notify the departments and Congress of emerging issues related to Afghanistan reconstruction, in a manner not traditionally covered by audits, inspections, and other reports. Finally, section 1229(i) requires that SIGAR produce quarterly reports on the activities of the Inspector General during each fiscal-year quarter.

As noted in our December 4th response to the Committee, special projects products are not audits and are, therefore, not subject to GAGAS. However, as noted elsewhere in this response, the Office of Special Projects conducts its work in accordance with the principles outlined in GAGAS §1.04, which state that the professional standards and guidance established by GAO are meant to, “provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence.” To that end, the Office of Special Projects ensures that facts and figures are supported by sufficient and appropriate evidence that includes indexing and referencing. Moreover, Special Projects staff are bound by the Standards of Ethical Conduct for Employees of the Executive Branch, including those provisions related to conflicts of interest.

5. What drives the “urgent timeframes” referred to in your response to question 6?

As mentioned in our December 4th response to the Committee, IG Sopko created the Office of Special Projects, in part, to respond to specific feedback he received from members of Congress, congressional staff, current and former ambassadors, other senior government officials, and senior military commanders in the field, for timely and actionable reports that would assist them in evaluating and making policy.

There are several instances where the Office of Special Projects reviewed an issue that required an urgent and timely response, such as an immediate threat to life, health, safety, and security. A few examples include the following:

- In October 2012, the Office of Special Projects issued a safety alert letter informing DOD of a preliminary investigation, which found that Afghan contractors either had failed to properly install culvert denial systems or did not install them at all. Culvert denial systems are protective gratings covering culvert openings to prevent insurgents from concealing improvised explosive devices (IEDs) under roadways and embankments. Because of this fraud, U.S. service members were killed by IEDs placed in unprotected culverts. DOD used SIGAR’s safety alert letter to take immediate steps to protect U.S. service members from additional IED attacks.
- In April 2013, SIGAR raised safety concerns regarding substandard spray polyurethane foam insulation systems used in arch-span type facilities the U.S. Army Corps of Engineers (USACE) constructed for the Afghan National Army (ANA). SIGAR’s Office of Special Projects found that the fires that destroyed two buildings under construction had insulation systems which did not comply with International Building Code (IBC) standards. USACE responded to SIGAR stating that the agency would stop installing noncompliant systems and would identify corrective measures to ensure compliance with IBC standards in both completed and future construction. This initial alert led to a more comprehensive review which found that 1,600 of the nearly 2,000 buildings constructed in the \$1.57 billion program did not meet IBC standards. SIGAR concluded that it was imperative for immediate action to be taken to bring all the buildings into compliance with safety standards or to show what action will be taken to remedy the dangerous conditions; notify the ANA about the hazardous buildings; rescind a January 2014 memorandum authorizing the use of noncompliant materials in 285 buildings in various stages of construction for the ANA; and review the internal procedures that led USACE to adopt contract requirements it was unable to enforce.
- Since May 2014, the Office of Special Projects has been engaged in an effort to analyze and confirm data maintained by USAID and the Afghan Ministry of Public Health related to the actual location and operational condition of health care facilities supported by USAID. Those efforts identified serious deficiencies in those data and have led to a series of Special Project inquiries and alerts. The importance of accurate locational data of U.S.-supported health facilities cannot be overstated. Accurate data is critical to ensuring that intended health services are reaching the people who need them. In

addition, the recent destruction of the Doctors Without Borders hospital in a battle with the Taliban in Kunduz underscores the importance of having accurate GPS coordinates for healthcare facilities. SIGAR's most recent product in this area (to be published January 11, 2016) found that USAID's GPS data for 10 of 32 USAID-supported health facilities in Kabul province were more than a kilometer away from the actual location of the facility. The SIGAR Office of Special Projects provided the actual coordinates for those facilities (in a non-publicly released annex to the alert) and encouraged USAID to confirm and update its records and share that information with the Afghan government and the World Bank.

6. Please provide the full list of open and ongoing audits that are referred to in your response to question 7.

Open and ongoing audits and inspections initiated in part from the work of Special Projects include:

- SIGAR 102A, Afghanistan Infrastructure Fund follow-up
- SIGAR 107A, U.S. Government efforts to sustain Afghanistan's road infrastructure
- SIGAR 110A, Effectiveness of the Commander's Emergency Response Program in Afghanistan
- SIGAR 024I, Sheberghan Teacher Training Facility follow-up

7. Based on the documentation you provided (Attachments 1-4), the CNG report underwent a significant revision after it was "fully indexed and referenced" (Attachment 2). Changes were made to both descriptors in specific statements and to major findings sections – our analysis, based on our understanding from your response that Attachment 2 is the full indexed and referenced report, found that up to 55 statements in the final report were not in the fully referenced version. Based on your statement that after the report was fully indexed and referenced by SIGAR's quality control staff it was "reviewed by the General Counsel, the Deputy Inspector General, and the Inspector General," we can only conclude that those significant changes were made or directed by one or more of these individuals. To help us understand the timeline of events with the draft report between Attachment 2 cleared on July 30, 2015, and Attachment 3 sent to DOD on September 24, 2015, please provide the following:

- a. All versions of the draft report as it was edited between Attachments 2 and 3, with indexing, tracked changes and referencing**
- b. The name(s) of the individual(s) who made or directed the specific changes made between Attachments 2 and 3**

As requested earlier, we provided the Committee with a copy of the fully referenced and indexed draft of the CNG report, including all of the comments and notations made by the

reviewers, the draft sent to agency for comment, and a copy of the final draft. As we explained at our meeting on December 16th, editorial changes were made to the draft prior to it being finalized. If you compare the final draft with the referenced draft, you can see where those changes were made.

In fact, your question asserts that “up to 55 statements in the final report were not in the fully referenced version.” At our December 16 meeting, we requested a copy of the 55 statements, but you declined to provide it. When asked for examples of any “significant changes,” you did not provide any instances where key findings, facts, or figures changed, but rather instances of stylistic changes. Such stylistic edits are our prerogative as an independent inspector general and are commonplace, even in GAGAS products. They do not require re-referencing. Nevertheless, if you will provide us with a copy of your comparison of the 55 statements, we will be happy to review our drafts to better respond to this question.

Furthermore, we specifically asked you and the other staff present at the December 16th meeting whether you were aware of any factual inaccuracies in our final report, and you indicated that there were not. As we explained at the meeting, we would be happy to correct any factual inaccuracies in the report, but at this point neither DOD, you, nor anyone else has shown that any of the facts, figures, data, or statements are incorrect. If you believe the CNG report contains factual errors, please identify those items you believe are incorrect and we will promptly respond.

SIGAR was intended by Congress to be independent and is legally obligated to protect its independence. It is entirely within the discretion of an inspector general to make editorial changes in reports, letters, and any other products that the inspector general might issue.

The CNG report, as with all SIGAR products, was issued by the agency, not by an individual. As such, SIGAR does not, and has not, provided copies of internal drafts to external entities. We do this to protect the agency’s deliberative process and individual staff, as well as to ensure their candor and the free-flow of ideas.

8. In your response to question 15, you indicate that because the CNG report was not an audit and not subject to GAGAS, there is not a project management file that you can provide. Please provide whatever routing package or process that you used to manage the review and approval of this product. Also, along with the fully referenced final draft that we are requesting in question 7 above, please provide the underlying documentation/sources that were used to support your final referencing draft.

As stated above and explained in meetings with you, the process SIGAR uses to produce *all* products includes the review and approval of the Office of General Counsel, the Deputy Inspector General, and the Inspector General.

In our December 4th response to the Committee, we provided copies of key documents, including the Vestige Consulting economic impact assessment, the Boston Consulting Group's

TFBSO Operations Playbook, and TFBSO Summary Report documents. These and the remaining documents on which the report relies are cited in the final report.

Given the sensitive nature of SIGAR's work, our status as an independent inspector general, our statutory obligation to protect whistleblowers, and the fact that we have opened a number of criminal investigations related to TFBSO, it would not be appropriate to disseminate internal work papers outside of the agency at this time. For example, providing the Committee with interview notes may violate the confidentiality and privacy of the interviewee, and disclose investigative sources. However, if you identify documents cited in the CNG report that it is unable to acquire from public sources or DOD, we are committed to determining the best way to share appropriate information and documentation, while safeguarding our independence and the integrity of our processes.

APPENDIX B

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22304-1500

AUG 26 2014

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (SPECIAL OPERATIONS
& LOW INTENSITY CONFLICT)

SUBJECT: Request for Audit of the Task Force for Business and Stability Operations (TFBSO)

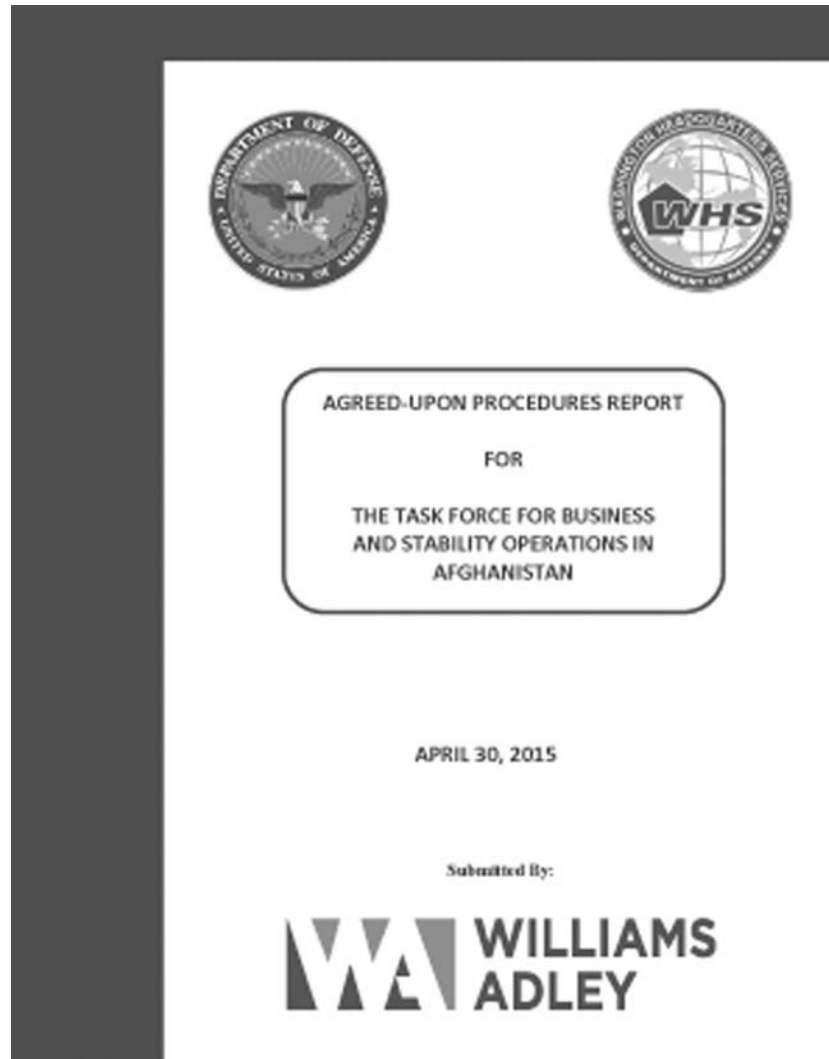
Thank you for your letter of April 7, 2014 requesting the Office of the Inspector General conduct an overarching audit of TFBSO operations, financial actions, and contracts. We appreciate your request and agree that an audit would provide value to the Department as the task force phases out. However, we do not have resources available to meet your request.

Given the size and complexity of the Department, we must focus our efforts on those projects with the greatest potential return on investment. Over the next year, our resources are committed to performing audits that are required by statute, and to audits that focus on the most serious management and performance challenges facing the Department.

I regret that we could not be of service to you at this time. If you have further questions, please call Mr. Daniel Blair, Deputy Inspector General for Auditing, on (703) 604-8900.


John F. Rymer

APPENDIX C



WASHINGTON HEADQUARTERS SERVICES
 AGREED-UPON PROCEDURES REPORT
 THE TASK FORCE FOR BUSINESS AND
 STABILITY OPERATIONS IN AFGHANISTAN

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**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Washington Headquarters Services
The Task Force for Business and Stability Operations in Afghanistan

INTRODUCTION

In 2010, The Task Force for Business and Stability Operations (TFBSO) began operations in Afghanistan aimed at creating economic opportunities for people in order to increase stability, reduce violence, and restore economic normalcy in areas suffering from unrest and insurgency. The TFBSO was funded with Overseas Contingency Operations (OCO) funding by the Department of Defense (DoD), US Army Central (ARCENT). WHS received funding from ARCENT, on a reimbursable basis, for TFBSO operations. WHS also operated as a fund certifier and financial service provider for the task force. Williams Adley applied certain agreed-upon procedures to the financial and other records of The Task Force for Business and Stability Operations in Afghanistan (TFBSO) for the period August 1, 2011 through December 31, 2014 pertaining to funds received, accounts payable, open travel encumbrances, and payroll encumbrances due and payable at the cessation of operations.

The procedures, which were agreed to by the Washington Headquarters Services (WHS), Financial Management Division (FMD), were performed solely to assist WHS's management in determining whether TFBSO transactions were supported by proper documentation and compliant with the legislative and fiscal guidelines set forth by the Department of Defense Financial Management Regulations (FMR) for each area reviewed.

Because the procedures did not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the TFBSO's financial information, nor do we express any form of assurance on (1) the TFBSO's or WHS's overall compliance with laws, federal regulations or DoD policies and procedures, or (2) the overall effectiveness with which the TFBSO carried out its mission. Had we performed additional procedures or conducted an audit in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.

OBJECTIVES

In accordance with the agreed-upon procedures approved by WHS, the objectives of this engagement were to review supporting documentation to reconcile and validate balances for transactions selected. We were further required to verify whether TFBSO was compliant with legislative and fiscal guidelines by ensuring that TFBSO financial transactions were conducted in accordance with the National Defense Authorization Acts for FY 2011 through FY 2014 and with DoD fiscal guidance and applicable directives, regulations, and applicable policy memoranda.

The specific objectives were to determine:

- if TFBSO complied with the fiscal and legislative guidelines;
- that funds received were adequately supported by documentation as required by fiscal and DoD guidelines;
- that accounts payable were valid and adequately supported;
- that TFBSO payroll encumbrances due at cessation of operations were valid and supported by adequate documentation;
- that TFBSO outstanding travel encumbrances were valid, properly supported and compliant with applicable guidelines.

SCOPE AND METHODOLOGY

We applied the agreed-upon procedures to TFBSO financial and other records for the period August 1, 2011 through December 31, 2014. Generally, the procedures consisted of (1) interviewing and observing WHS and TFBSO personnel, (2) inspecting and substantiating, on a test basis, documentation supporting funds received, accounts payable, payroll encumbrances and open travel encumbrances, and (3) re-performing certain procedures and calculations. We performed tests of TFBSO compliance with certain provisions of laws, federal regulations, and DoD policies and procedures. We selected test samples using a judgmental approach with bias for larger dollar transactions.

Our agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Generally Accepted Government Auditing Standards. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Section 2 for the purpose for which this report has been requested or for any other purpose.

SUMMARY OF RESULTS

- **Funds Received:** Based on the information provided, WHS received \$539,540,899 of reimbursable funding from ARCENT for TFBSO operations during the period August 1, 2011 through December 31, 2014. We requested supporting documentation for all reimbursable funds received and prepared a schedule to reconcile, validate and verify that funds were processed in accordance with federal and legislative guidelines. We reviewed all pertaining funding documentation and were able to properly reconcile and validate \$539,540,899 of reimbursable funding received during the period under review for TFBSO's mission. However, we noted errors in the completion of six out of 60 funding documents reviewed.
- **Accounts Payable:** We obtained a population of unliquidated accounts payable totaling \$150,365,066 as of January 21, 2015 and selected a sample of 45 transactions totaling \$87,404,573. For each transaction selected, we requested the funding documentation, a complete DD Form 250 or another applicable receiving report, and the applicable invoice in

order to validate and reconcile the remaining payable amount. We obtained and reviewed the detailed general ledger transactions for each sample selected but we were unable to verify invoices or receiving reports for transactions selected. As a DoD entity, WHS's payables are processed through the Wide Area Workflow (WAWF), a system external to WHS. As a customer to this system, WHS properly relies on the controls surrounding WAWF's matching and payables validation process, which include the electronic housing of required invoices and receiving reports. Liquidations are interfaced directly into WHS's financial system (GL). Given WHS's reliance on WAWF and its 3-way match process, we utilized the funding document and the general ledger detail in order to calculate the accuracy of the unliquidated payable balance. By back tracking the liquidations to the original funding documents, we were able to reconcile the payables balances to the general ledger for 39 out of 45 transactions selected. We were unable to verify six transactions totaling \$5,532,590 due to unavailable funding documentation.

- **Payroll Encumbrances Due and Payable:** We requested and obtained the payroll reconciliation and cost transfer documentation for TFBSO's pay periods 03, 04 and 08 of FY 2015 to reconcile and validate open payroll encumbrances due at cessation of TFBSO operations. We re-performed the reconciliation for each pay period and verified that the costs transferred agreed with what was paid out by the Defense Civilian Personnel System (DCPS). Through our review, we noted that the reconciliation for PP04 was not correct and the amount transferred was understated by \$5,482. This error was communicated to WHS payroll personnel and it was corrected during field work.
- **Open Travel Encumbrances:** We obtained a population of all open and unliquidated travel encumbrances totaling \$610,746 and selected a sample of 45 transactions totaling \$214,888 to reconcile and validate the unliquidated amounts. TFBSO's travel is processed via the Defense Travel System (DTS), a DoD department-wide travel system used outside of WHS. Although the financial transactions are interfaced into WHS's financial system, EBAS-D, the supporting documentation resides within DTS. As a DoD entity, WHS relies on the DTS system controls for processing travel encumbrances and liquidations. Although an acceptable practice, the DoD FMR Vol. 9 Ch.8 identifies the certifying officers as responsible for the accuracy and validity of travel transactions. WHS was able to provide supporting documentation for two transactions amounting to \$1,131. However, due to time constraints, and other challenges, WHS was unable to provide supporting documentation for 43 of the 45 travel transactions totaling \$213,757. As such, we were unable to reconcile and validate the sample of unliquidated travel encumbrances due to unavailable supporting documentation.

Detailed testing procedures and results obtained for each of the focus areas are documented in Section 2 of this report.

VIEWS OF RESPONSIBLE OFFICIALS

We provided the WHS management with a draft of this report for their review and comments. Relevant verifiable information provided by WHS during the exit conference has been incorporated into this report, however, WHS did not provide formal written response for inclusion in this report.

LIMITATIONS AND RESTRICTIONS

The results of our procedures are limited to the period August 1, 2011 through December 31, 2014. We began performing our procedures on February 6, 2015, and we completed our procedures and conveyed our findings to WHS management on April 23, 2015. Accordingly, we accept no responsibility to update this report for events and transactions occurring after April 23, 2015. This report relates only to matters referred to herein and does not extend to any financial or performance reports pertaining to TFBSO or WHS taken as a whole.

This report is intended solely for the use of WHS and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Williams, Arley & Company, DC, LLP

Washington, DC
April 23, 2015

WASHINGTON HEADQUARTERS SERVICES

**AGREED-UPON PROCEDURES REPORT
THE TASK FORCE FOR BUSINESS AND
STABILITY OPERATIONS IN AFGHANISTAN**

SECTION 2

AGREED-UPON PROCEDURES AND RESULTS

A. Test Procedures for Funds Received

Our test procedures were to:

1. Obtain WHS approved policies and procedures.
2. Prepare and document a process walkthrough of the types of reimbursable activity at TFBSO. Determine how funding requirement numbers were calculated and obtain and record the names of document(s) and system(s) used to complete the receivable process. Document our understanding of the accounts receivable process in a summary work paper and conclude about the reasonability of WHS policies and procedures.
3. Obtain documentation of all funds received from August 1, 2011 through December 31, 2014, including at a minimum: Military Interdepartmental Purchase Request (MIPR) number, amount, and date.
4. Prepare a schedule of funds received and review supporting documentation to substantiate balances by performing the following procedures:
 - i. Verify that the DD Form 448 (MIPR) Funding Document contains the following:
 - a. Statutory/Funding authority clearly stated
 - b. MIPR number plus Basic or Amendment number
 - c. Appropriation and line of accounting
 - d. Requesting Agency Name and Address
 - e. Budget Point of Contact name, phone number and email
 - f. Must be marked as reimbursable (Category I), Cannot be Direct Site (Category II)
 - g. Funding Amount
 - h. Period of Performance – Required in agreement with the Defense Federal Acquisition Regulation Supplemental (DFARS) 253.208-1: The MIPR must include a realistic (estimated) time of delivery/performance. If the period of performance is uncertain, verbiage such as “Date of award plus 12 months” is recommended.

- i. Signature and date signed
 - j. Accounting Station Number
 - k. Purpose of funding (Bona Fide Need – may be contained in Part B). Is Bona-Fide need clearly documented on the funding document in the fiscal year in which funding is issued?
5. Determine if a DD Form 448-2, Acceptance MIPR, was completed properly in accordance with the requirements established in DFARS 253.208-2 DD Form 448-2 as prescribed in Subpart 208.70.

RESULTS

Based on the information provided, WHS received \$539,540,899 of reimbursable funding from ARCENT for TFBSO operations during the period August 1, 2011 through December 31, 2014. We requested supporting documentation for all reimbursable funds received and prepared a schedule to reconcile, validate and verify that funds were processed in accordance with federal and legislative guidelines. We were able to properly reconcile and validate \$539,540,899 of reimbursable funding received; however, we noted errors in the completion of six of the funding documents reviewed.

Condition: Six DD Form 448-2s were inaccurately completed as specified by regulation. The exceptions noted are listed in Table 1.

Table 1 – Inaccurately Completed Funding Documents

MIPR No.	Amount	Exceptions Noted
MIPR2A38CT0002 AMD6	\$11,905,964	The DD 448-2 lists the amount in box 5 as \$107,615,964 which is incorrect. The correct amount that should have been noted was \$11,905,964.
MIPR1H38CT0025 AMD2	\$3,500,000	The DD 448-2 was incorrectly completed. The amendment number on column A noted the document as AMD01 instead of AMD02.
MIPR2A38AA0001 AMD6	\$41,600,000	The DD 448-2 lists the amount in box 5 as \$116,000,000 which is the total amount that has already been accepted plus the new amount being added in amendment 6. The correct amount for AMD6 should have been noted as \$41,600,000.
10251351 AMD4	\$11,100,000	On the MIPR in Box 6, Amend No, it says 3. However, the description and totals contain amendment 4.
MIPR 0010423966 AMD4	\$7,500,000	The DD 448-2 is dated 12/24/13 and was signed on 12/27/13. However, the electronic signature is time stamped as 2/27/14.
MIPR 0010423966 AMD7	(\$5,200,000)	The itemized list of amendments in the DD 448-2 is labeled incorrectly. The itemized list notes 6 amendments instead of 7. Consequently the entire listing of amendments and related amounts were inaccurately documented.

Criteria: *Defense Federal Acquisition Regulation Supplement 253.208-2 DD Form 448-2, Acceptance of MIPR*, provides instructions on the accurate completion of DD Form 448-2 and requires accepting entities to properly and accurately complete a DD Form 448-2 for all MIPR amendments involving an adjustment of funds or delivery schedule, or if requested by the requiring department.

Effect: Inaccurate completion of funding documentation may lead to errors in proper recording of funds received in the financial system.

Recommendation: WHS should implement a more effective review and approval process for the completion of DD Form 448-2 to reduce the risk of error and inaccurate documentation.

B. Test Procedures for Accounts Payable

Our test procedures were to:

1. Meet with WHS and TFBSO personnel and obtain and review the Accounts Payable policies and procedures, including validation, authorization and financial recording.
2. Obtain the recipient's listing of accounts payable transactions.
3. Select a judgmental sample of non-payroll or travel transactions based on the selection methodology described in the sampling plan and request supporting documentation.
4. Determine the following for accounts payable transactions using the sample selected:
 - a. Were payables supported by adequate funding documentation as required by the DoD FMR Vol. 4 Ch. 9 and other applicable regulation (MIPR, IAA, or MOD)?
 - b. Did the TFBSO responsible personnel properly complete a DD Form 250, or another type of receiving report, to denote proper acceptance of goods/services?
 - c. Did the vendor provide an adequate invoice that included date, specific quantities for goods and/or services rendered, amount owed, and terms of payment?
 - d. Were payables for allowable costs in agreement with the obligating document (MIPR, IAA or other binding agreement)?
 - e. Is the payable amount within the funding limits established by the obligating document (i.e. did entity verify that sufficient funds are available to cover payable amount)?
5. For the sample selected, determine if the final invoice has been received and whether the remaining unliquidated balance should be de-obligated for Task Force close out.

RESULTS

We obtained a population of unliquidated accounts payable totaling \$150,365,066 as of January 21, 2015 and selected a sample of 45 transactions totaling \$87,404,573. For each transaction

selected, we requested the funding documentation, a complete DD Form 250 or another applicable receiving report, and the applicable invoice in order to validate and reconcile the remaining payable amount. We obtained and reviewed the detailed general ledger transactions for each sample selected but we were unable to verify invoices or receiving reports for transactions selected. As a DoD entity, WHS's payables are processed through the Wide Area Workflow (WAWF), a system external to WHS. As a customer to this system, WHS properly relies on the controls surrounding WAWF's matching and payables validation process, which include the electronic housing of required invoices and receiving reports. Liquidations are interfaced directly into WHS's financial system (GL). Given WHS's reliance on WAWF and its 3 way match process, we utilized the funding document and the general ledger detail in order to calculate the accuracy of the unliquidated payable balance. By back tracking the liquidations to the original funding documents, we were able to reconcile the remaining payables balances to the general ledger for 39 out of 45 transactions selected. We were unable to verify six transactions totaling \$5,532,590, due to unavailable funding documentation.

Condition: We were unable to substantiate proper funding documentation for 6 out of 45 sampled accounts payable transactions totaling \$5,532,590. Funding documentation was not provided for the transactions noted below in Table 2.

Table 2 – Accounts Payable - Missing Funding Documentation

Total Obligation	Expense	Unliquidated Amount	Document Number
\$5,797,266	\$5,482,983	\$314,282	DHAC20003
\$4,204,548	\$3,737,376	\$467,172	DHAC40151
\$3,652,249	\$2,834,776	\$817,473	DHAC20003
\$3,508,717	\$-	\$3,508,717	DHAC30388
\$403,000	\$-	\$403,000	DHAC30285
\$208,050	\$-	\$21,944	DHAC30058

Criteria: *FMR Volume 4, Chapter 9, Section 090201* specifies that amounts recorded as accounts payable must be supported by documentation that clearly shows the basis for the amount recorded as a payable (e.g., purchase order or contract, and proof of receipt), and the terms upon which payment is to be made.

Additionally, the DoD FMR clarifies that the basis for recording accounts payable must be a receiving report that clearly shows the quantities and dates goods and property were received and accepted, or services were satisfactorily performed and accepted. As defined by Federal Acquisition Regulation (FAR) 2.101, a receiving report is written evidence that indicates Government acceptance of supplies delivered or services satisfactorily performed.

FMR Volume 4, Chapter 9 Section 090202 requires DoD entities to have all documentation readily available for review by procurement personnel, auditors, and DoD Component's financial management personnel.

Cause: Prior to 2012, WHS used a different accounting system from which data was migrated into EBAS-D. After this migration to EBAS-D, WHS has been challenged to find support, such as funding documents, for some transactions because there is no way to effectively search the system for specific documents. Further, WHS indicates that there is no effective way to search for supporting documentation in the system without having to examine each individual document attached to a transaction.

Effect: We are unable to validate the accounts payable for six transactions totaling \$5,532,590, per WHS records. For these six transactions, we were unable to determine if they were specified as reimbursable.

Recommendation: We recommend that WHS implement a process to properly maintain all supporting documentation for each transaction in order to be able to adequately support amounts in its financial system. Additionally, as a fund certifying service provider, WHS should require and ensure that their customers, such as TFBSO, submit electronic documentation to support all financial activity to be processed through WHS's system. WHS should also develop and implement policies and procedures to ensure that the required supporting documentation is maintained effectively, is readily accessible, and complete.

C. Test Procedures for Payroll Encumbrances

Our test procedures were to:

1. Through inquiry and review of policies and procedures, document our understanding of TFBSO personnel and payroll processes including hiring and termination procedures, time and attendance, reporting and authorization.
2. Obtain and review the listing of personnel assigned to the TFBSO. Select the last two processed pay periods and the upcoming payroll period for testing and perform the following steps:
 - a. Verify the Defense Civilian Pay System (DCPS) payroll reconciliation by re-performing the reconciliation for each pay period selected and documenting any differences noted.
 - b. Verify that the reconciliation was reviewed and approved prior to processing of the cost transfer.
 - c. Obtain TFBSO cost transfer supporting documentation for the payroll periods under review and agree the payroll reconciliation amount to the value in the cost transfer supporting documentation.
 - d. Confirm that the amount generated by DCPS for TFBSO personnel agrees to the amount recorded in EBAS-D for the pay period under review.

- e. Determine if the cost transfer was processed in a timely manner as specified by regulation.

RESULTS

We obtained the payroll reconciliation and cost transfer documentation for TFBSO's pay periods 03, 04 and 08 for FY 2015 to reconcile and validate open payroll encumbrances due at cessation of TFBSO operations. We re-performed the reconciliation for each pay period and verified that the costs transferred agreed with what was paid out by the DCPS. We noted that the reconciliation for PP04 was not correct and the amount transferred was understated by \$5,482. This error was communicated to WHS payroll personnel and corrected during field work.

Condition: The TFBSO payroll reconciliation for FY15 PP04 was not properly completed and cost transferred for this pay period was understated by \$5,482. The error was corrected during our field work. We obtained a screen shot of the system and verified that the amount was correctly posted to PP04.

Criteria: *WHS Standard Operating Procedures (SOP) for Overseas Contingency Operations (OCO)/Civilian Expeditionary Workforce (CEW) Cost Transfer Process* requires that payroll costs be aligned to their unique organizational responsibility code (ORC) to capture costs and ensure that a detailed cost listing is provided to include employee names, ORC, object class codes, pay description, hours, and payroll costs for relevant pay period ending (PPE) date for each pay period (PP).

Cause: During pay period 04, one employee was paid for hazard pay for FY 2013 and FY 2014. WHS erroneously excluded this amount from the PP04 cost transfer for TFBSO personnel.

Effect: The TFBSO payroll amount transferred for FY15 pay period 04 did not agree to the amount paid through the DCPS by \$5,482. TFBSO had a remaining outstanding amount to reimburse WHS for. The error was corrected during our field work.

Recommendation: WHS should ensure that payroll reconciliations are accurately completed and that management thoroughly reviews amounts paid out by DCPS versus costs to be transferred by ORC. A comprehensive review will help mitigate any inadvertent exclusion of amounts to be transferred.

D. Test Procedures for Open Travel Encumbrances

Our test procedures were to:

1. Through inquiry and review of policies and procedures, obtain and document our understanding of TFBSO process for processing travel requests and liquidations. Interview TFBSO and WHS personnel and document our understanding in a summary work paper.
2. Obtain a complete listing of open travel encumbrances for the period under review and select a judgmental sample for testing.
3. For the sampled travel costs, review travel and transportation charges to determine whether they are adequately supported and approved. Perform the following tests:
 - a. Obtain the travel request from DTS and determine if travel costs were for an allowable purpose;
 - b. Expenses complied with federal travel regulations and DoD regulations;
 - c. Travel expense report was prepared timely (within 5 days of return from travel);
 - d. Travel expense report was properly approved;
 - e. Travel expense report was supported by adequate documentation (e.g. hotel receipt, car rental receipt, etc.);
 - f. Determine if final travel voucher has been submitted and if remaining balance should be de-obligated.

RESULTS

We obtained a population of all open and unliquidated travel encumbrances totaling \$610,746 and selected a sample of 45 transactions totaling \$214,888 to reconcile and validate the amounts. TFBSO's travel is automatically processed via the Defense Travel System (DTS), a DoD department-wide travel system used outside of WHS. Although the financial transactions are automatically interfaced into WHS's financial system, EBAS-D, the supporting documentation resides within DTS. As a DoD entity and customer to this system, WHS relies on the DTS system controls for processing travel encumbrances and liquidations. Although an acceptable practice, the DoD FMR Vol. 9 Ch.8 identifies the certifying officers as responsible for the accuracy and validity of travel transactions. WHS was able to provide supporting documentation for two transactions amounting to \$1,131. However, due to time constraints and other challenges, WHS was unable to provide supporting documentation for 43 of the 45 travel transactions totaling \$213,757.

Condition: WHS and TFBSO were unable to provide supporting documentation for 43 out of the 45 TFBSO open travel encumbrances selected for test work.

Criteria: DoD 7000.14-R *Financial Management Regulation Volume 9, Chapter 8 Section 080101* identifies the disbursing officer (DO) accountable for all travel payments. The guidance further makes the certifying officer responsible for the accuracy and propriety of payments to include ensuring that travel statements and claims are accurate and properly supported.

DoD 7000.14-R Financial Management Regulation Volume 9, Chapter 8 Section 080101, Subsection J, Supporting Documents requires travelers to submit expense statements or other declarations, when required, supporting travel claims by including the following documents:

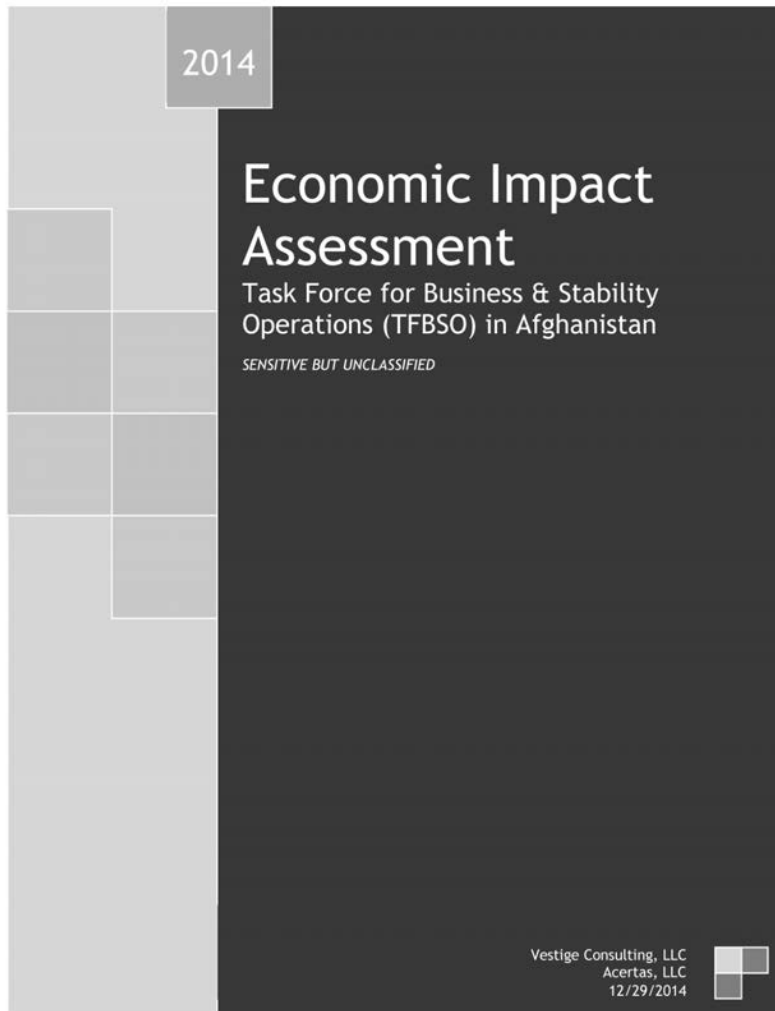
- Travel Orders
- Government-Procured Transportation Documents
- Unused Government-Procured Transportation Documents
- Receipts for the unused portion of transportation documents to the travel claim
- Statements for Common Carrier Reimbursement
- Unused Tickets
- Actual Expense Authorization

Cause: DTS interfaces with EBAS-D to provide financial travel transactions. However, the relevant supporting documentation for travel obligations and liquidations reside within DTS. Although WHS and TFBSO could have pulled the supporting documentation for the transactions selected from DTS, time constraints and insufficient resources hindered their ability to do so. Further, WHS does not have a process in place to ensure that these documents are retained in the EBAS-D system for their customers upon completing fund certification.

Effect: We were unable to substantiate the unliquidated travel amounts or determine whether proper supporting documentation and approvals were completed for each travel transaction selected.

Recommendation: As a service provider and fund certifier for other DoD entities, WHS should establish a process to ensure that all transactions are adequately supported. The WHS should coordinate with DTS to determine the most efficient and effective way to establish an audit trail for open travel encumbrances and ensure that support is readily available for audit purposes.

[illegible]



Contributors

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Executive Summary

Context

After three decades of conflict, the fabric of Afghanistan's economy has been torn leaving the government with little capacity to function and bestowing the country with the unenviable title of the quintessential conflict-affected fragile state.

Receiving nearly \$100 billion of aid in the last decade, Afghanistan has seen limited but measureable progress. However, the planned drawdown of international security forces by the end of 2014 will remove revenue streams from support services, and significantly decrease civilian aid. Stabilization through private sector growth is imperative with this "aid cliff" approaching.



Figure 1 TFBSO Project Implementation Map

Objective

The mission of the Task Force for Business and Stability Operations (TFBSO) is to promote stability in Afghanistan by encouraging international investment, sustainably developing the country's natural resources, and assisting industrial development and revitalization. Figure 1 (above) depicts the location of Task Force projects throughout Afghanistan. As illustrated, TFBSO has implemented business and stability operations in nearly every province in Afghanistan.

The objective of the economic impact assessment (EIA) model is to enable key stakeholders to make informed decisions about future economic interventions in Afghanistan and to develop an awareness of policy reforms that are most likely to benefit the economy. The EIA model provides a comprehensive state-of-the-art economic approach to capture the most relevant parts of Afghanistan's economy, and a best-in-class political feasibility-weighted cost-benefit analysis of Task Force projects. It is hoped that this model will further enable the international community to implement more effective economic interventions and policy reforms in Afghanistan and other conflict-affected fragile states to promote long-term economic stability.

Afghanistan's Economy with and without TFBSO Projects

The Task Force implemented projects across four primary programs between 2010 and 2014, to include: Energy Resource Development, Indigenous Industries, Investments & Entrepreneurship, and Minerals Resource Development. In addition, the Task Force implemented a series of projects that concluded between 2010 and 2013; these "Historic" projects are categorized as Banking & Financial System Development, Agricultural Diversification & Revitalization, Industrial Development, and Women's Advancement projects.

The short-, medium-, and long-term macroeconomic multiplier impact of every Task Force project was quantified both independently and collectively. Figure 2 presents the Task Force's estimated impact to Afghanistan's gross domestic product (GDP) between 2010 and 2025.¹ As illustrated below, the EIA model forecasts Afghanistan's GDP potential with and without Task Force projects. Macroeconomic modeling presents Afghanistan's GDP to be approximately \$107.8 billion in 2025 as a result of TFBSO's business and stability projects; compared to a GDP of \$53.3 billion in 2025 without those projects.

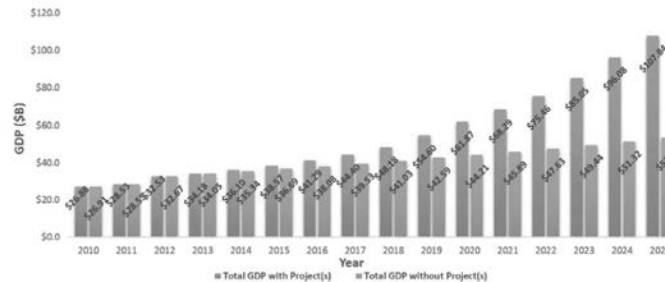


Figure 2. Afghanistan's Economy with and without TFBSO Projects

The data collection techniques, macro- and microeconomic data, and modeling methodologies and assumptions are described in detail in the subsections that follow. Thus, under this model, a potential doubling of the GDP by 2025 is possible given Task Force efforts as seen with a gain of \$54.6 billion.

¹ "GDP" as used herein refers to economic activity that includes the formal, informal and illegal sectors.

TFBSO Share of Afghanistan's Economic Growth

While the Task Force was instrumental in catalyzing long-term economic growth in Afghanistan, and some of the projects initiated by the Task Force would not have been realized had the Task Force never existed, the \$54.6 billion increase in the economy is not solely attributable to Task Force efforts. Nevertheless, the Task Force was typically only one of a few key implementers leading economic development projects in Afghanistan, including, but not limited to private sector companies and donor agencies such as the Asian Development Bank, USAID, and the World Bank. The following figure presents the Task Force's share of the forecasted economic growth illustrated above. As presented in the graph below, the Task Force projects will lead to an additional \$54.6 billion in GDP by 2025. The Task Force was allocated \$23.0 billion of the total \$54.6 billion as a result of the key role it played as an enabler across multiple sectors of Afghanistan's economy.

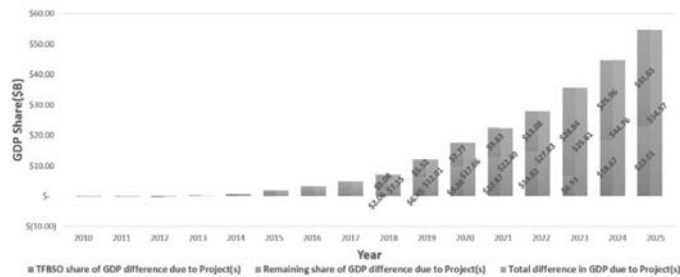


Figure 3. TFBSO Share of Afghanistan's Economic Growth

Afghanistan's Economy with and without the Task Force Adjusted Share

It is reasonable to assume that some economic development projects would have been implemented without the Task Force. The following figure presents Afghanistan's economy with the adjusted Task Force share (blue bar) and without the Task Force (orange bar). The "without Task Force" scenario assumes that many of the Task Force's economic development projects would have started without the Task Force albeit at a later date (many after 2025). As illustrated below, Afghanistan's GDP is estimated to equal \$55.24 billion without the Task Force in 2025.

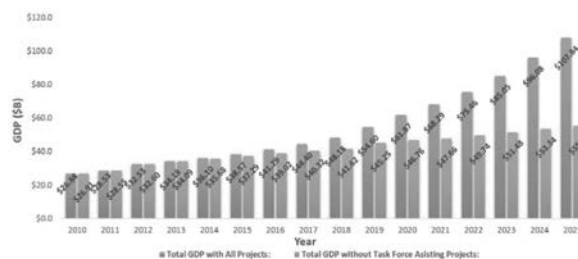


Figure 4. Afghanistan's Economy with and without the Task Force

TFBSO Program-Level Economic Impact Summary

Table 1 presents the macroeconomic multiplier impact of TFBSO programs (including historic projects). In addition, the table identifies those projects with the most significant contribution to Afghanistan's GDP by program. The EIA model forecasts the Energy Resource Development program to have the greatest contribution to Afghanistan's GDP by 2025 while Minerals Resource Development will have a more significant impact than the Energy program after 2025. The increase to GDP by program assumes the program was implemented independently (meaning all other programs do not exist). The "blue bars" presented in the macroeconomic bar graphs above illustrate TFBSO program synergies, meaning the collective economic impact of TFBSO programs is \$400 million greater than the sum of each program implemented in isolation.

Table 1. TFBSO Program-Level Macroeconomic Multiplier Impact Summary

Program	Increase to GDP in 2025	Project with the most Significant GDP Impact	Explanation
Minerals	\$23.4 billion	Round I (Badakshan, Balkhab, Shaida, & Zarkashan)	USGS mineral resource data identified the potential for world class deposits at that the Round I areas of interest.
Energy	\$27.4 billion	Afghan Tajik I (Sanduqli & Mazari Sharif Blocks)	Afghan Tajik I could produce up-to 157 million barrels of oil between 2017 and 2037.
Investments	\$3.4 billion	Hospitals	Facilitated partnerships between a private entity and GiRoA will advance healthcare in Kabul.
Historic	-	Nangarhar Agriculture College	Capacity improvements to the agriculture college will lead to long-term human capital improvements and advanced farming techniques.
Indigenous	-	Cashmere	The Cashmere industry will continue to grow as new techniques are introduced to farmers and manufacturers.

Note: The "-" symbol indicates that the economic activity change is negligible.

TFBSO Project-Level Cost-Benefit Summary

Table 2 presents forecasted project-level costs and benefits. These project-level cash flows, presented as discounted and aggregated values between 2010 and 2030, contribute to the macroeconomic multiplier effects presented in Table 1 (above). The Total Cost column includes the costs incurred by TFBSO and the Afghan private sector. The Total Benefit column includes the revenues earned by the Afghan public and private sectors.

Table 2. TFBSO Project-Level Cost-Benefit Summary, Discounted Totals for the Period 2010-2030

Program	Project Group	Discounted Total Cost	Discounted Total Benefit	Impact Summary
Minerals	Upstream Development	\$10,264,631,113	\$10,527,682,444	Transforms the economy.
	Transmission via Rail	\$3,393,978,685	\$1,257,814,805	Removes transportation bottlenecks.
	Training & Capacity Building	\$23,532,955	\$4,798,052	Enhances the technical and managerial capabilities of Afghanistan's natural resource stewards.
	Village Stability Operations	\$3,861,844	-	Cancelled during execution per the government of Afghanistan's request.
Energy	Upstream Development	\$7,301,902,936	\$7,401,574,286	Supports energy independence.
	Gas Policy & Transmission	\$88,486,485	\$267,695,052	Catalyzes long term domestic gas transmission capacity and policy.
	Downstream Gas Utilization	\$32,540,195	\$1,214,587	Initiates domestic market for consumption of compressed natural gas.
	Micro-Hydro Power	\$10,792,492	-	Cancelled before gains were realized.
Indigenous	Cashmere	\$10,175,673	\$33,340,096	Improves the quality and quantity of cashmere and enhances Afghanistan's international profile.
	Carpets	\$9,442,582	\$5,990,577	Creates more than 9,500 jobs.
	Artisanal Industries	\$9,700,253	\$6,320,876	Creates work for 1,200 artisans in Northern Afghanistan.
Investments	Public-Private Partnerships	\$300,733,862	\$350,143,710	Minimizes investment risks across multiple sectors.
	Private Investment	\$162,233,384	\$217,454,297	Reduces small-medium sized enterprises transaction costs.
	Business Advisory	\$190,140,312	\$196,901,972	Improves Herat and Kabul business efficiency.



Program	Project Group	Discounted Total Cost	Discounted Total Benefit	Impact Summary
Historic	Banking	\$65,144,986	\$71,254,355	Improves the capabilities of the formal financial sector.
	Agriculture	\$34,288,221	\$24,352,026	Shifts at-risk rural, informal workers to formal employment
	Industrial Development	\$5,426,311	\$32,022,266	Enhances transportation and education infrastructure.
	Women's Advancement	\$9,693,065	\$9,798,120	Supports women's economic equality.



Task Force for Business & Stability Operations (TFBSO)

The FY14 National Defense Authorization Act directs the Task Force for Business and Stability Operations to “carry out projects to assist the Commander of US Forces-Afghanistan and the Ambassador of the US Mission in Afghanistan to reduce violence, enhance stability, and support economic normalcy in Afghanistan through strategic business and economic activities.” In short, the mission of TFBSO is to promote stability in Afghanistan by stimulating private sector growth.

TFBSO recognizes that a sustainable economy is one of the key end states necessary for stabilization of Afghanistan. It focuses on private sector development and draws upon unique skills to complement the aid, governance, and rule of law initiatives handled by other agencies. Specifically, TFBSO focuses on three conditions necessary for a sustainable economy: market economy sustainability, employment generation, and assistance with management of economic-based threats to peace.

TFBSO enables and supports the market-based economy by nurturing and strengthening the private sector and Afghanistan’s human capital. A robust market-based economy creates a rewards-based meritocracy, improves economic efficiency, and facilitates the movement of goods and services. Strengthening the economy improves the quality of life of the Afghan people and gives them confidence that Afghanistan is moving in the right direction. Additionally, improved integration in the regional and global economy integrates Afghanistan’s future with that of its neighbors perpetuating stability.

A strong private sector can also create numerous jobs for the population. TFBSO creates job opportunities that form the foundation for sustainable livelihoods. When possible, this is quick impact and demonstrates progress while providing opportunities for individuals vulnerable to insurgent enticements. Employment opportunities give people a stake in the peace process by providing alternatives to violence. The Task Force explores opportunities in to increase the human capital of Afghanistan through training and education. Additionally, TFBSO encourages all foreign enterprises to maximize the amount of work handled by the local people rather than ex-patriots.

The Task Force’s work is responsive to feedback from the International Security Assistance Force (ISAF) as they monitor the effects on security. It is conducted in a transparent and accountable manner that encourages the government of Afghanistan to establish laws, institutions, and capacity to manage its resource wealth responsibly. Implicit is the need to understand the context before designing project strategies related to natural resources. The Task Force engaged daily with the Afghans to develop this understanding while coordinating with international partners and other US agencies.

Several lines of effort were developed to support the development of these conditions. The most significant involve the extractives industry, indigenous industries, and general foreign direct investment.



The extractives industry is seen as Afghanistan's bid for success in establishing economic independence because resources appear plentiful. The hydrocarbons and minerals sectors can provide diversification, job creation, infrastructure development, tax revenue, and energy independence. TFBSO supports exploration efforts, advises Afghan ministries, attracts investors, and coordinates support from other agencies such as the US Geological Survey (USGS).

Indigenous industries represent existing skill sets in Afghanistan and are more promising for rapid development and impact. Many have recognizable international market potential and TFBSO helps facilitate access to international markets, strengthen business practices, and raise awareness of Afghan industries and products.

TFBSO's general investment initiative is committed to identifying business opportunities for domestic and foreign investors, and helping to establish financing vehicles for those investments. Rather than simply providing grants, TFBSO makes deals possible by providing professional consulting services that reduce transaction costs for international and Afghan companies. Using business consulting and entrepreneurship training, the Task Force promotes the growth of small and medium-sized businesses. This in turn serves to enhance the international competitiveness of Afghan businesses.

TFBSO provides a fundamentally different approach to post-conflict economic development. It accepts that recruiting subject matter experts useful to the mission will be costly in this environment; getting the right people remains a priority. Second, TFBSO achieves greater flexibility through a thorough understanding of the security environment combined with the risk tolerance required for conflict zones. Next, it emphasizes direct project management on-site, which rarely exists in a conflict zone, to ensure the responsible use of government funds on schedule. Finally, timely contracting enables TFBSO to respond to opportunities as they arise.

TFBSO is not a donor agency and approaches its activities by focusing on outcomes, including measuring the revenue generated for the Afghan government, the number of businesses started or expanded, and the number of jobs created. Metrics such as profitability, return on investment, and net present value are not typically employed by development organizations.

The work TFBSO conducts in Afghanistan is grounded in important cross-cutting principles of stabilization. TFBSO's work emphasizes host-nation ownership, political primacy, legitimacy, and unity of effort with other non-governmental, national and international organizations.

TFBSO promotes the long-term stabilization of Afghanistan by creating the conditions necessary for a sustainable economy. It uses the private sector as the primary lever by emerging local entrepreneurship and attracting international investment. Ultimately, Afghanistan is gradually reducing its dependence on international donors, integrating with regional and international partners, and improving access to opportunity for the Afghan people.



Post-Conflict Stabilization

Afghanistan's Case

After over thirty years of near incessant conflict, the fabric of Afghanistan's economy and government was decimated.² The government lacked the capacity to address the country's development problems. Moreover, Afghanistan's social capital was almost non-existent. Between the 1978 Communist Coup and the aftermath of the September 11 attacks, "Afghanistan lost \$240 billion in infrastructure and opportunities" (Ghani & Lockhart, 2008, p. 75). It is one of the most impoverished, conflict-prone states in the world and is ranked near the bottom of all "human development indicators" and "fragile states" (Fund for Peace, 2013). It is for this reason experts view Afghanistan as the "quintessential fragile state" (Sigsgaard, 2009, p. 10).

"Economic problems are linked to governance and security concerns. If the citizenry is not secure or the government does not function, the economy cannot develop. Sound economic stabilization policies create conditions for economic growth, which alleviates underlying tensions and addresses the chronic social conditions that can fuel insurgency or conflict." (Crane, et al., 2009, p. 2)

The 2001 UN Security Council's Resolution 1378 (United Nations Security Council, 2001) paved the way for international engagement. According to the Afghanistan Ministry of Finance Development Cooperation Report (2012), the international community committed US\$85 billion in assistance to Afghanistan between 2002 and 2011. By December 2011, US\$70 billion had been disbursed to the Afghan government, which has resulted in measurable progress. For example, the GDP has risen seven-fold, a national treasury has been instituted with domestic revenues of \$2 billion, maternal and infant mortality have plummeted, life expectancy rose by six years, there are two girls in school for every three boys and the number of students at public and private universities increased from 4,000 to 75,000 (Starr & Farhadi, 2012, p. 13).

Afghanistan's recovery will be affected by the planned drawdown of North Atlantic Treaty Organization (NATO) / ISAF troops and the accompanying reduction of international aid post-2014. The drawdown of most international troops and aid by the end of 2014 from Afghanistan will have a significant and lasting effect on the country's economic foundations. The international community's aid assistance to Afghanistan is expected to decline gradually over the next four years by as much as 75% in some sectors according to the World Bank - other sources expect a less dramatic decline of aid but all agree that the peak has been reached (Ministry of Finance, GIROA, 2012, p. 24). Donors' aid is allocated in its majority to security (68% in 2011), but the reductions in civilian aid, which is in the billions of dollars, historically follow the withdrawal of foreign forces

² See (Farhadi, 2014) for further discussion of the economy of Afghanistan and post-conflict stabilization of fragile states using Political Economy Cost-Benefit Analysis (PECBA) which comprised the conceptual and theoretical underpinning of the Economic Impact Assessment provided herein.



from conflict-affected countries and typically suppress economic growth, employment, government income, and service delivery (e.g., Iraq, Kosovo, and Bosnia) (Cordeman, Gold, & Hess, 2013, p. 38). Stabilization efforts through private sector growth are even more critical with this “aid cliff” approaching.

Complementing Capacity-Building

Much of the stabilization efforts in Afghanistan are engaging the economy by reforming and restructuring public institutions and fiscal policies (Farhang, 2013). As such, these interventions are principally designed to build capacity in public-sector institutions. In turn, competence and capacity of a functioning government will foster private sector growth.

Increasingly, experts are recognizing that private sector growth and public sector capacity-building can and should occur concurrently (Duffield, 2001, pp. 99-100). In this respect, joblessness among ordinary people and a government’s inability to deliver public services undermine the government’s legitimacy and threaten democratic governance (Farhang, 2013). This is based on the understanding that stability and security will always be a short-term and unsustainable objective if ordinary people do not have something to lose (personal investment in the well-being of the country through jobs and opportunities). In other words, if the ordinary populace has sustainable jobs, they will have a stake in seeing to it that their locality doesn’t revert to violence (Ghani & Lockhart, 2008, p. 24).

“When stability operations are integrated with their complementary U.S. government sectors or with other key partners, they represent a comprehensive effort to reestablish or create a safe and secure environment that provides for the livelihood of the citizens and the state.” (Crane, et al., 2009, p. 2).

Moreover, private sector growth will ensure that jobs created through donor-funded capacity-building projects can be transitioned once funding diminishes. This phenomenon known as “Dutch Disease” is well-recognized in development communities as a by-product of well-intentioned development efforts (Stijns, 2003). This is one of the fears of adding capital intensive industries related to natural resources extraction such as mining, which manifest in a higher exchange rate and increase in export prices, also known as a “resource curse” (Sachs & Warner, 1995). On the other side of the labor-capital spectrum, indigenous industries are very labor intensive and if in the right path and with the right incentives it will shift the operations to the formal economy. In order to soften the transition from an aid-dependent state to a self-sustaining government and economy, private sector growth is needed to create jobs that will grow the country’s GDP even after aid has ceased. Private sector growth is also a means of complementing donor priorities and addressing unmet needs (Rosenberger, “The New Silk Road” Speech presented at National Defense University, 2011a). For example, many long-term public sector projects require strict controls on how funding is utilized. The donor’s objectives and level of funding may not reach all those in need of employment. Private sector investment can serve to complement these efforts by producing jobs

in the near term whereas the capacity building efforts will create an enabling environment so that the private sector can flourish in years to come.

Government Employment

Governments are major employers in developed countries (Schiavo-Campo, Tommaso, & Mukherjee, 1997). In many Middle Eastern countries, the government stands as the single largest employer. In post-conflict countries this presents a dilemma since opposition forces with ties to the government may exert undue influence over its policies (Crane, et al., 2009, p. 10). In these instances, government employment may actually destabilize reconstruction efforts. Moreover, in post-conflict and conflict-affected states such as Afghanistan, low government wages and poor oversight of civil servants foster bribery and extortion from private enterprises (and consumers) to the neglect of public service. (Crane, et al., 2009, p. 94) (SIGAR, 2014b, p. 144). Therefore, the Task Force implemented Afghanistan government training projects to enhance the Afghanistan government's understanding of internationally recognized laws and governance best practices.

Landlocked Economies

Understanding the geographic context of Afghanistan can further improve stabilization efforts. The geography of Afghanistan is both its greatest asset and its greatest liability. Historically, the region functioned as the nucleus of the ancient "Silk Road" trade routes. However, in its recent history, the country's landlocked position has served to further isolate it from world markets. Afghanistan faced many of the unique challenges of being a "least developed" and a "landlocked country" before the last thirty years of conflict, (LLDC) (UN-OHRLS, 2014). The largest obstacle to landlocked countries is the very high cost of transportation, which, in some countries, can exceed 80% of export value (Mtesa, 2007, p. 3).

Until (trade) impediments are removed, Afghanistan will remain the cork in the bottle, a barrier to continental transport via road, railroads, oil and gas pipelines, and electrical transmission lines ... The resulting isolation from the world of commerce condemned Afghanistan and its neighbors to backwardness and extreme poverty with little prospect of a better future." (Starr & Kuchins, 2010, pp. 10-11)

Thus, economic interventions tailored to the challenges and opportunities present in Afghanistan's landlocked location in Central Asia can act as a catalyst towards bringing Afghanistan into the center of the Central Asian trade economy.

Stages of Post-Conflict Recovery

Initially, the populations in conflict ridden areas need to reconstruct their homes, villages, farms and businesses. With a heavy influx of foreign aid, a spike in economic activity is typical particularly in the service sector to support foreign aid workers. At this stage, immediate impact



public infrastructure projects such as road and bridge repair and power supply projects are critical to restoring some semblance of normalcy (Crane, et al., 2009, p. 12).³

Within a year to eighteen months, local businesses that survive expand to capture market share of those that didn't. These businesses invest for expansion and soon warehouses, trucking companies, internet and cell phone service providers and construction companies are developed. In this phase, the most effective strategies focus on "improving the investment climate and creating an environment where private enterprise can thrive" (Ibid, p. 13).

Once critical mass is reached, the private sector will need enhanced services which will open the door for foreign investors to build telecommunications networks, warehousing and dry port distribution centers, mines and natural gas fields. This later stage also sees the greatest progress in donor-based capacity building for local government, education and health care. Thus, private sector development and public sector capacity building work hand in hand (Ibid. p. 14).

Afghanistan's Economy

Before 1979

Before 1979, Afghanistan's economy was rural and agriculture-based. From 1912 through 1979, of the estimated 14 to 20 million citizens, approximately 85 percent of the population lived in rural settlements; 5 to 7 percent lived as nomadic herders, called *kuchis*; and the remaining portion lived in urban areas (Barfield, 2010, pp. 32-35). During this period, the majority of Afghans were engaged in subsistence-level production of crops and livestock. Rural households produced wheat primarily for their own consumption, selling the minimal surplus in nearby towns (Ibid). This self-sufficiency isolated the people from the reach of the central government, leading to three major implications: (1) it weakened central government, (2) it created a cultural divide between rural and urban areas, and (3) it left rural communities vulnerable to food insecurity in years when the harvest was small (Ibid, pp. 35-38).

Light Industrialization

Beginning in the 1930's, the government, under the Durrani dynasty, introduced light industrialization and developed public works to provide infrastructure for agricultural production and trade. One of the government's first projects was to develop a cotton export industry, centered near Kunduz in the north which installed irrigation that increased the production of cotton approximately 25-fold by the mid-1940s (Ibid, p. 203). After World War II, the Afghan government invested further in state-led industrialization. As part of its plan to modernize the economy, the government developed textile manufacturing plants, cement and fertilizer plants, and food processing facilities (Guimbert, Structure and Performance of the Afghan Economy, 2004, p. 20).

³ A large influx of donor aid can result in so many simultaneous projects that the price of cement, lumber, and construction materials can rapidly increase and burden the donors and private enterprises with increased building costs.



These state-owned facilities were located mainly in Kabul and provided employment for a small percentage of the population in urban areas. Irrigation was also introduced more widely, including in the Helmand Valley, and irrigated land grew to supply the majority of produce by the mid-1970s (Central Statistics Organization, GfRoa, 2010) (USAID, 1976).

Cold War Aid

Much of the government's investments in agriculture and industry were made possible by foreign aid inflows, beginning in the 1930s and growing in importance through the 1970s (Barfield, 2010, p. 209). Early donors included Germany, Japan, and Italy. Beginning in the 1950s, with the advent of the Cold War, the government generated aid flows from the former Soviet Union and the United States by leveraging the rivalry between them. By 1973, two-thirds of government revenue came from foreign grants and loans (Ibid).

While foreign aid was a major portion of government revenues, the allocation was channeled through the Afghan government, which spearheaded the modernization agenda with foreign governments acting as funders and collaborators. Aid-funded projects provided the necessary infrastructure for the country to produce agricultural exports and develop industry, to include: roads, irrigation systems, hydroelectric power, airports, and industrial processing facilities. These productive assets generated revenue for farms and industry, increasing incomes of both households and state-owned enterprises. This broadened the government's tax base and provided revenue to the government through taxes on agricultural exports (Ahady A. , 2013) (Farhang, 2013).

Ring Road

Up until the 1960s, most of Afghanistan's domestic and international trade was limited because of the lack of roads between northern and southern Afghanistan (Farhang, 2013). This changed in 1964, when a paved ring road linking all of Afghanistan's major cities was completed. The road linked the nation's capital and its southern regions with the northern regions of the country, marking the first time in Afghanistan's modern history that agricultural produce and other goods could be readily traded between these areas (Barfield, 2010, p. 203).

With the completion of the ring road, the demand for transportation and trade services increased. A sustainable cycle developed: as domestic and international commerce increased, the government taxed merchants and used this revenue to finance further small-scale industrialization and agricultural development. The improved transportation networks facilitated the movement of crops throughout the country, and, in combination with the state-built irrigation systems, brought Afghanistan closer to self-sufficiency in food production just before the Soviet invasion of 1979 (Guimbert, Structure and Performance of the Afghan Economy, 2004, p. 23) (Central Statistics Organization, GfRoa, 2010).

Overall, the economy was stable and relatively sustainable with per-capita income growth on par with other countries in South Asia (Guimbert, Structure and Performance of the Afghan Economy, 2004, p. 3). Given more time, it is likely that Afghanistan would have further developed its

agricultural export industry. Unfortunately, extreme political upheaval initiated a period of violence and unrest in which the Afghan economy was virtually eliminated. All progress was lost in the conflict that disrupted transportation linkages, destroyed infrastructure, and reduced the labor force through migration, injury, and death (Farhang, 2013).

From 1979-2001

Dynasties

Afghanistan was relatively stable economically through the 1970s; however, substantial political tensions grew throughout the decade. King Zahir Shah was removed from power in a coup led by his cousin, Mohammed Daud Khan, in 1973. In 1978, Afghanistan Communist forces, which had begun receiving support from the former Soviet Union, killed Daud, ending 230 years of rule by the Durrani dynasty (Ansary 2012, p. 178). On April 27, 1978, Daud, his whole family, and his two thousand bodyguards went to their graves, and the House of Dost Mohammed came to an end (Ansary, 2012, p. 178). These forces were aligned with the People's Democratic Party of Afghanistan (PDPA), which took power and established a communist regime (Farhang, 2013).

Peoples Democratic Party of Afghanistan

The communist government instituted radical economic policies aimed at breaking down the traditional local economic and social networks. The PDPA's policies included abolishing the existing systems of land rentals, sharecropping, and hired labor, and replacing these systems with rural cooperatives led by government officials (Barfield, 2010, pp. 230-233). The PDPA employed repression and violence to implement these reforms, and consequently, they were quickly faced with strong opposition. In order to stabilize the situation and prevent the downfall of the Communist regime, the Soviet Union invaded Afghanistan in December 1979 and established control of urban areas and key transportation links (Farhang, 2013).

Resistance by the majority Afghan populace was constant. However, the Islamic factions, called *mujahedeen*, were largely fragmented along ethnic, religious, and tribal lines which prevented the cohesiveness necessary to mount a wholly united front against the Communist power (Ibid). The Soviets carried out air bombardments and spread land mines throughout the countryside to cut off *mujahedeen* supply routes. During this time, more than 1 million Afghans were killed, 3.2 million were disabled or wounded, 5 million fled as refugees mainly to Pakistan and Iran, and between 7 and 8 million people were internally displaced (Barfield, 2010, pp. 244-245) (Oxfam, 2009, pp. 3-4). Cities grew as rural residents sought safety there; in fact, the population of Kabul tripled during this time (Barfield, 2010, p. 253). Most educated Afghans, business people, landed elites, and religious leaders fled the country as refugees, depleting the human capital available to run businesses and the government (Farhang, 2013).

War-torn Economy

The violence severely disrupted economic activity and changed the composition of the labor force. Land mines and bombardments curtailed the ability of rural residents to tend to their fields, and



agricultural activity drew to a standstill. Public works that had provided a foundation for economic growth in previous decades were destroyed. The area under irrigation was also significantly reduced. Roads and power infrastructure were severely damaged or destroyed (Levin, 2009, p. 7).

Damage from conflict, shortages of raw materials, and other difficulties related to these disruptions made many industrial facilities inoperable. The Communists, true to their state-led industrial economic paradigm, did, however, maintain some industrial facilities in urban areas; however, production was minimal (Farhang, 2013).

Afghanistan's economy nearly came to a halt. Production and trade slowed to minimal levels, the government had no sources of domestic revenue, and there were little to no sources of legitimate employment. Analyses of the sparse macroeconomic data available show a steady decrease in GDP between 1979 and 1990, including a severe contraction in the late 1980's (Guimbert, Structure and Performance of the Afghan Economy, 2004, p. 7). The Soviet occupation was accompanied by high inflation, at times reaching hyperinflation levels (Farhang, 2013).

The population became dependent on imported food that was provided by humanitarian aid organizations; the food came mostly to the cities, in sharp contrast to the Durrani period (Barfield, 2010, p. 33). All the economic progress that Afghanistan had made prior to 1979 was now reversed (Farhang, 2013).

Illegal Economy

Although formal economic activity stopped during the Soviet occupation, the illegal and criminal economy flourished. Large-scale opium cultivation in Afghanistan began in the late 1980s as the state weakened, and this opium cultivation grew even more in the 1990s as the state fully disintegrated. Meanwhile, the global economics of the opium sector were changing; production bans were imposed in Turkey, Iran, and Pakistan, which significantly increased the demand for land on which to produce opium. Afghanistan's climate, the weak reach of the state, and the existence of extensive processing facilities in nearby Pakistan made the region amenable to the global illicit opium supply chain (Mazza, 2006). In the absence of legitimate funding sources and governmental control of rural areas, some insurgent movements and warlords depended on revenue from opium production to fund their insurgencies.

Smuggling increased along with opium production. Smuggling was based on informal networks established by mujahedeen, warlords, and their spheres of influence, with contacts in Pakistan that were based on common history, ethnicity, and decades of established relationships. Some resistance fighters who controlled important roads became involved in smuggling as a way to generate revenue for their resistance movements. Arms were smuggled into Afghanistan; meanwhile, goods smuggled out of Afghanistan, including opium, gems, timber, and antiques, provided additional revenue to the warlords and mujahedeen (Farhang, 2013).



Civil War

The Soviets withdrew from Afghanistan in 1989, but the Communist Afghan government remained in power. Mujahedeen continued their insurrection against the government, and the communist government collapsed in 1992 (Ibid). A civil war among various mujahedeen and warlord factions raged between 1992 and 1996, as groups competed for power and control. This period of continual violence further decimated the economic base and the labor force. One account describes the events of early 1990s in Afghanistan as follows:

Human rights violations, including executions, abduction, imprisonment, sexual violence and other forms of torture, were committed by all factions. The death toll is difficult to determine but by one estimate, 10,000 individuals were killed in 1993 alone. The struggle for control of Kabul, which included bloody street battles and random rocketing, left hundreds, if not thousands, dead or wounded. (Oxfam, 2009, p. 10)

Taliban

In 1993, the Taliban movement began to acquire strength and influence.⁴ The Taliban instituted a strict version of the Islamic Sharia law and most of the licit economic activities came to a standstill. Production continued its steep decline in all agricultural sub-sectors, including the production of crops, horticulture, and livestock. Afghans became heavily dependent on external support for basic nutrition; by 2000, approximately half of Kabul's population relied on food aid delivered by humanitarian agencies (Oxfam, 2009, p. 11). In the late 1990s, the effects of violence and economic hardship were compounded by drought. Factors of production continued to erode, and the quality of human capital was further diminished by a lack of education (Farhang, 2013).

During the 1990s, inflation skyrocketed; the limited data available on prices show the price index increased from one to 280 during the 1990s. This increase was accompanied by a depreciation of the currency, from 400 Afghani to 4,000 Afghani per U.S. dollar (Guimbert, Structure and Performance of the Afghan Economy, 2004, p. 4). This number is merely illustrative, as the various insurgent movements used different versions of the Afghani currency. By the end of the decade, Afghanistan was not merely a failed state; it had become the poorest country in the world (Ibid). As the economy and basic services lay in shambles, opium production and smuggling continued to expand. International smuggling of opium was facilitated by the break-up of the Soviet Union, which opened new routes through Central Asia. Afghanistan's share in world opium production increased dramatically from 1995 to 1999 (Mazza, 2006). During the 1990s, other illicit and illegal activities, such as the logging industry, grew, and smuggling of gems and antiques spiked (Lister & Karaev, 2004, p. 36).

According to a World Bank study of Afghanistan, "[e]ven though the fabric of families, kinship groups, and other traditional clusters has held together rather well (demonstrated concretely by the large volume of inward remittances), the penetration of the 'warlord' and 'commander' culture at the local level has had deleterious effects. In sum, Afghanistan was essentially left out of the

⁴ It took control of Kandahar in November 1994, and by 1996, it had gained control of most of the country. The group established a government in Kabul but maintained the headquarters of their movement in Kandahar (Farhang, 2013).



last 25 years of global development, with virtually no increase in per capita income during this period and average life expectancy of only 43 years." (World Bank, 2005, p. xvi).

From 2001-2011

September 11, 2001

The events of September 11, 2001, precipitated the downfall of the Taliban regime. On October 7, 2001, just a few weeks after the attacks, the U.S. military and other international forces, together with the Northern Alliance, began an offensive to overthrow the regime. The Taliban fled Kabul on November 12, 2001, and the regime fell quickly without major fighting in urban areas. In early December, the stronghold city of Kandahar fell and the Taliban dispersed throughout the countryside without surrendering (Farhang, 2013).

Overall, conditions in Afghanistan in 2002 were very different from those that the Soviets had confronted in 1979; Afghanistan was a failed state. The institutions of the central government had ceased to function, and the government barely had control over its territory. The nation ranked second-to-last on the poverty component of the Human Development Index (HDI) in 2001 (Fukuda-Parr, 2001, p. 151). This was the only component of the HDI for which data on Afghanistan were available that year.⁵ Afghanistan's infrastructure was completely decimated, and the legal economy had ceased to function. Its nominal GDP was only three-quarters of its 1981 level (World Bank, 2014a); however, given the high inflation that had occurred in the 1980s and 1990s, the GDP of Afghanistan in 2001 was actually smaller than its 1980s level in real terms (Farhang, 2013).

Finally, the end to internal conflict and violence provided the pre-conditions for economic growth to resume. The international community took on the cause to rebuild Afghanistan, providing billions of dollars in foreign aid. An estimated three million Afghans who had been in exile returned to the country after 2001, bringing with them a new set of knowledge and experiences (Barfield, 2010, p. 273). An estimated 600,000 internally displaced people returned to their homes between late 2001 and 2005 (World Bank, 2005, p. 56). The country also underwent a political transformation to a democratically elected government. Between December 2001 and 2005, a Constitution was adopted, a transitional administration headed by Hamid Karzai took power, and Parliamentary elections were held (Farhang, 2013) (Delawari, 2013).

The Formal Economy

In recent years, the new government's commitment to economic stability and the significant influx of aid from international donors contributed to Afghanistan's most dynamic period of economic growth. The services sector has grown significantly, and the number of enterprises has greatly increased. Security spending and foreign aid have had enormous impact, especially in the service sector. Levels of inflation have varied from year to year without a significant impact on the economy. The exchange rate has fluctuated somewhat, with periods of appreciation and depreciation (Delawari, 2013).

⁵ The last-place country, Niger, was experiencing a disease epidemic at the time.



The structure of the Afghan economy is complex, consisting of formal, informal, and illegal activities; all three categories can be considered an economy in itself. The macroeconomic data reported by the Afghan Government Central Bank (Da Afghanistan Bank), International Monetary Fund (IMF), and donors captures the formal economy; however, the informal and illegal economies provide the livelihoods for millions of Afghan households (Ibid). The National Risk and Vulnerability Assessment (NRVA) suggests that as much as 50% in urban areas and 90% in agricultural areas work in the informal sector, not including all of the seasonal farmers employed in the opium sector (Central Statistics Organization, GiRoA, 2012). The illegal economy breeds instability and conflict, and it perpetuates a vicious cycle that undermines government legitimacy, and keeps households trapped in poverty (Pain, 2008, p. 49). The informal sector also undermines government legitimacy and perpetuates a cycle of poverty and human underdevelopment.

The formal economy consists of all legal economic activities carried out by enterprises that are registered with the government. This economy forms the tax base of the Afghan government and is the source of most jobs that pay regular, consistent wages. The Integrated Business Enterprise Survey carried out by the ADB and the Central Statistics Organization in 2009, although utilizing a targeted sampling system, identified 402,000 enterprises registered as part of Afghanistan's formal economy (Central Statistics Organization, GiRoA, 2011). Formal GDP was US \$20.7 billion in 2013 (World Bank, 2014c).

The formal economy plays a key role in generating government revenue and providing stable livelihoods for a segment of the population. Expanding the formal economy and the opportunities it provides for Afghan citizens is the primary focus of the private-sector development strategy in the Afghanistan National Development Strategy (ANDS). Donors' assistance is mainly channeled through the formal sectors, helping with registration, access to training and capital.

In 2004, activity in the informal and illegal economies was estimated to be equivalent to roughly 80 to 90 percent of formal GDP (World Bank, 2005, p. 122). It is likely that the proportion remains in this range today because the basic economics of the informal and illegal economies have not changed (Farhang, 2013).

The Informal Economy

As defined by World Bank, the informal economy encompasses licit non-monetized and unregistered activities (World Bank, 2005, p. 67). Unregistered activities are legitimate economic activities that are not registered as businesses with government authorities, and thus do not pay business taxes or abide by other regulations (Delawari, 2013). Non-monetized activities include subsistence agriculture for a household's own consumption, barter transactions between households or between households and service providers, and sharecropping in which a laborer receives a share of agricultural production in exchange for his or her labor. Another form of non-monetized activity occurs when members of a community cooperate in harvesting, threshing, or milling crops. Examples of unregistered activities are those associated with small shops and traders, small manufacturing, small-scale construction, animal product production and sale by the nomad



population, and the transfer of legally obtained earnings through the informal money exchange (*hawala*) system (Thompson, 2006, p. 43). From a political perspective, the informal economy marginalizes the population by keeping wages low and blunts civic participation.

Some of the World Bank reports estimate the size of Afghanistan's informal economy at approximately 45 to 55 percent of GDP (Blunch, Canagarajah, & Raju, 2001, p. 125) but others go as high as 85 to 90 percent including the illegal economy (Guimbert, Structure and Performance of the Afghan Economy, 2004). The largest proportion of the informal economy is in subsistence agriculture and livestock, where an estimated 90 percent of the working population earns a living (Central Statistics Organization, GiRoA, 2011-2014).

Approximately 90 to 100 percent of cereal production, livestock-related activities, horticulture, and other crop production occur in the informal sector. Industrial sectors have a high share of informality as well; approximately 50 to 90 percent of manufacturing, construction, and artisanal mining are estimated to be informal. Trade and other services include less informal activity, with only 10 to 50 percent of the activity in trade, transport, power, telecommunications, and other services estimated to be informal (Ibid).⁶

Although informal activities are legitimate, their informal nature has several disadvantages for both the government and individuals. First, these activities are not included in the government's tax base, meaning they do not contribute to public services. Second, they are not subject to government regulations that aim to protect consumers - for instance, food safety or sanitary regulations. Third, they are likely to be excluded from government assistance programs to the private sector, either because the government does not have a way to reach out to the participants or because they opt out, fearing fines or other types of penalties because they are not registered to do business, further marginalizing this group. Fourth, over time, informal businesses tend to be less productive, to grow more slowly, and to provide less stable employment than formally registered businesses (Blunch, Canagarajah, & Raju, 2001) (Leal-Ordóñez, 2010) (Loayza, 1997).

The Illegal Economy

The illegal economy encompasses the illicit treatment of legal goods and the outright production of illegal goods. Illicit treatment of legal goods includes the illegal trade (smuggling) of gems, antiques, and other goods and resources that are produced or extracted legally, as well as illegal trade that aims to circumvent existing laws and regulations, for example, by re-exporting imports into the country of origin to enable producers to avoid paying certain taxes (Delawari, 2013). The production of illegal goods includes the production and trade of opium, and the trafficking of arms and human beings. Additionally, informal money exchangers (*hawalas*) that represent the bulk of financial services provided in Afghanistan are also involved in the illegal economy through the laundering of revenue earned in the illegal economy (Ibid).

⁶ The economic impact assessment model employed a conservative estimate for modeling a realistic economy, where 50% of total economic activity includes 35% in the informal economy and 15% in the illegal economy.

The most prominent components of the illegal economy are opium production and trade. These activities have continued to flourish since 2001. In 2000, just before losing power, the Taliban placed a ban on opium production, declaring poppy cultivation to be “un-Islamic.” The ban was extremely effective in the short term; cultivation dropped from 82,000 hectares (ha) in 2000 to 8,000 ha in 2001 (UNODC, 2011, p. 2). However, opium poppy production increased in the aftermath of September 11, 2001, under the post-Taliban government. Market prices of opium skyrocketed during the ban, which provided a strong incentive for households to begin cultivating the crop.

When the Taliban left power, their ban on opium cultivation was no longer valid, so farmers began replanting their crops. By the time the interim Afghan government was established in 2002 and re-issued the ban on opium poppy cultivation, most poppy fields were already producing their first crop (Asian Development Bank, 2004, p. 23). Despite efforts to reduce poppy cultivation, it has remained at higher levels than at any time during the Taliban regime (UNODC, 2011).

The illegal economy has grown in the years following the fall of the Taliban. The production in hectares has more than doubled since 2002 from 80,000 to 209,000, but the income from opium has fluctuated much more as international prices have changed. In spite of the fact that Afghanistan has increased their world market share from 75 percent to almost 90 percent, Afghanistan opium producers continue to be price takers (UNODC, 2014a).

The value of opium exports in 2002/03 was estimated to be US \$2.5 billion (Asian Development Bank, 2004, p. 23), and the value reached US \$3.1 billion in 2013 (UNODC, 2013). Opium exports have remained high as a percentage of GDP in the informal economy, but they have declined as a percent of the formal economy as formal economic activity has grown. Opium exports were equivalent to 60 percent of GDP in 2002/03, 45 percent of GDP in 2007/08 (UNODC, 2009), and 15 percent of GDP in 2013 (UNODC, 2013). Afghanistan remains the world leader in opium production, accounting for 70 percent as of 2013 (UNODC, 2014b). Smuggling and other components of the illegal economy represent smaller shares of GDP, but are still substantial.

The impacts of the illegal economy are far-reaching; the illegal economy poses challenges for state building, governance, security, and economic development because opium and smuggling operations bring with them criminality, corruption, and violence. Revenue from opium production and smuggling strengthens warlords who collect 10 percent of the smuggler price of opium (Peters G. , 2009). These warlords undermine the state through violence and drug-related corruption and employ militias to protect themselves (Ahady A. , 2013). Afghanistan, as a fragile state, has been unable to establish the security necessary to diminish the opium economy.

On the other hand, opium production provides income and credit for many asset-poor households in Afghanistan. Rural residents engaged in the opium economy tend to participate in this activity when they do not have other options. For instance, when farmers' plots of land are too small to provide a subsistence living for their families from licit crops, they cultivate opium or work as laborers in opium fields (Farhang, 2013). Wages for laborers in the opium sector are roughly five



times higher than in other agriculture sectors, and opium is the only crop against which it is relatively easy to obtain credit (Asian Development Bank, 2004, p. 38). The illegal economy spills into the formal economy by increasing aggregate demand. Farmers and laborers earn income and wages that they can spend in formal sectors of the economy. The illegal economy also contributes to inflation through higher rural wages locally, and it contributes to currency appreciation when foreign currency earned in the illegal economy is exchanged for local currency (Delawari, 2013).

As specified in the ANDS, one of the top priorities of the Afghan government is to reduce opium production and the illegal economy (GIROA, 2006, updated 2008). Afghanistan needs to transition back to a stable, trade-based economy in order to break the vicious cycle that the illegal economy has created.

International Trade

With respect to Afghanistan's international trade, broadly speaking, Afghanistan imports industrial goods and exports agricultural and natural resource-based goods. Major shares of imports are devoted to intermediate and capital goods, although virtually all non-food consumer goods are also imported. This is a pattern common to many developing countries, where much investment is aimed at displacing imports in the domestic market - an import substitution strategy. Unfortunately, Afghanistan does not currently have the underlying economic conditions or government capacity to implement a successful import substitution strategy (Farhang, 2013).

Afghanistan imports far more than it exports (Central Statistics Organization, GIROA, 2013). In fact, the balance of trade is in deficit even after accounting for opium exports. In 2008, imports totaled approximately three times what exports totaled; in 2009, this doubled to six times exports; and the gap has continued to increase. Different sources include re-exports in their estimates rendering the ratio of imports to exports as high as 17:1 and as low as 8:1 for 2011 (still a significant imbalance). The growth in imports was concentrated in inputs for construction, energy, mainly transportation vehicles and machinery and to a lesser extent, intermediate goods; the imports in the agricultural sector are cereal for domestic consumption. It is important to note that the growing trade deficit was accompanied by an equivalent growth in the capital account; offsetting capital flows were always present to balance trade flows. During these years, there were significant influxes of aid and increased military expenditures, which would have led to increased imports (Farhang, 2013) especially vehicles and machinery.

A detailed examination of Afghanistan's imports and exports provides useful insights into the nature of economic activity taking place in the country, and more importantly in this context, the potential for gains from expanded trade within the region and beyond. The most characteristic of these statistics is that three or four types of exports accounted for approximately 70 percent of total exports. These were edible nuts, dried fruit (raisins), and hand-woven carpets. In 2013, high quality carpets represented 17 percent of total exports. This industry, often home based, constitutes a large employment base (Central Statistics Organization, GIROA, 2013-2014). The most viable potential exports in the short term remain to be carpets and cash crops, including, saffron,



nuts and dried fruit. Edible nuts and dried fruit (raisins) account for 27 percent of formal exports (Ibid.). Anecdotal information shows that a large number of these commodities are exported to Pakistan off the books where they are re-exported to the rest of the world.

One of the largest import categories is for petroleum and fuel, accounting for 20 percent of total recorded imports in 2013 (Ibid.). This data indicates a sharp increase in the value of oil imports, from \$409 million (2008) to \$728 million (2009), and \$1.7 billion (2013) (Ibid). Vehicles and machinery accounted for 14 percent of the imports in 2013, slightly less than the 15 percent from the year before. Additionally, a significant share of Afghanistan's import bill is consistently devoted to food and general consumer goods, such as edible oils, flour, tea, soap, cigarettes, milk, chocolate, and eggs constituting 18 percent of the imports in 2013, a third of which was wheat. The other main categories of imported goods are industrial goods and capital, including machinery, tires, cement, iron angles, chemicals, and electronic equipment. It is unlikely that Afghanistan will be able to produce many of these goods competitively for the foreseeable future and therefore will have to continue to import.

As was the case for exports, a relatively short list of 20 reasonably narrowly defined goods captures virtually all of Afghanistan's imports. Trade in Afghanistan, like the economy as a whole, is not highly diversified. As the country grows, the variation in the goods that it imports can be expected to increase more rapidly than the diversification of its exports. This is because countries that are successful specialize in the production and export of those goods for which they can be most competitive (i.e., in which they have a relative comparative advantage) (UN Comtrade, 2014).

A significant amount of imports are not passing through official channels; as a result, they enter Afghanistan unrecorded and untaxed and thus do not contribute to the Afghan government's revenue (Ahady A., 2013).⁷ Such informal trade is particularly active along the borders with Pakistan and Iran. Indeed, it is likely that the economy around Herat in western Afghanistan and along the Pakistan border in the eastern part of the country are considerably more closely integrated with the neighboring economies than with the rest of Afghanistan. Thus, establishing infrastructure that will more effectively integrate the disparate elements of the national economy will at the same time provide greater economic integration within the region and with the rest of the world.

Like many landlocked developing countries, Afghanistan has exports that are concentrated among a relatively small number of trading partners. Almost two-thirds of Afghanistan's exports (i.e., its average exports for 2008-2010) went to South Asia, in particular Pakistan and India. Most of the rest of the country's exports went to neighbors and near-neighbors, including Russia, Iran, Turkey, the Central Asian countries, China, and the Middle East (Ministry of Commerce, GIRA, 2012) (UN Comtrade, 2014). The largest portion of the global economy, namely high-income, developed

⁷ Customs revenue is a major component of Afghanistan's national budget. For the last three fiscal years customs revenue collections produced \$698 million-\$1.1 billion annually, accounting for 44-48 percent of total domestic revenue collection (SIGAR, 2014a).



countries (primarily the EU at 2.8 percent and the US at 1.7 percent), accounts for only a very small share of exports.

Afghanistan's largest source of imports is Central Asia, which accounted for 27.8 percent of total imports (i.e., average for 2008-2010), followed by the high-income developed countries, mainly Japan, the European Union, the US, South Asia, and China (UN Comtrade, 2014) (Ministry of Commerce, GfRA, 2012). The high share for Central Asia was driven by a significant increase in imports from Uzbekistan, primarily of coal (i.e., \$652 million in 2009 and \$788 million in 2010) (UN Comtrade, 2014). Uzbekistan is the single largest source of imports, accounting for 18.5 percent of total average imports; Kazakhstan with 5.7 percent; Turkmenistan and Tajikistan, each with 1.8 percent, and Kyrgyzstan with less than one percent (Ministry of Commerce, GfRA, 2012).

Afghanistan's total recorded exports fell from \$540.1 million (2008) to \$515.0 million (2013), a decline of 4.6 percent. The largest export categories tend to experience the highest rates of decline, mainly dried fruit and nuts, and carpets. (UN Comtrade, 2014)

Nearly one-half of Afghanistan's recorded exports went to Pakistan (45.6 percent), although during this period the amounts of exports declined sharply, at an average annual rate of 24.3 percent (UN Comtrade, 2014). India was the second most important destination for Afghan exports, with 20.5 percent of the total, but these too have been declining in recent years (Ministry of Commerce, GfRA, 2012).

Despite declining markets, Afghanistan's exports to a number of other major markets have been growing: the United States at 316.7 percent, Turkey at 204.4 percent, the European Union at 166.2 percent, and China at 155.2 percent (Ibid). These markets offer Afghanistan significant scope for expansion and/or diversification of exports. Details of Afghanistan's exports to these countries reveal several useful insights. First, for each of these trading partners, there are significant levels of exports that are "not elsewhere classified (NEC)" under one of the SITC headings. Approximately one-half of Afghanistan's reported average exports to the EU and 80 percent of the average exports to China are NEC (UN Comtrade, 2014). Secondly, the year-to-year amounts of exports show a degree of volatility (UN Comtrade, 2014). Third, while the growth in goods exported to these countries generally is comprised of Afghanistan's traditional exports, this represents an expansion of the country's foreign markets and suggests that export-led economic strategies could have potential if pursued effectively with a new approach.

Monetary Policy Reform

In the last decade, the Afghan government focused on creating a sound macroeconomic environment to spur economic growth, with assistance from international donors. The government has undertaken reforms to introduce fiscal and monetary stability and to improve trade policy. Of the three components of Afghanistan's economy—the formal, the informal, and the illegal—the Afghan government's macroeconomic policies only directly impact the formal economy. However, the government's policies have indirect impacts on the informal and illegal economies because

these policies affect the broad incentives with which households and enterprises are presented. The Afghan government has pursued the establishment of a sound macroeconomic framework in order to increase the size of the formal economy and, in part, to give households and enterprises that currently participate in the informal and illegal economies incentives to engage in legal activities carried out in the formal economy.

To safeguard fiscal stability, the government has instituted a “no overdraft” policy, prohibiting the printing of currency to finance the government's deficit. The government introduced taxes, raising domestic revenue from negligible levels to over 4 percent of GDP in 2003 (Delawari, 2013). While this was not a sustainable strategy in the long run, in the early recovery years, it helped to establish macroeconomic stability, a pre-condition for economic growth. By the end of 2011, domestic revenues were 10.9 percent of GDP (Ministry of Finance, GfRA, 2014).

In the area of monetary and foreign exchange policy, the first major success of the Central Bank was to implement a currency reform. Between October 2002 and January 2003, the multiple currencies that had circulated since 1979 were replaced with a new *Afghani*. In a managed floating exchange rate regime, the Central Bank allows the exchange rate to fluctuate in line with market conditions. The Central Bank intervenes in the exchange market to smooth volatility, but it does not attempt to resist underlying trends of appreciation or depreciation. The major foreign exchange rate policy tool is the foreign exchange *auction*; such *auctions* were at first held weekly and are now held twice a week (Delawari, 2013).

Additional foundations for monetary stability were introduced in 2003 when the central bank was made legally autonomous from the government and introduced tools for targeting inflation. The bank established open market operations through which to manage the money supply and interest rates, thereby controlling inflation (Da Afghanistan Bank, 2006). The bank auctions overnight notes to commercial banks on a daily basis and 30-day notes on a weekly basis. The central bank has two additional tools at its disposal: the reserve requirement and overnight deposits and lending for commercial banks. However, it does not actively use these. The reserve requirement has remained steady at 8 percent, and overnight deposit and lending rates are set at a specified margin below (for deposits) or above (for lending) rates on capital notes (Delawari, 2013).

To stimulate international trade, the Afghan government rationalized customs tariffs and signed trade agreements with neighboring countries. Tariff rationalization included eliminating export duties, using the market exchange rate to value imports, and simplifying the tariff structure. Trade agreements were signed or renewed with India, Pakistan, Iran, Tajikistan, the U.S., and the European Union. The government has also undertaken an “accession” process towards joining the World Trade Organization, a process that is still ongoing.

The initial reforms enacted by the government established a more stable economic environment to restart growth after the previous decades of conflict. Real GDP grew at a compound annual rate of 9.0 percent from 2002 through 2011 (World Bank, 2014a). By definition, reported economic data only includes the formal economy.



The Central Bank has also demonstrated its ability to allow the *Afghani* (AFN) to U.S. dollar exchange rate to fluctuate in line with market conditions while remaining in a relatively stable range. The exchange rate has fluctuated within the ten-point band during the past eight years, and it does not appear to be under significant pressure (OANDA, 2014). Recently, at AFN 56.51 per U.S. dollar, it is above its 2004 level of AFN 46 per U.S. dollar, and the *Afghani* has appreciated slightly against other currencies such as the Pakistani Rupee and the Indian Rupee (Delawari 2013) (OANDA, 2014).

GDP Growth

Growth rates in the three main productive sectors of the economy, namely agriculture, industry, and services, have followed different trends in the post-Taliban period. Foreign aid has been an important driver of the service sector and one component of the industrial sector. Figure 5 below presents real GDP growth in *Afghanis* (MM) by year and sector (Central Statistics Organization, GIROA, 2014).

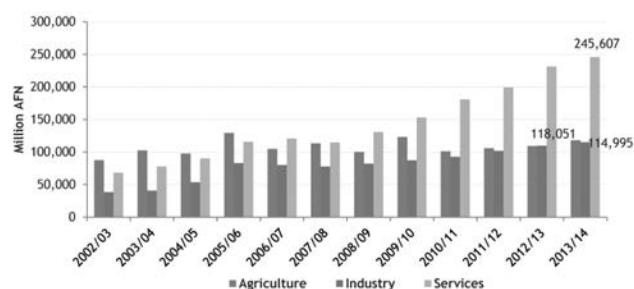


Figure 5. Afghanistan GDP in Constant (2002-03) Prices

In 2002, the agriculture sector contributed the most to economic recovery accounting for 45 percent of total GDP. The agriculture sector grew through 2005 as a result of favorable weather conditions, Afghan refugees returning to their homes in rural areas, and efforts by international aid agencies to increase the availability of better seeds and fertilizers (Rameen, 2013).

Between 2002 and 2013, the agriculture sector remained vulnerable to weather and contributed to overall GDP fluctuations. Agriculture in Afghanistan continues to be primarily subsistence-level, with less than six percent of agricultural land irrigated; most crop production is rain-fed (Ibid). Furthermore, the few existing irrigation networks depend on seasonal rain and snow. Afghanistan was affected by droughts in 2006 leading to a reduction in production (Ibid). Record precipitation led to a record harvest in 2009, which resulted in high GDP growth for that year.

In the industrial sector, construction has been the main driver of growth. Growth in construction is primarily due to the increase in public works such as roads, highways and irrigation systems, funding from international donors, and spending on projects for the military and security forces, such as NATO/ISAF military installations. Refugees returning from foreign countries have created additional demand for construction. The industrial sector has experienced consistent growth; however, it remains the smallest sector of the economy; approximately 24 percent of GDP in 2013 is attributable to the industrial sector.

In comparison to the other components of the industrial sector, manufacturing and mining have contributed very little to economic growth. Manufacturing activity, which is concentrated in small-scale processing of agricultural products (food, beverages, and textiles), is growing very slowly (Ibid). Mining currently accounts for less than one percent of GDP (Ibid).

The service sector was the main driver of GDP growth between 2002 and 2013. This growth trend, or “boom,” is largely unsustainable because it depends on large inflows of foreign aid. Although a proportion of foreign aid was revenue to foreign companies, the aid had a substantial multiplier effect, increasing demand throughout the service sector. Donor representatives visiting the country increased the demand for lodging and restaurants. This, in turn, increased demand in wholesale and retail trade for the supplies, food, and beverages necessary to these establishments. Further, more goods flowing into the country to support donor projects increased the demand for transportation and storage services. Security spending also drove growth in the service sector through government-provided security forces as well as private security services (Central Statistics Organization, GfRA, 2011) (Farhang, 2013).

A proportion of service-sector demand has come from domestic sources as economic activity has resumed and goods have been transported and traded around the country; however, the main driver of the sector is foreign aid. For example, security spending under the government's 2014 budget amounts to US \$3.4 billion (Ministry of Finance, GfRA, 2014).

Foreign Aid

Foreign aid played a critical role in Afghanistan's economy before the 1979-2001 conflicts, but it played an even more critical role in Afghanistan's post-2001 economic recovery. According to the Afghanistan Ministry of Finance Development Cooperation Report (2012), the international community committed US \$85 billion in assistance to Afghanistan between 2002 and 2011. By December 2011, US \$70 billion had been disbursed to the Afghan government. Even as Afghanistan's GDP increased, the amount of aid received grew at a faster rate, increasing from 55 percent of GDP in 2003 to approximately 93-97 percent by 2011 (Ministry of Finance, GfRA, 2013).

The United States has led the international community's development efforts in Afghanistan. Other top donors were the United Kingdom, the World Bank, and the European Union/European Community, each of which donated four percent of disbursements. Additional donors providing more than US \$1 billion in disbursements to Afghanistan from 2002 through 2011 include: Japan,

Canada, the Asian Development Bank, and the Netherlands (Ministry of Finance, GiRoA, 2012). Foreign aid flows often leak outside the country; some studies have shown that in certain cases up to 90 percent of the donors off-budget assistance to Afghanistan is not spent in the country (Ibid.).

Most international aid flows through security. Security-related sectors combined received 68 percent of the aid disbursed in Afghanistan in 2011, including within the external and the core budgets (Ibid.). Over 90 percent of aid to the security sector is spent on operating costs, including salaries, supplies, and training (Ibid.). The remaining 10 percent is spent on longer-term investment, such as building infrastructure. While a small portion of security sector spending is channeled through the core budget and funded by mechanisms such as the Law and Order Trust Fund (LOTFA), more than 92 percent of security sector spending comes directly through the external budget (Ibid.). The international community is bearing the cost of Afghanistan's security sector: the U.S. government disbursed 95 percent of Afghanistan's external security assistance in 2011 (Ibid.).

The governance sector received the second-largest share of aid, with 9 percent of disbursements in 2011. These funds have been used to enhance government institutions. Infrastructure was the third-largest share of spending with 6 percent of aid spending. These funds have been used to construct roads, establish power, and rebuild the infrastructure associated with water supply and irrigation (Ibid.).

The production and trade networks that sustained economic growth between 1930 and 1970 have not been fully rebuilt (Ministry of Mines, GiRoA, 2011). The ease of access to and the reliability of electricity remains a top constraint on private sector growth (World Bank and Department for International Development, 2009, p. 12). Trade and transit frameworks are not yet fully functional. The Afghanistan-Pakistan Transit Trade Agreement (APTTA), reached in 2010, has not yet been fully implemented. Afghan trucks were allowed to travel across Pakistan for the first time in June 2011, but only under a waiver that expired 60 days later. More work is needed to fully rebuild the ring road; a portion of the road in the west and the Salang Tunnel still require repair. Construction on many planned north-south and east-west roads has not yet begun, and railroad infrastructure is in its infancy. Irrigation, which played a key role in the development of export agriculture from the 1930s through 1970s, has not been revived. After a slight increase in the mid-2000s, the portion of agricultural land under irrigation as of 2009 was 5.8 percent, virtually the same level as it had been in 2001 (Rameen, 2013).

At present, Afghanistan's economy is heavily dependent upon foreign aid. It is possible that, when foreign aid is reduced in 2014 as part of the drawdown, a large driver of demand will be removed, and growth prospects will be seriously reduced. Some estimates assume that the growth rate will be cut in half (cutting growth rates from 10 to 5 percent), but other estimates assume an utter collapse in the economy with a 41 percent drop in GDP (World Bank, 2014b) (Rosenberger, 2011b, p. 3).



The president of the World Bank, Robert Zoellick, has warned that Afghanistan's economy is at risk of a "negative multiplier," which occurs when a withdrawal of funds precipitates an abrupt slowdown. While Afghanistan has been growing strongly over the past five years, this performance has been fueled by massive inflows of international military spending and aid. As the troops withdraw, these inflows of money from military spending and aid, as well as much closely linked private consumption, will shrink (Zoellick, 2011). This drastic decrease in spending could cause economic activities to slow or cease, resulting in increasing unemployment and destabilization with the state. These elements feed insurgency and provide incentives for citizens to engage in illegal economic activities. Increased insurgency and renewed violence could cause serious deterioration in the fragile security and governance institutions, which could lead to negative growth, throwing Afghanistan back into a downward spiral and aggravating the vicious cycle of the illegal economy.

Promising Sectors

Despite these bleak possibilities, Afghanistan and its donors can draw lessons from the country's past to rebuild a more sustainable economy and attract households and enterprises away from the illegal economy into the formal economy. Foreign aid received from the 1930s to the 1970s helped to establish a stable economy through the development of facilities and infrastructure that allowed Afghanistan to increase its domestic production, increase domestic trade internally across regions, and increase exports externally with its neighbors and international markets. The same productive sectors that drove growth in that period - agriculture and light manufacturing - show potential for growth today. Mining also shows potential, mainly as a source of government revenue that can help fund public services and other development initiatives. Services and construction may continue to grow if domestic drivers of growth can be fully cultivated.

In the agriculture sector, the production of fresh and dried fruit has been the most dynamic sub-sector over the past four years. In 2013, exports for dried fruit reached \$137M (USD) and fresh fruit reached \$18M (USD) (Central Statistics Organization, GiRoA, 2013). If productivity and market access can be improved, these cash crops can be a promising source of growth in the future. The U.S. government estimates that investments in market access infrastructures such as roads, cold storage and input provision, as well as increased technical assistance in quality assurance, could more than double the production of high-value crops by 2020 and increase the value of agricultural production by US\$1 billion annually (USGS, 2011, p. 15).

In industry, most manufacturing is carried out by small and medium-sized enterprises. Manufacturing employment and revenue is concentrated in a few sectors. The food products and textile manufacturing industries account for over 80 percent of business establishments and 80 percent of jobs in the manufacturing sector (Central Statistics Organization, GiRoA, 2010). Given that these industries make up such a large share of activity in the manufacturing sector, there is potential to increase the sector's performance through initiatives that focus on developing the productivity of small and medium-sized enterprises.

Additionally, Afghanistan has a wide variety of fuel and mineral resources, including natural gas, oil, copper, iron, gold, silver, rubies, emeralds, lapis lazuli, asbestos, limestone, and other metals and minerals (USGS, 2011, pp. 45-63). The infrastructure to extract this mineral wealth is still in its infancy, but several large tenders have been awarded or are under Cabinet review, and many more are planned. The government expects mining, gas, and oil projects to generate revenues of US \$1.5 billion in 2016, growing steadily each year to reach US \$3.8 billion by 2026 (Ministry of Mines, GiRoA, 2011). The World Bank has estimated that the Aynak copper mine and the Hajigak iron ore project could create 120,000 jobs, and that as the mining sector is developed, an additional 165,000 jobs could be created in upstream and downstream activities (World Bank, 2014a) (USGS, 2011, p. 7). While this would represent strong growth in the sector, these employment numbers are small in comparison to the 17.5 million people engaged in agriculture. The mining sector holds strong potential as a source of government revenue and GDP growth, but is not expected to be a large driver of sustainable employment.⁸

The service and construction sectors have been important engines of growth to date for the private and public sectors, but they are currently supported by unsustainable foreign aid flows. The future of the service and the construction industries will depend on establishing sustainable growth in agriculture, manufacturing, and mining, which will in turn create demand for transportation and wholesale trade services, as well as for construction of facilities. The future of the service industry will also depend on growth in household incomes, which drives demand for goods and services sold through retail trade, financial services, personal services, and others.

The Silk Road

Geography has isolated Afghanistan from world markets in modern times, but historically, the region formed the center of the trade routes that constituted the ancient Silk Road. In 2011, the "Silk Road" framework for re-establishing Afghanistan as the trading hub for Central Asia was instituted by the U.S. State Department Under Secretary of State Hillary Clinton (U.S. Department of State, 2014). This framework centered around a regional economic integration strategy to stabilize and develop a sustainable economy for Afghanistan and to re-establish this landlocked nation as the hub of the trade routes forming the New, or Modern-day, Silk Road.

The Ancient Silk Road

For more than 1,000 years, the Silk Road was a trading network that linked the peoples of Europe and the Middle East with the vast riches of China. Regardless of their rulers, religions, or ethnicities, the towns and way stations along the routes—including the Afghan cities of Herat, Kabul, and Mazar-i-Sharif—grew rich from trade. Merchants invested their earnings in these cities, and local rulers raised palaces and monuments with the taxes and tariffs they collected. Industries sprouted up to serve the commercial hubs: inns, blacksmiths, and livestock herders (Farhang, 2013). The story of Herat, which bestrode several trading routes, is a good example of how the Silk

⁸ Since 2010, TFBSO has enabled the Afghan Government to monetize its natural resources through private investment in exploration, development and extraction (see also the Minerals Resource Development section of this report).

Road could bring wealth to a city. Goods moved north to Merv and Bukhara, south to Iran, east to Balkh and China, and west to Rome and Byzantium. Medieval visitors described a prosperous town whose fields, watered by *qanats* (Persian-style underground irrigation systems), produced wheat, grapes, and apricots. The city had four gates, numerous shopping bazaars, a massive mosque, and a citadel. Islam was the religion, but a local Zoroastrian temple, a Jewish synagogue and a Christian church bespoke Herat's cosmopolitan atmosphere. The trade route also facilitated the spread of Islam and Buddhism into China from Central Asia (Ibid). With the end of Mongol rule in the 1300s, trading became difficult under the lawless rule of warlords and bandits. In the east, China's Ming dynasty (1368-1644) adopted isolationist policies that discouraged long-distance trade. The biggest blow came in the late 15th century, though, when the discovery of sea routes to India and China ended the reign of the Silk Road as a major trade corridor for Europe. No longer was it economical to carry goods along a land route when spices and silks could be transported less expensively by ship (Ibid). As trade volume diminished, local commerce in traditional products such as horses and spices endured, and some new trading patterns emerged, driven in part by demand for Indian tea. Cities like Samarkand, Bukhara, Herat, and Balkh remained centers of trade, culture, and craft, but the fabled Silk Road continued its long and gradual slide into insignificance (Vaugh, 2007, p. 3).

The Silk Road made Afghanistan prosperous in the early years of its existence, although the clash of ancient and medieval empires kept the country divided: India's Moghal Empire controlled Kabul and the east; Uzbek emirs ruled the north (Kunduz, Maimana, and Mazar-i-Sherif); and western Afghanistan was more or less Persian territory, with Herat forming part of the Shiite Safavid Empire (Farhang, 2013). In the mid-18th century, an Afghan soldier named Ahmad Shah Durrani united the region politically and militarily in what historians consider the first Afghan state, although the region included parts of modern-day Pakistan, Iran, and the Central Asian republics. This Afghan "empire" began to crumble at Durrani's death, and by the early 19th century it had devolved into the Kingdom of Kabul, which was little more than a rump state picked over by resurgent Indian, Central Asian, and Iranian princes (Ibid). It was British and Russian expansion, however, that relegated Afghanistan to the role it played as a buffer state consistently for the next 200 years. As the British advanced into northwestern India, the Russians consolidated their hold on former Silk Road centers such as Bukhara and Samarkand. In two separate expeditions (first in 1839-42 and again in 1878-80), British commanders tried to seize and dismember Afghanistan, but both campaigns ended in failure. Returning British soldiers spread lurid tales of castration and torture that reinforced the image of Afghanistan as a harsh and lawless land (Ibid). During an 1894 truce in their century-long "Great Game" rivalry, the British and Russian governments agreed that Afghanistan best served their interests as a buffer state bounded by the Amu Darya River in the north and the Durand Line to the south and east. The Durand Line would ultimately form the boundary between Afghanistan and Pakistan (then British India), leaving Pashtun tribal territory on either side of the border, with repercussions for later Afghan history (Ibid).

Buffer State

British and isolationist native rulers neglected Afghanistan's transportation network even as railroads multiplied across India. No railroad development schemes, British or Russian, ever moved

beyond the planning stages. The reformist King Amanullah (r. 1919-1929) tried to advance the idea in the 1920s, but to no avail (Ibid). The 20th century increased the country's isolation still further. The emergence of the Soviet Union centralized Russian power in Moscow. Even before the Soviet invasion in 1979, Afghanistan was stagnating under a state-controlled economy and sporadic interventions from Cold War rivals the U.S. and U.S.S.R. A few roads, power lines, and other infrastructure projects had been built, but the country remained largely undeveloped, its people reliant on subsistence agriculture (Ibid). With the Red Army invasion in 1979, Afghanistan went from a buffer zone to a conflict zone. Private trade was forbidden, and a black-market shadow economy typical of communist regimes took hold, splintering commerce into legal and illegal domains. Educated Afghans fled to the West, and millions of refugees vanished into neighboring countries. As NATO's Civil-Military Fusion Center noted in a 2010 report, the results were disastrous:

After the Soviet invasion, flights between Afghanistan and Western Europe were suspended. This, combined with the inability to sell surplus goods and an increasing reliance on Soviet staple commodities, exacerbated trade relations with the West and caused an almost 50 percent decline in total imports and exports. (Nijssen, 2010)

Soviet withdrawal and the elimination of the Russian-backed government in Kabul in 1992 fractured even those economic links that had survived the occupation. Any chance to reorient the Afghan economy toward the newly independent nations of Central Asia was thwarted by the country's descent into civil strife. A "war economy" based on narcotics trafficking and predation by local commanders emerged. Ironically, the devolution of central authority during this period boosted transnational trade as borders became more permeable (Farhang, 2013).

The Taliban, which seized Kabul in 1996, generated revenue by taking over roads, towns, airports, and border crossings. Andreas Wimmer and Conrad Schetter, German experts at the University of Bonn, calculated that by imposing a 6 percent tariff on imports, the Taliban was able to earn \$2.1 billion in 1997 alone (Wimmer & Schetter, 2002). Although the Taliban regime was deposed in 2001, the cumulative damage done during the previous two decades has been difficult to reverse.

The New Silk Road

The New Silk Road Strategy was developed to address concerns that, despite successes that were measured in terms of hundreds of new schools and clinics, the country lacked an overarching development strategy that would move it towards economic sustainability and prevent an economic collapse after the military drawdown in 2014.

With this in mind, the U.S. and its allies can promote peace and stability in the region by helping to open new markets that connect Afghanistan to Central Asia, Pakistan, India and the global marketplace. Countries in the region are aware that in order to prosper economically, they must cooperate rather than exclude. While promoting connectivity in a landlocked state such as Afghanistan is challenging, the benefits will be transformative and the cost of failure too great to measure. Accordingly, the United States is promoting the New Silk Road initiative linking Central and South Asia in four key areas:



(1) *Regional Energy Markets:* With a population of more than 1.6 billion people, South Asia's economies are growing rapidly, and South Asia's demand for inexpensive, efficient, and reliable energy is growing in turn. At the same time, Central Asia is a repository of vast energy resources - including oil, gas, and hydropower. Directing some of these resources southward from Central to South Asia, through Afghanistan, would be advantageous for the region's energy suppliers and energy users alike. The U.S. has provided:

- Support for CASA-1000 regional electricity grid, including a \$15 million contribution following the March 2014 World Bank commitment of \$526 million and support for the CASA Secretariat;
- More than \$1.7 billion in support of energy transmission lines, hydropower plants, and associated reforms in Afghanistan since 2010; and
- Adding 1,000 megawatts to Pakistan's power grid, supplying power to more than 16 million people.

(2) *Trade and Transport:* Improving trade and transit in South and Central Asia means improving the "hardware" of reliable roads, railways, bridges, and border crossing facilities. But it also means harmonizing national customs systems, bringing states into multilateral trade institutions, and getting neighbors to work together to break down institutional and bureaucratic barriers to trade. The U.S. has provided:

- More than 3,000 kilometers of roads built or rehabilitated in Afghanistan;
- Support for Kazakhstan and Afghanistan's accession to the WTO;
- Technical assistance for the passage of the 2010 Afghanistan-Pakistan Transit-Trade Agreement (APTTA), and support for the Cross-Border Transport Agreement (CBTA) between Kyrgyzstan, Tajikistan, and Afghanistan.

(3) *Customs and Border Operations:* Profitable regional trade depends in large part on speedy and efficient transit. It also depends on border security and good governance that prevents transit of weapons, drugs, and human trafficking. The U.S. works with regional partners to reduce border wait times, increase cooperation at key checkpoints and crossings, and prevent transit of illegal and dangerous material. With U.S. support:

- Since 2009, intraregional trade in Central Asia has increased by 49 percent;
- Since 2011, the average cost of crossing regional borders decreased by 15 percent;
- Customs procedures have been streamlined at seven Afghan border crossing points, resulting in expedited trade with average release time down from eight days in 2009 to three and a half hours in 2013, saving \$38 million annually.

(4) *Businesses and People-to-People:* Regional economic connectivity is more than infrastructure, border crossings, and the movement of goods and services. Sharing ideas and expansion of economic markets also creates opportunities for youth, women, and minorities and enhances regional stability and prosperity. The U.S. has:

- Funded university studies for hundreds of Afghan students across Central Asia;



- Sponsored the Central Asia-Afghanistan Women's Economic Symposium and South Asia Women's Entrepreneurship Symposium in support of thousands of women entrepreneurs and business owners;
- Organized trade delegations, meetings and conferences in Almaty, Islamabad, Kabul, Mazar-i-Sharif and Termez resulting in over \$15 million in trade deals.

As will be seen, many of TFBSO's projects have complemented the New Silk Road Strategy.



Methodology

Overview

A best practice, Economic Impact Assessment (EIA) was performed by combining a bottom up project investment-based assessment with a top down macroeconomic impact analysis. The methodology used to assess Task Force projects first employed a conventional macroeconomic Social Accounting Matrix (SAM) and Computable General Equilibrium (CGE) model to assess the economy-wide impact and multiplier effect of Task Force projects. Second, Task Force performed project-specific cost-benefit analyses (CBA) along with proprietary Senturion political risk modeling to understand both the political and economic risks for more accurate project valuation. Finally, the model maps project specific CBA's into their macroeconomic multiplier impact across several sectors using an innovative "macro-micro data bridge". This integration of models and data directly between the business-level input and their macroeconomic impact combines the flow and output to yield micro and macroeconomic data that may enable policy makers and key stakeholders to make decisions with greater clarity.

The CBA examined the investment return of Task Force projects. These results were then subjected to Senturion modeling to determine how political factors would affect economic viability of any given project. These two modules can be employed as stand-alone methods to analyze the merit of any given individual project. The next step is to see how these individual projects are likely to perform over time in the larger Afghan economy, subject to economic growth and fiscal policies, focusing on broad components of the economy such as investment, savings, donor resources, informal and illegal economies, government expenditures / revenue and international trade. This analysis is performed by the macroeconomic components of the EIA model, *i.e.*, CGE and SAM resulting in the final outputs of Gross Domestic Product (GDP) and Government Revenue. Thus, the analysis will not only ascertain the profitability of any given project (or group of projects) based on a Senturion-risk adjusted cost benefit analysis, it will be followed by a determination of how this group of projects will affect the greater economy as reflected in GDP and Government Revenue.



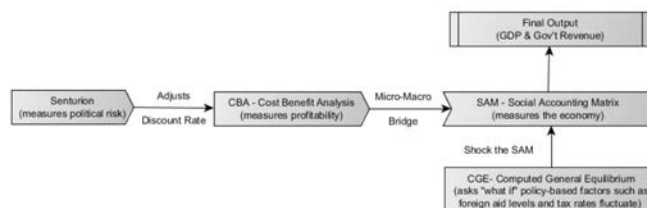


Figure 6. EIA Methodology Overview

Data Collection

This Economic Impact Assessment model relies on comprehensive macroeconomic and microeconomic data. The macroeconomic data referenced throughout this report is Afghanistan country-level GDP at the sector level, National Budgets Monetary, Fiscal, Price, Trade, Demographic, and Foreign Aid data. Macroeconomic data also incorporates information on Afghanistan's opium market. The microeconomic data referenced throughout this report is TFBSO project-level data from on the ground sources and expert studies. Multiple sources were utilized to collect the requisite macroeconomic and microeconomic data. The following subsections present the macroeconomic and microeconomic data collection process, data sources, and data limitations. Structured qualitative data was also utilized for political risk forecasting and modeling. This qualitative data was obtained from TFBSO, Afghan, and US Government Subject Matter Experts (SME's) familiar with the political and security risks of each project.

Macroeconomic Data Collection Process

Macroeconomic data collection began in September of 2013. The initial scope was to collect data for every year between 1960 and 2013. Not all variables were collected with the same level of success; Afghanistan macroeconomic data starts to become more consistent starting in 2002. Research was conducted over several months to determine macroeconomic data availability from the following sources: the Asian Development Bank (ADB), the International Monetary Fund (IMF), the Organization for Economic Cooperation & Development (OECD), the United Nations (UN), and the World Bank. Primary online databases include: the UN's Conference on Trade Development (UNCTAD), the UN's Food & Agriculture Organization (FAOSTAT), the UN's Office on Drugs and Crime (UNODC), and the World Bank's Economic Indicators.

In addition, research was conducted to determine macroeconomic data availability via Afghanistan online databases, to include data published by the Afghanistan Central Statistics Office (CSO), Da Afghanistan Bank (DAB), and the Ministry of Counter Narcotics (MCN). The Annual Statistical Yearbook published by the CSO is one of the primary data sources incorporated within the model. In

addition, the macroeconomic database incorporates data from the National Risk and Vulnerability Assessment (NRVA) (2007, 2011 and 2014) and the Integrated Business Enterprise Survey (IBES).

An on-site presence was required to collect historic data and current but non-digital data from the IMF and the Afghanistan CSO. Historic CSO Annual Statistical Yearbooks were collected from the CSO in Kabul, Afghanistan. Hard copies of historic and current but non-digital copies of the IMF's Government Financial Statistics Yearbook and International Financial Statistics Yearbook were collected from the IMF in Washington, DC. Often, the published data did not correlate between sources, raised theoretical questions about their validity or in other cases did not exist. In the cases of questionable data integrity, we consulted several experts to consistently build, reconcile and vet the necessary information to run the models. Once the data collection was completed, several methods of quality control were employed, from simple correlations to time series growth patterns, percentage allocations to the different components of GDP as well as comparisons to countries with similar economic profiles to ensure that the structural indicators were realistic (to include Myanmar which has an opium-based economy, although not to the extent of Afghanistan; Mozambique because of the donor dependency and conflict environment; Kosovo because of its trade imbalance; Kenya, Mozambique, Rwanda, and Sudan due to their agricultural-based economies; and Chad because of its literacy rate).

Macroeconomic Data Sources

The following table presents a summary of the macroeconomic data collected for the EIA model, to include the data variables, the years of data available for analysis, and the data source.⁹ The data was collected in constant US dollars (several years), current US dollars, and current Afghanis.

Table 3. Macroeconomic Time series Data Summary

Economic Component	Data Variables	Years of Data	Sources
GDP	Consumption, expenditures, gross capital formation, income, investment, production, remittances, savings, and wages.	1960-2013	ADB, CSO, DAB, UN, & World Bank,
Monetary	Broad money, foreign assets and liabilities, narrow money, outstanding loans and deposits, quasi money, and reserve money.	1960-1991; & 2003-2012	IMF
Fiscal	Government Grants, Taxes, including Income, Tariffs and Consumption, Other Government Revenue, Social Contributions and Taxes. Rates for individual goods and income levels were also collected.	2006-2012	CSO & IMF

⁹ The data variables presented in the table include many subcomponents, and the "Years of Data" column presents a summary for the consolidated list of Data Variables. This means that GDP data may be available for all years between 1960 and 2013; however, 53 years of data may not be available for the savings subcomponent of GDP. Moreover, not all series were fully populated.

Economic Component	Data Variables	Years of Data ¹	Sources
Trade	Exports and imports by commodities, price, quantity, and country of origin and destination.	1960-2013	CSO, IMF, UN, & World Bank, UNODC, UNCTAD
Foreign Aid	Foreign aid committed and disbursed, on and off budget.	1960-2013	CSO & OECD
Opium	Cultivation, prices at different levels of the value-chain, production, and yield.	1990-2013	MCN & UNODC
Prices	Consumer Price Index (CPI), exchange rate, interest rate, and the price of specific commodities.	1960-2013	CSO, IMF, & World Bank
Demographic	Birth rate, education achievement, employment, fertility rate, labor force, life expectancy, literacy rate, mortality rate, population, and unemployment.	1960-2012	CSO, IMF, UN, & World Bank

Macroeconomic Data Limitations

The following timeline summarizes Afghanistan's macroeconomic data limitations:

- 1960-1978: The quality of the data is mainly on par with other developing countries.
- 1978-1992: The Soviet occupation altered the system of accounting.
- 1992-2002: Data collection was limited during the reign of the Mujahedeen and the Taliban regimes.
- 2002-2014: Afghanistan data collection is more robust for some but not all economic indicators.

The most significant data limitation is the lack of technical coefficient data. Most countries have at least one Input-Output study; these studies are usually conducted in conjunction with economic surveys and censuses. However, Afghanistan has never conducted an Input-Output study and therefore technical coefficient data is not available for the country. The Eora MRIO Database publishes Input / Output (I/O) matrices for every country in a time series with different degrees of reliability according to the availability of studies and data. (Lenzen, Kanemoto, Moran, & Geschke, 2012) (Lenzen, Moran, Kanemoto, & Geschke, 2013). The 2011 Afghanistan I/O was adjusted and incorporated into the EIA model.

Records and capacity to construct country data for Afghanistan has improved tremendously since 2005. At the micro-level it was often a challenge to have records kept by the individual business, let alone the businesses that work in the informal and illegal economy that do not file information with the government. To compound this problem, there are some provinces that have not been

surveyed for many years due to security concerns; partly for the same reasons a census has not been conducted in decades.

The data collected for this project has been triangulated with many sources and vetted with many experts, local and international whenever questions arose. For example, the cultivated opium area in 2000 was 82,171 ha and, in 2001 it was only 7,606 ha according to UNODC and corroborated by other sources. The data was correct; Taliban was making a point. Another example, knowing that Afghanistan has mostly imported energy through the years, the data showed a period in the 1980s and 1990s when the country was exporting energy. This was during the Russian occupation as they were removing resources. In some cases decisions had to be made about conflicting information. Trade information showed ratios of imports to exports that could vary from 8 to 17 for the same year. This discrepancy was due to exchange rates, to re-exporting, to informal imports, to not including opium in some export statistics according to different experts. All their answers were considered and analyzed before reaching a consensus. Furthermore, even some CSO data was not detailed enough to inform the model. For example, in 2011 “change in inventory is in the same line with data discrepancies” and the total is a higher number than fixed investments. Experts provided information that the change of inventories should be no more than 3 percent of fixed investments.

The data set compiled in this study as well as the lack of data in key sectors should serve as a baseline for further analysis and data collection for the government of Afghanistan, as well as investors and academics. The inclusion of illegal, informal and donors on and off budget in the data helps paint the most realistic picture of the Afghan economy, even after selecting conservative assumptions about the size. For example, illegal is assumed to be 15 percent, informal 35 percent, and leakage of donor’s off-budget 70 percent. The CBA data collected should serve as an example of the benefits that this type of effort offers to the decision makers.

Microeconomic Data Collection Process

Microeconomic data (TFBSO project-level data) collection also started in September of 2013. TFBSO government and contractor personnel provided the majority of microeconomic data. Task Force project data includes quantitative cost and benefit data as well as qualitative stakeholder data.

Stakeholder data for political risk was not collected for cancelled and completed TFBSO projects. Stakeholder data was also not collected for TFBSO human capital projects (human capital projects include training projects and projects that increase the technical capabilities of the Afghanistan labor force; to include Afghanistan government employees). Input data for Human Capital projects was collected in the form of individuals trained, or given the opportunity to attend and study in Afghanistan schools (K-12 and college).

The Task Force Comptroller Office provided all TFBSO cost data. The end-of-April 2014 financial report was collected to estimate the cost of all active and historic TFBSO projects. It was assumed that open contracts from fiscal year (FY) 2013 and FY2014 would have a total disbursement rate of approximately 86% before they were officially closed (the 86% burn rate was calculated using



historic contract expenditures). The Task Force financial report incorporates Other Contingency Fund (OCO) and National Defense Authorization Act (NDAA) funds.

Microeconomic Data Sources

This section presents a summary of the microeconomic data collected for the EIA model, to include a description of the data element and source.¹⁰ Energy Program microeconomic cost and benefit data was provided by TFBSO oil and gas industry SMEs. These SMEs provided forecasted oil and gas production and prices for all four hydrocarbon tenders (Amu Darya, Totimaidan, Afghan Tajik I, and Afghan Tajik II). Additionally, TFBSO SMEs provided data on the long-term cash flows associated with domestic and international gas transmission, manipulation, and consumption.

Data for the Minerals Program was provided by the United States Geological Survey (USGS) and US Central Command (CENTCOM). USGS provided cash flow forecasts for the mining industry given estimated resource levels throughout the country. CENTCOM provided cost and benefit data associated with developing and maintaining a country-wide railroad for the benefit of mineral transmission.

Data for Indigenous Industries was collected from TFBSO project managers and SMEs. Forecasted carpets, cashmere, and artisanal cash flows were based on realized returns and anticipated industry growth rates.

The Investments Program provided detailed financial models for those companies receiving private investment support. In addition, the Investments Program provided feasibility studies for those industries and companies receiving Public Private Partnership assistance. Actual company revenue and cost data was collected from those Afghan businesses receiving Business Advisory support.

Long-term benefit and cost data for Historic projects was collected from agricultural SMEs, TFBSO project managers, Special Investigator for Afghanistan Reconstruction (SIGAR) reports, and open source research.

Microeconomic Data Collection Limitations for Projects

Limited-to-no human capital or revenue data is available for the following projects:

- Energy Program: Kashkari Demining, Kushka Seismic, and Micro-Hydro Power.
- Investments Program: Most of the companies that received Business Advisory assistance lack long-term financial data.
- Minerals Program: Village Stability Operations.
- Historic: Limited data is available on the outcome of the following historic projects:

¹⁰ More detailed information on microeconomic data assumptions can be found in the Assumptions section in the Appendix.



- Agricultural Diversification & Revitalization: Data is not available on the current status of the Pomegranate Cold Storage facility. The Gereshk Facility and the Raisin Facility are currently closed; therefore, data is not available on the potential economic benefit of these projects.
- Industrial Development: The number of teachers impacted by the construction of the Herat Teacher's Training Institute is unknown. The human capital impact of enhancing the security infrastructure at a Judicial Building in Herat is also unknown.
- Banking & Financial System Development: The Economic Roundtable Conference project helped to train U.S. military personnel prior to deploying to Afghanistan; however, data is not available on the number of U.S. military personnel that participated in the training.
- Women's Advancement: Information on the benefit of the Women's Vocational School is not available.

Qualitative Data

Structured qualitative data was utilized for Senturion political risk forecasting and modeling. This data was obtained through consultations with subject matter experts that attempted to enumerate the political and security risks of TFBSO projects.

Cost-Benefit Analysis

The Cost Benefit Analysis (CBA) examined the economic viability of various Task Force projects based on best practice CBA analysis generally used for finance, policy and projects using Guidelines for the Economic Analysis of Projects (Asian Development Bank, 1997). These guidelines base the analysis only on the financial costs and benefits in the national economy in which a project is located (i.e., Afghanistan) to be included in the analysis (Adhikari & Weiss, 2003). Thus, the Internal Rate of Return (IRR) shows the return on national resources committed to the project, and Net Present Value (NPV) captures the change in national income for the economy (Ibid.). The CBA model computes benefit-cost ratio (BCR), NPV, and IRR as well as key input variables such as initial capital investment, operating and maintenance (O&M), and expected revenues. The analysis separates payments to government to analyze the project's impact on government income. This report presents time horizons from both a macroeconomic and specific project perspective.

Net Present Value

NPV is the discounted present value of all project benefits, net of costs. All present value calculations were computed beginning in 2010 (the inaugural year of TFBSO projects in Afghanistan). This approach allows comparisons between all TFBSO projects using project-specific discount rates derived from a consistent temporal viewpoint. Undiscounted costs and benefits were also reported to allow analysis of future cash flow projections without discount assumptions.

Technically, all projects with positive NPV should be initiated from a corporate finance perspective. However, as estimates are subject to a margin of error, it is a worthwhile exercise to study differences in NPVs between projects. Utilizing a base year is necessary for drawing



comparisons, as moving through time entails changing not only the exponential discounting factor (i.e., the number of time periods in the future before which a cash flow occurs), but also changing the discount rate itself as underlying credit conditions and other relevant factors shift the basis on which the discount rate is computed at a given point in time.

Benefit-Cost Ratio

Benefit-Cost Ratio (BCR) is calculated as the discounted value of present and future benefits divided by the discounted value of present and future costs. "The BC ratio is a useful measure because when there are a large number of proposals, there may not be enough resources available to undertake them all, even if they all have net present values greater than zero. As a rule of thumb, picking the projects with the highest BC ratios can lead to maximum value for money invested in terms of contributing to outcomes" (Ibid.). If the BCR is greater than 1, the project is an economically viable candidate. This report presents B/C ratios using discounted total benefits and discounted total costs on a 2010 basis, as these reflect the current value of expected benefits. The presentation of undiscounted costs and benefits allows the calculation of BC ratios on the basis of any other year and discount rate assumptions (or with no discounting depending on the type of project).

Discount Rate

All else being equal, a higher discount rate reduces the net present value of a project, and selecting a lower discount rate increases the net present value. The discount rate includes the following:

- Financial uncertainty and risk. There is necessarily some degree of uncertainty as to the relative risk associated with the realized returns on a given project. The higher the risk, the higher the discount rate. (New Zealand Treasury Department: Business Analysis Team, 2005, p. 27).
- The "rate of time preference." Most people prefer consumption now rather than later. Thus, a dollar available now is more highly valued than one received later.

In the context of Afghanistan, it can be argued that the relatively high risk level, insecurity, and instability should be reflected in a higher discount rate. The Asian Development Bank uses a base case financial discount rate of 12 percent in evaluating projects in post-conflict fragile states.

Risk-Adjusted Discount Rate

Although CBA best practices capture financial uncertainty and risk well, they do not take into account the political dynamics and risk inherent in a post-conflict Afghanistan. Used by the World Bank and the US Government, Senturion analysis of political and security variables revealed risks that called for adjusting the discount rate. (World Bank, 2005) (Nunberg, Abdollahian, Green, & Perlman, 2010) and (Abdollahian, Baranick, Efird, & Kugler, 2006). For example, if the political risk is 13.0% (in the Upstream Hydrocarbon Project Afghan Tajik I), the total discount rate is adjusted to



25.0% from the baseline 12% financial discount rate. For historical projects, there is no need to account for political dynamics and apply political risk as these projects have been completed.

Internal Rate of Return

IRR is the discount rate that could be paid for a project that would leave enough money to cover investment and operating costs while still allowing the investor to break even. In other words, IRR is the discount rate for which the present value of total benefits equals the present value of total costs (Shively & Galopin, 2009). If the IRR exceeded the Senturion Risk-Adjusted discount rate, the project could be profitably undertaken.

Senturion Model

A major criticism of development projects is that they seldom adequately take into account various external effects on projects, such as political or social conditions, uncertainty and risk (Nunberg, Abdollahian, Green, & Perlman, 2010) (Abdollahian, Baranick, Efird, & Kugler, 2006, p. 3). Many project CBA's in feasibility studies are often overly optimistic because they ignore some intangible risks or challenges, such as political hurdles to implementation. It is also important to acknowledge the limitations of quantitative analysis, which cannot easily come to grips with intangibles, such as the economic gains from activities that contribute to increased security and stability or that engender the environment for private sector investment. This is particularly important in a conflict-affected fragile state such as Afghanistan. Senturion modeling remedies these deficiencies by simulating the political dynamics within regional, domestic, and international contexts and by predicting how the positions of key groups and actors will evolve over time (Abdollahian, Baranick, Efird, & Kugler, 2006, p. 4).

Senturion fuses advances in predictive analytics with SME inputs to anticipate political outcomes in advance. Senturion maps and tracks political, social, economic and military stakeholders' interests, to accurately predict how these interests will act, react and interact with each other to determine political outcomes. Using this baseline, Senturion can identify successful courses of action to shape political outcomes, simulate multiple hypothetical scenarios of interest, and identify early warning events for significant change (Abdollahian, Kugler, Nicholson, & Oh, 2010).

Working with SMEs, Senturion's first generates a 'snapshot' of the current political landscape on an issue selected for analysis (e.g. political support/opposition for a particular TFBSO project). SMEs provide structured inputs on individuals, groups and entities, on the different political positions they adopt, their potential to influence outcomes, and how important the issue is to them. Using proprietary Agent Based Modeling, spanning game theory, network and risk analysis, Senturion simulates stakeholders' round-by-round political interactions, animating the picture into a 'movie' to show the dynamics of how political interests and outcomes will likely evolve. Using this base that reflects current conditions, analysis can explore implications of different strategies, courses of action, or policy approaches. Senturion can help determine if and how political outcomes can be shaped in advance. Senturion can simulate outcomes from hypothetical scenarios that might take place. The baseline assessment, policy shaping and hypothetical scenarios directly address changes



along the specific issue of interest. At each step the interaction among issues and the coalition among agents emerge, providing specific insights about individual interactions and potential opportunities to alter them.

In 2005, the US Defense Intelligence Agency (DIA) selected Senturion as the world's premier software capability on both predictive functionality and ability to execute (Defense Intelligence Agency, Research and Requirements, 2005). In 2007, the Joint Warfare Analysis Center verified and validated Senturion. Over the last 10 years, Senturion has been deployed to over 35 different enterprises, including the US Intelligence Community, Department of State, DoD, the World Bank, the United Nations as well as private sector companies. This methodology has been applied across diverse disciplines, including diplomacy, military campaigns, economic accords, and business negotiations (Ibid.). In the current Afghan context, where the potential for intense political conflict remains high, it is important that TFBSO best practice economic analysis be augmented with realistic political impact assessments.

Senturion Processes

The Senturion computer simulation analysis was conducted in six steps (Ibid.):

1. Framing of the issue. Asking the correct question is arguably the most pertinent step to getting the best predictive answer to any problem.
2. Identifying the issue. The issue must be linear and monotonic, *i.e.*, arranged from the worst possible outcome on one end to the best possible outcome on the other end.
3. Developing a continuum by defining the range of possible outcomes pertaining to the issue.
4. Inputting the data. The data on stakeholders were obtained by either interviewing subject matter experts or obtaining information through open-source media reports combined with academic knowledge.
5. Identifying the individual stakeholders and the groups to which they belong.
6. Identifying the level of group influence. Level of individual influence, individual salience in regard to the issue, and individual position were defined on the issue continuum.

These six steps were undertaken in four phases: 1) framing, 2) input, 3) modeling, and 4) output (Ibid.).



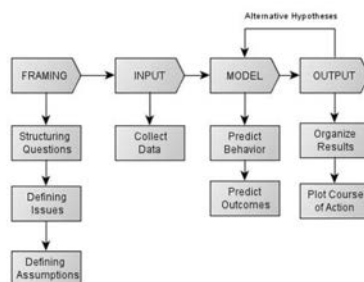


Figure 7. Four Phases of Senturion

Framing provides an opportunity for analysts and SMEs to challenge factual underpinnings before inputting into the model. Inputting involves a collaborative contribution of data by SMEs to populate the model. First, the stakeholders and the groups to which they belong must be identified; this is followed by SME determination of individual and collective policies, power, and salience. The group and stakeholder modeling require the prioritization of divisive issues, probable outcomes, and available solutions. The output provides forecasting of complex dynamics while permitting SMEs to introduce additional variables to identify successful courses of action.

Position, Power and Importance

The model defines the political landscape based on stakeholders, position, influence, and importance. For any given issue, the first task in defining the political landscape is to identify the stakeholders. The second is to identify the position each stakeholder has adopted. Third, one must assess which stakeholders are in a position to influence the outcome. Fourth, the importance of the issue to the stakeholder must be determined (Ibid.). These phases are illustrated below in Figure 8:

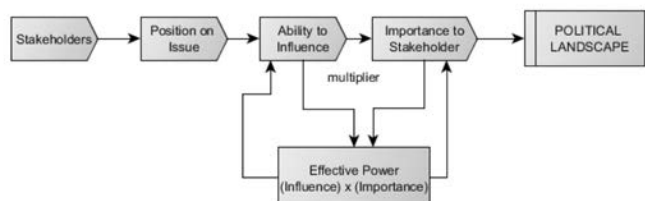


Figure 8. Senturion Stakeholders

Position on Issue (Policy): This is the stakeholders' preferred or stated position based on the defined range of positions on the issue continuum. The following scale was implemented specifically for this analysis:

- **0-20: Actively Oppose:** Publicly voices opposition and actively seeks to prevent implementation through political means or by force.
- **21-40: Passively Oppose:** Voices opposition in private.
- **41-60: Neutral:** Indifferent such that the stakeholder may be persuaded to adopt alternate positions depending on external influences or incentives.
- **61-80: Passively Support:** Voices support in private.
- **81-100: Actively Support:** Publicly voices support and actively seeks to ensure successful implementation.

Ability to Influence (Power): The group having the most power and the individual within the group are indexed at 100. Each stakeholder is assigned a value relative to the most powerful stakeholder. For example, two stakeholders with influence scores of 30 and 70 combining their power will be equal to the most powerful player at a score of 100 (Acertas, 2013).

Importance to Stakeholder (Salience): This defines how important the issue is to each stakeholder. It measures the stakeholder's willingness to achieve the desired policy position. Table 4 presents the data collected from TFBSO SMEs on stakeholder position, influence, and importance related to the Upstream Hydrocarbon project group.

Table 4. Senturion Stakeholder Values, Upstream Hydrocarbon Project Group

Stakeholder	Group	Position	Indiv Influence	Grp Influence	Importance
President Ghani	President	75	100	100	30
Presidential Economic Advisor	President	75	90	100	30
Presidential National Security Advisor	President	75	90	100	30
Presidential Legal Advisor	President	75	80	100	30
Prime Minister Abdullah Abdullah	Prime Minister	75	100	100	30
Former President Karzai	Former President	75	100	30	30
Upper House	Parliament	50	65	85	30
Lower House	Parliament	50	100	85	30
Abdullah - Ministry of Commerce & Industry	Council of Ministers	90	30	85	70
Abdullah - Ministry of Defense	Council of Ministers	50	10	85	30
Abdullah - Ministry of Foreign Affairs	Council of Ministers	50	10	85	30
Abdullah - Ministry of Mines & Petroleum	Council of Ministers	100	100	85	88
Ghani - Ministry of Economy	Council of Ministers	50	10	85	30
Ghani - Ministry of Finance	Council of Ministers	90	70	85	80
Ghani - Ministry of Interior Affairs	Council of Ministers	50	10	85	30
Ministry of Agriculture Irrigation & Livestock	Council of Ministers	50	10	85	30
Ministry of Energy & Water	Council of Ministers	90	70	85	70
Ministry of Health	Council of Ministers	50	10	85	30
Ministry of Justice	Council of Ministers	50	10	85	30
Ministry of Public Works	Council of Ministers	50	10	85	30
Afghan Gas	Other Afghan Government	75	1	75	50
Afghan Petroleum Authority	Other Afghan Government	100	100	75	94
Geological Survey	Other Afghan Government	100	30	75	50
Central Bank	Other Afghan Government	100	10	75	80
Provincial Governors	Other Afghan Government	50	30	75	30
Dragon Oil TPAL and Ghazafar Investment Ltd	Private Sector	100	100	100	87
Afghanistan Chamber of Commerce	Private Sector	75	10	100	30
Environmental Groups	Civil Society	50	75	10	30
Media - TOLO TV	Civil Society	50	38	10	30
NGOs	Civil Society	50	38	10	30
Religious Leaders	Civil Society	50	100	10	30
Think Tanks (Johns Hopkins School of Advanced International Studies)	Civil Society	50	38	10	30
Tribal Elders	Civil Society	50	75	10	30
Asian Development Bank	Donor Agencies	100	50	20	30
United Nations Assistance Mission in Afghanistan	Donor Agencies	50	1	20	30
United States AID	Donor Agencies	75	20	20	30
United States Department of State	Donor Agencies	90	20	20	30
TFBSO	Donor Agencies	100	100	20	90
World Bank	Donor Agencies	90	20	20	30
India	International Community	50	33	19	30
Iran	International Community	50	100	19	30
Pakistan	International Community	50	100	19	30
Russia	International Community	50	67	19	30
Turkmenistan	International Community	50	1	19	30
Central Asia Regional Economic Cooperation	Regional Organizations	50	100	7	30
Economic Cooperation Organization	Regional Organizations	50	100	7	30
Shanghai Cooperation Organization	Regional Organizations	50	100	7	30
South Asian Association for Regional Cooperation	Regional Organizations	50	100	7	30
Taliban	Insurgents	50	100	20	30
Haqqani	Insurgents	45	1	20	30
Hezb-e-Islami	Insurgents	50	65	20	30

Senturion structured SME inputs create a current snapshot of the political landscape as shown below.

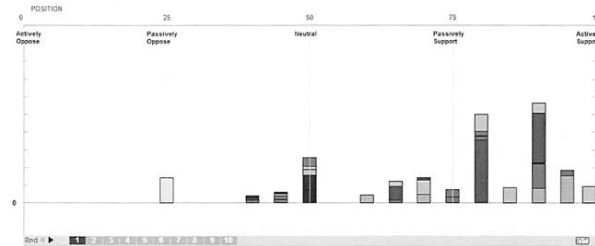


Figure 9. Upstream Project Senturion Initial Run

Subsequent modeling and simulation allows the animation and anticipation of political dynamics - how stakeholders are likely to act, react and interact - over time (Abdollahian, Baranick, Efid, & Kugler, 2006) and (Acertas, 2013). The first round is a feedback of the model inputs, which is followed by an "animation" of the political landscape (Figure 9) through the issue continuum into a dynamic simulation that depicts how the political interests will shift over time. Each round is an interaction among groups and stakeholders, modeling the pulling and hauling of the political process. The final round (Figure 10) is arrived at when the cost of political negotiating exceeds the benefit of continuing. As is evident, over time, the model forecasts that more key stakeholder groups will consolidate towards actively supporting the project.

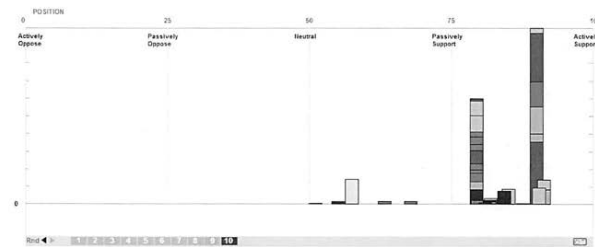


Figure 10. Upstream Project Senturion Final Run

Macroeconomic Analysis

A macroeconomic model of the Afghan economy was required in order to quantify the medium and longer-term macroeconomic impact of TFBSO projects. An approach marrying Computable General Equilibrium (CGE) modeling and dynamic Social Accounting Matrices (dySAMs) pinned to World Bank forecasts from parsimonious forecasting models was chosen to analyze cross-sectoral and economy wide impacts of the Task Force projects. This approach allows exploration of macroeconomic scenarios across time under assumptions of different Task Force project ensembles, and subject to a variety of potential exogenous shocks and growth rate assumptions.

At the national level, macroeconomics analyzes economic growth and fiscal and monetary policies, usually focusing on broad components of the economy reflected in the National Accounts. For example, key macroeconomic indicators include aggregate employment, investment, savings, government expenditures, monetary measures, and aggregate international trade and capital flows (Niimi, 2008, p. 3). The scope of our macroeconomic analysis in the context of Afghanistan as a post-conflict society, focused on macroeconomic analysis of donor's assistance, employment, government revenues and GDP.

Afghanistan's Social Accounting Matrix (SAM) represents the flow of income and expenditures across the national accounts. The SAM was created using Afghan CSO and international data as main sources. The SAM includes informal and illegal sectors, and depicts the donors sector as a separate entity. The agents include households (urban, rural, formal and informal), firms, government income and payments, investment and rest of the world. Year 2011 is the benchmark year due to breadth and depth of data availability. The activity sector includes 21 sectors which is the most detailed macroeconomic model of the Afghan economy currently in the public domain. The information presented is in millions of 2011 AFN (exchange rate = 47.7).

Furthermore, this approach addresses well-known limitations of CGE modeling. The SAM's granular mapping of sector specific inputs and outputs captures realistic Afghanistan economic activity, which enables it to dovetail well with TFBSO projects. Unless otherwise noted, macroeconomic and project level data throughout this report is in 2011 current US dollars and the projections use that as a base. Project level CBA data is in current 2011 US dollars. No adjustments are made for inflationary changes in prices; fluctuations are due to changes in quantities produced or sold and exported or payment received.

Employment Creation/Generation

This analysis considered the following classifications of employment: 1) direct, 2) indirect, and 3) induced. Direct employment consists of jobs created during the construction, operations, and maintenance phases of the project—that is, the employment generated by the project itself. The indirect and induced employment figures were calculated on the basis of multipliers that were derived and calibrated on sectoral comparison in other contexts and similar projects. Indirect employment was generated through spending and expenditures from the supply chain. Induced employment was generated through spending by direct and indirect employees, including taxation.



The SAM matrix through its flow affects impact the economy starting with training- considered human capital and employment generation through sectoral multipliers and productivity corrections (Cohen & Soto, 2002). These projections were assessed to ensure that the underlying assumptions were consistent with the assumptions made in similar projects.

Revenue Generation

Government revenue projections were derived from project studies, interviews and the Afghan Ministries of Finance, Commerce, Transport, and Mines, as well as the Central Bank. The calculations were made in net terms for those projects that contributed to revenues in royalties, tariffs, fees, customs, taxes, and trade revenue flow. All figures are reported in 2011 constant US dollars.

Gross Domestic Product

Economic growth is indicated by an increase in the overall size of a country's economy measured by output. GDP measures the economic output of goods and services produced within a country during a given year. All figures are reported in 2011 constant US dollars.

The predicted impact on Afghanistan's GDP growth by any project is driven mainly by shifts in exogenous factors such as increased exports or government revenues. Usually, GDP is calculated at the national level. This analysis used quantitative data from the CSO and the Ministries of Finance and Commerce and attempted to measure the impact of each project on nominal GDP using the Expenditure Approach (demand = supply) (Niimi, 2008, p. 6). According to Gillett, "It must be kept in mind that GDP is an estimate of economic activity; it is seldom a precise calculation" (Gillett, 2009, p. 7). The GDP calculations presented herein were undertaken in full recognition of the complexity of the task of calculating GDP at a national level. Thus, ascertaining the nexus between any given project and GDP should be viewed conservatively as estimations.

Social Accounting Matrices

The Social Accounting Matrix (SAM) is a tool used to capture varied components of Afghanistan's economy such as government and private consumption and savings, etc. Social Accounting Matrices capture the structure of the macro economy by identifying the relevant agents in the economy (households, government, industries, the rest of the world, etc.) and quantifying all of the economic flows between these agents. An accurate and detailed representation of the Afghan economy has been created through SAMs to evaluate the impact of Task Force projects on the overall economy in Afghanistan.



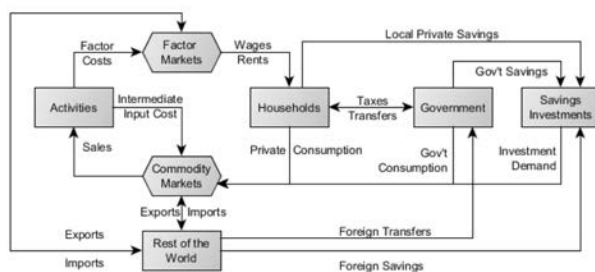


Figure 11. Representative SAM Matrix Inputs

In Table 5 below, every agent is represented in both a column (tracking all of the expenditures by the agent) and a row (tracking all the receipts of the agent). These accounts must balance such that the sum of a row's inputs is equal to the sum of a corresponding column's outputs. For example, the Households' row shows income from Labor & Capital, subsidies and social security. The households' column shows how that income was used by households for example, household consumption and paying income taxes or tax penalties. Thus the household income and consumption must balance. This approach gives a snap shot of the economic flows within that year and is useful to understand the relative performance of the sectors in a country, how they interact, as well as any data issues which need to be addressed by the country's statistical offices to improve future analysis.

Table 5. SAM matrix for Afghanistan depicting the flows of income and expenditures¹¹

	Activities	Commodities	Factors	Households	Government	NGO	Savings	RoW	TOTAL
Activities	INTERMEDIATE CONSUMPTION	PRIVATE CONSUMPTION OF MARKETED COMMODITIES			GOV. CONSUMPTION	NGO INVESTMENT	PRIVATE AND PUBLIC INVESTMENTS	EXPORTS (fob)	
Commodities				HH CONSUMPTION					
Factors	VALUE ADDED								
Households			LABOR AND CAPITAL INCOME		SUBSIDIES				
Government	TOTAL TAXES	TOTAL TAXES		TOTAL TAXES					
Consumption Taxes		CONSUMPTION TAXES							
Taxes on Production	TAXES ON PRODUCTION								
Import Tariffs	IMPORT TARIFFS								
Income Taxes				INCOME TAX					
Foreign Aid								AID IN BUDGET	
Penalties				PENALTIES FOR TAX EVASION					
NGO								NET CAPITAL OUTFLOW	
Savings				HH SAVINGS	PUBLIC SAVINGS				
RoW	IMPORTS (cif)					NGO SAVINGS			
TOTAL	-	-	-	-	-	-	-	-	-

Computable General Equilibrium Modeling

The Computable General Equilibrium (CGE) modeling approach was chosen for analyzing the macroeconomic impacts of TFBSO projects. It builds upon the high-resolution picture of the economy provided by the best available current data and SAM by specifying a system of equations that track the relationships between the accounts of an economy's actors. The accounts are further rebalanced using a cross entropy method and the parameters are calibrated such that in equilibrium, all economic relationships interact. These equations then serve to describe how the economy is likely to change across sectors in response to exogenous shocks such as foreign aid or fiscal policy changes.

A CGE model consists of equations describing model variables and a very detailed database consistent of input/output matrix and sectors, household's commodities and primary factors and elasticities of substitutions (Armington) and expenditures, consistent with the equations. The equations respond to neo-classical assumptions, assuming cost minimizing behavior by producers, average cost pricing, elasticities to capture behavioral responses, and household demands based on optimizing behavior (Lofgren, Harris, Robinson, Thomas, & El-Said, 2002).

These models are a more sophisticated and flexible version of early Leontieff and Johansen models and allow to estimate the effects of changes in one part of the economy upon the rest, for example the effects of policies such as changes in taxes, donors assistance or project investments on GDP growth (Dixon & Jorgenson, 2014).

¹¹ Factors and Households include Labor and Capital, Urban and Rural, Formal and Informal in separate Categories. Activities and Commodities include 21 sectors. CIF (Cost, Insurance, and Freight) and FOB (Free on Board).

The dynamic SAM approach provides the highest-resolution picture of realistic Afghan economic activity currently possible. The Macro-Micro bridge models the impact of TFBSO projects across various sectors of the Afghan economy, capturing for example the economic multiplier of capital intensive mining projects across the public and private sectors. The approach allows for changes to the SAM over time using exogenous forecasts incorporating TFBSO project level CBA assess specific parts of the Afghan economy, and the most detailed and realistic exploration of ma

The integration of TFBSO project-level CBAs, the Afghan SAM, macroeconomic CGE model and macro-micro bridge is illustrated in the figure.



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To illustrate, the integrated model may begin with a starting SAM representing the Afghan economy in 2013. On an expert macro forecast assumption that does not take into account TFBSO projects, the economic activity represented in the starting SAM will be increased by a specific percentage, then rebalanced to correct any distortions. This new SAM will then become the basis for two alternative 2014 SAMs, one of which is further increased in specific accounts to capture the additional economic growth expected to result from the continuation of a given TFBSO project or set of projects. This "with project" SAM is similarly rebalanced to correct distortions. This allows direct and accurate comparisons of Afghan economic resilience to foreign aid decreases for example, with and without project continuity, as each of these SAMs ("with" and "without" projects) would then be subjected to an exogenous shock in the CGE model, and new SAMs representing the resulting economy would be created. From each of these SAMs, the integrated model can then extract GDP and other pertinent economic metrics for that year.¹² Furthermore, these two "with" and "without" SAMs then become the basis for the same loops in 2015 and can be repeated.

¹² The CGE and other operations were performed using General Algebraic Modeling System (GAMS) a high-level modeling system for mathematical optimization.



Minerals Resource Development

Background

Objectives

TFBSO's programs in the mining sector are focused on assisting the Afghanistan Ministry of Mines and Petroleum (MoMP) conclude economically viable contracts with international mineral companies in a manner that meets worldwide standards for transparency and social responsibility. Additionally, TFBSO supports Afghanistan with building a sustainable minerals program through training and IT infrastructure development at MoMP and at the Afghanistan Geological Survey (AGS).

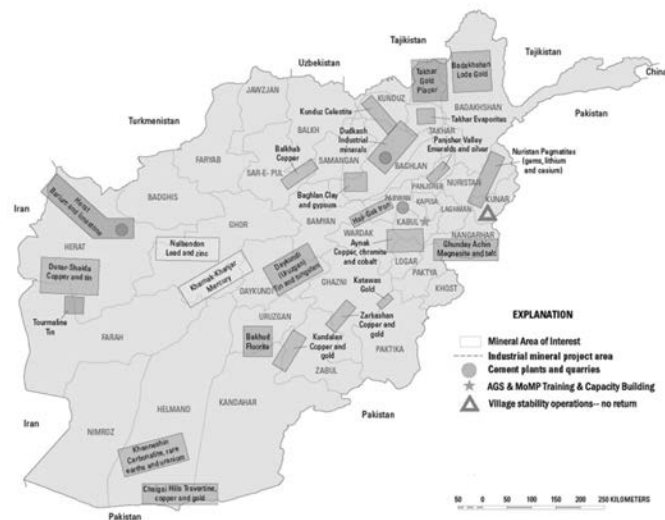


Figure 13. Minerals Sector Map

Activity Overview

The mining sector is a key component of Afghanistan's long-term economic development. Afghanistan's minerals represent tremendous wealth - very little of which has ever been developed for the benefit of the Afghan people. Development of this industry has the potential to yield millions of dollars in royalties, fees and taxes to the Afghan government. In addition, the development of this industry will contribute to billions in capital expenditures within the country. Exploration and eventual mine development will also create jobs, not only directly at the mine but in secondary support industries such as geological testing, mining equipment and construction which will bolster the economy in communities surrounding the mines.



Figure 14. Mineral Project Categories

The Task Force supports MoMP by helping it to (1) identify and quantify Afghanistan's mineral resources; (2) build a strategic plan for exploration and development of these resources; (3) tender prospective mineral sites in a transparent manner; and (4) develop the capability to publish technical information to attract mineral investors. The Task Force partners with the MoMP, the United States Geological Survey (USGS), the AGS, and international legal and technical experts to bring world class processes and standards to the Afghan mining industry. The Task Force employs a "learn by doing" approach to capacity building, where the MoMP and the AGS personnel work alongside TFBSO subject matter experts.

The Task Force rapidly deployed international mining experts to assess the key value chain gaps in the Afghanistan mining industry. These experts developed and implemented an executable strategy to attract foreign investment in Afghanistan's minerals sector - successfully administering five mineral tenders.

Expected Outcomes

The goal of these programs is to encourage private investment which will in turn build a base for revenue generation by the Afghan Government through fees, royalties, and taxes. Under current scenarios, mining exploration will start at some locations in 2016. It is assumed that mining

operations will begin after four years of exploration and four years of construction, assuming commercial viability.

Contribution to Stabilization Strategy

This program supports the stabilization of Afghanistan by building ties to international markets through announcement and promotion of tender areas of interest. Improving revenues to the Afghan Government by improving the transparency of ministerial policies and procedures is also critical to the long-term outlook for this sector. The objective is to foster economic growth by spurring job creation in primary and secondary markets. Broadening the skill level of the AGS personnel and the MoMP will be essential if the Afghan government (and potentially any Afghan-owned business) is to explore/exploit its own areas of interest.

Program Transition

All of TFBSO's work with the MoMP and AGS was oriented toward teaching its staff how to execute the development of Afghanistan's mineral resources on its own. The MoMP's staff has been included in most of the work done by TFBSO, and the experience they have gained was demonstrated in their near-independent execution of the cement tender at Jabul Seraj. The Task Force's work with the MoMP ends on 31 December 2014. At that time, much of the minerals tender and contract management support will be provided by the World Bank and USAID.

Interventions

Data Acquisition

USGS, in partnership with TFBSO, acquired untapped natural resource data via wide-spread collaborative fieldwork, drilling and coring, satellite remote sensing, airborne geophysics, and extensive studies in ground and surface water quality and quantity. Newly collected data have enhanced and broadened Afghanistan's existing natural resource datasets. The Task Force provided on-site training in basic geophysical logging and passive seismic methods for hydrological studies and a field water-quality and isotope sampling training course designed for low-technology environments. These data sets are vital for both short-term and long-range planning. Published scientific research reduces information risk for prospective bidders, improving the value of the terms of any new contract.

Information Management

In addition to gathering data, the Task Force and USGS developed an integrated Geographic Information System (GIS) data framework for Afghanistan that consists of geologic and topographic map data, satellite imagery, data documentation and a system for the efficient archiving, retrieval, and distribution of data to a wide user community.

Afghanistan is the only country that has been completely mapped using hyperspectral data. As a result of the work of the USGS and the Task Force, Afghanistan has the largest hyperspectral dataset in the world.

The Task Force designed and built a web enabled data warehouse at the AGS in order to archive and publish Afghanistan's robust mineral datasets. The secure data warehouse has more than 50 years' of geological data compiled by geologists from the United States, Russia, Britain, Germany and Afghanistan. The Task Force also provided training for data interpretation, GPS post-processing, seismic, electromagnetic, and method selection. The Afghanistan GIS data framework and the AGS' ability to interpret such data is an essential skill set for conducting assessments of minerals, and water resources, evaluating earthquakes and other hazards, analyzing ecosystem management strategies, and supporting a wide variety of other activities related to the country's reconstruction.

Tender Support

The Task Force assisted MoMP with developing its capacity to plan and execute tenders in accordance with international standards. Building transparent legal processes will increase international confidence in the industry and increase the number of contracts. The Task Force was responsible for marketing the areas of geological interest to the international mining community through mining conferences to maximize bidder participation. TFBSO's involvement increased the likelihood that tenders achieved optimal commercial terms. TFBSO also drafted model contracts, provided transaction advisory teams that assisted in contract negotiations and developed financial forecasts.¹³

Natural Resource Management

In its mission to promote minerals development in a socially, environmentally and fiscally responsible way, TFBSO Minerals Program provided natural resource and cultural heritage preservation planning support to MoMP. In addition to assisting MoMP with identifying future environmental and cultural impacts at mineral areas of interest, TFBSO helped to develop broad-based mitigation strategies to employ during the mineral exploration and exploitation phases. TFBSO also helped to define inter-/intra-ministerial roles and responsibilities that will enable effective communication, coordination, and minerals contract management in support of protecting natural and cultural resources.

Upstream Mineral Development Project

TFBSO prioritizes areas of interest (AOIs) and provides technical, legal, and financial advice to assist MoMP in establishing international criteria and standards for tenders, bid evaluations, and contract awards in a legal and transparent manner. TFBSO has facilitated the demarcation of market areas of geological interest to the international mining community to maximize bidder participation and to ensure that the tenders are conducted in a transparent manner to achieve optimal commercial terms.

The Upstream Mineral Development project group includes the following project activities:

- Plan, implement, and oversee field data collection in selected target areas.

¹³ The Task Force does not have the authority to lobby the Afghanistan government to approve these contracts.



- Conduct studies via Advanced Space borne Thermal Emission and Reflection Radiometer (ASTER), LANDSAT, and Hyperspectral.
- Develop mineral data packages and information packages.
- Prioritize mineral AOIs and provide technical, legal, and financial advice to assist MoMP with establishing international criteria and standards for bid evaluations and contract awards in a fully legal and transparent manner.
- Market four mineral AOIs and one cement AOI to the international community to maximize bidder participation, and assist with monitoring the tender of these locations to ensure the tender will achieve optimal commercial terms.

The following figure illustrates the AOI's incorporated into the Upstream analysis.

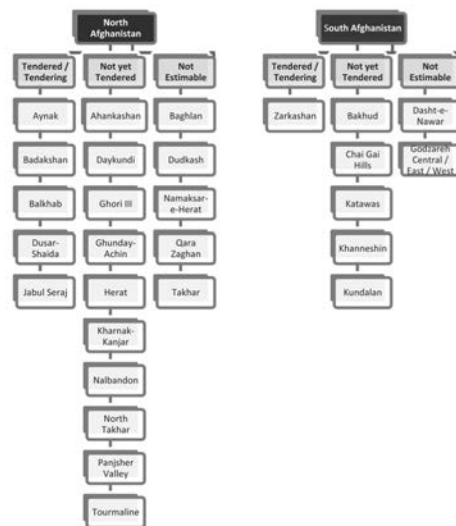


Figure 15. Upstream Mineral Development Projects¹⁴

¹⁴ Figure 15 does not include Haji-Gak because the Task Force did not support data collection, data analysis, tendering, or project management at this location.

Summary of Results

The Upstream Mineral Development Project represents a long-term economic investment assuming that most mineral areas of interest (AOIs) will be producing by 2029. The following figure showcases the tremendous macroeconomic impact of upstream mineral projects. It presents Afghanistan's GDP with and without Task Force Upstream Mineral projects between 2010 and 2025. As illustrated, TFBSO's Upstream Mineral projects create an additional \$8.1 billion in GDP in 2025.

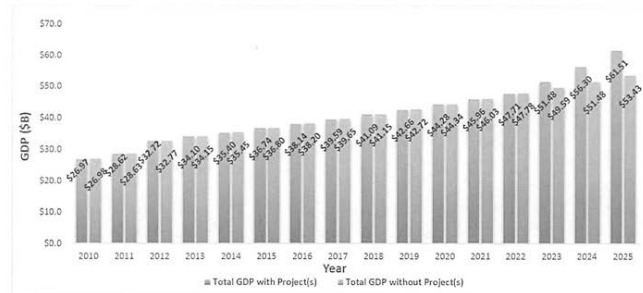


Figure 16. Upstream Mineral Development Projects Effect on GDP

The Task Force spent \$174,519,629 between 2010 and 2014 to implement upstream minerals projects in Afghanistan (approximately \$88.2M in direct costs and \$86.3M in overhead costs¹⁵). The results presented in the table below display the difference in cumulative totals for the specified period for all mineral areas of interest. For example, cumulative government revenue between 2010 and 2025 is expected to be \$1.6 billion greater with the addition of upstream mineral projects. Countrywide, these projects are forecasted to add \$14.5 billion to economic activity between 2010 and 2025. These amounts assume that only a handful of mining operations will have started by 2025; therefore, government revenue in the form of royalties will be limited; however, significant economic multiplier effects are immediate.

¹⁵ Direct TFBSO costs are those costs that contribute directly to project execution. Overhead costs are those costs related to project support functions (e.g. back office support, life support, housing in Afghanistan, etc.). Please refer to the Methodology section for additional data definitions.

Table 6. Upstream Mineral Development Projects Summary of Results

	2010-2018	2019-2025	2010-2025
Difference in Cumulative Gov't Rev due to Projects	-	\$1.6 B	\$1.6 B
Difference in Cumulative "GDP" ¹⁶ due to Projects	-\$0.4 B	\$14.5 B	\$14.1B

The following figure presents the Task Force's share of the forecasted economic growth illustrated above. As presented in the graph below, the Task Force projects will lead to an additional \$8.1 billion in GDP in 2025. The Task Force was allocated \$3.2 billion of the total \$8.1 billion as a result of its role as a key enabler across multiple AOIs.

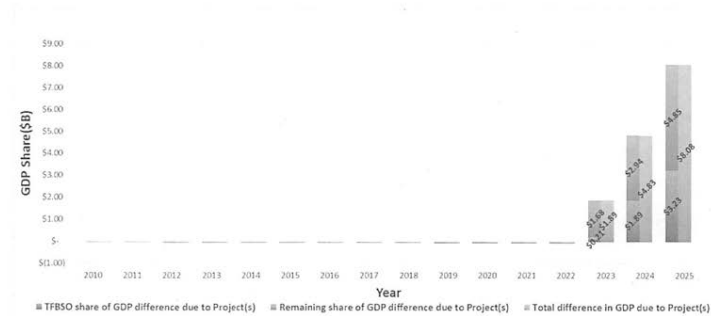


Figure 17. TFBSO's Share of Upstream Mineral Development Projects Effect on GDP

Upstream mineral projects from a mining operator's investment perspective are lucrative; however, these projects are also risky especially in the remote locations of Afghanistan. An analysis of discounted cash flows between 2010 and 2030 leads to a benefit-to-cost ratio of 1.0 with a positive Net Present Value (NPV).

Senturion Analysis

The Senturion Analysis incorporated political risk factors to determine any change to the financial discount rate of 12%. The Senturion Analysis included 58 stakeholders assigned to 12 categories, to include: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, Civil Society, Donor Agencies, International Community,

¹⁶ "GDP" as used herein refers to economic activity that includes the formal, informal and illegal sectors. This calculation also assumes no other TFBSO projects took place before 2013, which is why growth numbers appear lower than those represented in graph of GDP (which does include TFBSO projects before 2013).

Regional Organizations, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The analysis indicates strong project support by a majority of stakeholders. The Afghanistan Government stakeholders identified as the most ardent supporters of mineral development include the MoMP, the Ministry of Finance, and the Provincial Governors. Mineral projects have historically exposed incipient projects to a lot of controversy, often because of their sheer size of anticipated economic benefits. Worldwide, governments are careful about drafting the laws and contracts, private business are aware of the large sums of capital needed, and many organizations are aware of potential environmental effects and the consequences on the labor sector are often not large enough.

In Afghanistan, the government has been slow to proactively address mineral development. For example, the Cabinet has been slow in approving the four most recent minerals tenders; therefore, they were identified as passive supporters in the analysis. Regional organizations, to include: the South Asian Association for Regional Cooperation (SAARC); the Central Asia Regional Economic Cooperation (CAREC); and the Economic Cooperation Organization (ECO) are also passive supporters. These regional organizations recognize the potential returns to the region from minerals development, but they have not actively supported development like other donor agencies (to include the Asian Development Bank and the World Bank).

The international community is not opposed to upstream mineral development, but they also do not actively support these projects for various environmental sustainability reasons. Their position of neutrality demonstrates that the mineral industry is mature and Afghanistan's development will not lead to dramatic price fluctuations in the international market.

Environmental organizations and insurgents actively oppose mineral development in Afghanistan. The environmental organizations are concerned about the environmental degradation caused by mining operations, and the insurgents have demonstrated their willingness and ability to disrupt mining operations in Afghanistan.

The influence of the insurgent population varies by province; therefore, discount rates were developed by province. The Senturion discount rate increases the financial discount rate by 9% in the less risky provinces (i.e. the Nalbandon AOI located in Ghor Province) and by 13% in the more risky provinces (i.e. the Chai Gai Hills AOI located in Helmand Province).

Cost Benefit Analysis

The CBA of the Upstream Minerals project covers more than 100 years as some of the mineral deposits are assumed to last generations;¹⁷ however, the results presented in the graph and table below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for

¹⁷ See Assumptions for the range of dates related to every mineral area of interest.



this project is estimated to be \$10.5 billion while the total discounted value of costs is estimated to be \$10.3 billion (between 2010 and 2030).

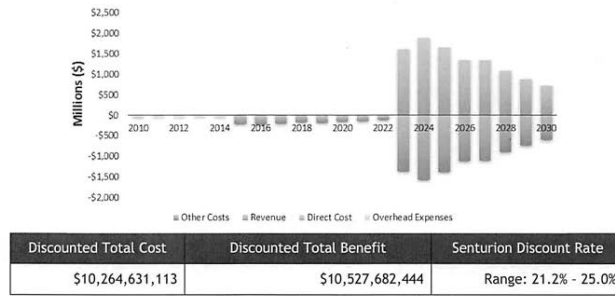


Figure 18. Upstream Mineral Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2030 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 1.0, suggesting the project as a standalone investment is fiscally neutral. The discounted net project return is estimated to be \$263.1 million. The IRR using undiscounted cash flows is estimated to be 25.9% (more than the risk adjusted discount rate which leads to a positive NPV).

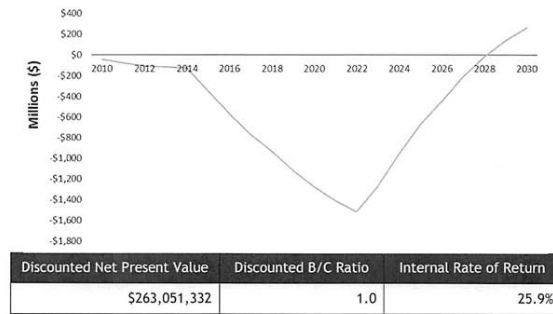


Figure 19. Upstream Mineral Discounted Payback

Macroeconomic Analysis

Given the estimated mineral resource levels, implementation of an upstream minerals strategy can lead to considerable investment in large-scale mining operations. Mining will play a major role in achieving long term, high rates of economic growth and increased government revenues. Increased government revenues will be derived from mining royalties, taxes, licenses, permits, and customs revenues from the import of capital goods.

Mining projects will generate employment opportunities in remote areas where alternative legal productive opportunities are few. In addition, mining will bring with it access to advanced technology that can be of benefit in many areas of the economy. Finally, there will be major indirect benefits from mining, including the construction of roads, bridges, housings, health clinics, mosques, and schools.

As presented in the table below, Upstream Minerals projects significantly impact the greater Afghan economy, adding \$173 to Afghanistan's per capita GDP by 2025. Exports are forecasted to increase by approximately \$69.4 billion, and total household income is forecasted to increase approximately \$7.1 billion with the addition of Upstream Mineral projects.

Table 7. Upstream Mineral Development Projects Macroeconomic Results

		2018	2025
"GDP" per Capita	With Projects	\$1,057.8	\$1,310.8
	Without Projects	\$1,059.4	\$1,138.6
Exports	With Projects	\$4.7 B	\$75.2 B
	Without Projects	\$4.7 B	\$6.1 B
Household Income	With Projects	\$41.0 B	\$60.3 B
	Without Projects	\$41.0 B	\$53.2 B

Minerals Transmission via Rail Project

This project was designed to support US Central Command's (CENTCOM's) New Silk Road project, Department of States' (DoS) Afghanistan Economic Transition Strategy, and the Government of the Islamic Republic of Afghanistan's (GIROA) National Development Strategy by enabling GIROA's development of rail infrastructure. The completed assessment resulted in a Commercial Market Feasibility Analysis Report, a Technical Feasibility Analysis Report, and a Legal & Regulatory Framework Report for the development of a

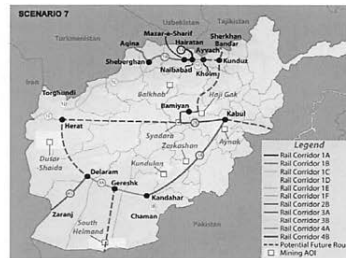


Figure 20. Strategic Rail Plan

countrywide railroad as illustrated in the figure to the right.

Summary of Results

The Assessment of Minerals Transmission via Rail Project represents a major infrastructure project with long-term economic benefits. The following figure presents Afghanistan's GDP with and without the Task Force rail project between 2010 and 2025. As illustrated, TFBOS's rail project will lead to an additional \$15.2 billion in economic activity in 2025.

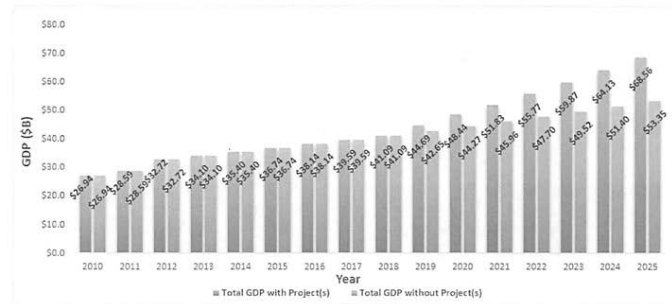


Figure 21. Minerals - Rail Transmission Effect on GDP

The Task Force spent \$4,705,884 between 2011 and 2013 to implement the minerals transmission project (approximately \$2.1M in direct costs and \$2.6M in overhead costs). The results presented in the table below display the difference in cumulative totals for the specified period. For example, cumulative government revenue between 2010 and 2025 is expected to be \$50.2 billion greater with the addition of a railroad for mineral transmission. Country-wide, this project is forecasted to add \$58.4 billion to economic activity between 2010 and 2025.

Table 8. Minerals - Rail Transmission Summary of Results

	2010-2018	2019-2025	2010-2025
Difference in Cumulative Gov't Rev due to Projects	-	\$50.2 B	\$50.2 B
Difference in Cumulative "GDP" ¹⁸ due to Projects	-	\$58.4 B	\$58.4 B

¹⁸"GDP" as used herein refers to economic activity that includes the formal, informal and illegal sectors. This calculation also assumes no other TFBOS projects took place before 2013, which is why growth numbers appear lower than those represented in graph of GDP (which does include TFBOS projects before 2013).

The following figure presents the Task Force's share of the forecasted economic growth illustrated above. As presented in the graph below, the Task Force projects will lead to an additional \$15.2 billion in economic activity in 2025. The Task Force was allocated \$1.5 billion of the total \$15.2 billion as a result of the role it played in establishing the framework for a cost effective railroad in Afghanistan.

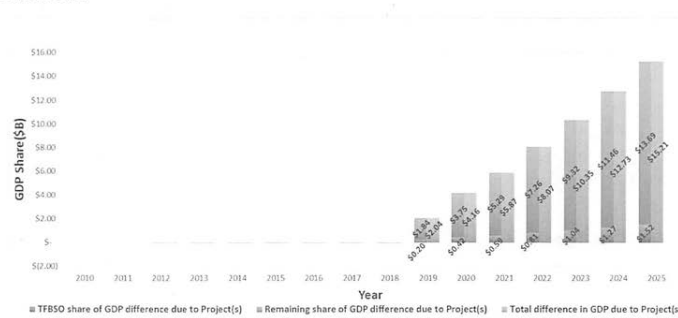


Figure 22. TFBSO's Share of Minerals Rail Transmission Project Effect on GDP

A minerals transmission project of this scale can be lucrative from an investment perspective; however, this project is also risky as the proposed railroad must cross remote terrain. An analysis of discounted cash flows between 2010 and 2030 leads to a benefit-to-cost ratio of 0.4 and a negative Net Present Value (NPV).¹⁹

Senturion Analysis

This project was completed before a stakeholder analysis could be conducted. However, this project is similar in scale and location to mining operations in southern Afghanistan. Therefore, the Senturion analysis incorporated the data collected for southern mineral AOIs. The Senturion analysis led to an additional 15.1 percentage points (on top of the baseline financial discount rate of 12.0%).

Cost Benefit Analysis

The CBA of the Rail project covers more than 30 years. However, the results presented in the graph below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for this project is estimated to be \$1.3 billion while the total discounted value of costs is estimated to be \$3.4 billion (between 2010 and 2030).

¹⁹ New economic geography theory requires that landlocked countries such as Afghanistan must devote significantly more resources to the transportation sector (Krugman, 1991).

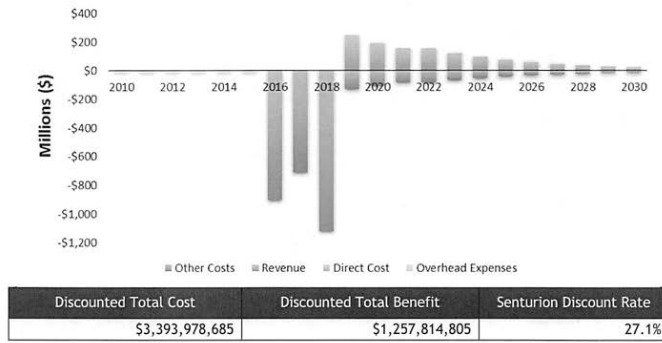


Figure 23. Minerals Transmission Discounted Cash Flow

The discounted payback demonstrates that this project does not realize a positive return by 2030 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 0.4, suggesting the project as a standalone investment is not fiscally viable. The discounted net project return is estimated to be -\$2.1 billion. The IRR using undiscounted cash flows is estimated to be 0.0% (less than the risk adjusted discount rate which leads to a negative NPV).

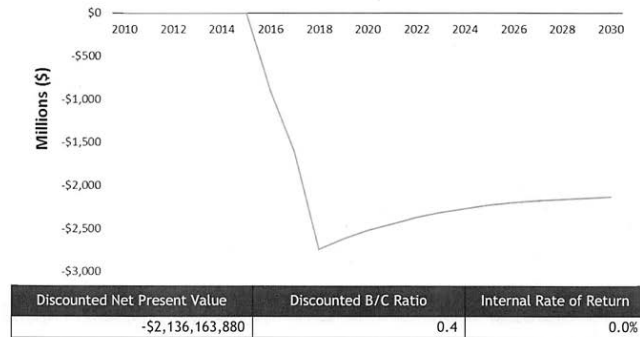


Figure 24. Minerals Transmission Discounted Payback

Macroeconomic Analysis

As Afghanistan seeks to reduce its dependence on foreign assistance and rebuild its economy based on sustainable growth, a key to success is leveraging the vast iron ore expected at Haji-Gak and Syadara. Competitive analysis indicates current low-cost producers of iron ore, including Brazil and Australia, are able to extract, rail, and ship to Asian markets for as little as \$39 USD per metric ton. To successfully compete in the global iron ore market, Afghanistan will need to approach the level of efficiency achieved by low-cost producers. Freight railway transportation must leverage the most expeditious routing to seaport and American Railway Engineering and Maintenance-of-Way Association (AREMA) heavy haul standards, and avoid breaks of gage and trans-loading requirements. For Afghanistan, the mining and railway sectors are integrally linked: mining requires a railway to efficiently transport bulk minerals to market, and sustainment of railway operations requires the demand from mining to be economically viable.

The mineral rail transmission project will employ many Afghans with a subsequent increase in household income in rural and urban households. As presented in the table below, the Rail project's macroeconomic impact is forecasted to add \$324.2 to Afghanistan's per capita GDP by 2025, and total household income is forecasted to be \$55.1 billion by 2025.

Table 9. Minerals - Rail Transmission Macroeconomic Results

		2018	2025
"GDP" per Capita	With Projects	\$1,057.8	\$1,461.1
	Without Projects	\$1,057.8	\$1,136.9
Exports	With Projects	\$4.6 B	\$6.0 B
	Without Projects	\$4.6 B	\$6.0 B
Household Income	With Projects	\$41.0 B	\$55.1 B
	Without Projects	\$41.0 B	\$53.2 B

Training & Capacity Building Project

The Task Force Training & Capacity Building project group is designed to: (1) enhance the capabilities of MoMP and AGS employees, and professors from Kabul Polytechnic University (KPU), and (2) improve the technical infrastructure of MoMP and AGS. The Task Force designed training to help staff and administrators gain the technical and managerial skills necessary to make sound, science- and technology-based decisions about resource use and hazard mitigation. In addition, improved technical infrastructure will help to establish an AGS capable of independently creating information and data packages for future mineral contracts.



Figure 25 Drilling Training at North Aynak

Summary of Results

Training & Capacity Building Projects are designed to enhance the capabilities of the Afghan workforce. The following figure presents Afghanistan's GDP with and without Task Force Training & Capacity Building projects between 2010 and 2025. As illustrated, TFBSO's Training & Capacity Building projects lead to little-to-no GDP impact. Proper and effective training has long lasting effects even when specialized skills can be employed in other industries; however, the long-term effects are marginal. This project is expected to have a negligible impact on government revenue as well.

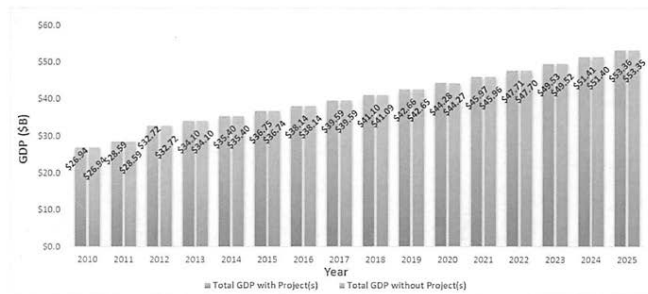


Figure 26. Minerals - Training & Capacity Building Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable. In addition, training projects often result in a negative return as considerable funding is spent paying for the services, lodging and security of subject matter experts who earn salaries greater than the Afghan workforce. The Task Force spent \$28,603,851 between 2010 and 2014 to provide training and to build capacity at MoMP, AGS, and KPU (approximately \$15.7M in direct costs and \$28.6M in overhead costs). This project group has a benefit-to-cost ratio of 0.2, and the Net Present Value (NPV) is negative.

Senturion Analysis

A stakeholder analysis was not conducted since this group of projects impacts human capital only.

Cost Benefit Analysis

The CBA of the Training & Capacity Building project covers more than 40 years; however, the results presented in the graph below represent cash flows between 2010 and 2030 only. The total value of benefits for this project is estimated to be \$4.8 million while the total value of costs is estimated to be \$23.5 million (between 2010 and 2030).



Discounted Total Cost	Discounted Total Benefit	Discount Rate
\$23,532,955	\$4,798,052	12.0%

Figure 27. Training & Capacity Building Discounted Cash Flow

The discounted payback demonstrates that this project does not realize a positive return by 2030 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 0.2, suggesting the project as a standalone investment is not fiscally viable. The discounted net project return is estimated to be -\$18.7 million. The IRR using undiscounted cash flows is negative.

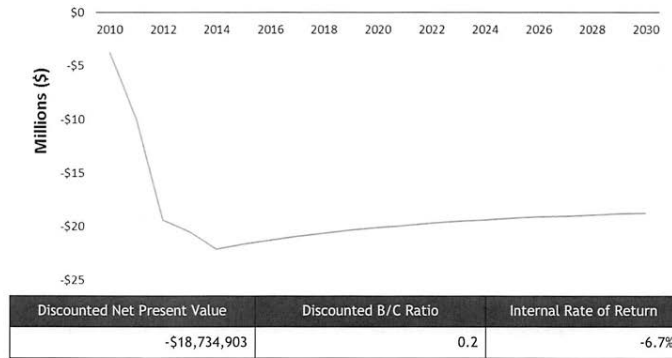


Figure 28. Training & Capacity Building Discounted Payback

Macroeconomic Analysis

Assessments of natural resources and natural hazards require a technically trained workforce and adequate facilities. The Task Force provided capacity building to sustain the nation's reconstruction efforts by transferring state-of-the-art expertise to Afghan counterparts. This project was designed to ensure that staff and administrators at MoMP, AGS, and KPU have the technical and managerial skills to make sound, science- and technology-based decisions about resource use and hazard mitigation now and into the future. Over the long term this training adds transferable human capital to the economy; however, the macroeconomic impacts are negligible.

Village Stability Operations Project

Summary of Results

The objective of this project was to establish a fully functional small-scale chromite mining operation in Kunar Province. The project was designed to enhance stability through job creation and a demonstrated benefit of cooperating with coalition forces. Additionally, the Task Force initiated this project in order to enhance the legitimacy of the Afghan government through the generation of tax revenue and through the connection of locals with provincial and national government. Chromite was processed and an international buyer was identified during project execution; however, the first truck did not get to Karachi for further transport. MoMP did not license the artisanal miners involved, and without proper licensing, chromite mining is not legal.

The Village Stability Operations (VSO) project was cancelled during project execution at the request of MoMP before it achieved desired outcomes. The total undiscounted cost to the Task Force to was \$3,861,844 (\$2,346,118 in direct costs and \$1,515,726 in overhead costs); this project does not have an estimable return to the government of Afghanistan. No additional analysis was performed since this project concluded before tangible benefits could be realized.



Energy Resources Development

Background

Objectives

The goal of TFBSO's Energy Program was to provide energy security by meeting domestic energy demands, attracting foreign direct investment and monetizing Afghanistan's oil and gas resources over the long term.

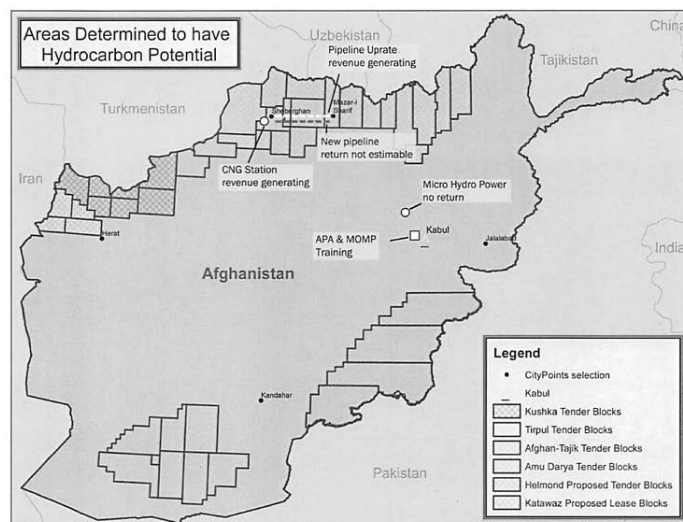


Figure 29. Energy Resources Development Map

Activity Overview

The two areas of greatest long-term wealth in Afghanistan are minerals and hydrocarbons (oil and natural gas). Development of the petroleum sector will have multiple positive impacts on the Afghan economy by providing a significant stream of revenue to the Afghan government from royalties, fees, and taxes; providing energy to fuel new industries; and reducing dependence on expensive imported fuels. Although a nascent natural gas and oil sector is developing, billions of dollars of hydrocarbon resources remain inaccessible, jeopardizing energy security as Afghanistan continues to be dependent on imported oil, gas, and electricity. The Afghan National Army (ANA) and the Afghan National Police (ANP) currently consume more than \$200M of imported fuel every year, funded mainly by the U.S. Department of Defense through the Afghan Security Forces Fund. In addition, the industrial, mining and agricultural sectors are extremely dependent on affordable and reliable energy. Domestically produced fuel and energy sources are a pillar of economic and political stabilization and will help move the country away from foreign dependency. Using these resources for domestic purposes will also help diversify the economy, lessening the deleterious effects of Afghanistan's dependency on commodity exports.

TFBSO in partnership with the US Geological Survey (USGS) helped the Afghan Ministry of Mines and Petroleum (MoMP) identify and quantify its oil and gas resources, build a strategic plan for long-term development of these resources, tender known and prospective oil fields and gas blocks to international and domestic investors and operators, and develop means of harnessing these resources.

In 2014, TFBSO continued to (1) support MoMP on ways to monetize its hydrocarbon assets, including providing transaction advisors to assist the MoMP in tendering key oil and gas blocks; (2) assist the MoMP with identifying and quantifying additional oil and gas blocks fields by providing seismic data collection and other site preparation activities as needed; (3) support Afghan Gas initiatives to make natural gas resources available for domestic fuel and power, to include assisting MoMP to establish a Compressed Natural Gas industry; (4) strengthen the MoMP's capabilities to manage contracts and effectively-regulate Afghanistan's oil and gas industry and (5) assist the Ministry of Commerce and Industries (MoCI) attract and regulate industries that utilize natural gas. The following figure illustrates the Task Force project categories.



Figure 30. Energy Project Categories

Expected Outcomes

Task Force projects were designed to provide a long-term source of revenue to the Afghan government through hydrocarbon royalties and taxes; reduce dependence on imports; and enable industrial development, thereby creating a new industry for Afghan labor.

Contribution to Stabilization Strategy

The Task Force's Energy program supports the stabilization strategy by unlocking a reliable source of revenue to the Afghan government to enable it to fund security requirements and other governmental functions. Furthermore, it promotes economic sovereignty and energy security through domestic production of hydrocarbons thereby catalyzing economic activity in new areas and building ties to international markets through exports of petroleum and industrial products. This will create new skilled and non-skilled jobs and encourage better governance by enhancing the capabilities of the Afghan government.

Program Transition

Having gained invaluable experience and skills during the four years working with TFBSO, MoMP has the basic building blocks required to responsibly manage Afghanistan's hydrocarbon resources. MoMP employees have demonstrated their ability to adapt quickly and apply new skills and methodologies. The international community, especially the World Bank and the United Kingdom's Department of International Development (CDFID), will continue to provide critical support services to maintain MoMP operations after the Task Force ceases operations.

Interventions

TFBSO provided advisory services, technical assessments, training materials, industry relations support, and other non-personnel services in support of developing the oil and gas industry in Afghanistan.

Tender, Legal, and Regulatory

TFBSO assisted MoMP with developing its capacity to plan and execute tenders and manage contracts in accordance with international best practices. Building transparent, auditable processes will increase international confidence in the industry and increase the number of hydrocarbon contracts. TFBSO provided advisors to draft model contracts, assisted in contract negotiations and contract management, developed financial forecasts, and reviewed budgets. The project team also assisted with the implementation of royalty and tax regimes. Finally, the project team also conducted marketing trips to attract a greater number of bids.

A model Gas Purchase Agreement for Afghan Gas was developed to act as a reference during negotiations with potential off-takers. This agreement provided an "allocation methodology" through which Afghan Gas can prioritize which off-takers have priority for natural gas purchase.

The Task Force supported the Afghan government with the creation of the Afghan Petroleum Authority to manage contracts. This division of MoMP manages Exploration and Production Sharing Contracts (EPSCs). Moreover, the APA has engaged the local communities to address and mitigate

concerns with oil and gas activity in order to prevent a destabilizing influence in the associated areas.²⁰

Tender, legal, and regulatory support promoted commercial offtake and domestic consumption of gas, thereby moving MoMP and Afghan Gas to address the previously existing legal and regulatory hurdles for commercial off-takers.²¹

The Task Force's instrumental role in providing legal advisors to Afghanistan in TAPI negotiations will allow the country to position itself to ensure that any agreement to TAPI will produce positive results for Afghanistan. A primary goal of this project was to show that Afghanistan is capable of entering into and successfully participating in transnational energy projects.

Seismic Data Collection

TFBSO provided technical assistance regarding hydrocarbon sources and management of seismic data collection/analysis. Moreover, this activity demonstrated that seismic data of high integrity can be acquired in Afghanistan. These data were also provided to bidders to enable them to more accurately value the hydrocarbon resources. This in turn reduced their concerns over investing and improved the quality of bids.

50 km of 2D seismic data was obtained in the Kushka Basin in support of future tender opportunities.

Pipeline Construction and Services

The Task Force assisted in the rehabilitation of the existing pipeline from Sheberghan to Mazar-i-Sharif in order to increase the flow of gas. This includes setting the conditions for construction of a new parallel pipeline paid for by the Task Force

that will be constructed after the Task Force ceases operations. The uprating of the existing Soviet pipeline enabled Afghan Gas to confidently construct and manage a project of this scale.

Pipeline equipment and training (welding) were also provided to Afghan Gas employees. Subject Matter Experts were retained to assist with operations and maintenance for gas processing components (compressors, dehydration unit and amine plant). Additionally, the pipeline project served as an impetus for establishing the natural gas pricing methodology, allocation methodology, and regulations.

The Project Team upgraded the pipeline from Sheberghan to Mazar which resulted in a 20% increase in gas.

The Task Force also funded and assisted in the management of the first ever operating Compressed Natural Gas (CNG) station and provided training and support to Afghan Gas for station operation with 0% operational loss. Afghan locals received training on all operational areas related to the operations and maintenance of the station. TFBSO also assisted MoMP and MoCI with establishing regulations that will benefit the future growth of the CNG industry.

²⁰ TFBSO did not hire MoMP staff or lead negotiations.

²¹ The goal is to enable Afghan Gas to sell gas to off-takers and operate as a commercial entity.

Upstream Hydrocarbon Project

This project was implemented to identify, prioritize, and tender oil and gas investment opportunities in Afghanistan. The Project Team supported the Afghanistan Petroleum Authority (APA) with the technical, financial, managerial, and legal aspects of the end-to-end Exploration and Production Sharing Contract (EPSC) management process. The Task Force assisted with monitoring project implementation by providing advisors on contract management, budget and technical programs, and financial management. These project activities are expected to increase international confidence and facilitate more oil and gas investment.

The Task Force's work with the Afghan Government supported the first tender for oil in Afghanistan in 30 years.

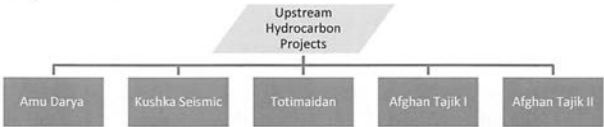


Figure 31. Upstream Hydrocarbon Projects

Summary of Results

The Upstream Hydrocarbon Projects represent a sound economic investment in Afghanistan. The following figure presents Afghanistan's GDP with and without Task Force Upstream Hydrocarbon projects between 2010 and 2025. As illustrated, TFBSO's Upstream Hydrocarbon projects lead to an additional \$24.4 billion in economic activity in 2025. Future upstream project profitability depends on the success of piecing together upstream, mid-stream, and down-stream activities.

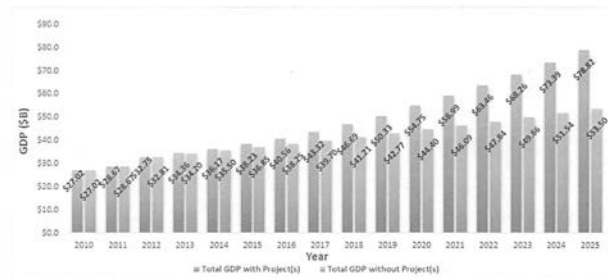


Figure 32. Upstream Hydrocarbon Effect on GDP

The Task Force spent \$223,736,462 between 2010 and 2014 to implement upstream minerals projects in Afghanistan (approximately \$71.3M in direct costs and \$152.5M in overhead costs). The results presented in the table below display the difference in cumulative totals for the specified period for all upstream hydrocarbon projects. For example, cumulative government revenue between 2010 and 2025 is expected to be \$12.8 billion greater with the addition of upstream hydrocarbon projects. Country-wide, these projects are forecasted to add \$125.8 billion to economic activity between 2010 and 2025.

Table 10. Upstream Hydrocarbon Summary of Results

	2010-2018	2019-2025	2010-2025
Difference in Cumulative Gov't Rev due to Projects	\$0.9 B	\$11.4 B	\$12.8 B
Difference in Cumulative "GDP" ²² due to Projects	\$8.1 B	\$112.2 B	\$125.8 B

The following figure presents the Task Force's share of the forecasted economic growth illustrated above. As presented in the graph below, the Task Force projects will lead to an additional \$25.3 billion in GDP by 2025. The Task Force was allocated \$23.6

²²"GDP" as used herein refers to economic activity that includes the formal, informal and illegal sectors. This calculation also assumes no other TFBSO projects took place before 2013, which is why growth numbers appear lower than those represented in graph of GDP (which does include TFBSO projects before 2013).

billion of the total \$24.4 billion as a result of the key role it played as an enabler across four hydrocarbon tenders.

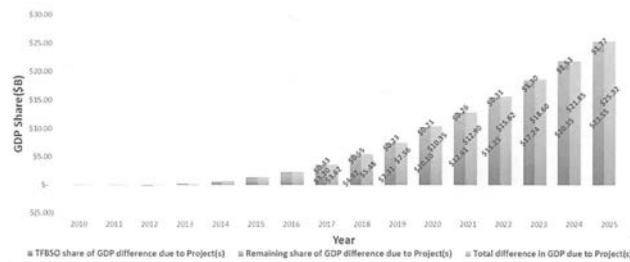


Figure 33. TFBOS's Share of Upstream Hydrocarbon Projects Effect on GDP

The group of Upstream projects include: Amu Darya, Kushka Seismic, Totimaidan, Afghan Tajik I, and Afghan Tajik II, which combined have a benefit-to-cost ratio of 1.0, a positive NPV, and an IRR greater than the discount rate for all parameter ranges examined as part of the sensitivity analysis.

Senturion Analysis

The Senturion Analysis included 51 stakeholders assigned to 12 categories, to include: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, Civil Society, Donor Agencies, International Community, Regional Organizations, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBOS, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBOS projects.

These projects are key to sustainable, long term development of Afghanistan's energy sector. In general, security risks pose a major issue to these types of investments worldwide, especially in these early phases. However, additional analysis of subject matter expert data input suggests that security poses a minimal threat to upstream hydrocarbon development projects.

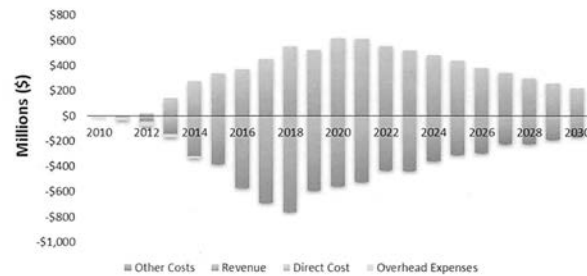
The analysis indicates strong support from within the council of ministers (in particular MoMP), other Afghan governments (to include strong support from the Afghan Petroleum Authority). The government is keenly aware of the positive consequences of energy independence. The donor community has also devoted many resources to foster these projects, in particular the Asian Development Bank. As expected, private sector international oil and gas companies favor both opportunities and potential return from Afghanistan upstream hydrocarbon industry development.

The international community, specifically neighboring countries who are donating or selling energy at bargain prices, see little threat in the development of the oil and gas industry in Afghanistan, and the civil society is in the same position, although they are not willing to invest themselves in the success of these projects. The position of neutrality of these groups of stakeholders demonstrates their limited vested interest in Afghanistan oil and gas production.

Expected minimal security risk is overcome by the support of the Afghanistan government, donor agencies, and demonstrated interest from international oil and gas companies. The discount rate incorporates these factors and increases the financial discount rate from 12% to 14.5%.

Cost Benefit Analysis

The CBA of the Upstream Hydrocarbon project covers more than 40 years;²³ however, the results presented in the graph below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for this project is estimated to be \$7.4 billion while the total discounted value of costs is estimated to be \$7.3 billion (between 2010 and 2030).



Discounted Total Cost	Discounted Total Benefit	Senturion Discount Rate
\$7,301,902,936	\$7,401,574,286	Range: 14.5% - 14.6%

Figure 34, Upstream Hydrocarbon Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2030 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 1.0, suggesting the project as a standalone investment is fiscally neutral. The discounted net project return is estimated to be \$99.7 million. The IRR using

²³ Amu Darya 2010-2018, Kushka Seismic 2012-2015, Totimaidan 2013-2054, Afghan Tajik I 2010-2037, Afghan Tajik II 2011-2037.

undiscounted cash flows is estimated to be 15.8% (greater than the risk adjusted discount rate which leads to a positive NPV).

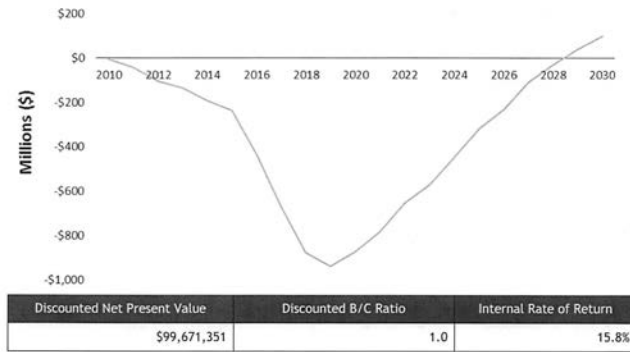


Figure 35. Upstream Hydrocarbon Discounted Payback

Macroeconomic Analysis

Initial oil and gas consumption will be localized; however, domestic oil and gas production will alleviate one of the key roadblocks to development (especially in the current Afghan situation where the balance of trade is negative). Upstream energy projects are the first link in a value-chain that contributes to energy self-sufficiency.

As detailed in the table below, upstream hydrocarbon projects are forecasted to add \$539.6 to Afghanistan's per capita GDP by 2025 (in a country where the GDP per capita is around \$650 in 2013). Exports are forecasted to remain unchanged with the addition of upstream hydrocarbon projects, and total household income is forecasted to be approximately \$22.1 billion higher than in forecasted scenarios without upstream hydrocarbon projects. The increase in household income showcases the multiplier effects from these important projects where the majority of income sources will be disbursed in the formal sector.

Table 11. Upstream Hydrocarbon Macroeconomic Results

		2018	2025
"GDP" per Capita	With Projects	\$1,201.9	\$1,679.7
	Without Projects	\$1,060.8	\$1,140.1

		2018	2025
Exports	With Projects	\$4.6 B	\$6.0 B
	Without Projects	\$4.6 B	\$6.0 B
Household Income	With Projects	\$45.9 B	\$75.3 B
	Without Projects	\$41.0 B	\$53.2 B

Domestic Gas Policy & Transmission Project

Development of Afghanistan's energy sector is paramount to Afghanistan's sustainable development. Most households do not have electricity; in fact, only 28% of the population was on the grid in 2011 (Mo Quayoni- Afghanistan National Electricity Strategy, July 2013). Without direct access to reliable electricity, manufacturing industries will be disadvantaged. In addition, economic activity in the agricultural sector is thwarted as producers cannot store and refrigerate their products for future domestic consumption, making costly temporary export and re-imports the only option.

The Task Force provided advisory and construction support to four projects under this group, to include: Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline negotiations; the construction of the Sheberghan to Mazar-e-Sharif pipeline uprate; the purchase and shipment of pipe for a new Sheberghan to Mazar-e-Sharif pipeline; and on-the-job training to Afghan Gas employees. These projects help demonstrate that Afghan Gas is capable of maintaining domestic gas flow, thereby improving Afghanistan's chances of monetizing the country's gas resources over the long term.

The Task Force's freedom to move and provide onsite management facilitated the delivery of gas to Mazar-e-Sharif.



Figure 36. Domestic Gas Policy & Transmission Projects

Summary of Results

Domestic Gas Policy & Transmission Projects were designed to enhance domestic gas transmission and to improve the capabilities of Afghan government employees responsible for governing gas distribution. The following figure presents Afghanistan's GDP with and without Task Force Domestic

Gas Policy & Transmission projects between 2010 and 2025. As illustrated, these projects lead to an additional \$2.1 billion in economic activity in 2025.

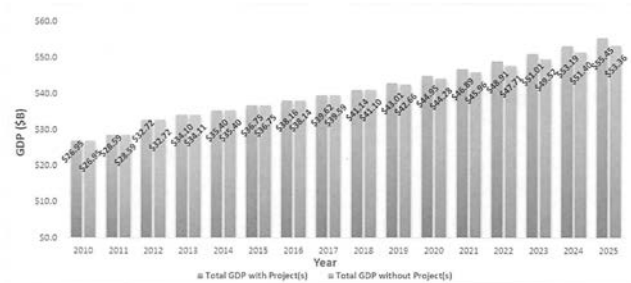


Figure 37. Domestic Gas Policy & Transmission Effect on GDP

The Task Force spent \$122,892,756 between 2010 and 2014 to implement domestic gas policy and transmission projects (approximately \$53.4M in direct costs and \$69.5M in overhead costs). The results presented in the table below display the difference in cumulative totals for the specified period for the project. For example, cumulative government revenue between 2010 and 2025 is expected to be \$4.3 billion greater with the addition of upstream mineral projects. Country-wide, these projects are forecasted to add \$8.6 billion to economic activity between 2010 and 2025.

Table 12. Domestic Gas Policy & Transmission Summary of Results

	2010-2018	2019-2025	2010-2025
Difference in Cumulative Gov't Rev due to Projects	\$0.0 B	\$4.3 B	\$4.3 B
Difference in Cumulative "GDP" ²⁴ due to Projects	\$0.0 B	\$8.5 B	\$8.6 B

The following figure presents the Task Force's share of the forecasted economic growth illustrated above. As presented in the graph below, the Task Force projects will lead to an additional \$2.1 billion in economic activity in 2025. The Task Force was allocated \$1.6 billion of the total \$2.1 billion as a result of the key role it played as an enabler in the domestic gas sector.

²⁴"GDP" as used herein refers to economic activity that includes the formal, informal and illegal sectors. This calculation also assumes no other TFBSO projects took place before 2013, which is why growth numbers appear lower than those represented in graph of GDP (which does include TFBSO projects before 2013).

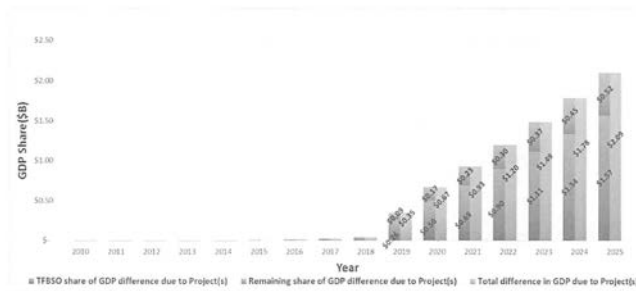


Figure 38. TFBSO's Share of Domestic Gas Policy & Transmission Projects Effect on GDP

The benefit-to-cost ratio is 3.0, and the Net Present Value (NPV) is positive for all parameter ranges examined as part of the sensitivity analysis. The Internal Rate of Return (IRR) is positive and greater than the politically risk adjusted discount rate.

Senturion Analysis

The Senturion analysis incorporated political risk factors to determine any change to the baseline financial discount rate of 12%. Senturion analysis included 41 stakeholders assigned to 10 categories, including: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, Civil Society, Donor Agencies, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The analysis indicates project support by a majority of stakeholders. In addition, security poses a minimal threat to domestic gas policy and transmission projects. All stakeholder groups hold a position greater than or equal to neutral (no stakeholders actively or passively oppose the projects).

The analysis indicates support from within the Council of Ministers (in particular MoMP), other Afghan governments (to include strong support from Afghan Gas), and the donor community (in particular the Asian Development Bank and World Bank). In addition, the Afghanistan Chamber of Commerce is a staunch supporter of domestic gas transmission.

Civil society is relatively neutral towards domestic gas policy and transmission projects. The Sheberghan to Mazar-e-Sharif pipeline uprate is currently operational in Afghanistan and the pipeline's impact to civil society remains minimal; therefore, civil society does not yet have a

vested interest in downstream gas utilization. In addition, TAPI pipeline discussions occur at the executive level and the placement of the TAPI pipeline remains under negotiation; therefore, local religious leaders and tribal elders are not yet firmly behind (negatively or positively) these projects.

Despite the minimal security risk and support of the Afghanistan government, donor agencies, and demonstrated interest from international oil and gas companies, some local political risk remains. The discount rate incorporates these factors and increases the financial discount rate from 12% to 22.1% for the pipeline uprate project and to 22.7% for the TAPI project. The TAPI project is riskier since the pipeline will cross more remote area.

Cost Benefit Analysis

The CBA of the Domestic Gas Policy & Transmission project covers more than 30 years;²⁵ however, the results presented in the graph below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for this project is estimated to be \$267.7 million while the total discounted value of costs is estimated to be \$88.5 million (between 2010 and 2030). The return to uprating the pipeline, purchasing a new pipeline, training Afghan government employees, and collecting revenue from TAPI is greater than the cost.



Discounted Total Cost	Discounted Total Benefit	Senturion Discount Rate
\$88,486,485	\$267,695,052	Range: 12.0% - 22.7%

Figure 39. Domestic Gas Policy & Transmission Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2020 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis).

²⁵ TAPI 2010-2040, Domestic Hydrocarbon Capacity Building 2010-2019, Gas Pipeline Uprate 2012-2030, and New Pipeline Transmission 2012-2013.

The discounted B/C Ratio is 3.0, suggesting the project is fiscally sound. The discounted net project return is estimated to be \$179.2 million. The IRR using undiscounted cash flows is estimated to be 40.1% (greater than the risk adjusted discount rate which leads to a positive NPV).

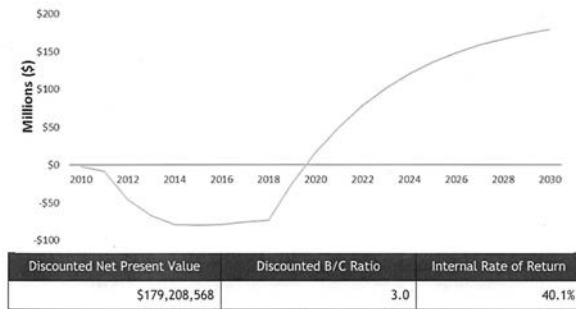


Figure 40. Domestic Gas Policy & Transmission Discounted Payback

Macroeconomic Analysis

The Task Force EIA model estimates the macroeconomic impact of this project group across various sectors of the Afghan economy. As presented in the table below, Domestic Gas Policy & Transmission projects add \$44.60 to Afghanistan's per capita GDP by 2025. Exports are forecasted to remain unchanged with the addition of these projects, and total household income is forecasted to be \$0.9 billion higher than in forecasted scenarios without these projects.

Table 13. Domestic Gas Policy & Transmission Projects Macroeconomic Results

		2018	2025
"GDP" per Capita	With Projects	\$1,059.0	\$1,181.6
	Without Projects	\$1,057.9	\$1,137.0
Exports	With Projects	\$4.6 B	\$6.0 B
	Without Projects	\$4.6 B	\$6.0 B
Household Income	With Projects	\$41.0 B	\$54.1 B
	Without Projects	\$41.0 B	\$53.2 B

Downstream Gas Utilization Project

This project group includes the Compressed Natural Gas (CNG) Station project only. The CNG Station project led to the first CNG station in Afghanistan. The CNG Station included a fully-functional fueling station, two dispensers, one CNG trailer filling point, a car conversion center, an administrative office building, and gas compression and processing equipment. The CNG Station Project was designed to establish a market for the consumption of energy.

The CNG station has resulted in economic opportunity in a new industry, enabling the creation of a domestic fuel source independent of expensive imports. This project also minimizes carbon footprint and enables the monetization of domestic natural gas reserves, generating revenue for the Afghan Government, and creating fuel savings for consumers (as CNG costs 50 percent less than gasoline in Afghanistan at the time of the analysis).

Summary of Results

The following figure presents Afghanistan's GDP with and without the Downstream Gas Utilization project between 2010 and 2025. As illustrated, this project leads to little-to-no GDP impact.

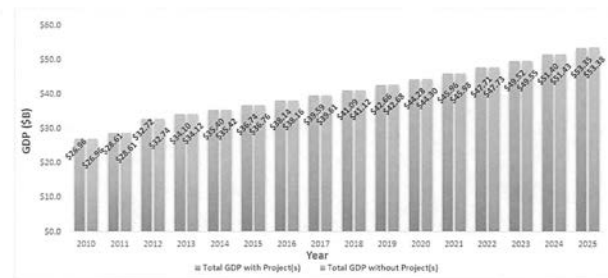


Figure 41. Downstream Gas Utilization Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable. However, Converting domestic gas to CNG for use in vehicles and power generation can catalyze growth in the natural gas industry, creating new employment and revenue-generation opportunities through private sector investment. The Task Force spent \$42,718,739 between 2011 and 2014 to fund the construction and to supervise the initial operations of the CNG station (approximately \$12.3M in direct costs and \$30.0M in overhead costs). This project group has a benefit-to-cost ratio of 0.0, and the Net Present Value (NPV) is negative.

Senturion Analysis

Senturion Analysis incorporates political risk factors to determine any change to the financial discount rate of 12%. The Senturion Analysis included 42 stakeholders assigned to 10 categories, to include: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, Civil Society, Donor Agencies, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The analysis indicates project support by a majority of stakeholders. In addition, security poses a minimal threat to downstream gas utilization projects. All stakeholder groups hold a position greater than or equal to neutral (no stakeholders actively or passively oppose the project).

The analysis indicates support from within the council of ministers (in particular MoMP), other Afghan governments (to include the Ministry of Commerce and Industry), and the donor community (in particular the Asian Development Bank). In addition, the Afghanistan Chamber of Commerce and private sector gas companies favor the opportunities and potential return from domestic gas consumption.

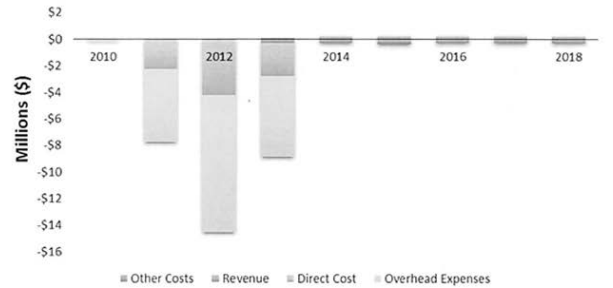
Civil society is not opposed to, nor does it support, downstream gas utilization projects. The market for downstream gas utilization, and in particular compressed natural gas stations, remains relatively small; therefore, civil society does not yet have a vested interest in downstream gas utilization. For example, local religious leaders and tribal elders are not yet impacted (negatively or positively) by these projects and therefore they do not have a strong position on future development.

The demonstrated support from the government of Afghanistan, donor agencies, and the private sector all outweigh the minimal security risk. The discount rate incorporates these factors and increases the financial discount rate from 12% to 16.4%.

Cost Benefit Analysis

The CBA of the CNG Station project covers 8 years, from 2011 to 2018. The total discounted value of benefits for this project is estimated to be \$1.2 million while the total discounted value of costs is estimated to be \$32.5 million (between 2011 and 2018).





Discounted Total Cost	Discounted Total Benefit	Senturion Discount Rate
\$32,540,195	\$1,214,587	16.4%

Figure 42. Downstream Gas Utilization Discounted Cash Flow

The discounted payback demonstrates that this project does not realize a positive. The discounted B/C Ratio is 0.0, and the discounted net project return is estimated to be -\$31.3 million.

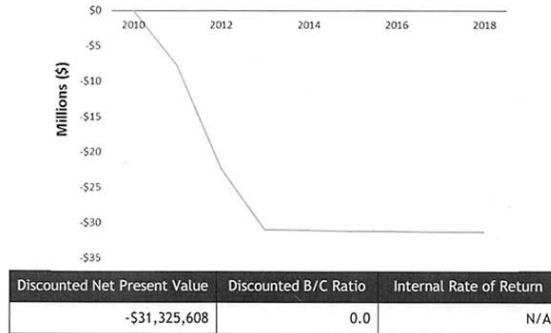


Figure 43. Downstream Gas Utilization Discounted Payback

Macroeconomic Analysis

Prior to the launch of Afghanistan's first CNG station, 100% of Afghan fuel was imported from neighboring countries at high prices that fluctuate due to transportation costs. Furthermore, an under-developed natural gas distribution infrastructure has limited the potential of Afghanistan's northern gas fields. The CNG Station will enable the transport of gas as CNG in tanks, to areas beyond Sheberghan without the need for a gas pipeline.

In order to establish a downstream market in Afghanistan, the Task Force first had to prove that there could be commercial consumption of natural gas in Afghanistan, and that there was a market for natural gas vehicles. This project proved there is interest in investing in Afghanistan's natural gas industry by creating a market value for a CNG station.

The downstream projects do not show macroeconomic gains but acknowledge the need to try innovative approaches to becoming less energy dependent by substituting with gas as an alternative source of energy for consumption.

Micro-Hydro Power Project

Summary of Results

The objective of this project was to connect the Tira Koh pumping station to a standard, stable micro hydroelectric grid with technical capacity to integrate with other micro hydro grids. The Micro-Hydro Power project was cancelled before the Task Force realized gains. The total cost to execute the project was \$10,792,492; this project does not have an estimable return to the government of Afghanistan. No additional analysis was performed since this project concluded before tangible benefits could be realized.



Indigenous Industries

Background

Objectives

The Task Force seeks to create economic opportunities for the people of Afghanistan by strengthening indigenous industries for which the value chain is weak or suboptimal.

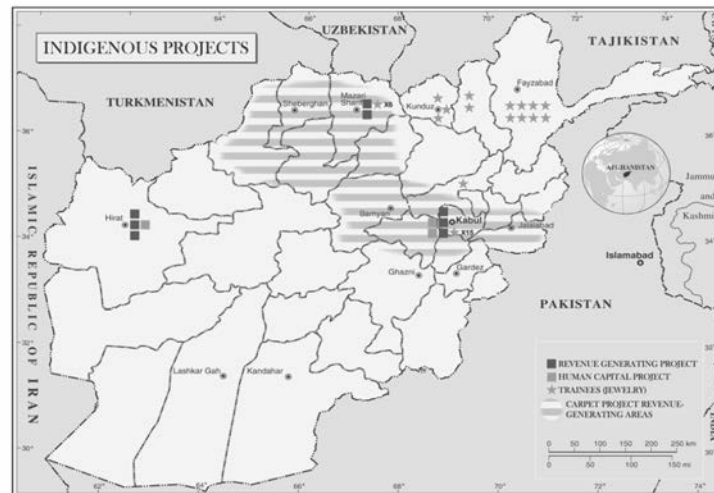


Figure 44. Indigenous Industries Project Map

Activity Overview

Indigenous Industries secures new international sales outlets for high-end artisanal products, develops and defines product lines, reaches international market standards in quality and design, and establishes production infrastructure (vendors, logistics, quality control, order fulfillment standards) capable of supplying international demand.

Due to decades of war, Afghanistan has been unable to keep pace with global quality control standards and value-added infrastructure, precluding the export of finished goods directly to lucrative foreign markets and resulting in dependence on neighboring countries to add value and

access customers. These initiatives by the Task Force are intended to increase the value and volume of Afghan exports, to create and strengthen Afghan businesses, and to raise worldwide awareness of Afghan industry and products.

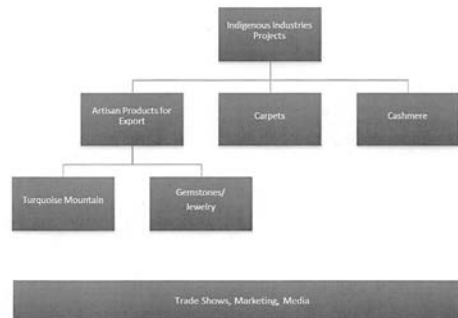


Figure 45. Indigenous Industries Projects

While development of natural resources and industry can take several years, rapid expansion of indigenous industries brings revenue and jobs to Afghanistan in the near-term. The Task Force is helping revitalize traditional Afghan industries, such as hand-knotted carpet weaving, cashmere production and artisan crafts and jewelry production, in order to reintroduce these high-value goods to the international market. The Task Force works closely with Afghan businesses to bring their products up to international standards and facilitates access to international buyers. In parallel, TFBSO connects international companies with opportunities for sourcing new goods and products in Afghanistan. The Task Force uses subject matter experts, strategic investment, and foreign and domestic investor support to strengthen capacity and quality of products and to connect Afghan producers with new domestic and international markets through tradeshow and media campaigns. By reintroducing these traditional Afghan products to the international market under an AfghanMade brand, TFBSO seeks to reengage Afghan producers throughout the supply chain, amplifying the effect of international demand on domestic production throughout the country.

Expected Outcomes: Carpets

On-site Task Force visits to carpet businesses throughout villages in Afghanistan with international vendors and investors contributed to the success of the project by permitting them to view inventory and place orders.

Currently, there are 15 international carpet investors and nine Afghan carpet producers involved with the AfghanMade initiative. The matchmaking initiative has resulted in almost \$2 million in revenue to the Afghan carpet companies since its inception. This initiative has generated more than 9,500 jobs. The cut and wash facilities in Mazar and Herat have state of

the art finishing capabilities and are processing orders from the local markets. The establishment of these two facilities has enabled Afghan carpet producers to finish their rugs in Afghanistan as opposed to Pakistan, keeping the full value chain in-country.

Cashmere

Interventions along the supply chain will improve the quality and quantity of Afghan cashmere and raise Afghanistan's international profile. New processing facilities have the potential to create 200-250 direct jobs with the cross-breeding businesses creating an additional 50-100 jobs. The Task Force has been coordinating with the Afghan Ministry of Commerce and Industry to pass a ban on the exports of raw/greasy cashmere. Additionally, TFBSO is helping potential investors evaluate existing but unused cotton and wool spinning and weaving facilities in Afghanistan; reopening these facilities could create over a hundred jobs and generate over \$15 million in annual private sector revenue. In the short run, exports of raw (washed) cashmere could increase by more than 1,000 metric tons, adding more than \$1.3M of revenue annually to the Afghan economy.

Flexible and responsive hiring and retention of skilled workers for the Cashmere project created efficiency and stability.

Artisan Products

Revitalizing traditional Afghan industries and connecting the best of Afghanistan's handmade artisan products and gemstones to the global marketplace will result in new artisan jobs in jewelry (cutting, polishing, inlay, and design), woodworking and ceramics, and enable craftsmen and women to launch entrepreneurial ventures. This will also raise Afghanistan's international business profile as a country of great natural and human resources, helping to attract broader investment.

Contribution to Stabilization Strategy

The Indigenous program will directly generate new jobs and increase revenue in small and rural communities. The impact of these projects is immediate, unlike the longer timeframe of industrial development. The increased access to international markets and greater revenue to producers for high-quality goods will position Afghanistan on the world stage as a producer of high quality products, attracting positive attention and potential investment. These products will also help restore Afghans' pride in their capabilities, link them more closely with the world economy, and

offer stronger incentives for them to participate in legitimate and legal economic activities, thus decreasing support for the insurgency.

Program Transition

The Task Force incorporates sustainability as a central element of all projects. The objective is to promote lasting sustainability through the development of long-term relationships with international markets and investors and through the development of enduring skills and capabilities that the Afghans will continue to grow and leverage.

Interventions

Skills Training

Afghan artisans' skills were enhanced and certified by the Indian Institute of Gems and Jewelry Jaipur on international standards in order to ensure that products met "fine jewelry" standards. This training enabled them to act as Master Trainers when they returned to Afghanistan. The Task Force also developed capacity in vendors to meet international orders. The Afghan carpet businesses were trained in new weaving and dyeing techniques. This created for more efficient production and enabled the businesses to be competitive in the international rug market.



Figure 46. Indigenous Industry Interventions

Branding

The Task Force assisted in collecting information on a list of preferred suppliers, showcasing the skill and talent of Afghan artisans in tradeshows, branding, identifying high-quality domestic vendors and securing international sales outlets for artisanal products under the AfghanMade brand.

Quality Control

The Task Force implemented quality control programs throughout its projects in Indigenous Industries. For example, in the Cashmere Project, the Task Force facilitated bringing in downstream processing facilities, establishing a pilot herd improvement program, and first ever cashmere quality testing laboratory to pave the way for branding Afghan cashmere in the international markets. They also developed a certification program which will guarantee grades of shipped cashmere.

Cashmere Project

Afghanistan is the third largest producer of cashmere in the world behind China and Mongolia. This industry has a high potential to increase exports as well as employ many resources in the country. For example, 95% of Afghanistan's 7 million goats are cashmere producing which makes Afghanistan the only major available resource in the world for raw material (USAID).

TFBSO facilitated the involvement of expertise at the farm level to increase the quality of cashmere farming, harvesting, color sorting and improvement, bleaching trials and animal breeding to obtain international quality level cashmere. To this end, they focused on obtaining certification for technicians and companies, as well as improving processing machines. TFBSO also increased the visibility of the product by presenting it in trade shows and other media outlets.

The value of Afghan cashmere will increase as the quality of the fiber improves. The ban on raw/greasy cashmere will prevent the export of contaminated cashmere bringing this sector in line with global standards.



Figure 47. Cashmere Value Chain

Based on USAID's 2009 estimates, the above graphic displays the percentage/value of raw/greasy cashmere compared to the potential if it is sold at retail.

Summary of Results

The following figure presents Afghanistan's GDP with and without Cashmere projects between 2010 and 2025. As illustrated, Cashmere projects lead to little-to-no GDP impact.

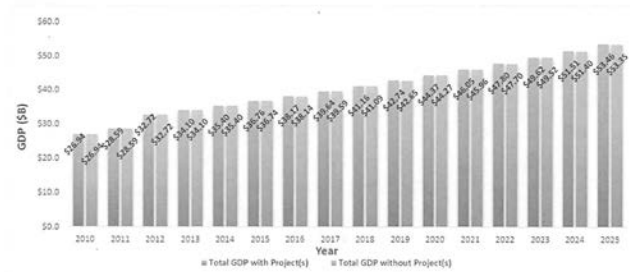


Figure 48. Cashmere Project Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable. Although the macroeconomic impact is negligible, this industry has large effects on a sizable portion of the rural and kuchi population. The vertical integration of this industry will increase the potential for GDP growth as well as utilize the increased supply of domestic energy.



The Task Force spent \$6,093,137 between 2012 and 2014 to implement its cashmere projects (approximately \$2.6M in direct costs and \$3.5M in overhead costs). This project group has a benefit-to-cost ratio of 3.3, and a positive Net Present Value (NPV).

Senturion Analysis

Senturion analysis incorporates political risk factors to determine any change to the financial discount rate of 12%. The Senturion Analysis included 54 stakeholders grouped in 12 categories, to include: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector-International, Private Sector-Afghanistan, Academic Institutions, Civil Society, International Community, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The analysis indicated that there is strong support for the project by a majority of stakeholders and that security poses little to no threat to the projects. Although the Armed Opposition holds a position of opposition, the analysis found that the Armed Opposition's Influence was not significant in that region and the Importance of the project to them is low.

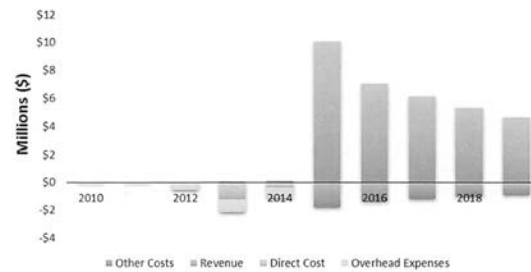
The analysis indicates that strong supporters are scattered within the international community, ministry offices, and private sector. There are some private sector businesses in Afghanistan who oppose the project because of the changes it will present to their own work stream. One of the concomitant issues is that it is simpler to export raw/greasy fibers in spite of the aggregate value lost. Opposition comes from the success of this ban. However, many other international and private Afghan businesses strongly support the project and a ban on the exports of raw/greasy cashmere. The international private sector sees the value in investing in additional machinery and working directly with businesses in Afghanistan, thus they strongly support the project. The Ministry of Commerce & Industry as well as the Ministry of Agriculture and Livestock have strongly supported this project because improving and expanding the Cashmere sector is one of their top priorities.

The Cashmere project has been successful working with the different stakeholders within the industry. The international, private sector, and ministry support has resulted in the success of the project thus far. Although, some neighboring countries, namely China and Iran are opposed to the project because of the increased competition, their overall influence and prioritization is low. Although these competitors oppose potential industry growth, the international market has room to accommodate more supply.

The low security risk and support from the ministries and private sector outweighs the minimal disapproval from specific Afghan private sector businesses and neighboring countries. As a result, the financial discount rate is politically adjusted from 12% to 15.2%.

Cost Benefit Analysis

The CBA of the Cashmere project covers 8 years. The total discounted value of benefits for this project is estimated to be \$33.3 million while the total discounted value of costs is estimated to be \$10.2 million (between 2012 and 2019).



Discounted Total Cost	Discounted Total Benefit	Senturion Discount Rate
\$10,175,673	\$33,340,096	15.2%

Figure 49. Cashmere Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2015 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 3.3, suggesting the project as a standalone investment is fiscally sound. The discounted net project return is estimated to be \$23.2 million. The IRR using undiscounted cash flows is estimated to be 120.4% (significantly greater than the risk adjusted discount rate which leads to a positive NPV).

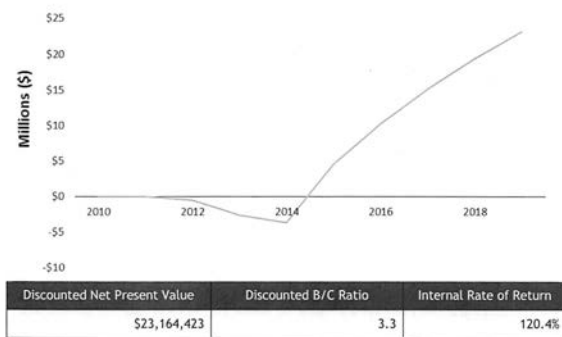


Figure 50. Cashmere Discounted Payback

Macroeconomic Analysis
Despite Afghanistan being the world's third largest producer of raw cashmere, only 30% of the nine million cashmere-producing goats in Afghanistan are harvested for cashmere production. Herders in Afghanistan have the ability to double the output of cashmere via improved animal husbandry and breeding practices, training, and grade certification. Given that raw cashmere comprises most of overall cashmere exports, the industry will benefit from additional value-added processing machines that will create additional jobs and bring more revenue to the private sector. The overall macroeconomic impacts of this project are negligible.

Carpets Project

Carpet projects have responded to vertical integration needs to ensure that all links of the value chain are attended to, from inputs for production to exports. TFBSO has improved domestic capacity by facilitating the opening of new facilities. For example, the Task Force built two state-of-the-art cut/wash facilities to create finished carpets in Afghanistan, established market linkages for Afghan businesses to the international market, and trained new weaving techniques to Afghan businesses for efficient production. TFBSO also promoted the Afghan carpet industry under the AfghanMade brand at prominent international tradeshows and events.



Figure 51 Carpet Projects

Summary of Results

The following figure presents Afghanistan's GDP with and without Carpet projects between 2010 and 2025. As illustrated, Carpets projects lead to little-to-no GDP impact.

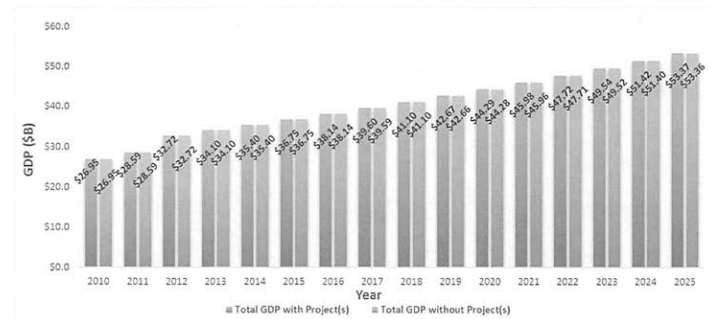


Figure 52. Carpet Projects Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable. The model assumes there are no tariffs on exports and that the salaries of carpet employees are low enough to avoid income

taxes. It is also assumed that all production is exported and there are no consumption taxes; therefore, direct government income does not change.

The Task Force spent \$7,560,758 between 2011 and 2014 on carpets projects (approximately \$3.2M in direct costs and \$4.4M in overhead costs). This project group has a benefit-to-cost ratio of 0.6, and the Net Present Value (NPV) is negative.

Senturion Analysis

The Senturion Analysis incorporated political risk factors to determine any change to the financial discount rate of 12%. The Senturion Analysis included 36 stakeholders grouped in 10 categories, to include: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, Civil Society, International Community, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The Carpets project is mostly influenced by the international community and private sector. The prevalence of stakeholder influence outside of the private sector and international donor community is minimal given the industry has existed for centuries independent from government agency support.

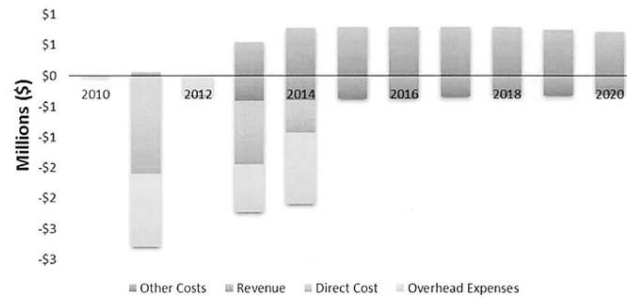
The analysis indicates that there is strong support for the project by a majority of stakeholders and that security poses little to no threat to the projects. Although the Armed Opposition holds a position of neutrality, the analysis found that the Armed Opposition's Influence was not significant in that region and the Importance of the project to this group is low. The reason for this is that most of the production takes place in the northern provinces of Afghanistan where the security situation isn't as heightened as in other areas.

The analysis indicates that the only stakeholder who passively opposes the project is Pakistan due to the potential disruption to Pakistan's carpet trade advantage. However, Pakistan's influence is minimal in comparison to the positive position and influence of all other international stakeholders. The international private sector and local Afghan businesses support the project due to the increase in revenue it will bring to their businesses and the direct linkages it creates between the investor and the Afghan producer. The Afghan Investment and Support Agency (AISA) and Carpet Unions are also supportive of the carpet project due to the increase it brings to the carpet industry domestic capacity. The discount rate incorporates these factors and increases the financial discount rate from 12% to 17.7%.



Cost Benefit Analysis

The CBA of the Carpet projects covered 10 years from 2011-2020.²⁶ The total discounted value of benefits for this project is estimated to be \$6.0 million while the total discounted value of costs is estimated to be \$9.4 million (between 2011 and 2020).



Discounted Total Cost	Discounted Total Benefit	Senturion Discount Rate
\$9,442,582	\$5,990,577	Range: 12.0% - 17.7%

Figure 53. Carpets Discounted Cash Flow

The discounted payback demonstrates that this project does not realize a positive return by 2020 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 0.7, suggesting the project as a standalone investment is not fiscally viable. The discounted net project return is estimated to be -\$3.3 million. The IRR using undiscounted cash flows is estimated to be 0.7% (less than the risk adjusted discount rate which leads to a negative NPV).

²⁶ Carpets Hub 2011, Carpets 2011-2020, and GoodWeave 2011.

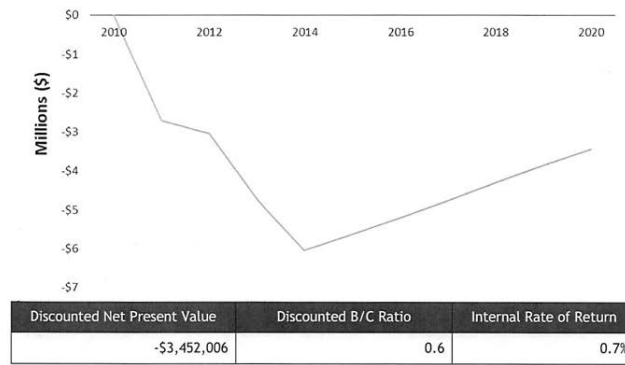


Figure 54. Carpets Discounted Payback

Macroeconomic Analysis

Over one million Afghans are employed directly or indirectly in the carpet sector including wool production, weaving, and cut/wash. This industry helps sustain many households and it is poised for revitalization. Decades of war isolated the Afghan carpet industry from the international marketplace and impacted the producers' ability to meet market needs and realize additional market value from their goods. Carpets have the potential to provide direct, immediate benefits to rural households. In fact, over 9,500 jobs were added in the carpet industry as a result of the Carpets projects. As the country's largest legal export and largest employer, the industry can benefit immensely from modernized techniques and designs, additional private sector investment, international branding, and finishing facilities. The overall macroeconomic impacts of this project are negligible.

Artisanal Industries Project

Afghanistan's artisanal industries can support sustainable economic growth throughout the country. TFBSO's approach to enabling artisanal industries included implementing two projects called Jewelry Development and Turquoise Mountain. The project group focused on four objectives to accelerate long term and sustainable growth: (1) train semi-skilled Afghan jewelry artisans to attain international industry standard skills, (2) create market exposure for Afghan jewelry, (3) develop an Afghanistan-branded line of jewelry and promote it at international trade shows, and (4) generate employment and sustainable new market linkages for new graduates. This project group sought to first create and validate demand for indigenous Afghan products in international markets and then invest in developing associated supply chains at a level that meets demand.

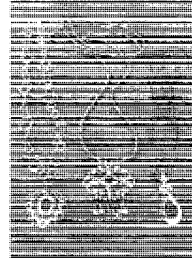


Figure 55 Artisanal Products

TFBSO facilitated the development of Afghan made jewelry through Aayenda Jewelry. Aayenda is a social enterprise owned by 501c3 charity Future Brilliance that is designed to provide sustainable benefit to Afghan artisans through ongoing skills and business training and apprenticeships, the introduction and oversight of quality standards, as well as through marketing and sales strategy enhancements.

Turquoise Mountain Arts is located in the historic Murad Khane district of Kabul. TFBSO focused on securing new international sales outlets for high-end artisanal products, developing and defining product lines, reaching international market standards in quality and design, and establishing production infrastructure (vendors, logistics, quality control, order fulfillment standards) capable of supplying international demand. Turquoise Mountain is involved in the sale, marketing and brokering of commissions for Afghan artisans. Products include a variety of materials including gold, silver, copper, gems, various woods, clay, glazes and natural pigments.

Summary of Results

The following figure presents Afghanistan's GDP with and without artisanal projects between 2013 and 2025. As illustrated, these projects lead to little-to-no GDP impact.

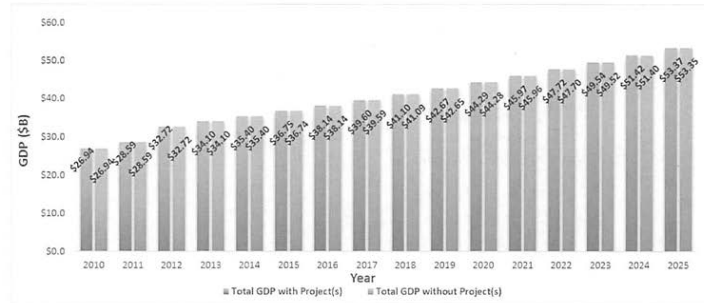


Figure 56. Artisanal Projects Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable. However, TFBSO Artisanal projects supported over 300 temporary and permanent jobs in the sector. The Jewelry Development project trained and certified 36 individuals in jewelry production, gem cutting, and design at the Indian Institute of Gems and Jewelry in Jaipur. Khala Zainab, one of the training program's participants, has a business based in Badakhshan that has created an estimated 1,000 jobs in bead carving as a result of the orders placed for the Aayenda jewelry line.

The Task Force spent \$7,316,112 between 2011 and 2014 to implement artisanal industries projects (approximately \$4.0M in direct costs and \$3.3M in overhead costs). This project group has a benefit-to-cost ratio of 0.7, and the Net Present Value (NPV) is negative.

Senturion Analysis

The Senturion Analysis incorporated political risk factors to determine any change to the financial discount rate of 12%. The Senturion Analysis included 35 stakeholders grouped in 10 categories, to include: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, International Community, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The analysis indicated that there is strong support for the project by a majority of stakeholders and that security poses little to no threat to the projects. Although the Armed Opposition holds a position of passive opposition, the analysis found that the Armed Opposition's Group Influence was not significant and the Importance of the project to them is low.

Turquoise Mountain has received support from numerous stakeholders in the international community as well as positive media coverage from civil society members. Additionally, the Non-Governmental Organizations (NGO) have received positive support from the Afghan government and were requested, on numerous occasions, to furnish artwork, woodwork, and other artisanal crafts for government and presidential facilities. The Murad Khane district in Kabul is a strong supporter of the NGO and considers them to be very important given the community redevelopment initiatives that Turquoise Mountain has undertaken and local business support they offer. The international donor community sees value in investing in the handicraft sector, providing additional skills development and offering support to the businesses involved with Turquoise Mountain.

The Jewelry Business Development project was primarily involved in working with the international and Afghan private sectors within the industry. The analysis indicates that strong supporters include the private sector, civil society, and most ministries. However, the overall importance of the project is relatively low for many of the stakeholders with the exception of the Afghan private sector. The international donor community sees value in investing in additional skills development in the Afghan producers. The discount rate incorporates these factors and increases the financial discount rate from 12% to 14.5% for the Turquoise Mountain project, and to 15.7% for the Jewelry Develop project.

Cost Benefit Analysis

The CBA of the artisanal project covers more than 40 years; however, the results presented in the graph below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for this project is estimated to be \$6.3 million while the total discounted value of costs is estimated to be \$9.7 million (between 2011 and 2030).



Figure 57. Artisanal Development Discounted Cash Flow

The discounted payback demonstrates that this project does not realize a positive return by 2030 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 0.7, suggesting the project as a standalone investment is not fiscally viable. The discounted net project return is estimated to be -\$3.4 million. The IRR using undiscounted cash flows is estimated to be -5.4%.

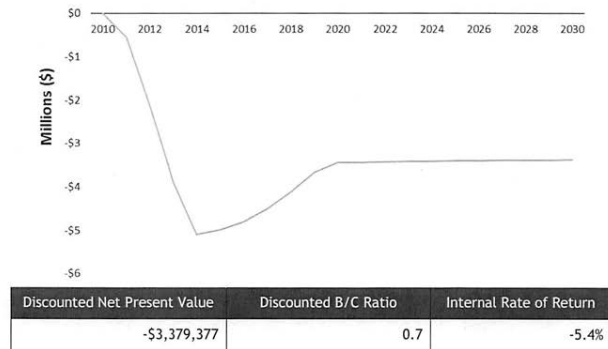


Figure 58. Artisan Development Discounted Payback

Macroeconomic Analysis

Growth in the artisanal industry is hindered due to the lack of highly skilled professionals, proper finishing equipment, and international perceptions of poor quality. Few Afghans are trained in the processing and polishing of gemstones which leads to most of the finishing taking place in Pakistan. Afghanistan is losing approximately 45% of the value of uncut stones and 200% of the value of finished jewelry due to the current lack of artisanal skills and tools in-country. Providing additional training to artisans and supplying them with the necessary tools and equipment will both raise Afghanistan's image within the global marketplace as a source of quality skilled labor and natural resources as well as increase the confidence of Afghan artisans.

Turquoise Mountain is well positioned to supply international orders with additional mentorship, quality control, and marketing. Revitalizing indigenous Afghan industries and connecting them with the global marketplace can result in additional jobs and new private businesses. Exports are imperative to foster Afghanistan's development and Turquoise Mountain represents one of the avenues to increase the inflow of currency. Furthermore, as the mineral industry sees positive outputs, the indigenous industries will use some of those gems for added value production that can remain in Afghanistan, showing another potential for growth.

Investments & Entrepreneurship

Background

Objectives

The goal of the Investment and Entrepreneurship program is to accelerate the growth of the Afghan economy by facilitating investment, encouraging entrepreneurship, and lowering the transaction costs of deals through investment advisory services.



Figure 59. Investments and Entrepreneurship Projects

Activity Overview

The Investment & Entrepreneurship Program promotes small and medium enterprise growth and entrepreneurship by providing business advisory services, facilitating private investment, and promoting public private partnerships in Afghanistan. The program is committed to increasing deal flow between responsible investors and legitimate Afghan firms; setting the conditions for sustainable and responsible development of the Afghan economy; and, enhancing the efficiency of Afghan companies through professional consulting services, including business management,

engineering, and food processing. These critical TFBSO services will enable small and medium-sized firms in Afghanistan to attract needed capital and expand their businesses.

Contribution to Stabilization Strategy

These programs support the stabilization strategy by strengthening, diversifying, and democratizing the economy. They enable the entry of new businesses into multiple industries supported by a broad set of investors and build ties to international financial markets through investments in Afghan businesses. Critical to the success of this strategy is the creation of better business practices through deals between responsible investors and vetted local firms, ultimately laying the foundation of a legitimate business class to demand better and more transparent governance.

Program Transition

Because the majority of the Investments and Entrepreneurship program's projects consist of advising and facilitation services, only the Herat Business Accelerator and AUAF Business Innovation Hub involve formal project oversight - and in both cases active government participation will come to an end at the end of 2014 with the closure of the Accelerator and the beginning of the Hub's self-sustainment. Deal facilitation services will be continued as appropriate and practicable through the end of TFBSO's operations and phase out, leaving private sector actors to continue business operations. TFBSO remains committed to working with the Department of State and USAID to transmit project information throughout the shutdown process.

Interventions

The Task Force Investments and Entrepreneurship program removed artificial barriers to investment and business activity by several means. The program worked with the Government of Afghanistan, improving the capability of Afghan government entities to tender and operate public-private partnerships, and assisted with strategic outreach to viable partners, facilitating informational visits by those that expressed interest. Additionally, TFBSO paved the way for international investment and joint ventures by providing detailed information about both broad sectors and specific opportunities to potential investors, as well as by preparing Afghan firms to work with international companies. Finally, the program also stimulated economic activity to actively mentoring those companies that had the potential to grow, but were not yet ready for major deals with international actors.

Government Mentoring on Private Sector Activities

TFBSO offered private sector consulting to the Government of Afghanistan's public private partnership (PPP) tendering processes. By coaching government officials on the concerns and needs of private sector individuals, as well as by assisting with investor outreach and communication, the Investments and Entrepreneurship team enabled the Afghan government to attract the attention of the most promising potential partners and streamline the tender processes.

Market Research and Deal Facilitation



The Investments and Entrepreneurship program facilitated investment deals and joint ventures between Afghan and international companies by vastly reducing the uncertainty faced by firms considering business opportunities in Afghanistan. Over the course of 2011, 2012, and 2013, the team developed deep market knowledge across numerous sectors, enabling it to provide both broad analysis and specific, vetted opportunities for potential investors. It concurrently worked with those Afghan businesses that were of investment grade to prepare them for interaction with international partners. The Investments and Entrepreneurship program finally enabled partners to connect, facilitating meetings and deal structuring as appropriate.

The Task Force involvement in the Pharmaceutical Sector resulted in the development of one of the largest pharmaceutical factories in Afghanistan, with gross annual revenues of \$105.8 million and a net annual income of \$19.3 million.

Coaching to Develop Best Management Practices

The Task Force assisted SMEs that were not yet ready to receive investment or enter into joint ventures with international companies by providing in-depth mentoring and training on business management practices. These services revolved around pairing clients with dedicated consultants who worked with them over the course of several months to realize specific business objectives.

Private Sector and Public Private Partnerships Project

TFBSO facilitated a number of large investment projects by private sector actors that involved varying degrees of cooperation with the Government of Afghanistan. These work streams were fundamentally different than the linear processes typically associated with project management in that they were driven not by the Task Force, but by independent, private businesses with their time line and valuation methods. While TFBSO personnel were able to guide and influence many parts of these processes, all decisions were ultimately made by outside actors. The Investment and Entrepreneurship program therefore developed a philosophy of remaining flexible and adjusting efforts to reflect changes in investor focus.

The Independent Power Producer (IPP) project brought international investors from several companies together with multiple government ministries. The Investment and Entrepreneurship team's coordination among these diverse actors with varying goals drove the group to reach a consensus and sign a Memorandum of Understanding, outlining the path toward harnessing Afghanistan's new natural gas resources.

The Glass Company project provided funding for preliminary development of a space earmarked for industrial use. The developer prepared an area sufficient for both its own use as a glass tempering facility and other businesses that may take advantage of the space. Located near the future IPP, the area will benefit from reliable, clean electricity.

The Task Force also conducted extensive market research on Afghanistan's scrap steel industry. Outreach to regional steel companies revealed substantial interest by investors to establish a steel

factory in Afghanistan, to at first revolve around the recycling of scrap, and then to eventually transition to steel production as Afghanistan's iron ore resources become available.

Finally, the Investments and Entrepreneurship program responded to a need identified by USAID for private sector experience in the Ministry of Public Health's tender of several donor-constructed hospitals. The team provided private sector perspectives to the Ministry, communicated the opportunities to top-tier potential investors, and facilitated information gathering and site visits by interested candidates.

Summary of Results

The following figure presents the macroeconomic impact on Afghanistan's GDP with and without Task Force PPP projects between 2012 and 2025. As illustrated, TFBSO's PPP projects lead to an additional \$1.9 billion in GDP in 2025. In this analysis, the aggregation of investments in different areas reinforces the value of partnerships, helping to minimize investment risks.

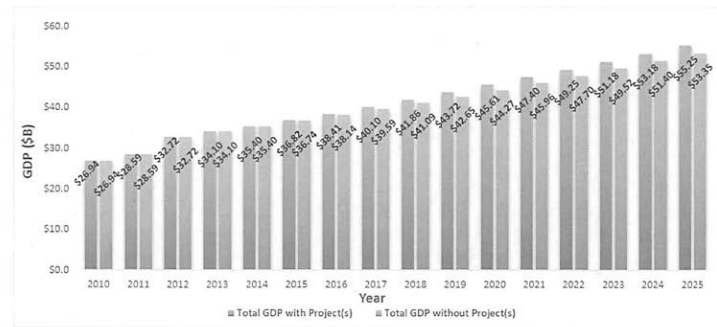


Figure 60. Public Private Partnership Effect on GDP

The Task Force spent \$27,876,331 between 2012 and 2014 to implement PPP projects in Afghanistan (approximately \$8.7M in direct costs and \$27.9M in overhead costs). The results presented in the table below display the difference in cumulative totals for the specified period for the PPP project. For example, cumulative government revenue between 2010 and 2025 is expected to be \$8.8 billion greater with the addition of PPP projects. Country-wide, these projects are forecasted to add \$12.4 billion to economic activity between 2010 and 2025.

Table 14. Public Private Partnership Summary of Results

	2010-2018	2019-2025	2010-2025
Difference in Cumulative Gov't Rev due to Projects	\$0.6 B	\$7.6 B	\$8.8 B
Difference in Cumulative "GDP" ²⁷ due to Projects	\$0.9 B	\$10.7 B	\$12.4 B

The following figure presents the Task Force's share of the forecasted economic growth illustrated above. As presented in the graph below, the Task Force projects will lead to an additional \$1.9 billion in GDP by 2025. The Task Force was allocated \$0.6 billion of the total \$1.9 billion as a result of the key role it played establishing PPPs in Afghanistan.

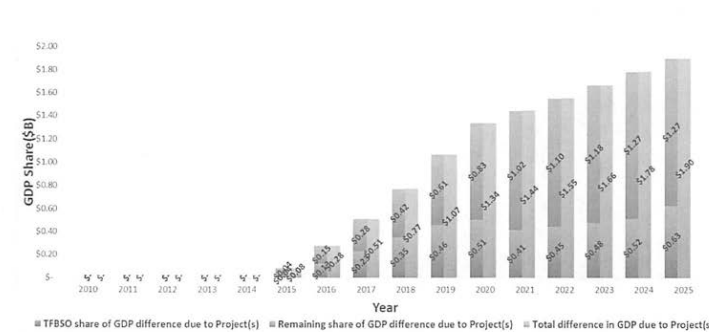


Figure 61. TFB50's Share of Public Private Partnership Projects Effect on GDP

The PPP Project represents a sound economic investment in Afghanistan. The group of PPP projects has a benefit-to-cost ratio of 1.2, and a positive Net Present Value (NPV).

Senturion Analysis

The Senturion Analysis incorporated political risk factors to determine any change to the financial discount rate of 12%. The Senturion Analysis included 50 stakeholders assigned to 10 categories, the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, Civil Society, International Community, and Insurgents. Senturion data

²⁷ "GDP" as used herein refers to economic activity that includes the formal, informal and illegal sectors. This calculation also assumes no other TFB50 projects took place before 2013, which is why growth numbers appear lower than those represented in graph of GDP (which does include TFB50 projects before 2013).

inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The analysis indicated near universal support across stakeholders, including the international community (to include the Overseas Private Investment Corporation and the Small Enterprise Assistance Funds' Afghan Growth Finance) and elements of the Afghan national government (with overwhelming support from Afghanistan's Ministry of Commerce and Industry).

The Steel component of the project group is viewed as a tremendous win-win opportunity by nearly all stakeholders. Regional steel companies are keen to enter the Afghan market and they view the scrap steel that exists, after decades of war and turmoil, to be a potentially lucrative and untapped resource. Elements of GiRoA and civil society are supportive of the numerous jobs and economic development that will come to pass as a result of the project.

The nature of the Hospitals component of the project group invites little dissent. The hospitals in question have already been constructed and must be tendered to international private sector entities to operate. The landscape is devoid of stakeholders dissenting from that overall aim as it is universally acknowledged that GiRoA does not have the expertise to operate the facilities. The private sector and the government are in accord.

Industrial programs that create jobs as well as provide inputs to the Afghan construction industry are difficult to oppose. Additionally, the fact that the Independent Power Producer project uses natural gas to generate necessary power adds to the non-objectionable nature of the project.

The only opposition that can be inferred stems from environmental NGOs and insurgents. While environmental NGOs have not been vocal, it can be expected that concerns with regard to environmental impact from steel manufacturing will be raised as the project progresses.

Given the support these projects enjoy across the public and private sector, the financial discount rate increases from 12% to 20.6%.

Cost Benefit Analysis

The CBA of the PPP project covers more than 30 years;²⁸ however, the results presented in the graph below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for this project is estimated to be \$350.1 million while the total discounted value of costs is estimated to be \$300.7 million (between 2010 and 2030).

²⁸ Glass Company 2012-2024, Steel 2012-2020, Independent Power Producer 2013-2029, and Healthcare 2013-2040.



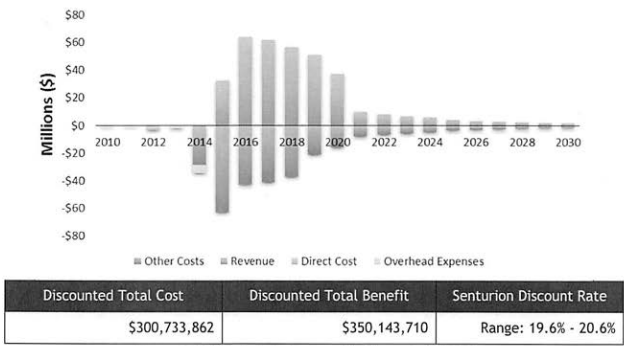


Figure 62. Public Private Partnership Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2019 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 1.2, suggesting the project as a standalone investment is fiscally sound. The discounted net project return is estimated to be \$49.4 million. The IRR using undiscounted cash flows is estimated to be 36.3% (greater than the risk adjusted discount rate which leads to a positive NPV).

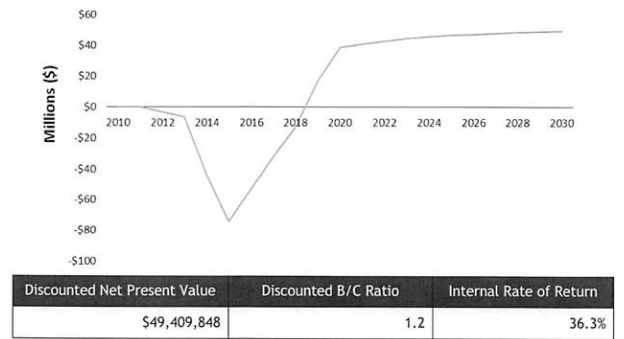


Figure 63. Public Private Partnership Discounted Payback

Macroeconomic Analysis

The PPP projects will accrue benefits to the Afghan economy in a number of ways. Foremost, the construction of a 50 MW, natural gas based, independent power producer will help overcome one of the largest barriers to industrial development in Afghanistan: access to reliable power. In addition, the tender of three major hospitals in Kabul for private operation will decrease the flow of medical spending to neighboring countries as well as help bring about the conditions necessary for a healthy, productive, workforce.

As presented in the table below, Public Private Partnership projects impact the macro economy by adding \$40.35 to Afghanistan's per capita GDP by 2025. The change to Afghanistan's exports are forecasted to be negligible; however, total household income is forecasted to be \$0.5 billion higher than in forecasted scenarios without Public Private Partnership projects. Additional value is added to the economy with higher consumer spending and health care provisions. PPPs also deter the exporting of domestic value chains, saving hard currency. Thus partnerships such as these help respond to the specific needs of Afghanistan's economy by combining business acumen with long term sustainable growth.

Table 15. Public Private Partnership Macroeconomic Results

		2018	2025
"GDP" per Capita	With Projects	\$1,077.6	\$1,177.3
	Without Projects	\$1,057.8	\$1,136.9
Exports	With Projects	\$4.6 B	\$6.0 B
	Without Projects	\$4.6 B	\$6.0 B
Household Income	With Projects	\$41.2 B	\$53.7 B
	Without Projects	\$41.0 B	\$53.2 B

Private Investment Project

The Investments and Entrepreneurship program sourced and surveyed more than 600 Afghan SMEs, developing a robust understanding of Afghanistan's business communities between 2011 and 2013. This enabled the team to source, vet, and market viable small-to-medium sized enterprises (SME) to the international investor community. By removing the often prohibitively high transaction costs associated with conducting market research in Afghanistan, the team enabled investors to identify those opportunities that met their investment goals but which would have otherwise remained inaccessible.

At the same time, TFBSO assisted Afghan companies that were ready to accept investment in connecting with sources of finance. It assisted SMEs with loan applications, financial models, valuation and pitch decks, and the marketing of events and products.

Throughout this two-pronged approach, the Task Force supported the deal making process with introductions, due diligence, term sheet and commitment letter preparation, and deal structure advising. This unique approach brought greater transparency to both sides of deals, allowing private sector actors to make informed decisions. These activities support Afghan firms through four basic mechanisms: decreased costs, increased efficiency, improved branding, and expanded operations.

As with the PPP projects described above, TFBSO's Private Investment projects are driven by investor decisions, which can accelerate, decelerate, re-conceptualize, or abort an initiative entirely. The Task Force team found it necessary to maintain flexibility, respond to investors' visions (occasionally to the exclusion of their own), and at times step away from sunk costs in order to focus on facilitating the deals with the greatest impacts and chances of success.

In this group of projects, the Task Force helped a pharmaceutical company acquire \$27.5 million in funding to complete construction of a production plant in Afghanistan and assisted a media company in acquiring financing to consolidate their footprint while networking with potential investors, foundations, and non-bank financial institutions to market a private equity fund in Afghanistan. Furthermore, it facilitated in-country visits for frontier market private equity firms to conduct due diligence and feasibility studies and introduced firms to Afghanistan's viable sectors and investment opportunities, as well as key government and business leaders. The Task Force also helped investors establish strategies involving country, sector, and risk analyses.

Summary of Results

The following figure presents Afghanistan's GDP with and without Task Force Private Investment projects between 2010 and 2025. As illustrated, TFBSO's Private Investment projects lead to an additional \$0.9 billion in GDP in 2025.



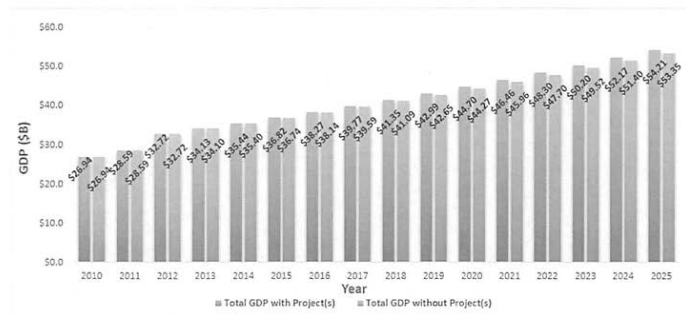


Figure 64. Private Investment Projects Effect on GDP

The Task Force spent \$9,815,901 between 2013 and 2014 to implement private investment projects in Afghanistan (approximately \$3.8M in direct costs and \$6.0M in overhead costs). The results presented in the table below display the difference in cumulative totals for the specified period for all private investment projects. For example, cumulative government revenue between 2010 and 2025 is expected to be \$0.5 billion greater with the addition of private investment projects. Country-wide, these projects are forecasted to add \$4.9 billion to economic activity between 2010 and 2025.

Table 16. Private Investment Projects Summary of Results

	2010-2018	2019-2025	2010-2025
Difference in Cumulative Gov't Rev due to Projects	\$0.1 B	\$0.4 B	\$0.5 B
Difference in Cumulative "GDP" ²⁹ due to Projects	\$0.5 B	\$4.2 B	\$4.9 B

The following figure presents the Task Force's share of the forecasted economic growth illustrated above. As presented in the graph below, the Task Force projects will lead to an additional \$0.9 billion in GDP by 2025. The Task Force was allocated \$0.5 billion of the total \$0.9 billion as a result of the key role it played in facilitating financing agreements in Afghanistan.

²⁹"GDP" as used herein refers to economic activity that includes the formal, informal and illegal sectors. This calculation also assumes no other TFBSO projects took place before 2013, which is why growth numbers appear lower than those represented in graph of GDP (which does include TFBSO projects before 2013).

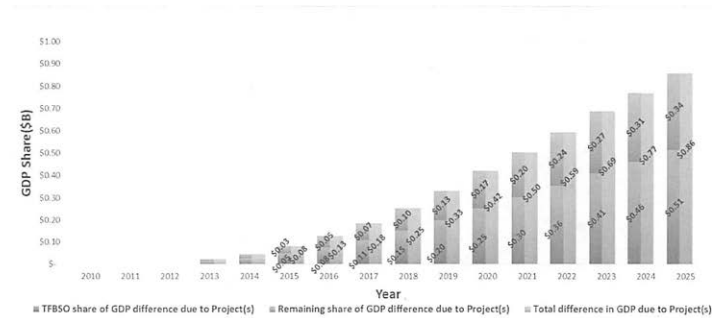


Figure 65. TFBSO's Share of Private Investment Projects Effect on GDP

The Private Investments Project represents a sound economic investment in Afghanistan with a benefit-to-cost ratio of 1.3, and a positive Net Present Value (NPV).

Senturion Analysis

The Senturion Analysis incorporated political risk factors to determine any change to the financial discount rate of 12%. The Senturion Analysis included 36 stakeholders assigned to 9 categories, to include: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, International Community, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The analysis indicated near universal support across stakeholders, including the international community (to include the Overseas Private Investment Corporation and the Small Enterprise Assistance Funds' Afghan Growth Finance) and elements of the Afghanistan government (in particular the Ministry of Commerce and Industry).

The development of a pharmaceutical manufacturing facility in western Afghanistan is wholly uncontroversial and receives either active or passive support from all stakeholders. In addition, private investment includes acquiring financing for and constructing a consolidated studio for Afghanistan's largest media outlet. Both international and domestic stakeholders recognize the need for a healthy media.

Given the overwhelming support the project enjoys across the public and private sector as well as the minimal opposition, the financial discount rate increases from 12.0% to 14.6%.

Cost Benefit Analysis

The CBA of the Private Investment projects covered 14 years from 2013 to 2026.³⁰ The total discounted value of benefits for this project is estimated to be \$217.5 million while the total discounted value of costs is estimated to be \$162.2 million (between 2013 and 2026).



Figure 66. Private Investment Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2017 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 1.4, suggesting the project as a standalone investment is fiscally sound. The discounted net project return is estimated to be \$55.2 million. The IRR using undiscounted cash flows is estimated to be 59.2% (greater than the risk adjusted discount rate which leads to a positive NPV).

³⁰ Telecom #8 2013-2023 and Chemical #1 2013-2026.

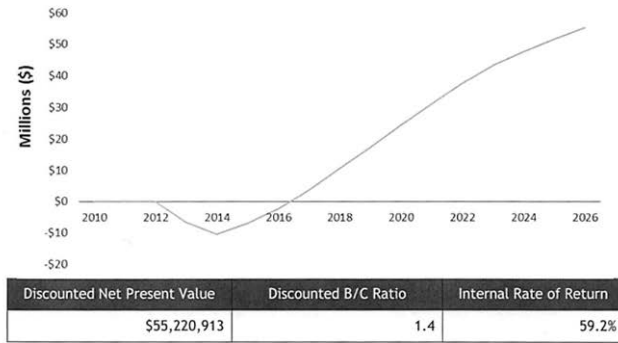


Figure 67. Private Investment Discounted Payback

Macroeconomic Analysis

The main challenge the Investments and Entrepreneurship program faced was the reluctance of international investors to be first movers in Afghanistan. The opportunity was clear; however, the risk was beyond the appetite of most. Now that the team has secured several first mover successes, a large pharmaceutical factory in Western Afghanistan and a major construction project to build the country's largest media studio, the uphill battle of securing a groundswell of major deals is now moot. This program has set in motion private equity funds to secure the necessary clearances, such as through OPIC, to be able to operate in Afghanistan. These benefits will likely continue to accrue to the Afghan economy after TFBSO ceases operation in Afghanistan.

As presented in the table below, Private Investment projects add \$18.30 to Afghanistan's forecasted per capita GDP by 2025. The increase in per capita income shows that these investments support higher than average paying jobs. Exports are not forecasted to increase with the addition of Private Investment projects, but total household income is forecasted to be \$0.7 billion higher than in forecasted scenarios without Private Investment projects. These projects reflect both the importance and possibilities of attracting private investments to Afghanistan household income.

Table 17. Private Investment Projects Macroeconomic Results

		2018	2025
"GDP" per Capita	With Projects	\$1,064.3	\$1,155.2
	Without Projects	\$1,057.8	\$1,136.9

		2018	2025
Exports	With Projects	\$4.6 B	\$6.0 B
	Without Projects	\$4.6 B	\$6.0 B
Household Income	With Projects	\$41.2 B	\$53.9 B
	Without Projects	\$41.0 B	\$53.2 B

Business Advisory Project

In 2011, the Task Force began the process of screening more than 600 Afghan SMEs to assess their levels of sophistication, stages of growth, and appetites for investment. While this research directly informed both the PPP and Private Investment project groups, its original purpose was to identify suitable startup candidates for participation in a Silicon Valley-modeled Information and Communication Technology (ICT) Incubator.

As the Incubator grew, its emphasis shifted to SMEs (as opposed to startups) that were better equipped to take advantages of the services it offered. The ICT sector focus broadened, expanding to other areas from food processing to auto part manufacturing to marble production. Services evolved as well. Consultants established close working relationships with their clients, identifying goals for expansion or process improvements and coaching firms throughout the processes of business plan creation and execution. Clients that “graduated” from the program remained a part of the Accelerator’s network of local partners and occasionally participated in training, or even business partnership, with newer clients. Eventually, the decision was made to rebrand the ICT Incubator a “Business Accelerator” to reflect its sector-agnostic approach and shift away from pure startup companies.

In 2013, in anticipation of the end of TFBSO operations, the Investments and Entrepreneurship program secured funding to help the American University of Afghanistan (AUAF) establish a similar program at its campus in Kabul. This project, known as the Business Innovation Hub, provides services very similar to those provided by the Business Accelerator in Herat. And after the Business Innovation Hub’s successful launch in 2013, the Task Force secured additional funding to enable AUAF to open the Hub’s first branch office in Herat, providing the business community with continuing high-quality business management mentoring after TFBSO operations cease. The

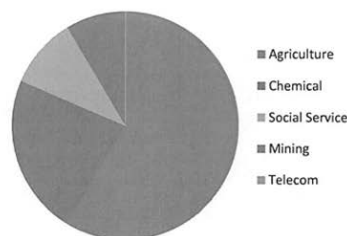


Figure 68. Business Advisory Projects in each Sector

pie chart illustrates the breadth of sectors supported by TFBSO's Business Advisory project.

Summary of Results

The following figure presents Afghanistan's GDP with and without the Business Advisory project group between 2011 and 2025. As illustrated, this project group will lead to an additional \$0.7 billion in economic activity in 2025.

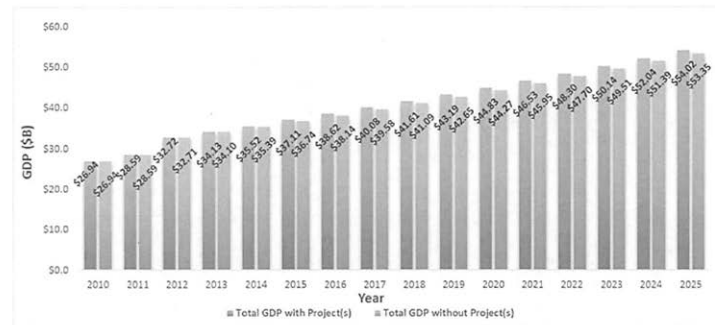


Figure 69. Business Advisory Services Effect on GDP

The Task Force spent \$42,352,992 between 2011 and 2014 to implement business advisory projects (approximately \$25.9M in direct costs and \$16.5M in overhead costs). The results presented in the table below display the difference in cumulative totals for the specified period for all mineral areas of interest. For example, cumulative government revenue between 2010 and 2025 is expected to be \$3.0 billion greater with the addition of business advisory projects. Country-wide, these projects are forecasted to add \$6.3 billion to economic activity between 2010 and 2025.

Table 18. Business Advisory Services Summary of Results

	2010-2018	2019-2025	2010-2025
Difference in Cumulative Gov't Rev due to Projects	\$0.7 B	\$2.0 B	\$3.0 B
Difference in Cumulative "GDP" ³¹ due to Projects	\$1.5 B	\$4.2 B	\$6.3 B

The following figure presents the Task Force's share of the forecasted economic growth illustrated above. As presented in the graph below, the Task Force projects will lead to an additional \$0.7 billion in GDP by 2025. The Task Force was allocated 100% of the long-term economic activity as a result of the key role it played in funding and enabling the Business Innovation Hub in Kabul.

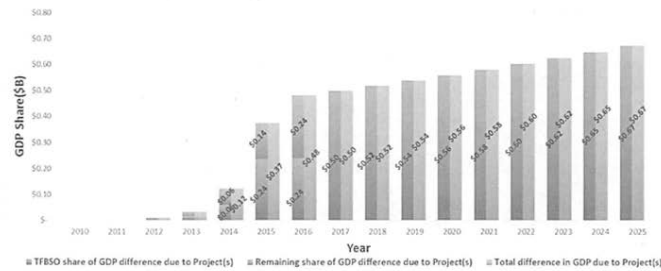


Figure 70. TFBSO's Share of Business Advisory Projects Effect on GDP

The Business Advisory Project represents a sound economic investment in Afghanistan with a benefit-to-cost ratio of 1.0, and a positive Net Present Value (NPV).

Senturion Analysis

Senturion analysis incorporated political risk factors to determine any change to the financial discount rate of 12%. The Senturion Analysis included 30 stakeholders assigned to 10 categories, to include: the President, Chief Executive, Former President, Parliament, Council of Ministers, Other Afghan Government, Private Sector, Civil Society, International Community, and Insurgents. Senturion data inputs were provided by multiple subject matter experts (SMEs) from both within

³¹ "GDP" as used herein refers to economic activity that includes the formal, informal and illegal sectors. This calculation also assumes no other TFBSO projects took place before 2013, which is why growth numbers appear lower than those represented in graph of GDP (which does include TFBSO projects before 2013).

and outside TFBSO, including the relevant Program Managers, DoD and external Afghan political economy experts familiar with TFBSO projects.

The analysis indicated that there is broad support for the project across the range of stakeholders. However, given the size and profile of the majority of businesses that comprise the Business Advisory portfolio, most place little-to-no importance on the success of the overall project. Insurgents are the most opposed to such advisory programs.

The analysis indicates that strong supporters are concentrated more closely to the Herat community. The Herat Industrial Union, which is generally the body that comprises the majority of the Accelerator businesses, is the strongest supporter. Tribal and religious leaders who have a strong interest in seeing their local constituents fully employed are also strong supporters.

With regard to national and international bodies, the Business Advisory project has little visibility to most bodies outside Herat. In fact, in many cases the businesses would rather not publicize their involvement. However given development of SMEs is a generally agreeable topic, it is surmised that most bodies at that level would be at least supportive in principle while not in deeds.

Despite the general agreeability of relevant project stakeholders, this is a low visibility issue. The discount rate incorporates these factors and increases the financial discount rate from 12.0% to 22.5% (depending on the location of the business).

Cost Benefit Analysis

The CBA of the Business Advisory project covers 6 years. The total discounted value of benefits for this project is estimated to be \$196.9 million while the total discounted value of costs is estimated to be \$190.1 million (between 2011 and 2016).

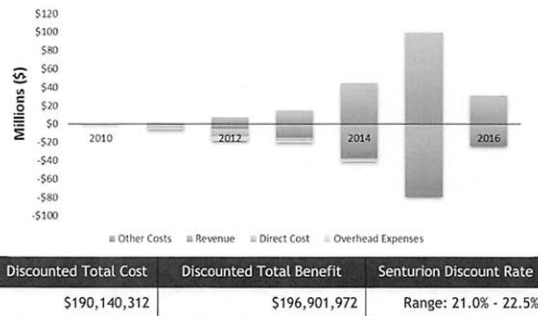


Figure 71. Business Advisory Services Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2015 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 1.1, suggesting the project as a standalone investment is fiscally sound. The discounted net project return is estimated to be \$9.9 million. The IRR using undiscounted cash flows is estimated to be 37.2% (greater than the risk adjusted discount rate which leads to a positive NPV).

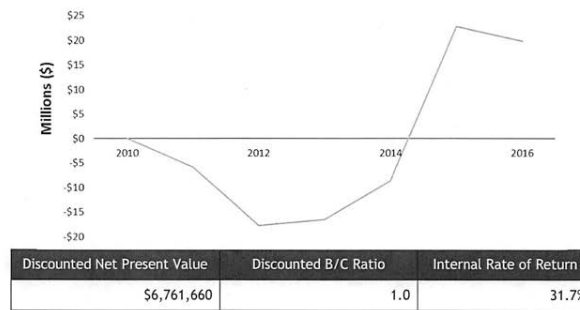


Figure 72. Business Advisory Services Discounted Payback

Macroeconomic Analysis

TFBSO has had a significant impact through its Business Advisory project by creating a business environment that attracts investment as well as sustains and grows economic activity. This project imparted business acumen directly to small and medium sized business entrepreneurs that resulted in increased revenue and jobs. However, the project's most lasting and most meaningful impact is affected through the means by which it has grown that business advisory capability in the American University of Afghanistan. Through the sustainable service that AUAF provides, Afghan entrepreneurs will have access to proven advisory services that will continue to help create the business environment necessary to develop the Afghan economy long after TFBSO has ceased operating in Afghanistan. The long term impact of business advisory is the reduction of the informal economy as the business sector realizes the incentives of joining the formal sector of the economy.

As presented in the table below, Business Advisory projects impact the macro economy by adding \$14.3 to Afghanistan's per capita GDP by 2025. Exports are forecasted to remain relatively unchanged, and total household income is forecasted to be \$0.2 billion higher than in forecasted scenarios without Business Advisory projects.

Table 19. Business Advisory Services Macroeconomic Results

		2018	2025
“GDP” per Capita	With Projects	\$1,071.0	\$1,151.1
	Without Projects	\$1,057.7	\$1,136.8
Exports	With Projects	\$4.7 B	\$6.1 B
	Without Projects	\$4.6 B	\$6.0 B
Household Income	With Projects	\$41.2 B	\$53.4 B
	Without Projects	\$41.0 B	\$53.2 B

Historic Projects

Background

The historic category includes the Task Force projects implemented between 2010 and 2013 that are distinct from the activities executed by the Energy, Indigenous Industries, Investments, and Minerals Programs (those programs with active projects through 2014). As stated in the National Defense Authorization Act, the Task Force was authorized to carry out “industrial development, banking and financial system development, and agricultural diversification and revitalization”.



Figure 73. Historic Project Map

The projects categorized as historic were initiated in 2010 (with authorization from the OSD Comptroller) and 2011 (with authorization from the NDAA and concurrence from the Department of State). Historic Projects comprise four work streams, to include (1) Agricultural Diversification & Revitalization, (2) Banking & Financial System Development, (3) Industrial Development, and (4) Women's Advancement.





Figure 74. Historic Projects

Agricultural Diversification & Revitalization

The Task Force engaged in a number of key agricultural projects designed to improve yields, quality, and distribution processes. By providing equipment, completing unfinished facilities, and providing state of the art training, the agricultural programs at Herat Agricultural College and Nangarhar Agricultural College have been able to increase efficiency and improve farmer's income and agribusiness productivity.



Figure 75. Agricultural Diversification & Revitalizations Project Objectives

The Task Force advanced Afghanistan's food safety objectives by providing materials, equipment, and training to enable the Afghanistan workforce to implement effective food safety practices on grapes and raisins in Kandahar province. Kandahar farmers were taught how to properly dry grapes into raisins and to operate and repair raisin-cleaning and grading machines. In addition, the Task Force was responsible for enhancing potato processing in Bamyan Province. The Task Force also established intercropped orchards, vineyards with trellis posts and high tunnels in the Marjeh district of Helmand province. Finally, the Task Force enhanced vegetable production and implemented wheat processing quality control in Herat. The Afghanistan agriculture industry

infrastructure was further developed when the Task Force completed a cold storage facility for pomegranates.

Banking & Financial System Development

The Task Force was involved with the Afghan First Initiative (AFI) with the objective to encourage the international community to use Afghan goods and services to carry out their project work. The goal of this project was to simplify interaction between Afghan business and the international community's contracting professionals who purchase materials in support of their respective missions. It created a platform for Afghan companies to compete for the North Atlantic Treaty Organization (NATO) and the International Security Assistance Force (ISAF) funded work in Afghanistan. In addition, this project led to the development of a tool that enabled the electronic transfer of funds (EFT) from government agencies through Afghan banks and to Afghan businesses. Prior to the completion of this project, Afghan vendors had no choice but to accept payments in cash and then transport that cash at great risk to their personal safety. EFT resulted in fewer cash movements on the street which significantly reduced the risk of cash being diverted for unlawful purposes.

Industrial Development

The Task Force engaged in a number of industrial development projects aimed at expanding Afghanistan's educational infrastructure, improving the physical security of key institutions, and outfitting industrial manufacturers with necessary equipment.

Security infrastructure enhancements to the Herat Judicial Building and Herat Airport included reinforcing parking areas, and building perimeter walls and checkpoints. The Herat airport is now capable of accommodating international flights.

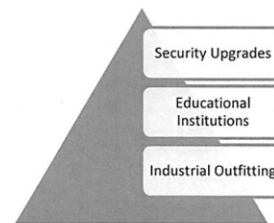


Figure 76. Industrial Development Projects

Educational and vocational training institutions constructed included the Emaar Girls School in Herat, the Herat Teacher's Training Institute, and the Herat University Women's Dormitory.

In addition, the Task Force outfitted the Lashkar Gah Marble Factory with a grinding machine capable of manufacturing of concrete tiles imbedded with marble chips.

Women's Advancement

Task Force Women's Advancement projects were designed to engage the international and Afghan public and private sectors in an effort to improve women's rights, increase their educational opportunities, and provide employment skills. The Economic Development Center for Women, an

institution funded by the Task Force to promote education and economic opportunities for women, links international and domestic organizations working on behalf of Afghan women. The Economic Development Center for Women is designed to bring together and house the services provided by the U.S. / Afghan Women's Council, various nongovernmental organizations committed to women's issues in Afghanistan, the Goldman Sachs 10,000 Women Initiative, and the University's professional development programs devoted to women's empowerment.

Banking & Financial System Development Project

The Banking & Financial System Development project group includes two distinct projects: (1) Afghan First and (2) the Economic Roundtable Conference. The Afghan First Initiative (AFI) was designed to create jobs and inspire long-term economic growth and stability in Afghanistan by encouraging the international community to use Afghan goods and services to carry out their projects. The Task Force supported the initiative by designing and developing the capability for U.S. government agencies to transfer funds electronically; thereby simplifying interaction between Afghan businesses and the international community's contracting professionals who purchase materials in support of their respective missions. The Economic Roundtable Conference project was designed to prepare deploying U.S. military divisions for the challenges of the total business environment and to ensure those divisions understand the importance of a holistic approach to business transformation in Afghanistan.

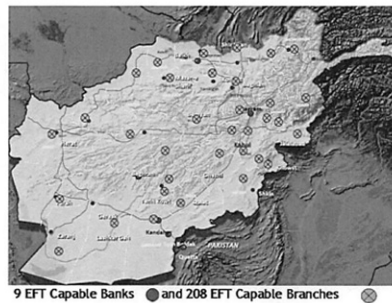


Figure 77 Afghan First EFT Locations

Summary of Results

The following figure presents Afghanistan's GDP with and without Task Force Banking projects between 2010 and 2025. As illustrated, this project leads to little-to-no GDP impact.

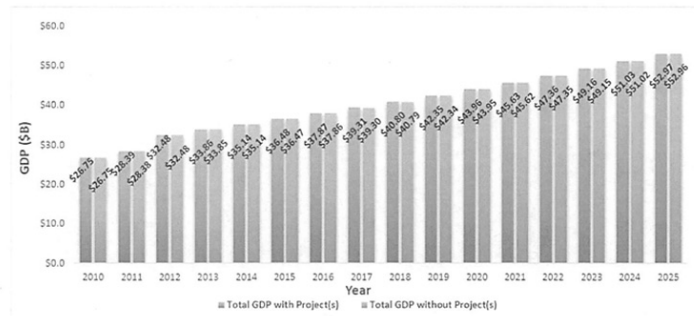


Figure 78. Banking & Financial System Development Projects Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable.

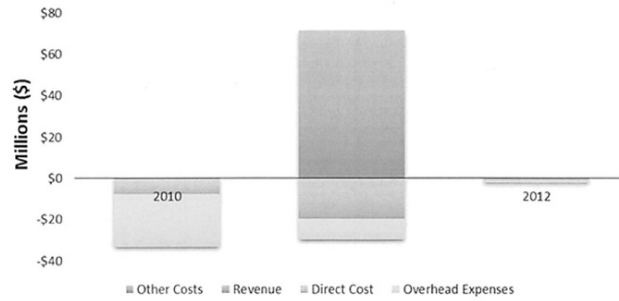
The Task Force spent \$69,219,230 between 2010 and 2012 on banking projects (approximately \$30.6M in direct costs and \$38.6M in overhead costs). This project group has a benefit-to-cost ratio of 1.1, and a positive Net Present Value (NPV).

Senturion Analysis

This project was completed before a stakeholder analysis could be conducted.

Cost Benefit Analysis

The CBA of the Banking & Financial System Development projects covered 3 years from 2010 to 2012. The total discounted value of benefits for this project is estimated to be \$71.3 million while the total discounted value of costs is estimated to be \$65.1 million (between 2010 and 2012).



Discounted Total Cost	Discounted Total Benefit	Discount Rate
\$65,144,986	\$71,254,355	12.0%

Figure 79. Banking & Financial System Development Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2011 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 1.1, suggesting the project as a standalone investment is fiscally sound. The discounted net project return is estimated to be \$6.1 million. The IRR using undiscounted cash flows is estimated to be 33.6% (greater than the discount rate which leads to a positive NPV).

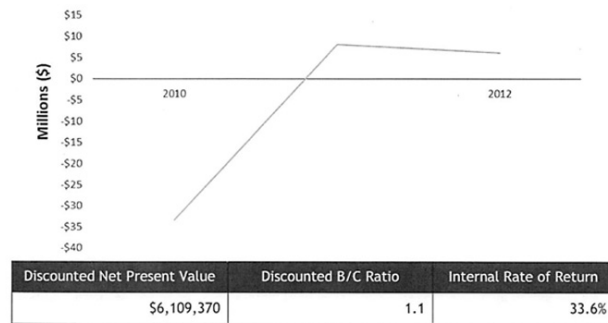


Figure 80. Banking & Financial System Development Discounted Payback

Macroeconomic Analysis

The Afghan First Initiative (AFI) objective was to help create jobs and inspire long-term economic growth and stability in Afghanistan by encouraging the international community to use Afghan goods and services to carry out their project work. The goal of this project was to simplify interaction between Afghan business and the international community's contracting professionals who purchase materials in support of their respective missions.

The financial system in Afghanistan is not sophisticated and continually competes with hawala for cultural reasons as a large percentage of the economy operates unofficially or illegally (the State Department estimates that 80% to 90% of the financial transfers are made through hawala). Entering the banking system as a client requires a transformation of standard business operations to a more transparent system.

Agricultural Diversification & Revitalization Project

The Agricultural Program worked with the Norman Borlaug Institute of International Agriculture, the Howard Buffet Foundation, and other partners to revitalize the Afghan agriculture sector by improving farmer outputs, filling gaps in the agribusiness processing chain, and driving demand for agriculture sector jobs. The program implemented farming training sessions, established food processing procedures, developed cold storage and distribution centers, and provided funding to construct agricultural colleges in Herat and Nangarhar to increase the capability of Afghan farmers.

Gaps across the agriculture value chain exist throughout Afghanistan, including challenges with farmer development and quality inputs, lack of value-add processing capacity, insufficient linkages from farmer to markets (local, regional and global), and lack of long-term academic institutional capacity, specifically, physical infrastructure, staff, equipment, analytical capability, and curriculum. To address these challenges and opportunities, the Task Force implemented a suite of interconnected activities to enhance agricultural capabilities and capacity.



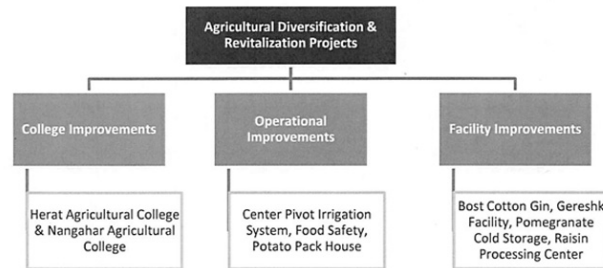


Figure 81. Agricultural Diversification & Revitalization Projects

Summary of Results

Agricultural Diversification & Revitalization Projects were designed to improve agricultural facilities by purchasing better farming equipment and providing training to farmers and food processors. The following figure presents Afghanistan's GDP with and without agriculture projects between 2010 and 2025. As illustrated, these projects lead to little-to-no GDP impact.

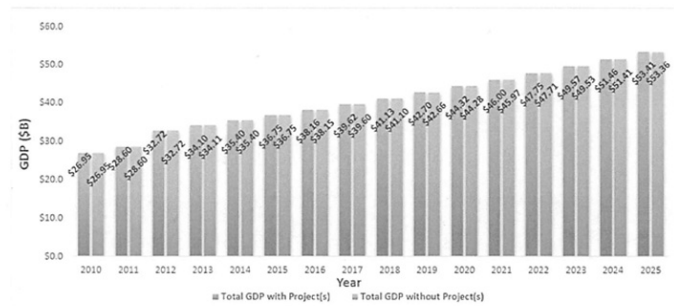


Figure 82. Agricultural Diversification & Revitalization Projects Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable.

The Task Force spent -\$28,425,689 between 2010 and 2013 to implement agriculture revitalization projects (approximately \$17.4M in direct costs and \$11.0M in overhead costs). This project group has a benefit-to-cost ratio of 0.7, and a negative Net Present Value (NPV).

This project has a negative net return because the Gereshk Facility and Raisin Processing Center are not being used. In addition, the individuals that received training were farmers and laborers who earn relatively small salaries (compared to the experts providing the training). However, investment on agricultural education and on infrastructure has a signaling effect on other industries; as well as the future agricultural policy of the country.

Senturion Analysis

This project was completed before a stakeholder analysis could be conducted.

Cost Benefit Analysis

The CBA of the Agricultural projects covered 16 years from 2010 to 2025 while the human capital projection impact goes until 2056;³² however, the results presented in the graph below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for this project is estimated to be \$24.4 million while the total discounted value of costs is estimated to be \$34.3 million (between 2010 and 2030).



Figure 83. Agricultural Diversification & Revitalization Discounted Cash Flow

The discounted payback demonstrates that this project does not realize a positive return by 2030 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the

³² Boston Cotton Gin 2011, Center Pivot Irrigation 2011-2012, Food Safety 2011-2012, Gereshk Facility 2011, Herat Ag College 2011-2025, Nangahar Ag College 2011-2025, Pomegranate Facility 2011, Potato Pack House 2013-2018, and Raisin Facility 2010-2011.

analysis). The discounted B/C Ratio is 0.7, suggesting the project as a standalone investment is not fiscally viable. The discounted net project return is estimated to be -\$9.9 million. The IRR using undiscounted cash flows is estimated to be 4.5% (less than the discount rate which leads to a negative NPV).

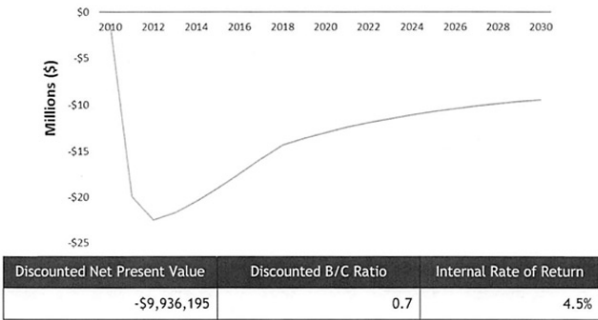


Figure 84. Agricultural Diversification & Revitalization Discounted Payback

Macroeconomic Analysis

Agriculture is the main source of income for the Afghan family. Over eighty percent of Afghanistan's population is involved in farming or herding, even though only 12 percent of the country's land area is arable, and less than 6 percent is currently cultivated. An analysis of developing economies indicates that the agricultural sector is a primary driver of growth in most of those economies, and the leading driver for employment growth, helping to create self-sufficiency and foreign currency savings. This helps substitute imported wheat for internal consumption and increases exports of higher priced agricultural goods. The increase in exports is paramount as one of Afghanistan's key development strategies.

Industrial Development Project

The lack of infrastructure is often cited as one of the main hurdles in Afghanistan; therefore, donors and the Afghan government have invested heavily in construction. The Industrial Development project group focused on enhancing the infrastructure at schools, public facilities, and in the private sector (as illustrated in the figure below). The Task Force managed a number of construction projects to enhance the capacity and capabilities of the public and private sector. These construction projects started in 2010 and continued through 2013.

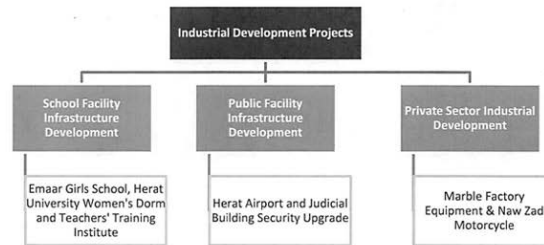


Figure 85. Industrial Development Projects

Summary of Results

The following figure presents Afghanistan's GDP with and without Industrial Development projects between 2010 and 2025. As illustrated, these projects lead to little-to-no GDP impact.

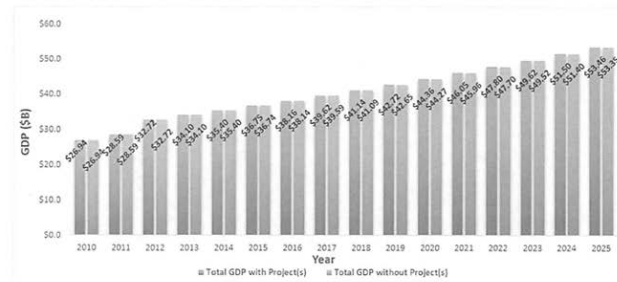


Figure 86. Industrial Development Projects Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable.

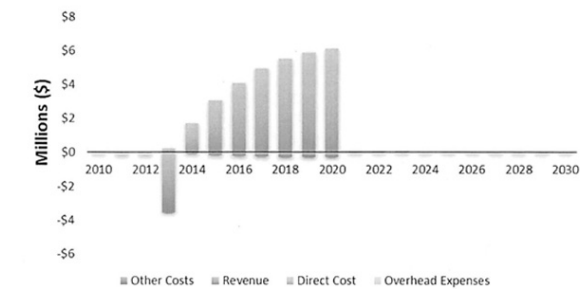
The Task Force spent \$451,760 between 2010 and 2012 to implement and monitor industrial development projects throughout Afghanistan. This project group has a benefit-to-cost ratio of 5.9, and a positive Net Present Value (NPV).

Senturion Analysis

This project was completed before a stakeholder analysis could be conducted.

Cost Benefit Analysis

The CBA of the Industrial Development projects covered 16 years from 2010 to 2025, and the human capital projection is extended through 2063;³³ however, the results presented in the graph below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for this project is estimated to be \$32.0 million while the total discounted value of costs is estimated to be \$5.4 million (between 2010 and 2030).



Discounted Total Cost	Discounted Total Benefit	Discount Rate
\$5,426,311	\$32,022,266	12.0%

Figure 87. Industrial Development Discounted Cash Flow

The discounted payback demonstrates that these projects realize a positive return by 2015. The cash flow and payback graphs do not present the impact to Afghanistan's GDP - these graphs only represent the estimated cash flows of the Task Force, future salaries of the students impacted by these projects, and the cash flows of the companies that received support.

³³ Emaar Girls School 2011-2025, Herat Airport 2012-2020, Teacher's Training Institute 2012, Herat University Dorm 2012-2025, Judicial Building Upgrade 2012, Marble Factory 2011-2020, and Naw Zad Motorcycle 2010-2011.

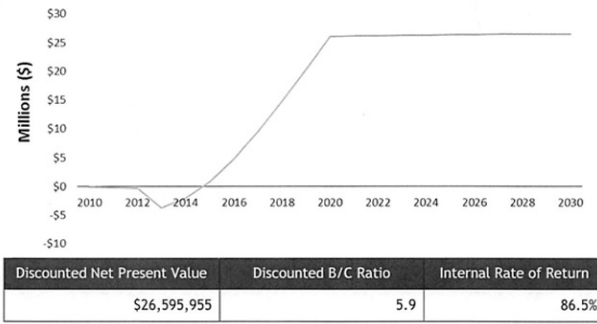


Figure 88. Industrial Development Discounted Payback

Macroeconomic Analysis

Public and private sector infrastructure development is critical to enhancing the efficiency of business operations in Afghanistan. In addition to enhancing the infrastructure of core public facilities like airports and judicial buildings, the Task Force increased the capacity of schools in Afghanistan. Additional capacity at public schools will improve the educational attainment of Afghanistan's future workforce.

Women's Advancement Project

The American University of Afghanistan's International Center for Afghan Women's Economic Development is designed to generate economic opportunities to enhance women's involvement in Information and Communications Technical Development, and Indigenous Industries (to include the supply chain development and logistics needed to bring these industries to market, both within the country and internationally). The center leads and coordinates both international and Afghan public and private sector efforts to advance the role of women in the economic stabilization of Afghanistan.

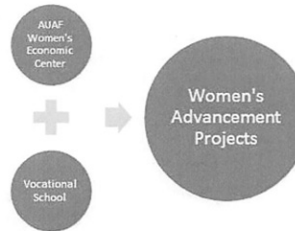


Figure 89 Women's Advancement Projects

The establishment of the International Center for Afghan Women's Economic Development Center at the American University of Afghanistan (AUAF) will bring together and house the services provided by the US/Afghan Women's Council, various nongovernmental organizations committed to women's issues in Afghanistan, the Goldman Sachs's 10,000 Women Initiative, and the University's professional development programs devoted to women's empowerment. The center will generate economic opportunities to enhance women's involvement in Information and Communications Technical Development, and Indigenous Industries.

Summary of Results

Women's Advancement Projects were designed to improve women's rights, increase their educational opportunities, and provide employment skills. The following figure presents Afghanistan's GDP with and without Women's Economic Development projects between 2010 and 2025. As illustrated, these projects lead to little-to-no GDP impact.

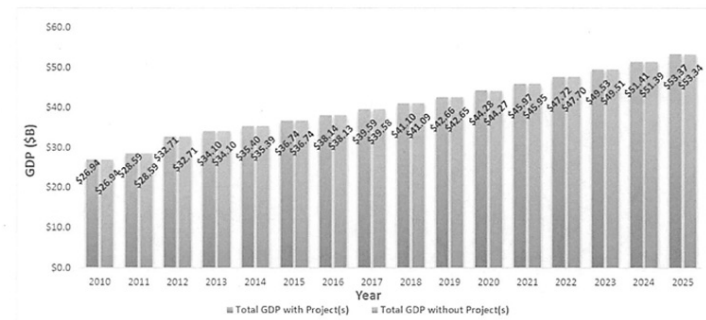


Figure 90. Women's Advancement Projects Effect on GDP

This project does not lead to gains in GDP above the baseline trend; therefore, a graphic illustrating the Task Force's share of economic growth is not applicable

The Task Force spent \$10,856,233 in 2011 on women's advancement projects (approximately \$6.2M in direct costs and \$4.6M in overhead costs). This project group has a benefit-to-cost ratio of 1.0, and a positive Net Present Value (NPV).

Senturion Analysis

This project was completed before a stakeholder analysis could be conducted.

Cost Benefit Analysis

The CBA of the Women's Advancement projects covered 1 year (2011); however, human capital projections extend through 2047. The results presented in the graph below represent cash flows between 2010 and 2030 only. The total discounted value of benefits for this project is estimated to be \$9.8 million while the total discounted value of costs is estimated to be \$9.7 million (between 2010 and 2030).

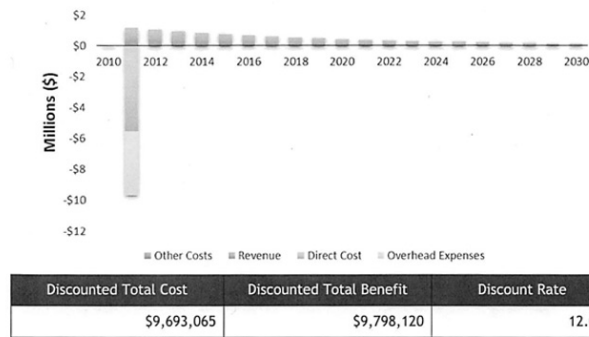


Figure 91. Women's Advancement Discounted Cash Flow

The discounted payback demonstrates that this project realizes a positive return by 2030 (when only direct benefits are quantified, meaning sectoral multipliers are not included in the analysis). The discounted B/C Ratio is 1.0, suggesting the project as a standalone investment is fiscally neutral. The discounted net project return is estimated to be \$105.1 thousand. The IRR using undiscounted cash flows is estimated to be 12.2% (slightly greater than the discount rate which leads to a positive NPV).

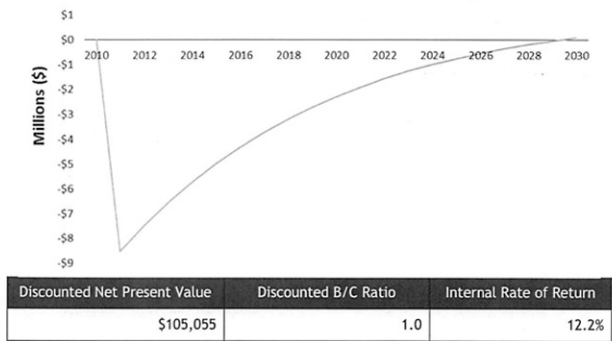


Figure 92. Women's Advancement Discounted Payback

Macroeconomic Analysis

A number of nongovernmental organizations work in Afghanistan to improve women's rights, increase their educational opportunities, and provide employment skills. However, the efforts of these organizations are mainly directed from outside Afghanistan. In addition, these efforts lack coordination and mutual reinforcement, and they tend to be short-term projects funded only for limited periods. In such an environment, an important role was filled by the Economic Development Center for Women.

Developing skills in the workforce is a long-term goal of all developing countries. Women in Afghanistan have access to limited formal education, so training will increase their productivity. The Economic Development Center for Women is the first of its kind to lead and coordinate both international and Afghan public and private sector efforts to advance the role of women in the economic stabilization of Afghanistan.

Key Uncertainties Moving Ahead

Sensitivity analyses were conducted to model Afghanistan's economic stability. The following "what if" scenarios were used to shock the Afghan economy and to model Afghanistan's economic stability with and without Task Force projects:

- Foreign aid changes +/- 10 percent to 20 percent
- Tariffs change +/- 10 percent to 20 percent
- Alternative insurgency power sharing
- Reduced ISAF troop presence
- Lifting Iran sanctions
- Increased instability in Pakistan

Foreign Aid Changes

It is likely that foreign aid to Afghanistan will change over the next several years. The following table presents the impact to GDP with and without Task Force projects assuming four alternative foreign aid shocks. The relative impact to GDP illustrates that Afghanistan's economy is more stable as a result of TFBSO's business and stability operations. For example, a 20% foreign aid reduction will lead to a 3.6 percentage point reduction in GDP by 2025 in the "with TFBSO" project scenario; however, the same shock will lead to a 11.5 percentage point reduction in GDP by 2025 in the "without TFBSO" project scenario.

Table 20 Alternative Future, Foreign Aid Shock, GDP in 2025³⁴

Foreign Aid Shock	GDP w/ TFBSO Projects	GDP w/ out TFBSO Projects	Difference
-20%	\$104.2 B	\$41.8 B	\$62.4 B
-10%	\$105.8 B	\$41.4 B	\$64.4 B
Baseline	\$107.8 B	\$53.3 B	\$54.5 B
+10%	\$109.2 B	\$54.7 B	\$54.5 B
+20%	\$110.1 B	\$54.9 B	\$55.2 B

Tariffs Change

Trade policies may change overtime and negatively or positively impact Afghanistan's economic growth. The following table presents the impact to GDP with and without Task Force projects assuming four alternative tariff shocks. Tariff increases or decreases (up to 20%) have little to no

³⁴ A 20% increase in foreign aid will not have as significant of an impact as a 20% reduction in foreign aid due to Afghanistan's inability to effectively absorb additional aid.

effect on GDP (total economic activity decreases to \$107.4 billion with a 20% reduction in tariffs, and increases to \$108.1 billion with a 20% increase in tariffs in the “with TFBSO” scenario).

Government revenue also remains largely unaffected by tariff shocks, indicating two scenarios:

1. If tariffs are reduced, imports will increase and the government will be able to collect taxes on additional items.
2. If tariffs increase, some importers will use informal channels for trade to bypass customs.

Table 21 Alternative Future, Tariff Shock, GDP in 2025

Tariff Shock	GDP w/ TFBSO Projects	GDP w/ out TFBSO Projects	Difference
-20%	\$107.4 B	\$52.4 B	\$55.0 B
-10%	\$107.6 B	\$52.3 B	\$55.3 B
Baseline	\$107.8 B	\$53.3 B	\$54.5 B
+10%	\$108.1 B	\$52.5 B	\$55.6 B
+20%	\$108.1 B	\$52.4 B	\$55.7 B

Alternative Insurgency Power Sharing

ISAF and Afghan National Security Force (ANSF) troops have been successful to-date in controlling the insurgency in Afghanistan and they remain generally unpopular among the Afghan populace (Schroden, Asfura-Heim, Norman, & Meyerle, 2014). However, there is no evidence that the “surge” has defeated the Taliban, and the international community won’t know the balance of power until US and ISAF military are largely gone and the new government is fully established (Cordesman, The Security Transition in Afghanistan: 2014-2016, 2014). As British Defense Secretary Philip Hammond and many other observers conclude, nobody can say “with certainty” what the future for Afghanistan will be (Oskarsson, 2013).

With that information in mind, it is important to forecast the potential economic impacts of varying levels of insurgency. This alternative future analysis analyzed the economic impact of an Afghanistan insurgency high risk and a low risk scenario.

The low risk scenario assumes that the insurgent population is more willing to negotiate and work with newly elected President Ashraf Ghani. In this scenario, the insurgents identify a benefit associated with negotiating and joining the existing and official Afghan government. In that regard, the insurgent population associates a lower level of importance with disrupting Task Force economic development projects. The baseline stakeholder importance score for every insurgent group is reduced by 20% or 30% depending on the insurgent group’s proximity to the national capital (Kabul). It is assumed that the incentive to negotiate with the President is greater for the groups that are closer to the nation’s capital.

The following table presents those provinces where the insurgent group importance score is reduced by 20% or 30%. The insurgent population is opposed to Task Force projects in the baseline scenario; therefore, a lower importance score will reduce the overall level of opposition which will lead to less risk (and as a result a lower discount rate).

Table 22 Insurgent "Importance" Decreases by Province using a Low Risk Scenario

Provinces with 20% Reduction	Provinces with 35% Reduction
• Badakshan • Takhar • Kunduz • Samangan • Balkh • Sar-e-Pul • Jawzjan • Faryab • Ghor • Badghis • Herat • Farah • Nimroz • Helmand • Kandahar • Zabul • Urozgan • Daykundi • Paktika • Khost	• Baghlan • Panjshir • Nuristan • Kunarha • Laghman • Kapisa • Kabul • Parwan • Bamyan • Wardak • Logar • Nangarhar • Paktya • Ghazni

The high risk scenario adjusts the baseline insurgent strength data to account for the province's historic levels of violence and instability. The high-risk scenario assumes insurgent strength will increase by 20%, 35%, or completely overwhelm a province. Insurgency strength under the high-risk scenario will completely overwhelm those provinces located in the south and southeast. Insurgency strength will increase by 35% in those provinces that border the southern and southeastern provinces and insurgency strength will increase by 20% in northern provinces. It is assumed that the northern provinces will be impacted under the high risk scenario as groups affiliated with ISIS gain strength.

Table 23 Insurgent Influence Outcome using High Risk Scenario, by Province

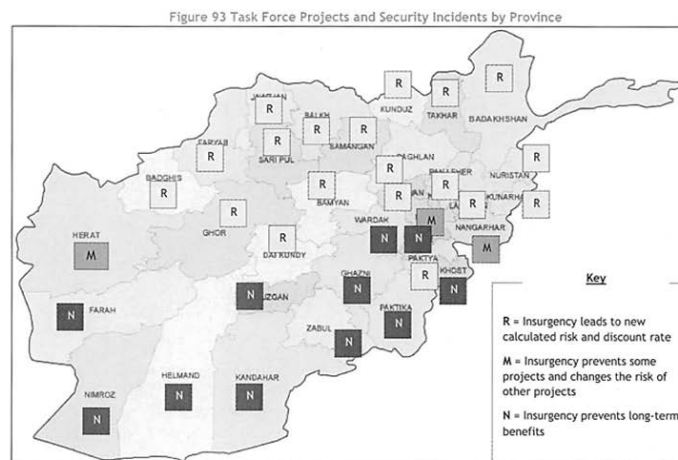
Insurgent Influence Increases 20%	Insurgent Influence Increases 35%	Insurgent Influence Permanently Delays Projects
• Badghis • Faryab • Sar-e Pul • Jawzjan • Balkh • Samangan	• Herat • Ghor • Bamyan • Parwan • Kabul • Nangarhar	• Farah • Ghazni • Helmand • Kandahar • Khost • Logar

Insurgent Influence Increases 20%	Insurgent Influence Increases 35%	Insurgent Influence Permanently Delays Projects
• Baghlan • Kunduz • Takhar • Panjshir • Kapisa • Laghman • Kunarha • Nuristan • Badakshan	• Paktya • Daykundi	• Nimroz • Paktika • Urozgan • Wardak • Zabul

There are three provinces where specific projects will be targeted in the increased insurgency scenario and therefore permanently delayed, to include:

- Herat's Dusar-Shaida area of interest (AOI) project.
- Kabul's Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, Hospitals, Steel, and Minerals Rail Transmission projects.
- Nangarhar's Ghunday-Achin AOI project.

The figure below illustrates the High Risk Scenario outcomes.



After including the high and low risk insurgency scenarios in the EIA/CGE model, the forecasted results show that the base line and low risk insurgency projected to 2025 show small differences in the level of economic activity (GDP and informal/illegal sectors combined). But in a high-risk scenario, where projects in the south would be delayed indefinitely, including over 30% of the mining projects, economic activity is projected to be 23% lower than in the baseline scenario where insurgency will continue at the current levels. The effects of the different scenarios are strongly felt in the government coffers. The high-risk scenario shows a 50% lower fiscal income than the baseline, while the difference between the low-risk and base line is negligible. The government income would suffer in a scenario of high-insurgency due to the combined effect of an increase in the size of the informal/illegal economy and a decrease in the income derived from royalties and export taxes of mining products. The following table presents gross domestic product and government revenue estimates in Afghanistan incorporating the Task Force's projects under a low risk and a high risk scenario.



Table 24 Alternative Future, Alternative Afghanistan Insurgency, Low-Baseline-High Risk Scenarios

	Year / Timeline	Low Risk	Baseline Risk	High Risk
Gross Domestic Product (Millions USD)	2025	\$108.4 B	\$107.9 B	\$82.8 B
Government Revenue (Millions USD)	2025	\$31.6 B	\$31.1 B	\$15.4 B

Afghanistan faces challenges related to uncertainties about the security and political transitions, which are slowing economic activity. Security and political uncertainties, and weak institutions have constrained growth and weighed on social outcomes. Macroeconomic stability, structural reforms, and political and security stability are needed to ensure inclusive growth. Risks, mostly on the downside, are related to adverse domestic or regional security developments, political instability, inadequate implementation of economic policies, and donor fatigue (IMF, 2014).

There is some hope that an adequately resourced ANSF layered defense and U.S. "four quarter" advisory strategy could succeed in providing the necessary security in key populated areas and for key lines of communication, even if Pakistan continues to provide Taliban sanctuaries and comes to dominate less populated areas in the east and south. Afghanistan is, however, very much a nation at war and success is extremely uncertain given the limited size and duration of the U.S. advisory effort (Cordesman, *The Security Transition in Afghanistan: 2014-2016*, 2014).

Reduced ISAF Troop Presence

In June of 2013, ANSF assumed the primary security role across Afghanistan, and U.S. and NATO military forces changed their mission to training, advising, and assisting. The number of U.S. and NATO troops will decline from a height of over 130,000 in 2011 to a total international force of 12,600 personnel in 2015.

The U.S. contributed \$65.5 billion in security funding between 2002 and 2014, or in other words half of the annual GDP from the formal sector per year during the same period. After providing more than \$5 billion a year to fund security requirements, NATO allies and ISAF partners recently reaffirmed their commitment to provide approximately \$1 billion annually for ANSF sustainment through 2017.

Donor funding was spent on Afghanistan but not necessarily in Afghanistan. Many resources were spent in capital and consumer goods, salaries, etc. that ultimately leaked back to the international economic system as imports or transfers or payments that never made it to the monetary flow of Afghanistan. Therefore, the decline in funding will affect the operational and development expenses in government budget that come from donors' aid (roughly 50% of the total budget is financed by donors). The government expenses on domestic security, government employees' wages, and their consumption will decrease. Additionally, the reduced funding may impose a reduction in the employment multiplier.

Some assume that the change of mission will create fewer incentives for the Taliban and other insurgent groups to attack foreigner financed targets in Afghanistan. A contrary hypothesis states that foreign troop presence provides a certain level of deterrence on attacks and also increase the opportunities in the labor market (Iyengar, Monten, & Hanson, 2011). Others hypothesize that reconstruction projects reduce insurgent recruitment by providing an alternative source of employment. Alternatively, reconstruction projects might foster more capital intensive insurgent attacks.

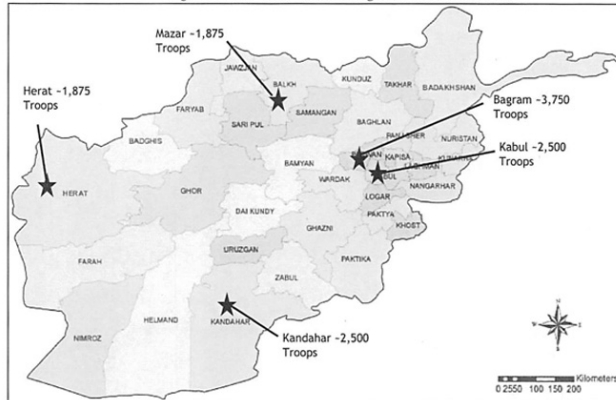
ANSF training effectiveness has not reached ISAF goals as demonstrated in the latest capability scorecards. In addition, attrition remains high (15% of personnel in 2014). A smaller and less capable ANSF may lead to a diminished insurgency containment, which could lead to more informal workers, additional illegal activities, and a greater number of attacks. Underemployed individuals are a good feeder for insurgency, and the wages paid by insurgent forces are higher than market wages (policemen get paid approximately \$60 a month while Taliban recruits get paid approximately \$200 a month). To make matters worse for the government budget, increased insurgent attacks, especially attacks on soft targets, will require additional government resources for repairs; further diminishing the Afghan government's capacity to fund security forces and equipment.

Finally, the allocation of police resources to military targets prevents ANP from supporting local law enforcement efforts which makes the delivery of public goods less effective, and diminishes the public's trust of official government institutions.

This "what-if" scenario quantifies the Task Force economic impact under a high risk scenario. The high risk scenario assumes the baseline non-insurgent influence (for example, the influence of the official government, private investors, and the international community, etc.) will decrease. The level of reduction to non-insurgent influence is based on two factors: (1) the project's proximity to the ISAF security forces, and (2) the existing capabilities of ANA and ANP troops near the project location. The figure below illustrates the location of ISAF troops given an estimated total force structure of 9,500 U.S. troops and 3,000 NATO troops in 2015 (12,500 total U.S./NATO troops).



Figure 94 ISAF Total Force Strength and Location in 2015



Map Source: (Davis, 2014)

The table below presents the reduction to non-insurgent group influence after evaluating ISAF troop location and ANA and ANP capabilities. As presented for Badakshan, the non-insurgent group influence will be reduced by 95% for all projects in this province under the high risk scenario. The 95% reduction was calculated by adding a 10% drop since the closest ISAF troops are two borders away in Parwan province, and an 85% drop since Badakshan does not have ANA or ANP personnel.

Table 25 Provincial-Level Non-Insurgent Influence Update, High Risk Scenario

Province	Distance from ISAF Risk	Low Risk Justification	ANA Capability Risk	High Risk Justification	Non-Insurgent Influence Reduction
Badakshan	-10%	Two borders away from the troops at Bagram	-85%	No ANA or ANP presence	-95%
Badghis	-5%	One border away from the troops at Herat	-0%	ANA is fully capable in all categories	-5%
Baghlan	-5%	One border away from the troops at Bagram	-85%	No ANA or ANP presence	-90%
Balkh	-0%	Troops are located in Mazar	-50%	ANA is partly capable in two	-50%

Province	Distance from ISAF Risk	Low Risk Justification	ANA Capability Risk	High Risk Justification	Non-Insurgent Influence Reduction
				categories and capable in four categories	
Daykundi ³⁵	N/A	N/A	N/A	N/A	N/A
Faryab	-10%	Two borders away from the troops at Herat and Mazar	-75%	ANA is developing in one category	-85%
Ghazni ³⁶	N/A	N/A	N/A	N/A	N/A
Ghor ³⁷	-5%	One border away from the troops at Herat	-85%	No ANA or ANP presence	-90%
Helmand ³⁸	-5%	One border away from the troops at Kandahar	-50%	ANA is partly capable in three categories and capable in three categories	-55%
Herat	-0%	Troops are located at Herat-2%	-25%	ANA is capable in two categories	-25%
Jawzjan	-5%	One border away from the troops at Mazar	-85%	No ANA or ANP presence	-90%
Kabul	-0%	Troops located in Kabul	-75%	ANP is developing in one category and capable in five categories	-75%
Logar	-5%	One border away from the troops in Kabul	-85%	No ANA or ANP presence	-90%
Nangarhar	-5%	One border away from the troops in Kabul	-50%	ANA is partly capable in one category and	-55%

³⁵ Due to its remote location in the center of the country, it is assumed that the risk will be too high for an investor under a high risk scenario; therefore, economic development projects are not implemented in this province.

³⁶ Due to its remote location, it is assumed that the risk will be too high for an investor under a high risk scenario; therefore, economic development projects are not implemented in this province.

³⁷ Mineral areas of interest in the eastern half of this province are not exploited due to their remote location. It is assumed that the risk will be too high for an investor under a high risk scenario; therefore, economic development projects are not implemented in the east.

³⁸ Mineral areas of interest in the southern half of this province are not exploited due their remote location. It is assumed that the risk will be too high for an investor under a high risk scenario; therefore, economic development projects are not implemented in the south of this province.

Province	Distance from ISAF Risk	Low Risk Justification	ANA Capability Risk	High Risk Justification	Non-Insurgent Influence Reduction
				capable in five categories	
Paktika	-10%	Two borders away from the troops in Kandahar	-75%	ANA is developing in one category and capable in four categories	-85%
Panjshir	-5%	One border away from the troops at Bagram	-75%	ANA is developing in one category and capable in three categories	-80%
Parwan	-0%	Troops are located at Bagram	-75%	ANA is developing in one category and capable in three categories	-75%
Sar-e-Pul	-5%	One border away from the troops in Mazar	-85%	No ANA or ANP presence	-90%
Takhar	-10%	Two borders away from the troops at Bagram at Mazar	-85%	No ANA or ANP presence	-95%
Urozgan	-5%	One border away from the troops in Kandahar	-75%	ANA is developing in one category and capable in two categories	-80%
Zabul	-5%	One border away from the troops in Kandahar	-75%	ANA is developing in one category and capable in one category	-80%

Note: only those provinces with current and successful Task Force projects are presented in the above table.

The assumption embedded in the high risk scenario is that troop withdrawals, coupled with a government that is finding its own political balance, will create opportunities for insurgents to become more active. It is assumed under the high risk scenario that the two TFBSO projects spanning multiple Afghan Provinces in the South (TAPI and Afghan Rail) would result in too much risk (due to a lack of fully capable security forces); therefore, both projects are permanently delayed.

The following table presents gross domestic product and government revenue estimates in Afghanistan incorporating the Task Force's projects under two alternative risk scenarios. The high-risk scenario shows an economic activity 16% lower than the baseline, this change can be partly attributed to the projects that are discontinued due to the security issues. Government revenues are reduced by 45% from the baseline scenario. The multiplier effects of the projects in the formal

economy are weakened and at the same time the informal and illegal sector, who do not contribute fiscally, might be expanding.

Table 26 Alternative Future, ISAF Troop Reduction, Low-Baseline-High Risk Scenarios

	Year / Timeline	Baseline Risk	High Risk
Gross Domestic Product	2025	\$107.9 B	\$90.2 B
Government Revenue	2025	\$31.1 B	\$17.0 B

Lifting Iran Sanctions

Despite ongoing concerns over Iran's nuclear program and allegations of arming militants in the region, General David H. Petraeus, former commander of US forces in the region, says Washington and Iran could coalesce around stabilizing Afghanistan. Admiral Mike Mullen, former chairman of the Joint Chiefs of Staff, echoed the sentiment in late January 2009. A number of experts stress that Iran wants stability and prosperity on its eastern doorstep for commercial and trade reasons (Bruno & Beehner, 2009).

Iran has positioned itself as an important regional actor in Central Asia and is committed to playing a role in neighboring Afghanistan. While the future of US-Iranian relations remains unclear, any improvement in the relationship would facilitate the success of US-supported initiatives in Afghanistan: the "New Silk Road" strategy, which seeks to improve Afghanistan's economic ties with Central and South Asia, and the "Heart of Asia" confidence-building process, which fosters high-level dialogue on security, political, and economic cooperation among Afghanistan and its neighbors. Both are catchwords for Washington's policy of trying to shift more responsibility for Afghanistan's reconstruction to the states of the region (Olcott, 2013).

The election of Hassan Rouhani as Iran's president and a potential breakthrough in nuclear negotiations could herald greater cooperation between Iran and the US in Afghanistan. Both Iran and the US share an interest in thwarting the Taliban's victory and ensuring a more stable Afghanistan, and both Tehran and Washington could pursue their respective interests in ways that are mutually beneficial (Nader, Scotten, Rahmani, Stewart, & Mahnad, 2014).

The following adjustments were made to the economic impact assessment model in order to account for lifting Iran sanctions:

- Afghanistan's agriculture production increases by 50%. Agriculture production increases in Afghanistan as Iran's economy matures and transitions to providing more services and enhancing its industrial sector. Afghanistan becomes the "bread-basket" for Iran's growing economy.

- A total of 50% of commodity imports from Pakistan are replaced with commodity imports from Iran. Iran is capable of exporting more commodities to Afghanistan as the Iran's economy grows. Afghanistan's ability to absorb additional imports is limited; therefore, Afghanistan substitutes Pakistan goods with Iran goods.
- Afghanistan receives an additional \$70 million in aid from Iran every year. Iran has a history of providing aid and they will be more willing to secure Afghanistan with additional revenue as their own economy grows.

Afghanistan's economy is estimated to be 0.5% greater than in the baseline scenario if US sanctions on Iran are lifted. Additionally, the Afghan government is expected to collect an additional \$0.1 billion as the Afghan economy reacts to Iran's economic growth.

Table 27 Alternative Future, Lifting Iran Sanctions, Economic Impact Results

	Year / Timeline	Baseline Scenario	Lifting Iran Sanctions
Gross Domestic Product	2025	\$107.9 B	\$108.4 B
Government Revenue	2025	\$31.1 B	\$31.2 B

Increased Instability in Pakistan

The allegedly complacent attitude of the Pakistan establishment toward, and even harboring of, pro-Taliban and Al Qaeda elements, and the current socio-economic and political crisis within Pakistan due to internal political strife has led many to question the future of Pakistan's role in Afghanistan (Parto, Winters, Saadat, Usyan, & Hozyainova, 2012). Pakistan's contribution to post-2014 Afghanistan will be directly proportional to Pakistan's own security, stability and economic welfare (Dogan, 2014).

A massive growth in militancy in the Pakistani-Afghan border area interacts with growing threats in the heartland of the Punjabi, Sindhi and Baloch interior. Additionally, Pakistan pursues its own agenda in Afghanistan in ways that prolong the fighting and cause serious US, ISAF, and Afghan casualties. Being its immediate neighbor, Afghanistan is bound to be affected by the spill-over effects of any destabilization that may take place in Pakistan.

Trade engenders and deepens specialization and specialization in turn assures economies of scale, especially for those countries with relatively modest domestic economies. Through increased economic integration, trading economies can acquire and diffuse new technologies from more advanced countries and help reduce poverty (Aziz, 2007). Afghanistan and Pakistan can work together and achieve mutual economic growth as trading partners.

However, insurgent threats from Pakistan remain very real as the Afghan Taliban continue to take refuge in neighboring Pakistan. As long as the Taliban and other insurgent groups have sanctuary in Pakistan, the risk of warfare and economic instability will remain (Cordesman, The Security Transition in Afghanistan: 2014-2016, 2014). The following adjustments were made to the economic impact assessment model to account for increased instability in Pakistan:

- Heavy construction projects that require imported materials and equipment in the south, southeast, and eastern regions of Afghanistan are delayed by 10 years. These heavy construction projects include:
 - Aynak mineral area of Interest (AOI) located in Logar Province.
 - Bakhud mineral AOI located in Urozgan Province.
 - Chai Gai Hills mineral AOI located in Helmand Province.
 - Ghunday-Achin mineral AOI located in Nangarhar Province.
 - Jabul Seraj mineral AOI located in Parwan Province.
 - Katawas mineral AOI located in Paktika Province.
 - Khanneshin mineral AOI located in Helmand Province.
 - Kundalan mineral AOI located in Zabul Province.
 - Minerals rail that is proposed to begin in Parwan Province and cross the eastern and southern regions of Afghanistan.
 - Panjshir Valley mineral AOI located in Panjshir Province.
 - Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline that is proposed to cross the northern parts of Helmand and Kandahar provinces.
 - Zarkashan mineral AOI located in Ghazni Province.
- Afghanistan's formal imports and exports decrease by 50% as all of the import/exports with Pakistan are cut off and 50% of the commodities are redirected to neighboring countries.
- Opium production increases by 50% as the formal trade with the east is replaced by illegal/drug trade.



Afghanistan's economy is estimated to decline by 28% if trade with Pakistan is cut off as a result of increased instability in Pakistan. Additionally, Afghan government revenue is expected to be 58% lower than in the baseline scenario.

Table 28 Alternative Future, Increased Instability in Pakistan, Economic Impact Results

	Year / Timeline	Baseline Scenario	Increased Insecurity in Pakistan
Gross Domestic Product	2025	\$107.9 B	\$77.5 B
Government Revenue	2025	\$31.1 B	\$13.0 B

Appendices

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Abbreviations

ADB	Asian Development Bank	IOC	International Oil Company
AFI	Afghan First Initiative	IRR	Internal Rate of Return
AFN	Afghani currency	ISAF	International Security Assistance Force
AGS	Afghanistan Geological Survey	LLDC	Landlocked Least Developed Country
ANA	Afghan National Army	LOFTA	Law and Order Trust Fund
ANDS	Afghan National Development Strategy	MCN	Ministry of Counter Narcotics
ANSF	Afghan National Security Force	MIDAS	Mining Investment and Development for Afghanistan Sustainability Project
ANP	Afghan National Police	MoMP	Ministry of Mines and Petroleum
AOI	Area of Interest	NATO	North Atlantic Treaty Organization
APTTA	Afghanistan-Pakistan Transit Trade Agreement	NDAA	National Defense Authorization Act
AUAF	Afghanistan Women's Economic Center and Vocational School at the American University of Afghanistan	NEC	Not Elsewhere Classified
BCR	Benefit Cost Ratio	NPV	Net Present Value
CASA-1000	Central Asia South Asia Transmission & Trade Project	NRVA	National Risk and Vulnerability Assessment
CBA	Cost Benefit Analysis	O&M	Operations & Maintenance
CBTA	Cross-Border Transport Agreement	OCO	Overseas Contingency Operations / Other Contingency Fund
CDFID	United Kingdom's Department of International development	ODA	Official Development Assistance
CENTCOM	U.S. Central Command	OECD	Organization for Economic Cooperation & Development
CGE	Computable General Equilibrium	OUSDC	Office of the Under Secretary of Defense Comptroller
CGFM	Certified Government Financial Manager	PDPA	People's Democratic Party of Afghanistan
CIF	Cost, Insurance & Freight	PECBA	Political Economy Cost Benefit Analysis
CNG	Compressed Natural Gas	SAM	Social Accounting Matrix
CSO	Afghan Central Statistics Office	SIGAR	Special Inspector General for Afghanistan Reconstruction
DAB	Da Afghanistan Bank (Central Bank)	SITC	Standard International Trade Classification (United Nations)
DIA	U.S. Defense Intelligence Agency	SME	Small & Medium Sized Enterprise; Subject Matter Expert
DoD	U.S. Department of Defense	SRAP	Special Representative for Afghanistan and Pakistan
DoS	Department of State	TAPI	Turkmenistan-Afghanistan-Pakistan-India Pipeline
dySAMs	Dynamic Social Accounting Matrices	TFBSO	Task Force for Business & Stability Operations
EFT	Electronic Funds Transfer	UN	United Nations
EIA	Economic Impact Assessment	UNCTAD	UN's Conference on Trade Development
EPSC	Exploration and Production Sharing Contract	UNODC	UN's Office on Drugs and Crime
FAO/STAT	Food & Agriculture Organization of UN	US	United States Army Central
FOB	Free on Board	ARCENT	United States Army Central
GDP	Gross Domestic Product	USAID	United States Aid
GIRoA	Government of the Islamic Republic of Afghanistan	USD	United States Dollar
GIS	Geographic Information System	USGS	U.S. Geological Survey
ha	Hectares	WB	World Bank
HDI	Human Development Index	WTO	World Trade Organization
IBES	Integrated Business Enterprise Survey		
IMF	International Monetary Fund		

Assumptions

General Assumptions

The sections that follow present a summary of assumptions associated with the Cost-Benefit Analyses (CBA) and Economic Impact Assessment (EIA) modeling techniques. Please contact the Task Force for Business & Stability Operations (TFBSO) technical representative, Ms. Janet Lam Ho, for more detailed information on these topics. Ms. Lam Ho can be contacted via the following email address: Janet.lamho.civ@mail.mil. The following table presents a summary of the baseline assumptions used in the Task Force CBAs. More detailed CBA assumptions are explained in the Program subsections that follow.

Table 29. General Assumptions

TFBSO Contribution / Investment	The Task Force disbursed funds to support projects in Afghanistan between 2010 and 2014. All Task Force project-level costs include direct costs (the cost of subject matter experts to support the project and the cost of materials related to the project), and overhead costs (e.g. the cost of lodging / security / transportation in Afghanistan, front / back office support, etc.). Task Force project cost data was derived from official accounting records
Inflation	The price changes presented in the subsections below include increases in nominal prices due to inflation (unless otherwise noted)
Revenues	Revenues are calculated on a per project basis - refer to the contact above to request detailed information about revenue components
Costs	Increase in wages correlate with increases in revenue unless otherwise noted in the subsections below Operating and capital costs vary by project - refer to the contact above to request detailed information about cost components
Exchange Rate for base year 2011	47.7 Afs

Program Assumptions

Table 30. General Assumptions for Upstream Energy Projects

TFBSO Contribution / Investment	The Energy Program received 41% of TFBSO's overhead costs
General Assumption for Energy Projects	Revenue: Revenue correlates with production. All marketed production is sold resulting in zero inventories Operating Costs: Operating costs remain relatively stable over time and correspond with estimated equipment and staffing requirements based on the size of the operation Capital Costs: Exploration capital costs are incurred between the first one to seven years, and infrastructure capital costs start in the middle of the exploration phase. The ratio of capital-to-operating costs is as follows at the four upstream fields:

	Afghani Tajik I (1.9 to 1), Afghan Tajik II (2.2 to 1), Amu Darya (2.5 to 1), and Totimaidan (1.2 to 1) Government Payments: Government payments include royalty payments, profit share payments, land use rent payments, and tax payments. The royalty rate changes by location and ranges between 9.0% and 14.6%. The corporate income tax remains constant across all locations at 20%
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Table 31. Detailed Upstream Energy Project Assumptions I

Upstream Fields	Amu Darya: Angot, Aqdarya, Bazarkamki, Kashkari, and Zamurdsay Totimaidan: Block 1, Block 2, and Juma and Bashikurd Afghan Tajik I: Sanduqli and Mazari Shari Afghan Tajik 2: Amad Abad / Balkh and Mohammad Jan Dagar
Resource and Estimated Operations Timeline	Amu Darya: 2012-2018 (oil) Totimaidan: 2015- 2054 (gas) Afghan Tajik I: 2017-2037 (oil and gas) Afghan Tajik 2: 2018-2037 (oil and gas)
Oil Production in No. of Barrels	All production estimates are derived from United States Geological Survey (USGS) data, and seismic studies conducted by the Afghan government. These sources provided data on potential total yields and Task Force Oil & Gas subject matter experts estimated the amount of oil and gas production per year Amu Darya: 318,150 in 2012, peaks in 2017 to 11,014,830 Afghan Tajik I: 3,806,352 in 2017, peaks in 2021 to 11,782,960 Afghan Tajik 2: 2,537,568 in 2018, and peaks in 2021 at 9,106,925
Oil prices	Oil price forecasts were calculated by Task Force subject matter experts. Oil prices are the same every year in Afghan Tajik I and Afghan Tajik II. Oil prices are assumed to be slightly lower in Amu Darya Amu Darya: \$91 in 2012 decrease to \$72 in 2018 (prices decline as oil quality declines) Afghan Tajik I and Afghan Tajik II: \$81 in 2017 to \$121 in 2037 (approximately 2% increase per year)
Associated Gas Production in MCF	Afghan Tajik I: 2,883,600 in 2017 and peaks in 2020 to 9,198,914 Afghan Tajik 2: 1,922,400 in 2018, peaks in 2021 at 6,899,185
Associated Gas Price per MCF	Afghan Tajik I and 2: \$5 per MCF in 2017 and 2018 increasing to \$7 at the end of the projects
Non-associated Gas Production in MCF	Totimaidan: Sales begin in 2017 at 9,217,152 MCF, peaking in 2027 to 160,016,346 Afghan Tajik I: Sales begin in 2019 at 44,892,000 and peaks in 2028 at 211,790,785 Afghan Tajik 2: Sales begin in 2019 at 22,230,000 and peaks in 2030 at 97,297,569

Non-Associated Gas Price per MCF	Totimaidan: \$5 per MCF in 2017. The price increases to \$11 in 2053 Afghan Tajik I and 2: \$4.50 for gas, \$75 for oil
Non- Associated Gas Condensate Production in No. of Barrels	Totimaidan: Sales begin in 2023 at 151,200 and peak in 2025, steadily decreasing to 215,142 in 2054 Afghan Tajik I: Sales begin in 2019 at 68,400 and peak in 2025 at 296,668 Afghan Tajik 2: Sales start in 2019 at 444,600 and peaks in 2030 at 1,945,951
Non- Associate Gas Condensate Price per Barrel	Totimaidan: \$88 per barrel in 2023 increasing to \$159 in 2053 Afghan Tajik I: \$81 in 2017 to \$121 in 2037 Afghan Tajik 2: \$4.5 for gas, \$75 for oil
Associate Gas Condensate in No. of Barrels	Afghan Tajik I: Sales begin in 2017 at 109,577 peak in 2020 to 349,559 Afghan Tajik 2: Sales begin in 2018 at 73,051 peak in 2021 at 262,169
Associate Gas Condensate Price per Barrel	Afghan Tajik I and 2 : \$81 in 2017 , \$83 in 2018 increasing to \$121 in 2037 Totimaidan: Only contains non-associated gas.

Table 32. Midstream & Downstream Energy Project Assumptions

Compressed Natural Gas Station	Source: TFBSO SMEs were involved in constructing and operationalizing the CNG station. These SMEs provided forecasting capacity and price estimates. Conversions: 72 cars converted in 2013, increasing to 192 in 2018 at a subsidized rate of \$400 to \$500 per car and a market price of \$680 from 2018 on Gas Sold: CNG sold for vehicles and other uses: 221,911 in 2013 increasing to 587,959 kg by 2018 (165% increase) Gas Price: \$0.68 /kg in 2013 increasing to \$0.78 by 2018 Other revenues: Include selling snack and other large convenience store items (revenues from these sales are minimal)
TAPI Pipeline	Afghan government collects transit fees only between 2019 and 2040; total transit fee per year is \$300,000,000 per recent negotiations between countries
Domestic Hydrocarbon Capacity Building	46 employees received training. adjusted by multiplier (6.9) and productivity (0.27)
Gas Pipe Uprate Project	Revenue: The Afghan government generates revenue through the sale of excess gas transmitted via the pipeline from Sheberghan to Mazar-i-Sharif: 69.6 thousand cubic meters per year through 2030 at \$190 per thousand cubic meters. Additional government revenue generated by the Independent Power Producer project (which is an Investments Program project) Cost: 100 Afghan Gas; 2% increase in wages annually. Training costs in the first two years of the projects.
New Pipeline Project	No revenue data; however, TFBSO costs are recognized in the CBA

Kushka Seismic	No execution due to security concerns; however, TFBSO costs included in the CBA
Micro-Hydro Power	Cancelled; however, TFBSO sunk costs included in the CBA

Table 33. Indigenous Industries Assumptions

TFBSO Contribution / Investment	The Indigenous Industries Program received 6% of TFBSO's overhead costs.
Carpets	Time period: 2013-2020 2013: 8 manufacturers; adding 2 per year through 2020 2 cut and wash facilities and 12 new carpet households between 2015 and 2020 Revenues: Baseline earning from accounting records. New facilities \$25,000 /year. Revenues increase 15%/year until 2018 and 10% thereafter. Cut and Wash Facilities increase one, 15% and the other, 20% Operating Costs: Operating costs increase 13%/year. Capital Costs: Capital costs increase 10% year. Government Payments: Government payments increase 8%/year
Carpet Hub	No revenue data available; however, TFBSO costs are recognized in the CBA
Cashmere	Time Period: 2013-2019 Revenue: Fibers increase 20%/year; goats increase 20%/year; matchmaking remains constant; ban on exports of raw/greasy cashmere will increase by 50% the official exports. Operating Costs: Operating costs increase at a rate of 13.65%/year. Operating costs for the Certification Lab increase at a rate of 15.5%. Government Payments: Government payments are zero.
Jewelry Development Project	Time Period: 2014-2019 Revenue: Sales double in 2014 and then increase 27%/year Operating Costs: Operating costs increase at a rate of 63%/year, Government Payments: Government payments increase at 71%/year.
Jewelry Human Capital	36 Artisans participated in Digital Literacy and Business Skills training
Turquoise Mountain Project	Time Period: 2011-2020 Revenue: Sales increase 10%/year Operating Costs: Operating costs increase at a rate of 5%/year Government Payments: Government payments increase at 10%/year
Other Indigenous Projects	Insufficient revenue information exists to forecast returns from the GoodWeave project; however, TFBSO costs are included in the CBA

Table 34. Investment Project General Assumptions

TFBSO Contribution / Investment	The Investments Program received 10% of TFBSO's overhead costs.
General Assumption for investment projects	Unless noted: Revenues and costs were provided by the company while in operation. Limited financial information is available for most of the companies that received Business Advisory support; therefore, the CBA does not incorporate cost or revenue forecasts.

Table 35. Investment Project Specific Assumptions

Agricultural #1	Time period: 2013
Agricultural #2	Time period: 2014
Airline	The Airline financial forecasts were provided by the Task Force subject matter expert providing business advisory services to the Airlines Company. Time Period: 2013-2016 Revenue: Increases 4%/year Costs: Operating costs fluctuate as additional planes are purchased
Chemical #1	Time Period: 2013-2026 Revenue: Increase 11%/year as the price and quantity of pharmaceutical goods increases Operating Costs: Operating costs increase at a rate of 16%/year as the Company adds capacity and increases the workforce and consumption of goods for the purpose of manufacturing pharmaceuticals. Loan: The loan duration is 10 years with an interest rate of 6% per year Capital Costs: Total Capital Costs remain constant through 2026 at \$1,094,529 per year Government Payments: Government payments increase at 27%/year as the Company becomes more profitable. The government earns revenue from a 20% corporate income tax and a 2% business receipts tax
Chemical #2	Time period: 2012-2014
Chemical #3	Time period: 2013
Glass Company	Time Period: 2015-2024 Revenue: Revenues increase 36% in 2015, 15% in 2016 and remain constant through 2024. The Glass Company's sales price is \$600 per ton, and production starts at 26,280 tons a year Operating Costs: Operating costs increase at 0.2%/year Loan: Other non-operating costs include repayments of interest; the debt term is 10 years with a 7% annual interest rate Government Payments: Government payments increases correlate with

	profitability
Health Care	Time Period: 2013-2040 Revenue: Increases 95%/year in 2015, 30% 2017 and between 2% and 7% until 2039. It is assumed that capacity utilization will rise steadily and product/service price increases of roughly 5% will increase revenues. Total Costs: Total cost increases of 53% in 2015, 20% in 2016 and between 2% and 6% through 2040
Independent Power Producer	Time Period: 2015-2029 Revenue: Remains constant as the IPP sells the same amount of electricity (140 million kWh) to DABs at the same price (\$7.26 per kWh) between 2015 and 2029 Operating Costs: Operating costs remain relatively constant through 2020. Funding provision escrow account costs no longer exist after 2020, and all debt is repaid by 2024. Loan: Debt term is 10 years with a 10% interest rate Capital Costs: Capital costs to build the power plant are incurred in 2014 only Government Payments: Government payments remain constant. The model assumes the contract with the government will conclude with a promise to pay the government for the same amount of gas at the same price for the next 15 years
Social Services #1	Time period: 2012
Steel	Time Period: 2016-2024 Revenue: Revenues increase 20% in 2016, and 2017, 17% in 2018 and 2019 and between 13% and 14% for the rest of the forecast. Steel growth rates incorporate additional demand created by infrastructure, mining, and urban development requirements. Revenue forecasts incorporate a price of \$750 per metric ton of steel (per TFBSD designed feasibility study) Loan: The loan payment assumes a 6% interest rate with a 5-10 year term Operating Costs: Operating costs increase at 10%/year Capital Costs: Capital costs are incurred in 2015 only Government Payments: None
Telecom #1	Time period: 2013-2014
Telecom #2	Time period: 2011-2013
Telecom #3	Time period: 2011-2014
Telecom #4	Time period: 2011-2013
Telecom #5	Time period: 2013-2014
Telecom #6	Time period: 2013-2014
Telecom #7	Time period: 2013-2014

Telecom #8	Time period: 2013-2023 Revenues: Revenues remain relatively constant between 2013 and 2023 as the company sells approximately the same type and amount of services Operating Cost: Operating costs decrease slightly overtime time (at a rate of 2% per year) primarily due to rental cost savings Loan: AIB loan annual interest rate is 8.5% which is paid over 10 years Capital Cost: None Government Payments: Government revenue remains relatively constant; government revenue is collected from a 20% tax on income.
Telecom #9	Time period: 2012
Telecom #10	Time period: 2011
Telecom #11	Time period: 2012
Wholesale / Retail #1	Time period: 2013-2014
Wholesale / Retail #2	Time period: 2011-2014
Wholesale / Retail #3	Time period: 2013-2014
Wholesale / Retail #4	Time period: 2013-2014
Wholesale / Retail #5	Time period: 2013-2014
Wholesale / Retail #6	Time period: 2013-2014
Wholesale / Retail #7	Time period: 2013-2014

Table 36. Minerals Projects General Assumptions³⁹

TFBSO Contribution / Investment	The Minerals Program received 29% of TFBSO's overhead costs.
Overall Assumptions	Revenue: Most revenue (90%) is generated in the first half of the mine life. The mining company begins generating revenue two years after exploration starts Operating Costs: Operating costs follow the same pattern as revenue Capital Costs: Capital costs are highest in the first two years (during the exploration and mining facility construction phase). Capital costs remain constant during mining operations Government Payments: Government payments are estimated to be 20% of profits. Royalty rates are still under Ministry and Executive-level review; therefore, a 20% corporate tax rate is the only government payment included in the model at this time

³⁹ All data and calculations related to Mineral Area of Interest (AOI) costs and benefits were developed in consultation with the United States Geological Survey (USGS).

Table 37. Minerals Projects Specific Assumptions

Ahankashan	Resource Type: Copper and gold reserves Estimated Mine Life: 35 years Exploration Starts: 2017 Construction Starts: 2021 Operations Start: 2025
Aynak	Resource Type: Copper reserves Estimated Mine Life: 35 years Operations Start: 2023
Badakhshan	Resource Type: Gold reserves Estimated Mine Life: 20 years Exploration Starts: 2016 Construction Starts: 2020 Operations Start: 2024
Bakhud	Resource Type: Fluorite reserves Estimated Mine Life 25 years Exploration Starts: 2019 Construction Starts: 2023 Operations Start: 2027
Balkhab	Resource Type: Copper reserves Estimated Mine Life 10 years Exploration Starts: 2016 Construction Starts: 2020 Operations Start: 2024
Chal Gal Hills	Resource Type: Copper, gold, silver and building stones reserves Estimated Mine Life 35 years. Exploration Starts: 2019 Construction Starts: 2023 Operations Start: 2027
Daykundi	Resource Type: Tin, tungsten and potentially lithium reserves Estimated Mine Life 50 years. Exploration Starts: 2023

	Construction Starts: 2027 Operations Start: 2031
Dusar-Shalda	Resource Type: Copper and tin reserves Estimated Mine Life 35 years. Exploration Starts: 2016 Construction Starts: 2020 Operations Start: 2024
Ghori III	Resource Type: Limestone and other industrial mineral reserves Estimated Mine Life 65 years. Exploration Starts: 2017 Construction Starts: 2021 Operations Start: 2025
Ghunday-Achin	Resource Type: Magnesite and talc reserves Estimated Mine Life 100 years Exploration Starts: 2023 Construction Starts: 2027 Operations Start: 2031
Herat	Resource Type: Limestone and other industrial mineral reserves Estimated Mine Life 65 years. Exploration Starts: 2017 Construction Starts: 2021 Operations Start: 2025
Jabul Seraj	Resource Type: Limestone and other industrial mineral reserves Estimated Mine Life 65 years Exploration Starts: 2016 Construction Starts: 2020 Operations Start: 2024
Katawas	Resource Type: Gold reserves Estimated Mine Life 10 years Exploration Starts: 2021 Construction Starts: 2025 Operations Start: 2029
Khanneshin	Resource Type: Carbonatite reserves Estimated Mine Life 25 years

	Exploration Starts: 2019 Construction Starts: 2023 Operations Start: 2027
Kharnak-Kanjar	Resource Type: Silver reserves Estimated Mine Life 13 years Exploration Starts: 2021 Construction Starts: 2025 Operations Start: 2029
Kundalan	Resource Type: Copper and gold reserves Estimated Mine Life 35 years Exploration Starts: 2017 Construction Starts: 2021 Operations Start: 2025
Nalbandon	Resource Type: Lead and zinc reserves Estimated Mine Life 30 years Exploration Starts: 2019 Construction Starts: 2023 Operations Start: 2027
North Takhar	Resource Type: Gold reserves Estimated Mine Life 15 years Operations Start: 2023
Panjsher	Resource Type: Emerald, iron and silver reserves Estimated Mine Life 35 years Exploration Starts: 2021 Construction Starts: 2025 Operations Start: 2029
Tourmaline	Resource Type: Tin reserves Estimated Mine Life 25 years Exploration Starts: 2021 Construction Starts: 2025 Operations Start: 2029
Zarkashan	Resource Type: Copper and gold reserves Estimated Mine Life 30 years Exploration Starts: 2016

	Construction Starts: 2020 Operations Start: 2024
Strategic Rail	Source: CENTCOM Time Line: 2016-2040 Revenues: Estimates based on freight amounts and route length; revenues increase through 2040 Operating Costs: Operating costs remain relatively constant Capital Costs: Capital costs include infrastructure and fleet costs; Infrastructure costs are incurred between 2016 and 2018, and again between 2026 and 2028; Fleet costs are incurred in 2016 only. Government Payments: Government payments include a 20% tax on profits
Minerals Capacity Building	99 AGS, MoMP, and KPU staff received training from TFBSO and USGS
Other Mineral projects	Baghlan, Dudkash, Qara Zaghan, Takhar, Dasht-e-Nawar, Godzareh Central / East / West, and Namaksar-e-Herat: Insufficient information is available to generate revenue and cost forecasts

Table 38. Historic Project Assumptions

TFBSO Contribution / Investment	The Historic Projects received 14% of TFBSO's overhead costs.
Afghan First	Time period: Revenue recognized in 2011 only
Boston Cotton Gin (Human Capital)	A total of 80 laborers (employment multiplier 2.5; productivity adjustment 0.27) were able to keep their jobs in 2011 as a result of this project
Center Pivot Irrigation System (Human Capital)	A total of 30 farmers (employment multiplier 1.5; productivity adjustment 0.27) benefitted from this project by the end of 2012
Emaar Girls (HK)	Time period: 2017-2025 350 girls graduate annually (employment multiplier 2.0; productivity adjustment 0.27)
Food Safety	Time period: 2010 -2012
Herat Agricultural College	Time Period: 2017-2025 500 students will graduate annually (employment multiplier 1.5; productivity adjustment 0.27)
Herat Security Airport Upgrade	Time period: 2013-2020 Revenue: Revenues assigned to the one company that can fly internationally; \$250 per ticket for 124 passengers with 79% occupancy Operating Cost: Unknown

	Capital Cost: Spain and Italy funded additional infrastructure improvements at the airport (\$5M in total) Government Payments: The Afghan government collects a 10% business receipt tax on the sale of every ticket
Herat University Women's Dorm	Time period: 2019-2025 93 students graduating annually
Marble Factory Equipment	Time period: 2010-2020 Revenue: The tile manufacturer earns an additional \$1,000 per year for 10 years as a result of the new equipment Total Cost: The additional equipment doesn't require additional labor. The operations and maintenance cost for the equipment is negligible
Nangarhar Agricultural College	Time period: 2017-2025 450 students graduating annually (employment multiplier 1.5; productivity adjustment 0.27)
Potato Pack House	Time period: 2014-2018 Revenue: Revenue generation begins in 2014 and doubles in 2015. Revenue increases by 50% between 2015 and 2016; 11% between 2016 and 2017; and 7% between 2017 and 2018. Company revenues increase every year as the amount of packaged potatoes increases. The total amount of packaged potatoes is 7.2 million Kg in 2014. In 2018, the Company sells 25.6 million Kg of packaged potatoes Direct and Operating Cost: Direct and operating costs (to include production costs, sorting costs, washing costs, grading costs, and packing costs) increase at the same rate as revenue Interest Expense: Interest expense remains constant between 2014 and 2018 (\$99,810 per year)
Other Historical Projects	Additional historic projects with insufficient information to forecast revenue and costs include: Economic Roundtable Conference, Herat Teachers Training Institute, Judicial Building Security Upgrade Herat, Naw Zad Motorcycle, Gereshk Facility, Pomegranate Cold Storage, Raisin Facility, American University in Afghanistan Women's Economic Center, and Vocational School However, Task Force costs are known and accounted for.

Table 39. Micro-Macro Bridge Assumptions⁴⁰

Accounting method	Costs and benefit from CBA flow into the SAM matrix affecting the individual accounts
Allocation	95% is allocated from CBA accounts to specific SAM cells and 5% is rescaled to the rest of the economy

⁴⁰ Table 39. Micro-Macro Bridge Assumptions presents the accounting and allocation methods for transferring the CBA data to the Social Accounting Matrix (SAM)

Table 40. SAM Matrix Assumptions⁴¹

Agriculture	Opium (cultivation, prices at different levels of the value chain, production and yield estimates)
	Forestry, Fishing & Other Agricultural Products
Manufacturing	Mining & Quarrying
	Petroleum, Chemical & Chemical Products, Non-Metallic Mineral Products
	Metal Products
	Electrical & Machinery
	Transport Equipment
	Food, Beverages & Tobacco
	Textiles & Wearing Apparel
	Wood & Paper
	Other Manufacturing
Services	Electricity, Gas & Water, Recycling
	Construction
	Wholesale Trade
	Retail Trade
	Hotels & Restaurants
	Transport
	Post & Telecommunications
	Financial Intermediation & Business Activities
	Public Administration & Security
	Other Services

Table 41. Sub-Matrices Assumptions & Baselines

Sub-matrix	Data
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⁴¹ In accordance with ISIC Rev. 2.0

Sub-matrix	Data
I/O	Mapped according to <i>MRI/O</i> 2011: adjusted for opium, electrical and machinery, transport equipment and financial intermediation and rebalanced thereafter
Factors	Labor formal and illegal/ informal allocated by rural and urban <i>NRVA</i> (2007 and 2011) and <i>IBES</i> distribution of labor force: employees, employers, own account family workers and unpaid family workers. Rural includes Kuchi. Capital assumed to be 8% (per expert information). Opium sector payment to farmers constitutes payment for labor (<i>UNODOC</i>). Table 4:08 number of employees by sectors and average salaries by economic sector for formal and informal sectors provided by expert
Government income	
Taxes on production	The country did not have taxes in 2011. We assume that the non tax revenue (CSO 2011-12) is paid by the production sector
Import Tariffs	CSO - Ministry of Finances and WTO from sources. They range from 0 % to 16%
Consumer Taxes	Total from CSO. Mapping from Law on Consumer Goods, Official Gazette. No taxes on opium are paid
Penalties	Total "Fines, Penalties and Forfeits" in GFSY
Subsidies	Total "Pensions and Subsidies " in the National Budget Table 7.1
Foreign Aid in Budget	Operating expenses and development projects accounts for 18% of all donors' assistance. Data recalculated for Gregorian Calendar
Foreign Aid Off Budget (NGO)	Accounts for 82% of donors' assistance allocated as follows: 6% infrastructure, 9% governance, 2% education, 4% health, 5% agricultural and rural development, 1% social protection, 2% private sector, 68% security and 3% others
Household Consumption	The total includes official and informal consumption allocated to rural and urban sectors, according to <i>NRVA</i> distribution of occupations, consumption of goods by income level. Rural informal includes Kuchi and accounts for 80.1% and Rural Formal; 19.9%. Urban Informal; 59.1% and Urban Formal; 40.9% informal urban non-agricultural sector; and 55.6% and informal urban agriculture. Informal rural non-agriculture 52.5%.
Government Consumption	Official data from table 7.1 CSO
Investment/Savings	CSO table 7-3, shows Gross Domestic Fixed Investment = 141,792 million Afghanis and Change in inventories and data discrepancies (added) = 151,452 million Afghanis. That number is too high to correspond to change of inventory, therefore we used a 3% average as per expert opinion
Imports	Total official imports plus 17% of unrecorded imports - allocated to vehicles for transportation
Exports	Total official exports from CSO, which includes re-exports plus illegal exports. A conservative assumption was chosen to measure opium exports: payments at

Sub-matrix	Data
	traffickers price level of dry opium

Table 42. General Assumptions & Baselines

Data Element	Notes
Baseline 2011	Rationale: most data available and vetted at the time of the study
Fiscal Year	Starts March 21 st Gregorian Calendar
Currency	Millions of Afghanis
Informal and Illegal	The literature suggests (World Bank for example) that the illegal and informal sectors account for an extra 80% to 90% of the GDP (Official GDP = 896,163 million Afghanis in 2011- C50, table 7.1). We chose a conservative assumption of 50%, as follows: the illegal sector adds 15% and the informal sector adds 35% to economic activity

Table 43. Summary Modeling Assumptions for Computable General Equilibrium

Urban Formal Household	$\max \sum_{j \in J^U} \theta_{j_e}^{U_f} \log c_{j_e}^{U_f}$
Subject to	$\sum_{j \in J^U} p_j c_{j_e}^{U_f} = (1 - \tau_d^U) (w^U \bar{l}^{U_f} + r \bar{k}^{U_f}) + T^{U_f}; c_{j_e}^{U_f} \geq 0$
Urban Informal Household	$\max \sum_{j \in J^U} \theta_{j_e}^{U_i} \log c_{j_e}^{U_i}$ Penalty is twice tax owed $\phi \tau_d^U (w^U \bar{l}^{U_i} + r \bar{k}^{U_i})$
Subject to	$\sum_{j \in J^U} p_j c_{j_e}^{U_i} = \pi [w^U \bar{l}^{U_i} + r \bar{k}^{U_i}] + (1 - \pi) [(1 - \phi \tau_d^U) (w^U \bar{l}^{U_i} + r \bar{k}^{U_i})];$ $c_{j_e}^{U_i} \geq 0$
Rural Formal Household	$\max \sum_{j \in J^R} \theta_{j_e}^{R_f} \log c_{j_e}^{R_f}$ No capital ownership
Subject to	$\sum_{j \in J^R} p_j c_{j_e}^{R_f} = (1 - \tau_d^R) w^R \bar{l}^{R_f} + T^{R_f}; c_{j_e}^{R_f} \geq 0$
Rural Informal Households	$\max \sum_{j \in J^R} \theta_{j_e}^{R_i} \log c_{j_e}^{R_i}$
Subject to	$\sum_{j \in J^R} p_j c_{j_e}^{R_i} = w^R \bar{l}^{R_i}; c_{j_e}^{R_i} \geq 0$
Final Goods Producers	$\min p_j^d y_j^d + (1 + \tau_j) e p_j^f y_j^f$

Subject to	$\gamma_j \left[\delta_j (y_j^d)^{\rho_n} + (1 - \delta_j) (y_j^f)^{\rho_n} \right]^{\frac{1}{\rho_n}} \geq y_j$
Domestic Goods Producers	$y_j^d = \min \left\{ \frac{x_{1,j}^d}{a_{1,j}^d}, \dots, \frac{x_{n,j}^d}{a_{n,j}^d}, \beta_j K_j^{\alpha_{j,k}} (L_j^U)^{\alpha_{j,l}} (L_j^R)^{\alpha_{j,z}} \right\}$
Consumption Goods Producers	$y_j^c = \min \left\{ \frac{x_{1,j}^c}{a_{1,j}^c}, \dots, \frac{x_{n,j}^c}{a_{n,j}^c} \right\}$
Investment Good Producers	$y_{inv} = \min \left\{ \frac{x_{1,inv}}{a_{1,inv}}, \dots, \frac{x_{n,inv}}{a_{n,inv}} \right\}$
Government	$\max \sum_{j \in G_p} \theta_j^c \log c_j^c + \theta_{inv}^c \log c_{inv}^c$ $\sum_{j \in G_p} p_j c_j^c + p_{inv} c_{inv}^c + T^{U_f} + T^{R_f}$
Subject to	$\leq \tau_d^{U_f} (w^U \bar{L}^{U_f} + r \bar{k}^{U_f}) + (1 - \pi) (\phi \tau_d^{U_f} (w^U \bar{L}^{U_f} + r \bar{k}^{U_f}) + \tau_d^R (w^R \bar{L}^R) + \sum_{j \in G_p} t_j^f p_j^f y_j^f + \sum_{j \in G_f} t_j^f p_j^f y_j^f)$
Donors	$\max \sum_{j \in G_p} \theta_j^{ngo} \log c_j^{ngo} + \theta_{inv,f}^{ngo} \log c_{inv,f}^{ngo} \dots \sum_{j \in G_p} p_j c_j^{ngo} + e p_{inv,f}^{ngo} c_{inv,f}^{ngo} \leq e I^{ngo}$ $c_j^{ngo}, c_{inv,f}^{ngo} \geq 0$
Subject to	$e T^{ngo} = e I^{ngo}$
Foreign Trade Partner	$\max \left[\sum_{j \in G_p} \theta_j^f (x_j^f)^{\rho_s} + \theta_f^f (x_f^f)^{\rho_s} - 1 \right] / \rho_s$ $\sum_{j \in G_p} (1 + \tau_j^f) p_j x_j^f + e x_f^f + e (T^f + T^{ngo}) = e I_f$

Where:

U : Urban workers

$c_{j,c}^{U_f}$: Consumption goods

$p_{j,c}$: p_j^d Domestic price level of consumption goods, final goods

$\bar{L}^{U_f}$: Inelastic labor supply of urban workers

$\bar{k}^{U_f}$: Capital

$\tau_d^{U_f}$: Income taxes.

T^{R_f} : Government aid

$(1 - \pi)$: Probability of detection

τ_d^R : Tax rate

τ_j : Tariffs

e : Bilateral real exchange rate

γ_j : Factor Productivity

y_j^c : Output of the consumption good $j \in G_c$ & G_c is the set of consumption goods

$x_{i,j}^c$: Is the intermediate input of final production good $i \in G_c$; $a_{i,j}^c$

Table 44. Forecasting Assumptions at the Macro Level (World Bank, 2013)

2010-2025	GDP Growth Decomposition			Value Added		
	Base Scenario	Donors Allocation Modification	Agricultural Historical	Base Scenario	Donors Allocation Modification	Agricultural Historical
Agriculture	1.3	1.3	0.7	6.4	3.9	6.2
Opium	0	0	0	0.1	0.1	0.1
Mining	2.4	2.4	2.4	60.1	60.1	60.1
Industry (non mining)	0.9	0.9	0.6	4.9	4.3	5
Services				0.4	0.2	0.4
Private	3	3.1	1.9	0.3	0.2	0.4
Government						
Security	3.9	4.2	4.2	0.1	0.1	0.2
Non Security	4.5	6.4	4.7	0.1	0.1	0.1
Donors						
Security	-35.1	-38	-35	-0.2	-0.1	-0.2
Non Security	-4.2	-8.6	-4	0	0	0

Table 45. Percentage Annual Growth

2010-2018	Base Scenario	Donors Allocation Modifications	Agricultural Historical
GDP factor cost	5.9	6.1	4.9
consumption			
Private	5.7	6	4.6
Donors	-14.1	-21.3	-13.9

2010-2018	Base Scenario	Donors Allocation Modifications	Agricultural Historical
Government	1.6	7.4	2
<i>Fixed Investment</i>			
Private	3.5	4.3	2.4
Donors	-10.2	-17.7	-10.1
Government	1.3	9.8	1.2
<i>Exports</i>	10.1	9.2	8.9
<i>Imports</i>	-2.2	-2.8	-2.9
Absorption	0.1	0.3	-0.7
Real X Rate (index)	2.8	2.3	3.4

The two main scenarios historical agricultural historical where chosen for baseline without TBFSO and donors allocation modification was included under the assumption that civil service and government will become more efficient at utilizing and allocating resources. Growth rates changed much more specifically with the injection of micro projects, shocks etc.

Donors Allocation Modifications: "50% of aid budget would decrease budget" (World Bank)

Agriculture:" Applying historical rates to agriculture" (World Bank)

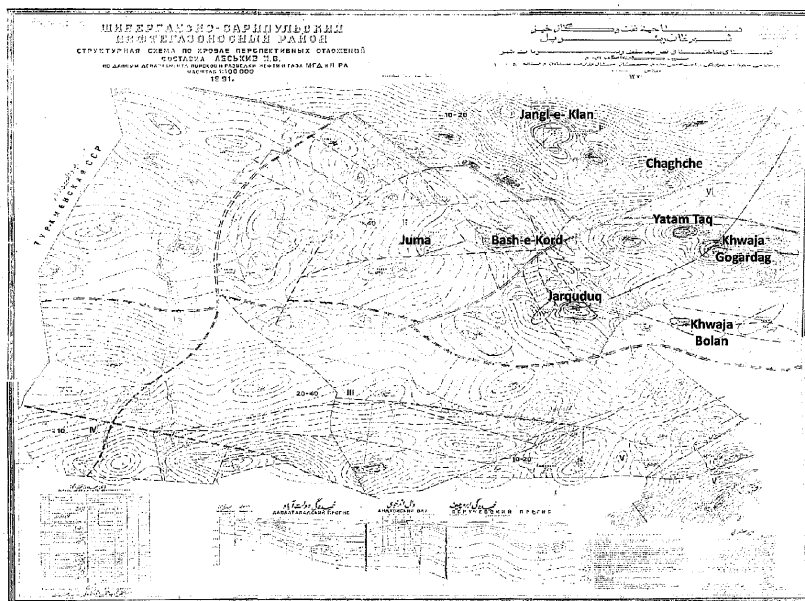
APPENDIX E

بسم الله الرحمن الرحيم

Feasibility Study For the Establishment of CNG Plant

Shabarghan City, Juzjan Province

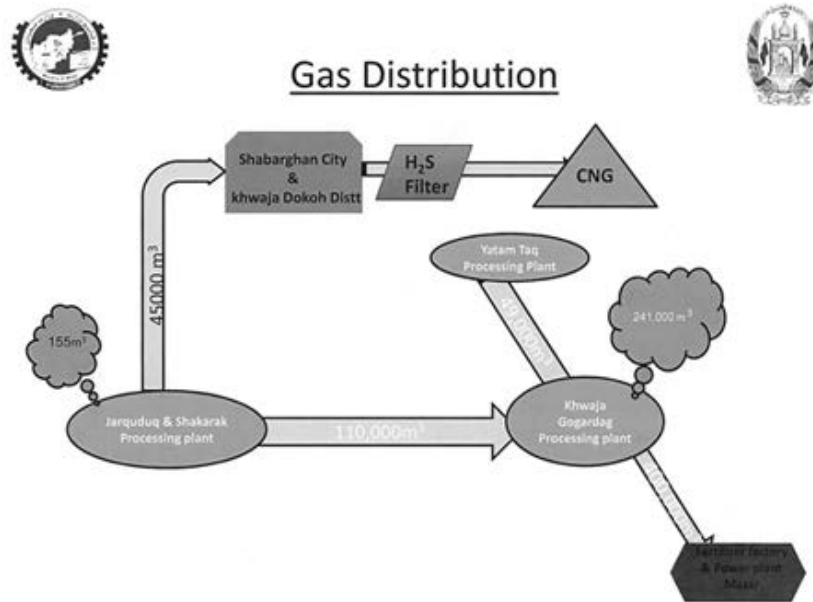




Proved Reserves Estimation

S. No	Fields	Reservoir Formation	No of producing Wells	Reservoir Estimation (BCM)	Accumulation Production (BCM)	Remaining Reserves (BCM)	Daily Production (thousands m ³)
1	Khwaja Gogardag	Alb, Apt Hautervian	22	46.87	42.581	4.289	241
2	Yatam Taq	Apt, Hautervian	3	6.1	0.2	5.9	49
3	Jarquduq	Hautervian , Jurassic	8	19.2	15.2	4	55
4	Shakarak	-----	1	-----	-----	-----	100
Total production of producing fields							445

Note: one of the 8 wells from Jarquduq field is reserve with 30,000m³ production /day



CNG Plant Establishment

- 8000m² area has been allocated for the plant which is a legal property of Afghan Gas Enterprise.
- Distance between the plant area and the gas distributor point is only 890m.
- Plant has the capacity to compress 750m³ Gas per hour and 18000m³ Gas per 24 hours.
- Initially gas will be supplied from Jarquduq Gas field to the plant.

Required Resources for CNG vehicles

For one Kilometer distance we require 0.064m³ Gas

If a car drives 200 km per day, then it needs

$200 \times 0.064 = 12.8 \text{ m}^3$ gas per day

If we convert 100 cars then we need

$100 \times 12.8 = 1280 \text{ m}^3$ gas per day

If 1000 cars are converted then

$1000 \times 12.8 = 12800 \text{ m}^3$ per day

The CNG plant has the capacity to compress 18000m³ gas per day which is sufficient only for 1406 cars.

However, if we assign Khwaja Bulan gas field for CNG plant then it will work 21.4 years for 25000 cars.

Recommendations for the success of CNG Project

- For short term we require an urgent rehabilitation of the existed wells in Jarquduq Gas field.
- For long term we should make production from Hautervian formation of Yatam Taq Field and Jurassic formation of Khwaja Gogardag and Jurquduk
- Also Bashikord and Juma unproduced gas fields can be used in future which are proved reserves and needs only exploitation wells.
- Khwaja Bulan is a suitable reserve for CNG Plant which has an estimated 2.54 BCM gas and is ready for exploitation.



APPENDIX F

MEMORANDUM OF AGREEMENT BETWEEN UNITED STATES FORCES-AFGHANISTAN AND TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS

1. **PURPOSE:** The purpose of this Memorandum of Agreement (MOA) is to specify the general life and operational support requirements, authorities, and responsibilities provided by U.S. Forces-Afghanistan (USFOR-A) to Task Force for Business and Stability Operations (TFBSO) within the Combined Joint Operating Area Afghanistan (CJOA-A).

2. **REFERENCE:**

- a. National Defense Authorization Act for Fiscal Year 2014
- b. The Economy Act as amended, Title 31 United States Code Sections 1535 & 1536
- c. Department of Defense Instruction (DODI) 4000.19, Interservice and Intergovernmental Support
- d. Central Command (CENTCOM) Regulation 10-1
- e. USFOR-A Fragmentary Order (FRAGO) 12-009
- f. USFOR-A FRAGO 11-128
- g. DODI 1330.21, Armed Services Exchange Regulations
- h. International Security Assistance Force (ISAF) Headquarters (HQ) Standard Operating Procedure (SOP) 01149, ISAF/Coalition Medical Eligibility Guidelines, 18 JAN 2013

3. **GENERAL PROVISIONS:**

a. This MOA is not intended to identify every support requirement, rather, to address the majority of support issues and provide baseline direction for support responsibilities. Except in emergency circumstances, requests for additional support beyond that provided herein will take the form of a written request from the Director, TFBSO, to the USFOR-A Deputy Commander-Support (DCDR-S).

b. For the purposes of this MOA, "operational support" refers to assistance needed for the daily and ongoing requirements of the TFBSO organization, and includes, but is not limited to, logistics and infrastructure services (e.g., military flight-related assistance, facilities upkeep and management, equipment disposal, and information technology and communications support) and basic utilities (e.g., power, water, sewer, fire protection, drainage, waste management, hazardous materials management, and environmental services). "Life support" refers to assistance needed for the health and well-being of TFBSO personnel in Afghanistan, and includes, but is not limited to, temporary lodging; food; water; bath and sanitation; and access to any morale, recreation, welfare facilities, or services such as laundry, food service operations, postal operations, check cashing, and Army and Air Force Exchange Services (AAFES) mail order services (if entitled to such access per DODI 1330.21).

MEMORANDUM OF AGREEMENT BETWEEN UNITED STATES FORCES-AFGHANISTAN AND
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4. BACKGROUND:

a. In 2006, TFBSO was established to assist the operational commanders in the Combined Joint Operating Area of Iraq with connecting the military campaign plan with economic elements of national power. In 2010, TFBSO began similar operations in Afghanistan. These entrepreneurial efforts, led by expeditionary business specialists and U.S. Government (USG) personnel, have helped achieve common goals we share with the Afghan people: reducing violence, enhancing stability, and restoring economic normalcy. This method of engagement complements the efforts of USG departments and agencies and provides commanders in the field with an additional resource to combat conditions that fuel unrest and insurgency, and place our forces at risk of violence. This effort provides the Department of Defense (DOD) with a means of engaging the people of Afghanistan in ways that demonstrate sustained U.S. commitment to legitimate, capable government, and economic progress.

b. Consistent with previous efforts, and to the extent authorized by law, TFBSO will emphasize the development of economic opportunities within its capabilities, including indigenous industries, mineral development, energy development, and support to international investment.

5. TFBSO RESPONSIBILITIES:

a. TFBSO elements in Afghanistan will coordinate with U.S. military commanders, relevant U.S. civilian and U.S. Government Agencies, and with other civilian organizations representing the United Nations and North Atlantic Treaty Organization (NATO), as appropriate.

b. While present on USFOR-A operated facilities, all TFBSO elements will comply with all guidance and direction provided by USFOR-A and the host facility commanders relating to all matters of security, force protection and freedom of movement on and off post, camp or station.

c. TFBSO will reimburse DOD for medical support, medical evacuation, and mortuary services if required. TFBSO use of medical services are governed by ISAF HQ SOP 01149, the local rules ISAF medical facilities, and the provisions of this MOA.

d. TFBSO is responsible for funding repair and maintenance of all TFBSO equipment and vehicles. TFBSO leases vehicles that are owned and operated by their security contractors. All maintenance is conducted in accordance with the GSA contract.

e. TFBSO will reimburse the appropriate U.S. military provider the actual cost for operational and life support services received by TFBSO in accordance with Title 31 USC, the Economy Act. Once all paperwork and procedures for granting TFBSO personnel access to military installations is approved, all personnel assigned to support TFBSO elements, including visiting business executives, subject matter experts, and investors, any of whom may be foreign nationals, will be provided the same level of support as other TFBSO personnel. In such occasions, TFBSO will remain responsible for reimbursement to the appropriate military provider. This MOA is solely between USFOR-A and TFBSO for the purpose of providing life and operational support to TFBSO personnel. TFBSO visitors, defined as visiting business executives, subject matter experts, and investors, acting in support of the TFBSO mission, are considered TFBSO personnel for the purposes of this MOA. The intent is to avoid any occasion that would require a transaction to take place between USFOR-A and a third party.

MEMORANDUM OF AGREEMENT BETWEEN UNITED STATES FORCES-AFGHANISTAN AND
TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS

f. When TFBSO elements are collocated with U.S. military units, the responsible USFOR-A Major Subordinate Commander will have overall decision authority on TFBSO location, facilities management, and local operational and life support.

g. If factors arise that limit USFOR-A's ability to provide support to a TFBSO element at a specific location, TFBSO Director of Operations and USFOR-A Deputy Commander-Support, or their designated representatives, will consult with each other so that appropriate alternative arrangements can be made.

h. TFBSO will ensure that all Risk Management Company (RMC) and Private Security Company (PSC) contractors are properly licensed and registered in accordance with USFOR-A directives. All DOD RMC contractors must coordinate with USFOR-A Armed Contractor Oversight Directorate (ACOD) to process any requests for armed contractors.

i. TFBSO will provide USFOR-A with personnel accountability reports in accordance with USFOR-A FRAGOS and directives. All TFBSO military personnel are Boots on Ground (BOG) exempt for USFOR-A reporting.

j. TFBSO will provide quarterly updates to USFOR-A on the status of TFBSO retrograde operations from Afghanistan. At present TFBSO maintains on average 34 personnel in Afghanistan on a rotating basis and has facilities in Kabul, Herat, Mazar-e Sharif and Sheberghan. Each of these sites will be shutting down during 2014 and all TFBSO personnel will be redeployed from Afghanistan by the end of 2014.

6. USFOR-A RESPONSIBILITIES:

a. USFOR-A will provide all support specified in this MOA for TFBSO elements collocated with U.S. military units at the levels provided to USFOR-A personnel of similar grade at similar locations.

b. USFOR-A will be responsible for providing on a non-reimbursable basis all in-theater military air and ground transportation and associated support to TFBSO elements, as required and consistent with the support that is provided to other DOD and USG organizations operating within the CJOA-A. MilAir priority for TFBSO personnel will be consistent with the grade of personnel and consistent with normal USFOR-A procedures for travel prioritization.

c. USFOR-A will be responsible for providing all reimbursable medical support including necessary emergency medical care, medical evacuation, and mortuary services to TFBSO elements, as required, regardless of locations. Primary (non-emergency) medical and dental care will be made available to TFBSO elements, on an individual cost reimbursement basis, to the extent and whenever possible consistent with capabilities and capacities of Medical Treatment Facilities operated in Afghanistan under USFOR-A authority.

d. USFOR-A will provide TFBSO elements with communications and information support without cost to TFBSO to the extent and whenever possible consistent with capabilities of USFOR-A.

e. USFOR-A will maintain and provide TFBSO an accurate accounting of all life and operational support services on a case-by-case basis as that support is given so that TFBSO will be able to reimburse the appropriate U.S. Military provider in accordance with Title 31 USC, the Economy Act. If this process proves burdensome to USFOR-A, TFBSO and USFOR-A will revisit the issue.

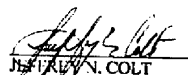
MEMORANDUM OF AGREEMENT BETWEEN UNITED STATES FORCES-AFGHANISTAN AND
TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS

f. Visiting business executives, subject matter experts, and investors, any of whom may be foreign nationals, assigned to support TFBSO elements will be provided the same level of support as other TFBSO personnel. If applicable, these cases remain subject to the terms of funding arrangements as agreed in the particular case in view of the mission of such personnel and subject to any governmental agreement with their respective countries.

7. APPLICABLE LAWS: All applicable U.S. Federal statutes, regulations, directives, and policies shall govern this MOA.

8. LIABILITY: TFBSO and USFOR-A will jointly review any potential claim or liability that may be covered by or arise from this MOA, and jointly determine how to defend against or settle any such claim or liability.

9. EFFECTIVE DATE, MODIFICATION, AND TERMINATION: This MOA becomes effective on the date of the last approving signature. TFBSO support extended prior to signing of this MOA will be inclusive. USFOR-A and TFBSO will review this MOA annually for applicability. This MOA may be amended in writing as mutually agreed by the Parties. Modification and or amendment shall be in writing and approved by the signatories.


JEFFREY N. COLT
Major General, U.S. Army
Deputy Commander, Support
United States Forces-Afghanistan

21 March 2014


JOSEPH CATALINO
(A) Director
Task Force for Business
and Stability Operations

26 March 2014

139962

21 March 2014

Memorandum of Agreement (MOA) between United States Forces-Afghanistan (USFOR-A)
and Task Force Business and Stability Operations (TFBSO)

MG Jeffrey N. Colt's handwritten note upon signing the MOA:

I signed it... but think there are many implied responsibilities that fall back on us... few have TFBSO on them.

I am concerned they will one day show up with documents in hand and want lodging and support at commensurate grade... I say they get what is available... this becomes problematic for us in the Base Closure shuffle.



21 MAR 14

Chief -

I signed it... but think there are many
implied responsibilities that fall back on us... few
have TFBSO on them.

I am concerned they will one day show up
with documents in hand and want lodging & support at commensurate
grade... I say they get what is available... this
becomes problematic for us in the Base Closure shuffle.

Colt

**MEMORANDUM OF AGREEMENT
BETWEEN
U.S. FORCES-AFGHANISTAN
AND
TASK FORCE FOR BUSINESS AND STABILITY OPERATIONS**

1. **PURPOSE:** The purpose of this Memorandum of Agreement (MOA) is to specify the general life support and operational support requirements, authorities, and responsibilities provided by U.S. Forces-Afghanistan (USFOR-A) or successor organization to Task Force for Business and Stability Operations (TFBSO) within the Combined Joint Operating Area-Afghanistan (CJOA-A).
2. **REFERENCE:**
 - a. The Economy Act. as amended, 31 United States Code §§1535 & 1536
 - b. DODI 4000.19, Interservice and Intergovernmental Support
 - c. CENTCOM Regulation 10-1
 - d. USFOR-A FRAGO 10-001
 - e. USFOR-A FRAGO 11-128
3. **GENERAL PROVISIONS:** This MOA is not intended to identify every support requirement, rather, to address the majority of support issues and provide baseline direction for support responsibilities. Except in emergency circumstances, requests for additional support beyond that provided herein will take the form of a written request from the Director, TFBSO, to the USFOR-A Deputy Commander-Support (DCDR-S).
4. **BACKGROUND:**
 - a. In 2006, TFBSO was established to assist the operational commanders in the Combined Joint Operating Area of Iraq with connecting the military campaign plan with economic elements of national power. In 2010, TFBSO began similar operations in Afghanistan. These entrepreneurial efforts, led by expeditionary business specialists and U.S. Government (USG) personnel, have helped achieve common goals we share with the Afghan people: reducing violence, enhancing stability, and restoring economic normalcy. This method of engagement complements the efforts of USG departments and agencies and provides commanders in the field with an additional resource to combat conditions that fuel unrest and insurgency, and place our forces at risk of violence. This effort provides the Department of Defense (DOD) with a means of engaging the people of Afghanistan in ways that demonstrate sustained U.S. commitment to legitimate, capable government, and economic progress.

b. Consistent with previous efforts, and to the extent authorized by law, TFBSO will emphasize the development of economic opportunities within its capabilities, including indigenous industries, mineral development, and energy development within the CJOA-A.

5. CONCEPT OF SUPPORT:

a. TFBSO contributes to critical elements of the Afghanistan Campaign Plan and ultimately assists USG in achieving its goals in Afghanistan. As such, TFBSO personnel should receive life support commensurate with their position and consistent with what is provided by USFOR-A to other DOD and USG organizations operating within the CJOA-A.

b. "Operational support" includes, but is not limited to, necessary facilities and facilities services (e.g., office space, office supplies, and related equipment and services), logistics and infrastructure (e.g., facilities upkeep and management), and basic utilities (e.g., power, water, sewer, fire protection, drainage, waste management, hazardous material management, and environmental services). "Life support" includes, but is not limited to, lodging; food; water; bath and sanitation; and access to any morale, recreation, welfare facilities or services such as laundry, food service operations, postal operations, check cashing, and Army and Air Force Exchange Service (AAFES) mail order service (if entitled to such access per DODI 1330.21).

6. TFBSO RESPONSIBILITIES:

a. TFBSO elements in Afghanistan will coordinate with U.S. military commanders, relevant U.S. civilian and U.S. Government Agencies, and with other civilian organizations representing the United Nations and NATO, as appropriate.

b. While present on USFOR-A operated facilities, all TFBSO elements will comply with all guidance and direction provided by USFOR-A and the host facility commanders relating to all matters of security, force protection and freedom of movement on and off the post, camp or station.

c. TFBSO will reimburse DOD for medical support, medical evacuation, and mortuary services if required.

d. TFBSO is responsible for funding repair and maintenance of all TFBSO equipment and vehicles.

e. TFBSO will reimburse the appropriate U.S. Military provider the actual cost for operational and life support services received by TFBSO personnel in accordance with Title 31 USC, the Economy Act. Visiting business executives, subject matter experts, and investors, any of whom may be foreign nationals, assigned to support TFBSO elements will be provided the same level of support as other TFBSO personnel. In such occasions, TFBSO will remain responsible for reimbursement to the appropriate military provider. This MOA is solely between USFOR-A and TFBSO for the purpose of providing life and operational support to TFBSO personnel. TFBSO visitors, defined as visiting business executives, subject matter experts, and investors, acting in support of the TFBSO mission, are considered TFBSO personnel for the

purposes of this MOA. The intent is to avoid any occasion that would require a transaction to take place between USFOR-A and a third party.

f. When TFBSO elements are collocated with U.S. military units, the responsible USFOR-A Major Subordinate Commander will have overall decision authority on TFBSO location, facilities management, and local operational and life support. TFBSO Director of Operations and USFOR-A Deputy Commander-Support, or their designated representatives, will coordinate regarding TFBSO locations.

g. If factors arise that limit USFOR-A's ability to provide support to a TFBSO element at a specific location, TFBSO Director of Operations and USFOR-A Deputy Commander-Support, or their designated representatives, will consult with each other so that appropriate alternative arrangements can be made.

h. TFBSO will ensure that all private security company (PSC) contractors are properly licensed and registered in accordance with USFOR-A directives. All DOD PSC contractors must coordinate with the USFOR-A Armed Contractor Oversight Directorate (ACOD) to process any requests for armed contractors.

7. USFOR-A RESPONSIBILITIES:

a. USFOR-A will provide all support specified in this MOA for TFBSO elements collocated with U.S. military units at the levels provided to USFOR-A personnel of similar grade at similar locations.

b. USFOR-A will be responsible for providing on a non-reimbursable basis all in-theater military air and ground transportation and associated support to TFBSO elements, as required and consistent with the support that is provided to other DOD and USG organizations operating within the CJOA-A.

c. USFOR-A will be responsible for providing all reimbursable medical support including necessary emergency medical care, medical evacuation, and mortuary services to TFBSO elements, as required, regardless of locations. Primary (non-emergency) medical and dental care will be made available to TFBSO elements, on an individual cost reimbursement basis, to the extent and whenever possible consistent with capabilities and capacities of Medical Treatment Facilities operated in Afghanistan under USFOR-A authority.

d. USFOR-A will provide TFBSO elements with communications and information support.

e. USFOR-A will maintain and provide TFBSO an accurate accounting of all operational and life support services so that TFBSO will be able to reimburse the appropriate U.S. Military provider in accordance with Title 31 USC, the Economy Act.

f. Visiting business executives, subject matter experts, and investors, any of whom may be foreign nationals, assigned to support TFBSO elements will be provided the same level of support as other TFBSO personnel. If applicable, these cases remain subject to the terms of

funding amounts as set forth in the next paragraph in view of the mission of and the funding and subject to any other terms or agreement with the United States Government, such as the Cross-Sector Agreement (CSA).

8. APPLICABLE LAWS: All applicable U.S. federal, state, and local laws and regulations shall apply to this MOA.

9. LIABILITY: TRSO and USFPA will jointly and severally be liable for the MOA. Liability may be covered by the parties to the MOA, and neither party shall be defended against or liable for any such claim or liability.

10. EFFECTIVE DATE, MODIFICATION, AND TERMINATION: The MOA shall be effective upon the date of the last approving signature of the parties to the MOA. The signature of this MOA will be binding on USFPA on 1777 hours after the MOA is signed for applicability. This MOA may be amended in writing as mutually agreed by the parties. Modification or amendment shall be in writing and approved by the signatories to the MOA 60 days before the effective date.

[Signature]
Major General, U.S. Army
Deputy Commander, Surgeon
United States Army Medical Center

[Signature]
Brigadier General, USAF
Acting Director & Director of Key and
Financial Management
The Joint Force Operations
Stability Operations

APPENDIX G

ESTIMATED FARM ASSETS										
Current Assets	YEAR 1	\$	YEAR 2	\$	YEAR 3	\$	YEAR 4	\$	YEAR 5	\$
Costs										
Adult Goats (5.5 Years or Older)	150	\$10,000.00	405	\$28,324.21	874	\$61,183.88	1,830	\$128,097.19	3,777	\$264,355.19
* Hatchlings (goats)	20		65		160		421		909	
Kids (1.5 Years or Younger at the end of the year)	180	\$12,124.21	460	\$32,859.67	951	\$66,913.32	1,947	\$136,758.00	3,964	\$277,467.05
Total Goats	330	\$22,024.21	871	\$61,183.88	1,825	\$128,097.19	3,777	\$264,855.19	7,741	\$541,822.24
Other Inventory										
Equipment to be Sourced (samples)	400	\$1,400.00	1,300	\$1,061.32	4,401	\$12,337.32	18,330	\$51,461.99	32,241	\$111,218.77
Combs (units)	1,500	\$6,000.00	4,044	\$16,185.26	8,741	\$34,962.21	18,300	\$74,106.40	32,761	\$131,000.11
Storage Bags (units)	2,000	\$10,000.00	5,391	\$24,975.44	11,454	\$58,270.36	24,399	\$121,997.19	58,351	\$291,746.85
Feeders (units)	2,500	\$102.71	6,591	\$991.48	15,106	\$1,095.38	31,421	\$6,303.81	60,258	\$6,886.17
Irrigation Equipment (units)	1,000	\$10,000.00	2,698	\$26,975.44	5,837	\$58,270.36	12,208	\$121,997.19	25,117	\$251,746.85
Feed Supplies (units of feed)	1,000	\$10.00	2,698	\$26.98	5,837	\$58.37	12,208	\$122.08	25,117	\$251.17
Total Other Inventory	1,000	\$10.00	2,698	\$26.98	5,837	\$58.37	12,208	\$122.08	25,117	\$251.17
Total Current Assets	1,330	\$32,034.21	1,401	\$140,569.77	1,401	\$140,569.77	1,401	\$140,569.77	1,401	\$140,569.77

CONSOLIDATED FARM INCOME STATEMENT						
Revenue	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	Total
Revenue from Sales	\$5,870	\$18,472	\$97,741	\$104,201	\$410,180	\$771,271
Revenue from Outbreeding	\$63,271	\$179,691	\$422,748	\$917,736	\$1,805,648	\$3,409,134
Total Revenue	\$69,141	\$198,163	\$520,489	\$1,021,937	\$2,215,828	\$4,180,405
Expenses	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	Total
Fixed Expenses (Overhead)	\$116,787	\$118,870	\$205,881	\$311,004	\$512,402	\$1,315,031
Variable Expenses (Cost of Goods Sold)	\$50,889	\$71,491	\$154,341	\$318,156	\$686,909	\$1,491,391
Total Expenses	\$167,676	\$190,361	\$360,222	\$629,160	\$1,199,311	\$2,806,422
NET INCOME	\$121,465	\$107,802	\$159,267	\$392,777	\$1,016,517	\$1,373,983

DETAILED FARM INCOME STATEMENT										
Revenue	YEAR 1	\$	YEAR 2	\$	YEAR 3	\$	YEAR 4	\$	YEAR 5	\$
Revenue from Sales										
Goat Milk (Gallons)	3,797	\$5,895.31	15,343	\$23,045.03	31,187	\$49,780.38	69,481	\$104,221.94	143,389	\$225,083.63
Goats Sold for Meat	19	\$1,112.50	51	\$1,540.33	109	\$7,467.09	229	\$14,812.25	472	\$3,044.40
Goat Hair Sold	3,379	\$2,437.05	4,961	\$6,797.44	2,250	\$14,479.08	11,106	\$30,727.92	38,961	\$69,922.54
Cashmere (kg)	28	\$225.40	101	\$1,885.05	239	\$15,475.38	457	\$53,755.07	944	\$110,936.77
Total Revenue from Sales	10,583	\$9,869.81	31,455	\$32,877.85	63,585	\$87,741.94	151,273	\$214,817.18	293,786	\$398,987.34
Revenue from Outbreeding										
Male Goats Used for Outbreeding (1/2 male adult herd)	34	\$100.00	45	\$681.33	139	\$1,913.77	295	\$4,813.01	636	\$9,533.69
Equipment to be Sourced (samples)	400	\$1,400.00	1,300	\$1,061.32	4,401	\$12,337.32	18,330	\$51,461.99	32,241	\$111,218.77
Combs (units)	1,500	\$6,000.00	4,044	\$16,185.26	8,741	\$34,962.21	18,300	\$74,106.40	32,761	\$131,000.11
Storage Bags (units)	2,000	\$10,000.00	5,391	\$24,975.44	11,454	\$58,270.36	24,399	\$121,997.19	58,351	\$291,746.85
Feeders (units)	2,500	\$102.71	6,591	\$991.48	15,106	\$1,095.38	31,421	\$6,303.81	60,258	\$6,886.17
Irrigation Equipment (units)	1,000	\$10,000.00	2,698	\$26,975.44	5,837	\$58,270.36	12,208	\$121,997.19	25,117	\$251,746.85
Feed Supplies (units of feed)	1,000	\$10.00	2,698	\$26.98	5,837	\$58.37	12,208	\$122.08	25,117	\$251.17
Goat for Technical Assistance (hours)	150	\$1,500.00	405	\$4,050.00	874	\$8,740.00	1,830	\$18,300.00	3,777	\$37,770.00
Sales from Cashmere Collected from Outbreeding of Goats (kg)	70	\$14,000.00	227	\$44,771.41	638	\$126,774.31	1,474	\$294,748.62	3,178	\$639,497.24
Goat for Veterinary Services (per head)	40	\$1,200.00	165	\$4,950.00	350	\$10,500.00	712	\$21,360.00	1,424	\$42,720.00
Goat for Vaccines and Medicines (total number of goats)	195	\$1,950.00	510	\$5,100.00	1,040	\$10,400.00	2,110	\$21,100.00	4,181	\$41,810.00
Total Revenue from Outbreeding	\$63,271	\$179,691	\$422,748	\$917,736	\$1,805,648	\$3,409,134	\$6,818,268	\$13,636,536	\$27,273,072	\$54,546,144

DETAILED FARM INCOME STATEMENT										
Revenue	YEAR 1	\$	YEAR 2	\$	YEAR 3	\$	YEAR 4	\$	YEAR 5	\$
Total Revenue	\$78,140.62	\$18,143.57	\$120,509.81	\$1,121,937.24	\$2,346,613.64	\$4,180,405.00	\$7,741,271.00	\$11,218,771.00	\$16,746,851.00	\$24,355,191.00
Expenses	YEAR 1	\$	YEAR 2	\$	YEAR 3	\$	YEAR 4	\$	YEAR 5	\$
Fixed Expenses (Overhead)										
Electricity (KW Capacity)	NA	\$1,200.00	NA	\$1,200.00	NA	\$1,200.00	NA	\$1,200.00	NA	\$1,200.00
Water (Gallons)	NA	\$1,200.00	NA	\$1,200.00	NA	\$1,200.00	NA	\$1,200.00	NA	\$1,200.00
Winter Feed (Tons of Feed)	204	\$8,160.00	545	\$21,810.00	1,159	\$46,360.00	2,409	\$96,360.00	4,905	\$196,440.00
Feed (Gallons)	10	\$100.00	11	\$110.00	12	\$120.00	13	\$130.00	14	\$140.00
Land Rental (Electricity)	19	\$4,000.00	19	\$4,000.00	19	\$4,000.00	19	\$4,000.00	19	\$4,000.00
Interest (Capacity in KW)	1	\$400.00	1	\$400.00	1	\$400.00	1	\$400.00	1	\$400.00
Veterinary Doctor Salaries (per doctor)	1	\$600.00	1	\$600.00	1	\$600.00	1	\$600.00	1	\$600.00
Cost of Vaccines and Medicines for Internal Use (total number of goats)	195	\$1,950.00	510	\$5,100.00	1,040	\$10,400.00	2,110	\$21,100.00	4,181	\$41,810.00
Other Operating Expenses	10,000.00	\$10,000.00	10,000.00	\$10,000.00	10,000.00	\$10,000.00	10,000.00	\$10,000.00	10,000.00	\$10,000.00
Total Fixed Expenses	\$10,791.81	\$18,851.64	\$29,851.64	\$59,851.64	\$109,851.64	\$189,851.64	\$319,851.64	\$519,851.64	\$819,851.64	\$1,319,851.64
Variable Expenses (Cost of Goods Sold)										
Cost of Combs (units)	1,500	\$6,000.00	4,044	\$16,185.26	8,741	\$34,962.21	18,300	\$74,106.40	32,761	\$131,000.11
Cost of Storage Bags (units)	2,000	\$10,000.00	5,391	\$24,975.44	11,454	\$58,270.36	24,399	\$121,997.19	58,351	\$291,746.85
Cost of Feeders (units)	2,500	\$102.71	6,591	\$991.48	15,106	\$1,095.38	31,421	\$6,303.81	60,258	\$6,886.17
Cost of Irrigation Equipment (units)	1,000	\$10,000.00	2,698	\$26,975.44	5,837	\$58,270.36	12,208	\$121,997.19	25,117	\$251,746.85
Cost of Input Supplies (units of feed)	1,000	\$10.00	2,698	\$26.98	5,837	\$58.37	12,208	\$122.08	25,117	\$251.17
Cost of Vaccines and Medicines for Outbreeding (total number of goats)	195	\$1,950.00	510	\$5,100.00	1,040	\$10,400.00	2,110	\$21,100.00	4,181	\$41,810.00
Total Variable Expenses	\$26,481.71	\$71,451.71	\$126,451.71	\$211,451.71	\$356,451.71	\$591,451.71	\$826,451.71	\$1,061,451.71	\$1,296,451.71	\$1,531,451.71
Total Expenses	\$37,273.52	\$90,303.35	\$156,303.35	\$271,303.35	\$466,303.35	\$781,303.35	\$1,146,303.35	\$1,581,303.35	\$2,116,303.35	\$2,851,303.35
NET INCOME	\$40,867.10	\$88,140.22	\$64,206.46	\$350,633.89	\$1,880,101.69	\$3,359,301.65	\$5,594,967.65	\$8,632,467.65	\$12,630,467.65	\$17,923,787.65

EXTERNAL CONDITIONS AND KEY ASSUMPTIONS	
Starting number of adult goats - December 2013	150
Price of milk	\$1.50
Price of hay per ton	\$40.00
Goats born per female goat per birthing (1-5 kids born per year, 85% survive)	2.6
Price per KG of raw greasy cashmere (2010 ASAP; serves to offset profits from)	\$16.00
Total profit on cashmere for retail sale (Per KG; ASAP 2010)	\$235.00
Production of milk per goat per day (gal)	0.75
Production days for goat milk	270
Rate of unacceptability for breed use in cashmere	25%
Price per sample of specimen	\$5.00
Annual devaluation of assets (not important for goat calculations)	7%
Price per goat	\$70.00
Percentage of adult goats sold for meat annually	12.5%
Days per year that a goat is milked	270
Cashmere produced per goat (KG)	0.25
Percentage of cashmere lost in processing	50%
Pounds of winterfeed hay eaten per ADULT goat annually	1,944
Starting male population	20
Percentage of male stock that is commercially viable (semen and goats)	70%
Samples males produce annually (Average per viable male goat)	50
Annual rental fee per male goat	\$30.00
Amount of cashmere brought in on average per male goat outsourced (KG)	5
Success rate of cashmere producing goats for future breeding	0.80
Amount farm owner pays herder per kilo for outsourced cashmere	\$60.00
Percentage of goats used for milk	12.5%
Occurrence of male goat births	50%

Percentage of goats going into adulthood (1.5yrs) annually	100%	Formula
Annual increase cost for staff and travel	10%	
Staff members to start with	10	
Breeding cycles per year	1.0	
Fertility rate of goats	85%	
Survival rate of kids	85%	
Pounds of winterfeed eaten by the average adult goat per day	18	
Pounds of winterfeed eaten by the average kid goat	6	
days per year winterfeed is given	90	
Winterfeed waste percentage	20%	
Pounds of winterfeed hay eaten per KID goat annually	648	
Technical services per herder	\$ 200.00	
Goats from new herders joining cooperative in Year 2	75	
Sales Price of Comb	\$ 10	
Australian nylon wool packs (each)	\$ 5.00	
Margin on nylon wool packs (20% markup)	\$ 1.00	
Price per pound of winterfeed (based on \$300/tonne)	\$ 0.14	
Margin on winterfeed per pound (20% markup)	\$ 0.03	
Drip irrigation system (cost per kit - based on iDE India prices)	\$ 10.00	
Margin on drip irrigation system (20% markup)	\$ 2.00	
Organic fertilizer cost per pound (based on \$300/tonne)	\$ 0.14	
Margin on fertilizer (80% markup)	\$ 0.11	
Hourly rate for technical advisors (1 hour per goat per year)	\$ 10.00	
Average Afghan salary (per year)	\$ 680.00	
Veterinary doctor salary (per year)	\$ 960.00	
Hourly rate for veterinary services (4hrs per affected goat per year)	\$ 20.00	
Vaccination/medicine fees charged (20% margin)	\$ 20.00	
Percentage of adult goats needing vaccine/medicine/veterinary services	10%	
Annual staff travel	\$ 100,000.00	
Initial investment for Quality Testing Lab (QTL)	\$ 200,000.00	
Cost of Combs	\$ 4.00	
Percentage of Kid goats needing vaccine/medicine/veterinary services	100%	
Goat hair produced per year (kg per goat per year)	4.00	
Price of goat hair (per kg)	\$2.00	
Cost of vaccination/medicine	16.67	