




**USAID**  
FROM THE AMERICAN PEOPLE

**MEMORANDUM**

**DATE:** December 6, 2015

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

**FROM:** Herbert Smith, Mission Director 

**SUBJECT:** Mission Response to Draft SIGAR Report titled  
“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 Report 16-XX under Code  
097A-2)

**REF:** SIGAR Transmittal email dated 11/07/2015

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

USAID is committed to helping Afghanistan develop the extractives sector in a deliberate and responsible way that will pay off in the long run for both Afghans and Americans - in jobs for Afghan citizens, in a new revenue stream for an Afghan Government striving for self-reliance, and ultimately our own national security. To achieve this, USAID has supported the Ministry of Mines and Petroleum (MoMP) since 2005 in the areas of mineral exploration, natural gas development and general technical assistance. As SIGAR indicated in its report, USAID assistance has enabled the Government of Afghanistan to enact investor-friendly extractive legislation, improve the ability to market, negotiate, and regulate contracts, and generate geological data to identify areas of interest to attract investors.

The extractives industry could become a fundamental pillar of a robust Afghanistan economy and is poised to attract high levels of private foreign direct investment. U.S. Government coordination with the Government of Afghanistan (GoA) and the private sector will help to develop Afghan mineral and natural gas resources in a responsible, environmentally friendly manner. Through the Sheberghan Gas Development Program (SGDP) and the Mining Investment and

Development for Afghan Sustainability (MIDAS) projects, USAID is supporting 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 GoA 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 decades.

The international donor community has had a collaborative approach to develop the Afghan extractive industry. An initial priority has been the establishment of the legal framework to enable an optimal business environment; however, as the industry and the country mature, capacity building at the Ministries will take priority. With USAID's assistance, MoMP will prepare the necessary legislative documentation to ensure that the Afghan extractives sector will operate in an efficient, transparent, and legally acceptable manner. These are fundamental requirements to the long-term sustainability of the sector and the GoA's ability to manage Afghanistan's natural resource endowment.

The goal in Afghanistan is not extraction of minerals for its own sake, but the harnessing of the extractives industry to provide for the development of the country and its people. Any conclusions about the state of policy reforms in Afghanistan needs to be substantially tempered by the reality that mining is a long-term endeavor -- extremely long term-- in the case of larger mining projects. Some project horizons likely approach a 20-year range before any project will be able to generate significant revenue of a magnitude that will significantly impact Afghan Gross Domestic Product.

## **RESPONSE TO SIGAR'S RECOMMENDATIONS**

*To ensure that the technical assistance objectives of the SGGA and MIDAS are met, we recommend that the USAID Administrator:*

*1. Using the results of the assessments done to date, develop a plan with the MoMP and its component organizations addressing the structural reforms needed at the ministry and establishing milestones for achieving them.*

**USAID Comments:** The Mission concurs with Recommendation 1.

### **Actions Taken/Planned:**

USAID will develop a plan with MoMP that addresses the necessary structural reforms and establishes milestones for achieving them. This may require scope adjustment and/or expansion of the projects; however, many of these issues are already addressed in existing project work plans. Based upon results achieved to date, USAID is revising the MIDAS program to respond to MoMP capacity limitations. Future capacity building will be targeted to achievable objectives and outcomes with direct buy-in from Minister Saba and support from the Office of the President of Afghanistan.

The plan for MoMP will include the following priorities:

- Develop a foundation for sustainable and efficient utilization of natural resources by building capacity in the institutional, regulatory and human resource frameworks for the sector. USAID programs will focus on structural reforms within MoMP that will develop near term results. Activity milestones will build MoMP capacity to reach measurable goals, such as verifying gas reserves and producing the tendering documentation for a gas sweetening facility.
  - GoA recognizes private sector exploration as an integral element of a vibrant mining industry and endeavors to promote favorable conditions conducive for Afghanistan to compete as a global exploration investment destination.
  - Where communities located in mine areas or may reasonably be expected to be negatively impacted by mine development, detailed social impact assessments of impacts and mitigation measures must be provided to the MoMP for review and approval.
  - USAID will help MoMP build capacity in land use planning and environmental protection strategies.
  
- Help MoMP prioritize developing and utilizing energy resources, such as natural gas and oil, followed by the secondary hard minerals exploration.
  - USAID will focus capacity building activities on institutional reforms that will deliver earliest results. MoMP can leverage existing oil and gas exploration data to verify reserves and support the economic potential of future exploration.
  - USAID will support MoMP to promote the value of oil and gas exploration rights to international developers. This may include

conferences with MoMP presenting extractives resources to prospective international developers.

- In the minerals sector, shorter-term USAID efforts will focus on helping MoMP to develop small to medium size resources and establish a reliable platform for larger-scale projects. This may be achieved through intervention in several strategic areas:
  - Increase the MoMP community interaction to gather local support for regulatory and enforcement reforms. .
  - Train MoMP to develop private sector outreach programs, including capacity building of local small and medium enterprises (SMEs) through on-the-job trainings and workshops to ensure understanding of regulations.
  - Help MoMP structure mineral rights tenders with an understanding of the banking sector requirements to for loans, lines of credit, and working capital.
  - Help MoMP promote the capital investments required in new technology such as modern machinery, equipment, and tools to increase the efficiency, profitability and safety of mining and mining support services.

**Target Closure Date:** March 31, 2016

***2. Condition any future on-budget assistance to the MoMP on the ministry achieving the milestones in the agreed-upon plan.***

**USAID Comments:** The Mission concurs with Recommendation 2.

**Actions Taken/Planned:**

USAID does not plan any on-budget assistance beyond the current programming. No on-budget assistance is planned for MIDAS. As for SGDP that ends in August 2016, the funding for the drilling activity in Sheberghan will be disbursed upon approval of the contractor's vouchers. Also for SGDP, USAID will contribute funding towards the gas processing "sweetening" plant once the public private partnership is finalized.

Based on the above, we request SIGAR's concurrence to the closure of Recommendation 2.

**Cc: U.S. Embassy/Kabul Coordination Directorate**