




USAID
FROM THE AMERICAN PEOPLE

MEMORANDUM

DATE: April 15, 2015

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

FROM: William Hammink, Mission Director 

SUBJECT: Mission Response to Draft SIGAR Report titled
“Afghanistan’s Extractive Industries: \$500 Million in
U.S. Funding Is at Risk” (SIGAR Report 15-XX under
Code 097A-1)

REF: SIGAR Transmittal email dated 03/17/2015

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

The extractives industry in Afghanistan could attract high levels of private foreign direct investment and become a fundamental pillar of a robust Afghanistan economy. However, much remains to be done to develop a regulatory environment and a Ministry of Mines and Petroleum (MoMP) that will oversee the development of the extractives industry. Providing the necessary capacity building in this sector will take considerable time and effort.

U.S. government support to and coordination with the Government of the Islamic Republic of Afghanistan (GIROA) and the private sector will help to develop Afghan mineral and natural gas resources in a responsible, environmentally-friendly manner.

USAID capacity-building efforts in the extractives sector have been considerable and have been closely coordinated with the World Bank and other bilateral donors and U.S. Government entities, including TFBSO. Through the Sheberghan Gas Development Program (SGDP) and the Mining Investment and Development for Afghan Sustainability (MIDAS) project, USAID funding is developing the regulatory framework and an enabling business environment with the potential to attract billions of dollars in investment for energy and road infrastructure, job creation, and

GIRoA revenue generation. Private sector investments, business taxes and royalty rates will be particularly important to the future of the Afghan government's revenue generating potential over the coming decade.

The international donor community has a collaborative approach to develop the Afghan extractive industry. In particular, the World Bank, the United Kingdom's Department for International Development (DFID), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and other donors spend considerable money on capacity building at MoMP and in other elements of the sector. However, USAID's MIDAS is the only program that focuses on drilling and mineral exploration documentation, key skills required for managing tender processes.

The international donor community has been very active in the Afghan extractives industry given this is a post-conflict country that requires extensive amounts of institution building and technical assistance. An initial priority was the establishment of the legal framework for an enabled business environment. As the industry and the country mature, capacity building at the Ministries will take priority. With USAID's assistance, MoMP will prepare the necessary background documentation to ensure the private sector will operate the locations in an efficient and legally acceptable manner. This is a key component to the long-term sustainability of the sector and of the government's ability to ultimately manage Afghanistan's natural patrimony.

RESPONSE TO SIGAR's RECOMMENDATIONS

In light of subsection 1535(b) of the Ike Skelton National Defense Authorization Act for Fiscal Year 2011, Pub. L. No. 111-383, 124 Stat. 4137, 4427, which required the Secretary of Defense, the Secretary of State, and the USAID Administrator to jointly develop a plan for the transition of TFBSO activities, we recommend that the USAID Administrator:

(1) Report to the appropriate congressional committees the reasons why USAID did not continue any of TFBSO's activities.

USAID Comments: The Mission does not concur with the first recommendation.

Actions Taken/Planned:

To comply with the 2011 legislation, TFBSO, the Department of State, and USAID jointly submitted a transition plan to Congress, which

outlined the necessary criteria for the transfer of activities from TFBSO to USAID. These criteria were:

- Activity fit within the USAID development strategy
- USAID and TFBSO sign a Memorandum of Understanding
- TFBSO provide necessary funding to continue each activity

Subsequently, in a June 2013 meeting and at a July 2013 Steering Committee meeting, TFBSO and USAID determined that none of TFBSO's projects were to be transitioned to USAID because they were being handed over to other responsible entities or were completed (Attachment 1). Therefore, TFBSO and USAID did not take steps to transfer activities to USAID. TFBSO also submitted semiannual reports to Congress over the last two years explaining its transition strategy (Attachment 2). Furthermore, USAID is unable to liberally assume other federal agency projects without commensurate allocation of funding of the annual budget passed by the U.S. Congress.

Target Closure Date:

Based on the above, we request removal of the first recommendation.

To ensure technical capacity building is sustained at MoMP and its component organizations after SGGA and MIDAS initiatives are completed, we recommend that the USAID Administrator require ECC, the MIDAS implementing partner, to:

(3) Update the MIDAS performance management plan by August 1, 2015 to include plans for the sustainment and transfer of its activities.

USAID Comments: The Mission concurs with Recommendation 3.

Actions Taken/Planned:

USAID will work with the MIDAS implementing partner (IP) to update the performance management plan (PMP). To complement the PMP, the MIDAS IP is preparing plans for the sustainment and transfer of its activities.

Target Closure Date: August 1, 2015

Attachments:

- 1 - TFBSO-USAID 06192013 Minutes
- 2 – Transition Plan Final

cc: U.S. Embassy/Kabul Coordination Directorate