



ISLAMIC REPUBLIC OF AFGHANISTAN

# AFGHANISTAN NATIONAL DEVELOPMENT STRATEGY

*An Interim Strategy for Security, Governance,  
Economic Growth & Poverty Reduction*



**VOLUME I**



**AFGHANISTAN  
NATIONAL DEVELOPMENT  
STRATEGY**

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Economic Growth & Poverty Reduction**



بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

*In the Name of Allah,  
the Most Compassionate, the Most Merciful*

*“Afghans today stand with full dignity and declare to the world that  
we are rising from the ashes of invasion and will live forever.....”*

President Hamid Karzai  
in his inaugural speech to the National Assembly  
28 Qaws 1384 (19 December 2005)

## ABBREVIATIONS

ADB	Asian Development Bank
ADF	Afghanistan Development Forum
AGE	Advisory Group on Environment
AIHRC	Afghan Independent Human Rights Commission
AISA	Afghanistan Investment Support Agency
AMF	Afghan Militia Force
ANA	Afghan National Army
ANDS	Afghanistan National Development Strategy
ANP	Afghan National Police
ARTF	Afghan Reconstruction Trust Fund
CAO	Control and Audit Office
CAREC	Central Asia Regional Economic Cooperation Organization
CDC	Community Development Council
CFC-A	Combined Forces Command-Alpha (Afghanistan)
CG	Consultative Group
CNPA	Counter-narcotics Police
CNTF	Counter-narcotics Trust Fund
CPI	Consumer Price Index
CSATTF	Central and South Asia Transport and Trade Forum
CSO	Central Statistics Office
DAB	Da Afghanistan Bank
DDR	Disarmament, Demobilization and Reintegration
DIAG	Disbandment of Illegal Armed Groups
ECO	Economic Cooperation Organization
EPHS	Essential Package of Hospital Services
GDP	Gross Domestic Product
GIAAC	General Independent Administration for Anti Corruption
HDI	Human Development Index
HIES	Household Income and Expenditure Survey
HIPC	Highly Indebted Poor Countries
IAG	Illegal Armed Group
IARCSC	Independent Administrative Reform and Civil Service Commission
IBES	Integrated Business Enterprise Survey
ICAO	International Civil Aviation Organization
ICB	International Competitive Bidding
IDA	International Development Assistance
IDP	Internally Displaced Person
IFI	International Financial Institution
IMF	International Monetary Fund
INGO	International Non Government Organization
I-PRSP	Interim Poverty Reduction Strategy Paper
ISAF	International Security Assistance Force
JCMB	Joint Coordination and Monitoring Board
LOTFA	Law and Order Trust Fund
MCN	Ministry of Counter-narcotics
MDG	Millennium Development Goals
MICS	Multiple Indicators Cluster Survey
MISFA	Microfinance Investment Support Facility in Afghanistan
MMR	Maternal Mortality Ratio
MoAAH	Ministry of Agriculture and Animal Husbandry
MoD	Ministry of Defense
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs

MoI	Ministry of Interior
MoJ	Ministry of Justice
MoPH	Ministry of Public Health
MoWA	Ministry of Women's Affairs
MRRD	Ministry of Rural Rehabilitation and Development
MTEF	Medium Term Expenditure Framework
MTEF	Medium Term Fiscal Framework
NABDP	National Area Based Development Program
NATO	North Atlantic Treaty Organization
NDB	National Development Budget
NDCS	National Drugs Control Strategy
NDF	National Development Framework
NEEP	National Emergency Employment Program
NEPA	National Environmental Protection Agency
NGO	Non Governmental Organization
NIP	National Investment Program
NPP	National Priority Program
NRVA	National Risk and Vulnerability Analysis
NSC	National Security Council
NSCF	National Security Coordination Forum
NSDP	National Skills Development Program
NSP	National Solidarity Program
OECD	Organization for Economic Cooperation and Development
ONSC	Office of the National Security Council
OSC	Presidential Oversight Committee of the ANDS
OTF	On the Frontiers
PAR	Public Administrative Reform
PAREM	Public Administration and Economic Management
PEM	Public Expenditure Management
PFEM	Public Finance and Expenditure Management
PFM	Public Finance Management
PIP	Public Investment Program
PRGF	Poverty Reduction Growth Facility
PRR	Priority Reform and Restructuring
PRSP	Poverty Reduction Strategy Paper
PRTs	Provincial Reconstruction Teams
SAARC	South Asian Association for Regional Cooperation
SAF	Securing Afghanistan's Future
SCF	Security Coordination Forum
SCO	Shanghai Cooperation Organization
SMP	Staff Monitored Program (IMF)
SNA	System of National Accounts
SOE	State Owned Enterprise
SRSG	Special Representative of the Secretary-General (Afghanistan)
SSO	Security Sector Outline
SSR	Security Sector Reform
SSRCC	Security Sector Reform Coordination Committee
TAP	Trans-Afghan Pipeline
TISA	Transitional Islamic State of Afghanistan
UNAMA	United Nations Assistance Mission to Afghanistan
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
UNODC	United Nations Office of Drug Control
UXO	Unexploded Ordinance

## Glossary of Afghan expressions

Bank-i Milli	National Bank
Chaddari	Veil
Hejrat	Migration
Kareez	Under ground canals connecting wells
Kuchi	Nomad
Loya Jirga	Grand Council, "Grand Assembly of elders"
Mahram	Man from the women's family
Maulawi	Religious Scholar
Meshrano Jirga	Senate (Upper house of Assembly)
Mujahideen	Freedom Fighters
Shariat or sharia	Islamic Law
Sharwali	Municipality
Shura	Council
Ulama	Religious Scholar
Walayat	Province
Wolosi Jirga	National Assembly
Woleswali	District
KhAD	" <i>Khedamat Etila'at Dawlati</i> " – The State Information Agency in Afghanistan (Intelligence) in the years 1978 - 1992
Hawala	Unofficial money transferring system
Jirgas	Local Consultation Meetings
Mustoufiat	
Sufi	<b>Sufism</b> (Arabic تصوف <i>Tassawwuf</i> ) is a mystic tradition of Islam based on the pursuit of spiritual truth as it is gradually revealed to the heart and mind of the Sufi (one who practices Sufism).
Khanqahs	Traditionally a building designed specifically for gatherings of the Sufi brotherhood
Madrassas	A School, where mostly Islamic Studies are concerned
Takiakhana	<i>Shi'ite</i> mosques



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# **PART 1**

## **OVERALL POLICY VISION**



# 1

## VISION AND OVERVIEW

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إِنَّ اللَّهَ لَا يُغَيِّرُ مَا بِقَوْمٍ حَتَّى يُغَيِّرُوا مَا بِأَنْفُسِهِمْ

*Verily never will Allah change the condition of a people until they change it themselves.*

### 1.1 THE GOVERNMENT'S VISION FOR AFGHANISTAN

The Government of Afghanistan's model of governance and development today derives from an ancient concept of this region called the "Circle of Justice" (*daira-yi' idalat*). As the ninth century Islamic scholar Ibn Qutayba,<sup>1</sup> wrote:

*There can be no government without an army,  
No army without money,  
No money without prosperity,  
And no prosperity without justice and good administration.*

A century later, in Afghanistan itself, Sultan Sebuktegin of Ghazni put it this way<sup>2</sup>:

*The first thing you should do is to keep the private and public treasuries in a prosperous condition; for a kingdom can only be retained by wealth. Wealth cannot be acquired except by good government and wise statesmanship, and good government cannot be achieved except through justice and righteousness.*

In the Circle of Justice, the government depends on the armed forces to ensure security. To maintain the army, the government needs resources, which it can derive only from prosperity and development. Prosperity and development depend in turn on justice and good governance. The Islamic teachings on the Circle of Justice have identified justice with the rule of law, based on the beliefs and provisions of the sacred religion of Islam. These teachings identified good governance with building roads and keeping them safe for travelers and trade, building irrigation works to make farmers more productive, assuring honest weights and measures, resolving disputes justly, and protecting the poor and weak.

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<sup>1</sup> Abu Muhammad Abdullah b. Muslim b. Qutayba, *Kitab 'Uyun al-Akhar (Sources of Information)*, 1:9, cited in Linda Darling "Do Justice, Do Justice, For that is Paradise': Middle Eastern Advice for Indian Muslim Rulers," *Comparative Studies of South Asia, Africa and the Middle East*, Vol XXII No. 1 and 2 (2002), 3.

<sup>2</sup> Muhammad Nizam, "The Pand-Namah of Subuktigin," *Journal of the Royal Asiatic Society* (1933): 624, cited by Linda Darling, *ibid.*, 4-5.

Fully consistent with the Circle of Justice, the preamble to our Constitution states that Government will strive:<sup>3</sup>

1. With firm faith in God Almighty and relying on His lawful mercy, and believing in the sacred religion of Islam; . . .
2. To consolidate national unity and safeguard the independence, national sovereignty, and territorial integrity of the country;
3. To establish a government based on the will of the people and democracy;
4. To create a civil society free of oppression, atrocity, discrimination, and violence; based on the rule of law, social justice, and protection of human rights and dignity; and ensuring the fundamental rights and freedoms of the people;
5. To strengthen the political, social, economic, and defense institutions of the country;
6. To ensure a prosperous life and sound environment for all those residing in this land;
7. And, finally, to regain Afghanistan's rightful place in the international community.

This chapter lays out a vision for the development of Afghanistan by 1400 (2020) and the processes and mechanisms that will guide Government to this end. To realize this vision, to work towards achieving Afghanistan's Millennium Development Goals (MDGs),<sup>4</sup> and to ensure the implementation of the Afghanistan Compact,<sup>5</sup> the Afghan Government has developed the Interim Afghanistan National Development Strategy, which will form the basis for consultations leading to the full Afghanistan National Development Strategy (ANDS).

Today Afghanistan is trapped in a circle of injustice. We produce little and so far lack the means to produce more. We devote much of our existing productive capacity to either illegal (drug related) or economically unsustainable activities (due to dependence on aid). Drugs subvert governance, while aid dependence may leave our institutions weak. Without good governance and justice, we cannot assure the security of the people. While structural poverty does not necessarily lead to insecurity or political instability, it creates an environment in which narco-mafia and other destabilizing forces thrive. When poor communities perceive themselves to have been politically marginalized or economically forgotten, they are far more likely to suffer the resentment and alienation that drug lords and terrorists exploit.

Over the next 15 years we aim to transform this circle of injustice into a circle of justice through the ANDS, the Afghanistan Compact, and achievement of our MDGs. While the ANDS focuses on goals and strategies with a five-year perspective, we need a longer-term vision to ensure that we do not deal solely with current constraints and short-term achievements. We must create a better Afghanistan for future generations as well.

### 1.1.1 OUR POLITICAL VISION

By 1400 (2020) we envisage a state in which institutions are more accountable and responsive to poor people, strengthening their participation in the political process and in local decision-making regardless of gender or social status. We will continue to mature as *a stable Islamic constitutional democracy* with regular national and provincial elections that are peaceful and fair. We expect the *National Assembly* to evolve into a responsible political body that ensures that the needs and interests of all provinces and districts are represented at the national level. We aim to strengthen the ability of

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<sup>3</sup> Constitution of the Islamic Republic of Afghanistan, Preamble, para.1, 6-11.

<sup>4</sup> Afghanistan's MDGs aim at "reducing poverty and hunger, providing universal primary education, reducing child mortality, improving maternal health, combating diseases, promoting gender equality, ensuring environmental sustainability and enhancing personal security."

<sup>5</sup> The Afghanistan Compact is a statement of mutual commitment between Afghanistan and its main development partners towards the achievement of a set of clear political, economic and security-related benchmarks. See Annex I of the Compact for the full text and benchmarks (see Annex 4 of this document for the full text of the Afghanistan Compact).



all three branches of Government (executive, legislative, and judicial) to check and balance each others' powers. In particular, we will aim to deepen democracy across Afghanistan by strengthening citizen-state relations by empowering elected assemblies at the national, provincial, district and village levels.

We will establish an effective, accountable, and transparent administration at all levels of Government. Within our unitary governance system, *our provincial and district administrations* will rapidly expand their capacity to provide efficient services, even as we endeavor to build a strong central government. Provincial and district administrations will operate effectively to optimize the coordination of national development priorities, expenditure monitoring, and national revenue collection.

Our *Public Administrative Reform (PAR) program* will encourage performance-oriented institutions to promote progressive social change. Ministries and government agencies in both the centre and the provinces will be more efficient and effective, and they will be staffed by a cadre of well-trained and competent professionals recruited on the basis of merit. Government machinery will be restructured and rationalized to reflect core functions and responsibilities clearly. We will make civil service and military salaries competitive with the private sector.

Women will constitute an increasingly important voice in Afghan society and politics. The numbers of women in the legislature will increasingly reflect the gender balance of the population, and political representatives will address the barriers to access of economic and political opportunities for women. The *rights of women* in Afghanistan *will be significantly improved in accordance with Islamic principles*.

We will *fight corruption, uphold justice and the rule of law*, and all Afghans will have equal, fair, and transparent access to justice based on written and published codes. All provinces and districts will have a functioning physical and institutional justice framework which adequately protects the rights of our citizens. Arbitrary arrests, torture, extortion, and illegal expropriation of property will be eliminated.

By protecting the *freedoms of association and expression for the media and civil society organizations*, we will extend democracy throughout the country. Their ability to promote civic education, policy advocacy, and public accountability is essential to our state-building vision. Moreover, we continue to see non-governmental organizations (NGOs) as essential partners in our development efforts and will continue to support their work in Afghanistan.

### 1.1.2 OUR ECONOMIC AND SOCIAL VISION

By 1400 (2020), we envisage all Afghans to have equal opportunity to participate in high rates of *sustainable and equitable economic growth*. Our economy will be transformed from one that is largely illegal and informal to one that is legal and increasingly self-sustaining. We expect that income poverty will be significantly reduced and extreme and chronic hunger eradicated.

Our economic vision is to build a liberal market economy in which all Afghans can participate productively without engaging in production or trafficking of narcotics or other criminal activities. To do this, we will develop an enabling environment for the private sector to generate legitimate profits and pay reasonable taxes, thereby enhancing public revenues that can then be invested in public services. Ultimately, we want to move beyond dependence upon international aid and build a thriving legal private sector-led economy that reduces poverty and enables all Afghans to live in dignity.

To achieve pro-poor growth while eliminating the criminal economy, we aim to make simultaneous investments across the security, governance, and economic pillars. While our priorities in each of

these areas are framed in the I-ANDS and the 5-year strategic benchmarks of the Afghanistan Compact, we will focus in particular upon those areas that enhance our current and future productivity, including electricity, roads, irrigation, and institutional and human capacity building, creating an enabling environment for private-sector development and protecting the rights of the poor. As we target our investments in these areas, we will seek to support likely areas of accelerated economic growth, including rural development (agriculture and rural industries), the management of state assets, mining and extractive industries, and transit.

By creating a secure, politically stable, and economically supportive environment for growth, we will enable the private sector to thrive and, in so doing, to employ our population and increasingly generate the public revenues that will allow the Government to work towards our MDGs. We want to stand on our own feet as soon as possible as a full and equal member of the region and the world.

Our people are our greatest asset, and our education system will have progressively developed our human potential. Access to primary education will be available to all our children by 1400 (2020), and most will attend secondary school. Access to dynamic centers of higher education and learning will be available for our youth, and young graduates will have realistic hopes of getting employment. We will invest heavily in our youth to ensure that our school and university graduates are equipped for technical, managerial, and leadership roles in the workplace of tomorrow. Disadvantaged and marginalized groups will be given the opportunity to develop basic technical skills to equip them for employment both in Afghanistan and overseas as productive migrant labor.

The health of our citizens, particularly that of mothers and children, will be significantly improved through better access to primary health care, basic hospital services, and access to safe drinking water and sanitation. Improved health systems will ensure that our people are healthy and able to engage in the economy, in an active, productive, and sustained manner.

Agricultural productivity will be enhanced and diversified, and the corrosive influence of the narcotics economy on our political, social and economic systems will be significantly reduced. Our land-locked geographical status will be converted into a commercial and economic asset through the construction of a modern and reliable transport system. In addition to our transport infrastructure, road connectivity, power, and water will be widely available across the country.

### 1.1.3 OUR SECURITY VISION

The central focus of our security vision will be to create *a peaceful and just society*, where the state has the monopoly on the legitimate use of force, and the rights of all Afghan people are protected. We intend to be internationally and regionally recognized as *a pluralistic, Islamic nation-state, with a peace-loving, prosperous and open people*.

Sustained attention and support from both NATO and the US-led Coalition will be needed to bring terrorism, extremism, and the narco-mafia under control. While it is possible that we will no longer need an international presence in Afghanistan by 1400 (2020), we will maintain a strong strategic alliance with the international community.

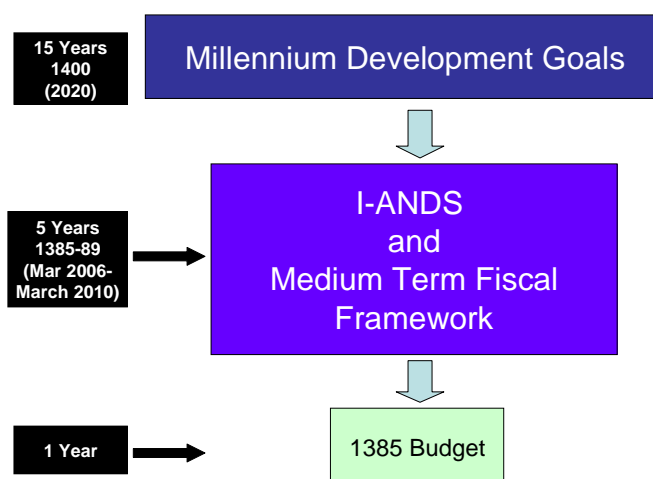
By 1400 (2020), we will have a *reformed and professionalized national army* that will recruit from all groups in the population. We will have armed forces of a manageable size that is fiscally sustainable. *The national police will have been reformed* into a well trained, properly equipped force. Both the national army and police will become protectors who uphold the laws of the state. Our national security structures will be fully under civilian control and oversight, reporting directly and systematically to the President and the National Assembly.

### 1.1.4 REALIZING THE VISION

To realize this vision, the ANDS proposes interrelated interventions in (1) security; (2) good governance, rule of law, and human rights; and (3) economic and social development. To succeed, these programs must have the full support of the Government of Afghanistan, donor countries, and the Afghan people. Above all, they must meet the needs of the Afghan people, who, having endured the turbulent long years of war, now hope and expect to turn their skills and knowledge to the building of peace, prosperity, and social justice as citizens of a legitimate and effective state. The ANDS is the principal mechanism through which the Afghan Government and people will build such a state.

The ANDS will provide a national development strategy to achieve targets over several time frames (Figure 1.1). Financially, it will provide a framework for annual budgets and a rolling five-year Medium Term Fiscal Framework (MTFF). It will provide the means to achieve the five-year benchmarks agreed upon with the international community in the Afghanistan Compact. It will move Afghanistan towards the MDGs by 1400 (2020).

**Figure 1.1: Overall Framework for Afghanistan’s Development Planning**



The I-ANDS is an interim document; it proposes strategies and investment priorities for discussion and refinement throughout 1385 and 1386 (2006/7 and 2007/8) with a wide range of stakeholders, including members of the Government at the national and sub-national levels, the National Assembly, donors, the United Nations, NGOs, civil society, and the private sector. Through these discussions, Government will build international and domestic support for full Afghan ownership of the Government’s state-building vision.

## 1.2 THE AFGHANISTAN COMPACT

The Afghanistan Compact of 1384 (2006), to be agreed in London on 11 Dalw 1384 (31 January 2006), succeeds the Bonn Agreement of 1380, signed on 14 Qaws 1380 (5 December 2001). Bonn provided a framework for the international community to help Afghans create a legitimate government, while the Afghanistan Compact provides a framework for the international community to help Afghans build a state and develop their country. At Bonn, Afghans agreed to a number of political steps, including the establishment of an Interim Authority; the convening of an Emergency

*Loya Jirga* to elect a Transitional Administration; the drafting of a Constitution and its approval by a Constitutional *Loya Jirga*; and national elections to create a fully representative government.<sup>6</sup> With the formation of the National Assembly after the elections of 28 Sonbola 1384 (19 September 2005), Afghanistan has completed the Bonn process and now, in the Afghanistan Compact, seeks to renew its mutual commitments with the international community in order to continue Afghanistan's state-building and development efforts.

The Bonn process showed the value of making time-bound commitments to achieving benchmarks of progress. These deadlines served to energize common efforts to achieve goals. But while the Bonn Agreement was a pact among Afghans to be monitored and assisted by the UN, the Afghanistan Compact is a compact between Afghanistan and the international community, declaring the commitments of both, and setting benchmarks to be monitored jointly. The Afghanistan Compact will propose 5-year benchmarks in the areas of security; governance, rule of law, and human rights; and economic and social development, with the counter-narcotics campaign as a crosscutting theme. While these benchmarks have not yet been costed, the Government aims to cost these targets as part of a broader exercise in 1385 (2006/07), leading to a clear prioritization, sequencing, and costing of our development targets in the full ANDS. As Government's priorities become increasingly clear in the ANDS consultations, it will aim to shift the allocation of donor resources towards achieving these benchmarks.

The Government will fulfill its commitments under the Afghanistan Compact by implementing the ANDS. While the former articulates the top political, economic, social, and security priorities for the country's partnership with the international community, the latter provides a more detailed strategy and specific programs through which the Government will fulfill its commitments.

### 1.3 THE PRESENTATION OF THE I-ANDS AS AN I-PRSP

In 1377/78 (1999), the World Bank (WB) and International Monetary Fund (IMF) established a process to offer developing countries debt relief and concessional loans<sup>7</sup> if they formulated national plans to reduce poverty in a "Poverty Reduction Strategy Paper" or PRSP. Since then, governments have completed more than 80 PRSPs.<sup>8</sup> Countries planning to embark on the PRSP process may start with an Interim-PRSP. This I-ANDS will, among other things, follow the "guiding principles" for an I-PRSP, in which the Government must:<sup>9</sup>

1. State its commitment to reducing poverty;
2. Describe the extent and patterns of poverty;
3. Present the main elements of its poverty reduction strategy;

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<sup>6</sup> The Bonn Agreement also asked for deployment of an ISAF authorized by the UN Security Council; the formation of new security forces with international assistance, judicial and legal reform; the establishment of an independent human rights commission; the formation of a civil service commission; and the creation of a central bank to emit currency in an accountable and transparent way. It did not, however, set timelines or benchmarks for any of these goals.

<sup>7</sup> The precise entitlements are: (1) Eligibility for status as a "Highly Indebted Poor Country" (HIPC); (2) Approval for Poverty Reduction Growth Facility-supported (PRGF) arrangements (3), and High-case IDA lending and IDA adjustment lending, except in special circumstances. It should be noted that Afghanistan is currently accessing high-case IDA funding because of our "special circumstances" and would not benefit immediately from HIPC status (in terms of loan forgiveness) or from PRGF approval (in terms of concessional loans), but we consider it important to ensure our eligibility for such debt forgiveness and loans in the future, one of the reasons to ensure that our national plans meet I-PRSP and PRSP conditions.

<sup>8</sup> The actual implementation of PRSPs has met with varying degrees of success. They are sometimes faulted for a failure of country ownership and for applying a standard template for development across all developing nations. See e.g. Frances Stewart, et al., *Do PRSPs Empower Poor Countries and Disempower the World Bank, or Is It the Other Way Round* (2003).

<sup>9</sup> The World Bank and IMF do not actually require governments to meet all of these conditions. Such a requirement would conflict with their ultimate goal of encouraging national ownership of poverty reduction strategies. However, they provide guidance on the expectations of their Boards in approving or disapproving such strategies as I-PRSPs. See Joint Note to World Bank and IMF Staff, *Interim-Poverty Reduction Strategy Papers: Guidance on I-PRSPs and Joint Staff Assessments of I-PRSPs*. (September 7, 2000).

4. Summarize public programs that assist the poor;
5. Provide a three-year macroeconomic framework and three-year policy matrix; and
6. Schedule a consultative process to develop the full PRSP; although consultation with key stakeholders is not required for an I-PRSP, it is encouraged.

Government's commitment to reducing poverty is articulated in its Vision for Afghanistan. The Presidential Oversight Committee (OSC)<sup>10</sup> for the ANDS presented this to the international community in 22 Jawza 1384 (12 June 2005).<sup>11</sup> In formulating the Afghan MDGs and setting goals and targets that were refined to take account of the special circumstances of Afghanistan, Government committed to improve the lives of its people. The pro-poor growth strategy discussed in chapter 5 of this document clearly illustrates Government's intentions on poverty reduction. The extent, nature and patterns of poverty in Afghanistan are mapped in chapter 3, which also discusses the macroeconomic situation. Government's biennial National Rural Vulnerability Assessment (NRVA) provides an insight into the characteristics of poverty. Government's priorities and programs are described in chapters 6, 7, and 8, and the details are given in Volume II of this document. These chapters also present the main elements of Government's existing poverty reduction strategies. The five-year Policy Framework and the Macroeconomic Framework matrixes are annexed to this report (Annex 1 and 2 respectively). And finally, the schedule and the proposed mechanisms for the consultative process to develop the full ANDS are given in chapter 12.

The I-ANDS exceeds the minimum requirements for an I-PRSP. Poverty in Afghanistan is deeply rooted in insecurity and poor or weak governance, as well as more conventional economic causes. Government will therefore broaden the tools to reduce poverty in a sustainable way. It will stimulate economic growth by deepening and broadening the state-building process. While current social services to the poor are essential, many are being funded through unsustainable forms of international aid. The I-ANDS incorporates political and security dimensions as a fundamental part of our development vision and aims to reduce poverty sustainably by creating the economic conditions in which the poor can help themselves through productive endeavors.

## **1.4 KEY SOURCES FOR THE I-ANDS**

The I-ANDS incorporates elements of previous strategic documents. The reconstruction process started with the 2 Dalw 1380 (22 January 2002) Tokyo donor conference, where donors pledged their support against a needs assessment prepared quickly by international agencies armed with little data, and with little participation by the month-old Afghan Interim Administration. As the first step toward asserting ownership of the reconstruction process, the Interim Administration articulated strategic priorities in the National Development Framework (NDF), released for consultation on 12 Hamal 1381 (2 April 2002). At that time, Afghanistan's main concern was to avert a potential humanitarian crisis resulting from massive refugee return, prolonged drought, and years of war and oppression. The NDF both framed interventions to avert that disaster and laid the foundation for a state-building effort. Three years later, the risk of humanitarian crisis has been greatly reduced, a vast amount has been accomplished, and new long-term priorities focused on state building are emerging. The I-ANDS builds upon the NDF and the three successive budgets of 1381 (2002/3), 1382 (2003/4), and 1383 (2004/5) that implemented it, while presenting new priorities to respond to an evolving context.

By late 1382 (early 2004), it had become clear that initial needs assessments had underestimated the costs of reconstruction and lacked strategic priorities that could dictate what costs should be estimated. The Government initiated a new initiative to estimate the costs of a prioritized

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<sup>10</sup> The Oversight Committee comprising a small group of key ministers and led by the Office of the President was appointed by the President to report to him directly and on a regular basis, on the development of the ANDS and the Afghanistan Compact.

<sup>11</sup> "Afghanistan will consolidate peace and stability and reduce poverty through broad based, equitable economic growth that will come from good governance, social justice that economically empowers the poor and democratic processes."

reconstruction effort. The resulting report, *Securing Afghanistan's Future* (SAF), defined the strategic goals of Afghanistan's development as achieving enough growth of the legal economy to deliver perceptible improvements in people's lives; equitable enough to reduce poverty significantly; and broad enough to absorb the land, labor, and other resources previously used in the narcotics economy as that illegal economy was eliminated. Using a set of broad assumptions and more realistic costing parameters derived from experience, SAF used this strategic target to model several scenarios for the future, depending on the level of international investment that Afghanistan received. SAF estimated that a scenario that would make Afghanistan secure and enable its people to live in dignified poverty would require investments of \$27.6 billion dollars committed over a period of seven years and disbursed over 12 years.

With this estimate and strategy in hand, the Government turned to the international community to seek commitments of long-term support. At the 11-12 Hamal 1383 Berlin conference (March 31–April 1, 2004), Afghanistan received full funding pledges for its plan for one year and partial pledges for years two and three, for a total of US\$ 8.2 billion. Until a full recosting exercise takes place, the I-ANDS will continue to use the costing estimates made in the SAF for the entire strategy, including the different sectors, adjusted in various respects (See chapter 9 for more detail).

This report also draws on other previous strategic documents and initiatives. These include the Berlin Work Plan adopted by declaration at the Berlin conference, National Priority Programs, Public Investment Programs, and the Memorandum of Economic and Financial Policies of the Government of Afghanistan agreed to with the International Monetary Fund (IMF). Also integrated and quoted in this document are independent strategic initiatives such as the Afghanistan Human Development Report, reports by the United Nations (e.g. the UN's Common Country Assessment), as well as an array of reports by international financial institutions (IFIs) and NGOs.<sup>12</sup>

## 1.5 HOW THIS STRATEGY WAS DEVELOPED

The development of this strategy began in 1383 (2004) with consultations among senior Afghan policy makers.<sup>13</sup> It was decided that Afghanistan should develop an interim national development strategy that would meet the requirements of an I-PRSP in 1384 (2005/6) and then a full PRSP in 1385 (2006/7).<sup>14</sup> The ANDS development process was officially launched by President Karzai at the 1384 (2005) Afghanistan Development Forum (ADF).

On 22 Jawza 1384 (June 2005) the OSC of the ANDS presented an eight-pillar organizational structure of the I-ANDS to the international community and members of the government.<sup>15</sup> This and subsequent consultations led Government to consolidate the I-ANDS under three headings: (1) security; (2) governance, rule of law, and human rights; and (3) economic and social development. The Chair of the OSC was the President's Senior Economic Advisor, and the members included the Senior Advisor to the President (who is also the Minister of Commerce), the National Security Advisor, and the Ministers of Foreign Affairs, Finance, Economy, and Rural Rehabilitation and Development. Day-to-day development of the I-ANDS was managed by the ANDS Working Group.

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<sup>12</sup> For a full bibliography of documents sourced in this report, please see references at the back.

<sup>13</sup> In Hamal 1383 (March 2004), former Finance Minister, Dr. Ashraf Ghani noted that "embarking on the PRSP will permit us to delineate and prioritize our reforms across the Government." (Statement to the Berlin Conference, 11 Hamal 1383 (31 March, 2004)). In Hamal 1383 (April 2004), Dr. Ghani, stated: "Global experience has shown that the PRSP is a good instrument for setting specific national goals through a participatory and inclusive process."

<sup>14</sup> See section below on below PRSPs.

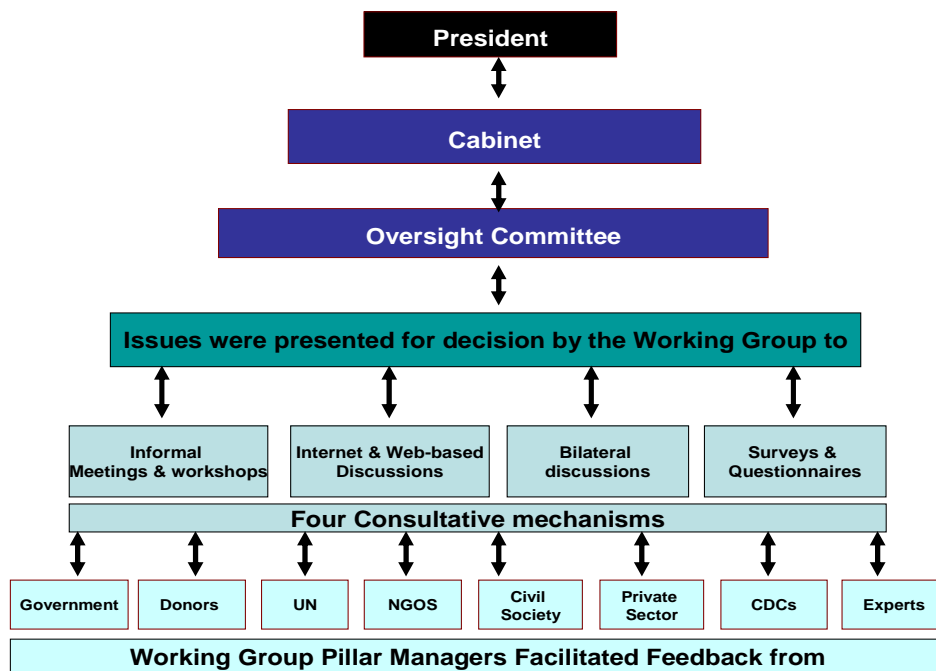
<sup>15</sup> Those pillars were (1) good governance and rule of law (2) regional cooperation, (3) security (4) economic governance and private sector development (5) infrastructure and natural resources, (6) agriculture and rural development, (7) human capital, and (8) social protection. Since then, based upon consultations within government and with key stakeholders, it has been decided to reduce the number of pillars to three (see Figure 1.5.), which is the structure presented in this final version of the I-ANDS.

Following the Jawza 1384 (June 2005) presentation, many donors and civil society representatives submitted written comments.<sup>16</sup> The Government held informal consultations with private sector and civil society representatives. The ANDS Working Group also had the opportunity to consult informally with 400 Community Development Council (CDC) leaders representing over 10,000 villages, who were in Kabul for a national conference during Asad 1384 (August 2005).<sup>17</sup>

At the request of the President, line ministries submitted Sector Strategy Outlines summarizing their objectives, constraints, priority activities, and strategies, as well as indicators and resource needs. This input, together with feedback from consultations, provided the foundation for the Working Group to put together a very preliminary draft of the I-ANDS.

The ANDS Working Group then translated and presented main findings of the I-ANDS to donors, civil society representatives, and line ministries for further feedback. An External Advisory Group (EAG) was established to provide a platform for donors to comment on drafts and interact with the Working Group at all stages of the process. Extensive engagement with every government ministry and agency gave the latter the opportunity to verify and discuss the details of the findings. Based on this feedback, the I-ANDS was revised, then translated and prepared for public dissemination. This draft will provide the basis for further consultation within Government, with communities, and with a wide array of groups concerned about Afghanistan’s development.<sup>18</sup> Throughout this process, informal consultations continued through informal bilateral meetings with the ANDS Working Group and the Oversight Committee as well as virtual consultation through the ANDS web site ([www.ands.gov.af](http://www.ands.gov.af)). This consultation process can be graphically represented as follows:

**Figure 1.2: Consultative Processes for the I-ANDS**



<sup>16</sup> All inputs into the I-ANDS are available at [www.ands.gov.af](http://www.ands.gov.af).

<sup>17</sup> While these findings are neither scientifically representative nor comprehensive, they provide a basis for discussion both on the substance of community concerns and on the process.

<sup>18</sup> See chapter 12 for a summary of the planned consultations on this draft.

## 1.6. POLICY FRAMEWORK AND STRUCTURE OF THE I-ANDS

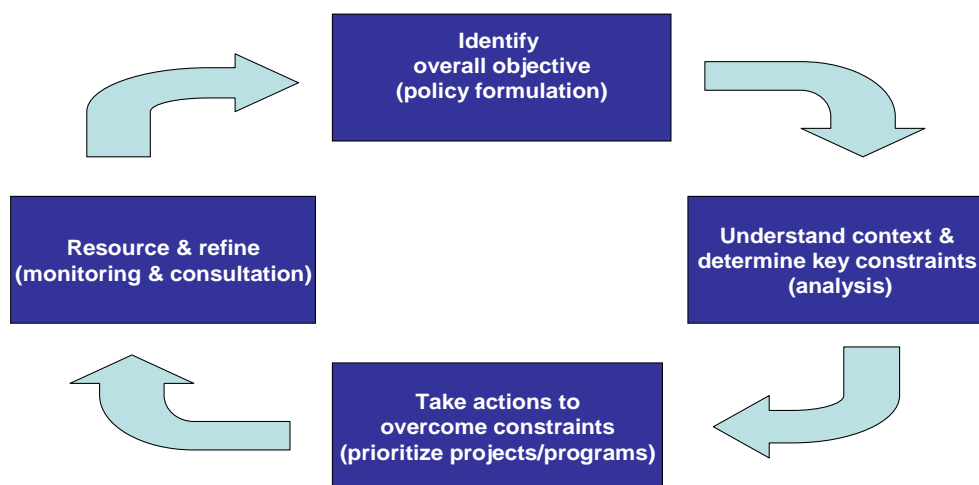
This section provides an overview of how the I-ANDS is structured and a brief indication of the content of each section of the document.

### 1.6.1. ORGANIZING FRAMEWORK FOR ALL DECISIONS IN THE I-ANDS

All key decisions in the I-ANDS are organized around the same four questions, as shown in Figure 1.3 below:

1. ***What is the objective?*** This question drives the government’s policy formulation.
2. ***What are the contextual issues and constraints that must be understood and overcome to achieve the objective?*** This question drives our analysis.
3. ***What investments and strategies should we prioritize to overcome those constraints?*** This question informs which mix of programs will most effectively combine to overcome constraints.
4. ***How should we resource, monitor, and coordinate these strategies?*** question drives the translation of our strategies into budgetary coordination and monitoring and evaluation mechanisms.

Figure 1.3: Conceptual Framework for All Key Decisions



By using the same organizing framework throughout the document, we aim to ensure consistency of decisions and promote broad understanding of how those decisions were reached. The use of a uniform and repeating framework will also facilitate translations and use by implementers and other stakeholders. It will make future consultations easier and more meaningful as it will be simpler to understand how policies were made, projects chosen, and resources allocated. Following this organizational framework, Volume I of the I-ANDS is organized into four parts:

1. Part One (chapter 1) lays out the overall vision, purpose, and policy framework for the I-ANDS;
2. Part Two (chapters 2-4) provides the analysis of context and constraints;
3. Part Three (chapters 5-8) summarizes the key strategies we will adopt to overcome constraints and achieve our policy objectives, followed by the specific programs and projects that the Government aims to prioritize; and
4. Part Four (chapters 9-12) contains our budget management and resource requirements, as well as the monitoring, coordination, and consultation mechanisms through which those programs and projects will be implemented and policy decisions refined.



While Part Three of Volume I identifies Government’s overall development priorities, it does not aim to sequence or prioritize strategies *within* pillars, sectors or programs at this stage. Once the benchmarks and strategies within the I-ANDS have been fully costed in 1384/5 (2006), prioritization and sequencing of these strategies will take place and will ultimately be reflected in the full-ANDS.

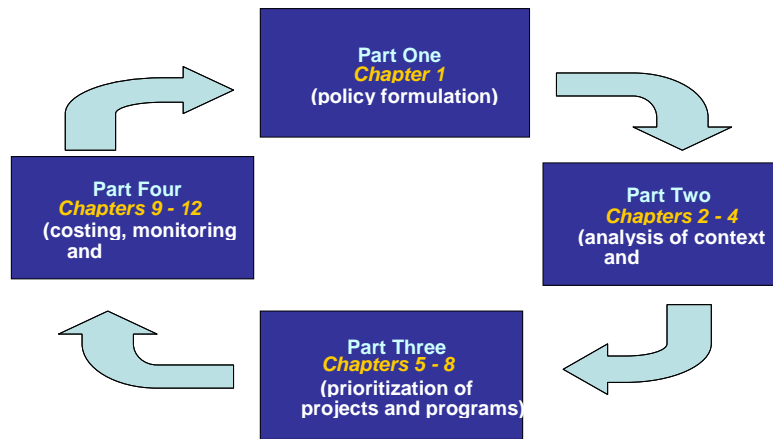
**Unlike Volume I of the I-ANDS, Volume II is not yet government policy.** Rather it aims to provide a solid basis for the full ANDS consultation process in 1385 (2006/7). In that regard, it lays out in detail Government’s current and proposed sectoral programs and a detailed draft policy matrix of indicators against which it proposes to measure progress for every proposed program in the I-ANDS. The program summaries and indicators reflect the outcome of consultations with line ministries, donors, and key stakeholders, organized as part of the I-ANDS development process as described in section 1.5 above. As part of the consultation process with ministries and other key stakeholders next year, these strategies, summaries, and indicators will be reviewed and revised.

Volume III contains the strategic plans developed by line ministries, commissions, and other government bodies. The sector summaries in chapters 6, 7, and 8 and the program summaries in Volume II were based on the strategic plans submitted to the I-ANDS as part of the consultation process.

### 1.6.2. CHAPTER-BY-CHAPTER OVERVIEW

The chapter structure for Volume I of the document is graphically represented in Figure 1.4 below:

**Figure 1.4: Structure of I-ANDS**



**Part One** (policy formulation process) is encapsulated in **chapter 1**, which summarizes the policy framework for the I-ANDS and presents a vision of where Afghanistan would like to be by 1400 (2020). Looking across the security, governance, and economic and social arenas, chapter 1 presents an ambitious but realistic national development policy agenda towards which the government will work.

**Part Two** (analysis of context and constraints) begins with **chapter 2**, which surveys a range of destructive historical trends that have undermined the legitimacy of the state on the one hand while extending its control over the formal sector of the economy on the other. The chapter then reviews our progress from the inauguration of the Interim Authority until today.

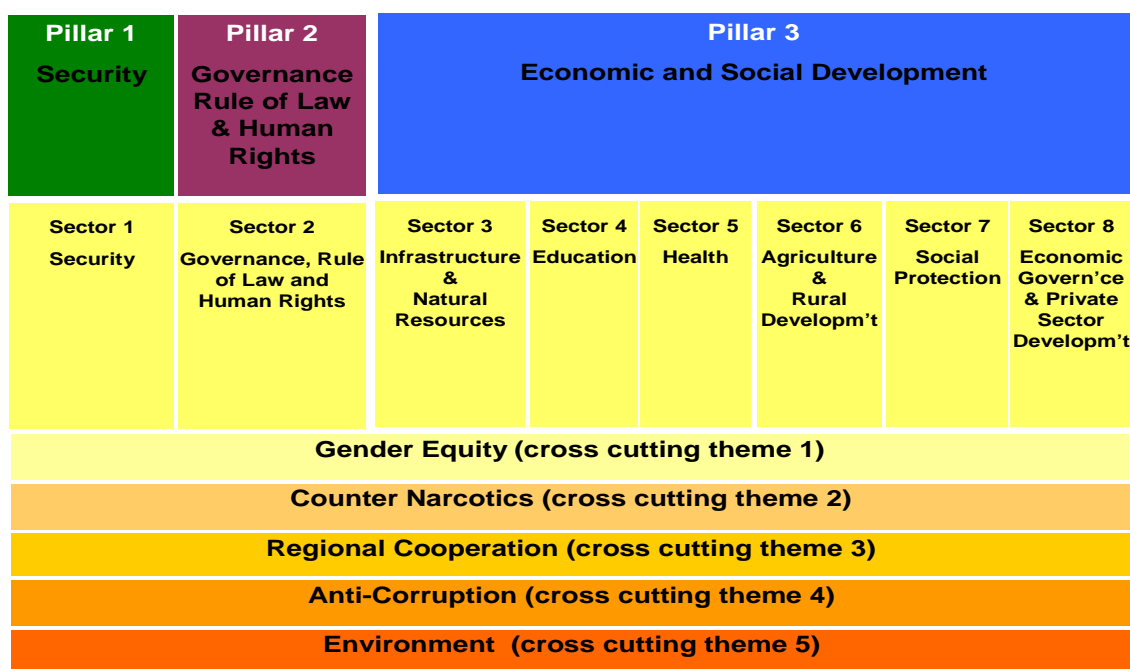
**Chapter 3** provides an analysis of the macroeconomic environment and maps the characteristics of poverty in Afghanistan. **Chapter 4** analyzes the key constraints to the achievement of our vision in

the economic and social spheres as well as the political and security spheres. Together, chapters 2 through 4 will guide the formulation of our policy objectives over the next five years.

**Part Three** (strategies) begins with **chapter 5**, which articulates the strategic principles informing the prioritization and sequencing of programs and projects. In so doing, it focuses on key sources of growth that will guide our choices among competing sector strategies, resource allocations, and programs. The Policy Framework Matrix that will guide the formulation of our economic policies over the next five years is Annex 1.

**Chapters 6, 7, and 8** summarizes our strategies under three pillars, eight sectors, and five crosscutting themes, as shown in Figure 1.5 below.

**Figure 1.5: I-ANDS Programmatic Framework**



This organizing framework simplifies the current programmatic approach. The Government will use this structure to: (1) facilitate agreement on the establishment of benchmarks of progress that will be monitored by the government and verified by a range of relevant actors; (2) set annual indicators and operational benchmarks for programs under this structure; (3) determine the composition of expenditures; and (4) provide the consultative framework for line ministries, donors, non-governmental implementers, and other key stakeholders regarding aid management.

**Chapter 6** summarizes the overall policy goals, measurable benchmarks of progress, key contextual issues and constraints, and key programs for the five crosscutting themes. **Chapter 7** does the same for Pillars 1 and 2 and **chapter 8** for Pillar 3. Each program is described in greater detail with verifiable indicators in Volume II of the I-ANDS.

**Part Four** of the document begins with **chapter 9**, which summarizes the national budgeting framework through which the I-ANDS will be integrated into Afghanistan's financial planning mechanisms to ensure both fiscal sustainability and financial independence. It is essential to the success of the ANDS that it provide the framework through which *all* resources are allocated toward supporting economic and social development. This does not mean that donors must channel all aid

directly through Government, but, in accord with the Paris Declaration on Aid Effectiveness (2005)<sup>19</sup> they should ensure that their contributions conform to our national development strategy. Chapter 9 also provides an analysis of the costing exercise from SAF 1383 (2004), to the extent it still informs our estimated needs over the coming five years, and lays out the process through which a full costing will take place in the full ANDS in 1385 (2006).

**Chapter 10** reviews the principles of aid effectiveness towards which the Government will aim to work in close partnership with the international community. Reflecting the spirit of the Paris Declaration, the Government will seek to ensure that aid increasingly supports government leadership and builds government capacity.

**Chapter 11** summarizes how Government policies and programs will be transparently monitored, coordinated, refined, and revised in the full ANDS through a consultation process summarized in **chapter 12**. Government considers that it is not just the substance of reform that is important; the process of ownership and consultation among stakeholders is of equal or greater importance. To this end, we have established consultative platforms to strengthen public policy dialogue among national and international stakeholders, including government, ministries, parliament, and provincial and district administrations, as well as donors, civil society, and implementing partners such as contractors, NGOs, and the private sector. Based upon those consultations, the Government expects to finalize a full ANDS in 1386 (by end-2007).<sup>20</sup>

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<sup>19</sup> High Level Forum (Paris), *Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability* (2005).

<sup>20</sup> The full ANDS will meet the requirements of a Poverty Reduction Strategy Paper for World Bank lending.



## **PART 2**

# **ANALYSIS OF CONTEXT AND CONSTRAINTS**



# 2

## AFGHANISTAN'S DEVELOPMENT: RECENT HISTORY AND PROGRESS

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### 2.1. THE AFGHAN STATE INHERITED IN 1380 (DECEMBER 2001)

Afghanistan's recent history has profoundly influenced its present development trajectory. It is essential to locate the I-ANDS within a historical context to understand the scale of the development challenges facing the country and devise a suitable national development strategy that overcomes these challenges.

The state inherited by the Interim Authority of Afghanistan in 1380 (December 2001) had been torn by years of conflict and injustice; it was bankrupt of resources and unable to provide services to meet the needs of Afghans. The legacy of communist rule had left many Afghans expecting the state to fulfill a large range of functions, all of which it performed very poorly or not at all. Though the *mujahidin* and resistance fighters of Afghanistan sacrificed life and limb in defense of their faith, homeland, and honor and expelled the foreign invaders, they were unable to stay united to build the country. Exacerbated by external influences, internal strife followed by Taliban rule left Afghanistan one of the poorest countries in the world.

During these years, the state was disconnected from the people by a lack of transparency, accountability, and basic service delivery. The state was highly centralized in principle but in fact non-functional or operating under the control of different authorities. For years, demoralized government staff had not received decent wages, training to meet new challenges, or the leadership and equipment they needed to do their jobs. The state presided over a criminalized economy and a society ravaged by armed groups. These challenges were the consequences of the turbulent history of Afghanistan, including extensive intervention by foreign countries and terrorist groups. A brief account of how Afghanistan fell into this conflagration will not only lay the foundation for the strategic analysis to come, but also demonstrate that the current situation is not the natural or eternal condition of this country, but the result of a series of specific misfortunes.

Since the 1330s (1950s), the state had expanded rapidly. The Afghan Government built a large army and police force, expanded education, and built the infrastructure of roads, bridges, dams, and power lines. A healthy agriculture and animal husbandry sector accounted for over half the country's GDP. Afghanistan exported such relatively durable and high value agricultural products as karakul, raisins, and cotton. In normal years average caloric intake was similar to that in India and Pakistan, though with less extreme destitution. Protein consumption was slightly higher than in Afghanistan's South Asian neighbors, with a high protein content derived from the consumption of meat and dairy products the large number of domestic animals.

The government established a few state-owned industries in sectors such as energy (natural gas), cement, textiles, transport, and communications. Such initiatives helped create more small and medium-sized enterprises, particularly in and around the towns. Rural areas gained fewer benefits from this process of development, though they did begin to use green-revolution wheat technology in the late 1340s (1960s) and early 1350s (1970s).

Afghanistan depended heavily on foreign aid in the 1340s (1960s) and early 1350s (1970s). Domestic revenues came chiefly from duties on international trade and sales of natural gas. In spite of an expansion of both the size of government and the scope of its activities, government expenditure never exceeded 10-11% of the GDP. Domestic revenue collection peaked at 7% of GDP, including sales of natural gas, with the gap financed by foreign aid.

The government never had the resources to provide education to most Afghan children, especially in the rural areas. Even after rapid expansion of the educational system beginning in the mid-1330s (1950s), by 1357 (1978) only 37% of school-age boys and 8% of school-age girls were enrolled in primary schools. Similarly, health services expanded from the mid-1330s (1950s) until the late 1350s (1970s) mainly in urban and peri-urban areas, but life expectancy was still low and infant, child, and maternal mortality high.

## **2.2. POLITICAL AND ECONOMIC DECLINE: FROM THE SAWR REVOLUTION TO 1380 (DECEMBER 2001)**

The communist coup (Sawr Revolution) of 1357 (April 1978) and the Soviet invasion of 1358 (December 1979) led to a period of pervasive persecution, warfare, and destruction, which continued after the withdrawal of Soviet troops in 1367 (February 1989). The communist regime backed by the USSR intended to radically change the Afghan way of life by introducing concepts alien to the religious, social, cultural, and economic heritage of the country. But the people of Afghanistan resisted foreign impositions as they always have.

The collapse of the communist regime in 1371 (April 1992) ushered in a period of internal conflict that continued after the Taliban seized control of Kabul in 1375 (1996). Under the Taliban, terrorists consolidated their bases in Afghanistan and attacked the United States on 20 Sonbola 1380 (11 September 2001), which led to the destruction of terrorist bases in Afghanistan and the overthrow of Taliban rule.

The successive wars killed over a million Afghans, most of them civilians; maimed and orphaned over a million people, leaving many families without breadwinners; forced about a third of the population into exile as refugees; devastated the villages where most of the population lived; and drove much of the country's educated class into exile. Agricultural land and pastures were often mined and became unproductive. Fragile systems for managing the country's scarce supplies of water were devastated. In the course of foreign invasion and interference, most of the roads, bridges, and culverts that this landlocked country had managed to build were destroyed. The few roads and bridges that remained were not maintained. Afghans were unable to use many schools and clinics, which had degenerated into dilapidated structures, unsuitable for their intended purposes. In the course of the war, schools and hospitals were burned down or converted into military bases. One generation or more lost the chance for education. Male-headed families that had supported the gradual education and employment of women now confined them once again, out of fear for their safety. This led to a reversal in the modest advances that had been made by Afghan women.

As a result, Afghanistan lost its state building capacity, and we can trace many of the challenges of today directly to those times as articulated below.

***Destruction of state legitimacy and capacity:*** The series of coups, attempts at social change through violent coercion in the name of an alien ideology, and the capture of state administration by armed commanders almost completely destroyed the legitimacy of the state. During the communist regime, hiring and promotion in the civil service, as well as entry to institutions of higher education, largely depended on membership in and loyalty to factions and sub-factions of the ruling party, undermining whatever weak commitment to merit-based recruitment had previously existed. During the *mujahidin* years of 1371-5 (1992/96), each region and ministry was controlled by a different faction, which awarded positions and resources to its supporters. Under the Taliban, only clergy of the ruling



movement could typically hold leadership positions. Some skilled and dedicated officials remained in the government through all these changes, but personnel decisions were based on neither technical nor professional merit.

Government ceased to be an instrument for providing even modest services to people. Though loyal civil servants tried to perform their duties, government either became an instrument of control through fear and violence or simply disintegrated. The state lost the capacity to collect even basic information about the society it supposedly governed. The outbreak of war in 1357/8 (1978/9) halted the country's first attempt to carry out a population census, which remained incomplete. Decades of war led to chronic political instability, fragmentation of society, militarization of public life, and competition among power structures across the country. The repeated failure of successive governments led to the emergence of informal governance structures and to domination of political life by unstable but interconnected criminalized political, economic, and social networks.

**Poor governance, absence of rule of law, and violation of human rights:** As the communist regime tried to use the army to impose its program by force, major military garrisons successively mutinied against the regime. Many officers were arrested or killed; many others fled abroad or joined the resistance against the communist regime. Many of the highest military officers who survived also fled to developed countries. The regime and its backers tried to rebuild the army, but the army collapsed even more thoroughly in 1371 (1992), splitting along regional and factional lines.

Due to the resistance movement by the people of Afghanistan, the communist army backed by the USSR, was unable to control provincial administrations, as the government could no longer have safe access to many provincial centers. The vacuum left by the collapse of provincial administrations was filled by a variety of armed groups. These included the factionalized resistance fighters armed by foreign countries, as well as opportunistic and criminal groups. Especially after the defeat and departure of the Soviet forces, as the communist regime could not sustain an army large enough to protect itself, it too began to pay tribal militias to fight for it.

To combat the *mujahidin* and control urban areas, the communist regime expanded existing police institutions and its intelligence services. The regime also established separate revolutionary or security tribunals and many other militias and armed groups. Rather than providing people with security, these agencies with overlapping mandates spread fear. Successive governments maintained and used these agencies for their own purposes, often employing the same personnel. The Taliban also established a separate police force to enforce their interpretation of religious law.

**Expansion of a criminalized economy:** During the 1360s (1980s), many of Afghanistan's neighbors undertook successful efforts to eliminate illicit cultivation of opium poppy. The collapse of the Afghan state provided an ideal opportunity for traffickers in search for new sources of supply. When foreign support for armed groups was reduced following the Soviet withdrawal, some warlords and militias with foreign ties looking for financing found the drug economy profitable. Farmers faced with the destruction of the agricultural infrastructure; loss of access to markets; the collapse of marketing, credit, and agricultural extension; hyperinflation; increasing debt; and a rapid depletion of household livelihoods were susceptible to pressure to cultivate opium poppy. As the opium economy developed, farmers were increasingly unable to exercise choice over their cropping strategies. Debts taken for agricultural inputs and household consumption often had to be repaid in opium to creditors, forcing farmers into a kind of opium debt bondage. During the 1370s (1990's) Afghanistan became the world's leading supplier of opiates. During the latter part of the decade, the share of the crop refined into morphine and heroin inside Afghanistan also increased. Afghanistan became heavily dependent economically on income from narcotics.

The drug economy formed the core of the criminalized economy, but not its totality. Warlords and traffickers, grown rich from narcotics, created private armies, seized land, and invested in other forms of trafficking. They cleared out forests to sell illegal timber, smuggled gemstones to the world market, smuggled fuel from Iran (where it is heavily subsidized), levied illegal duties on valuable

goods such as fuel, exploited Afghanistan's transit agreements with neighboring countries to smuggle untaxed goods across borders, and even engaged in human trafficking, especially of women and children.

***Destruction of human capital:*** When the communist regime backed by the USSR came to power in a coup in 1357 (1978), its first action was to engage in mass arrest, torture, and execution of those whom they saw as threats to its rule – a policy that continued in different forms. Those arrested and killed included a large number of the best educated and most skilled people in the country. Those who survived arrest largely fled the country. Many of the best educated people settled in developed countries, where they were isolated from the events taking place in Afghanistan for two decades and were often unable to practice or develop their professional skills. Succeeding regimes followed the pattern of persecuting rival elites. The flight of the educated continued during the internal conflicts from 1371 (1992) to 1375 (1996) and the subsequent period of Taliban rule.

Subsequent regimes imposed factional leaders and poorly qualified clergy on educational institutions. The educational system to which young Afghans were exposed during this period, both in and outside of Afghanistan, served political-ideological purposes and did not develop the capacities and knowledge needed to be productive.

***Destruction of infrastructure:*** War, counter-insurgency, and scorched-earth tactics by the communist regime, invading foreign troops and terrorist groups badly damaged the rural areas and agriculture. The communist regime, invading foreign troops, and other military groups mined and blew up irrigation systems, and communities were unable to maintain and repair them. Roads and bridges were blown up by invading foreign troops, intelligence agencies, and militias. Destroyed power pylons, transmission lines, and power stations went without maintenance. After the Soviet withdrawal and the subsequent wars within the country, supported by external influences, the gas wells in northern Afghanistan were capped and closed, and their equipment looted. Food production fell by half. Approximately a third of the population, mostly villagers, fled to neighboring countries as refugees, whilst Kabul and other cities experienced an influx of millions of internally displaced persons.

***Steady collapse of the economy:*** The communist regime, with Soviet help, expanded the role of the state in the economy and reorganized the state to fulfill this new role. To replace the skilled elites who were imprisoned, killed, or driven into exile, the communist regime and its foreign sponsors trained a young generation of technocrats in Soviet-inspired ideology, management, and governance, including a commitment to expanding the role of the state in the economy.

Following the communist period, during the subsequent wars and the rule of the Taliban, the government abandoned its weak efforts to raise domestic resources, as it had neither the capacity nor legitimacy to do so. In the absence of domestic revenue, and in order to finance armed militias and expenditures on food subsidies, the communist regime and its successors printed huge quantities of banknotes, leading to hyperinflation. Hyperinflation made salaries of government employees that had once provided a dignified if modest standard of living utterly insufficient to survive. The result was a further decline in the commitment and performance of public servants, including teachers, police, and the judiciary, and further incentive for corruption, which had also spread widely due to the politicization and factionalization of the administration. For lack of any alternative employment, however, functionaries remained at their posts even when earning less than US\$ 20 per month, often seeking to supplement these earnings through corruption, trading, remittances coming from abroad, or other jobs.

To feed and pacify the internal migrants and public servants receiving meaningless salaries, the communist regime distributed subsidized food to millions of people. The import and distribution of subsidized food further depressed agricultural markets. Although unsustainable and economically catastrophic, this policy was popular with the urban population, many of whom still expect the government to supply subsidized food.

Following the events of 20 Sonbola 1380 (11 September 2001), Afghanistan became a special case for the international community.

It became evident that the political and economic neglect of Afghanistan threatened the rest of the world. The political stabilization and economic development of Afghanistan became central to the task of protecting global security. International support for Afghanistan became a priority not just for the benefit of the Afghan citizenry, but for the region and the globe. Our history demanded simultaneous and urgent attention to economic development, political reform, and security-related stability. We did not have the luxury of sequencing these interventions, nor do we have that luxury now. As the next section makes clear, the strong partnership between the Afghan Government and international community has yielded concrete and mutually reinforcing progress on all fronts since 1380 (2001).

### **2.3 PROGRESS SINCE THE BONN AGREEMENT**

In 1380 (2001), Afghanistan, with an average per capita GDP estimated at less than US\$200, was not only one of the poorest countries in the world, but also one whose institutions and infrastructure had been virtually destroyed. The immediate concern of the Afghan Government and international community was to address the humanitarian needs of the people, ensure safe return and reintegration of refugees, and begin reforming the political system and state institutions.

*Security:* Since 1380 (2001) important initial steps have been taken to enhance security and establish the rule of law in the country. A new Afghan National Army (ANA) has been created, the Afghan National Police (ANP) has started a process of reform and retraining, and about 62,000 former combatants who had been integrated into the MoD were disarmed and demobilized. Sixty thousand of them have also been assisted with reintegration packages, including vocational training since the beginning of the disarmament, demobilization and reintegration (DDR) program in 1382 (October 2003). Decades of war, however, have created strong personal ties of allegiance and dependence between commanders and their followers. Such ties were indispensable in waging a war of resistance, but can pose obstacles to the formation of professional, merit-based security forces.

As a next phase the Government is focusing on the program for disbandment of illegal armed groups (DIAG). The UN estimates that about 1,800 illegal armed groups with up to 100,000 individuals will need to be demobilized, disarmed, and reintegrated. The UN considers about 100 of these groups to be particularly dangerous.

The Afghan Government has launched the Strengthening Peace program to encourage former Taliban militants not involved with terrorism or serious crimes to return and rejoin the society. Several former leaders of the movement stood as candidates in the parliamentary elections. A few have become local officials.

Regional cooperation on security is improving. Government has established two tripartite border commissions with Pakistan (including the US) and Iran (including the UK) to deal with security issues of mutual concern. Afghanistan and its neighbors signed a declaration on cooperation in counter-narcotics at the Berlin Conference on 12 Hamal 1383 (1 April 2004). Under the co-chairmanship of Germany, Afghanistan, and the United Nations, a conference on regional police cooperation was held in Qatar on 28-29 Sawr 1383 (18-19 May 2004) attended by Afghanistan's neighbors and donor countries. A four-party working group comprising Afghanistan, Pakistan, the US, and UK has also been formed to tackle the trade in illicit drugs.

In some respects security has declined. This is linked to both an increase in terrorist activity and criminal violence. There have been a rising number of attacks on coalition and ISAF forces, particularly in the East and South of Afghanistan, including suicide bombings, previously unknown in

Afghanistan, and more sophisticated improvised explosive devices. Thirteen eight-four (2005) marks the deadliest twelve-month period for coalition and ISAF forces since 1380 (2001). Terrorists are now also targeting soft targets, including aid workers, government employees and Afghan citizens seen to be collaborating with the government. Terrorist attacks against humanitarian NGOs have decreased since last year, but this may be because there are fewer NGOs willing to operate outside of urban areas and make themselves targets of attack.

The persistence of illegal armed groups, often linked to the drug trade or other parts of the illicit economy, creates zones of impunity. These groups, who sometimes exert influence on their communities and the surrounding regions have an entrenched interest in insecurity.

***Political, administrative, and legal reforms:*** With the legislative elections of 27 Sonbola 1384 (18 September 2005) and the convening of the National Assembly on 28 Qaws 1384 (19 December 2005), the transitional period as defined by the Afghan constitution has successfully ended, completing the political roadmap outlined in the Bonn Agreement. The political transition has been accompanied by the emergence of a culture of pluralism, women's involvement, political organizations, media independence, public participation, and freedom of opinion and assembly. The Government has been gradually able to extend its authority to most areas of the country.<sup>21</sup> Previous steps along the Bonn road map included the Emergency *Loya Jirga* in 1381 (June 2002), which formed the Transitional Administration; the adoption of a constitution at the Constitutional *Loya Jirga* in 1382 (January 2004); and the presidential elections of 27 Mizan 1383 (19 October 2004). The elections to the lower house of the National Assembly (*Wolesi Jirga*) and provincial councils on 28 Sonbola 1384 (19 September 2005) fulfilled Afghanistan's last obligations under the Bonn Agreement.

The Bonn Agreement also called for the establishment of several other institutions. The Afghan Independent Human Rights Commission (AIHRC) was established by Presidential decree in 1381 (June 2002) and incorporated into the constitution. A Judicial Reform Commission began reform of the judicial sector, which is now starting, finally, to move ahead. The chair of the interim administration established a Supreme Court after his inauguration, and, as required by the Constitution, the President will appoint a new Supreme Court of Afghanistan with the approval of the *Wolesi Jirga* within thirty days after the first working session of the National Assembly. The Da Afghanistan Bank was reformed to emit currency in a "transparent and accountable fashion," and the Government established an Interim Afghan Reform and Civil Service Commission (IARCSC).

Notable achievements have been made in improving the situation of women. The constitution explicitly grants women equality before the law. Women were guaranteed a quota in the Emergency and Constitutional *Loya Jirgas* and a quota of seats in each house of the National Assembly. Some have served as ministers in each Cabinet. Women also constituted about 44% of voters registered for the presidential elections.

A Public Administration Reform (PAR) Program has been developed to provide a framework for a series of programs and projects that, together, will build a sound legal, administrative, and physical environment in which civil servants can function efficiently and effectively and be held to account for their performance. A core element of PAR is the Priority Reform and Restructuring (PRR) program. It was launched by Decree in 1382 (July 2003) to kick-start the process of reforming the most critical functions of Government.

Government is reviewing and revising a considerable part of the legal framework. The Civil Service Law of 1384 (2005) will strengthen public administration reform. To modernize the justice sector and conform to minimum international standards, Government has introduced the new Juvenile Justice

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<sup>21</sup> An upper house of Parliament (*Meshrano Jirga*) is appointed by the Provincial Councils (one third for a three year term), the District Councils (one third for a four-year term) and the President (one third for a five-year term). Although originally scheduled at the same time as the parliamentary and provincial elections, the district council elections have been delayed indefinitely.

Code in 1383 (2005) and the Law on the Organization and Jurisdiction of the Courts (1384/2005), among others. Laws to promote investment and trade include a new Customs Code, enacted in 1384 (2004). Legal measures against illegal drugs, corruption, and money laundering have also been enacted.<sup>22</sup>

Government has implemented an ambitious program of block grants to villages through the National Solidarity Program (NSP), which reaches a third of the country's villages. Government now makes a greater difference at the grass-roots community-level and plays a more visible and meaningful role for the rural inhabitants of Afghanistan.

***Economic progress:*** In the immediate aftermath of war and a devastating drought, and while overwhelmed with the unexpected return of nearly two million refugees in 1380/81 (2002), the Afghan government and its international partners succeeded in preventing a major humanitarian crisis. There has been strong though slowing economic growth since 1381 (2002/3) with a cumulative increase of real, non-opium GDP of almost 85% (29% in 1381 (2002/3), 16% in 1382 (2003/4), 8% in 1383 (2004/5), and a projected 14% in 1384 (2005/6). It is projected that real GDP will increase by 11% in 1385 (2006/7).<sup>23</sup> Good rains after years of drought, a commitment to a reform agenda, relatively low levels of inflation, and improved budget management have promoted good growth performance. The Government introduced a new currency, ended hyper-inflation, guaranteed the independence of the central bank in the constitution, started private commercial banking, and introduced a single-window system for registration of investments. Nonetheless, substantial drivers for growth performance are associated with the illicit opium economy, an influx of cash due to military operations, and unsustainable development financing. The high real exchange rate supported by the foreign exchange inflows has made imports cheap, which is popular with consumers, but it has made Afghanistan uncompetitive for either exports or import substitution. Afghanistan has few licit exports. But imports from neighboring countries financed by aid, narcotics exports, and remittances have expanded since 1380 (2001). Imports exceed licit exports (net of re-exports) by a ratio of eight to one.

Progress has also been made on the infrastructure front. Progress is well underway in rehabilitating Afghanistan's ring road and the roads connecting the country to its neighbors. Electricity systems for all major cities are under repair. The telecommunications sector in Afghanistan is growing exponentially, and mobile telephony now connects Afghanistan's major urban centers to each other. Those urban centers have also seen massive construction in the past four years, while rural infrastructure has been built and rehabilitated in thousands of villages throughout rural Afghanistan through block grants to communities.

In terms of economic governance and public finance management, since Hamal 1383 (March 2004), the Government has been implementing an IMF Staff-Monitored Program (SMP). The program aims to maintain macroeconomic and financial stability, pursue essential structural reforms, and build statistical capacity. Performance during the first year of the SMP was strong, and most of the targets and structural benchmarks were met. Output continued to grow steadily. Core inflation remained limited. Money growth and fiscal revenue were in line with program projections.

In the most recent SMP review, all structural benchmarks but one were met. The review stressed that this performance was promising well for the long-term course of the economy. Nonetheless, the SMP report<sup>24</sup> highlighted the following challenges to the economy: (i) pervasive drug economy; (ii) a weak enabling environment for private sector development; (iii) poor infrastructure; (iv) significant fiscal pressures; (v) high levels of poverty; (vi) an underdeveloped financial sector, and (vii) low administrative capacity with governance concerns.

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<sup>22</sup> Afghanistan Rule of Law Project, Law Progress Chart, 9 Qaws 1384 (30 November 2005).

<sup>23</sup> IMF, *Staff Monitored Program, Fourth Review*.

<sup>24</sup> IMF, Islamic Republic of Afghanistan—*Fourth Review Under the Staff-Monitored Program, Concluding Statement of the IMF Mission* (May 18, 2005).

Budget preparation and execution have improved significantly, particularly with the introduction of a core budget in 1383 (2004/5) that consolidated the operating budget with the development budget. Domestic revenue increased from US\$ 132 million in 1381 (2002/3) to US\$ 207 million in 1382 (2003/4) and to US\$ 269 million in 1383 (2004/5), equivalent to 4.5% of licit GDP. This figure is projected to rise to 5.4% of GDP in 1384 (2005/6), still less than any other country for which data are available.

Since a 1382 (May 2003) agreement with the governors of border provinces, the Government has increasingly gained control over customs posts. It has rationalized the tariff regime by abolishing export duties, introducing a uniform exchange rate, lowering the number of tariff categories, and changing the base from value to turnover. New tax policy reform measures were enacted in 1384 (2005), including a final wage withholding tax on higher income employees, an improved income tax regime, and a limited range of consumption taxes on services such as telecommunications, air travel, hotels, and restaurants<sup>25</sup>. A large taxpayer office has been established, although there has been limited success on corporate income tax collection. An amendment to the Revenue Law in 1384 (2005) removed the generous regime of tax holidays and exemptions. Instead, it allows for accelerated depreciation and loss-carry forward, which is designed to encourage real investment rather than rewarding quick profits as do tax holidays.

Since 1381 (2002), public financial management roles, rules, and information have evolved, and significant steps have been undertaken with donor support to implement emergency arrangements for public financial management and build capacity in the key areas of budget implementation and treasury and external auditing. The extension of reform to the provinces, however, still faces severe capacity constraints. The Government approved a Public Finance and Expenditure Management (PFEM) Law in 1384 (2005). The law covers the Government sector, although rules for center-province relationships will have to be clarified under new regulations. The law will have to be further developed to regulate the financial management of state-owned enterprises (SOEs). It provides clearly defined PFEM roles and responsibilities, requires adequate reporting, provides for independent review, and holds public officials accountable.

The Government has established the Afghanistan Investment Support Agency (AISA) to provide a one-stop shop for investors and commenced the process of establishing a National Export Promotion Agency. AISA has registered more than 1,400 private investment companies during the current year alone, leading to the creation of over 60,000 new jobs. In 1383 (2004) private sector investment stood at US\$ 614 million and had created over 100,000 jobs. AISA has developed plans for the first new industrial parks, which are under construction in three locations. Licit exports net of re-exports stand at US\$ 471 million for 1383 (2004/5).

The Government has launched an internationally supported counter-narcotics strategy<sup>26</sup> that reduced the land area under opium poppy cultivation by an estimated 21% in 1383 (2004/5), though production remained at almost the same level due to high yields.

With the Bishkek Conference of 1383 (2004), the Government moved to a concrete program of economic regional cooperation. Afghanistan and the UK convened and co-chaired a conference on Regional Economic Cooperation on 13-14 Qaws 1384 (4-5 December, 2005). This conference brought together 12 countries from the four major zones of which Afghanistan is at the center, plus donor countries, the UN, and international financial institutions (IFIs). The countries include the six sharing a border with Afghanistan and India, Turkey, United Arab Emirates, Kazakhstan, and the Kyrgyz Republic. All the major economic groupings (Economic Cooperation Organization (ECO), Shanghai Cooperation Organization (SCO), and South Asian Association for Regional Cooperation (SAARC)) of the region were present, as was the CAREC (Central Asian Regional Economic

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<sup>25</sup> The Income Tax Law, 1384 (2005). Afghanistan Rule of Law Project, Law Progress Chart, 9 Qaws 1384 (30 November 2005)

<sup>26</sup> The National Drugs Control Strategy (NDCS)

Cooperation) program. The regional countries were represented at Foreign Minister or Senior Minister level. The focus of the conference was on promoting cooperation; electricity and energy generation; transport, transit trade, and trade facilitation, including border management; and trade promotion, investment, and improvement of the business climate.

**Social progress:** Urgent measures (health and social programs) have been taken to reduce the high maternal and infant mortality and morbidity rates. A host of health-service providers have reduced the incidence of polio and measles.<sup>27</sup> A mix of government, international, and national agencies have established emergency maternity centers in provinces and implemented tuberculosis and infectious disease programs nationally. Food distribution is being made available in a focused and time-bound fashion to prevent malnourishment among communities exposed to chronic and seasonal food insecurity. The Afghan Government and its partners have taken measures to prevent the outbreak of diseases, particularly in the summer months.<sup>28</sup> Moreover, health services are coming to life again through the resuscitation of systems and the rehabilitation of essential infrastructure.

School enrolment has increased substantially: nearly six million children have returned to school, nearly a third of them girls, quadrupling enrolments in four years. The Afghan Government, donors, NGOs, and the private sector have reconstructed over 13,000 girls' and boys' primary and secondary schools. The Government has established vocational schools, accommodating almost 10,000 students and a library. In addition to this, the Government has opened 16 teacher training centers, attracting nearly 1,500 students. The Afghan Government and partners have initiated over 47,000 literacy courses for approximately 1,200,000 illiterate people using 10,000 official and volunteer teachers.

## 2.4 PARTNERSHIP WITH THE INTERNATIONAL COMMUNITY

Afghanistan's many achievements since 1380 (2001) owe much to a comprehensive partnership between the Afghan people and the international community. The coalition forces have provided crucial assistance in stabilizing the country. The expansion of NATO-led ISAF from Kabul to Northern and Western Afghanistan has contributed to the gradual expansion of stability.

International financial and technical assistance from donors and international agencies have made it possible to start the rebuilding of Afghanistan and the reconstruction of its economy. On 2 Dalwa 1380 (22 January 2002) the International Conference of Assistance to Afghanistan, meeting in Tokyo, mobilized the first substantial donor commitments. Representatives of 61 countries and 21 international organizations attended. At the conference, the Afghanistan Interim Administration (AIA) committed itself to reconciliation and reconstruction as outlined in the Bonn Agreement. The international donor community expressed its support by pledging US\$ 2.1 billion for the first 15 months of the reconstruction period and US\$ 5.2 billion in cumulative multi-year commitments.

On 11-12 Hamal 1383 (31 March- 1 April 2004) representatives from 65 nations and international organizations met in Berlin to pledge their support for implementation of the Bonn process and to the security and the reconstruction of Afghanistan. The Government presented a study – *Securing Afghanistan's Future* (SAF) -- that estimated the costs of reconstruction more realistically than had been possible at Tokyo. SAF estimated Afghanistan required at least \$27.6 billion in aid commitments over seven years, with a minimum of about \$6.3 billion going to direct budgetary

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<sup>27</sup> Afghanistan's Millennium Development Goals 2005.

<sup>28</sup> These include: TB incident tracking and treatment; relevant vaccination campaigns; focused ARI information campaigns for under fives, amongst other programmatic interventions. The seasonally fluctuating incidence of diarrhea and chronic intestinal diseases has been a major concern for Government health strategy. Strategies to reduce intestinal diseases, have included: (i) improvement of Knowledge/Action/Practices (KAP) with regard to preventative hygiene and sanitation; (ii) improved WATSAN infrastructure; (iii) improved knowledge amongst mothers, in particular, of the importance of using Oral Rehydration Salts and increased consumption of liquids for infants and children suffering from diarrhea.

support. At the conference, Afghanistan received US\$ 8.3 billion in pledges for the next 3 years and exceeded the Government's target of US\$ 4.4 billion for their current fiscal year.

In 1380 (2001/2), the Government of Afghanistan agreed to meet with donors every year to review its development priorities. Accordingly, the Afghanistan Development Forum (ADF) has been hosted by Government in Kabul annually since the Tokyo donor conference to enhance co-ordination between the Government and donors and among the latter. The second ADF took place in 1383 (April 2004), shortly after the Berlin conference. The third ADF, in 1384 (April 2005), provided the first international donor forum for Afghanistan's democratically elected President and his new cabinet.

With assistance from the international community, Afghanistan has been able to make substantial progress in education and health, price stability, and economic growth. Much of this was built on humanitarian response and emergency aid. The proportion of aid for reconstruction and development will have to increase to improve Afghanistan's prospects of meeting its benchmark targets and the MDGs. To date, a large proportion (more than 70% during 1380-1383 (2002-2004) or more than US\$ 3 billion) of international assistance has flowed through the external development budget rather than through the Government's core budget. Even though resources that bypass the government budget still finance key national priorities and projects within the National Development Budget, this trend is a reflection of a lack of donor confidence in Government's ability to manage funds and oversee program implementation on a large scale.





# 3

## MACROECONOMY AND POVERTY DIAGNOSTIC

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### 3.1 OVERVIEW

The people of Afghanistan face an uphill struggle to overcome the 25-year legacy of extreme poverty, violence, and war, as noted in chapter 2, while confronting the challenges of the future. The heritage of the past also means dealing with the costs of lost opportunity, including the loss of millions of lives, human and social capital, trauma as well as living with the memories of bitter personal tragedy. Going forward, we must deal with the eradication of the largest source of growth in the economy (opium), itself a survival strategy in the absence of peace, stability and a state that provided basic services. Furthermore, the economy must achieve high rates of growth, while overcoming the past and transforming the current structure of the economy towards the production of high value exports.

Maintaining macroeconomic stability is a vital precondition for sustainable growth and poverty reduction. To this end, diagnosing the elements of macroeconomic stability, the sources of growth, and the structure and causes of poverty is vital if Government is to remove the various policy and institutional constraints to the growth of the private sector. The relatively robust growth in the economy since 1381 (2002/3), albeit from a low base, can be largely attributed to (i) the end of five years of drought, followed by three years of exceptional rainfall, (ii) the rapid growth in the opium economy, (iii) international grant aid and (iv) the return of many thousands of economic migrants and refugees. Furthermore, the removal of a number of constraints to growth has allowed private investment to expand employment in several areas of economic activity.

Transforming the economy requires policies that are pro-growth, and institutional processes that encourage transformation and entrepreneurial activity. Figure 3.1 presents the various factors that continue to reinforce the ‘informal’ and ‘illicit’ equilibriums that persist in Afghanistan. The Government and its partners must shift the equilibrium away from a vicious cycle of informal and illicit production, weak taxation, a weak state, poor law and order, and weak service delivery to a virtuous cycle of formal, taxable, regulated growth.

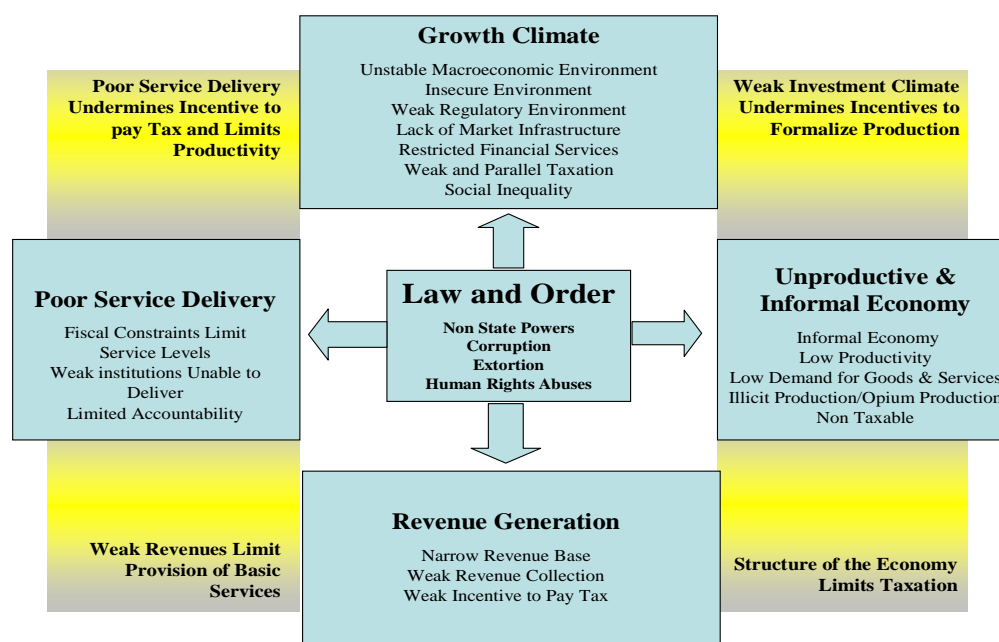
### 3.2 MACROECONOMIC ENVIRONMENT

**Gross Domestic Product:** In 1381 (2002/3), GDP<sup>29</sup> per capita stood at US\$182, increasing to US\$199 in 1382 (2003/4) and to US\$ 253 in 1383 (2004/5). GDP per capita forecasts for 1384 (2005/6) are currently estimated to be around US\$ 293. With growth heavily dependent on performance in the agricultural sector, real GDP growth has declined from 28.6% in 1381 (2002/3), 15.7% in 1382 (2003/40), and 7.5% in 1383 (2004/5) reflecting a slightly stronger-than-anticipated performance of the manufacturing sector. Economic activity during the first quarter of 1384 (2005), following a rebound in agricultural production and continued strength in the other sectors, appears to have been consistent with projections. Real GDP is likely to grow by around 13.6% in 1384 (2005/6) (Table 3.1).

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<sup>29</sup> The illicit economy is not included in the GDP estimates. The value of non-opium illicit activities is difficult to quantify.

**Figure 3.1: The Informal and Illicit Production Equilibrium**



Source: Revised from World Bank (2005), State Building, Sustaining Growth and Reducing Poverty

**Revenue Collection:** Revenue collection as a percentage of GDP was a poor 3.2% in 1381 (2002/3). Despite economic growth, political economy reforms and state building efforts. This is expected to rise to only 5.2% in 1384 (2005/6), still the lowest of all countries for which data are available. Government revenue currently funds around 50% of the operating budget, the balance being externally financed. Among the reasons for such poor revenue collection are the informal and illicit structure of the economy which remains outside the tax net, the continued prevalence of parallel governance structures controlled by factional commanders, weak or outdated revenue collection mechanisms, a weak customs service, weak capacities of state institutions, many of which are still undergoing reforms, and corruption.

**Inflation:** Year-on-year inflation declined substantially in Kabul during the first quarter of 1384 (21 March-20 June 2005), to 11.5%, from 16.3% at the end of 1383 (20 March 2005). This decline reflected the sharp slowdown in rents, which increased by only 8.1% during the first quarter, compared to 41.2% a year earlier; the stability of education fees, which had almost doubled during the first quarter of 1383 (21 March-20 June 2004); and the slowdown in food prices. Excluding rents and petroleum products prices, year-on-year inflation declined from 11.3% at the end of 1383 (20 March 2005) to 9%. In spite of a sharp rise in petroleum products prices, inflation remained relatively moderate during the second quarter of 1384 (21 June-20 September 2005). However, with the influx of large volumes of aid, labor costs have increased rapidly, increasing production costs. In view of the upward risks to inflation, stemming in particular from possible second-round effects of the increase in oil prices, Government will need to follow price and exchange rate developments closely and tighten the monetary stance should inflationary pressures intensify.

**Legal Exports:** Licit export figures for 1383 (2004/5) are estimated at US\$ 1,656 million (or 27%) of licit GDP. Imports equaled approximately US\$ 3,867 million, Afghanistan's trade deficit equaled US\$ 2,687 million or approximately 45% of GDP in 1383 (2004/5). Bridging the trade deficit will require substantial investment to enhance Afghanistan's comparative advantage in certain areas of production, thereby promoting exports essential to sustainable growth.

**Table 3.1 Macroeconomic Indicators**

	1381[2002/3]	1382[2003/4]	1383[2004/5]	1384[2005/6]	1385[2006/7]
<b>National Income (US\$ million excluding opium, unless stated)</b>					
Official GDP	4,084	4,585	5,971	7,139	8,608
GDP per capita	182	199	253	294	344
Real Official Growth Rate (%)	28.6	15.7	8	13.8	11.7
Inflation Rate (% change in CPI)	52	10	16	10	8
<b>External Sector (in USD \$ millions)</b>					
Exports (total official recorded)	1,291	1,894	1,656	1,893	1,959
Imports (total official recorded)	2,508	3,786	3,867	4,560	4,912
Trade Balance (total official recorded)	-1,364	-2,335	-2,687	-3,196	-3,415
Exchange Rate (Afghani/US\$, average)	44.8	49.0	47.7	..	..
Exports as % of GDP (excluding opium)	31.6	41.3	29.5	..	..
External Debt as % of GDP	..	..	..	..	..
<b>Monetary Sector</b>					
Domestic Currency in Circulation (annual change in %)	20.1	40.9	37.5	27.8	22.5
Foreign Exchange Reserves (Gross US\$ million)	426.0	816.0	1,261.0	1,691	2,036
<b>Government Sector</b>					
Current Revenues (US\$ millions)	132.0	207.0	269.0		
Current Revenues as % of GDP	3.2	4.5	4.5	5.2	5.1
Current Expenditures (US\$ millions)	349.0	451.0	561.0		
Current Expenditures as % of GDP	8.5	9.8	9.4		
Core Budget Expenditures (recurrent and capital) (US\$ million)	346.3	645.0	1,409.1		
External Budget (US\$ million)	..	1,520.9	3,742.4		
Total Expenditures (including officially reported development budget)	..	2,166.0	5,151.5		

Source: IMF Sixth Review, October 2005

### 3.3 KEY CHARACTERISTICS OF THE AFGHAN ECONOMY<sup>30</sup>

Central to the success of the Government's strategy will be diagnostic work to determine likely sources of growth, as well as constraints to poverty reduction. The following analysis enables Government to identify the transformative policies and processes that will enhance the investment climate and accelerate the growth of the licit economy both formal and informal. The analysis is framed by what is known about the current structure of the Afghan economy, with sectors ranked in order of size, and as a measure of real GDP, as shown in Figure 3.2 below:<sup>31</sup>

**The continued dominance of the opium economy.**<sup>32</sup> Opium remains a significant proportion of the national economy. UNODC estimated that in 1383 (2004/5), Afghanistan's opium economy earned US\$ 2.8 billion, 79% of which went to traffickers, not local Afghan farmers. This is a fraction of the value of Afghanistan's opium sold on the international market, estimated to be worth around US\$ 30-50 billion. Nonetheless, the benefits or profits associated with the narcotics economy are not the same for all. Small farmers and sharecroppers derive substantially less profit or benefit from cultivation,

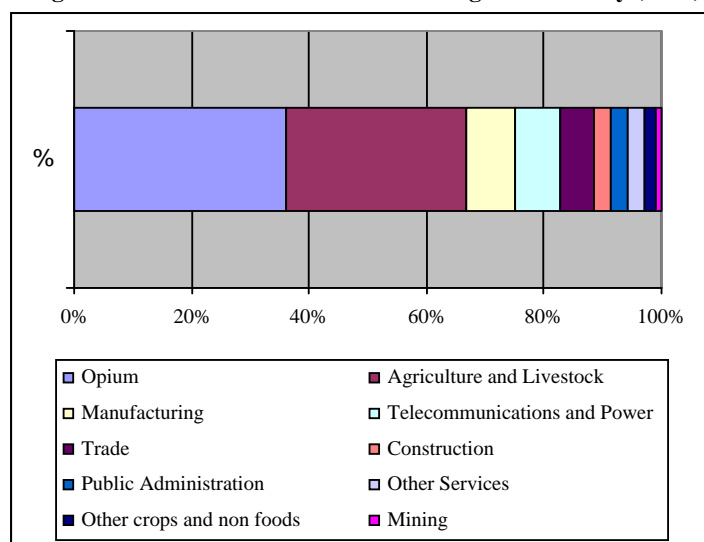
<sup>30</sup> There continues to be serious deficiencies in data availability and coverage, in particular with regard to national accounts, the external sector, and labor market statistics and employment in particular.

<sup>31</sup> Afghanistan, State Building, Sustaining Growth and Reducing Poverty, World Bank, (2004)

<sup>32</sup> A 20% decline in cultivation in 1384 (2005) was largely offset by a rebound in yields due to favorable weather conditions

than large farmers. In recent years the drug economy has grown rapidly; the UNODC estimate of the export value of narcotics produced in 1383 (2004/5) equaled 47% of non-drug GDP.

**Figure 3.2: Indicative Structure of the Afghan Economy (2003)**



Source: World Bank (2004)

At least two million people rely directly on the drug economy for their livelihood, and many more benefit from its indirect effects, such as employment in construction and trade financed by drug profits. Increasing amounts of opium are processed into heroin and other high-value products within Afghanistan with the help of international organized crime, increasing the profits of traffickers, and further corrupting government and law enforcement. Opiates, Afghanistan's only major export, play a significant role in enabling the country to finance the non-drug trade deficit while maintaining price stability and the value of the currency. Government receives customs revenue levied on drug-financed imports. The Government has an internationally supported plan for counter-narcotics, but eliminating a third to 40% of Afghanistan's economy without endangering security and stability will require massive resources and time<sup>33</sup>.

***Non-opium agriculture remains the backbone of licit GDP***<sup>34</sup> - The Afghan economy is dominated by agriculture (37% of estimated GDP in 1383 (2004/5), mainly cereal crops (27%), which are heavily affected by drought. Two-thirds of the economic growth in recent years has come from agriculture. Other sectors are relatively small, including manufacturing (9%)—most of it small-scale agricultural processing and other small-scale activities—construction (4%), and public administration (5%). Services are booming, mainly in major cities, although they still constitute a small proportion of the total economy and absorb limited labor.

***The Afghan economy remains largely informal and therefore un-taxable*** .The Afghan economy is dominated by the informal sector (as it is the case in many neighboring countries, such as India), running across all areas of production, but particularly the small holder economy.<sup>35</sup> While it is difficult to estimate the size of the informal economy, it is clear that some 80-90% of economic activity in Afghanistan occurs in the informal sector, which has been largely responsible for the recent economic recovery and dynamism. The informal sector, however, remains outside the reach of the state taxation system, another factor that undermines revenue mobilization. The formal private sector

<sup>33</sup> The National Drugs Control Strategy (NDCS)

<sup>34</sup> This analysis draws on 1382 (2003/4) figures. Here agriculture excludes the opium economy.

<sup>35</sup> Electricity supply, for example, is provided by small private generators largely in the informal sector.

includes businesses that are registered, though these businesses may have informal, unregistered activities as well. The formal sector also includes entities that are registered, but by law are exempted from some forms of taxation, such as NGOs. Outside the formal economy, there is a range of activities that are more or less informal.<sup>36</sup> Many activities, labeled “in-kind”, do not lead to any market transaction or are performed on a barter basis. Exchange of services and products between rural households is widespread, and women perform a major part of this work. Much agricultural output is for household subsistence. In addition, sharecropping is common in many rural areas.

While the informal economy has been dynamic, it cannot be the sole “engine” of sustained long-term, high value production or growth. In Afghanistan, the adverse impact of the illegal component on institutions outweigh the positive impact of the informal economy as a source of livelihoods. Even though the overall impact of the informal economy on livelihoods may be positive, informal activities generate few resources for the state and in some cases may support forces opposed to the state and provide scope for corruption. Savings are channeled toward investments that carry lower risks (e.g., in real estate and trade) or transferred outside Afghanistan. Entrepreneurs in an informal setting have an incentive to remain relatively small and to diversify their activities to manage risk, which prevents them from exploiting economies of scale.

***Imports far outstrip exports.*** Afghanistan’s imports in 1383 (2004/5) totaled US\$ 3.8 billion, or 64% of non-drug GDP; non-drug exports amounted to US\$ 1.65 billion, representing a massive trade deficit of US\$ 2.68 billion or 45% of GDP. The deficit is covered by foreign donor assistance, the operational expenditures of foreign entities in Afghanistan, remittances from Afghans abroad, and narcotics exports. In the long term, the burgeoning trade deficit remains a major concern, not least because of the overvalued economy and limited opportunities for import substitution. Given that neighboring economies continue to subsidize certain areas of production, such as wheat and transport for certain commodities, growth in certain areas of production is further limited.

### 3.4 POVERTY IN AFGHANISTAN

Poverty in Afghanistan is pervasive, caused by years of war. Average per capita income, life expectancy, and other social indicators; including indices like the UN Human Development Index (HDI)<sup>37</sup> demonstrate that Afghanistan is one of the poorest countries in the world. The legacy of poverty, violence, and war keep the majority of Afghans insecure. Achieving Afghanistan’s MDGs is therefore not just a desirable developmental goal, but a necessity for the security of the country, the region and the world.<sup>38</sup> In concrete terms, Afghanistan’s multi-faceted poverty profile is characterized as follows:

1. Much agricultural land is deserted or mined; irrigation systems are damaged or destroyed; roads to market have disintegrated into dust or mud; there is limited rural credit or agricultural aid.
2. Fifty-seven percent of the population is under 18 years of age, but has little hope of employment; in much of the country, over 80% of the people are illiterate; average life expectancy is 46 years; recruitment of fighters is incredibly cheap; and some families still send their sons to join armed groups in return for the guarantee that they will be fed.

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<sup>36</sup>Extra-legal economic activities include money exchange dealers, small shops, small traders, small manufacturing, agriculture, and much construction. Economic activities of the nomadic Kuchis (an estimated 1.4 million people), mainly selling the products of their livestock, are also non-taxable. Eighty five percent of the rural labor force is either self-employed or paid casual daily wages; 81% work in businesses with fewer than five employees. Irregular activities, such as the trafficking of emeralds and lumber, and smuggling for example, are considered irregular because exports do not follow national trade and export rules.

<sup>37</sup> Afghanistan is ranked close to the bottom of the HDI index with African countries such as Burkina Faso, Burundi, Mali, Niger and Sierra Leone.

<sup>38</sup> International research suggests that the poverty of nations is closely linked to the threat of civil war: on average a negative economic growth shock of 5 percentage points increases the risk of civil war by about 50%.

- Over 20.4% of the rural population cannot meet the minimum level of dietary energy required to sustain a healthy life. Millions are chronically or seasonally food insecure, due to lack of income and weak employment opportunities. Figure 3.3 below shows the average number of months involved in generating the main sources of income at an aggregate level, and by province.

**Figure 3.3: Average Number of Months Involved in Generating Main Sources of Income – 1384 (2005)**

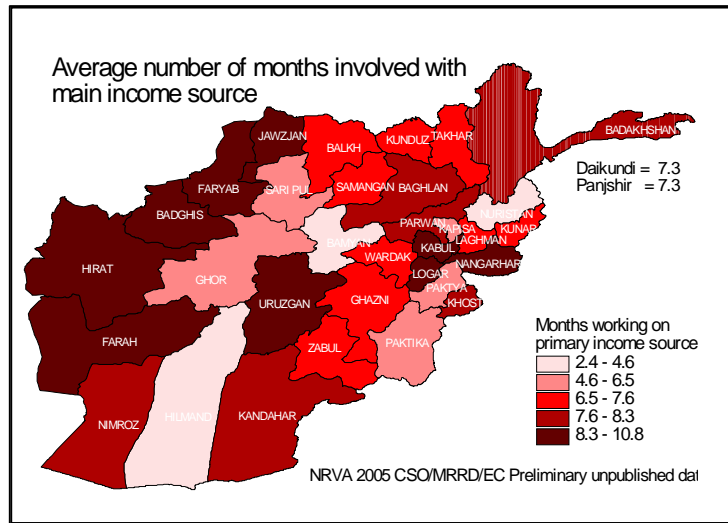
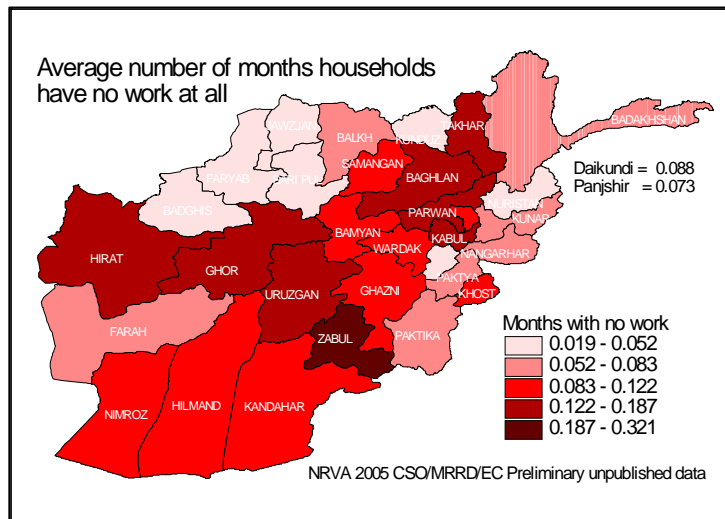


Figure 3.4 shows the number of months that households have no work although it is acknowledged that unemployment rates are difficult to measure in an economy dominated by informal and illicit activities.<sup>39</sup>

**Figure 3.4: Average Months that Households have no Work – 1384 (2005)**



High unemployment and under-employment are chronic problems that require a pro-poor growth strategy to address until market-based economic opportunities begin to generate local sources of

<sup>39</sup> Figures 3.4 and 3.5 map the initial results of NRVA 2005 – the results of the survey are currently being finalized.

employment. Continuing high levels of unemployment will lead to social problems, and in many cases encourage people to enter into illicit activities

Afghanistan's HDI, a measure of the most basic human welfare, is among the lowest in the world, comparable to only a few of the poorest landlocked or war-torn countries of sub-Saharan Africa. The past four years have seen significant progress in laying the basis for Afghanistan's recovery, but Afghanistan still has far to go to achieve these minimum standards (see chapter 2). The baseline indicators for the MDG goals in Afghanistan sketch a portrait of a nation and people deeply wounded by war, but struggling to restore basic security and dignity, as shown in Table 3.2 below. While there are substantial data gaps (see Box 3.1), Government will address these during the course of the ANDS, so that the overall analysis – and policy response – is balanced and appropriate.

### **Box 3.1: Data Constraints in Poverty Measurement in Afghanistan**

In the absence of a population census, household income and expenditure surveys (HIES), a national poverty line, and suitable baseline data, it is difficult to reliably estimate income poverty. Periodic estimates of food security by the World Food Program have been used as a proxy for poverty headcount ratio since food insecure households are likely to be poor as well. But there are no estimates of urban food insecurity, without which it is not possible to get national-level estimates. Two initiatives are currently underway that will considerably improve the database. The National Risk and Vulnerability Assessment (NRVA) 1384 (2004/5) will collect data on 66 food items and 20 non-food items in both rural and urban areas. The Central Statistical Organization (CSO), along with the ADB, is preparing to launch a HIES that will provide data on household income and expenditure across the country. Afghanistan Research and Evaluation Unit (AREU) has been developing a deeper, household perspective of livelihoods, both in urban and rural areas. AREU's combination of qualitative and quantitative data sets has provided insights into the dynamic nature of Afghanistan's rural and urban livelihoods. AREU's livelihoods research is household-level, rather than based on large sample sizes to produce government-level, macro or national-level analyses. This data set should complement a wider, nationwide, process of poverty monitoring to inform policy and future monitoring. Notably, NRVA and CSO data sets speak to the extent of poverty, while AREU's data focus on the nature of poverty and livelihoods. As additional data on income and asset poverty and the urban population become available, the Government will adjust baselines and benchmarks. Until then, and in this document, poverty in Afghanistan will refer to the extent of food poverty. Once household consumption data is available, a national poverty line will be used for planning.

## **3.5 PROFILE OF RURAL POVERTY**

**Where are the rural poor?** Poverty is found to be higher in the West (Herat and Ghor), Khost in the East, Jawzjan, Faryab, Samangan and Balkh in the North, and Bamyan in the Central Highlands. By contrast, the Northeast has relatively lower levels of poverty. There is considerable diversity, with regard to poverty, at district-level. Poverty rates in rain-fed areas were higher, with 65% of the population defined as poor. The areas that are mainly or completely rain-fed, or depend on grazing land, rank the worst in respect to lack of water, availability of land, access to education and health services, options for income generating activities, seasonality of access to markets, fertility of land and revenues/yields from cash crops.

**Who are the rural poor?** The poorest households are more likely to be those headed by a single parent (often a woman) or to have a higher proportion of members with disabilities; 67% of female-headed households and 58% of households with a disabled member were poor. Larger households and those with young children and elderly also tend to be poorer than average. Lower education levels are closely linked with poverty. Household expenditures for those who had migrated during last the 5 years is 7% lower than for those who had not migrated. Households owning land are less likely to be poor. Farmers (sharecroppers) or those involved in agricultural labor tend to be poorer. Where rural households are located determines access to services to a greater degree than level of wealth.



***The rural economy:*** On average, agricultural activities contribute to the income of 63% of rural households, but this varies significantly by province, ranging from just 41% in Farah to 89% in Kunduz and Baghlan (Figure 3.3 above). Within provinces, household dependence on agriculture does not vary with the wealth of the household, but land ownership and the type of agricultural activity does, with richer households owning land and poorer households contributing to agricultural labor. Nationally, 21% of households are landless, but this figure varies by province from a low of 6% in Farah to a high of 60% in Nimroz. Ninety percent of better and moderately well off households own land, compared to just 40% of very poor households.

Almost half of all rural employment involves non-farm activities (such as construction, trade, manufacturing, transport, mining and other services), but the type of non-agricultural employment differs by region. Household livelihood strategies that include international migration (mainly to Iran and Pakistan) were reported by 14% of rural households. Many household members are highly mobile and migrate to neighboring districts and provinces in search of seasonal work. This diversity and flexibility in livelihood appears to be a crucial strategy for the rural population in managing risks and uncertainties.

Although poor rural women can be economically active, few of them generate income outside their village. In the South, they are often limited to activities within their own compound. Women are paid significantly less than men for performing the same work and, in many instances, are paid even less than children, who contribute to household income in most areas of the country. Rural women perceive education, skills development and access to savings and credit services as top priorities for improving the welfare of their households.

Afghanistan experienced severe, protracted drought from 1377 (1999) until 1381 (2003). Crop production was halved and livestock herds were heavily depleted, more than erasing the modest economic gains of the early and mid-1370s (mid-1990s). Large and increasing numbers of people lost their means of livelihood and were displaced, either internally or to neighboring countries. Malnutrition significantly worsened, and starvation deaths were reported. A combination of drought and conflict had serious impacts on the rural economy (particularly in Northeastern and Central Afghanistan).

The effects of the drought continue to be felt in much of rural Afghanistan. Rural populations widely report continuing livestock reductions due to death or sale of animals, declining health of orchards and vineyards, and decreased access to water and fuel. Any significant reduction in access to water, for both drinking and irrigation, inflicts wide-scale shocks upon rural households, and displacement is often the only coping strategy. The drought led to reduced agricultural production for household consumption needs, and increased indebtedness as a result. Indebted farmers were often forced to grow poppy in order to secure credit with which to access land, agricultural inputs, and most importantly, commodities for domestic consumption.

External remittances play an important role in alleviating poverty. Fifteen percent of the rural population receives remittances amounting to 20% of household expenditure. Among the poorest households, only 10% receive remittances, but the amount remitted makes up a larger part of their expenditure (30%), and is therefore more important for these households. Where heads of households have migrated within Afghanistan over the past five years, these households are more likely to be poor.

Table 3.2: Summary Statistics on Key Poverty Indicators			
MDG	Indicator	Baseline year	Baseline value
Poverty and hunger	Population below US\$ 1 a day	2005	No data
	Poverty gap ratio	2005	No data
	Share of poorest quintile in consumption	2005	No data
	Underweight children under 5 years of age	2002	41%
	Population below minimum level of dietary energy	2003	20.4%
Primary education	Net enrolment ratio in primary education	2003	54%*
	Proportion of pupils starting Grade 1 who reach Grade 5	2003	45%
	Literacy rate of 15- to 24-year olds	2003	34%
Gender differentials	Ratio of girls to boys in primary education	2003	0.6
	Ratio of girls to boys in secondary education	2003	0.33
	Ratio of girls to boys in tertiary education	2003	0.21
	Ratio of literate females to males (15- to 24-year olds)	2003	0.34
Child mortality	Under-5 mortality rate	2003	230
	Infant mortality rate	2003	140
	Proportion of 1-year olds immunized against measles	2003	75
Maternal health	Maternal mortality ratio (per 100,000)	2002	1600
	Proportion of births attended by skilled health personnel	2002	14.3%
	Fertility rate	2002	6.3
	Proportion of women receiving professional ante-natal care	1999	12%
	HIV prevalence amongst blood donors		No data
HIV/AIDS, malaria, TB and other diseases	Proportion of blood samples screened for HIV/AIDS		No data
	Condom use rate of the contraceptive prevalence rate	2003	5%
	Contraceptive prevalence rate	2003	National – 10% Rural – 6%; Urban – 21%
	Percentage of population aged 15-49 years with comprehensive and correct knowledge of HIV/AIDS		No data
	Malaria	2003	2.67% (reported cases)
	Tuberculosis	2005	333 per 100,000 active)
	Proportion of TB cases detected and cured under DOTS	2005	24% of population detected and cured
	Water and sanitation	Proportion of population with sustainable access to an improved water source, urban and rural	2003
Proportion of population with sustainable access to an improved sanitation, urban and rural		2003	12%

Source: Afghanistan's MDG Report 2005

\* Gross enrollment ratio

### 3.6 PROFILE OF URBAN POVERTY

In the absence of accurate population data, the Government estimates that around 6.4 million people live in urban Afghanistan and that this figure will double by 1394 (2015). In Kabul alone, as many as one million returning refugees may have resettled since 1381 (2002). The NRVA 2003 collected no data in urban areas<sup>40</sup>. Efforts are now underway to conduct a census of the urban population.

Due to high population density, urban households are often more dependent on public delivery systems to meet their needs than their rural counterparts. Protracted conflict and instability resulted in the collapse of basic systems for urban management and investment in Afghanistan, resulting in similar urban and rural prevalence of disability and diarrhea in children under 5 years of age.

Urban areas act as a magnet for extremely poor and destitute households, and individuals who may be highly dependent on support for their survival. Saturation of the market for unskilled labor in turn

<sup>40</sup> NRVA 2005 includes urban areas. Data analysis of this survey is currently being finalized.

leads to high rates of unemployment. At the same time, urban households have to spend a higher proportion of expenditure for rent and fuel costs, frequently triggering food insecurity. For many poor households, urban Afghanistan presents a high-risk environment: accidents, personal violence, and crowded, unsanitary living conditions are widely reported. Nevertheless, an initial survey undertaken at the same time as the NRVA 2003 reported that over half of the sampled households have more to eat now than they did a year ago; 19% reported that they were eating less.

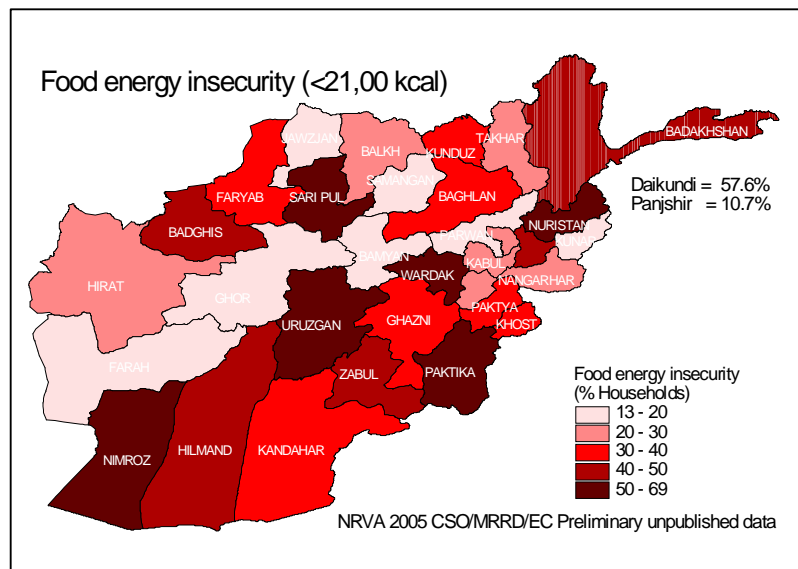
Research by AREU indicates that livelihoods of urban populations are often insecure and fluctuating (depending on season, household composition, degree of diversification, household skills and education).<sup>41</sup> The level of household integration into a neighborhood is extremely important in defining economic security. Land tenure and land security are raised as issues of serious concern for urban inhabitants. In addition to this, access to credit is noted as being a crucial asset for urban livelihood security. Social networks, in urban areas, are thought to be stronger than previously thought, and these social networks represent as major buffer against risk.

### 3.7 POVERTY AND AFGHANISTAN’S MILLENNIUM DEVELOPMENT GOALS

The Afghanistan MDG Report helps engage political leaders and decision makers, as well as to mobilize civil society, communities, the general public, parliamentarians and the media in a debate about security and human development. The nine goals reflect the reality of the situation facing Afghanistan today. The report enables policy makers to devise strategies that will help Government to achieve the MDG targets.

**Extreme Poverty and Hunger (Goal 1):** As noted above, a total of 38% of rural households (or about 6 million rural Afghans) face chronic or transient shortage of food and require varying levels of assistance.<sup>42</sup> These food insecure households are unlikely to meet their basic food requirements at any time during the year and are likely to be very poor. Figure 3.3 provides the early and ‘indicative’ results of the 1384 (2005/6) NRVA national survey, highlighting food insecurity by province.<sup>43</sup>

**Figure 3.5: Food Energy Insecurity – 1384 (2005)**



<sup>41</sup> The AREU research into the nature of poverty and livelihoods in urban areas was conducted with small sample sizes and limited to Kabul, Herat and Jalalabad.

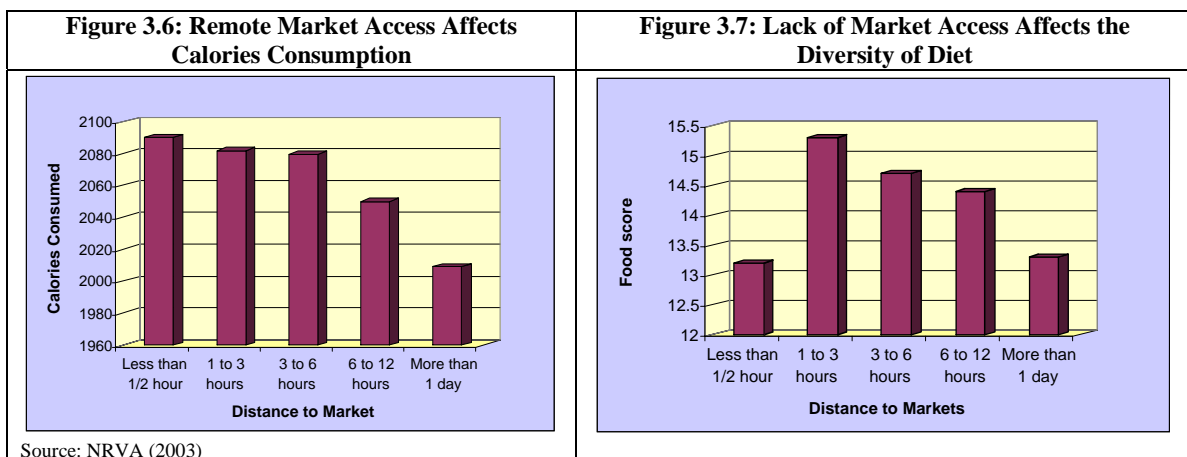
<sup>42</sup> Afghanistan’s Millennium Development Goals, 2005.

<sup>43</sup> In the absence of an official map showing Daikundi and Panjshir, these province totals are provided in text and have been included as an aggregate within the former provincial administrative boundary.

Both calorie intake and dietary diversity are greater for families that are closer to the market: households farther from the market consume fewer calories and have a less diverse diet. Nationally, only 7% of households report a permanent food market to be more than a day away, but the percentage rises to 39% in Nuristan and 41% in Ghor. Female-headed households living in the grazing lands face the hardest conditions, with very few women having access to markets at all, and most relying on relatives to go to the market for them.

Dietary diversity does not seem to vary significantly between income groups in the same area, indicating that geographical distance to markets is an important determinant of the level of food diversity in the rural Afghan diet (Figure 3.6. and 3.7.). Diversity has been found to be low even after a good harvest (as in 1382 (2003) when one would expect greater purchasing power and higher availability of diverse foods. This may suggest a general lack of awareness of the benefits of a balanced diet.

Even though suffering has been widespread, the degree of hunger and food shortage among the Afghan people is improving. During 1381-1383 (2001-2004), the proportion of total households unable to meet their dietary energy requirements has remained steady, within the narrow band of 20-27%.<sup>44</sup> This suggests that the majority of Afghans are resilient at ensuring and maintaining a certain minimum level of calorie intake despite year-to-year fluctuations in rainfall.<sup>45</sup>



The resilience of a majority of Afghans, combined with timely and targeted food aid interventions in the most food insecure areas and during the most difficult periods, ensured and maintained a minimum level of calorie intake. This was despite conflict and year-to-year fluctuations in rainfall.

**Access to Universal Primary Education (Goal 2) and Illiteracy:** Afghanistan has the highest proportion of school-age (7-12) children in the world: about one in five Afghans is a school-age child. But despite the success of the back-to-school campaign, half of all school-age children remain out of school. In the southern provinces, more than 60% of the school-age children are not in school. Among Afghans aged 15-24 years, the most educated cohort of the population, only 34% are literate, about 50% of males and 18% of females. Male literacy was highest in Wardak (57%) and lowest in Jawzjan (11%), whereas female literacy was highest in Baghlan (22%) and lowest in Kandahar (<1%). Women and girls lag far behind men and boys in education, and the gap is not narrowing.

<sup>44</sup> This is in spite of changes in the methodology over the years.

<sup>45</sup> On average, Afghanistan faces an aggregate food deficit of 500-600 thousand metric tons (MT) of cereals per year, which is covered by commercial imports of 300-400 thousand MT of wheat flour from neighboring countries and about 100,000 MT delivered as food aid. National imports of food, of course, do not indicate whether the most vulnerable groups have sufficient assets to purchase it.

Overall, only 10% of women, compared to 37% of men, report being literate. Boys are twice as likely to complete primary school as girls because of gender segregation and the socio-cultural pressure that girls be taught by women teachers. It is very difficult to generate enough women teachers to expand girls' education fast enough to catch up with boys.

***Gender Equality and Empower Women (Goal 3):*** The educational disparity between males and females starts early in life. Primary school enrollments reflect the inequality that starts at birth, and this disparity increases in secondary and higher education. Afghanistan has the lowest female literacy rate in the world, between 9-18%. Violence against women is pervasive and has been compounded by long exposure to hostilities and conflict. It is a major obstacle to achieving gender equality and needs to be overcome through multiple efforts, including the rule of law, creation of awareness, and a gradual change in cultural practices and mindsets. Above all it requires political commitment and leadership at the highest levels to take actions that will concretely improve the rights of women.

***Child Mortality (Goal 4):*** Life expectancy at birth is under 45 years, 20 years less than any other Asian country. Over 20% of all Afghan children die before the age of five. Of these, a third dies soon after birth, and more than half within the first year. High mortality rates are due to lack of food, preventable water-borne diseases caused by unsafe water and poor sanitation<sup>46</sup>, and low education, especially of women. The measles immunization program has been a success in Afghanistan, with 75% of children aged less than 12 months having been immunized. Owing to much higher immunization coverage of children in urban as opposed to rural areas, infant and child mortality rates in the rural areas remain about 25% higher.

***Maternal Health (Goal 5):*** Afghanistan has the highest rate of maternal mortality of any country except Sierra Leone and Angola. Overall maternal mortality is estimated at 1600 to 2200 deaths per 100,000 live births. Parts of Badakhshan province have the highest maternal mortality rates ever recorded, with nearly 7% of mothers dying in childbirth. As a result of the low level of female education and gender segregation, fewer than 15% of births are attended by medically trained personnel (who must be female), and only 10% by a traditional midwife; 75% of births are attended only by family members. Nearly 16% of Afghan girls are married before the age of 15 and 52% are married before their 18th birthday. In some of the more populated provinces, where indebtedness is high (Kabul, Herat, Nangarhar, as well as Badghis), over half of girls are married young for economic reasons; to pay off debts or earn what is termed a 'bride-price' to support family subsistence. Early marriage, in combination with inadequate child-spacing, mean that women are having children too young and too frequently. This has negative consequences on mortality and morbidity indicators.

***HIV/AIDS, Malaria, Tuberculosis, and other Diseases (Goal 6):*** Presently no empirical data exists concerning rates for HIV/AIDS in Afghanistan. However, as the world's leading producer of opium and a rapidly growing producer of heroin as well, the country's intravenous drug use is growing, with over 40% of users sharing needles. There is no blood screening, little condom use, and very little knowledge of the disease or how to prevent it, problems that are reinforced by widespread illiteracy and cultural inhibitions that prevent discussion of the disease and how it spreads. HIV/AIDS is growing rapidly in South and Central Asia and is likely to spread with the drug trade and truck routes, especially if Afghanistan succeeds in its plan to establish both east-west and north-south transit corridors. Several million former refugees have returned from Pakistan and Iran. Many refugees are returning from countries where HIV/AIDS is highly prevalent among intravenous drug-users. This poses concerns about a future HIV/AIDS epidemic. Although drug abuse is common in the Northeastern border regions of Afghanistan, intravenous drug use is not commonly practiced. Given that intravenous drug use is prevalent in countries such as Tajikistan, Uzbekistan, and Turkmenistan, it is only a question of time before such practices are adopted in the border areas of Afghanistan.

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<sup>46</sup> About 70% of the rural population and 40% of the urban population have no access to improved water. Around 41% of the rural population and 13% of the urban population have no access to proper sanitation.

Malaria is prevalent in 60% of the country and is spreading to higher altitudes as the climate warms. There are an estimated 2-3 million cases of malaria annually in a population of about 25 million. Afghanistan is one of the 22 countries with the highest rates of tuberculosis, with young women constituting about 70% of the cases, including drug-resistant forms. Diarrhea too remains one of the key factors behind high levels of morbidity and mortality in children under five. The Multiple Indicator Cluster Survey (MICS) survey (1383/4, 2004/6) indicates that, at a national level, 30% of under five-year-old children had suffered from diarrhea in the last 15 years. Moreover, the same survey indicates that parents (or family members) did not give children increased fluids or continued feeding in 47% of cases. Similarly, parents did not give Oral Rehydration Salts to 31% of children suffering from diarrhea and 47% did not give increased liquid. These statistics indicate the lack of basic knowledge to deal with a key cause of mortality and morbidity in this age group.

***Environmental Sustainability (Goal 7):*** Forest cover appears to have been cut in half since 1978 as a result of lack of energy alternatives to firewood and demand for timber in both Afghanistan and Pakistan. Only 6% of the population has access to a regular supply of electricity. Due to drought and the destruction of water management systems, the water table has sunk in many areas. The growing population is depleting the country's deep aquifer water reserves, and water quality is declining. Eighty percent of the rural population drinks contaminated water. With the return of millions of refugees, cities, overwhelmed by air pollution, sewage, and waste, have become swollen with transient populations living in slums, where an estimated 75% of the urban population is concentrated.

Countrywide, 28% of rural Afghans use surface water, i.e. rivers, lakes, and irrigation ditches as their primary source of drinking water, which are not thought to be "safe" for drinking. Only 24% of all water sources were reported as suitable for drinking. With a 40% decline in water quantity, the traditional *karez* system was the water source that suffered the highest reduction in output. Despite the good rains over the last few years, the *karez* systems are most severely affected by the repeated years of below normal precipitation and falling water tables. Access and time taken to collect water is seen as a major constraint to health and livelihood outcomes. Households reported that 13% of their main water sources are more than an hour's walk from communities. Less than 1% of households have an improved latrine or other toilet facility that would be considered "safe" by UNICEF definitions.

Afghanistan must increase the proportion of protected land and restore the forest cover, while in the face of resistance from powerful timber mafias. The Afghan population needs access to cheap non-solid fuels. The experience of other poor countries shows that it is possible to change from the exclusive use of coal and wood toward a mix of energy including gas and solar energy over a period of 20 years. Rural electrification should be actively developed. Increased access to improved water sources and improved sanitation will not only contribute to sustaining the environment but also improve the overall health of the population, especially by reducing child morbidity and mortality.

***Partnership for Development (Goal 8):*** The Government of Afghanistan raises a mere 5% of the GDP as internal revenue. In 1382 (2004), the Afghan Government estimated that the amount of aid required for minimal stabilization would be US\$ 27.5 billion over a period of 7 years, equivalent to about US\$ 168 per capita per year for that period. Disbursements since 1381 (2002/03) are estimated at about US\$ 83 per capita per year, less than half the amount required, and aid is likely to decrease with time. Disbursements, furthermore, measure only the amount transferred by donors to implementing organizations, not the amount actually spent in Afghanistan. Since 1381 (2002/03), most assistance has gone to immediate humanitarian needs and security, with only 10% of the disbursements going to health and education, far less if one includes the cost of international military operations in Afghanistan. There is a growing gap between amounts pledged and amounts disbursed and a large gap in both money and time between disbursement and implementation. Nearly three quarters of the aid is disbursed and delivered outside of channels controlled by the government budget, involving multiple levels of contractors that inflate cost, create delays, and fail to build Afghan national capacity.

***Insecurity (Goal 9):*** Despite extreme poverty, ill health, and hunger, Afghans define the lack of security as their greatest problem. Hence Government has added this new goal to the eight global MDGs. The main security threat identified by most Afghans is not terrorism or attacks by those fighting the government or its international supporters. The main threat Afghans cite is an absence of the rule of law, which results in violent predation by local power holders, criminals, and corrupt officials. Four million Afghans live in communities affected by land mines or unexploded ordnance (UXOs). Afghanistan has the world's highest proportion of handicapped people after Cambodia. Half of the victims of landmines or UXOs are under 18 years old. Lack of security is a principal obstacle to the education and public participation of women, as well as to long-term investment for development. Afghanistan's economy is far more dependent on the production, refining, and export of narcotics than any other economy in the world.

The ANA is already considered successful in many areas. Its cost, however, paid substantially by foreign aid, equaled 17% of GDP in 1383 (2004/5), compared to an international average of 3-5% of GDP for defense. Planned increases in the pay and equipment of police, while needed to support a more professional force and fight corruption, will further inflate the security budget. Donors, however, have contributed only 40% of the amount needed to the Law and Order Trust Fund for Afghanistan (LOTFA), which pays for police salaries and supplies. The cost of maintaining the security forces needed is not sustainable from the country's own resources and will not be for more than a decade, even if the taxable (non-drug) economy grows by 10% a year above the current rate. Over time the amount allocated to the security forces from the national budget is expected to decline, but donor assistance will continue to be needed for some years, to complete the reform and to establish civilian oversight.

### **3.8 CONCLUSION**

The absence of law and order, lack of productive infrastructure, and limited access to basic services and markets have largely determined the structure of the economy. As a consequence, an informal, illicit, incapacitated, risk averse, low demand, low output economy persists. Without alternative sources of income, and due to the structure of the political economy, opium is now central to both household and national income. Its eradication through income substitution will be vital for the economy to move towards a 'virtuous cycle' that supports growth, stability, and service delivery and poverty reduction. Without growth, there can be no reduction of poverty. Without growth, Government cannot collect taxes. Without revenue mobilization, Government can neither invest to overcome the constraints to growth nor provide basic services in education, health and water and sanitation. Without sufficient revenues to fund the state, the fiscal sustainability of the entire reform program is at risk.

Poverty is about people, and behind the dry statistics lie the human suffering and deprivation that constitute poverty's human face. Due to the complete destruction of its state and economy over the past decades, Afghanistan cannot achieve the MDGs without accelerating equitable growth. Poverty reduction and pro-poor growth share the same agenda; without broad based growth, poverty cannot be tackled. Poverty affects rural and urban populations and is multifaceted. It affects certain provinces more than others, largely due to insecurity and the structure of the political economy. It affects certain income groups more than others, particularly the landless, women, children, and the disabled. The current structure of poverty requires more than growth policies. It requires a broad-based strategy to support the poor in particular. Moreover, given the nature of poverty and vulnerability, special direct and indirect targeted investments are required to provide social protection to those who fall below the poverty line until such a time as market-based opportunities are created.

Constraints to growth—insecurity, a weak regulatory environment, lack of financial services, low labor productivity, poor, if not a lack of productive infrastructure, weak taxation—are examined in more detail in the following chapter 4.





# 4

## CONSTRAINTS AND CHALLENGES

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This chapter reviews constraints and challenges to (1) security (2) governance, the rule of law and human rights, and (3) economic and social development.

### 4.1 CONSTRAINTS TO SECURITY

Security is principal prerequisite for the success of our state building program. Security includes the security of the state itself, the security of our public servants, security of travel and trade, and the security of our people in their life and property.

Insecurity has defined life for Afghans for the past decades of war. Many of the means they have evolved to cope with threats such as invasion, interference, and anarchy can themselves become obstacles to building more permanent security. Security results not only from forces of coercion, but from the rule of law, justice, governance, and development. The entire ANDS, in that sense, aims at overcoming threats to human security.

Currently both immediate security and long-term stability are under threat. Afghanistan continues to experience terrorism, mainly in the southern and eastern regions. Terrorists enjoy safe havens outside of Afghanistan. Terrorism also prevents the Government and donors from providing services in important parts of the country. They threaten the operation of our democratic processes and attack the representatives of the international community who are assisting Afghanistan. They pose a small, but intense threat to the safety of investors in the areas where they are active.

In addition to terrorists, the Government and UNAMA have counted about 1,800 IAGs tied to local power holders. Unlike terrorism, these armed groups are present in all areas. They engage in narcotics trafficking, land grabs, forced marriages, theft, and predation including levying illegal taxes and preventing potential rivals from engaging in legitimate businesses.

Part of the reason for the prevalence of terrorism, IAGs, and the drug trade is the internal weakness of basic institutions of the rule of law. The army collapsed several times as regimes tried to use it against the people. The police lost discipline and resources and became corrupt. The legal and justice system collapsed. After decades of different regimes passing contradictory laws and decrees, the destruction of many government records, and the lack of trained legal staff, it is often unclear what the law actually is. Regimes purged legal and judicial staff, as well as legal educational institutions, while the judicial institutions also lost personnel and resources.

As a result, several factors constrain the process of enhancing security and establishing the rule of law in Afghanistan.

***The State has a limited monopoly on the legitimate use of force:*** The State's ability to protect the rights of the Afghan people; ensure freedom of movement for people, commodities and ideas; and to enhance social and economic development is severely impeded as it does not yet have a monopoly over the use of force. The threat of terrorism remains in parts of Afghanistan, and illegal armed groups and their commanders continue to pose a direct threat to the national security of Afghanistan

and constrain the ability of the national army to deploy, recruit and retain forces. They also limit the ability of the police to deploy to areas of the country, extend the rule of law and protect the people.

Furthermore, legal control over the use of force by the state became weak or disappeared in the course of the conflict, and the government is only now rebuilding it. In the absence of a viable security apparatus, vulnerable communities use weapons to provide for their own protection.

***Severe shortage of human and other resources:*** There is a severe shortfall in managerial capability and the skilled personnel for the ANA and the ANP. In 1382 (2003/4), fewer than 10% of police officers were properly equipped and more than 80% of the infrastructure had been destroyed during the years of conflict. By Hout 1383 (February 2005) more than 50,000 army and police had been trained, albeit through a “crash course” format.

Retention of trained staff and hiring new staff is a key element in the construction of the national police force and the grading structure has to be harmonized with that of the ANA. This will be coupled with pay increases at all ranks, to reduce the likelihood of corruption and the misuse of police power and equipment. At the same time, building a force that reflects the gender and diversity of Afghan society will be particularly challenging, particularly for the ANP.

***Structure and sustainability of security forces:*** The international community has assisted Afghanistan in building security agencies to cope with its many problems. The cost of these security services, however, could become another obstacle to the development of the country. In 1382-84 (2004-05) the security sector cost 17% of our GDP. No country in the world can possibly sustain this burden, and certainly not a country like Afghanistan, which desperately needs to invest in the health and education of its people as well as in basic infrastructure for development. International donors will bear these expenses for a few years; they will not do so indefinitely. Afghanistan has not yet found a way to build effective security forces that it can sustain itself.

Fiscal constraints will continue to limit the Government’s ability to invest in and sustain the security sector. The costs of running the ANA as now configured are beyond the capacity of the Government to fund through national revenues for the foreseeable future. As reform of the police progresses, its salary levels may also rise, pulling other parts of the civil service along with it, posing further burdens on the Treasury. Even with the most optimistic estimates of national economic growth it will be many years, before Afghanistan’s security sector will be self-sustainable; where Government covers both wage and non wage recurrent costs, and capital costs as required to meet national defense objectives.

***Porous borders:*** Afghanistan’s porous borders allow the transit of terrorists, arms, drugs, and human contraband. Despite efforts of the Afghan Border Police (ABP) and the ANP to track and prevent illicit cross-border movements, cross-border threats to security are likely to continue.

***Size of illicit economy:*** The size of the cash incomes produced by illicit activities, including drugs trafficking, dwarfs the profits available from legal businesses, as much of the licit economy consists of subsistence farming or small-scale activities. Some of the largest and richest enterprises in the country are criminal and depend on informal exercise of violence and coercion. Therefore large, powerful, and rich interests oppose the building of security and will use all means at their disposal to oppose it.

***Poverty and resource conflicts.*** Afghanistan is one of the poorest countries in the world. In many regions, people often lack enough food to eat, and their survival depends on access to scarce resources of water and land, as well as access to markets that enable them to supplement their meager income. No effective legal or justice system regulates access to these resources. At the same time, after decades of war funded by foreign powers, most communities have stockpiles of weapons. Hence violent armed conflict over control of desperately needed resources is endemic throughout

Afghanistan. A political or criminal group can recruit from the poor by supporting them in their struggle over resources. Struggles over resources can then escalate into political conflicts.

## **4.2 CONSTRAINTS TO GOVERNANCE, RULE OF LAW, AND HUMAN RIGHTS**

Following are general constraints to governance, the promotion of the rule of law and the protection and fulfillment of human rights. More issue specific constraints are addressed in chapter 7.

### **4.2. 1 WEAK PUBLIC SECTOR**

The obstacles to good governance that Afghanistan must overcome today are partly described in chapter 2. The Afghan Government mobilizes fewer domestic resources as a percentage of GDP than any other government in the world. It lacks trained people, management systems for people, information, or money, and communications. The legal and regulatory framework necessary for Government to function effectively to protect its citizens, and to safeguard investments is weak or absent.

***Limited legislative oversight and representational experience of the new democratic authorities:*** Afghanistan's governance structures will remain weak unless political power is held increasingly accountable by citizens and shared among multiple elected authorities. If the over-arching aims of the new Constitution are to be enforced, the full democratic potential of new institutions, including the National Assembly and Provincial Councils, needs to be realized. This also involves the recognition of non-state actors (Islamic institutions, civil society, private sector, the media, and academic institutions) as leaders who should be regarded as partners of government even when they advocate alternative viewpoints.

***Lack of resources and fiscal capacity:*** The IMF estimates that in 1384 (2005/6) the Afghan government will mobilize 5.4% of licit GDP as domestic revenue, up from 3.2% of a much smaller GDP at the start of the interim administration. This is less than any other government in the world for which data are available. Without greater, sustainable sources of revenue, Government will be unable to pay the public sector wage bill sustainably, let alone finance public investments. Afghans pay more for public services than is collected by the state, but much of the "taxes" they pay are either captured by illicit power holders or go to support traditional governance systems at the village level that do not form part of the state.

In addition to the low level of revenues it collects, the state lacks the capacity to execute expenditures in much of the country, in part because of inadequate financial tracking and management systems. The combination of lack of a functioning banking or electronic payments system and widespread insecurity makes it difficult for government expenditures to reach much of the country or for Government to ensure that expenditures are equitable across provinces.

***Lack of qualified and disciplined staff:*** The destruction of the civil service through political persecution and hyperinflation was described in chapter 2. Without qualified, professional civil servants, Government is not able to effectively fulfill its basic functions of service delivery, nor is it able to manage its own administration. Many civil servants are still recruited through a system of patronage and rarely by merit. This is because the pay scale of civil servants is insufficient to attract, retain, and motivate skilled and qualified staff. This causes corruption by civil servants, ensuring that the public sector remains short of educated, skilled and professional human resources, while many more skilled people are hired by the aid community.

Due to the complexity of judicial procedures and the lack of legal reform, corruption within the justice sector is widespread. To supplement their wages, many judges sell access to justice to the highest bidder, excluding all but the wealthy and powerful. Public confidence in power of the justice sector,

and by extension the state, is therefore extremely low, causing people to seek redress through traditional or informal justice mechanisms.

***Excessive centralization:*** Despite capture of many parts of the administration by unofficial power-holders or corrupt officials, Afghanistan has a very centralized *de jure* form of government. At present more than one-third of the staff employed in the ministries is located at headquarters in Kabul. Existing highly centralized regulatory frameworks sustain corruption by requiring unworkable procedures. It is important to ensure that reforms are rapidly extended to provinces and districts and to increase the human, financial and physical resources available to provincial and district administrations and departments of line ministries. Over time it may be desirable to consider a degree of de-centralization and/or de-concentration of some policy-making and budget responsibilities. The pace of such change will depend, among other things, on strengthening the capacity and the role of democratically elected Provincial (and eventually District) Councils.

***Lack of coordinated decision-making across Government:*** There is a need to rationalize the functions of ministries to reduce overlap and to clarify lines of responsibility. There is also a need to strengthen the links, communications, and lines of responsibility among district, provincial and national authorities. Improved coordination of policy making and service delivery functions will improve the efficacy of government and its legitimacy in the eyes of the population.

***Limited direct accountability to clients:*** Currently provincial and district administrations and departments of line ministries are not accountable to local populations. With the election of Provincial Councils, there is an opportunity to improve the relationships between populations and those government departments responsible for the delivery of local services. However, local administrations and departments of line ministries must be adequately resourced and have some authority if they are to ensure that policy making and service delivery reflect the needs and priorities of their local populations. It is important to ensure that all sectors of the population, including women and local minorities, are empowered to participate in local level political forums.

***State capture by illicit power-holders:*** Despite the high degree of *de jure* centralization, much of the country's local and sub-national administrative structures remain under the *de facto* control of illicit power holders and armed groups. Illicit power holders seek to use the state machinery to further their own interests, mobilizing resources from the narcotics and other illicit sectors of the economy, which make it possible for them to create private armed groups and pay officials far more than their salaries in bribes. Many of those working in government institutions are in fact part of the informal structure that controls the informal and illegal sectors of the economy. The formal governance sector cannot compete effectively with the informal sector, nor can it match the scale and size of bribes being offered by the latter.

#### 4.2.2 AID INEFFECTIVENESS

***Donor implementation of aid projects fails to build lasting capacity for economic growth.*** Less than 25% of donor funds are provided through government channels, undermining the Government's development capacity and the coordination of expenditures across sectors, programs and geographic regions.<sup>47</sup> Parallel aid delivery reduces ownership of reforms, diminishes Government credibility as it reduces the extent to which it can provide services, which act as an incentive to join the formal economy, and do not take into account the long term fiscal sustainability of the state.

Since the expenditures do not pass through the Government budget, it is difficult for the Government to integrate all the projects into a development strategy that would deliver a coherent policy package.

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<sup>47</sup> Government has been making this argument for some time (see the Afghanistan Development Forum) and donors have been responding well. We gratefully acknowledge that the amount of funding supporting to the core budget has doubled in the last year, and will do everything in our power to assure that these funds are used in a cost effective, transparent and accountable way.

The Government likewise does not control, and for the most part does not have information on, the operations and expenditures of the parallel sector. It therefore cannot be responsible for the use of public funds, which undermines democracy. Lacking legitimacy, the Government finds it that much more difficult to mobilize requisite funds. The creation of a parallel internationally-administered public sector undermines the legitimacy of the government. The public sees no connection between tax compliance and service delivery, which is typically out-sourced to aid organizations, among other economic actors.

Commitment and the pace of project disbursement have been poor. Infrastructure projects have proven expensive and time consuming in delivery. International Competitive Bidding rules and procedures places burdens upon the Afghan private sector that they cannot meet, effectively barring them from participation in international bidding

The unpredictability of donor funding from year-to-year promotes the symptomatic treatment of poverty with short-term, consumption-oriented programs. What is required are investments that address the long-term causes of low productivity, and structural poverty.

### 4.3 CONSTRAINTS TO ECONOMIC AND SOCIAL DEVELOPMENT

Following are general constraints to economic and social development. More issue specific constraints are addressed in chapter 8.

***Incomplete and inimical legal and institutional framework for economic growth:*** While many legal reforms have occurred in the banking, taxation, customs, procurement and investment arenas, the enforcement of those reforms through a functioning institutional framework is not yet in place. Many legal reforms have not yet occurred, hurting small and medium-sized investment. The slow progress of land reforms and the arbitrary enforcement of property rights undermine the productive use of both urban and agricultural land and capital. The lack of financial services accessible to the poor and of protection for the assets of the poor, especially of land, deprives them of the ability to take advantage of market opportunities.

The current tax and regulatory regime for the formal sector acts as a strong incentive for enterprises to stay informal. All taxes must be paid in cash and in person. Tax is due on capital whether any profit is made or not. Payment of tax can take up to 30 man-days of work to collect all needed signatures, and one is confronted by demands for bribes at many steps along the way. The current regulatory regime is thus actively inimical to economic growth.

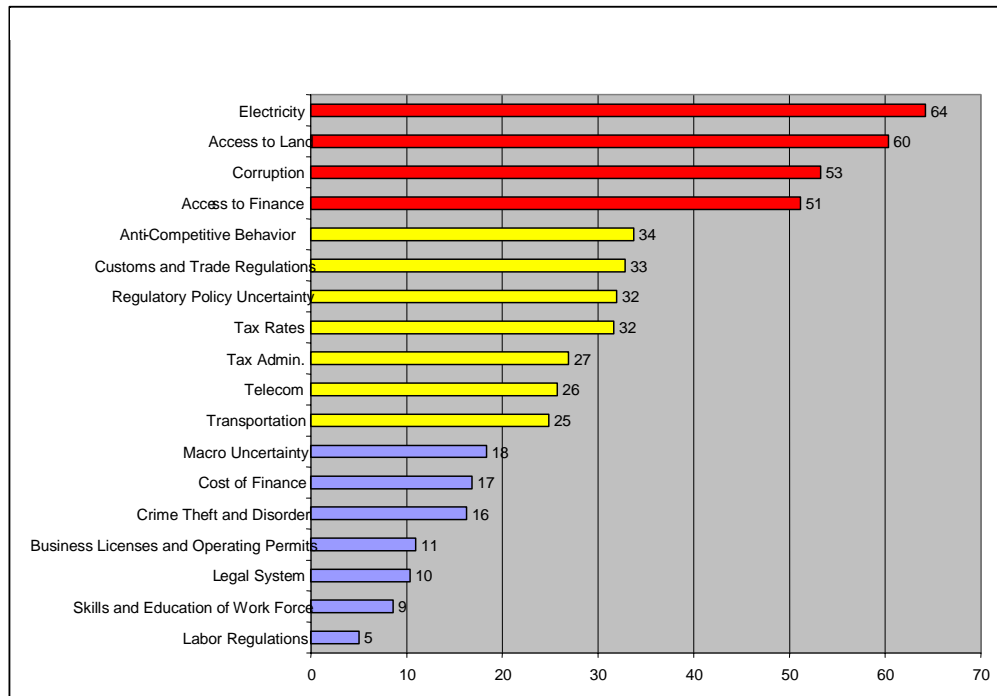
***Weak physical infrastructure and under-utilized potential:*** More than two decades of conflict, lack of investment, and neglect of maintenance have taken a heavy toll on Afghanistan's infrastructure, which in most sectors was not very well developed in the first place. This has reduced economic growth and diminished the level of essential inputs for services, agriculture and industry. Moreover, infrastructure facilitating market integration is dilapidated or destroyed. The extremely poor condition of the rural infrastructure for safe drinking water, sanitation, physical accessibility, irrigation, and electricity makes it prohibitively difficult for the rural poor to improve their health, skills, and livelihood.

The poor state of the country's infrastructure is a serious constraint to the development of the private sector, which needs to be strengthened as the engine of growth, the driver of employment, and provider of services through the market. Investment climate survey results (illustrated in Figure 4.1 below) indicate that a wide range of 'major' and 'severe' binding constraints undermine the growth of the private sector.

The poor physical infrastructure of the country's cities is a particularly important obstacle to economic growth. Lack of housing, transport, power, fuel, water, communications, finance, and other

basic public goods that normally make cities into engines for development and employment generation instead make Afghanistan's cities into magnets for the rural unemployed looking to earn small incomes from demand generated by the drug economy or aid expenditures. Lack of security from corrupt officials, without the solidarity mechanisms that sometimes protect people in rural areas, also limits access to land and other goods to those with connections to corrupt officials.

**Figure 4.1 Private Sector Binding Constraints**



The survey suggests counter-intuitively, that security is not rated as a substantial constraint, though inadequate law and order constrain private sector development considerably. The WB report on the investment climate shows, however, that security imposes very high costs in Afghanistan compared to other countries (Box 4.1). Respondents to the survey rated the following factors as important constraining factors (ranked in terms of importance): (i) electricity; (ii) access to land; (iii) corruption; and (iv) access to finance.

**Electricity and Hydropower** - The availability of electricity was curtailed by both the war and the lengthy drought, and it has hardly improved. At the end of 1383 (early 2005), only 6% of Afghans had access to public power, one of the lowest rates in the world. A third of energy consumers, connected to the public grid, were in Kabul. There is no significant provincial or rural electrification. Donor disbursements in this arena, represents a small proportion of what has been committed so far.

**Irrigation** - Agriculture relies heavily on irrigation, since rainfall is scant and highly variable over those parts of the country where topography and soils are suitable for cultivation. Since 1375 (1996/97) the irrigated area has declined by around 60%. Afghanistan has very little water, and the shortage has become worse as a result of the destruction and neglect of water management systems and years of drought. Arable land amounts to only 12% of the surface area. Because of the shortage of water and lack of water management, only about half of that arable land can be cultivated in any given year.

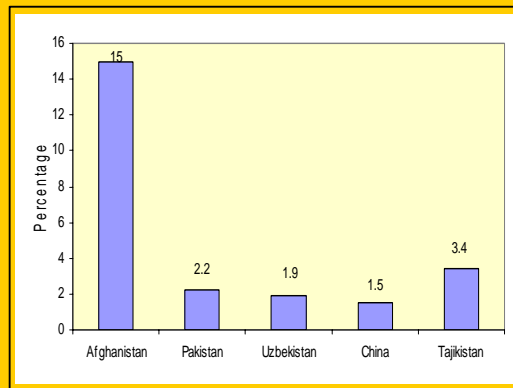
Partly because of the lack of water and water management, agricultural productivity in Afghanistan is far lower than in any of its neighbors. Moreover, opium poppy is attractive because it is more drought resistant than other crops.

Irrigation is dominated by small and medium river valley schemes owned, operated and maintained by village communities. This high level of community ownership should provide a strong basis for a sustainable, community driven approach to rehabilitation. Large-scale irrigation schemes covering over 100,000 hectares (ha) are found in the northern and western plains, but these are plagued by severe management problems, water logging and salinity, and by induced and destructive changes in river regimes. In 1376 (1997/98), the area requiring rehabilitation was about 1.7 million hectares.

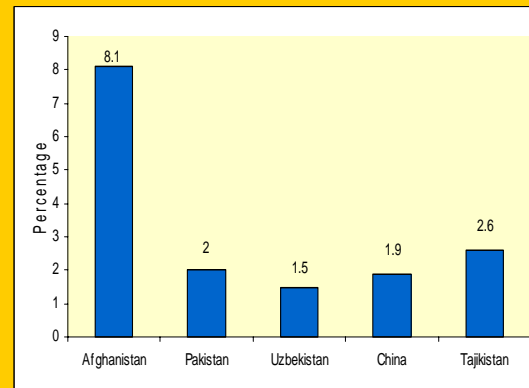
### Box 4.1 Costs of Doing Business in Afghanistan

The 2005 WB report (official draft) on the Investment Climate in Afghanistan makes an initial assessment of the costs of insecurity as a percentage of sales, when compared to other countries within the wider region. Only 16% of the 355 firms surveyed stated that security (crime, theft, and disorder) was a major constraint to sales. This partly reflects real improvements in security but it also reflects that firms are forced to receive protection from powerful elements in society which may provide temporary solutions to existing firms but is no comfort to potential market entrants. Moreover, it frequently means that markets are limited to the breadth of the patronage systems providing protection, limiting wider market opportunities. Such protection outside of the purview of state also tends to reinforce the informality of production, and in many cases strengthens illicit production in particular. Investment climate survey results also demonstrate that informal networks often serve as barriers to entry and that existing firms have to incur huge costs to be secure, assessed as 15% of sales, which is far greater than in neighboring countries. Figure 4.2 below shows the reported costs of security as a percentage of sales for various countries, all of which are existing markets for Afghan exports.

**Figure 4.2 Costs of Security as a % of Sales Costs**



**Figure 4.3 Average Unofficial Payment**



The WB report states that 58% of firms cited corruption as a major or severe problem, especially threatening to foreign investors or returning Afghans. Firms on average pay 8% of sales as bribes and this is more than four times the average reported in Pakistan and other countries, as shown in the Figure 4.2 above.

Clearly, minimizing the costs of doing business is vital to competitiveness, growth, market expansion and greater employment and prosperity. The current approximately 18% combined 'security and bribery transaction' costs that Afghan companies incur over other private sector operators in the region impedes the emergence of a strong export oriented formal economy.

Source: Investment Climate Survey, World Bank, 2005.

**Roads and Air transport** - As a landlocked country Afghanistan relies heavily on road and air transport, which are critical for achieving economic growth and national integration. The very poor state of roads and airports at present, however, substantially increases the costs of moving both people and goods. Afghanistan has among the lowest total kilometers of road per sq. km., and only 16% of the roads are paved. About half of the rural population lives in areas that are physically inaccessible for part of the year. The country's airports and civil aviation infrastructure are in urgent need of rehabilitation.

***Criminalization of the economy:*** The opium economy has led to the criminalization of much of the economy. Control over arms and money enables power holders to seize land, levy tribute, and control access to credit and markets. While the exercise of such non-market power to compel compliance is particularly prevalent in the purely criminal sectors of the economy, it has spread to other sectors as well.

The entrenchment of the opium economy and long-term dependence on it will discourage the sustainable development of other economic activities. For example, with rents and sharecropping arrangements increasingly based on opium in many rural areas, it becomes virtually impossible for other cash-earning agricultural activities to take hold. Corruption of municipal administration has made it very difficult for honest investors to obtain land and access to infrastructure without paying bribes or selling out to members of well-connected factions. And, an increase in capital flight of drug money to other countries, resulting for example from effective law enforcement measures, could have a significant adverse effect on the balance of payments as well as domestic markets.

***High real exchange rate:*** For several years the afghani has enjoyed a relatively stable exchange rate, and the reserves of DAB have steadily increased despite a massive licit trade deficit. The positive balance of payments is due to inflows from drug exports, remittances, operations in Afghanistan of foreign forces, and inflows of aid. The resulting foreign exchange windfall has created a high real exchange rate with classic symptoms of Dutch disease. Imports have become cheap, in effect subsidizing the consumption of the urban population as well as investment goods. The relative cheapness of imported food disadvantages local food production. While the relative cheapness of imported capital goods is advantageous for investors holding afghani, most investors are likely to hold cash positions in other currencies, and the increase in the relative cost of labor and goods in Afghanistan discourages investment, as it is likely to be cheaper to take advantage of the exchange rate differential to invest in neighboring countries and export to Afghanistan.

***Lack of rights of the poor:*** A central element of a pro-poor, private-sector led growth strategy is the economic empowerment of the poor, which requires, at a minimum, that they enjoy secure rights over land and any other assets that they accumulate. Such rights are the foundation for their ability to use other resources, such as credit, infrastructure, agricultural extension, or training. Today the justice system is corrupt and ineffective. The AIHRC reports that illicit seizure of land is one of the most common forms of human rights violations. In order to obtain protection citizens seek the patronage of various power holders, join armed groups, or emigrate.

***Outcomes of destruction and under-investment in the licit agriculture sector:*** Afghan agriculture suffered badly during the years of conflict. Extensive damage to the main drivers of agricultural production and significant under-investment in the sector lead to low levels of on-farm productivity<sup>48</sup>, unsustainable water resource management and use practices, and lack of access to improved technologies.

Food supplies are critically dependent on cereal production, and on average, Afghanistan faces an aggregate food deficit of 500-600 thousand metric tons (MT) of cereals per year, an amount that is made up by commercial imports of 300-400,000 MT of wheat flour from neighboring countries and about 100,000 MT delivered as food aid.

***Low human resource capacity:*** Millions of our people currently lack the health and education services to support themselves and their families. People lack basic productive skills, not only those taught in school, but also those taught in families, as many have been displaced from their land or other productive assets for decades. Women are particularly disadvantaged and suffer extremely high rates of morbidity and mortality.

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<sup>48</sup> Cereal output declined by 2% per year during 1348-1379 (1969-2000) after growing 1.3% annually during 1347 -1356 (1961-78).



Our immediate human capital challenge is not labor, but productive skilled and semi-skilled labor. The aid community has employed many skilled Afghans, by offering wages that the public sector cannot compete with, therefore creating what can be considered a ‘*second civil service*’. Since 1381 (2002/3), demand from international employers has compounded a skilled-labor deficit and increased “higher end” domestic salaries substantially. Technical know-how and managerial competence are all in short supply. Consequently, the Government has had huge difficulty attracting and retaining qualified Afghans who can lay the institutional foundation for growth and poverty reduction.

***Widespread prevalence of the informal sector:*** The predominance of the informal sector constrains both private investment and public expenditure. Informal economic activities depend on informal governance mechanisms, which are often based on patronage. These mechanisms often provide weak protection of property rights and inadequate, or exploitative, access to credit.

The informal economy is also immune to direct taxation, though it generates demand for consumer goods whose import or purchase can be taxed. Constrained domestic revenue collection is undermining the fiscal sustainability of the Afghan state. Even if foreign aid pays for the construction of schools, clinics, and roads, the Afghan Government will have to operate them out of its own resources, which it is currently unable to do even at a very low level of service provision.

Lack of clear land titles and corruption in land registry offices, especially in municipalities, drives many businesses into the informal sector. So does corruption in the administration of regulations and tax collection. The lack of financial institutions leads businesses to depend on the *hawala* system and informal futures markets with high interest and transaction costs. Lack of insurance, security, and social protection encourages risk-averse behavior and promotes patronage ties of dependence to informal armed power-holders.

Labor migration to less impoverished areas in the region, combined with remittances home, is a common adaptation to inadequate formal employment options. Without a legal regime, such migration remains confined to the informal sector. It often leads to inter-group conflict e.g. in the port city of Karachi or in much of West Africa. Moreover labor migration in Afghanistan tends to be associated with exposure of laborers to exploitative, unfair and temporary working arrangements, without rights and basic social protection.

***Weakening of social capital.*** Afghans have always been poor, but they also had strong social ties that acted as an informal safety net and connected them to the society. Decades of war, displacement, and migration have shredded this safety net and left many Afghans unconnected and unprotected. Government has not been able thus far to elaborate or implement a social protection policy to substitute for those former ties.

#### **4.4 CONSTRAINTS TO EFFECTIVE MONITORING<sup>49</sup>**

Lack of baseline data and the absence of mechanisms for systematic data collection, collation, and analysis of socio-economic data impose huge constraints on the ability to effectively monitor progress on various parameters, and undertake evidence-based policy making. Due to the devastation of Afghanistan’s institutions responsible for the management of statistical data, they now face serious human resource, material and physical constraints. Additional constraints in the monitoring process that cuts across all sectors are listed below:

- Incomplete household listing and populations census.
- Contested and changing provincial and district boundaries.
- Constraints to the collection of gender-disaggregated data.

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<sup>49</sup> This section draws from the discussion carried in Afghanistan’s MDG Report (2005).

- Insecurity in the South and East that impedes enumerators working in rural areas; inadequate social research and analysis capacities.
- Inadequate understanding of the role of surveying and research, including participatory monitoring, within the context of formulating pro-poor, socio-economically disaggregated strategies and program interventions.

After the discussion on various constraints, the next chapter outlines our key strategic priorities to overcome these constraints to put Afghanistan on the road to sustainable growth and development.





**PART 3**

**STRATEGY**



# 5

# NATIONAL DEVELOPMENT STRATEGY

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## 5.1 INTRODUCTION

The Government aims to transform the economy to enable the private sector to be the engine of growth and empower the poor to participate fully in that growth. The analysis of constraints to development in Chapter 4 shows the challenges that Afghanistan faces in achieving growth and reducing poverty. This Chapter presents our strategy for overcoming these constraints.

For our people to share equitably in the third pillar of the I-ANDS, economic and social development, we must make progress on the other two: security, and governance, the rule of law and human rights. We have identified constraints and challenges to all of these and success in each depends on success in the others. The vulnerability of our society to corruption and the prevalence of illicit power holders (the lack of justice) create incentives for economic actors to remain in the informal sector and engage in illicit activities, preventing the Government from mobilizing the necessary resources. Therefore this Chapter also briefly articulates our strategies for both security, and governance, rule of law and human rights, which are elaborated in greater detail in Chapter 7.

## 5.2 SECURITY

Government will provide security with the direct support of the international community, though the ANA and ANP will increasingly take on this responsibility. Government will establish a legitimate monopoly on force to enforce the law, providing a secure environment for the protection of the rights of all Afghans and ensuring freedom of movement for people, commodities, and ideas. Government will establish fiscally sustainable force sizes and structures for the security forces. Government will also disband all IAGs and work towards eliminating all mines and unexploded ordinances.

Our security strategy contains the following priorities:

1. Through Jaddi 1339 (end-2010), with the support of and in close coordination with the Afghan Government, NATO-led International Security Assistance Force (ISAF), Operation Enduring Freedom (OEF) and their respective Provincial Reconstruction Teams (PRTs) will promote security and stability in all regions of Afghanistan, including by strengthening Afghan capabilities.
2. By Jaddi 1389 (end-2010): the Government will establish a nationally respected, professional, ethnically balanced Afghan National Army that is democratically accountable, organized, trained and equipped to meet the security needs of the country and increasingly funded from Government revenue, commensurate with the nation's economic capacity; support will continue to be provided to Afghanistan in expanding the ANA towards a ceiling of 70,000 personnel articulated in the Bonn talks articulated in the Bonn talks; and the pace of expansion is to be adjusted on the basis of periodic joint quality assessments by the Afghan Government and the international community against agreed criteria which take into account prevailing conditions.
3. All illegal armed groups will be disbanded by Jaddi 1386 (end-2007) in all provinces.
4. By Jaddi 1389 (end-2010), a fully constituted, professional, functional and ethnically balanced Afghan National Police and Afghan Border Police with a combined force of up to

- 62,000 will be able to meet the security needs of the country effectively and will be increasingly fiscally sustainable.
5. The Government will strengthen its law enforcement capacity at both central and provincial levels, resulting in a substantial annual increase in the amount of drugs seized or destroyed and processing facilities dismantled, and in effective measures, including targeted eradication as appropriate, that contribute to the elimination of poppy cultivation.
  6. By Jaddi 1389 (end-2010), the Government and neighboring and regional governments will work together to increase coordination and mutual sharing of intelligence, with the goal of an increase in the seizure and destruction of drugs being smuggled across Afghanistan's borders, and effective action against drug traffickers.
  7. By Jaddi 1389 (end-2010), in line with Afghanistan's Millennium Development Goals (MDGs) and Afghanistan's Ottawa Convention obligations, the land area contaminated by mines and unexploded ordnance will be reduced by 70%; all stockpiled anti-personnel mines will be located and destroyed by Jaddi 1386 (end-2007), and by Jaddi 1389 (end-2010) all unsafe, unserviceable, and surplus ammunition will be destroyed.

While we need security forces, ultimately we will secure our national defense through dialogue with our neighbors. Similarly, with regard to our internal security and threats of terrorism; we cannot expect to overcome these through military means or through the police. Every state needs its citizens to participate actively to meet threats of terrorism and ensure the primacy of the rule of law. Therefore, as a critical component of our security and economic development strategy we will pursue a "Social Compact" as indicated in Section 5.5 below.

### **5.3 GOVERNANCE, RULE OF LAW, AND HUMAN RIGHTS**

Government will establish and strengthen public institutions at the central and sub-national levels to achieve measurable improvements in the delivery of services and the protection of rights of all Afghans. Corruption in government will be addressed through improved accountability, strengthened public sector management, independent audit and oversight, transparency in the operations of government, simplification of Government machinery and procedures in its interactions with the people, and a strengthened legal framework and judicial system. The justice system will be reformed, and Government will invest in its capacity and infrastructure, including prisons and corrections services, with the aim of assuring Afghans in all parts of the country of access to formal justice and judicial supervision of informal dispute resolution mechanisms. We will strengthen protection of human rights for all, especially women and children, and assure redress for violations.

The role of the public sector will be to deliver the public goods needed for this strategy, including basic services, rather than engaging in production or trade directly. Government may assume the roles of policy making and monitoring rather than direct provision of basic services, which it may contract to the private or non-profit sectors. To perform its role, the Government will need to build the capacities and transform the orientation of the public administration.

To establish an efficient model for service delivery, Government will review the functional assignments of central, provincial and district administration, and consider the use of CDCs and other non-government actors for service delivery to the extent that they provide an effective and cost efficient way to address local needs. The role of NGOs will be assessed, as the Government acknowledges that without NGOs many of the MDG targets will not be met, particularly in the areas of health and education. Government will assess the long-term overhead costs of such execution as part of its program to enhance public expenditure management (PEM).

The overall public administration reform program will increasingly move to the provinces and districts. We will make a serious effort to simplify procedures so that civil service reform is better able to succeed. Government will plan and execute investments in infrastructure to bring remote



communities closer to essential services. Secondary and tertiary roads are vital, as are local governance and maintenance systems, so that local public assets do not fall into disrepair.

To improve governance, the rule of law and ensure human rights, we have identified the following key priorities for Government:

1. By Jaddi 1389 (end-2010): Government machinery (including the number of ministries) will be restructured and rationalized to ensure a fiscally sustainable public administration; the Civil Service Commission will be strengthened; and civil service functions will be reformed to reflect core functions and responsibilities.
2. A clear and transparent national appointments mechanism will be established within 6 months, applied within 12 months, and fully implemented within 24 months for all senior level appointments to the central government and the judiciary, as well as for provincial governors, chiefs of police, district administrators and provincial heads of security.
3. By Jaddi 1385 (end-2006), a review of the number of administrative units and their boundaries will be undertaken with the aim of contributing to fiscal sustainability.
4. By Jaddi 1389 (end-2010), in furtherance of the work of the Civil Service Commission, merit-based appointments, vetting procedures and performance-based reviews will be undertaken for the civil service at all levels of government, including central government, the judiciary and police, and requisite support will be provided to build the capacity of the civil service to function effectively. Annual performance-based reviews will be undertaken for all senior staff (Grade 2 and above) starting by Jaddi 1386 (end-2007).
5. The UN Convention against Corruption will be ratified by Jaddi 1385 (end-2006), national legislation adapted accordingly by Jaddi 1386 (end-2007) and a monitoring mechanism to oversee implementation will be in place by Jaddi 1387 (end-2008).
6. The census enumeration will be completed by Jaddi 1387 (end-2008) and the complete results published. Reliable statistical baselines will be established for all quantitative benchmarks by the first quarter of 1386 (mid-2007) and statistical capacity built to track progress against them.
7. The National Assembly will be provided with technical and administrative support by the first quarter of 1385 (mid-2006) to fulfill effectively its constitutionally mandated roles.
8. The Afghanistan Independent Electoral Commission will have the high integrity, capacity and resources to undertake elections in an increasingly fiscally sustainable manner by Jaddi 1387 (end-2008), with the Government of Afghanistan contributing to the extent possible to the cost of future elections from its own resources. A permanent civil and voter registry with a single national identity document will be established by Jaddi 1388 (end-2009).
9. By Jaddi 1389 (end-2010): the National Action Plan for Women in Afghanistan will be fully implemented; and in line with Afghanistan's MDGs, female participation in all Afghan governance institutions, including elected and appointed bodies and the civil service, will be strengthened.
10. By Jaddi 1389 (end-2010), the legal framework required under the constitution, including civil, criminal, and commercial laws, will be put in place, distributed to all judicial and legislative institutions, and made available to the public.
11. By Jaddi 1389 (end-2010), functioning institutions of justice will be fully operational in each province of Afghanistan. The average time to resolve contract disputes will be reduced as much as possible.
12. A review and reform of oversight procedures relating to corruption, lack of due process and miscarriage of justice will be initiated by Jaddi 1385 (end-2006) and fully implemented by Jaddi 1389 (end-2010); by Jaddi 1389 (end-2010), reforms will strengthen the professionalism, credibility and integrity of key institutions of the justice system (the Ministry of Justice, the Judiciary, the Attorney-General's office, the Ministry of Interior and National Directorate of Security).
13. By Jaddi 1389 (end-2010), justice infrastructure will be rehabilitated; and prisons will have separate facilities for women and juveniles.
14. A process for registration of land in all administrative units and the registration of titles will be started for all major urban areas by Jaddi 1385 (end-2006) and all other areas by Jaddi

- 1387 (end-2008). A fair system for settlement of land disputes will be in place by Jaddi 1386 (end-2007). Registration for rural land will be under way by Jaddi 1386 (end-2007).
15. By Jaddi 1389 (end-2010), the Government will increase the number of arrests and prosecutions of traffickers and corrupt officials, and will improve its information base concerning those involved in the drugs trade, with a view to enhancing the selection system for national and sub-national public appointments.
  16. By Jaddi 1389 (end-2010): the Government's capacity to comply with and report on its human rights treaty obligations will be strengthened; Government security and law enforcement agencies will adopt corrective measures including codes of conduct and procedures aimed at preventing arbitrary arrest and detention, torture, extortion and illegal expropriation of property with a view to the elimination of these practices; the exercise of freedom of expression, including freedom of media will be strengthened; human rights awareness will be included in education curricula, and promoted among legislators, judicial personnel and other Government agencies, communities and the public; human rights monitoring will be carried out by the Government and independently by the Afghan Independent Human Rights Commission (AIHRC), and the UN will track the effectiveness of measures aimed at the protection of human rights; and the AIHRC will be supported in the fulfillment of its objectives with regard to monitoring, investigation, protection and promotion of human rights.
  17. The implementation of the Action Plan on Peace, Justice and Reconciliation will be completed by Jaddi 1387 (end-2008).

These key elements will be addressed through the governance programs indicated in Chapter 7.

## **5.4 ECONOMIC AND SOCIAL DEVELOPMENT**

Our economic and social development strategy aims to achieve pro-poor, private sector-led growth while eliminating the narcotics economy. Our strategy will provide the enabling environment for the private sector to create legal employment, particularly in rural areas, in both agricultural and non-farm rural livelihoods. Our two core aims (maintaining growth while eliminating the narcotics economy) are summarized below, followed by the areas of investment that we will prioritize in order to create an enabling environment to achieve these aims.

### **5.4.1 MAINTAINING HIGH GDP GROWTH RATES**

Growth of the licit economy will expand opportunities, preventing further conflict, building governance and security, and reducing poverty. High growth rates alone will not achieve all these goals, however; the pattern of growth must directly benefit the poor. Growth must also be sustainable over the longer term, rather than depending on current levels of aid or other windfalls. Now is the time to make strategic investments and institutional reforms to lay the foundation for strong growth and reduction of the grinding poverty of the people.

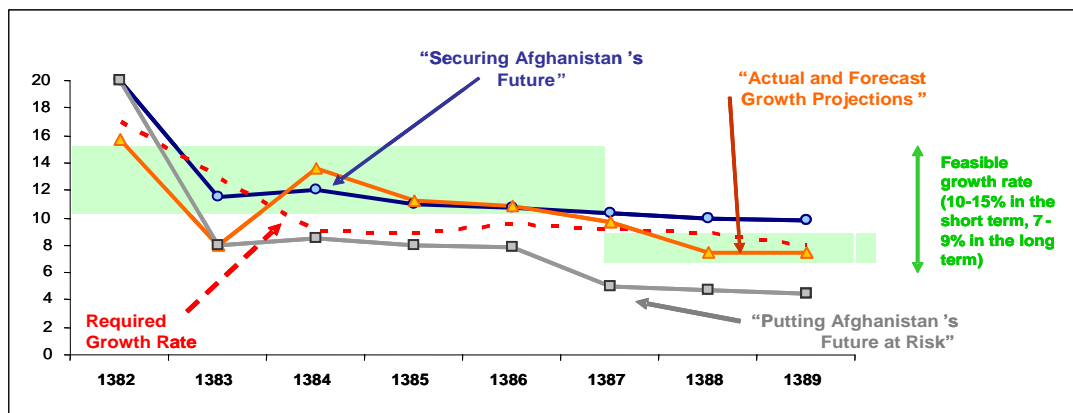
*Securing Afghanistan's Future* (SAF, 2004) estimated that stabilizing Afghanistan would require a 9% average annual rate of real growth in the licit economy over a period of 12 years. This estimate was based on the following reasoning:

1. Based on historical comparisons with other countries, SAF concluded that the country would require a real per capita growth rate of 3% per year in the total economy to change expectations about the future and shift behavior toward investment and production. The "total economy" includes both licit and illicit sectors, as both contribute to people's welfare and standard of living.
2. Assuming a conservative population growth rate of 2% per year, real growth of 3% per capita is equivalent to a 5% real growth rate of the total economy.

3. SAF used UNODC data to estimate the share of narcotics in the total economy. Projecting the gradual elimination of narcotics over 12 years, SAF estimated the size of the contraction of the total economy that elimination of narcotics would cause, and hence the additional growth in the licit economy needed to compensate for the lost income. SAF's projections concluded that combining the targets of 5% annual real growth in the total economy with elimination of the narcotics sector over 12 years would require an annual real rate of growth of 9% per year in licit GDP over that period.<sup>50</sup>

Figure 5.1 below presents real growth rates of licit GDP based on latest Government estimates (GoA, MTFF, 1384 (2005/6)) compared to target growth rate posted by SAF. Growth rates in Afghanistan depend on agricultural yields, which largely depend on rainfall. Due to slower growth in agriculture, real GDP growth dropped to 8% in 1383 (2004/5), although it is forecast to increase to 13.6% in 1384 (2005/6). Current forecasts suggest that growth rates in 1388 (2009/10) and 1389 (2010/11) could fall below the SAF minimum growth target.

**Figure 5.1: Required, Feasible, and Projected Rates of Real GDP Growth**



The principal purpose of SAF was to estimate the investment requirements for a scenario for success, called “Securing Afghanistan’s Future.” SAF also examined an alternative scenario, called “Putting Afghanistan’s Future at Risk,” also depicted in Figure 5.1. SAF estimated that realizing the positive scenario would require at least US\$ 27.6 billion of properly balanced external aid commitments over 7 years, to be disbursed over 12 years. SAF argued that this increase in international investment was cost-effective, as the resulting stabilization would permit the earlier reduction and withdrawal of comparatively expensive international military deployments, though it did not offer a timetable for withdrawal. The figure presumes that the aid is distributed across sectors in accord with government priorities and delivered in a cost-effective manner. The I-ANDS continues to use these indicative estimates, while emphasizing that the use of national delivery mechanisms can provide significant efficiencies in terms of cost (see Chapter 10).

While the level of post-Berlin commitments has broadly matched the target, disbursements have not always conformed to the government’s policy framework. Investments in agriculture and irrigation have been substantially below the levels requested, contributing to a shortfall in agricultural productivity. Government is concerned that growth rates may slump with the exhaustion of the immediate recovery from conflict, the corrosive effect of the high real exchange rate, the decline of the multiplier effect of the opium economy, and lack of economic diversification.

In the course of 1385 (2006/7), the Government will estimate the full cost of the policy framework matrix and prioritize investments that will lead to higher levels of growth. The Government has

<sup>50</sup> For these calculations see Annex 1 in SAF.

established priorities for the National Budget to stimulate growth across all sectors, with particular emphasis on the rural economy. If donors align their strategies to those of the Government, growth rates for the outer years could improve substantially.

#### **5.4.2. ELIMINATING THE CRIMINALIZED ECONOMY**

All reforms of the public sector and attempts to create an enabling environment for private sector growth will fail if the Government does not dismantle the criminalized economy that empowers illicit power holders and deprives people, especially the poor, of basic rights. Government will therefore place counter-narcotics at the centre of our development strategy. The elimination of opium poppy cultivation, however, must be effectively sequenced within the broader development effort.

We will do away with this sector in a way that strengthens rather than undermines our goals of high overall growth rates, poverty reduction, and balancing the external account. Our counter-narcotics policy must ensure that the poor who are dependent on opium for their livelihoods do not bear the main adverse effect of rapid reduction in opium production. Indeed, many studies argue that for both micro-economic and political reasons, excessive reliance on crop eradication is a counter-productive way to start the elimination of the opium economy.<sup>51</sup>

The main goal of our pro-poor counter-narcotics strategy is to break the power of corrupt officials, illicit power-holders, and drug traffickers who accumulate most of the wealth generated by drugs and keep the poor in a relation of economic dependence. To combat the influence of drug traffickers over portions of the administration, the Government will establish an increasingly transparent system for appointment of senior officials and recruitment to the civil service, including vetting potential officials for involvement in drug trafficking. Building our capacity to fight official corruption will also be essential. Efforts to interdict and arrest traffickers will require building effective intelligence, law enforcement, and judicial capacities at the central and provincial levels of government and improving intelligence and operational cooperation with neighboring countries. Government will also spread awareness of the harms of illicit cultivation and trade in opium, as well as highlight our increasing effectiveness in tackling trade in illicit narcotics.

At the same time, the Government will promote development of licit livelihoods for farmers and laborers who currently depend directly or indirectly on the narcotics economy. Creating such livelihoods will require years of investment. These programs involve the basic elements of the pro-poor growth strategy as a whole: building the rights, capacities, and assets of the poor. As licit livelihoods become available, crop eradication will become more feasible and can be targeted against those most committed to illegal narcotics.

Finally, our counter-narcotics strategy will have to incorporate measures to support Afghanistan's balance of trade and payments and build the fiscal capacity of the government, which risks losing duties now levied on imports financed by drug exports. Hence, the strategy for providing licit livelihoods will focus on economic activities that produce import substitution or goods for export, not expansion of subsistence farming. As the economy adjusts to the production of more licit trade options, including for the domestic market, Government will revise its fiscal strategy away from the current level of reliance on import duties.

#### **5.4.3 STRATEGIC PUBLIC INVESTMENTS**

To exploit the growth potential in the economy, while eliminating the criminal economy, Government has identified strategic and prioritized public investments to be made in (1) infrastructure, particularly electricity, roads, and water, (2) institutional and human capacity development, (3) protecting the

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<sup>51</sup> William Byrd and Christopher Ward, Drugs and Development in Afghanistan (World Bank, September 2004); UNODC Independent Evaluation Unit, Thematic Evaluation of UNODC's Alternative Development Initiatives (UNODC, November 2005).

rights of the poor, with a particular focus on social protection for the most vulnerable and (4) creating an enabling environment for public sector investment. The Government does not consider that there is a trade-off between these four priority areas of public investment. The challenge is to achieve an appropriate balance within the envelope of available resources. The balance, prioritization and phasing between and within each of the areas of public investment, for which detailed costing is necessary, will be developed in the ANDS. Once that costing is in place, Government will seek to allocate both its own budgetary resources and to guide the allocation of donor resources towards these priorities.

### INFRASTRUCTURE

The lack of basic infrastructure will be turned to our advantage by recognizing that it is not only a priority investment that we need to make to stimulate economic growth but also a source of employment. Government's infrastructure priorities are to develop:

1. Power generation facilities for urban and rural electrification;
2. Roads – the ring road and roads connecting to neighboring countries, rural roads; and the repair of urban streets and bypasses; and
3. Water – irrigation and water resource management, and drinking water supply in both rural and urban areas.

Development of physical structures alone will not suffice. Government will improve its capacity to manage and maintain its infrastructure and provide reliable and cost effective economic services to the Afghan citizenry through comprehensive cost recovery measures.

***Enhancing Access to Cheap and Uninterrupted Power:*** Electric power is a critical requirement for non-rain fed irrigation and light industry. The private sector will not invest in small and medium-scale industries unless it has assured power supply. The existing power infrastructure will be rehabilitated.<sup>52</sup> Until we can increase our generating capacity, we will build transmission lines to enable us to purchase power from neighboring countries. For the next two to three years until the power through the transmission lines reaches Kabul and the major cities, we need to explore lower-cost technological solutions including non-conventional and renewable energy sources. Technologies exist that would allow us to reduce the current cost of power supply to Kabul and major cities. At the same time we need to increase our generating capacity, especially through domestic and cross-border power projects, and start recovering the costs of power supply. For urban and semi-urban areas, developing hydro-power through small and medium dams is promising. The power system will be financially sustainable, with reasonable costs, effective delivery of power, and electricity prices that enable the service to be provided without incurring financial losses.

We will take measures to assure that access to power is available in an equitable and balanced fashion. Pro-poor growth will depend on rural electrification that is accessible to all, not just to the most developed areas or the biggest landowners. Promoting small enterprise development in the cities will require assuring electric power supply to all neighborhoods, not only the wealthier ones. A comprehensive rural electrification strategy will be formulated during the course of developing the full ANDS.

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<sup>52</sup> Currently access to public power is only about 6%, one of the lowest in the world. Thirty percent of households and businesses connected to the public grid are found in Kabul.

***Enhancing Connectivity through Improved Road Access:*** To exploit the benefits of Afghanistan's geographical location, Afghanistan will need a ring road and roads connecting to neighboring countries within the next five years. Construction on the ring road commenced in 1383 (2003) and works continue on most segments including roads connecting to neighboring Tajikistan, Pakistan and Iran. A network of trunk and rural access roads is also needed to get the country's agricultural produce and the products of rural industries to domestic and foreign markets.

A well developed and maintained road network will generate demand for high-value agricultural produce and rural industrial products, enhance rural access to services, and support market integration and reduce rural isolation. The use of labor based techniques will generate short term employment and the use of local materials such as stone will produce low maintenance rural access roads enabling connectivity between villages and provincial towns. Roads will also enhance the political participation of our rural population, strengthen national unity, improve security, and promote national markets.

Afghanistan's towns and cities must become marketing and service centers for rural development as well as centers of employment creation in small industries. Improving urban infrastructure will also require paving the streets of small towns and district centers and linking them to rural access roads.

***Expanding Access to Irrigable Land and Drinking Water:*** Agricultural growth and productivity depends heavily on irrigation. The NRVA has also documented the deplorable lack of access to drinking water. Much of the investment in this area will come from farmers and rural communities, but Government will also facilitate such investments by providing expertise, grants, and credit. The Government will work with communities on water resource management through rural development programs to ensure that the investments by communities are sustainable.

Although most of the water consumption in rural areas is for agriculture, people also need water for consumption and sanitation. Afghanistan has reasonable supplies of groundwater, but these can be depleted quickly, as during the drought of 1378-1382 (1999-2002). Therefore, we will seek both to improve the quality and quantity of groundwater supplies and develop strategies for water management in both rural and urban areas. Urban water supply through a piped system will require heavy investment.

We need to improve rural livelihoods through rehabilitation and reconstruction work on small, medium and large traditional irrigation schemes. We will improve agricultural production and hydropower generation by completing existing large scale irrigation systems, undertaking new ones, and developing national capacity for the management, conservation and regeneration of the environment.

## **INSTITUTIONAL AND HUMAN CAPACITY DEVELOPMENT**

***Institutional Capacity Development:*** Government will integrate measures for building the capacity of Afghan institutions and individuals into all its development plans. It will aim at developing the capacity of the public sector and private sector and developing the skills of the economically active population so that they are more productive and able to compete.

Developing the capacity of the public sector means, first of all, the creation of effective institutions oriented toward the provision of services. Our Public Administration Reform aims to ensure our administration effectively delivers services and every public servant has an incentive to produce results and serve the public. Such a structure will be able to absorb and use the capacities and skills that Government will develop in its individual public servants through training programs. Training programs will largely be integrated with work performance, but selected staff will also be sent abroad to study or work with counterparts in the region or in global centers of excellence.

The Afghan private sector needs to develop the skills to engage in production, investment, and marketing. The dominance of the public sector and then the insecurity of years of war have largely confined Afghan business people to trade financed through effective but unsophisticated means. They need to learn how to bid on international contracts, raise capital through formal institutions, purchase and use insurance, calculate the costs and benefits of investments, develop business plans, and package and market goods according to international standards.

***Enhancing Our Productive Capacity*** The Afghan people, especially our youth, need to learn marketable skills and prepare themselves for today's knowledge-based global economy. Hence our educational system needs to move away from rote memorization to teach techniques of thinking and analysis. We need to provide the less educated with vocational skills to fill demands for construction, infrastructure building, and maintenance of assets. We need to assure widespread literacy and numeracy that are needed to function and succeed in a market economy. We will establish vocational and on-the-job skills building programs, while upgrading our higher-education system to orient it toward the managerial and professional skills our development effort requires.

We must immediately enhance the productivity of our labor force, and build the capacity of our people to participate more productively in the legal economy in the future. In that regard, we will prioritize education, skills development and health.

***Quality Education and Skills Development:*** In education, we will formulate effective educational policies with an emphasis on fair distribution of educational opportunities and facilities across the country. Our medium-term goals will be to ensure that the majority of our primary school age children receive quality education in school and that our universities are able to train the graduates who can gain entry into the private sector upon graduation. We need to produce graduates who will stay in Afghanistan and help us to develop, and who will be able to capitalize on regional advantages and global opportunities. For this we will need to implement a comprehensive human resource plan for the short, medium and long-term. This plan will provide direction for the development of our curriculum for vocational training and higher education, which must respond to the needs of our private sector.

The years of conflict have destroyed our skills base. Government will make up for the lost generations by training a strategic pool of several thousand professional cadres to improve the quality of our governance and strengthen the representation of women and under-represented provinces. It is possible rapidly to expand vocational skills that are needed in the immediate period to meet the demands of agriculture and infrastructure development. Vocational training will respond to private sector demand and will be implemented, where possible, through private sector mechanisms. Government will develop labor market statistics that would steer job seekers to appropriate and promising training programs.

Through years of conflict and low levels of economic activity in the formal and licit economy, the management skills in the country have been lost. Managerial skills can be taught but are more effectively learned on the job. Unless Afghans take on the job of managing their own future, the dependency of the state on external assistance will not decline. If Afghans are to rise to this challenge, they must increasingly be given the opportunity to manage private sector enterprises as well as in government. In the short-term, we will selectively import managerial talent to run projects and teach Afghans on the job.

To ***enhance the health of the nation***, Government will make it a priority to ensure that that Afghans throughout the country have access to the Basic Package of Health Services to reduce infant, child, and maternal mortality. Basic health care is not only a fundamental right, it is essential to enhancing our human capital. By focusing our health investments on maternal health care in particular, we aim to improve the well-being and productive capacity of entire families.

### **Box 5.1 Afghanistan's Human Capital: Our Greatest Asset**

Afghanistan's greatest asset is its people. Their productive participation in the economic and social revitalization of the country is essential. Due to years of conflict, there has been underinvestment by Government in health, education, skills development, and vocational training. Investments in these areas, fundamentally, are investments in people.

Today, Afghanistan is without a trained workforce to effectively generate growth in new areas or to compete with the skill base within the region. There is no coherent program for enhancing the productive capacity of the Afghan adult population, and project initiatives remain piecemeal in coverage. Government needs to invest carefully to ensure that the Afghan people have skills that they can utilize, that they are productive, and that they have a place in the new era of globalization. Workers require skills relevant to the evolving needs of employers and the economy.

Our pool of unskilled and semi-skilled labor can be utilized to rebuild and maintain our roads and other vital infrastructure. Skilled foreign workers, in the short-term, are a potential source of managerial and technical expertise, provided that skills are transferred to our workers through on-the-job training. Literacy and non-formal education and apprenticeship programs will enable our adults and youth to work more productively, to gain greater self-confidence, and to become more involved in group decision-making. These will programs will also help them to access more credit facilities to invest in improving their incomes, and to become more proactive in marketing and selling their products. Government will ensure that access to education and vocational training is equally available to women, as well.

Insufficient analysis on the needs of the private sector and potential employment growth areas limits the effectiveness of skills development projects currently operating and prevents a comprehensive strategy from being developed. Analysis on the potential mechanisms to equip our adult population with skills to respond to those demands is also lacking.

***Enhancing Health of our People:*** Government will make it a priority to ensure that at least 90% of Afghans have access to the Basic Package of Health Services. We will aim to achieve significant reductions in the high levels of infant, child, and maternal mortality. We will establish an incentive system to distribute health care more widely throughout the country. Basic health care is not only a fundamental right, it is essential to enhancing our human capital. By focusing our health investments on maternal health care in particular, we aim to improve the well-being and productive capacity of entire families.

### **PROTECTING THE RIGHTS OF THE POOR AND SOCIAL PROTECTION**

Economic growth is necessary but not sufficient for achieving our vision. That growth must be shared widely across the population and impact the lives of the poor directly. To ensure that the poor participate fully in our economic recovery, the Government intends to take special measures to protect their rights. In particular, the registration of land will aim to protect people from land grabs, and provide security for investment in fixed capital, which requires land to operate. Registration of land rights has another important economic function. Much of the savings of Afghans is locked up in land and housing that is currently unproductive: protecting and formalizing land rights can transform this dead savings into living capital. Once registered, land can be used as collateral with formal financial institutions, thus unlocking an important source of credit for investment and growth. Measures to protect the rights of the poor, including property rights, will also help guarantee that they enjoy equitable access to those public goods, such as irrigation water and electric power, which are sometimes monopolized by local power holders.

Under the Afghanistan Compact, the AIHRC and the UN will carry out joint monitoring of human rights conditions. We will ask these bodies to make a priority of monitoring the rights of the poor, especially in rural areas, including their right to land, their right not to be forced into human trafficking in settling debts, and their right to have access to those services and elements of infrastructure that become available in their communities. Monitoring the access of the poor to the



justice system as it is reformed and strengthened will also help us guide the process in the right direction.

While Afghanistan cannot afford to provide a full safety net for all its citizens, the Government intends to accelerate basic social protection programs that protect those affected by disasters and reach as many of the displaced, vulnerable women, unemployed youth, and the disabled as possible. Our social protection programs will not be designed simply as welfare or hand-out programs, which we cannot afford over the long run, but as productivity and access enhancement that help these vulnerable groups participate fully in our economic growth.

### **CREATING AN ENABLING ENVIRONMENT FOR ENTREPRENEURSHIP AND INVESTMENT**

In accordance with Article 10 of the Constitution of the Islamic Republic of Afghanistan,<sup>53</sup> the Government regards the private sector as the main source of growth and employment creation. In the next few years, we expect the main areas of growth in the private sector to be in agriculture, small and medium enterprises and the service sector with the participation of the domestic and foreign private sector.

To bring enterprises into the formal sector, we will streamline regulatory and tax policy and simplify procedures in the public sector, so that government reduces rather than increases the risks of entrepreneurship. The strong incentives for enterprises to stay in the informal sector, emanating from red tape, corruption, an underdeveloped financial sector, including credit and insurance, and weak governance, will be changed.

The Government will enhance the current regulatory framework for private financial markets, including micro-finance services that mainly assist the poor. The Government's financial sector policy objective is to develop a competitive, efficient, market-oriented, and privately-owned financial sector to increase the level of financial intermediation. To move in this direction, we will first strengthen the existing legal and regulatory framework by passing laws such as the Non-bank Financial Institutions Law. Government is concerned that commercial banks are often not meeting the needs of private investors but doing little more than managing donor related external assistance. Removing the constraints that the commercial banking sector faces will expand the financial products available to clients.

An effective program of "value chain" investments to stimulate rural economic activities (e.g. horticulture and livestock) that lead to competitive exports and import substitutes will be promoted within the private sector. Such a program will start with protecting the assets of the poor, especially land ownership, and lead all the way through the value chain to final exports/internationally competitive import substitution, and would include marketing, quality standards, power for cold stores, transport infrastructure, and policy liberalization.

We will develop an export promotion strategy. Initially, Government will promote and facilitate labor intensive export-oriented manufacturing, while providing incentives to diversify and restructure the economy. In conducting growth accounting, the Government will establish monitoring systems to assess the impact of public and foreign direct investment on the promotion of exports.

We will seek to become more competitive by lowering costs, which are currently inflated by a high real exchange rate ("Dutch disease") as described in Chapter 4. Government will seek to keep inflation low by, among other things, continuing its no-overdraft rule. If prices rise more quickly than those of our competitors abroad, we will rapidly become uncompetitive, and our licit exports will fall. Inflation will also cause problems domestically as wages try to keep up, and those on fixed incomes suffer. By making targeted investments, we aim to stimulate particular sources of private sector led

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<sup>53</sup> Article 10 states that "the State encourages and protects private capital investments and enterprises based on the market economy and guarantees their protection in accordance with the provisions of law."

growth which will drive our economy in the short to medium term. Four examples are highlighted below.

#### **5.4.4 FOUR PRIORITY SOURCES OF GROWTH AND EMPLOYMENT CREATION**

As Government creates an enabling environment for growth through the priority investment areas stated above, *sources of growth* will emerge in (1) agriculture, pastoralism and rural enterprises, (2) the productive use of state assets, (3) mining and extractive industries and (4) regional cooperation, trade and transit. These four sources of growth will provide an appropriate balance between the urban and rural sectors. Many families pursue livelihood strategies that include activities in both locations, as well as abroad, and incomes and investment link them in many ways. We should achieve our goal of reducing poverty through raising agricultural productivity and incomes while simultaneously finding ways to absorb workers into rural non-farm enterprises. Our efforts at agricultural development must be balanced by the development of rural industries and productive activities in small towns and regional cities. Even if we succeed in slowing urbanization, however, it will continue, which will require us to find resources to improve the infrastructure in our cities and provide improved housing and urban amenities on a very limited budget. The cities and urban centers require substantial reconstruction which in turn can be a source of substantial growth and employment.

##### **AGRICULTURE, PASTORALISM, AGRO-BUSINESS AND RURAL ENTERPRISES**

Most Afghans live in rural areas. Most of our poor are in rural areas. Many are engaged in subsistence farming such as wheat production to meet their food consumption needs, but Afghanistan also has a long history of cultivation of high value horticultural crops. Over time, the production of these crops will be increased, and new ones will be introduced. Improvements in agricultural productivity will provide one of the main sources of economic growth and employment in the rural areas. Increased agricultural productivity can then form the basis for investments in light industries such as processing of agricultural products or import substitution to meet the demand created by rising rural incomes.

In addition, a significant portion of the Afghan population engages in pastoralism, either as full-time nomads or in conjunction with settled agriculture. After the death and slaughter of animals due to drought and the war-related closure of migration routes, Afghanistan's pastoralists are now rebuilding their herds. Improved veterinary and other services can improve their production and quality. Products such as meat, dairy products, and wool are well suited for small industries connected to pastoralism. The increased supply of high-quality wool will help expand the revived carpet industry (see Box 5.2). Installation of cold storage and improved transport can increase the marketability of meat and dairy products.

Agriculture, however, is not enough. Asian countries that have lifted their populations out of poverty have largely relied on rural industries. These enterprises provide non-farm employment and may also provide incomes for women, including widows and female heads of households. They enable families to diversify their survival strategies with a range of activities without migration that strains family relations. Some rural industries involve processing agricultural products, but they also involve meeting the demand for construction materials and household products stimulated by rising incomes. Essential conditions for rural industries are access to land, markets, credit, and electricity.

### **Box 5.2 Competitive Advantages of Afghanistan Carpets<sup>54</sup>**

*Carpets.* Research has shown that quality and design are the most important criteria for carpet purchases in the two largest markets – the U.S. and Germany. Some Afghanistan carpet producers are creating award-winning designs and selling carpets from between US\$ 800 to US\$ 900 per square meter. The majority of producers and traders will need to develop competitive advantages by improving designs and getting a better understanding of global preferences. For some, introducing more modern production methods will improve productivity. There is an underutilized comparative advantage with Ghazni wool, which is excellent for carpet production but is currently being used in only approximately one-third of carpet production.

The Afghanistan Carpet Committee, chaired by the Ministry of Commerce, is focusing on some core initiatives for carpet producers to access finance and business planning, which will enable domestic cutting and washing, essential for a “Made in Afghanistan” carpet brand. The marketability of this brand will be protected and promoted by reducing excessive child labor in the carpet industry.

Increasing direct trade to foreign end-markets as opposed to regional middlemen will increase Afghan producers’ profit margin up to 2-3 times higher. Financing will help expansion, targeted at 13% annually (in output) for the next 20 years, to achieve official exports of over US\$ 250 million by 1394 (2015). Upgrading sheep flocks and pasture will increase the supply of quality wool. Higher local wool content will improve carpet quality and lead to increased value capture of over US\$ 20 M annually.

The ideal type of agricultural activity for Afghanistan is labor-intensive production of high-value horticultural crops that can be processed and packaged into durable high-value, low volume commodities whose quality and cost would be adequate for sale in Afghan cities or export to regional or world markets. Among those that have been suggested or tried thus far are traditional products such as dried fruits (see Box 5.3), cotton, and karakul, as well as new products such as freeze-dried vegetables and fruits, preserves, linen, silk, essential oils and hydrosols, juice concentrates, personal care products (soaps and creams), sauces, and edible oils (olive, almond, and sunflower).

### **Box 5.3 Comparative Advantage of Afghanistan’s Dried Fruits & Nuts<sup>55</sup>**

Afghanistan fruit and nuts are considered to be the best quality brand in India and have a strong reputation in Asia and the Middle East. There is potential for additional markets, provided transportation costs, particularly through air-freight, can be reduced through increased competition. Recent initiatives include identification of two new business models—an integrated raisin processing plant and a nut factory upgrade—to help upgrade the industry. The MoAAH, with private sector input, is developing a plan to upgrade thousands of hectares of vineyards and orchards that will increase yields by 100 to 200%. ORCA, an organization that produced 2 million trees in Jalalabad is looking for support to replicate the model in Mazar and Herat. A group of exporters is organizing themselves to enter the Indian wholesale market where they could earn between 30 to 50% more revenue for their products. Dried fruit and nut exports have the potential to exceed US\$ 750 million annually.

These activities require several more years of investment and research to reach fruition. They will also require resolution of legal problems of land and pasture and expansion of credit. In the interim, there is still some scope to expand wheat production but much greater prospects for livestock production. Afghanistan’s wheat yields are several times lower than all of its neighbors except Tajikistan, which specializes in cotton and fruit production.

As priority strategies to overcome the principal barriers to agricultural growth and rural development, Government will:

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<sup>54</sup> Source: OTF Group

<sup>55</sup> Source: OTF Group

1. Invest in social capital in the form of CDCs to overcome barriers to public investment in rural areas;
2. Invest in irrigation works, balancing the distribution among the most productive areas, the major opium producing areas, and the most deprived areas.
3. Re-introduce Green Revolution techniques used in Afghanistan in the 1970s, such as improved wheat seeds, increased fertilizers, and where appropriate, a degree of mechanization.
4. Assess the scope for leasing public land on a long-term basis for promoting high-value agriculture in large farms through public-private partnerships. This should help decrease some security-related costs for private investors in the agricultural sector while increasing agricultural productivity.
5. Start registering rural land titles, and protect the land rights of small producers.
6. Construct rural access roads and, in selected areas, promote construction of cold-storage facilities by the private sector or through public-private partnerships, to provide farmers with improved access to markets.
7. Enhance agricultural extension services which are critical to increased agricultural productivity.
8. Promote the marketing of agro-produce (including exports) through processing facilities and transportation to the markets.
9. Expand rural electrification to support the development of small and light rural industries.
10. Expand micro-credit and business services, including insurance, in the rural areas.

These measures will yield returns in growth, poverty reduction, and provision of alternative livelihoods. Initially these will come mainly from increases in cereal productivity, rebuilding of livestock herds, and revival of traditional perennial horticulture. The relatively low use of fertilizer in Afghanistan means both that farmers can increase yields quickly through coordinated application of fertilizer and irrigation, and also that some agricultural land could be certified as organic for high-value horticultural or processed exports. We will support research into markets and agronomic potential to promote such growth.

We will undertake labor-based rural public works to build the infrastructure required for the above programs. Programs such as National Rural Access Program (NRAP formerly known as NEEP) and the NSP will be used as the vehicles through which employment opportunities will be extended for poor rural households

### **PRODUCTIVE USE OF STATE ASSETS**

The Government will generate growth and revenues through sale of public land for housing to finance urban development and privatization of SOEs. Backward and forward linkages from this activity will create opportunities for employment in the private construction industry.

**State Land:** Article 14 of the Constitution provides, “The state adopts necessary measures for housing and distribution of public land to eligible citizens in accordance within its financial resources and the law.” The constitutional commission drafted the latter provision because of the demand for land and housing that people articulated during public consultations. The Afghan national government and municipalities own huge amounts of urban land, which has skyrocketed in value over the past few years. Corruption in land transactions is a major source of lost revenue for the government and wasted capital for the economy. The Government will adopt a strategy for the reform of urban land transactions. It will make all land transactions public through publication and posting on the internet

in Dari, Pashto, and English. It will adopt a program of review of urban land titles to register them all within the next 3-5 years.

The Government will undertake a survey of the considerable amount of land it owns in and near urban areas. Once complete, Government will develop land with urban services (paved roads, electricity, water, sidewalks, lighting etc.), using low-cost loans. It will then sell or lease lots through open, competitive bidding. The Government will use the revenue generated from the sale or lease of public land, together with international assistance and low-cost loans, to provide the infrastructure and incentives for the private sector to build low-cost urban housing for middle and low-income families. Housing construction will have considerable forward and backward linkage effects on the economy, including employment creation, especially if the import composition of construction materials can be reduced. Government will also establish industrial parks, where entrepreneurs have easy access to serviced land, managed on a commercial basis, in different parts of the country. Based on the results of the land survey, government may also recover appropriated land and allocate or lease state-owned agricultural land to poor cultivators or to large farms for high-value horticulture.

**State Owned Enterprises:** SOEs are in varying states of financial health. Government has assessed these enterprises to determine the pace at which they can be privatized or liquidated. It will further assess other parastatal entities in the transport and mining sector for possible privatization. Those that currently perform important functions that cannot be quickly delivered through the market will remain under government ownership for the time being. There are also some that by law cannot be privatized. Some will be liquidated as they are deemed to have limited or no economic value. Government will strengthen management, oversight and transparency for those SOEs that remain under its control. The total revenue that the sale or liquidation of the SOEs will generate is as yet uncertain. The revenue raised from the sale of SOEs can be put in a separate fund to promote economic development projects.

### **MINING AND OTHER EXTRACTIVE INDUSTRIES**

Article 9 of the Constitution states, “Mines and sub-soil resources are properties of the state. Protection, use, management, and mode of utilization of the public properties shall be regulated by law.” Afghanistan has subsoil resources that have not been developed as part of the formal economy. Government has already taken the first step in the right direction by enacting the Mineral Law in 1384 (July 2005) that provides regulatory framework, including international standards on royalties and tax schemes that will appeal to foreign investment. We will also promote processing of the minerals that we have rather than only export them as raw materials. Income from natural resource extraction may require special treatment to prevent corruption and assure that it supports development. Government will study international experience to determine how best to take advantage of such income and avoid potential risks.

Mining, along with other sectors such as airlines, telecommunications, and energy, is one of the few areas where we believe Afghanistan might be able to attract significant direct foreign investment over the next five years. Among the resources available are coal, quarry materials, marble and dimension stone (see Box 5.4 below), industrial minerals, some metals, and semiprecious stones. We have an estimated 70 million metric tons of coal reserves, 240 million tons of copper, 1109 million tons of iron ore, 20-25 tons of gold, one trillion cubic feet of natural gas, and unknown quantities of gemstones and oil. The vast tracts of stone that we possess can be an important substitute for more expensive materials, such as imported concrete, in road building.

SAF estimated that the gross annual value of solid minerals produced could be increased from the estimated US\$ 60 million currently to US\$ 253 million per annum by 1387 (2008)<sup>56</sup>. For this to occur, public sector investment of US\$ 100 million and private sector investment of US\$ 360 million will be required, which would annually generate added value of US\$ 108 million and royalties and

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<sup>56</sup> Mining as a Source of Growth, World Bank, March 2004

other taxes of US\$ 18 million and a positive export balance of US\$ 66 million. The mining sector could also create an estimated 7500 jobs with additional employment multiplier effects.

To exploit the potential of the mining sector the Government will address regulatory, fiscal and institutional deficiencies to ensure good management, oversight and transparency; exercise greater control of local strongmen who now exploit these resources illegally; invest in roads, energy and water systems needed for mining; secure sufficient skilled and unskilled labor; and remove landmines and unexploded ordinance from relevant areas.

#### **Box 5.4 Competitive Advantages of Afghanistan's Marble<sup>57</sup>**

Samples of marble from Herat and Jalalabad are of high quality; Herat marble may rival that of Italy. Lapis and onyx could also receive substantial worldwide prices. The recent Mineral Law provides private sector access to deposits with 10-year leases. Investments in quarries can have a dual benefit of job creation and rural development since most quarries are located in remote areas. Forward integration into manufacturing more value-added dimension stone products could earn even more revenue for Afghanistan. The bulk of Afghanistan's marble products will be destined for export, as the local industry cannot absorb the full capacity of a robust industry. Sales could easily climb over US\$ 100 M per year in the next ten years with the proper support. A stretch goal would be US\$ 450 million, but would require expedited funding and improved infrastructure and security.

#### **REGIONAL COOPERATION, TRADE AND TRANSIT**

Afghanistan is located at a regional crossroads. The countries to its north and west have extensive supplies of hydrocarbons. The countries to its south and east have growing demand for hydrocarbons. Countries to the northeast, as well as Afghanistan itself, have extensive power resources. The countries north of Afghanistan are all landlocked.

Hence Afghanistan has significant potential to raise revenue from rents and tolls on transit and to generate economic activity from demand by transport workers and companies. The best known proposed transit project is the Trans-Afghan Pipeline (TAP), which will carry natural gas from Turkmenistan's Davlatabad field through western and southern Afghanistan to Pakistan and then, potentially, to India. Transit revenues from this project have been estimated at US\$ 160 million per year, or about half of the Afghan Government's domestic revenue in 1384 (2005/6). There are other plans for possible energy transit, including the sale of power by Tajikistan to Pakistan and the construction of oil as well as gas pipelines. Construction of such projects would generate employment and build skills, while their operation would provide sustainable revenue to the government.

With improvements of the road network and border management, transit through Afghanistan will place all Central Asian capitals within 36 hours of a seaport. Establishing such transit corridors would require road improvements, construction of railheads or railroads, provision of security along transit corridors (perhaps concentrated on certain days, to assure roads are particularly safe at certain times), avoidance of red tape and corruption, and better border management.

In the short-term opportunities for exploiting regional cooperation appear to be concentrated in a few areas. In a recent study the WB has pointed to some quick "win-win" solutions in regional cooperation that can serve to get it started with low risk.<sup>58</sup> The study pointed to the greatest prospects for quick win-win initiatives in electricity trade, transport sector and trade facilitation. We have begun work on this task by co-hosting (with the UK) the Kabul Conference on Regional Economic Cooperation on 13-14 Qaws 1384 (4-5 December 2005).

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<sup>57</sup> Source: OTF Group

<sup>58</sup> Prospects for Regional Development and Economic Cooperation in the Wider Central Asia Region, World Bank, November 2005.

There are some areas in which we can overcome security-related resistance and move forward more rapidly. For example, the Government will examine increased purchase of power from some of our neighbors and the construction of transmission lines for this purpose. It will explore the potential for cross-border power purchase. In transport and trade, progress can be made in lowering transit time through Afghanistan through cooperative border management and other multi-lateral or bilateral trade and transit agreements. Finally, we can reduce our capacity constraints through importing certain skilled labor from our regional countries within a framework of South-South cooperation whereby these skills help to alleviate our capacity constraints in the short-run while also helping to build our skills.

Finally, we will explore the possibility of reviving our tourism industry (see Box 5.5). Afghanistan is at the cross-roads of many cultures which have left their footprint. With the hiatus in tourism in recent years, interest in visiting some of the historically significant regions and seeing the scenic beauty can be revived. In the 1350s (1970s) over 90,000 tourists a year visited Afghanistan. Tourism was one of the country's largest foreign currency earners. Many parts of Afghanistan provide vast expanses of unexplored and untouched scenery and beauty, as well as unparalleled historical sites. Clearly tourism will take time to revive, depending on the security situation, but we will encourage the building of the infrastructure by the private sector necessary for tourism to grow.

#### **Box 5.5 Tourism: A Future Area of Growth**

As the political and security situation stabilizes and Afghanistan reconnects to the region, the tourism sector has the potential to once again become a source of growth. In the short and medium-term, continued insecurity and lack of infrastructure and services will require a more gradual and focused approach such as developing ecotourism opportunities. In the long-term, Afghanistan's rich cultural heritage and natural beauty have the potential to attract once again a significant number of tourists, particularly from South Asia.

The Government's role in encouraging the tourism sector will be primarily regulatory and promotional with a focus on institutional and capacity building. During the full ANDS process, a framework for the coordinated development of the sector will be developed. The Government will also ensure that linkages with the rural development strategy are fully explored and that back and forward linkages such as the development of local handicrafts and small scale industries are maximized. The strategy could (i) include recommendations for appropriate institutional structures, the revitalization of existing institutions; (ii) explore possible partnerships with the private sector and development agencies; (iii) include a national tourism policy and outline steps towards translating these into effective legislation; (iv) a marketing and product development strategy; (v) an action plan for systematic tourism development over the next five years; and (vi) a list of priority and pilot project. To support this process, the Government is committed to strengthen the capacity of the Ministry of Information, Culture and Tourism and to establish tourist centers in some of the provincial centers. The Government will also look towards marketing Afghanistan as a tourist destination abroad and into setting up appropriate mechanisms in cooperation with the private sector.

## **5.5 ACHIEVING OUR VISION THROUGH COMMUNICATION, CONSULTATION AND A 'SOCIAL COMPACT'**

For Government's development strategy to succeed in the next five years we not only need financial support; most importantly, we need the commitment and participation of our people in a shared strategy. We need to inform and explain to our people what can be expected from the Government and what the people need to do for themselves. We need to use our diversity as our strength to achieve development; not as a source of conflict. Our mosques, schools, and CDCs can be key partners in imparting the right messages on a range of issues to our people. The growing media sector will also play a vital role in disseminating our intent. A communications strategy will be developed so that our message will reach Afghans in the most remote corners of the country. We need the support of our National Assembly to understand our strategy and meet the challenges we face. Our Consultation strategy is addressed more fully in Chapter 12.

For all of this, we believe we need to build a national consensus among all branches of government and the Afghan people with respect to our vision and development strategy. We aim to do this through a ‘Social Compact’, which will complement the ‘Afghanistan Compact’ and its benchmarks that we have developed with the international community. The Social Compact will be developed and elaborated in the ANDS through the consultation process that we will undertake for its development.

## 5.6 LINKING STRATEGY TO SECTORS

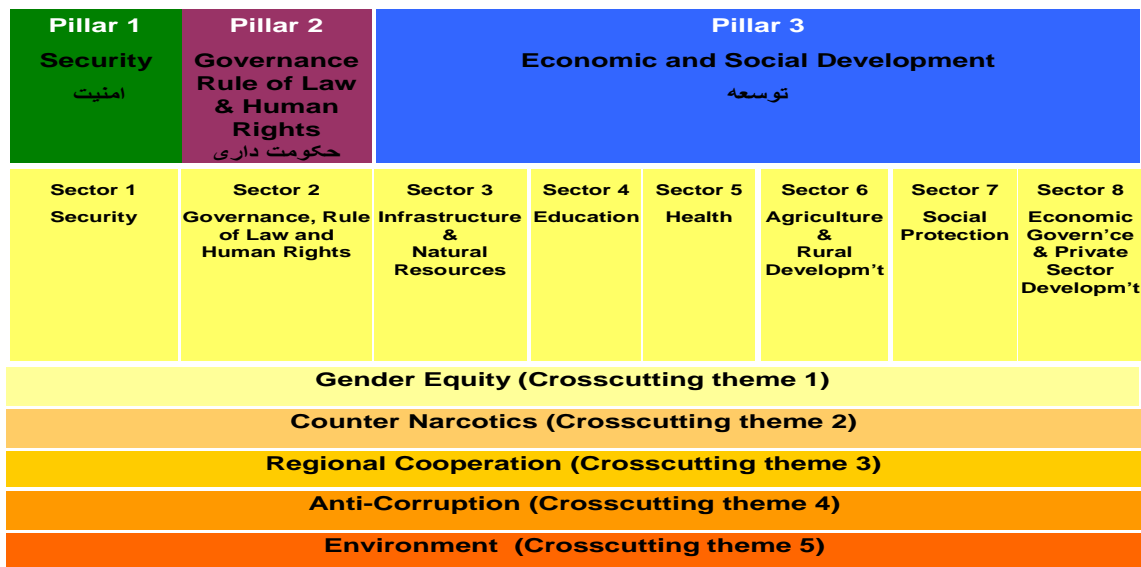
The following three chapters (Chapters 6, 7 and 8) present the comprehensive framework that underlies the Government’s growth and poverty reduction strategy, as outlined in the national development strategy in this Chapter.

### 5.6.1 THE I-ANDS PILLAR STRUCTURE

Over the past four years, the NDF has provided the policy template for formulation of the national budget, and the 1383 (2004) SAF report. In that same period, however, the challenges facing the government and Afghanistan have changed. In 1381 (2002/3), faced with the end of a bitter civil war, and the return of more than four million refugees, the focus of public investment was largely one of humanitarian support. With the political normalization process on track, and the worst of the humanitarian crisis over, the Government has made adjustments to its investment strategy to further its pro-poor economic growth and poverty reduction goals. In essence, Government’s policy priorities are evolving to meet the new challenges facing the Afghan people, and the investment framework must reflect this new reality.

To update the policy framework, and make it more growth oriented, the OSC for the ANDS developed a new programmatic structure for the national budget and reshaped the overall investment framework. The framework establishes three broad pillars (1) security, (2) governance, rule of law and human rights, and (3) economic and social development. Across these pillars are arrayed five cross cutting issues—gender, counter narcotics, regional cooperation, anti-corruption and the environment, and eight sectors—(1) security, (2) governance, rule of law and human rights, (3) infrastructure and natural resources, (4) health, (5) education, culture, media and sport (6) agriculture and rural development (7) social protection and (8) economic governance and private sector development. This structure can be graphically portrayed as follows:

Figure 5.2 Pillars, Sectors & Crosscutting Themes for the I-ANDS





The pillar framework is not just a new organizing framework for the same national programs; it is a fundamentally new approach to the ways in which projects and programs contribute to an agenda of poverty reduction and pro-poor growth. It allows for greater synergy within and across sectors, thereby strengthening linkages for policy and budget discussions. Ultimately, the strength of the new strategy rests on the various investment programs outlined in the coming chapters – all of which share an agenda of promoting growth and tackling chronic poverty.

The attainment of Government’s national development objectives depends on success across all three pillars. Failure to deliver security affects Government’s ability to govern. Failure of governance undermines the creation of an investment climate needed to release the full potential of the private sector. A failure of governance also limits our ability to provide basic services, including education, health, water, and sanitation. Failure to address cross cutting issues would effectively undermine the equity of the development process (gender), support the continued growth of the illicit economy (counter-narcotics), limit the expansion of trade and transit opportunities (regional cooperation), lead to increased level of petty corruption and state capture (anti-corruption) and undermine the environment with serious economic and social consequences (environment). In essence, the three pillars of the I-ANDS, and the cross cutting issues, are fundamentally interdependent. For that reason, Chapter 6 overviews Government’s strategy to mainstream cross cutting issues, Chapter 7 overviews the combined pillars of security and governance, rule of law and human rights, and Chapter 8 outlines the investment framework for enhancing economic and social development. In overview, each chapter addresses the following key issues:

### **5.6.2 CROSSCUTTING THEMES**

Chapter 6 presents Government’s strategy for integrating the issues of gender, counter narcotics, regional cooperation, anti-corruption, and environment into the investment framework. Gender issues are to be factored into the entire investment framework, with a focus on mainstreaming gender issues through advocacy, and practical investments to increase gender equity in all sectors. Our counter-narcotics strategy addresses the complex issue of how to eliminate the opium trade at the same time as helping farmers to find substitute sources of income. Success in opium eradication must not create unparalleled levels of poverty and limit economic growth. In each area of investment, Government will enhance regional cooperation. To address the growing concern that corruption may soon become endemic, Government has proposed an anti-corruption program based on the improvement of public finance and economic management, fiduciary controls, and legal action, underpinned by strong political will. All of this must occur in such a way that protects our precious natural environment—land, water, forests—for future generations.

### **5.6.3 PILLARS 1 & 2: SECURITY, AND GOVERNANCE, RULE OF LAW AND HUMAN RIGHTS**

Chapter 7 combines security and good governance because of the logical synergies between them. Investments in security aim at strengthening the central role of the National Security Council (NSC) as the lead agency responsible for dealing with national threats. The National Security Policy sets out the Government’s security plans. These programs focus on strengthening the National Army and National Police forces, on disarming IAGs and on de-mining. Given the risks of a fiscally unsustainable security sector, the security reform agenda will need to balance provision of vital security services in the short term with sustainability in the long term.

The section on enhancing governance, rule of law and human rights—which is a pre-condition for the attainment of all other national objectives—focuses on the transformation of the current judicial system as the foundation for legitimate government, protection of citizens’ rights, and a competitive market economy, as well as being essential to combat corruption and curb the illegal drug economy. State-sponsored justice must be available to all Afghans. The Public Administration Reform program will strengthen the capacity and accountability of Government and move reforms out of Kabul, bringing service delivery closer to people. A review of the functions of different units of government in service delivery will guide the restructuring process.

### **5.6.4 PILLAR 3: ECONOMIC AND SOCIAL DEVELOPMENT**

The investment programs outlined in Chapter 8 contribute directly to growth and the reduction of poverty. Investments in infrastructure and natural resource development are vital for high levels of growth in the aggregate economy, for lowering the costs of doing business, for enhancing economic competitiveness abroad and for extending access to markets, particularly for remote communities. Investments in power, stated by the private sector as a major binding constraint, will lead to increased productivity. Investments to enhance high input (fertilizer, improved seeds) and low input agriculture, to assist in the diversification of agricultural productivity, to produce value added crops that can substitute opium incomes are central areas of investment for government. Irrigation, integrated water resource management, expansion of extension and veterinarian services and broad access to market based information will lead to greater market integration – a synergy with investments at the community level. Rural development focuses on developing productive rural infrastructure including irrigation and water supplies, facilitating access to microfinance, creating community based governance and planning structures, as a means to effective and efficient services delivery, thereby making national resources responsive to local needs. Government perceives investment in local communities as key to good governance, and vital to securing an infrastructure that falls beyond the purview of national capacities.

A healthy population is a precondition of increased productivity. An educated workforce is a precondition for restructuring the economy, and for creating a culture that supports political stability and good governance. Where formal education has failed people, Government will provide informal education and vocational training, upgrading human capital and increasing wealth. Government also understands that development creates both winners and losers – and that a pro-poor growth strategy is vital. However, for the many thousands of people who remain in the grip of chronic poverty, special targeted programs are required to provide a basic safety net, while creating support for self help. Building national capacities in disaster management and mitigation will help all government agencies to respond quickly.

Investments to enhance economic governance focus on increasing domestic revenues, ensuring that public finances are managed in such a way as to ensure Government implemented programs are cost effective and have their intended impact. Finally, our private sector development efforts will aim to remove the binding constraints to growth in the formal and informal economies. These investments are fundamental to the Government's growth strategy. Creating an enabling environment allows government to support the development of an economy that is formally restructured, premised on market specialization and production of high value goods and services and one that promotes exports and income substitution. Creating the right investment climate is vital to a vibrant trade economy, and to maintenance of a balance between domestic and foreign investment.

# 6

## CROSSCUTTING THEMES

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### 6.1 CROSSCUTTING THEMES

This Chapter outlines the centrality of crosscutting themes in the attainment of national development objectives. For this reason, these issues are presented before the overall investment framework. Where possible, each investment program has been developed to fully integrate these key issues into the overall program design. However, Government is aware that the strength of the national strategy is not just in its design, but in its implementation. Substantial attention and investment is required to effectively integrate these themes into the overall policy framework, and national budget. Government will also have to develop monitoring and evaluation mechanisms and procedures that span the various ministries and agencies involved in the implementation of crosscutting policies. In essence, this requires strengthening the linkage between policymaking, planning, budgeting and program execution.

By their very nature, these programs cut across different ministerial and stakeholder mandates, calling for enhanced coordination and greater accountability. Mainstreaming these themes is a ‘mandatory’, not a ‘voluntary’ requirement. To this end, indicators have been developed for each of the crosscutting issues, which are fully integrated into the Policy Framework Matrix (Annex 1). It is through such integration, and effective monitoring, that Government will be able to assess the impact of these programs over time.

The crosscutting issues to be considered fundamental to the success of all investment programs are the following: (i) gender equity, (ii) counter narcotics, (iii) regional cooperation, (iv) anti-corruption, and (v) the environment. This Chapter presents the specific strategies for each crosscutting issue, assessing the policy environment, the constraints that need to be addressed and the proposed strategy.

### 6.2 GENDER EQUITY

#### 6.2.1 RATIONALE

The reconstruction and development of Afghanistan requires the full participation of Afghan women in political, social, cultural and economic life. Yet, the women of Afghanistan are among the worst-off in the world on measures of health, poverty, deprivation of rights and protection against violence, education and literacy, and public participation. Deprivation in each of these areas is interrelated and all must be addressed. Since 1380 (2001/2), progress in advancing the situation of women has been made. Afghanistan’s Constitution guarantees non-discrimination and equality of women and men, reserves a 25% share of seats for women parliamentarians in the National Assembly, pledges to promote educational programs and health care for women, and guarantees the rights of vulnerable women. Women represented 44% of the voters registered for the presidential elections. School enrollment rates for girls have risen significantly. Nonetheless, Afghan women have one of the lowest indicators in the world according to the Gender Development Index, which combines life expectancy, educational achievements and standard of living.<sup>59</sup> Gender gaps in health, education, access to and

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<sup>59</sup> For details of health and education indicators see the poverty diagnostic in Chapter Three.

control over resources, economic opportunities, justice and political participation remain pervasive. Government has already identified women-specific targets in these areas as part of its commitment to Afghanistan's MDGs. Afghanistan must build on the progress made in the last several years and increase its efforts to realize the vision of gender equality. Gender-responsive development will contribute to the reconstruction of the country, to economic growth and poverty reduction.

## 6.2.2 POLICY OVERVIEW

***Government's goal is to eliminate discrimination against women, develop their human capital, and ensure their leadership in order to guarantee their full and equal participation in all aspects of life.***

### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010): the National Action Plan for Women in Afghanistan will be fully implemented; and in line with Afghanistan's MDGs, female participation in all Afghan governance institutions, including elected and appointed bodies and civil service, will be strengthened.

***Key Policies and Coordination:*** To achieve the Constitutional mandate of equal rights between men and women, gender mainstreaming will be the Government's main strategy. The participation of women in all levels of policy and decision-making is an integral component of gender mainstreaming. Gender mainstreaming will be supported by a public awareness and advocacy campaign to ensure that the population supports the vision of gender equality as an important contribution to the development of the country. To reduce gender disparities, Government also supports positive measures that promote policies and resource allocation for women-specific programs. Priority areas are female education, reproductive health, economic empowerment, access to justice and political participation. Every government instrument is mandated to incorporate gender concerns into its operations<sup>60</sup> and to establish clear benchmarks and indicators for measuring achievement.

The Ministry of Women's Affairs (MoWA) has overall responsibility for leading and coordinating Government efforts to advance the role of women. MoWA is mandated to ensure that policies and programs are reviewed from a gender perspective. The Ministry presides over the meetings of the Advisory Group on Gender and has appointed gender focal points to liaise with the MoWA on issues and policies relevant to women. These gender focal points are directed to assist the mainstreaming efforts in their respective ministries as well. Women's departments have also been created in the AIHRC and the Ministry of Foreign Affairs (MoFA) to handle gender-related concerns and programs in their respective offices. A gender working group will be set up in all ministries to work with the MoWA on gender mainstreaming. Afghanistan's Minister of Women's Affairs has been active in legislative reform and provides expert advice on legal issues concerning women's rights. Support will be provided to this office to strengthen its functioning. Its relationship with MoWA will be further clarified and reinforced. To mainstream gender into statistical work, the Government has also established an informal inter-ministerial Working Group on Gender and Statistics.

Promoting gender equality and protecting women's rights is not only the responsibility of all government agencies, but also civil society, the private sector, and the individual citizen. Government will strengthen its relationship with the private sector in order to improve economic opportunities for women. Civil society organizations will remain key partners in advancing the role of women. MoWA is planning to establish a multi-stakeholder Gender Mainstreaming management system that serves as

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<sup>60</sup> This includes all laws, policies, programs, projects, budgets, services and activities, including recruitment, training, promotion and allocation of benefits and opportunities.

a mechanism to monitor government actions relating to women's concerns, as well as changes in the lives and situation of women. Just as women are represented in the National Assembly, so they will serve in all representative bodies to oversee gender equality investments in all government programs.

### 6.2.3 CONTEXT AND CONSTRAINTS

***Government has weak capacity to mainstream gender.*** Government agencies concerned with gender issues lack awareness of the importance of a gender-responsive approach towards policy making. They have insufficient institutional, management and human resource capacities to mainstream gender into all aspects of their work. There is no accountability mechanism to evaluate performance on gender issues. Additionally, political will to accelerate reforms is often absent.

***Cultural, social and religious sensitivities relating to gender issues, as well as underdevelopment and lack of education affect the pace and acceptance of reforms.*** Gender relations often have to be viewed in the context of traditional Afghan culture. Afghan culture is rooted in a code of honor, symbolized by the behavior of women. While this may be manifest in great respect for women and recognition of their rights and status in Islam, it can also lead to deep repression. The primary social unit is the family, extending to kin group and tribe. Most Afghan women do not want to be marginalized from their family unit, and the integrity of the family must be respected, particularly when targeting specific groups for assistance.<sup>61</sup> Widespread poverty and illiteracy make it difficult to overcome restrictive practices. Traditions in Afghanistan make treatment of women by male doctors impossible, while nearly 40% of the basic health facilities have no female workers.<sup>62</sup>

***Obstacles to education*** for girls and women have included distance of schools from residences, lack of transportation, restrictions on girls' mobility, a shortage of schools for girls, poverty, male preference, and lack of security. The widespread custom of marrying girls at an early age has also served as an obstacle to girls' education. The lack of female teachers and the requirement of gender segregation, particularly in rural areas, remains a major obstacle towards expanding girls' education. Despite these obstacles, the demand by parents for education of their daughters has increased rapidly; the main obstacle is now lack of facilities and staff, rather than social resistance.

***The participation of women in the economy is restricted by many factors.*** Extremely low literacy rates among women are of particular concern. Due to the lack of education, particularly post-elementary education, women lack the skills and experience required for many occupations. This is further compounded by their restricted mobility. Women often receive significantly less pay than their male counterparts. Women's contributions to the economy are mainly non-monetized and they rarely have control over their income or what they produce. Those who are engaged in entrepreneurial activities suffer from a lack of financial and technical services, access to markets, and basic infrastructure.

***The Constitution guarantees gender equality, but widespread inequalities persist.*** Women lack legal awareness and the majority of Afghan women do not effectively enjoy the constitutionally guaranteed equal protection of the law. Violence against women is pervasive; it includes forced marriage, child marriage, trafficking, immolation and physical violence.<sup>63</sup> Inheritance and property laws leave widows or divorced women vulnerable. Discriminatory provisions in laws and policies are still prevalent and have not been made consistent with the constitution.

***Women are poorly represented in leadership and power, including supervisory, managerial, policy and decision-making roles.*** The serious lack of capacities, multiple burdens due to domestic roles, security threats, and cultural restrictions to mobility, restricts women's leadership in society. These constraints need to be addressed to optimize women's potential and capacities, and to improve

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<sup>61</sup> Afghanistan's Human Development Report, p.77

<sup>62</sup> Advisory Group on Gender, Background Note for the 2005 Afghanistan Development Forum.

<sup>63</sup> For greater detail, see Chapter Seven on Human Rights, including Women's Rights.

governance and make government responsive to the needs of the people. The needs of women constituents can be met more efficiently through women service providers and decision-makers.

#### 6.2.4 STRATEGIES

***Strengthen efforts to mainstream gender.*** A 10-year National Plan of Action for Women will be developed to support gender mainstreaming. Each ministry will establish a unit to facilitate the monitoring of its implementation. Particular emphasis will be given to monitor the gender-related MDGs and targets. MoWA's capacity will be significantly enhanced so that it can coordinate the National Plan of Action for Women, provide technical assistance and gender training to the various ministries, and monitor overall implementation. The Ministry will strengthen its own mechanism and capacity for gender mainstreaming, particularly as a gender-mainstreaming technical resource to ministries. Its monitoring mandate, particularly with respect to the MDGs, likewise will be enhanced and recognized at the inter-ministerial level. Government is also looking to strengthening the provincial offices of MoWA and the role of gender focal points in line ministries. In addition, mainstreaming will require all ministries taking on responsibility for gender concerns in consultation with MoWA.

***Focus on promotion of women leadership capacity building*** for gender analysis and women in poverty; communication, negotiation and advocacy; gender budgeting; and drafting policy recommendations, planning, and monitoring. The government will undertake programs to assure the participation of women in all representative bodies to oversee the implementation of gender equality. Capacity building will include enhanced efforts to ***improve the collection and use of sex disaggregated data*** to inform policy, planning and pilot studies to address gender gaps in education, health and other priority areas. Sex disaggregated data are important to document women's and men's involvement in decision-making, as well as to enable the monitoring of benefits from interventions and investments. Data gathered on women's contribution to the economy should be reflected in the Government National Accounts.

***Undertake a National Advocacy Campaign.*** To enhance understanding of women's roles and gain support of the nation's citizens, Government's initiatives will be incorporated by MoWA into a national advocacy campaign. In partnership with development partners, *ulama* and spiritual leaders media and civil society, this will focus on reproductive health, the importance of girls' education, ongoing violence against women, poverty, and the impact of early marriage.

To reduce gender disparities, the Government also supports positive actions that focus on policies and resource allocation for specific program for women, described in greater detail in Chapter 7 on Human Rights, Chapter 8 on Social Protection, Health, and Education. The following highlights just some of the main priorities:

***Improve women's access to health services,*** in particular to reproductive health services. Government will increase the number of skilled female health workers, above all in rural areas, in order to minimize the social and cultural constraints to accessing such services. The Government will also raise awareness of reproductive health and reproductive rights among men and women, take steps to increase gender sensitivity among medical staff, including awareness of violence against women, and undertake efforts to incorporate women's concerns into the delivery of health services.

***Increase the enrollment and retention rate of girls in primary and secondary schools.*** Recognizing the acute shortage of educated female human resources, the impact of literacy on overall well-being, and the continuing constraints to girls' progress to higher levels of education, the Government will provide non-formal and accelerated learning programs with a particular focus on girls and married women. It will also conduct a national literacy campaign for women. The number of female teachers will be increased and more educational facilities for girls constructed. Government will develop gender-sensitive curricula and teacher training programs. Ways of addressing other constraints to women's access to education, such as security and transportation, will also be identified and

implemented. This should be supported by adequate resources to build schools that are both safe and close to residential communities.

**Promote Women’s Economic Empowerment.** Women play an important role in many economic activities, particularly in the agriculture and livestock sector. However, women’s labor in these and other economic activities remain within the non-formal sector and thus their invisible but vital contribution to household economies is non-monetized. The Government will address the barriers to women’s full economic participation and to their increased productivity. It will assist them through facilitating access to capital, marketing and skills development. With large regional variations, women are disadvantaged in terms of security of tenure and security of other social and economic assets. The Government will ensure, as part of a demand-driven and community-based approach, that women are especially targeted in the provision of extension services, training, and expanding marketing opportunities. In the implementation of micro-credit schemes, the Government will continue to pay particular attention to women, aiming to expand the number of female beneficiaries relative to men and encourage mechanisms for group savings.

**Address Vulnerable Women.** Many widows and other female-headed households have no or inadequate support. The fact that this population is among the most likely to be living in extreme poverty is a serious concern. The Government is committed to address the difficulties of the poorest and most vulnerable women by providing skills training, by assisting in job placements, by taking strong measures to enforce their rights, and by making provision for them in social protection and welfare schemes.

**Enhance Women’s Rights and Political Participation.** The Government accords priority to increasing the representation of women in managerial, policy and decision-making positions. The Government will enhance legal reforms to reflect gender equality in line with the new Constitution of Afghanistan; ensure the implementation of law reforms particularly in family law, inheritance and property law; eradicate all forms of violence against women; promote legal awareness; and enhance the accessibility of legal services particularly for the poor and illiterate. Human rights training, including women’s rights, will be incorporated into the school system. Gender and women’s rights trainings for police officers and members of the judicial and penal system will be conducted (see also Chapter Seven on Human Rights).

**Improve women’s access to community representation,** particularly through the NSP. Government will continue its efforts to increase the participation of women in the political process as well as encourage and provide incentives to increase their share of decision-making positions.

Government will **adopt an affirmative action policy** within the Public Administration Reform program. Government aims to include specific, time bound quantitative targets for achieving greater participation rates of women at all levels. This will be supported by concrete programs involving training for women who are already in government and proactive hiring of women in various management and technical positions.

## **6.3 COUNTER NARCOTICS STRATEGY**

### **6.3.1 RATIONALE**

Reductions in poppy cultivation, illicit drug trafficking, and drug abuse are inextricably linked to economic development, the reduction of poverty, security, and governance in Afghanistan. The business of narcotics by its very nature concerns each pillar in the National Development Strategy, and a number of sectors within each one. The illicit revenues and parallel power structures generated by the drug trade serve to distort the economy, undermine the elected government, negatively affect social wellbeing, and spread insecurity. Ongoing insecurity in parts of the country can be linked with proceeds from the illicit drug trade inside Afghanistan, and beyond its borders. A reduction in

trafficking, and effective measures to eliminate the cultivation of poppy for narcotics, will increase state authority and reduce insecurity across the nation.

Between 1381 (2002) and 1383 (2004) opium production in Afghanistan rose from 3,400 MT to 4,200 MT, before decreasing slightly in 1384 (2005).<sup>64</sup> According to the UN Office of Drugs and Crime (UNODC), Afghanistan produced approximately 87% of illicit opium worldwide in 1384 (2005). At approximately \$ 2.7 billion, the total value of opium exported by traffickers that year equaled more than half of Afghanistan's GDP. This represents a mark up of five times the farm-gate value of the opium harvest and contrasts with the Government's (core) budget of US\$ 1.9 billion. The cultivation covered only 2.3% of Afghanistan's arable land (up to 10% of land in opium growing villages) in 1384 (2005) and provided regular employment for just 8.7% of the population as a whole. However, the proportion of the population who benefit from forward and backward linkages to the illegal drug trade is much higher. Opium growing has become the principal livelihood in opium areas, via land and credit. .

Given the size of the opium economy and the extent to which it is defined by traffickers rather than farmers, the long term goal must be not just to reduce the level of cultivation but simultaneously to reduce the *value* of the opium economy, as defined by the total value of opium exported by traffickers. This has the potential to increase or remain static even while cultivation is falling. There are two principal reasons for this: drug prices may increase in response to reduced supply, and yields may increase as a result of better planting conditions. Long term success in the fight against narcotics will only be achieved when the government is able to successfully reduce cultivation and production, and disrupt the trade, which will decrease the total value of the opium economy. Indeed, so long as traffickers continue to operate, their interests are likely to become increasingly aligned with those of insurgent groups, corrupt officials, corrupt business people, and others who seek to oppose the extension of an effectively governed state. Collusion between these groups, as well as the activities of individual groups, will undermine progress towards equitable economic growth, social development, security and governance. The fight against narcotics is therefore not just an anti-drugs agenda. Counter narcotics policy must be 'mainstreamed'—that is, included and facilitated in both national and provincial plans— in order to reinforce the broader development process. Just as the establishment of a secure and effectively governed environment will help to accelerate the pace of reconstruction and the creation of sustainable rural livelihoods, disrupting the trafficking networks and the power bases of corrupt officials will contribute to the establishment of a secure, well-governed environment. At the same time, the elimination of opium poppy cultivation must be effectively sequenced within the broader development effort. Ensuring that an understanding of counter narcotics is mainstreamed within development programs will also ensure that interventions contribute to the longer term counter narcotics goal and do not inadvertently work against it.

More broadly, it is crucial that counter narcotics is fully integrated into the wider national development agenda as set out in the National Development Strategy. Bringing about a sustainable reduction in cultivation and trafficking cannot be a Ministry of Counter Narcotics'(MCN) target exclusively. The opium trade fuels crime and terrorism and traps the rural poor in opium debt-related poverty. As such it constitutes a serious threat to the security, effective governance and economic development of Afghanistan. Efforts to combat it must therefore be targeted towards the destruction of a highly profitable enterprise that has become deeply interwoven within the economic, political and social fabric of our country. This is a task for all government ministries and will require the support of the entire international community.

### **6.3.2 POLICY OVERVIEW**

***Government's goal is to secure a sustainable decrease in poppy cultivation, drug production, consumption of illicit drugs and trafficking with a view to complete and sustainable elimination, in order pave the way for pro-poor, private sector-led economic growth.***

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<sup>64</sup> Over the same period the area of land under cultivation rose to 131,000 hectares, and then dropped by 21% to 104,000 hectares in 1384 (2005).



### Government's Five-year Strategic Benchmarks

1. By Jaddi 1389 (end-2010), the Government will strengthen its law enforcement capacity at both central and provincial levels, resulting in a substantial annual increase in the amount of drugs seized or destroyed and processing facilities dismantled, and in effective measures including targeted eradication as appropriate, that contribute to the elimination of poppy cultivation.
2. By Jaddi 1389 (end-2010), the Government and neighboring and regional governments will work together to increase coordination and mutual sharing of intelligence, with the goal of an increase in the seizure and destruction of drugs being smuggled across Afghanistan's borders, and effective action against drug traffickers.
3. By Jaddi 1389 (end-2010), the Government will increase the number of arrests and prosecutions of traffickers and corrupt officials, and will improve its information base concerning those involved in the drugs trade, with a view to enhancing the selection system for national and sub-national public appointments.
4. By Jaddi 1389 (end-2010), the Government will design and implement programs to achieve a sustained annual reduction in the amount of land under poppy and other drug cultivation, by the strengthening and diversification of licit livelihoods and other counter-narcotics measures, as part of the Government's overall goal of a decrease in the absolute and relative size of the drug economy, in line with the Government's MDG target.
5. By Jaddi 1389 (end-2010), the Government will implement programs to reduce the demand for narcotics, and provide improved treatment for drug users.

**Key policies and coordination:** The updated National Drugs Control Strategy (NDCS) is centered on four key priorities identified for their potential to make the greatest and most sustainable impact on the narcotics trade in the near term. These are: targeting the trafficker and the top end of the trade; strengthening and diversifying legal rural livelihoods; reducing the demand for narcotics; and developing state institutions at the central and the provincial level.

Implementation of the various elements of the NDCS and ensuring that counter narcotics is effectively integrated with other government policies will involve multiple ministries, and all stakeholders, both ministries, and their international partners, will need to consider how their programs affect counter narcotics efforts. The Cabinet sub-committee on Counter-Narcotics, a monthly meeting chaired by the President, will be the government's highest counter narcotics policy-setting and coordinating body. It will be tasked with reviewing the progress of the NDCS in the future. The MCN is given the mandate to coordinate the government's counter narcotics policies; in addition, other key ministries involved in drug policy include Interior, Rural Rehabilitation and Development, Agriculture, Public Health, Education, Culture, Defense and the Office of National Security Adviser. A Senior Officials Monitoring Group, chaired by the Deputy Minister at the MCN, is under consideration. It will consist of nominated Deputy Ministers in the line ministries and meet before each Cabinet Sub-Committee to ensure that policies/programs developed by all the ministries are consistent and mutually supportive. Cross-departmental thematic working groups have also been established and will focus on program formulation and delivery under each of the four priorities.

### 6.3.3 CONSTRAINTS

**Chronic poverty and a weak economic infrastructure** across the country greatly contribute to drug cultivation as a livelihood choice. The absence of non-farm income and few other employment opportunities force most Afghans into the structurally weak agricultural sector. Opium cultivation and harvesting is labor-intensive and provides poor itinerant agrarians, IDPs and returning refugees significant opportunities to subsist while providing Afghan farmers a relatively secure and high cash

income. Combating cultivation therefore runs against entrenched economic and employment traditions. Law enforcement and criminal justice structures must also be strengthened in order to target the trafficker and the top end of the trade. This provides the best means of injecting risk into the system while access to legal livelihoods remains limited - it also targets those who benefit most from the trade, including large landowners and provincial leaders. The macroeconomic conditions and causes of poverty contributing to poppy cultivation are more fully described in Chapter 3.

The *innate characteristics of poppy as a 'cash crop'* poses strong challenges for counter-narcotics' measures: there is a relatively short time between planting and harvesting; the crop is extremely resilient and can grow in arid conditions while suffering no major natural disease. It is stored with minimum risk of perishing and is easy to transport. It has high cash value and can be traded throughout the year, making it an ideal saving deposit and a guaranteed source of advance credit for poor farmers.

*Limited state and law enforcement capacity at the national and provincial level, exacerbated by pervasive corruption*, is a serious constraint for counter narcotics efforts. Furthermore, to date, the *mechanisms for coordination have been* weak, and considerable misunderstanding exists as to the various roles and responsibilities of each organization. It will be important to clarify the roles and responsibilities of the various counter narcotics-related organizations, including through the new counter narcotics law, followed by improved cross-ministerial co-operation mechanisms from the Cabinet Sub-Committee down to the working-level. Corruption existing within the government risks undermining all aspects of the government's counter narcotics policy. It hinders interdiction and execution of law enforcement and diverts eradication and prosecution away from larger actors (with bigger farms and stakes in the opium economy).

*Provincial engagement is often weak*. In order for any government strategy to be fully carried through, the full cooperation and engagement of the provinces is crucial. The lack of progress on eradication and interdiction in the past was in part due to a lack of serious engagement by provincial and district authorities. There is also the danger that counter narcotics efforts will have '*perverse incentives*'; the central government investing in alternative livelihoods and other schemes in selected provinces can emerge as an indication to farmers in the other provinces to grow opium in order to get a similar level of attention. If the government's investment in provinces is seen to be solely dictated by the threat of opium production, the other provinces might feel 'punished' for not having the drug dimension to attract much-needed financial resources.

*Limited, uncoordinated, and off-budget investments in alternative livelihoods* have undermined the credibility of this aspect of counter-narcotics policy. Donors have no clear definition of alternative livelihoods and how or whether they differ from other development programs. AL programs have been ad hoc and funded outside the budgetary framework. The level of investment in alternative livelihoods compared to eradication and other enforcement measures has followed the priorities of donors rather than the Government.

### 6.3.4 STRATEGY

The whole gamut of the Government's counter-narcotics activities is encompassed in eight pillars to implement projects against four main priorities: the degree to which drug trafficking networks are dismantled (to be measured through increased seizures, convictions, laboratory disruptions); year-on-year increase in uptake of legal livelihoods; sustained reduction in land under poppy cultivation; and reduced demand for narcotics and improved treatment for drug users.

*Build strong institutions*. Strong institutions require effective governance at the center and at the provincial levels. The Afghan government's counter-narcotics policy also relies on community representative institutions to promote self-restraint in poppy growing and the democratic management of development investment. The recently established Counter Narcotics Trust Fund (CNTF) is designed to coordinate government and donor activities on CN, and achieve more effective resource

allocation at the central, provincial and district levels. There is also a continued effort to develop government capacity and coordination, and an annual review for the government's CN strategy. Strong counter-narcotic institutions – financial, administrative and enforcement – are crucial for the success of the NDCS. A Strategy Review Group chaired by the Director of Strategy in the MCN with representatives of all line ministries will be instituted. Examining the details of the NDCS, the Group will prepare documents for discussion by the Senior Official Monitoring Group and the Cabinet Sub-Committee. Progress reports will cover the state of NDCS implementation and other relevant policy issues. Annual reports will similarly be prepared by the MCN for the National Assembly on the implementation of the NDCS. The Pillar Working Groups that have been used to discuss the NDCS will continue their operation to coordinate activities across ministries. Further measures include a bi-annual Governors' CN Forum to discuss progress in all the provinces and efforts to integrate counter-narcotics strategies into provincial development plans.

***Enhance law enforcement and interdiction.*** A process has been developed by which law enforcement organizations, including the Afghan Special Narcotics Force under the Office of the President, the MoI's Border Police and the Counter Narcotics Police (CNPA), and Customs are staffed, housed and equipped to carry out operations to counter the physical trafficking in drugs. Enhancing institutional capacity to increase drug trafficking risk through law enforcement is essential to any interdiction effort. The CNPA's Mobile Detection Team will continue to interdict opiates and pre-cursor chemicals for heroin through its operations.

***Reduce demand for narcotics and increase treatment of drug addicts.*** Reducing demand will involve raising awareness of drug dependency and abuse through community health care services as well as offering drug addicts treatment. Drug use within Afghanistan is an increasing concern in the light of limited prevention, education, treatment and rehabilitation services. A number of projects have been launched that include expansion of treatment facilities, a program to spread awareness of the harmfulness of drugs, and a process to mainstream counter-narcotics issues in all the relevant ministries. Demand-reduction also can and will be integrated through primary/secondary school curricula as well as professional associations and universities.

***Continue eradication efforts.*** A governmental system (including a central Eradication Planning and Monitoring Cell within the MCN) has been established to help the Afghan Eradication Force and Governors to plan, execute, and monitor eradication efforts. Eradication must be targeted to areas where alternative livelihoods exist. An annual plan, containing prioritized target areas within respective provinces, will be produced by the MCN and agreed by a cross-ministerial group.

***Strengthen Criminal Justice.*** The criminal justice system will be strengthened to better support counter narcotics efforts. A major element will be ensuring that counter narcotics-specific legislation is integrated within the justice system. This is progressing with the launch of the Criminal Justice Task Force comprised of judges, prosecutors and investigators. The president issued a decree establishing a Narcotics Tribunal with country-wide jurisdiction to try offenders and public officials linked to the narcotics trade.. Work has also continued in cooperation with donors to set up secure counter narcotics prison facilities.

***Increase public awareness.*** A sustained information campaign is crucial for spreading awareness of the harms of illicit cultivation and trade in opium. The drive requires an inter-Ministerial approach led by the MCN and involving line ministries including the Ministries of Hajj, Information and Culture, Interior, Agriculture, Rural Rehabilitation and Development, Defense and Education. The concerted effort must alert the Afghan people to the harm and shame that illicit cultivation and trade in opium brings; persuade farmers not to cultivate opium poppy; and, highlight the increasing effectiveness of Afghan law and criminal justice enforcement mechanisms that are tackling the trade in illicit narcotics.

***Promote international & regional cooperation.*** Due to the nature of the drug trade, the Afghan administration is working to improve cooperation and coordination with its immediate neighbors –

Pakistan, Iran and the Central Asian states – and the international community. Efforts are being made to improve information sharing and develop closer working relationships with our neighbors concerning border control and law enforcement agencies. Judicial cooperation is another aspect that needs to be strengthened in bilateral relations. Improved cooperation will result in the disruption of the flow of narcotics (and pre-cursor materials) across Afghanistan’s borders. Afghanistan today is an active participant in UNODC-sponsored meetings and forums such as the Inter-Governmental Technical Committee meeting and the Senior Law Enforcement Officers (SLEO) meet.

***Develop sustainable alternative livelihoods.*** At the same time as we work to eradicate poppy cultivation, it is imperative to mitigate short-term impacts on those farmers who have lost their livelihoods through self-restraint or eradication. Second, we must improve opportunities for Afghans to access sustainable licit income and employment, social assets, markets and services; third, we must enhance the policy and planning environment for effective alternative livelihood (AL) activity; finally, we must ensure greater financial and technical support from donors to develop a range of alternative livelihoods. So far, a large number of AL interventions have been of a short-term nature, focused on a single sector (e.g., micro-finance, infrastructure); strategy measures are often not implemented in the same region. It will be important to maintain a focus on access to credit, land, food, employment and markets. AL initiatives will take into consideration multiple reasons of why people grow poppy (debt and access to credit, land, income, and markets, amongst others) and devise alternatives accordingly. There is also a need to strengthen inter-linkages between disparate AL programs to maximize the impact on development and counter narcotics objectives.

## 6.4 REGIONAL COOPERATION

### 6.4.1 RATIONALE

As an arid, landlocked country, Afghanistan cannot develop without access to regional and international markets. The reconstruction of Afghanistan, the gradual opening of its borders, and increased stability, has opened new opportunities for the country to once again become a land bridge connecting Central and South Asia. Regional labor movements and remittances are an important contribution to Afghanistan’s economy and development. Regional cooperation can also substantially increase incomes in the region.<sup>65</sup> Border management and trade facilitation, in addition to having immediate security and economic benefits, may facilitate more favorable regional trade policies. Diversity in natural resources and differences in economic structure among regional countries offers trade benefits. Trade linkages may be strengthened through exports to one another based on comparative advantage.<sup>66</sup>

Encouraging trade requires a strong commitment to regional cooperation. Since 1380 (2001), the importance of regional cooperation to Afghanistan’s reconstruction, economic development, and improved security has increased. Without the confidence and cooperation of its neighbors, Afghanistan will not be able to enjoy the stability it needs to reconstruct the country and to reduce the threat posed by drug trafficking networks and political opponents. Political and economic progress has been made at the regional level, as marked by a series of declarations and agreements. Afghanistan has been transformed from a country under international sanctions and excluded from international political and economic affairs, to one that now enjoys official relations with most countries of the world. Countries of the region have recognized the need to reduce the logistical costs of trade and the fact that improvements in trade and transport facilitation, including coordination in

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<sup>65</sup> A recent UNDP report, “Bringing Down Barriers: Regional Cooperation for Human Development and Human Security” estimated that there could be income increases of 50 to 100 % over the next ten years if substantial progress towards regional cooperation is made among Central Asian countries, UNDP December 2005.

<sup>66</sup> World Bank, *Prospects for Regional Development and Economic Cooperation in the Wider Central Asia Region (discussion draft)*, (November 25, 2005), paper prepared for the Kabul Conference on Regional Economic Cooperation, December 4-5, 2005.

customs and border management procedures, are essential to increased regional trade and transit and economic prosperity.<sup>67</sup> Regional countries and international partners are also increasingly cooperating on security issues, including border management and anti-drug trafficking.

#### 6.4.2 POLICY OVERVIEW

***Government's goal is to contribute to regional stability and prosperity, and to facilitate the enabling conditions for Afghanistan to resume its role as a land bridge between Central and South Asia in order to benefit from increased trade and export opportunities.***

##### **Government's Five-year Strategic Benchmarks**

By end-2010: Afghanistan and its neighbors will achieve lower transit times through Afghanistan by means of cooperative border management and other multi-lateral or bilateral trade and transit agreements; Afghanistan will increase the amount of electricity available through bilateral power purchase; and Afghanistan, its neighbors and countries in the region will reach agreements to enable Afghanistan to import skilled labor and to enable Afghans to seek work in the region and send remittances home.

***Key Policies and Coordination:*** The Government will ensure that regional aspects are integrated into relevant policies and programs, particularly in the areas of trade and transit, energy development, infrastructure investments, environmental protection, border management and security.<sup>68</sup> In all its efforts, the Government will seek to increase confidence, facilitate trade and economic growth, and raise domestic revenues through customs tariffs and transit fees.

At the bilateral level, Afghanistan seeks not only to resolve any problems with its neighbors, but also to propose initiatives that allow mutual gains, in terms of security and of economic development. At the regional level, Afghanistan will continue to seek membership in, or association with, organizations that promote cooperation, political and economic. At the international level, Afghanistan will seek to become an active partner in organizations that are capable of creating better conditions of international interaction.

Regional cooperation requires the concerted effort of the Government, regional and international partners as well as the private sector. The Government will develop appropriate coordination mechanisms at political and technical levels. The MoFA will play a central role in coordination with the Ministry of Commerce and other relevant government agencies. The Government is committed to building the capacity of MoFA to handle this task. MoFA continues to strengthen the Institute for Strategic Studies, and is also rebuilding the Institute for Diplomacy. In 2003 the MoFA established an inter-Ministerial Committee to coordinate policies for regional security cooperation.

#### 6.4.3 CONTEXT AND CONSTRAINTS

***Geopolitical dynamics.*** The confluence of regions of which Afghanistan is at the centre has historically been a center of rivalry among non-regional and regional powers. This is accentuated because the region is rich in natural resources. Although the dynamics of rivalry have changed, they

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<sup>67</sup> For instance, the *Kabul Declaration of Good Neighborly Relations* of December 2002, and a declaration in Dubai in 1382 (September 2003) to encourage trade, transit and investment cooperation; the *Bishkek Declaration* of 1383 (2004); and various agreements under the *Central and South Asia Transport and Trade Forum (CSATTF)* initiative of ADB. There also various existing transit-trade agreements under the umbrella of the ECO.

<sup>68</sup> Other areas of cooperation include health to prevent the spread of infectious diseases, HIV/AIDS, TB, malaria or the avian flu, and cooperation in education.

still remain a potential source of instability. Afghanistan's policies have to take the geopolitical dynamics into consideration, requiring a balancing of various interests and forces.

***Drug trafficking, human trafficking, and money laundering*** exist in troubling proportions across the region and undermine confidence, governance and stability. Among neighboring countries there is fear that opening borders, easing visa regulations, and improving transport corridors will also facilitate illegal movement of traffic.

***Neighboring countries have restrictive trade policies.*** While Afghanistan has one of the most liberal trade regimes in the region, some of its neighbors have more restrictive trade regimes. Complicated visa procedures also impede trade.

***Regional cooperation and confidence-building requires patience*** and persistent efforts. The perception exists that benefits from regional projects do not match the efforts required to prepare them and that rewards are unequally distributed.

***Trade and transit agreements are outdated and lack monitoring mechanisms.*** Many existing transit agreements with key trading partners need to be modernized; some have not been fully enforced, in part due to inadequate monitoring mechanisms and a lack of high level policy commitment. The lack of power trading agreements is a constraining factor for regional power trade.

***The lack of institutional and human resources*** limits the government's ability to coordinate and initiate regional initiatives and to enter or encourage private-public partnerships. There is also limited capacity in the various government agencies to negotiate, implement and monitor Afghanistan's various treaty obligations.

***The private sector faces a lack of information about opportunities for trade and investment*** at the regional level. Businesses also do not have a regional platform to exploit cross-border trade and investment opportunities. This is compounded by weak trade support infrastructure at the national level and the absence of an effective regional trade support institution.

The ***lack of effective civil aviation links, weak road infrastructure,*** and the high cost of travel result in difficulties for business travelers and transit traffic. Visa processes are lengthy and require urgent attention.

#### 6.4.4 STRATEGIES

The following section provides a summary outline of Afghanistan's strategy to promote regional cooperation in the following areas: building institutional and human capacities; political cooperation; creating the enabling environment for trade; improving transport and border infrastructure; electricity trade, energy development; security cooperation; and encouraging the participation of the private sector in regional cooperation. Details about individual programs can be found under the various pillars and sectors, in particular Chapter Six on regional security cooperation and Chapter Eight on facilitating trade and infrastructure developments.

Over the course of the ANDS and as part of the planned follow-up activities to the Kabul Conference on Regional Economic Cooperation, held in 13-14 Qaws 1384 (5-6 December 2005) the Government will also develop a comprehensive plan of action, including sequencing and prioritization of regional cooperation initiatives within priority sectors. The plan of action will be prepared in consultation with neighboring countries, development partners, and the private sector. Implementation solutions should be developed at political and technical levels and be prioritized. The prioritized implementation should be enforced through suitable mechanisms.

***Build institutional and human capacities for regional cooperation.*** Coordination among various Government agencies on regional cooperation issues will be strengthened through the establishment

of effective coordinating mechanisms on the ministerial and technical level. Particular emphasis will be placed on: strengthening national focal points for regional economic cooperation, both at the ministerial and technical level; establishing clear channels of communication among government agencies and the business community; and capacity-building for negotiating, implementing, and monitoring the implementation of agreements. Cooperation with regional and international partners and drawing on regional expertise, twinning arrangements,<sup>69</sup> and information exchange and research networks will be important to the success of these areas. The Government will also seek to strengthen the capacity of relevant ministries to coordinate, and jointly plan and implement projects and initiatives of regional significance and to jointly mobilize the technical and financial resources necessary for implementation.

***Strengthen political cooperation and honor membership commitments in regional and international organizations.*** Afghanistan has recently become a member of the CAREC, and South Asian Association for Regional Cooperation (SAARC). It is an active member of the ECO, it joined the Central Asian Regional Environmental Center program, and signed a protocol establishing a contact group with the Shanghai Cooperation Organization (SCO). In addition, it has reached many bilateral and multilateral agreements with countries of the region.

***Pursue trade liberalization.*** The Government is committed to pursue trade liberalization and expansion ***with a view to joining the World Trade Organization (WTO)***. The Government is also committed to the strengthening, revision, and implementation of existing agreements and to negotiating new effective bilateral and regional transit agreements. In order to develop and implement effective regional transit arrangements as well as to examine the applicability of TIR system (Afghanistan is signatory to the TIR convention) in the region, the public and private sectors of the transit country and of the landlocked country need to cooperate through appropriate national and regional coordination mechanisms. The Government will ***develop effective policies and programs*** for trade facilitation, streamline border crossing formalities, reducing delays, upgrade existing transshipment facilities at the border ports with a view to reorganizing their management as a joint public-private venture. In order to facilitate effective coordination, the Government will establish the Afghan Trade and Transport Facilitation Committee that will bring together all stakeholders in the area of transport and transit. The government of Afghanistan is committed to ***modernizing its customs codes, procedures and infrastructure***. Customs cooperation will focus on simplification and harmonization of cross-border procedures, data sharing based on ICT, development of customs transit guarantees, and capacity building of local and national customs administrations.

***Improve transport and border infrastructure.*** In line with the Roads Program (see Chapter 7), the Government is committed to improving the connectivity with its regional neighbors. This includes improvements to the Regional Highway, or ring road, connecting Kabul to major regional capitals as well as border crossing points, as well as ensuring that fiscally sustainable operation and maintenance mechanism are in place. In cooperation with international donors, the Government will also accelerate the current rehabilitation of border facilities. It will coordinate cross-border development with its neighbors to avoid duplication and inconsistencies of functions and facilities on either side of the border. The Government will look towards investing in additional control equipment. It will also explore opportunities for regional and cross border cooperation in data sharing so that control equipment can benefit all parties optimally. The Government, further, believes in the adoption of an open sky policy to facilitate and promote growth of regional air transport and to enhance competition, safety, and efficiency in the aviation industry.

***Develop electricity trade and energy.*** Given the need to urgently improve Afghanistan's power supply, the Government will seek opportunities of formalizing power purchasing and trading agreements with its neighbors that correspond to international standards. The Government will also

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<sup>69</sup> A "twinning arrangement" is a framework for administrations and semi-public organizations to work with their counterparts in other countries in order to jointly develop and implement a project. The main feature of a twinning project is that it seeks to deliver specific and guaranteed results, rather than fostering general cooperation.

consider joining the Energy Charter Conference. The Government will endeavor to accelerate the construction of transmission infrastructure. In the medium-term, the Government will also examine possibilities of regional energy markets. The Government will encourage the private sector to play an important role in the development of the power sector and create a legal and regulatory framework to that extent.

***Strengthen cross-border cooperation focusing on interdiction and law enforcement.*** The Government recognizes that border security is optimized where there is maximum cooperation with neighbors. Afghanistan is ready to enter into discussions with neighboring countries in order to explore the possibilities for information exchange, joint training of staff, development of compatible systems, and similar measures. This cooperation should be done so as to respect the need for ease of movement of all legitimate economic activities. The Government will also consider the rejuvenation of the Border Management Working Groups with a view to expanding them to neighboring countries later on. It will also seek to start small and specific confidence building measures.

***Encourage the active participation of the private sector in regional cooperation.*** Limited government and donor resources place significant constraints on the pace of regional economic cooperation. In this context, the role of the private sector, from both regional and external investors, is essential (e.g., as a source of project finance and direct investment) for expanding and deepening economic activities within the region. In effect, the success of regional economic cooperation may be measured to a large extent by increased private sector activity (including increased utilization of infrastructure and increased trade flows). The Government will actively encourage the private sector to participate in regional cooperation activities and facilitate linkages. This should include mobilizing private sector support for program implementation, promoting and facilitating private sector enterprises to take advantage of priority projects and exploring ways to accommodate the private sector within the framework of existing regional cooperation initiatives. The Government will also seek to improve the information flow to business communities on relevant regional cooperation activities and providing feedback to policymakers on the programs and projects.

## **6.5 ANTI-CORRUPTION**

### **6.5.1 RATIONALE**

Corruption undermines the accountability of government, eroding public trust and reducing the legitimacy of state institutions. Corruption is a means for IAGs to maintain their hold on power structures at the provincial and district levels, preventing the consolidation of state authority and rule of law. In the justice sector, the sale of judicial access and favorable decisions to the highest bidder fundamentally undermines the security and basic rights of citizens, especially the poor, women, and children. State and non-state actors who violate the law are emboldened by this culture of impunity. The burgeoning illegal narcotics trade – generating some US\$ 2.7 billion domestically in 1383 (2004/05) – finances corruption of the public sector, made easier by low civil servant wages.

Corruption is a significant disincentive for investment, slowing transactions and increasing their costs, while raising the unpredictability of business processes such as licensing, and the enforcement of property rights and contracts. According to an investment climate survey conducted by the WB, 53% of respondents cited corruption as a major or severe obstacle to doing business in Afghanistan.<sup>70</sup> By reducing market competition within the emerging private sector, corruption reinforces the informal and illicit economy. Corruption also affects the enforcement of customs and tax administration. Bribery, baksheesh, and other “facilitation payments” diminish the amount of revenue collected by the state. In turn, the state has less public revenue to spend on the provision of basic services vital for

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<sup>70</sup> The Investment Climate in Afghanistan. Exploiting Opportunities in an Uncertain Environment”, World Bank, draft, November 2005.



sustained growth, economic development, and poverty reduction. Afghanistan's heavy dependence on external finance requires government to maintain stringent procurement and fiduciary management controls of direct budget support in order to maintain donor confidence in the execution of national budget resources.

### 6.5.2 POLICY OVERVIEW

***Government's goal is to eliminate corruption in the public and private sector in order to improve the effectiveness, transparency, and accountability of government and to create an environment conducive to investment, both of which are necessary for economic growth and poverty reduction.***

#### **Government's Five-year Strategic Benchmarks**

The UN Convention against Corruption will be ratified by Jaddi 1385 (end-2006), national legislation adapted accordingly by Jaddi 1386 (end-2007) and a monitoring mechanism to oversee implementation will be in place by Jaddi 1387 (end-2008).

***Key Policies and coordination:*** Anti-corruption strategies will be mainstreamed across all government policy making. Anti-corruption will be supported through public administration reform, increased government transparency and accountability, economic competition within the formal sector, a legal framework for transparency and accountability for the public and private sector, robust public oversight bodies, and greater civil society participation.

The lead government unit facilitating and driving the government's anti-corruption strategy is the General Independent Administration for Anti Corruption (GIAAC). The structure, competencies, and priorities of the GIAAC will be reviewed to determine if this is the best approach to fulfill the goals of the anti-corruption law by the end of 1385 (2006/7). Since corruption is a crosscutting issue, implementation of the various elements of the ANACS and its effective mainstreaming within other Government policies will involve various ministries and all stakeholders. Legislative institutions will be responsible for consolidating the legal framework and holding the executive accountable. The executive ministries will implement institutional reforms and sector policies. The judiciary will enforce sanctions. Civil society will provide checks and balances on government as a whole. The principal administrative instrument to achieve the stated objectives is the implementation of the Law of Campaign against Bribery and Official Corruption and the ratification and implementation of the United Nations Convention Against Corruption (UNCAC).

### 6.5.3 CONSTRAINTS

***Reliable information on corruption is unavailable.*** The 1384 (2005/6) Transparency International Corruption Perceptions Index ranks Afghanistan as 117 out of 158 countries in terms of public perceptions of corruption. The survey was not extensive and was largely based on anecdotal evidence. In many spheres, the perception is that rates of corruption are in fact much higher than reported. Available evidence suggests that corruption, both petty and grand, is well-established and systemic in Afghanistan.<sup>71</sup> Yet, there has been little diagnostic work to determine the major sources of corruption and its severity within government administration.

***Unreformed public administration creates incentives and opportunities for corruption.*** Low public sector wages make state officials susceptible to bribery and corruption and provide a rationale for demanding *baksheesh* or "facilitation payments" to carry out functions that should be routine

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<sup>71</sup> UNDP Report, Assessment of Corruption and Strategic Framework for Preventing and Addressing Corruption, Afghanistan, 2003, p. 18.

responsibilities of their position. Civil service recruitment must conform to the Civil Service Law,<sup>72</sup> which requires all recruitment to be based on merit according to clear criteria. It will be important to ensure development and adoption of subsidiary regulations, including definitions of competencies required for different grades. Similarly, it is important to ensure that government departments comply with the Law on Procurement and that subsidiary regulations are devised and adopted to reduce opportunities for corruption.

***The legal and regulatory framework governing Afghanistan is embryonic.*** The incomplete legal framework, limited influence of the central government beyond Kabul, inaccessibility to justice, weak enforcement mechanisms, low public expectations for the justice system, and poor capacity of justice officials create an environment in which citizens routinely have to buy their rights. The Government has created laws for promoting accountability, but enforcement measures are still lacking.

***External oversight bodies are just being established.*** The Auditor General and National Assembly are new institutions that are only now starting to compose themselves. Auditors' offices have yet to be established in the provinces, limiting their oversight functions at the sub-national level.

***Central government has limited oversight over sub-national administration.*** Reform of the institutions of the state has to date concentrated on central ministries and government agencies in Kabul. Reforms have not yet been fully extended to all provincial and district administrations due to insecurity, incomplete communication links, variations in the quality of civil administrators, and, in some cases, the resistance of state and non-state actors to central authority. Government will need to develop particular strategies for consolidating the authority of national government in those areas where state institutions remain weak and/or under the negative influence of informal and private sources of power and authority.

***Continued reliance on foreign aid*** makes Government vulnerable to misuse and poor management of aid.<sup>73</sup> A comprehensive approach to strengthening accountability and aid effectiveness, involving multiple actors, is required to increase aid effectiveness in Afghanistan. Chapter 10 covers aid effectiveness.

***Insufficient regulation and monitoring enables abuse of non-governmental organization status.*** Of the nearly 2,500 registered NGOs in Afghanistan, many are believed to be for-profit businesses that have taken advantage of weak regulation in order to benefit from international aid money. Government does not have the capacity to monitor such a large number of NGOs.

***Private and public sector involvement in the opium economy causes bribery, concealment, and money laundering.*** The illegal drug economy makes available large sums of money with which to bribe state officials. There is evidence, in particular, of law enforcement agents providing protection in exchange for a share of drug revenues, selling exemption to interdiction and eradication initiatives, and engaging directly in the trade.

***Media and other institutions responsible for informing the public are still emerging.*** Independent radio, television, and print media, as well as civil society organizations are prerequisites for a well-informed public. Their monitoring and investigatory role fosters transparency and accountability via increased public participation in the political process.

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<sup>73</sup> From 1382/3 (January 2002–March 2004), more than US\$ 3 billion (or an estimated 71.5% of international assistance) flowed through Afghanistan's External NDB (donor-executed aid), rather than through the Government's Core Budget (government-executed aid, deposited into the Government Treasury or internationally monitored trust funds). For the fiscal years 1383 (2004/5) and 1384 (2005/6), the proportion of donor-executed to government-executed aid has not changed significantly.

## 6.5.4 STRATEGY

The stated goal of Government's anti-corruption strategy has four inter-related and mutually-reinforcing components:

***Strengthen Public Sector Management.*** The Government will create a motivated, merit-based, performance driven, and professional civil service that is resistant to the temptations of corruption and which provides efficient, effective and transparent public services that do not force customers to pay bribes. This strategic objective will be delivered as part of PAR (see Chapter Seven). It includes merit-based appointment of civil servants at Grade 2 and above, monitoring ministerial appointments at Grade 3 and lower, increasing wages and benefit packages, creating streamlined and transparent organizational structures, simplifying key rules and procedures, creating effective institutional complaints and redress mechanisms, developing and enforcing a legislative framework that defines civil service ethical standards, terms and conditions of employment and performance, and conflict of interest rules and training to strengthen management skills, understanding the code of ethics, and IT.<sup>74</sup>

***Strengthen Public Accountability Systems.*** Strengthening public accountability encompasses six objectives: First, the Government will strengthen Public Finance Systems in order to create an effective and accountable management of public resources, denying officials the opportunity to cover up corruption.<sup>75</sup> It will establish and meet benchmarks for financial management agreed with and monitored by the international community at the central and provincial level. The donor community and government will report annually under the ANDS monitoring mechanism on their development support to Afghanistan. Tax and custom systems will be reformed by improving and implementation of new tax policy packages, improving tax administration in the center and provinces, creating legislation to establish effective enforcement and penalization mechanisms, introducing computerized recording and management systems, and specialized training programs for tax and customs administrators as part of reform. In public expenditure management, Government will extend computerized financial management systems to line ministries and provinces, provide the exact price, timeframe and procedure for securing key government services (such as telephone access, water and electricity) in a timely, transparent, and easily accessible manner, increase the audit activities of financial accounts in line with international standards and regulatory simplifications. It will also create an effective governmental mechanism for procurement based on the existing legal framework for procurement in order to ensure the sound use of development aid. This will be achieved by focusing on three areas: design and implementation of a standard, coherent procurement system of laws, codes and procedures, establishment of a procurement policy unit, and building the capacity of procurement staff as specialized discipline within the government. Second, the Government will improve the audit system in order to increase transparency and accountability of the government and donor-funded projects. This will be achieved by ensuring the administrative and financial independence of the Audit Office, increasing the proficiencies and professionalism of auditors, strengthening the reporting mechanisms of the Central Audit Office, and expanding the audit activities to major provinces of the country. Third, the Government will strengthen the oversight mechanisms of representative institutions by providing capacity building support for the National Assembly, provincial councils, and CDCs on corruption and working with these bodies to make their proceedings and discussions transparent and open to the public. Fourth, development of independent and responsible media and civil society will be strengthened in order to increase public awareness and education about corruption by allowing for the flow of information between the government and the public throughout the country. Fifth, the Government will develop mechanisms to coordinate with community-based structures to create anti-corruption awareness and represent local interests. Sixth, in cooperation with the international community, Government will make the design, programming, execution and monitoring more transparent, participatory and accountable, including by strengthening the capacity of media to undertake and publish investigative reporting.

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<sup>74</sup> Public Administrative Reform Strategy and Program: 1385-9

<sup>75</sup> Ministry of Finance, Sector Strategy Outline

**Strengthen the legal framework and judicial system.** This will help ensure accountability and instill public confidence in the institutions of the state. In addition to measures identified in the government's Rule of Law and Justice program (see Chapter 7), the government's strategy will take several corruption-specific measures. It will improve the legal and institutional system involved in curtailing corruption by conducting a systematic review of the current legal and regulatory environment<sup>76</sup> and revising or creating new laws where necessary. Skills training will be provided for justice professionals on handling anti-corruption cases and on enforcing laws and regulations in a fair, transparent, and accountable manner. Civil society, including traditional *jirgas* and *shuras* should be encouraged to demand transparency and accountability from the organs of the state, including the judiciary, and to demand a decrease in corruption and create reporting mechanisms from the center to the provinces and vice versa.

**Control corruption within counter-narcotics institutions.** Government will establish an anti-corruption and professional standards unit capable of undertaking proactive investigations against officials working in counter-narcotics institutions. It will also establish and maintain a transparent monitoring mechanism for opium poppy cultivation and eradication verification by mid-2006. The government's counter-narcotics strategy is summarized earlier in this chapter.

In addition to four strategic elements, the Government will **conduct research for reliable data and valid measurements of corruption.** The research will focus on the attitudes towards corruption and its causes and extent within line ministries and judiciary. It will study the extent and sources of corruption in key institutions. A further population-based survey will measure public experiences with corruption.

## 6.6 ENVIRONMENT

### 6.6.1 RATIONALE

Economic growth, if it is to be sustainable, cannot be achieved at the cost of environmental and natural resource degradation. Indeed, such degradation represents a manifestation of deeper causes relative to weak institutions, conflicting and unequal access to ownership, poverty, population pressures, urbanization, and insufficient training in good environmental and natural resource management.

Afghanistan continues to be highly vulnerable to environmental damage that threatens the nation as well as the planet, given that up to 80% of Afghans remain dependent on natural resources for income and sustenance.<sup>77</sup> The most vulnerable—female-headed households, households with physically disabled members, landless households, and those farming only small rain-fed plots—suffer most from environmental degradation. As a result of changes in the ecosystem, habitats for animals and plants are disappearing, which will place increasing strains on food sources. Agriculture alone provides livelihoods for more than 60% of the population. The centrality of the agriculture sector is underscored because it is through this sector that diversified livelihoods policies that will be needed as a cornerstone of any successful counter-narcotics strategy can be addressed. Afghanistan's forest cover appears to have been cut in half since 1357 (1978) as result of lack of energy alternatives to firewood and demand for timber in Afghanistan and Pakistan. The depletion of forests and vegetation through illegal harvesting, widespread grazing, and dry land cultivation increases soil and riverbank erosion and draws down the water table. Afghanistan's urban environment has also deteriorated badly. Solid waste, air pollution, and other hazards threaten the health and productivity of the urban population.

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<sup>76</sup> *Inter alia*, "whistleblower" legislation, laws on money laundering, public and private bribery, theft, embezzlement and fraud, audit legislation, taxation and customs, independent media, privacy laws, defamation laws, banking laws, property laws, land registration and tenure, information law.

<sup>77</sup> Afghanistan's Millennium Development Goals, p. 77.

Contamination of the water aquifers through pollution and poor sanitation further depletes already scarce sources of clean drinking water; only 25% of Afghanistan's available water is safe for drinking. Lack of access to clean drinking water and poor sanitation is a major contributor to morbidity and mortality among Afghans. Reduction of the water table also leads to decreased productivity of the land base and increased flood risk. It causes hills around villages to become unstable, contributing to deadly mudslides. Natural disasters are confronted on a recurrent basis—drought, earthquakes, disease epidemics, sandstorms, and extremely harsh winters all have a devastating effect, particularly on the poor. Since 1377 (1998) more than 6.7 million Afghans have been affected by such natural disasters. The Afghan people also must overcome the man-made disasters caused by landmines and Unexploded Ordinance (UXO) that still cover hundreds of square kilometers of land. All of these factors contribute to accelerated rural out-migration. Environmental degradation in Afghanistan is both the result of and one of the causes of socio-economic inequities.

The Government has committed to environmental sustainability as part of Afghanistan's MDGs, including integration of sustainable development principles into country policies and programs to reverse the loss of environmental resources.

### 6.6.2 POLICY OVERVIEW

*Government's goal is to protect the environmental integrity of Afghanistan and to support sustainable development of natural resources through active participation by communities and the private sector in order to achieve economic growth supportive of peace-building, security, and equity.*

#### Government's Five-year Strategic Benchmarks

In line with Afghanistan's MDGs, environmental regulatory frameworks and management services will be established for the protection of air and water quality, waste management and pollution control, and natural resource policies will be developed and implementation started at all levels of government, as well as at the community level, by 1386 (end-2007).

**Key policies and coordination:** The Government will coordinate environmental affairs at international, regional, national and sub-national levels; develop and implement environmental laws, policies and strategies in order to integrate ecological issues in development projects through the environmental impact assessment process; provide environmental management services for protection of air and water quality, waste management and pollution control; and raise awareness of environmental issues. Impact assessments of projects that may degrade the environment should be made compulsory. The government will also develop funding mechanisms for environmental protection and, as part of the strengthening of its policy monitoring capacity, develop statistics and measures of environmental quality and degradation, including data on air quality, water quality and availability, and land use.

The National Environmental Protection Agency (NEPA) has overall responsibility for environmental protection issues. Line ministries will have responsibility for implementation within individual sectors. Coordination is effected through the Advisory Group on Environment (AGE). Members of the include key ministries, donors, UN agencies and NGOs. United Nations Environment Program (UNEP) and Asian Development Bank (ADB) were nominated as co-focal points of the AGE until sufficient capacity is built within NEPA to fulfill its mandate independently.

NEPA is working on creating three forums: a broad-based National Environmental Advisory Council consisting of ministers, provincial governors, tribal leaders, religious leader and others; a Council of Eminent Persons that will extend membership to prominent national and international personalities to spearhead campaigns for the environment; and an Inter-ministerial Committee for Environment.

### 6.6.3 CONTEXT AND CONSTRAINTS

***The government lacks the ability to integrate sustainable development approaches into the NDF.*** There is a severe shortage of appropriately qualified and trained professionals in both management and technical areas related to environment management and protection across government and civil society. This is exacerbated by a marked absence of academic environmental institutions and courses. NEPA itself lacks financial resources and is unable to pay its staff competitive salaries.

***Environmental legislation and regulatory framework is underdeveloped and unenforceable.*** A draft Environmental Management Act has been prepared but not yet promulgated. The existing regulatory framework is weak and effective enforcement mechanisms non-existent. There is no mechanism for funding a coherent environmental program across the several ministries involved.

***Public awareness of environmental and natural resource issues is limited*** largely due to low literacy rates and the absence of public education regarding resource management issues.

***Data on environmental quality and degradation is not available.*** Such data were never collected in Afghanistan and no systems exist for collecting them. Hence the government is not able even to estimate the scope of the problems accurately.

***Insecurity facilitates unsustainable exploitation of and inequitable access to natural resources.*** The Government does not yet have a means of implementing or enforcing natural resource protection. State and non-state actors—including the powerful timber mafias—are able to illegally appropriate natural resources that rightfully belong to the state or to communities.

### 6.6.4 STRATEGIES

***Clarify responsibilities in the environmental arena and strengthen the capacity of NEPA.*** Technical skills will continue to be strengthened across NEPA's six divisions: International Environment Affairs; Research/Policy and Information; Implementation and Enforcement, Natural Heritage Protection, Environmental Assessment and Sustainable Development and Human Resources and Finance. The implementation of PRR Stage 2 will create an appropriate organizational structure for NEPA while allowing it to enhance technical and managerial capacity of its human resources. This will also provide for additional resources for better wages. Approval of the Environmental Management Act will provide legislative teeth to NEPA. NEPA will utilize the environmental impact assessment process to integrate environmental considerations in all development projects across sectors. The following are some areas that are being considered:

***Develop and implement a legal and regulatory framework that ensures sustainable use of natural resources.*** The introduction of environmental legislation is critical to effective management and protection, as is effective enforcement. Key measures include establishing a taskforce on incorporating environmental 'markers' within the NDB and creating dedicated units in all relevant sector ministries. Environment and natural resource-related international conventions and treaties ratified by Afghanistan will be disseminated and implemented by appropriate stakeholders. To ***improve environmental quality***, NEPA will begin development of proper waste disposal guidelines, monitoring of air and groundwater quality, and provision of safeguards to address resource abuse and ensure sustainability. Government revision of land tenure and titling, as well as enforcement of rights, will increase ownership of and equitable access to natural resources, especially by nomads, the poor, and other vulnerable groups. As part of its efforts to register and formalize land ownership, the government will develop a legal regime to regulate land use, including use of urban land, in accord with environmental principles.

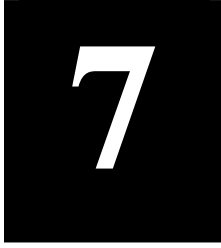
***Build environment and natural resource management capacity within line ministries.*** In the short-term, NEPA and relevant line ministries will participate in environmental impact assessments undertaken as part of IFI-initiated infrastructure projects, including transportation, energy, sanitation and water. As NEPA's own capacities are strengthened, it will work with line ministries to establish environmental policies and departments, which will eventually undertake Environmental Impact Assessments (EIAs) in their relevant sectors. Identification of environmentally-sensitive areas, rural and urban, would help mark restricted settlement zones and alleviate environmental stress related to refugee returnees, IDPs, and general population growth. Protected area management also will preserve potential eco-tourism sites for the future.

***Initiate community-based management of natural resources.*** Community-based programs will help restore degrading ecosystems, improve food security, and support counter-narcotics objectives. In agriculture, the Government will undertake research on the production of suitable crops and establishment of mechanisms for the storage and disposal of agricultural chemicals. NEPA will encourage further research on the feasibility of rehabilitating wetlands, measures to combat desertification, and identification of biodiversity regions. Opportunities to establish state-led timber cooperatives should be explored (and could lead to better regulation of forest resources). Ownership rights within forests and ranges also will be crucial to avoid conflict as well as better manage resources. In urban and peri-urban areas, sectoral environmental management plans, above all for poor and vulnerable groups, need to be strengthened, including those on pollution and waste management.

***Introduce environmental education and vocational training.*** The Government will look to introduce and integrate ecological issues and education curricula at primary, secondary and university levels. Vocational training at the community level will provide an effective means to restore damaged localized ecological systems and provide employment opportunities. Education and public awareness campaigns will change environmental attitudes and behavior. Long-term recommendations include an environmental research institute and network of collaborating centers across the nation.







# SECURITY & GOVERNANCE, RULE OF LAW AND HUMAN RIGHTS

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## 7.1 INTRODUCTION

This Chapter presents the government's strategy to enhance (1) security, and (2) governance, rule of law and human rights. Afghanistan's history (Chapter 2) outlines the consequences of the failure of effective and legitimate structures of governance. The twenty-three year war led to the almost complete destruction of the state, and with it, the destruction of the economy, and the ability to provide even the most basic services. Moreover, the struggle for power led to multiple systems of governance, all of which lead to abuse and extortion, none of which met international standards of public governance. While the process of political de-fragmentation proceeds and the government moves towards a state of normalcy, threats to the legal hegemony of state persist. The legacy of weak public service delivery makes it essential, moreover, to strengthen institutions responsible for delivery of key public services; without this, we will fail to achieve our national development goals – the MDGs.

The security sector strategy includes strengthening security sector coordination; and investment programs in (i) the Afghan National Army; (ii) the Afghan National Police; (iii) the Disarmament of Illegal Armed Groups (DIAG), and (iv) de-mining. The interface between these programs and those of good governance is clear, particularly in relation to justice reform, and an integrated approach to the security sector is essential. In the area of governance, rule of law and human rights, Government has developed investment programs in (i) empowering the National Assembly; (ii) justice and the rule of law; (iii) religious affairs; (iv) public administration reform, and (v) human rights, including women's rights. The program on women's rights is a direct action program, to complement the more general approach to gender advocacy and mainstreaming. The public administration program is pivotal to the reform of the entire public sector, at the national and sub-national levels; success in this program is essential to all other national programs.

The following presents the policies, constraints, and strategies for the national investment programs in Pillars 1 and 2. The various investment programs fall under Sector One - Security and Sector Two - Governance, Rule of Law and Human Rights.

## 7.2 SECTOR ONE: SECURITY

### 7.2.1 OVERVIEW

Afghanistan's geo-strategic position, moderate Islamic Republic and strong partnership with the international community make Afghanistan an essential contributor to both global and regional security. The political milestones mandated by the Bonn Agreement have been achieved to legitimize the Afghan Government and to pave the way towards a politically stable future. However, threats to national and personal security remain major impediments to growth and poverty reduction in spite of the very significant gains made within the sector since the establishment of the five pillar security sector strategy in 1381 (2002/3).

Afghanistan's current security challenge must be understood in the context of key historical events. Afghanistan has a long history of conflict influenced by the competing interests of our immediate neighbors and by the ambitions of powerful individuals and nations farther away.<sup>78</sup> History dictates that Afghanistan's security is therefore very much interrelated with the international affairs and that Afghanistan's National Security Policy (NaSP) must therefore take into full account the political and strategic developments occurring on and far beyond our own borders.

It is vital to our national development strategy that we maintain (and, in some areas, increase) investment to achieve core reforms and establish a security force size and structure that is both effective in meeting national security and development objectives, but one that is also fiscally sustainable. Insecurity continues to threaten our efforts to extend the rule of law into every part of the nation, undermining capacities in service delivery, and pushing up the transactions costs in execution of the national budget. The existence of mines and unexploded ordnance continues to pose a hazard to the agricultural and economic recovery of the country and until the rule of law is fully re-established to offer protection of self and property, people will be forced to seek such security through local networks, many of which are under the control of illegal militias. Moreover, without security, the private sector will limit the scale of formal activities and the illicit economy risk growing still further.

The financial cost of rebuilding and reforming the Afghan security sector remain beyond the capacity of the government and our ability to cover even the core remuneration costs for the ANA and the ANP will remain a major challenge. Though the immediate burden is largely<sup>79</sup> being carried by the international community outside of the normal fiscal management processes of the MoF, the Government fully accepts that the security force structures that are put in place must be, in the longer term, operationally realistic and fiscally sustainable over time. However, in the absence of sufficient fiscal resources, it is unrealistic to expect government to achieve the levels of domestic, national and regional security that the government aspires to and which the international community expects by way of support to the global war on terror. The sector will require continued and substantial support from the international community for many years to come, covering both recurrent (wage and operations and maintenance) and capital costs.

If the war against terror, illegal drugs and poverty is to be won, it is essential, not only to build Afghan security forces to a level where they can overmatch all threats to national sovereignty and interests but also put in place rule of law, justice and systems of good governance that will bring about peace, stability, economic growth and increased personal freedom. Yet, security and law enforcement measures must also be fiscally sustainable over the longer term. Fiscal constraints will therefore need to, in part, influence the structure and size of the ANA and ANP in particular, also in the interests of national security. A failure to invest in the recovery of Afghanistan, and the reform of the security sector in particular could have disastrous national, regional and even global consequences. Global terrorism is not yet defeated, and residual groups continue to operate freely in parts of the region. It is imperative that such groups do not undermine the gains made in establishing a democratic order, the seeds of which have been sown and continue to require nurturing.

***Government's goal with the direct support of the international community aims to establish a legitimate monopoly on force and law enforcement that provides a secure environment for the rights of the Afghan people to be fulfilled, embracing the freedom of movement for people, commodities and ideas, and social and economic development.***

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<sup>78</sup> The geographical boundaries bequeathed by Anglo-Russian interests, for example, were not designed to meet either the objectives of greater regional security or national unity. It was primarily the vigorous efforts of Emir Abdur Rahman Khan to establish his authority that enabled him to hand over a nation state to his successors. Subsequent authorities, whatever their political or religious persuasion have been tried and tested by similar challenges.

<sup>79</sup> Government does of course cover a large share of the security sector wage bill, although the US continues to cover the major costs of the ANA, and other donors, the costs of police salaries which continue to be paid through LOTFA.

## 7.2.2 CONTEXT AND CONSTRAINTS

Insecurity remains one of the foremost challenges to Afghanistan's democratic transition, both internally, and in terms of the wider region. As the UN Secretary-General's August 2005 Report on the Situation in Afghanistan and its Implications for International Peace and Security stated, "Afghanistan today is suffering from a level of insecurity, especially in the south and parts of the east, not seen since the departure of the Taliban." In the first nine months of 1384 (2005/6), a major upswing in insurgent activity continued leaving more than 1,200 dead, including 69 American soldiers, making it the deadliest year for the Coalition since 1381 (2002/3). The Government, with staunch international support has however substantially overhauled key security institutions, particularly Office of the NSC, the NDS and the MoD. The Demobilization, Disarmament and Reintegration (DDR) program has led to the dissolution of the Afghan Militia Force (AMF). However, reforms within the MoI, including the reform of sub-national administrative structures and the Justice Institutions have been slower than expected. In other areas such as with PRTs, there have been major gains, but issues of overall coordination must be addressed, so that activities are more closely integrated with the national budget.

Outside of the overall security context, the following high level sectoral constraints have been identified, to inform the overall security sector strategy:

***Security is threatened by myriad political and economic forces.*** Afghanistan faces a myriad of threats: a failure to address poverty or the challenge of reconciliation and national unity and social and economic security is just as threatening as any direct or indirect foreign and domestic anti-government group. For this reason, our National Security Policy treats security holistically;

***Limited investment in winning the war on terror and establishing the rule of law.*** Security remains threatened by terrorists and other anti-government force. In too many areas the resulting lawlessness has created a legal void that has been filled by non-statutory armed forces which have inhibited the Government's ability to extend its writ and the rule of law into the countryside;

***Warlords and drug barons have ruled by force for much of the past 25 years*** and reintroducing a system of justice has proved difficult, not least because of the largely local level governance reforms that need to be effected;

***The drug economy*** produced narcotics whose value at the border in 1383 (2004/5) was estimated at 47% of non-drug GDP. These exports providing anti-government forces with the financial resources to resist the government, also encouraging forces opposed to central government to reject the state's efforts to extend its legal monopoly on force;

***Insufficient support for the coordination role of the NSC*** as the body responsible for inter-ministerial security coordination. Clearly, with the establishment of the National Assembly strengthening Afghan Government accountability for decision making vis-à-vis the parliament, the establishment of appropriate oversight mechanisms will be vital;

***Aggregate Fiscal Sustainability:*** There is growing concern within Government that the public sector wage costs for the security sector (particularly the ANA and ANP) will remain beyond the capacity of government to sustain given limited domestic revenues and competing claims from other needy sectors.

***Building a force that reflects the gender and ethnic make up of Afghan society*** will be particularly challenging, particularly for the ANP and justice systems. Currently, there is a lack of qualified women within both services and this must be rectified if services provided are to be equitable in coverage. Furthermore, administrative and civil service reforms have not been effective, particularly for MoI and MoJ, and this must be addressed through the PRR process, as a pre-condition for improving good governance;

*A severe shortfall in available capital and human resources*, particularly with regard to managerial capability and the availability of skilled personnel across all security sector institutions;

*The prioritization of short-term over longer term objectives* has delayed reconstruction policies and the establishment of the necessary security environment needed for sustainable long-term social and economic development;

*Historically corruption and impunity have contaminated governance processes*, including the security sector, although particularly at the provincial and district levels;

*Citizen expectations with regard to Government authority remain high.* Popular skepticism regarding national political will to address needs could easily turn to antagonism over time;

*The absence of civilian oversight of the security sector by the National Assembly* (which is currently being established) has historically undermined accountability of the executive organs of state;

*Provincial Reconstruction Teams (PRTs)* have largely been effective, but due to the prevalence of parallel command structures, coordination has been weak. Furthermore, in the absence of strong provincial coordination, many of the activities have been poorly aligned to the strategic development needs of a particular province. As PRT resources devoted to economic assistance do not go through the national budget, these resources have fallen outside of the policy steerage of national government; and,

Our key strategies for addressing these constraints will be addressed through programs in (i) security sector reform and coordination (ii) national defense (iii) law and order and (iv) de-mining.

### **7.2.3 SECTOR STRATEGY**

NaSP establishes how the government intends to transition from the current state of relative insecurity and poverty, to relative security and prosperity. As such it identifies two strategic areas of inter-related activity as being central to achieving the government's security vision; the National Security Strategy that covers all operational security activities and the National Security Sector Reform Strategy that is designed to build the capacity of the Afghan security sector such that it can manage its own security environment without external assistance.

Set within the constraints imposed by the need to direct scarce resources to alleviate poverty and extend access to basic services such as education and health, On 30th July 2003, President Karzai announced that "Security Sector Reform, in short, is the basic pre-requisite to recreating the nation that today's parents hope to leave to future generations." Government is reconstructing the institutions of the state with a vision to ensure stability into the future. The key to attaining stability is rapid but enduring reform of the security sector. This is not possible in isolation, and government is therefore adopting a holistic approach to ensure that the country develops the environment for economic and social growth.

Government is aware of the synergy and relationship between SSR, sustainable security and good governance generally and the conditions of stability and economic well-being necessary to address poverty and other social ills. Good governance and best democratic practice require that the MoF is engaged in budgetary processes and fiscal decisions across the public sector and this includes the security sector. As a matter of policy, decisions that relate to force size, establishments, pay-scales and procurement that have financial implications should only be taken after discussion in the NSC and with the authority of the MoF.

Importantly, and with the establishment of the national parliament, the NSC will need to coordinate inter-ministerial discussions on force size based on fiscal absorption capacity, structures of pay and

grading, and in presenting the collective budgets of the security sector to government. Given the weak fiscal position that government finds itself, long term external support to reform the sector, guarantee resources, and deepen the reform program continue to be required.

In Afghanistan, our NaSP requires the complete restructuring of existing institutions, nationally and sub nationally, demanding cooperation between the different agencies and ministries to ensure a coordinated effort. The Government’s vision is of a unified approach to security encompassing the ANA, the ANP, the NDS and the Justice System. Only through joining the different elements of the security forces and judicial process can a stable future be envisioned. The role played by the NSC, both in terms of effective coordination and accountability to the newly establishes parliament is therefore key to achieving national security and law and order objectives.

The National Security Policy identifies the following key objectives and policies:

1. National defense of sovereign territory and air-space;
2. The defeat of all terrorist forces and disbandment of all IAGs;
3. The security of national borders;
4. The establishment and maintenance of the rule of law in support of the ANP;
5. The elimination of the trade in illegal narcotics;
6. The elimination of mines and unexploded ordinance;
7. The development of mechanisms for the transfer of security management from the International Community to the full control of the Afghan security forces, sequentially, as the security situation improves.

**National Security Policy:** Set within a foreign policy context and the fiscal constraints discussed above, the NaSP can be conceptually portrayed as follows. Part 1 discusses the current situation and Part 2 the strategies that are necessary to make the transition to Part 3, which is where the government wishes to get to in terms of ‘steady-state security.’

**Figure 7.1 National Security Policy Outline**



**Foreign Policy:** For government, the first line of defense against external threat is an effective foreign policy, whereby the first line of defense is based upon a series of good neighborly arrangements as well as strong collaboration on regional security and trade development. To meet the minimum obligation of political normalization, the key tenet of Afghanistan’s foreign policy are that the State of Afghanistan is entitled to full sovereignty, security, stability, prosperity, democracy and human rights, as well as all the rights and benefits due to a member of the United Nations. The

people of Afghanistan are entitled to enjoy national unity, territorial integrity, political independence, equality and the basic conditions for living with dignity.

**National Security Strategy:** The National Security Strategy embraces and coordinates those strategies and activities that directly relate to national and human security. These include foreign policy, the joint campaign plans of the Combined Forces Command-Afghanistan (CFC-A and ISAF), the ANA's operational plans, NDS activities, ANP strategies and the activities of the justice sector. The coordination of these activities is achieved through the National Security Forum, which is a bi-monthly meeting chaired by the President and its members include Security Line Ministers and the Commanders of CFC-A and ISAF.

**The National Security Sector Reform Strategy.** The SSR Strategy addresses how the capacity of the Afghan security sector can be built such that they can eventually take on full responsibility for all national security activities. Over the past four years, security sector reform has been coordinated across five pillars, as follows: (i) defense (ii) policing (iii) justice reform (iv) DDR and (v) counter narcotics.

#### 7.2.4 SECURITY SECTOR COORDINATION<sup>80</sup>

**National Assembly Oversight.** The establishment of National Assembly oversight and accountability of the security sector is a fundamental tenet of good democratic governance process. Constitutionally, the National Assembly may hold ministers to account, however, more detailed oversight mechanisms will be required. A formal system of oversight by committee will be required for each branch of the security sector. Members of oversight committees may need security vetting and education before they can gain the necessary degree of competence to become effective. Security oversight committees may report back to the National Assembly in open or closed session depending on the level of national security involved.

**National Strategic Coordination:** The NSC, which is an Afghan body, is the highest level security body in the Government and operates at cabinet level. The NSC is charged with the direction and coordination of all security ministries and security related policies and is chaired by the President. In order to ensure that all subordinate security activities are coherent, the NSC has established two strong strategic-level coordinating committees at the Principals level that also include international representation: the SSR Coordination Committee (SSRCC) and the Security Coordination Forum (SCF). They will have the responsibility, on behalf of the NSC, of ensuring ministerial de-confliction and that their respective strategic initiatives are mutually reinforcing to the maximum extent possible. The SSRCC and SCF will be provided with secretarial support by the Office of the National NSC. The SSRCC and SCF are supported by a Deputies Committee (DC). When formed, the DC will be the senior sub-cabinet group tasked with monitoring the work of the inter-agency process and identifying unresolved policy issues for the Principals Committees. Sector specific national coordination responsibilities are as follows:

**National Security Coordination Forum.** The National Security Coordination Forum (NSCF) is chaired by the President, supported by the NSA. The NSCF is an operational and issues driven executive forum, and as such will have relevant ministers (or their deputies), ambassadors and coalition/ISAF force commanders in attendance on a case by case basis. The role of the NSCF is to ensure that decisions and directives taken and issued by the President and the NSC are developed into coherent plans that can be transmitted to the relevant ministries, lead nations and coalition/ISAF forces and then, on behalf of, and in consultation with the NSC, to direct and coordinate the resultant

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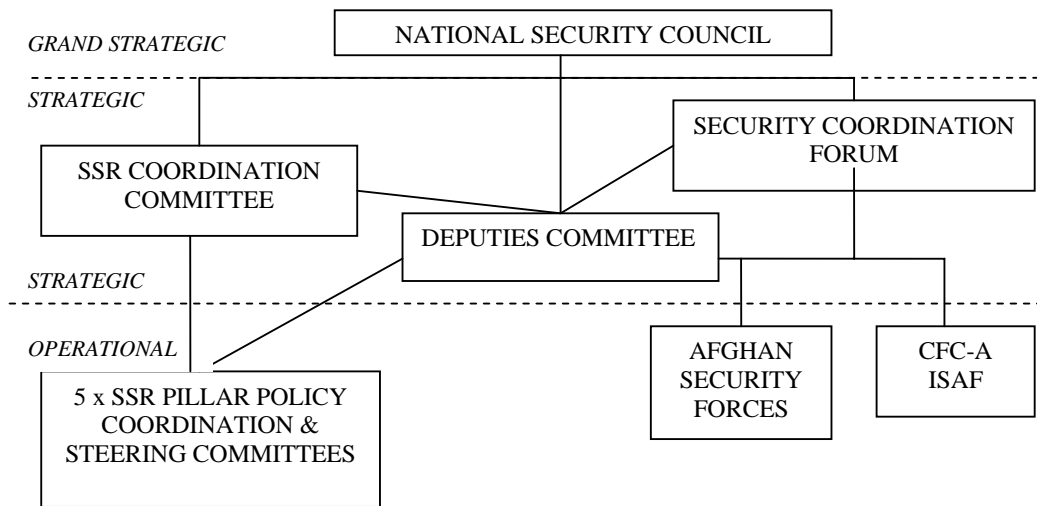
<sup>80</sup> Government is very aware of the central contribution of the international community to the security sector reform agenda in Afghanistan. Sequencing the transition of many ongoing security functions (many of which remain with Coalition Forces, NATO and ISAF,) back to government will depend on internal government capacities to conduct this function. The Government strategy is to have full sovereign control over national security and law and order through the NSC and various sectoral Ministries, based on a mutually agreed partnership.

operational, crisis management activities. The NSCF will convene weekly. The Secretariat for the NSCF is provided by the ONSC, which will issue invitations and agenda, prepare pre-briefs and issue minutes within 24 hours of closure. Individual members of the NSCF may also be members of the SSRCC.

**The Security Sector Reform Coordinating Committee.** The SSRCC is chaired by the President. He is assisted as chair and director of the SSRCC by the appointment of two subordinate co-directors: the NSA and the SRSG. Commanders CFC-A and ISAF also attend as principals. Commander ISAF’s role may increase as ISAF assumes more security responsibilities from CFC-A. Membership of the SSRCC will include the co-directors (co-chairs), of the five SSR Steering groups. Meetings will be held in the ONSC. As per the NSCF, the secretariat of the SSRCC is provided by the ONSC, and will perform similar functions to the joint secretariat of the NSCF. The purpose of the SSRCC is to orchestrate interagency coordination in all SSR related activities, and to develop strategies and issue directives to ensure effective vertical and horizontal coherence within the interagency process. The SSRCC will meet monthly.

**Deputies Committee.** The DC is chaired by the Deputy National Security Advisor (DNSA) and is comprised of, at a minimum, the deputy ministers of the ministries represented on the NSCF and SSRCC. The Committee may invite observers and input from outside organizations to include: OSC-A; CFC-A; ISAF and UNAMA. The purpose of the DC is twofold: first to use the interagency process to ensure that decisions made at the NSCF and SSRCC are transmitted to relevant ministries, lead nations and coalition forces, and enacted in a coherent fashion and second, to identify policy gaps and develop appropriate draft strategies and draft plans to fill those gaps for upward transmission to the relevant Principals Committee for discussion and agreement as necessary.

**Figure 7.2 Security Sector Coordination**



As part of its assigned duties, the DC with the endorsement of the appropriate Principals Committee develops strategies and issues directives to the Policy Coordination and Steering Committees (PCSG) that direct the activities within the 5-pillar SSR architecture; and other PCSC as deemed appropriate and endorsed by the relevant Principals Committee. In addition, the DC is specifically charged with developing and implementing plans for: interagency training; periodic reviews of interagency policy and procedures; a systematic and periodic evaluation of roles and responsibilities of the ONSC; interagency crisis response contingency planning and interagency training rehearsals.

**SSR Operational Coordination:** The SSR will be directed and coordinated by a series of Policy Coordination and Steering Committees (PCSC). These are already in existence. They will meet at the

direction of the DC and are co-chaired by assistant-level leadership from the relevant government ministers and representatives from the lead (pillar) nations. The purpose of the PCSCs is to coordinate all activities within their areas of responsibility, to develop strategies and issue directives to ensure effective vertical and horizontal coherence and the achievement of strategic goals as directed by the SSRCC and NSCF, through the Deputies Committee.

**To underpin the overall security sector reform program, the following four sub-programs have been developed to meet the overall national objectives:**

### **Program 1: National Defense**

#### **Government's Five-year Strategic Benchmarks**

1. Through Jaddi 1389 (end-2010), with the support of and in close coordination with the Afghan Government, the NATO-led International Security Assistance Force (ISAF), Operation Enduring Freedom (OEF) and their respective Provincial Reconstruction Teams (PRTs) will promote security and stability in all regions of Afghanistan, including by strengthening Afghan capabilities.
2. By Jaddi 1389 (end-2010): the Government will establish a nationally respected, professional, ethnically balanced Afghan National Army that is democratically accountable, organized, trained and equipped to meet the security needs of the country and increasingly funded from Government revenue, commensurate with the nation's economic capacity; support will continue to be provided to Afghanistan in expanding the ANA towards a ceiling of 70,000 personnel articulated in the Bonn talks; and the pace of expansion is to be adjusted on the basis of periodic joint quality assessments by the Afghan Government and the international community against agreed criteria which take into account prevailing conditions.

Government, with the assistance of the international community, will establish a fully constituted and functional ANA of up to 70,000 to effectively meet the security needs of the country and is increasingly fiscally sustainable. The objective is to build an ANA that is ethnically balanced, nationally orientated, well trained and equipped, professional, able to meet the security needs of the country, loyal to the constitution and the government and increasingly fiscally sustainable.

Through the MoD, who is a civilian, the President as Commander-in-Chief directs the Chief of the General Staff who in turn orders the ANA. The MoD will cooperate with the ONSC and the international community in the SSR process. In order to conform with the NaSP and to achieve best operational practice, the MoD has restructured and reorganized its functions into an Executive Ministerial Office supported by two separate but complimentary headquarters; the Headquarters of the MoD mainly dealing with policy and the Headquarters General Staff that commands operations. The Executive Office of the Headquarters will receive process and coordinate all formal staff actions and tasks between the Headquarters MoD and the Headquarters, General Staff. Informal sharing of information and coordination directly between offices and departments within each headquarters is encouraged and expected. The ANA will assist the ANP and ABP for internal security operations and on the Afghan border. The key roles of the ANA are (i) to secure borders and deter external threats (ii) to defeat terrorist forces (iii) to disband, reintegrate or imprison IAGs, and (iv) to manage internal security threats and emergencies in cooperation with ANP.



## **Program 2: Internal Security and Law Enforcement**

### **Government's Five-year Strategic Benchmarks**

By Jaddi 1389 (end-2010) a fully constituted, professional, functional and ethnically balanced Afghan National Police and Afghan Border Police with a combined force of up to 62,000 will be able to meet the security needs of the country effectively and will be increasingly fiscally sustainable.

Government will establish a fully constituted and functional ANP of up to 62,000 to effectively meet the security needs of the country and is increasingly fiscally sustainable. The MoI (including ANP) aims to meet the governance and security needs of the country through the development of a professional, competent, well-trained, human rights respecting, ethnically balanced police force that over the years will become fiscally sustainable; and the emplacement of good governance processes that ensure best practice from the national to district levels of government. The MoI will continue to cooperate with the international community to increase the capacity and operability of the ANP and ABP and endeavor to make the future developments of the force dependent on the available fiscal envelope. MoI provides nation-wide law enforcement services and manages local administration in all provinces and districts throughout Afghanistan. The minister's prime policies are the following (i) disband illegally armed groups to ensure extension of the rule of law (ii) eliminate insurgent threat and extend the fight against illegal drugs (iii) enhance of legal and governance structures at provincial and district levels (iv) support the judicial process and prison service (v) support to counter narcotic strategies; and, (vi) educate the public about the tasks and purpose of the ANP and the rights of the citizen.

Key policies set out by the NaSP include (i) reinforcing the rule of law (ii) combating terrorism (iii) investigating corruption and crime (iv) fighting illegal drugs (v) disbanding IAGs (vi) protecting human rights and gender equality (vii) combating sectarianism to establish a national police force, and (viii) increasing the trust of the Afghan people in the ANA and the police's ability to guarantee the people's access to justice and the rights of citizens in regard to the police. Many of these roles will need the support and assistance of partners, whether domestic or foreign, to achieve their aims. Under the NaSP, the ABP is responsible for maintaining the borders and securing the state, control of border traffic by people, to include immigration and emigration, control of border crossing for merchandise (in close cooperation with Customs officials and customs police), border security against small incursions by groups attempting to illegally enter Afghanistan for the purpose of violating Afghan law or other destabilizing acts and, providing support to other government agencies to include support for counter-narcotics operations and support for counter-terrorism operations.

The overall strategy will be ensured through (i) reforming the MoI command structure (ii) reforming MoI local government structures (iii) instituting legislative roles in the MoI (iv) training and equipping the ANP to full staffing establishment (v) phasing out LOTFA so that all payments are fully integrated into normal government budget procedures (vi) policing national borders against crime with the support of the ANA. Within the Afghan Border Zone (ABZ), ANA is responsible for supporting the ABP during emergencies and for being prepared to assume command of a border region during a national crisis.

### **Program 3: Disbandment of Illegal Armed Groups**

#### **Government's Five-year Strategic Benchmark**

All illegal armed groups will be disbanded by Jaddi 1386 (end-2007) in all provinces.

It is estimated that there are at least 1,800 IAGs with a total strength of approximately 125,000 that have never responded to central control from Kabul. The DDR process was targeted against those AMFs that gave an allegiance to central government and therefore had a semblance of legal standing. Being essentially anarchic these IAGs pose a much greater threat to peace and stability in the country. Many of these IAGs and armed individuals are heavily involved in illegal activities such as drug smuggling, human trafficking and human rights violations. These circumstances undermine basic prerequisites for human security and subvert economic recovery by restricting the Government's revenue collection capability

The purpose of the DIAG process is to disband those illegally constituted groups that threaten human security and the rule of law, in order to create a secure and stable environment in which Afghans and international investors will commit to the future of a prosperous Afghanistan. Government will declare when the end state is achieved and residual challenges are deemed to be within the capacity of the Afghan state. Measurable benchmarks include that all IAGs will be disbanded by Jaddi 1386 (end 2007).

### **Program 4: De-Mining<sup>81</sup>**

#### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), in line with Afghanistan's Millennium Development Goals (MDGs) and Afghanistan's Ottawa Convention obligations, the land area contaminated by mines and unexploded ordnance will be reduced by 70%; all stockpiled anti-personnel mines will be located and destroyed by Jaddi 1386 (end-2007); and by Jaddi 1389 (end-2010) all unsafe, unserviceable, and surplus ammunition will be destroyed.

Despite the progress made by the mine action community over the past 15 years, Afghanistan remains heavily contaminated by mines and Unexploded Ordnance (UXO). This contamination continues to have a devastating effect on human lives and livelihoods in Afghanistan. Clearance of residential areas, farmland, roads and other high priority areas is not only a means to ensure the physical safety of Afghans, but is also a prerequisite for achieving national humanitarian, reconstruction, development and human rights goals, and thus a lasting peace with security and prosperity for all. Landmines and unexploded ordnance affect some 4.2 million Afghans who live in one of 2,368 contaminated communities. Mines and/or UXO kill or injure an estimated average of 100 Afghans every month.

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<sup>81</sup> Landmines were first used in Afghanistan during the Soviet occupation (1979 to 1989). Mine and UXO contamination continued during the period of the pro-Soviet government (1368-1371/1989-1992); during fighting between various factions from 1371-1374/1992-1995; and during the Taliban era, in fighting with resistance forces from 1375-1379/1996 to September 2001. Some contamination continues to occur as a result of military operations since October 2001.

On 10 Hout 1382 (1 March 2003), Afghanistan became party to the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (Antipersonnel Mine Ban Treaty). Afghanistan has committed to establishing a complete ban on antipersonnel mines through the implementation of an overarching framework for mine action. This framework includes the clearance of antipersonnel mines within 10 years, destroying all antipersonnel mine stockpiles, providing mine risk education, assisting landmine survivors and meeting reporting requirements. This framework has been translated into a Mine Action Program for Afghanistan PIP 1384-1387 (2005/6 – 2008/9).

## **7.3 SECTOR TWO: GOOD GOVERNANCE AND THE RULE OF LAW**

### **7.3.1 OVERVIEW**

Rule of law is the foundation for legitimate government, protection of citizens' rights, and a competitive market economy. It is also essential to combat corruption and curb the illegal drug economy. State-sponsored justice must be made available to all Afghans. A functioning justice system is an essential component of coming to terms with a violent past and to building a secure and prosperous future. An independent judiciary and accountable law enforcement system will protect the human rights and legal protections guaranteed to all Afghans. Vulnerable social groups, including women, children, and the poor are especially at risk from the arbitrary, illegal, and corrupt use of force by state and non-state actors. The enforcement of property rights, contracts and financial services laws will favor direct investment and enable the poor to leverage their resources and further their economic goals. The transition of the informal sector into the formal economy is dependent on the acceptance and enforcement of the rule of law. At present, traditional justice fills the gap in state justice, but is often out of step with Islam, the constitution, state law, and human rights. The community leadership and accessibility of *shuras* and *jirgas* can strengthen the overall justice system. Religious leaders can help shape public opinion and increase understanding of important social issues, including drug control, anti-corruption, forced marriage, and girls' education.

Lasting peace and prosperity in Afghanistan require structures of governance that are accountable, transparent, effective, and Islamic. A well-functioning National Assembly will complement and balance the executive and judicial branches of power, while linking national policy-making to the people. The Constitution gives the National Assembly significant powers with direct bearing on the function of government and the development of the nation. Without proper support, an inexperienced National Assembly could distance the Afghan people from their government, rather than bring them closer. Good governance and effective delivery of public services will also require modernizing and strengthening government institutions at all levels. The introduction of a merit—and performance—based civil service system will hold officials accountable and facilitate pay-scale revision, measures which will raise the morale of public servants and make them less susceptible to corruption. Promoting the recruitment of women and people from all regions of the country will ensure that the composition of government reflects that of Afghanistan.

***Our goal is to establish the basic institutions and practice of democratic governance at the national, provincial, district, and village levels for enhanced human development, by the end of the current Presidency and National Assembly terms.***

### **7.3.2 CONTEXT AND CONSTRAINTS**

The Constitution of the Islamic Republic of Afghanistan provides the legal basis for governance and the protection of human rights in Afghanistan. With the formation of both houses of the National Assembly and the appointment of a new Supreme Court within thirty days of the convening of the

*Wolesi Jirga*<sup>82</sup>, the principal institutions of the three Constitutional branches of government have been established.

Afghanistan's past has left it without the functioning structures a national government requires to protect its people and deliver services to them. The Government has only begun to shift the balance of powering our society away from force and toward institutions. Many districts and provinces remain under the influence of IAGs. Due to the inaccessibility of state justice services, only an estimated 10% of legal matters are handled by state justice services.<sup>83</sup> Human rights and legal protections guaranteed to all Afghans by the constitution, laws of state, and international treaties are routinely violated.

The people's faith in Islam and relatively widespread understanding of the Islamic jurisprudence that forms the basis of much of our legal system provides us with a basis on which to build governance institutions and respect for human rights, but the work required to build a functioning national structure that enables Afghanistan, in the words of the constitution, to "regain its rightful place in the international community,"<sup>84</sup> will require years of work beyond the horizon of this ANDS. The Government is slowly building up the basic legal framework of the nation and reforming its public administration in order to achieve this goal. Nonetheless, there are still a number of challenges to be overcome.

In addition to the constraints identified in Chapter 5, the following sector-specific constraints exist:

***National Assembly systems, including the basic legal framework and procedures, are in the early stages of development.*** Rules of procedure have been drafted, but have not yet been approved. Mechanisms for interaction between the executive and the legislature, as well as between the Upper and Lower House still have to be clarified. Additionally, National Assembly members are inexperienced. Representative government is still new to Afghanistan. Representatives will require orientation on their roles, responsibilities and powers, as well as the broader function of the legislature. Understanding parliamentary rules of procedure will take time, as will skills development for drafting legislation.

***The justice sector is weak.*** Insecurity, a weak legal, regulatory and institutional framework, inappropriate management, perverse incentives and inadequate legal and judicial knowledge and skills constrain reform of the justice systems and establishment of rule of law. Insecurity, above all in the provinces, limits access to justice and implementation of court decisions. Implementation and enforcement of justice is most severely affected where the state has not yet established full political and military control over its territory. Justice officials do not have security protection, making it impossible in many places to recruit or retain qualified staff. Without security, judicial officials and citizens seeking legal redress are subject to outside pressure and intimidation. The impunity of state and non-state actors, and the sale of favorable decisions to the highest bidder gravely undermine the security of citizens and their confidence in the judicial system.

***Religious scholarship has declined and centers of religious knowledge have fallen into disrepair.*** Repression of Afghanistan's clerics under Communism and their isolation during the war from advanced Islamic teachings and scholarship has resulted in a generation of less educated clerics. The number and quality of institutions for training and educating religious scholars and mullahs inside Afghanistan are insufficient. *Shari'a* faculties at universities have been neglected, leading to loss of knowledge.

***Uneven commitment to, ownership of, and leadership for public administration reform exists across government.*** Public administration reform has encountered some resistance in some Ministries. This resistance is partly due to poor understanding of the need for and implications of the public

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<sup>82</sup> Article 161.

<sup>83</sup> Justice for All, p. 14

<sup>84</sup> Constitution of the Islamic Republic of Afghanistan, Preamble, para. 11.

administration reform process, and partly due to resistance to loss of patronage implied by the establishment of a rule bound civil service. The asymmetric reforms initiated under the PRR process have delivered only partial improvements in performance due to variations in the implementation of restructuring plans. In order to recruit and retain competent government employees and combat corruption, there is a need to improve the salaries of civil servants; however improving public sector salaries while maintaining fiscal sustainability will be an extremely difficult task.

*A pervasive state of impunity exists due to the absence of professional law enforcement, policing, prosecution or judicial processes.* Disputed legal definitions of rape, domestic abuse and marriage age make redress for violations difficult. This is exacerbated by the lack of access to the legal system for women and some disadvantaged groups, which has sometimes made redress for violations against these groups difficult.

### 7.3.3 STRATEGY

**The stated goal for the Governance, Rule of Law and Human Rights Sector will be realized through a strategy based on five inter-related and mutually supporting programs.** Through this strategy, Government will strengthen the rule of law and judiciary institutions in each province of Afghanistan; religious scholars and institutions will play a central role in promoting good governance principles and community participation in governance decisions through provincial, district and village *shuras*; the National Assembly will be increasingly empowered to act as a responsible check on executive and judicial power, while also representing the views of constituents at the national level; our public administrative reform program will transform the civil service and national public institutions into more effective and accountable bodies; measures will be taken across government to ensure that human and women's rights are increasingly protected and promoted.

Specifically, the programs under the Governance, Rule of Law and Human Rights Sector include the following:

#### **Program 1: Empowering the National Assembly**

##### **Government's Five-year Strategic Benchmarks**

1. The National Assembly will be provided with technical and administrative support by the first quarter of 1385 (mid-2006) to fulfill effectively its constitutionally mandated roles.
2. The Afghanistan Independent Electoral Commission will have the high integrity, capacity and resources to undertake elections in an increasingly fiscally sustainable manner by Jaddi 1387 (end-2008), with the Government of Afghanistan contributing to the extent possible to the cost of future elections from its own resources. A permanent civil and voter registry with a single national identity document will be established by Jaddi 1388 (end-2009).

The powers mandated to the National Assembly have direct bearing on the effective functioning of government, including approval of the budget and promulgation of law. Government's goal is to strengthen the National Assembly's capacity to fulfill its role as the major actor in the legislative process, to act as a responsible check on executive and judicial power, to assist National Assembly members to represent the economic and political aspirations of their constituents, and to drive a legislative reform program that lays the foundation for reducing poverty and stimulating economic growth. Government will have oversight of a general coordination mechanism for the various donor initiatives supporting National Assembly. Government is in the process of establishing the necessary physical and communications facilities for the National Assembly. Construction of the

National Assembly building is nearly complete. The Secretariat of the National Assembly will support the development of functional directorates and will draft the principle responsibilities of the National Assembly in accordance with previous laws, documents, and international examples, and in cooperation with international experts. It also will support the development of regulations for operations, record keeping, and the security of the National Assembly, as well as ensure that staff and members are trained in these rules. The Secretariat will collect regulations and documents from the previous period of Parliamentary government in order to create an archive. The Government will facilitate the training of National Assembly members and staff necessary to perform their duties. Government will also create a Minister for Parliamentary Affairs to be responsible for relations with the legislature.

## **Program 2: Justice & the Rule of Law**

### **Government's Five-year Strategic Benchmarks**

1. By Jaddi 1389 (end-2010), the legal framework required under the Constitution, including civil, criminal, and commercial law, will be put in place, distributed to all judicial and legislative institutions, and made available to the public.
2. By Jaddi 1389 (end-2010), functioning institutions of justice will be fully operational in each province of Afghanistan. The average time to resolve contract disputes will be reduced as much as possible.
3. A review and reform of oversight procedures relating to corruption, lack of due process and miscarriage of justice will be initiated by Jaddi 1385 (end-2006) and fully implemented by Jaddi 1389 (end-2010); reforms will strengthen the professionalism, credibility and integrity of key institutions of the justice system (the Ministry of Justice, the Judiciary, the Attorney-General's office, the Ministry of Interior and the National Directorate of Security).
4. By Jaddi 1389 (end-2010) justice infrastructure will be rehabilitated; and prisons will have separate facilities for women and juveniles.
5. A process for registration of land in all administrative units and the registration of titles will be started for all major urban areas by Jaddi 1385 (end-2006) and all other areas by Jaddi 1387 (end-2008). A fair system for settlement of land disputes will be in place by Jaddi 1386 (end-2007). Registration for rural land will be under way by Jaddi 1386 (end-2007).

Justice and rule of law lay the foundation for legitimate government, protecting the rights of citizens, developing a competitive market economy, fighting corruption, and curbing the illegal drug economy. Government's goal is to establish a sustainable and affordable system of justice that is available and acceptable to all Afghans and will serve as the principal legitimate institution for accessing justice and regulating disputes in conformity with international standards. The Government will continue to reform Afghanistan's basic legal framework. Across the justice sector, it will strengthen professional skills and implement standards through administrative reforms and skills training. The permanent justice institutions will continue to restructure, and clarify their respective missions and mandates. Government will meet minimum infrastructure requirements in the short-term through multi-purpose facilities (government buildings containing various offices in a single location), with special attention to the needs of women and children. It will improve coordination in the development of different components of the justice and security sectors. The MoJ will formalize the role of formal and informal justice mechanisms and their respective roles, enhancing the legitimacy and efficiency of both. Permanent justice institutions shall provide services required in a minimally acceptable state justice

sector, with an emphasis on strengthening protections for vulnerable and geographically remote people. We will increase public awareness and confidence in the justice system through a nation-wide campaign and increasing transparency in court decisions.

### **Program 3: Religious Affairs**

#### **Government's Five-year Strategic Benchmarks**

1. By Jaddi 1389 (end-2010), religious institutions and scholars, both men and women, will participate in structured ways on issues of national development policy.
2. By Jaddi 1389 (end-2010), concrete measures will be put in place to ensure that the status and participation of women in Islamic activities increase, both locally and internationally.

Government's goal is to ensure that all Afghans can participate equally in the religious life of the nation and that Islamic teachings, principles and scholarship are consulted regarding the nation's development agenda, governance institutions, and legal framework, in order to ensure that our political, economic, and social progress coexists in harmony with Islamic values, principles and institutions. Islamic faith influences the legitimacy of leadership, the development of political institutions, the establishment of a robust central government, and the content of the law. Government's goal is to ensure that all Afghans can participate equally in the religious life of the nation and that advanced Islamic teachings and scholarship are consulted regarding the nation's development agenda, governance institutions, and legal framework in order to ensure that our political, economic, and social progress coexists in harmony with Islamic values and institutions. The Government will improve religious infrastructure, including mosques and shrines. It shall expand and support religious schools (*madrassas*), train mullahs and religious teachers, and finalize a country-wide academic syllabus for primary and higher education. Government will promote the revitalization of advanced Islamic scholarship. For Afghan pilgrims, the Government will strengthen its system of managing the Hajj.

## **Program 4: Public Administration Reform**

### **Government's Five-year Strategic Benchmarks**

1. By Jaddi 1389 (end-2010), Government machinery (including the number of ministries) will be restructured and rationalized to ensure a fiscally sustainable public administration; the Civil Service will be strengthened; and civil service functions will be reformed to reflect core functions and responsibilities.
2. A clear and transparent national appointments mechanism will be established within 6 months, applied within 12 months, and fully implemented within 24 months for all senior level appointments to the central government and the judiciary, as well as for provincial governors, chiefs of police, district administrators and provincial heads of security.
3. By Jaddi 1385 (end-2006) a review of the number of administrative units and their boundaries will be undertaken with the aim of contributing to fiscal sustainability.
4. By Jaddi 1389 (end-2010), in furtherance of the work of the Civil Service Commission, merit-based appointments, vetting procedures and performance-based reviews will be undertaken for civil service positions at all levels of government, including central government, the judiciary and police and to provide requisite support to build the capacity of the civil service to function effectively. Annual performance-based reviews will be undertaken for all senior staff (Grade 2 and above) starting by Jaddi 1386 (end-2007).
5. The census enumeration will be completed by Jaddi 1387 (end-2008) and the complete results published.
6. Reliable statistical baselines will be established for all quantitative benchmarks by the first quarter of 1386 (mid-2007) and statistical capacity built to track progress against them.

Good governance and equitable provision of quality public services requires establishing, reforming, and strengthening public administration at all levels. Government's goal is to develop an effective, accountable, and effective public administration at the central, provincial, and district levels capable of sustainably ensuring security, equitable provision of basic social services, and an environment conducive for economic growth. Through the Public Administration Reform program, the Government will ensure that there is improved coordination between decision-making bodies within the central government. It will restructure ministries and simplify administrative procedures and business processes. The IARCSC will assist line ministries and decision-making bodies with reforms of sub-national administration and also monitor and evaluate the process. Government will work through line ministries and decision-making bodies to strengthen coordination and improve service delivery through improved sub-national administration, beginning with revenue and service delivery ministries. Government will create an effective, financially sustainable civil service and gradually phase out donor supplementation of salaries. The IARCSC will strengthen rules and procedures for a professionally managed civil service, including promotion of high ethical standards and establishment of disciplinary measures for corrupt or unethical practices. Government will adopt a merit-based recruitment system that promotes gender equity and ethnic diversity. It will establish a coherent, comprehensive skills development program for existing and new civil servants. The IARCSC and MoF will better manage international technical assistance to ensure faster, more sustainable skills transfer, including in the area of project management.



## Program 5: Human Rights, Including Women's Rights Program

### Government's Five-year Strategic Benchmarks

1. By Jaddi 1389 (end-2010): the Government's capacity to comply with and report on its human rights treaty obligations will be strengthened; Government security and law enforcement agencies will adopt corrective measures including codes of conduct and procedures aimed at preventing arbitrary arrest and detention, torture, extortion and illegal expropriation of property with a view to the elimination of these practices; the exercise of freedom of expression, including freedom of media will be strengthened; human rights awareness will be included in education curricula, and promoted among legislators, judicial personnel and other Government agencies, communities and the public; human rights monitoring will be carried out by the Government and independently by the Afghan Independent Human Rights Commission (AIHRC), and the UN will track the effectiveness of measures aimed at the protection of human rights; and the AIHRC will be supported in the fulfillment of its objectives with regard to monitoring, investigation, protection and promotion of human rights.

The implementation of the Action Plan on Peace, Justice and Reconciliation will be completed by Jaddi 1387 (end-2008).

Poverty reduction is only effective and sustainable when the poor are empowered to participate fully in economic, social, cultural and political life. The Government's goal is to build an inclusive Afghan society where all people's human rights are protected, promoted, and respected. The Government will work with the AIHRC and the international donor community to develop and strengthen capacities to protect and promote human rights, including awareness training for civil servants. The MoFA will continue to develop the capacity required to report to appropriate treaty bodies on the implementation of international legal instruments signed and ratified by Afghanistan. It will enhance protection from human rights violations committed by government agencies. The Government will continue to promote and protect women's rights through harmonizing the women's provisions in the major policy frameworks of the country, improving access to justice, and raising awareness on issues such as child marriage, domestic violence, and women's employment. To strengthen the protection of children's rights, the Government will introduce laws and policies to protect children, establish preventative measures against sexual abuse of children and strengthen measures to counter child-trafficking. The Government will promote and protect disabled people's rights by working towards removal of barriers that deter them from full participation in society, such as advocacy and increasing awareness of their special needs and promoting their hiring in the work force. The government's strategy for supporting the disabled is detailed further in Chapter 8 on social protection.

**Fundamental to the programmatic interventions above will be a focus on the following sector-wide initiatives. Government aims to:**

***Combat corruption***, which is inseparable from strengthening systems of governance. Strengthening the legal framework, public sector management, and accountability systems are vital components of the government's anti-corruption strategy, all of which will increase public confidence in the legitimacy of the state. Utilizing these tools to combat corruption will accelerate the achievement of security, good governance and economic development. A motivated, merit-based, performance driven civil service will be resistant to the temptations of corruption, enabling efficient, effective, and transparent service delivery without bribes. Strengthening accountability systems will deny officials the opportunity to cover up corruption.

***Promote gender equity in the political, economic, and social life of the nation.*** Proactive laws and policies will be required of the state to reverse obstacles and abuses faced by women. Civil society,

including religious leaders, will have an important role in raising public awareness of women's situation. Likewise, greater participation of women professionals at all levels of the civil service will give them a voice in policy and decision-making, as well as improve the capacity of government as a whole to design and deliver adequate services to female constituents.

# 8

## ECONOMIC AND SOCIAL DEVELOPMENT

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### 8.1 PURPOSE AND STRUCTURE OF CHAPTER

Government's economic and social development strategy strives to balance the needs of the poor with the need for sustained economic growth. All government investment programs will be measured in terms of their contribution to these twin goals.

Infrastructure is essential to an effective and efficient economy. Given Afghanistan's position between South and Central Asia, we have two choices: to develop a modern road network that will fulfill Afghanistan's potential as a land bridge for trade, or remain a transportation bottleneck, crippling prospects for future trade. The extension of a national road grid will create new economic opportunities, particularly in urban and peri-urban areas. The sustainable extraction of natural resources, most of which have never been developed, will support higher rates of growth, and in many cases higher foreign exchange earnings, off-setting the trade deficit over time. The private sector development program will lay the foundation for more extended development and will affect the poor and non-poor alike.

Government's investment programs in agriculture and rural development reflect the priority needs of the majority of Afghans, who reside in the provinces. Agricultural reform will help to diversify and restructure the agricultural economy, creating high value production. Investments in rural development will lead to the establishment of sustainable community-based governance structures, community-based infrastructure, and enhanced local governance of public assets. Investments in human capital --education and health--are pivotal to lifting people out of poverty and creating a healthy and educated work force capable of responding to the challenges of future opportunities. Social protection programs will increase assistance to those suffering from chronic poverty.

National development sectors include (i) infrastructure and natural resources; (ii) agriculture and rural development; (iii) education; (iv) health; (v) social protection, and (vi) economic governance and the private sector development. The following presents the policies, constraints and strategies for these sectors.

### 8.2 SECTOR THREE: INFRASTRUCTURE AND NATURAL RESOURCES SECTOR

#### 8.2.1 OVERVIEW

Enhancing Afghanistan's competitiveness requires accelerating agricultural productivity, increasing efficiencies in the trade sector and supporting our entrepreneurial business community. In turn, these sources of growth demand reliable and inexpensive access to infrastructure. Afghanistan's future role as a transport/trading 'hub' in the Central Asian region requires an appropriate transport network. Access to health and education services, for all members of the community (particularly girls and women), will increase with an improved transport infrastructure. Modernized infrastructural systems will maximize the capacity of the Afghan economy, generating employment and income. Capital will flow to a modernized Afghan economy with a more business-friendly infrastructural system. Greater attention to the strategic management of natural resources will ensure that Afghanistan achieves

greater energy and financial self-sufficiency, while contributing to the wellbeing of future generations of Afghans. Rational urban development will radically reduce the negative impact of rapid urbanization in overburdened city/town infrastructures. Improved road networks ensure that remote and peripheral poppy growing areas are more accessible to law-enforcement agencies, while opening up former poppy farming areas to markets for licit high-value crops. Communication technologies will harness the diversity of Afghanistan, facilitating pluralism and dialogue among Afghans and with the larger world.

***Government's goal is to create a sustainable, productive and essential infrastructure in order to provide the building blocks for private sector expansion, equitable economic growth, increased employment and accelerated agricultural productivity.***

## 8.2.2 CONTEXT AND CONSTRAINTS

Afghanistan has one of the worst road systems in the world, and no rail system. Among landlocked developing countries, Afghanistan has one of the longest distances to a seaport, more than 2,000 km, over harsh terrain. Huge portions of Afghan's inhabitants remain physically cut-off. The major urban areas of Afghanistan are connected by a poorly maintained and partially destroyed ring road. Afghanistan's telecommunication baseline is one of the worst anywhere (tele-density of 1.6 telephones per 1,000 people, in 1382 (2003/04). Air transport cannot respond adequately to international and domestic demand and stands in stark contrast to regional neighbors. Only 6% of the Afghan population has access to public electricity, the majority of whom are in the more economically prosperous cities such as Kabul). Afghanistan lies towards the bottom of global rankings with regard to per capita access to electricity. Afghanistan's cities, in particular Kabul, are undergoing some of the most radical levels of urbanization in the world. Projections assert that the country's urban population is likely to double by 1393/94 (2015). Urban infrastructure and systems cannot keep pace with such rapid urbanization, resulting in an equally rapid growth of slums, marked urban poverty and suffering.

In addition to the constraints identified in Chapter 4, the following sector-specific constraints to an improved infrastructure are:

1. Hydropower potential and gas reserves are promising sources for satisfying Afghanistan's energy demands, but ***accessing these power sources is both cost-and-time intensive***. Furthermore, ***water distribution and water rights systems have been disrupted***. Community-based and traditional structures that were once able to respond to water distribution needs have been weakened significantly.
2. ***Urban development and housing is hamstrung by a lack of clarity regarding policy, institutional mandates and functional assignments***. There is widespread confusion about the policy-level role of the government in the arena of urban development, particularly revolving around the transformation from 'provider' to 'enabler'. This is largely a result of inadequate professional training and discontinuity in government staffing. Inadequate water and sanitation services and the lack of solid waste collection exacerbate the misery of Afghanistan's urban poor.
1. The ***telecommunications industry is revitalizing itself, but in a context of weak legal enforcement and administrative infrastructure***. Basic physical infrastructure underpinning the telecommunications industry were neglected, or destroyed, during wartime violence.
2. ***Natural resources and mining are hindered by an outdated central planning system that does not distinguish between commercial and regulatory activities***. All record-keeping, planning and day-to-day operational functions over departments and state-owned enterprises (SOEs) are controlled by the central government. SOEs and budgetary units are not market-based commercial enterprises, nor are they responsive to new growth and development based on market principles.

3. Afghanistan's *air transport industry is based on a weak institutional framework*. In the absence of operational regulatory mechanisms, Afghanistan's risk profile is unacceptable, and discourages international air carriers from identifying Afghanistan as a destination of choice.

### 8.2.3 SECTOR STRATEGY

The stated goal for the Infrastructure and Natural Resources Sector will be realized through a strategy based on six inter-related and mutually supporting programs. Government will expand, improve and maintain the road network, improving national and regional trade. Air transport systems will be modernized through a combination of aggressive human capacity up-scaling, institutional reform and infrastructure improvement. A legislative structure and regulatory framework will be established in the area of energy and water. Government will commercialize mining production and implement institutional Ministry-level reforms. The telecommunications industry will be rationalized and modernized through a regime that makes government a regulator of the private sector and raises investor confidence. Government will improve the administration of urban spaces through improved management systems and regulatory frameworks, acting as an enabler, rather than a provider, while ensuring equitable access to essential services.

#### Program 1: National Roads and Road Transport

##### Government's Five-year Strategic Benchmark

Afghanistan will have a fully upgraded and maintained ring road, as well as roads connecting the ring road to neighboring countries by Jaddi 1387 (end-2008), and a fiscally sustainable system for road maintenance by Jaddi 1386 (end-2007).

A reliable, effective, and affordable road and public-transport system will integrate Afghan citizens into a system of increasing economic productivity, facilitating trade and entrepreneurial dynamism. The Government's goal is to rehabilitate, improve and maintain the road network so as to strengthen domestic linkages between the capital, all major cities, commercial, industrial production and mining centers, and provincial and district headquarters; as well as international linkages with neighboring countries. Government will complete the road sector master plan, ensuring coherence and strategic integration in planning and implementation. The national ring road and roads connecting the ring road to neighboring countries will be constructed, facilitating Afghanistan's role as a land-bridge. Government will construct provincial and rural access roads to ensure that economic integration extends to Afghanistan's more peripheral rural citizenry, in line with our alternative livelihoods objectives. MPW will be reformed into a streamlined, modern bureaucracy, providing capacity building in-house. We will ensure that a fiscally sustainable system for road maintenance is in place by 1386/87 (end-2007), which will include tolls and weigh stations, and that Environmental Impact Assessments are factored into all road projects.

#### Program 2: Air Transport

##### Government's Five-year Strategic Benchmarks

By Jaddi 1389 (end-2010): Kabul International Airport and Herat Airport will achieve full International Civil Aviation Organization compliance; Mazar-i-Sharif, Jalalabad and Kandahar will be upgraded with runway repairs, air navigation, fire and rescue and communications equipment; seven other domestic airports will be upgraded to facilitate domestic air transportation; and air transport services and costs will be increasingly competitive with international market standards and rates.

An effective, reliable, safe and demand-driven air transport industry will ensure that Afghanistan is integrated into a regional and international global economic system, providing market opportunities for Afghanistan's entrepreneurs and traders, and fostering an economic environment more attractive to international capital. Government's goal is to make the principal airports of Afghanistan and civil aviation conform to the requirements of the International Civil Aviation Organization (ICAO), in order to attract international airlines to serve Afghanistan and to promote a competitive aviation environment for international and domestic service. The Government will outsource all functions possible, to reap efficiencies and facilitate a competitive service environment, ensuring that we can compete in a tough and lean global business. Kabul International Airport will be upgraded to meet international certification standards. Government will implement an aggressive training program to enhance capacity in major domestic airports and to ensure that the multiplier effect of economic progress is equitably distributed. We will implement far-reaching institutional reforms to the independent Civil Aviation Authority (CAA) and Ministry of Transport. Long-term capacity building objectives will be balanced with shorter-term capacity support, through focused expatriate professional input and training, ensuring ICAO compliance and longer-term improvements in Ministry and CAA functionality.

### **Program 3: Power and Water**

#### **Government's Five-year Strategic Benchmarks**

1. By Jaddi 1389 (end-2010) electricity will reach at least 65% of households and 90% of non-residential establishments in major urban areas, and at least 25% of households in rural areas. At least 75% of the costs will be recovered from users connected to the national power grid. A strategy for the development and the use of renewable energies will be developed by Jaddi 1386 (end-2007).
2. Sustainable water resource management strategies and plans, covering irrigation and drinking water supply, will be developed by Jaddi 1385 (end-2006), and irrigation investments will result in at least 30% of water coming from large waterworks by Jaddi 1389 (end-2010).

Improved power is essential to increasing the capacity of Afghanistan's service and productive sectors, and to providing electrical service to underserved Afghan households. The Government's goal in the energy sector is to rapidly expand the availability of electric power to evolve the Ministry of Energy & Water (MoEW) into a fiscally disciplined institution that effectively engages in cost recovery, and provides reliable, low cost electric service to all Afghan citizens in an environmentally responsible manner, consistent with sound business practices. A rural electrification and distribution master plan will be developed. In the area of water management, the goal is rehabilitation, sustainable development, and utilization of water resources and irrigation infrastructure in accordance with international environment norms and equitable access for all Afghans. Government will also implement legislative and regulatory reforms to improve governance of the power sector, leaving room for the participation of the private sector. We will also restructure state enterprises and reassign service provision functions to the private sector. Government will facilitate private sector partnerships, encourage private sector involvement and participatory stewardship of these critical public goods. The establishment of market based tariff rates, and billing and collection efficiency will ensure that concerns of longer-term sustainability are addressed. We will establish a river basin management system to collect data for planning, development and management of water resources at a local level. In the full ANDS, Government will implement a comprehensive analysis of our water supply and demand forecasts over the years to come. The development of multipurpose water management infrastructure will enable water conservation, power generation, and resource protection. Fundamental to both our power and water strategy will be enhancing the capacity of public utilities to maintain infrastructure and manage services in a fiscally sustainable and transparent manner.

#### **Program 4: Telecommunications**

##### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), a national telecommunications network will be put in place so that more than 80% of Afghans will have access to affordable telecommunications, and more than US\$100 million dollars per year are generated in public revenues.

A reliable telecommunications network<sup>85</sup> enables rapid flow of commercial, governmental and cultural information. Building up the nation's telecommunication systems will have a beneficial impact on development of all other sectors. It will improve the performance and responsiveness of the government, enable social and economic dialogue, boost productivity and provide Afghanistan greater assurance for achieving and sustaining national and civil security. Government's long-term goal is to foster the establishment of an affordable private sector-delivered telephone system in all provinces and districts in Afghanistan, and to provide a communications infrastructure that attracts and stimulates business investment that drives equitable economic growth. We will establish a telecommunications regulatory system that assigns the government regulatory responsibility while raising investor confidence. We will additionally establish a public telecommunications backbone, on which the private sector can build, to ensure that the economic and social discourse extends to rural-areas.

#### **Program 5: Natural Resources and Mining**

##### **Government's Five-year Strategic Benchmark**

An enabling regulatory environment for profitable extraction of Afghanistan's mineral and natural resources will be created by Jaddi 1385 (end-2006), and by Jaddi 1389 (end-2010) the investment environment and infrastructure will be enhanced in order to attract domestic and foreign direct investment in this area.

A long-term approach to profitable and sustainable exploitation of Afghanistan's natural resources will provide much needed public revenue and employment. The Government's long-term goal is to manage natural, mineral, oil and gas resources so as to maximize revenues in such a way that these resources and their benefits are protected for future Afghan generations. We will accelerate commercialization of mineral and gas holdings, increasing efficiencies and improving employment opportunities. Government will also seek international investment in major untapped mineral and gas holdings, to optimize revenues and benefits derived from a finite resource base. We will enhance mineral exploitation in an intelligent and informed fashion. The Ministry of Mines and Industry (MoMI) will be restructured to become more of an enabler and regulator than an implementer, thereby increasing efficiencies and improving the competitiveness of the industry. We will privatize state owned enterprises (SOEs) to ensure that exploitation of natural resources is premised on financial sustainability. We will rehabilitate mapping and surveying services, facilitating mineral exploration, as well as the planning and design of other economic development projects. Government will strengthen the National Environment Protection Agency (NEPA) to ensure that natural resources are exploited in a sustainable manner with a focus on the well-being of future generations.

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<sup>85</sup> This includes high-quality telephone, data communications, internet and postal services.

## Program 6: Urban Development and Housing

### Government's Five-year Strategic Benchmark

By Jaddi 1389 (end-2010): municipal governments will have strengthened capacity to manage urban development and to ensure that municipal services are delivered effectively, efficiently and transparently; and in line with Afghanistan's MDGs, investment in water supply and sanitation will ensure that 50% of households in Kabul and 30% of households in other major urban areas will have access to piped water.

Modern and effective urban services are the basis for healthy and well-functioning cities. Housing development is often a major challenge and component of post-conflict recovery. Government's goal for the urban sector is to contribute to the national development of Afghanistan through high quality, sustainable urban management, economic development and poverty reduction. Our land titling strategy will promote security of property rights for urban home owners. We will ensure increased and equitable investments in urban centers across the country according to need. We will promote participation of the private sector in urban development through appropriate partnerships. Our ability to strengthen the capacity of municipalities to manage development and to ensure that municipal services are delivered effectively, efficiently and transparently will be fundamental to our success. Specific measures will be taken to stamp out corruption and to develop a service orientation in our municipal administrations.

#### **Fundamental to the interventions above will be a focus on the following cross-cutting initiatives:**

*Initiate a re-conceptualization of the Government's role.* Sector wide reforms will ensure that the Afghan state plays the role of enabler, facilitator and regulatory catalyst, while the private sector and Afghan citizenry are provided with the necessary regulatory frameworks for production and consumption of resources.

*Create a more attractive environment for international capital through short and medium term resource mobilization.* While in the long term the financing of natural resource and infrastructural development should be driven by domestic fiscal revenues, in the short and medium term considerable resources will have to be mobilized from the international donor community in order to kick-start investment in dilapidated and obsolete systems and technologies. This necessitates a strategic and consistent prioritization of international donor funding for key infrastructural and natural resource programs. At the same time, Government will focus on maximizing cost-recovery initiatives within the development sector to help finance provision of services now and in the future.

*Strengthen human capacities,* to ensure that bureaucratic administration and policy formulation for infrastructure and natural resource management are in line with international best practice.

*Funding and complete feasibility studies for priority infrastructure projects.* Progress on multi-year initiatives such as power generation and transport infrastructure will be accelerated by focusing on funding and developing prerequisite pre-feasibility and feasibility studies. In this regard, the National Program/Project Support Office will prepare documentation, including pre-feasibility and feasibility studies and bring in the necessary technical expertise to accelerate the implementation of large programs and projects.

*Focus on environmental sustainability.* Government will work to ensure that development of the infrastructure vital to the nation's economic development is conducted in a manner that protects our natural environment for current and future generations.



## 8.3 SECTOR FOUR: EDUCATION, CULTURE, MEDIA AND SPORT

### 8.3.1 OVERVIEW

People are our greatest resource. We cannot achieve the vision set out in the constitution or national development strategy without investing in our citizens. The legacy of conflict, combined with gender discrimination and under-investment in social development, has led to the depletion of Afghanistan's human capital. Since 1381 (2002/03), the Government has made considerable progress expanding access to education, yet far more remains to be done. Lack of equitable access to and the poor quality of education opportunities are severely limiting people's ability to participate productively in the economy. The shortage of both qualified and experienced professionals is a significant constraint to the development of an effective, modern and responsive civil service, as well as a vibrant private sector. Due to a complete absence of vocational training capacities and opportunities, skilled and semi-skilled labor must be imported from within and outside the region at a high cost. Afghanistan's cultural heritage risks further destruction, a huge potential loss to the people and an obstacle to developing the tourism industry. Lack of access to and full freedom of the press limits the ability of people to participate in society. Increasing the productivity of human capital requires both short-term investments in training and skills development and long-term investments in education and culture.

In 1384 (2005) the Government committed to a set of MDGs that focus on overcoming poverty through relieving constraints to human development. The MDGs guide the strategy for this sector.

*Government's goal is to significantly improve the quality of, and promote equitable access to, education, skills development and other social services in order to re-invigorate Afghanistan's human capital, reduce poverty and facilitate economic growth.*

### 8.3.2 CONTEXT AND CONSTRAINTS

According to the global Human Development Report of 2004, Afghanistan, with an estimated Human Development Index (HDI)<sup>86</sup> value of 0.346, falls towards the bottom of the 177 countries ranked, just above Burundi, Mali, Burkina Faso, Niger and Sierra Leone. The HDI places Afghanistan far below its two neighboring countries, Iran and Pakistan. A summary of Afghanistan's key education human development indicators is provided in Table 8.2 below.

**Table 8.1 Human Development Indicators for Education**

Adult literacy (age 15 to 24) (2003)	34%
Primary school enrolment ratio, gross (2003)	54%

*Source: Central Statistics Office of Afghanistan, Afghanistan's MDG Report (2005).*

**In addition to the constraints identified in Chapter 4, the following sector-specific constraints exist:**

1. *A steady degradation in the provision of education services* over the past two decades, particularly for girls, has undermined Afghanistan's level of human development. The lack of sufficiently trained teachers, paired with the difficulty in convincing teachers to work in remote locations, exacerbates the issue of quality educational content. In spite of a massive return to education, infrastructure and supplies are incomplete, and the curriculum needs modernizing. Enrollment and retention rates, especially among girls, are still too low and difficult to maintain.

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<sup>86</sup> The human development index is a summary composite index that measures a country's average achievements in three basic aspects of human development: longevity, knowledge, and a decent standard of living. Knowledge is measured by a combination of the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio; and standard of living by GDP per capita (PPP US\$).

2. ***The field of higher education faces similar challenges in universal access, outdated curricula, insufficient facilities and provision of gender equitable participation.*** As with primary and secondary instruction, providing higher education is not a question merely of increasing the enrollment and retention. There is also a limited supply of qualified faculty, including professors and doctors, as well as a lack of adequate teaching and learning materials. Proper research facilities, especially for agriculture and health, are not available. Government cannot fund or manage the significant investment required in higher education on its own.
3. Alongside the gap in professional skills is the ***gap in vocational skills***. The Afghan workforce cannot compete with the skill base available in the region. Impeding the progress of the National Skills Development Program is a lack of analysis of the needs and demands of the private sector, potential areas of employment growth, and possible mechanisms to equip the adult population with those skills in demand.
4. Due to lack of investment, political division within the country, and lack of infrastructure, ***freedom of expression has been either denied or suppressed***. With a large percentage of the population illiterate, broadcasting media is a central means of disseminating information. Media infrastructure for both print and broadcast channels is out-of-date or damaged. State-owned media often lacks quality content. Additionally, ***our cultural heritage is in an overall state of severe degradation***. There is no comprehensive overview of Afghanistan’s cultural heritage; inventories of cultural property have disappeared or are incomplete, which make it more vulnerable to looting. Finally, ***sports infrastructures and equipment are almost non-existent***. The few stadiums in the country are damaged and do not meet basic international standards. Opportunities for women to participate in sport remain extremely limited.
5. In many cases women and girls are denied access to education for cultural, social or economic reasons. ***These practices undermine gender equity*** and are in opposition to the vision to provide universal access. The low participation of women professionals in the education sector and their minimal representation in policy and decision making also limit the capacity of the sector to design and deliver adequate services to female constituents.

### 8.3.3 SECTOR STRATEGY

**The stated goal for the Education, Culture, Media and Sport Sector will be realized through a strategy based on four inter-related and mutually supporting programs.** Government will improve primary (or “basic”) and secondary school attendance and curriculum and teacher quality. Access and quality of higher education will be broadened and strengthened, and gaps in vocational skills development opportunities will be filled. Government will ensure an independent and accessible media, preservation of Afghanistan’s culture, and sports promotion.

#### **Program 1: Primary and Secondary Education.**

##### **Government’s Five-year Strategic Benchmark**

By Jaddi 1389 (2010): in line with Afghanistan’s MDGs, net enrollment in primary school for girls and boys will be at least 60% and 75% respectively; a new curriculum will be operational in all secondary schools, female teachers will be increased by 50%; 70% of Afghanistan’s teachers will have passed a competency test, and a system for assessing learning achievement, such as a national testing system for students, will be in place.

Universal access to primary and secondary education is the foundation for literacy, skills development and the establishment of a productive work force, essential elements of human capital. The goal is to

expand access to primary and secondary education, increase enrollment and retention rates, and strengthen the curriculum and quality of teachers. Government will support teacher training by adding distance learning and will develop modern curricula and quality monitoring mechanisms. Infrastructure and supply programs will be expedited to ensure coordinated and timely efforts and universal coverage. Government will rationalize the network of schools and review the service conditions and pay of education personnel. Community participation in school management will be encouraged. Success cannot be measured only by sending children to school, but by equipping them with the necessary literacy, numeracy, problem-solving and critical thinking skills needed to face the challenges and requirements of an expanding peacetime economy.

### **Program 2: Higher Education**

#### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (2010): enrollment of students in universities will be 100,000, with at least 35% female students; and the curriculum in Afghanistan's public universities will be revised to meet the development needs of the country and private sector growth.

Provision of higher education extends and professionalizes the opportunities offered by the Primary and Secondary Education program, supplying the public and private sectors with leaders. The goal is to build a well-managed and internationally recognized system of higher education that responds to Afghanistan's growth and development needs. The tertiary education sector, regulated by the Ministry of Higher Education, will include universities (public and private), colleges and training institutes. Government will limit the number of publicly funded higher education institutions to ensure quality and focus on graduating the next generation of public and private sector leaders. Public universities will have increased institutional autonomy, but will adhere to regulations set by the Ministry. Government will pursue partnerships with the private sector and education foundations for resource mobilization and diversification of higher education opportunities.

### **Program 3: Skills Development**

#### **Government's Five-year Strategic Benchmark**

A human resource study will be completed by Jaddi 1385 (end-2006), and 150,000 men and women will be trained in marketable skills through public and private means by Jaddi 1389 (end-2010).

Non-formal education, apprenticeship programs and Vocational Education and Training (VET) will provide unemployed older youths and adult workers with skills relevant to the evolving needs of employers and the economy. The goal is to develop an effective skills development system that is responsive to labor market needs. Government will conduct a national skills assessment survey, establish advisory committees to oversee the development of the VET program and accelerate the National Skills Development Program. The roles of the various interested ministries in Government, the private sector and NGOs will be clarified, with Government in the managerial role and the private sector and NGOs implementing programs, as per the national strategy more broadly. Linkages to countries and institutions beyond Afghanistan will strengthen national capacity.

## Program 4: Culture, Media and Sport

### Government's Five-year Strategic Benchmark

1. A comprehensive inventory of Afghan cultural treasures will be compiled by Jaddi 1386 (end-2007). By Jaddi 1389 (end-2010), measures will be taken to revive Afghan cultural heritage, to stop the illegal removal of cultural material and to restore damaged monuments and artifacts.
2. By Jaddi 1389 (end-2010), the media will be protected as independent, pluralistic and accessible to Afghan women and men throughout the country, thereby promoting an open and democratic society.
3. By Jaddi 1389 (end-2010), sports will be promoted, with special emphasis on creating access for children, women and the disabled.

Culture, media and sport round out the sector strategy by developing the full citizen. The goal is to expand coverage and freedom of the press, safeguard and rebuild Afghanistan's cultural heritage, and improve access to sports. Preserving and enhancing Afghanistan's culture is vital to the cohesion of society, for social and economic recovery and for creating strong community based institutions that allow communities to work together. Access to a free media plays a key role in keeping government in check, highlighting corruption, and allowing greater freedom of expression and social equality to take root. Sport contributes to the health of an active society, promoting youth culture, enhanced social cohesion, and cooperation across emerging community networks. The Government will therefore support the rapid expansion of socio-cultural opportunities throughout the country, and expanded access to print, radio, and televised media to promote democracy, accountability and personal development.

**Fundamental to the programmatic interventions listed above will be a focus on the following initiatives. Government aims to:**

***Continue institutional reform and capacity building:*** Government will focus upon fiscally sustainable reform and strengthening of public institutions responsible for social services, while clearly defining mandates for service delivery. While implementation strategies may differ by program, renewed efforts to support ministries' capabilities as enablers, regulators and monitors will be a priority. Government will accelerate investments to strengthen provincial and district administrations, with a view to reducing geographical disparities. Our government-wide Public Administration Reform program is covered in more detail in Chapter 7.

***Improve sector-wide approaches and coordination mechanisms.*** As Afghanistan has moved from an emergency to a development phase, patchwork solutions cannot be maintained; Government will therefore seek consolidated financing for key sector programs, adopting sector wide approaches for education in particular. The Ministry of Education will work closely with the Ministry for Hajj and Religious Affairs to ensure that our religious and general education policies are mutually reinforcing.

***Gender equity and environmental sustainability:*** Government will work towards gender equality in access to education and sport, particularly those captured by our MDG commitments. Environmental sustainability will also be a focus, particularly with regard to access to potable water and effective sanitation.

## 8.4 SECTOR FIVE: HEALTH AND NUTRITION

### 8.4.1 OVERVIEW

Afghanistan's growth strategy cannot take-off without a healthy and fit workforce. The long-term future of Afghanistan depends upon adequate, long-term investment in the health sector. The country suffered from very high mortality and morbidity even before the Soviet invasion. Twenty-three years of war have adversely affected health service delivery and the Taliban period worsened an already difficult situation. Since 1381 (2002/03), the government has made considerable progress in increasing access to health care services. But while on-going efforts have contributed to some progress in improving health status—measles immunization now extends to 75% of one-year old children—the overall situation remains grim, and infant and under-5 mortality rates are unacceptably high. The poor state of maternal health, characterized by a high maternal mortality ratio (MMR), reflects the low status of women, poor infrastructure, and a barely functioning curative health care system. Reducing child mortality, improving maternal health and combating malaria and other diseases are central to Afghanistan's efforts to achieve the MDGs.

*Government's goal is to reduce the morbidity and mortality of the Afghan population by implementing a package of health and hospital services, special programs, and human resource development*

### 8.4.2 CONTEXT AND CONSTRAINTS

The health status of the approximately 24 million Afghans, particularly women and children, remains among the worst in the world. The country is decades behind its South Asian neighbors on key health indicators such as life expectancy; infant-, under-5 and maternal mortality; and total fertility rates. The under-five mortality rate (U5MR) in 1381/82 (2003) was 230 deaths per thousand live births, meaning that nearly a quarter of Afghan children born do not reach their fifth birthday. Even though Afghanistan was always behind its South Asian neighbors and other developing countries in health indicators, more than twenty years of war have left the country nearly 40 years behind the rest of the developing world. Serious inequities exist between urban and rural areas in terms of outcomes, coverage of services, and availability of health sector inputs.

**Table 8.2. Key Health Indicators**

Under-five mortality rate per 1000 live births	230.0
Maternal Mortality Ratio per 100,000 live births	1600.0
Total Fertility Rate (children per woman)	6.8
Life Expectancy at Birth (years)	43.2
Population Growth Rate (1990-2003)	4.2%

*Note: Data is for 1381-1382 (2003) unless otherwise stated.*

*Sources: World Development Indicators and UNICEF State of the World's Children 2005*

Afghan children suffer from widespread chronic malnutrition, with over half (54%) of Afghan children 6-59 months of age having stunted growth. This is accompanied by widespread micronutrient deficiency: 51% of children 7-11 year old suffer from moderate or severe iodine deficiency. Results from the 1381/1382 (2003). NRVA show that 57% of the population have very low diet diversity, a factor which was found to be the strongest indicator of vulnerability. Infant malnutrition and the poor nutritional status of women are major contributors to the high death rate.<sup>87</sup> At 1600 per 100,000 live births, the MMR is extremely high by international standards. Given the high fertility rate and high maternal mortality ratios, a woman in rural Badakhshan runs a one in three risk of dying of maternal causes during her lifetime. Afghanistan has the highest total fertility rate in Asia with the average

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<sup>87</sup> Source : Afghanistan Public Nutrition Policy and Strategy, 2004

woman expected to have 6.8 children during her reproductive life. This is more than twice as high as the average of South Asia (a rate of 3.3).

Most of the burden of disease results from infectious causes, particularly among children, where diarrhea, acute respiratory infections, and vaccine preventable illnesses account for nearly 60% of deaths, although little high quality information is available. The high rates of infectious disease reflect poor personal hygiene, limited access to clean water, inappropriate sanitation, and low level of parental education, indicating the need for a broad based assault on poor health. Among adults, tuberculosis (TB) accounts for an estimated 15,000 deaths per year with 70% of detected cases being among women. Malaria is also an important contributor to the burden of disease and leishmaniasis is common. Currently, HIV prevalence is low as measured by the results of blood screening in 12 hospitals around the country. However, there is widespread concern that there are important risk factors present for an HIV epidemic, including considerable drug use.

**In addition to the constraints identified in Chapter 4, the following sector-specific constraints exist:**

1. ***Lack of qualified staff*** and health workers, especially women, severely constrains access to health care, while ***poor quality of care***, especially at the hospital level, results in low utilization rates.
2. ***Insufficient training and lack of physical infrastructure impairs the accessibility and the quality of health care services***. A significant proportion of existing health facilities currently do not have female staff, which substantially restricts female access to health care. The current capacity of teachers is extremely low for both theoretical and clinical teaching. Lack of dormitory accommodation in health training institutes negatively affects the recruitment of females from provinces for basic health professional training courses. Large differences of access to health care facilities exist between rural and urban areas, with remote areas being particularly challenging to service, due to the lack of roads and electricity and the lack of skilled health staff. Preventive health practices remain unacceptably weak, as a result of insufficient information and inadequate hygiene, nutrition, water-related health behavior, and simple disease prevention. These constraints reduce the effectiveness of the health care system in controlling communicable diseases as well.
3. ***Cultural constraints, lack of education and gender segregation*** result in low access to family planning and maternal health services.

#### 8.4.3 SECTOR STRATEGY

**The stated goal of the health sector will be realized through four inter-related and mutually supporting programs.**<sup>88</sup>

##### **Program 1: Extending the Basic Package of Health Services**

###### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), in line with Afghanistan's MDGs, the Basic Package of Health Services will be extended to cover at least 90% of the population, maternal mortality will be reduced by 15%, and full immunization coverage for infants under-5 for vaccine preventable diseases will be achieved and their mortality rates reduced by 20%.

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<sup>88</sup> These programs are grouped into three strategic areas: implementing health services, reducing morbidity and mortality, and institutional development.

In line with Afghanistan's MDGs, the Basic Package of Health Services will be extended to cover at least 90% of the population, maternal mortality will be reduced by 10%, and full immunization coverage for infants under-5 for vaccine preventable diseases will be achieved and their mortality rates reduced by 20%. BPHS has two objectives: to provide a standardized package of basic services which form the core of service delivery in all primary health care facilities; and to promote a redistribution of health services by providing equitable access, especially in underserved areas. The defined package is being offered as four standard types, ranging from outreach by community health workers, to outpatient care at basic health centers, to inpatient services at comprehensive health centers and district hospitals. The package has a strong focus on conditions that affect women and children. It entails basic services at low cost, addressing the main causes of morbidity and mortality and aiming to provide health services to all Afghans, especially to those who are poor and live in remote and rural areas.

### **Program 2: Extending the Essential Package of Hospital Services**

#### **Government's Five-year Strategic Benchmark**

1. By Jaddi 1389 (end-2010), the EPHS will be implemented in 50% of provincial and regional hospitals.
2. By Jaddi 1389 (end-2010), community boards will be established in 50% of all provincial and regional hospitals.
3. By Jaddi 1389 (end-2010), the proportion of district and provincial hospitals providing good quality emergency obstetric care will be increased to 80%.

Hospitals in Afghanistan play an important role in the health sector since they are part of the referral system that aims to reduce the high maternal and early childhood mortality rates. The overall goal of the 'Essential Package of Hospital Services' (EPHS) is to improve the quality of care at secondary and tertiary health care level. Main strategies to implement the EPHS are developing standards for hospital management, clinical care and supportive services; building the hospital and clinical case management capacities of hospital staff; completing the Priority Restructuring and Reform process at secondary and tertiary health care level; providing hospitals with required medical supplies and equipment in a timely and regular fashion.

### **Program 3: National Communicable and Non-Communicable Disease Control Program.**

#### **Government's Five-year Strategic Benchmarks**

1. By Jaddi 1389 (end-2010), a low prevalence of HIV positive cases (<0.5%) in the population will be maintained in order to reduce mortality and morbidity associated with HIV/AIDS.
2. By Jaddi 1389 (end-2010), malaria morbidity will be reduced by 50% and malaria mortality will be reduced by 80%.
3. By Jaddi 1389 (end-2010), the risk of infection, morbidity and mortality due to tuberculosis will be reduced by increasing Direct Observed Treatment-Short Course (DOTS) population coverage to 100% by Jaddi 1385 (end-2006).
4. By Jaddi 1389 (end-2010), at least 70% of infectious TB cases will be detected and at least 85% of those cases will be cured.

This program entails those that are not part of the ‘package’ programs but follow a vertical approach for disease control up to a certain level (e.g. the provincial). At the lowest level of delivery these programs are integrated, though due to special logistical and input requirements they have to be managed outside the BPHS and EPHS structure. They are designed to have significant impact on the health of the population and include, beside the principal programs, control of tuberculosis, malaria and HIV/AIDS, eye care, the control of leprosy and leishmaniasis.

#### **Program 4: Health Sector Human Resource Management.**

##### **Government’s Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), suitably qualified, appropriately skilled, balanced, and motivated staff for the health sector will be equitably deployed throughout Afghanistan to deliver the BPHS and EPHS.

The attainment of the overall goal of the health sector is dependent upon the appropriate selection, appointment and management of appropriately trained health professionals. The current evidence on the status of health workers indicates that there are major challenges to ensuring the availability of suitably qualified, appropriately skilled, balanced and motivated health workers throughout Afghanistan. In order to achieve the main strategies of the program, MoPH has partnered with the Civil Service Commission to implement the transparent competitive recruitment process to affect PAR. Work will be undertaken with donors and technical partners to upgrade capacity of the recruited workforce and to encourage more female school leavers to enter the health profession, particularly nursing and midwifery in upgraded health training institutions. Continuing education and retesting will increasingly be required for health workers.

Also fundamental to improved health care will be *food security programs* aimed at reducing the extremely high rate of infant and maternal malnutrition. This strategy recognizes the multiplicity of factors that contribute to good nutrition in rural communities and gives priority to increasing food diversity and opportunities for the improvement of real incomes. Nutritional education proposes ways to improve access to markets, measures to reduce pre- and post-harvest crop losses, measures to improve food safety, and the development of an early-warning capacity.

## **8.5 SECTOR SIX: AGRICULTURE AND RURAL DEVELOPMENT**

### **8.5.1 OVERVIEW**

Agriculture constitutes over 50% of the licit Afghan economy and provides employment to nearly two-thirds of the workforce<sup>89</sup>. Decades of war led to substantial underinvestment in rural areas, and in many cases, to the systematic destruction of rural infrastructure. Since 1380 (2002), there has been a strong recovery in much of the country and improved availability of seeds and fertilizers. Total cereal production (primarily wheat) increased by 82% in 1380/81 (2002) and by a further 50% in 1381/82 (2003). Production of fruits, vegetables and livestock products has also increased since 1380 (2002) but will take longer to reach pre-conflict levels given the sharp reduction in livestock herds and destruction of orchards in recent years.

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<sup>89</sup> Source: The Government of Afghanistan, Millennium Development Goal (MDG) Report, 2005



Agriculture is a key source of growth of our economic strategy. There is an urgent need to strengthen and diversify licit livelihood options in both farm and non-farm sectors, in order to raise rural incomes, generate employment, and create an incentive for people to move away from poppy cultivation. Greater investment in agriculture and rural development is also a vital precondition for achieving our MDGs.

***Government's goal is to achieve pro-poor growth in rural areas by enhancing licit agricultural productivity, creating incentives for non-farm investment, developing rural infrastructure, and supporting access to skills development and financial services that will allow individuals, households and communities to participate licitly and productively in the economy.***

## **8.5.2 CONTEXT AND CONSTRAINTS**

Although Afghanistan's economy is primarily agricultural, only 12% or 7.9 million hectares of the country's total land area is classified as arable. Geographically, nearly 75% of the arable area is concentrated in the north, northeast, and west regions of the country. Of the total arable area, not more than half is actually cultivated annually, mainly because of water availability. The agriculture sector is composed mainly of cereal crops, which account for an estimated 40% of agricultural value, non-cereal crops account for 35%, and livestock for 25%. Wheat is the main cereal crop, covering about 2.4 million hectares or 68% of the total cultivated area in 1381/82 (2002). Area under poppy cultivation has risen sharply since 1380 (2001), reaching an estimated 131,000 hectares in 1382/83 (2004), just under 3% of the country's total cultivated area (before falling 20% in 1384/5 (2005)). Financial returns for cultivating poppy are considerably higher than for the most lucrative alternative crops.

Livestock is a major source of food and income for Afghan farmers, and pasture land covering about 45% of the total land area has traditionally supported a large livestock population. Animals are often the only source of income for the *Kuchi* nomads. As per a 1381/82 (2003) census, the estimated livestock population is about 34 million (including 12 million poultry), a major decline from the 1370s (1990s). The number of cattle and poultry per family has fallen to one-third of the 1374 (1995) figure, with the number of sheep and goats per family suffering an even steeper decline.

Malnutrition is prevalent throughout Afghanistan. Between 45% and 59% of children under-five suffer from chronic malnutrition as indicated by low height-for-age, while between six and 10 % are wasted (low weight-for-height).<sup>90</sup> Infant malnutrition and the poor nutritional status of women are major contributors to the high death rate.<sup>91</sup> There is a very high level of micronutrient deficiency, caused mainly by the absence of a balanced diet, in combination with a high disease burden. Results from the 1381/82 (2003) NRVA show that 57% of the population has very low diet diversity, a factor which was found to be the strongest indicator of vulnerability.

**In addition to the constraints identified in Chapter 4, the following sector-specific constraints prevail:**

- 1. Malnutrition is a key obstacle to Afghanistan's rural development*** and highlights the importance of addressing food security and human nutrition together: good nutritional status is both an objective of and a requirement for rural development. The three important micronutrient deficiencies are Vitamin A, iodine and iron, all of which severely affect individuals' intellectual development and work capacity.
- 2. Expansion of the national herds is constrained by the feed base.*** Livestock is a key component in the livelihood of the majority of rural Afghan households, being a major source of food and income. Animals are often the only source of income for the *Kuchi* nomads. The livestock sector

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<sup>90</sup> Source: MOPH and Tufts University, 2003.

<sup>91</sup> Source : Afghanistan Public Nutrition Policy and Strategy, 2004

is also one in which women play a significant management role, and it is a particularly important source of independence for the landless. Range pasture covering about 45% of the total land area has traditionally supported a large livestock population. As per a 1381/82 (2003) census the estimated livestock population is about 34 million (including 12 million poultry), a major decline from the 1370s (1990s).

3. ***Destruction of infrastructure and under-investment in the agricultural sector*** has led to low levels of on-farm productivity, unsustainable water resource management and use, and lack of access to improved technologies. Only 50% of the Afghan rural population lives in areas with year round road access which directly impacts farm and non-farm economic activities. Only 24% of rural households have access to drinking water from safe sources. Over 30% of rural households mention the lack of irrigation water as the most significant farming constraint. Access to electricity in rural areas is virtually non-existent. Unemployment and under-employment is a significant problem, particularly in the winter months.

Weak rural infrastructure severely inhibits growth and participation of the private sector in the delivery of inputs and services and marketing outputs. Over the period of conflict and drought, there was limited advancement in farm production and in agro-processing technologies. Farmers were unwilling to change production methods and cropping patterns because of uncertainty about the future and the absence of effective extension services to provide training in the latest production techniques. Processing facilities for horticultural products are either old or non-existent, compounding the problem of poor quality product at the farmer level.

4. Exacerbated by the burden of opium-related debt, weakened community and farmer organizations resort to ***inefficient water use***.
5. ***Lack of access to credit, the burden of opium debt entrapment and the prevalence of opium-related mortgages***, all constrain rural entrepreneurs from undertaking high value farming of licit crops, with the result that opium cultivation becomes the only strategy available to poor households to manage risks. The years of conflict made credit expensive and there are no fully active formal credit institutions except MISFA, whose activities are geared towards rural non-farm activities. Many farmers are highly indebted and caught in a cycle of short-term loans that often push them into highly remunerative poppy cultivation. At the same time, lack of access to credit reduces the ability of the poor and vulnerable households to better manage risks. Consequently, they are locked in a spiral of low productivity and low returns.
6. ***Additional constraints to the promotion of both farm and non farm-based rural enterprise development*** include the lack of infrastructure, limited access to financing, technology and markets, low human capital and lack of an enabling regulatory framework. In addition, Afghanistan presently lacks any standards and quality assurance mechanisms. More specifically, these constraints to the development of the rural enterprise sector comprise the lack of proper utilization of research and technology, a lack of trained personnel, inadequate technical and little managerial and marketing support. These problems are even more serious in the case of small farmers since they generally do not have the financial resources or credit facilities at their disposal to invest in new processes, human resource, management or technological innovation. A severe paucity of social capital in rural areas undermines the legitimacy, mandate and competency of local leaders to manage and deliver public goods that would enable and promote entrepreneurial initiatives.
7. Women make contributions to household income in nearly all provinces in Afghanistan, but usually perform income-generating work within their homes, rather than in the villages. Where they do work outside the home, women are paid significantly less than rural men for performing the same work and in many instances are paid less than children. These practices ***undermine gender equity*** and impede the effort to eliminate discrimination against women in the economy and in other spheres.

### 8.5.3 SECTOR STRATEGY<sup>92</sup>

The stated goal for the Agriculture and Rural Development Sector will be realized through a strategy based on four inter-related and mutually supporting programs.

#### Program 1: Agriculture

##### Government's Five-year Strategic Benchmark

By Jaddi 1389 (end-2010), the necessary institutional, regulatory and incentive framework to increase production and productivity will be established to create an enabling environment for legal agriculture and agriculture-based rural industries, and public investment in agriculture will increase by 30 percent; and particular consideration will be given to perennial horticulture, animal health and food security by instituting specialized support agencies and financial service delivery mechanisms, supporting farmers' associations, branding national products, disseminating timely price and weather-related information and statistics, providing strategic research and technical assistance, and securing access to irrigation and water management systems.

Over 80% of the population is dependent on agriculture, marking it as a key source of growth of the Afghan economy. However, productivity levels of rain-fed and irrigated farming are low in comparison to regional averages, and existing irrigation systems operate at low efficiency rates, approximately 25%. Government's goal is to promote integrated socio-economic development through a vibrant agricultural sector based on licit farming production and sustainable use of natural resources. Horizontal integration will be strengthened across credit and inputs supply, technical extension services, rural infrastructure and marketing, and vertical integration will better link producers and markets. The Government will also increase the total amount of arable land, and in line with the Government's pro-poor strategy, and put in place policies to ensure this land is distributed to the rural poor and landless. The Government will facilitate increased investments in the agricultural sector (including horticulture and livestock) and promote the development of agri-businesses and rural non-farm enterprises as engines of economic growth. We will improve access to and distribution of land by developing a land titling and registry system that will keep appropriate records of ownership. The Government will work to increase food diversity, improve real incomes and food security. Farmers will be trained in participatory methods and agro-economic survey techniques, and extension agents trained to respond to farmers' needs with research based on adaptive, on-farm methodologies. Regional research and extension centres will be rehabilitated. The Government will put in place laws and regulations for setting quality standards (for farm inputs, related services, and farm produce) and ensure these through inspection and certification. Implementation of these programs will require the development of a rural credit institution which is best built on a network of farmers' associations connecting farmers with national-level financial markets.

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<sup>92</sup> The strategy for the agricultural and natural resources sector bases itself on the policy document, *Policy and Strategy Framework for the Rehabilitation and Development of the Agriculture and Natural Resources Sector of Afghanistan*, which was approved by Cabinet in 2004. It is complemented by a Policy and Strategy Framework for Water and Irrigation and a Strategy for Rangelands and Forests, both of which also received Cabinet approval in late 2004. In addition, the MRRD Implementing Plan is now under development and together these contribute to the formulation of the Government's sector strategy for Agriculture and Rural Development. In addition, the 6 national programs and projects of MRRD promote sustainable rural livelihood strategies through empowered rural communities by enhancing good local governance, increasing productive infrastructure and access to microfinance, mitigating shocks in rural communities and enabling informed decision making through research and advocacy.

## **Program 2: Rural Physical Infrastructure including Irrigation Water Management**

### **Government's Five-year Strategic Benchmark**

1. By Jaddi 1389 (end-2010), the efficiency of irrigation water management, participatory decision-making and institutional reform, and environmental management will be increased and more equitable distribution of benefits across irrigation systems and across different agro-environments will be ensured.
2. By Jaddi 1389 (end-2010), access to safe drinking water will be extended to 90% of villages, and sanitation to 50%; road connectivity will reach 40% of all villages, increasing access to markets, employment and social services; 47% of villages will benefit from small-scale irrigation; and livelihoods of at least 15% of the rural population will be supported through the provision of 91 million labor days.

***Irrigation water management*** is a powerful instrument for enhancement of agricultural production and reduction of rural poverty through increased yields, farm returns and increased rural employment. Our goal is to improve livelihoods through efficient irrigation water management, participatory decision-making and institutional reform, environmental management, and more equitable distribution of benefits across irrigation systems and across different agro-environments. To address this Government will develop new medium and large-scale irrigation systems as well as rehabilitate traditional and formal irrigation systems, throughout the country. It will improve water use efficiency by facilitating community-based management and ownership of traditional irrigation systems; encouraging the formation of Water Users' Associations for rational and effective management of irrigation networks; promoting water harvesting and watershed management; improving information systems on water availability; promoting efficient land and water use practices; and improving intake structures and corresponding on-farm water management. Integrated water resources management will be undertaken through the river basin approach. Training programs will be continued at different levels to promote irrigation sector efficiency.

Addressing the obstacle of restricted access to ***essential and basic productive rural infrastructure and services*** will create increased socio-economic opportunities for the rural poor and enable them to better manage risks and develop assets. Government will enhance human security and promote equitable growth through improved access to basic services, better market integration, and the development of licit productive capacity of the rural economy (farm and non-farm). Targeted infrastructure, vocational training, and good local governance will be promoted in collaboration with all stakeholders through community-led institutions, which will be empowered to articulate and address their own needs and priorities. Priority investments will include drinking water, sanitation, small-scale irrigation, tertiary roads and structures, schools, clinics, village electrification, mills and community centers. A rural electrification master plan will be formulated to enhance productivity.

## **Program 3: Community development**

### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), rural development will be enhanced comprehensively for the benefit of 19 million people in over 38,000 villages; this will be achieved through the election of at least a further 14,000 voluntary community development councils in all remaining villages, promoting local governance, and community empowerment.

Investment in community-led development will empower people to identify their own priorities, increase local good governance, and establish awareness of democratic processes. The government's goal is to build an inclusive society through participatory decision-making and governance at the village level through equitable and community-based planning and needs prioritization. To strengthen local governance through Community Development Councils (CDCs), the government will continue and deepen investments in the National Solidarity Program (NSP), National Area Based Development Program (NABDP), and other key national programs. Government will also look to enter into financing arrangements with CDCs to promote community ownership and, therefore, maintenance responsibilities for investments. The relationship between CDCs and sub-national administrations, and the newly established councils, will be clarified and strengthened. The community development focus of existing and new rural investment programs will be strengthened so that the benefits of investment are broad and equitable. The Government also will continue to assist women to fully utilize their share of grants and equity in village decision-making processes.

#### **Program 4: Rural Financial Services**

##### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), a total of 800,000 households (22% of all Afghanistan's households) will benefit from improved access to financial services.

To promote livelihoods and economic growth, the Government will expand access to quality financial services—especially for women and the poor—by further developing informal financial markets through the Microfinance Investment Support Facility in Afghanistan (MISFA), creating a legally independent yet regulated sector, and mobilizing resources and private institutions that will provide financial products for investment in small and medium-sized enterprises. Comprehensive rural financial services will also provide special products such as insurance that will encourage private sector investments in rural farm and non-farm enterprises.

#### **Program 5: Rural Enterprise Development**

##### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), a policy and regulatory framework will be developed to support the establishment of small and medium rural enterprises, and institutional support will be established in all 34 provinces to facilitate new entrepreneurial initiatives by rural communities and organizations.

Presently more than 50% of male heads of households earn their living in the agricultural related enterprises. These activities include work in the cotton and leather industry, manufacturing and agro-processing, and processing of plant oils, and vegetable and fruit conservation. Additional farm-based enterprises include milk and dairy production and meat processing. The other half of livelihoods of rural people comes from non-agricultural activities. Non-farm employment such as rural industries holds great potential for fast growth and for creating employment while keeping families together and reducing the burden on cities of rural-urban migration. To a much lesser extent non-agricultural related activities such as construction (carpentry, masonry and brick laying), trade and bartering (especially in Kunduz and Badakshan), artisan work, and the collection and the sale of firewood. Among women, non-farm related enterprises comprise carpet weaving, sewing and tailoring, and collecting and selling of wild plants.

Government appreciates the importance of rural enterprise as the vehicle for promoting economic growth and a catalyst in the strategy of poverty reduction. This recognizes that economic growth be promoted through a pro-poor policy, encouraging the expansion of private sector investment in rural communities in both farm and non-based enterprises. This increased investment in the agricultural sector to encourage the development of agri-businesses and rural, non-farm enterprises will require social, physical and financial capital investment. One of our aims in this regard will be to facilitate the expansion of light industries in rural areas that can add value to our agricultural production.

In order to strengthen rural enterprises Government will invest in the following areas:

1. **Formalization.** We will work with rural people to help them build up the social capital to access and connect to institutions such as credit unions and marketing cooperatives, so that they can bring their existing non-farm livelihoods into the formal economy and benefit more fully from government programs, and private financial and other business services.
2. **Vocational training.** As part of our skills development program, we will offer vocational training in skills needed to develop businesses, trade and marketing.
3. **Credit.** We will promote the expansion of private financial institutions and other credit mechanism, such as those that are community based, into rural areas; we will also seek to channel remittances into productive credit mechanisms for rural development.
4. **Marketing.** Non-farm livelihoods require connection to national, regional, and global markets to identify what demand Afghan rural enterprises will meet. Government will help rural Afghans gain access to the needed information and work with their organizations to assist them to meet standards, storage, packaging and transport.

**Fundamental to the programmatic interventions above will be a focus on the following sector-wide initiatives:**

***Policy and regulatory reforms:*** The Government will work to remove the constraints faced by farmers and non-farm workers, the rural private sector, household industries, traders, and other actors, through a systematic review of the current legal and regulatory environment (i.e., land policies, environmental regulations, the legal framework for financial service providers, taxes). The Government will work to integrate different agriculture and rural development-related activities supportive of rural reform, in conjunction with other policies developed for agriculture, education, health, water management and local government. Greater regulation and certification of farm and rural products will add value to existing production, enhancing profits, and deepening market penetration within the region and globally. Land tenure and management systems, both formal and customary will also be reviewed, to overcome potential production and related constraints.

***Gender equity:*** Women's participation in the rural agriculture economy is not sufficiently recognized. The Government's strategy will seek to analyze and understand how gender affects ownership and cultivation patterns, the division of labor, post-harvest processing, livestock raising and dairy production. The Government will ensure, as part of a demand-driven and community-based approach, that women are targeted in the provision of extension services, training, expanding marketing opportunities, and in increasing access to financial services.

***Alternative Livelihoods:*** Opium cultivation remains a significant contribution to many rural household's and this calls for alternative livelihood programs that are broad based and multi-sectoral. While there has been a sharp decline in production since the last year, the burden remains to initiate viable economic growth, to avoid a regression back into cultivation. This will require sustainable, appropriate and integrated rural development assistance promoting equitable economic growth through national programs, which address underlying motivating factors of poppy cultivation.

## 8.6 SECTOR SEVEN: SOCIAL PROTECTION

### 8.6.1 OVERVIEW

Social protection comprises a set of public policies and interventions aimed at helping Afghan society to better manage risk at the individual, household, and community-level, and to provide support to the critically poor. Historically, different forms of social protection have existed for the most vulnerable members of Afghan society through community and patronage systems. Two decades of civil war, however, have considerably strained the traditional informal systems of support, while increasing the number of dependents in society. There is an urgent need to extend protection to those who fall outside existing social networks. The Government needs to establish a functioning Social Protection Policy that provides targeted assistance (with the possible exception of food aid assistance) to the most vulnerable groups. A low level of social protection often coincides with low levels of income and productivity while overall economic growth does not always translate into care and provision for all groups within society. Targeted investments in Afghanistan, apart from standard rural development programs,<sup>93</sup> are required for those who fall below the poverty line, those not benefiting from community-based and self-help groups, and groups in remote areas. An institutionalized protection program will also serve to strengthen the targeting of current investments such as food aid and employment-based public works programs. In line with Afghanistan's MDGs, the Government has already committed to decrease the proportion of people whose income is less than US\$ 1 a day by 3% per year and the proportion of people who suffer from hunger by 5% per year.

*The government's goal is to increase the capacities, opportunities and security of extremely poor and vulnerable Afghans through a process of economic empowerment in order to reduce poverty and increase self-reliance.*

### 8.6.2 CONTEXT AND CONSTRAINTS

Decades of conflict and political and economic instability, created an environment of extreme poverty, risk, and deprivation for a significant number of Afghans. Preliminary estimates place overall rural poverty at 53% of the country's total population. In Afghanistan, as a result of deep structural socio-economic disadvantages, groups such as women, children, the disabled, and the elderly are disproportionately represented among the chronically poor. The Government is also aware that the five programs identified below may require different policy approaches; the approach to assisting the vulnerable trapped in a natural disaster will be different than providing job opportunities for unemployed youth. The vulnerable will have to be cared for within the context of weak public institutions, a disproportionate share of the poor and vulnerable residing in rural areas and engaged in the informal economy, and a public support system that is extremely limited in its scope and delivery.

**In addition to the constraints identified in Chapter 4, the following sector-specific constraints exist:**

1. A key feature challenging government provisions is the *extreme vulnerability of much of the population*. Structural hardships created by prolonged civil strife have been further compounded by natural disasters, including the prolonged drought. There is also poor communication between the center and local communities, which limits information flow and delays response time.
2. There is *no national registration or data management process for disabled groups* in Afghanistan today. This seriously constraint targeting and delivery mechanisms that government agencies can and will undertake. There is also a need to broaden the prioritization within disabled groups and move the focus beyond the war-disabled.

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<sup>93</sup> There is a popular misconception that the National Solidarity Program (NSP) and other rural development programs are in essence social protection. These programs provide more standard/uniform coverage across rural areas and do not target the poorest and most vulnerable groups within rural society.

3. The *lack of a national vocational training program* acts as a major hindrance to two vulnerable groups: unemployed youth and demobilized soldiers. Without a comprehensive vocation, education, and training program, an undue amount of public responsibility will fall on the Afghan New Beginnings Program (ANBP), which is resourced to provide only a minimum level of skills training over a relatively short period of time.
4. Women as a group face considerable challenges. There have been *extremely weak human resource investments in women* and as a result women across Afghanistan face shorter life spans than men, an alarming rate of maternal deaths, massive illiteracy, disempowerment, lack of skills and economic capital. Social protection measures for women also need to address discriminatory provisions in laws and existing policies. There is no congruence on women's rights among the Constitution, the Sharia'h, and the various international treaties to which Afghanistan is a signatory.
5. Reintegration of refugees and displaced people remains an important priority. A key economic constraint is the *high probability of the unskilled labor market becoming increasingly saturated* due to unemployment (and under-employment), slow growth of a weak non-agricultural sector, and large refugee inflows. Refugees who remain in neighboring countries face lower economic and political push and pull factors that might cause their voluntary return. Refugees in Pakistan and Iran in particular are much more entrenched than earlier groups due to significant years of commercial and social links they have developed with host communities.
6. *The government continues to have weak institutional capacity* to analyze the nature of poverty, to set poverty lines, to attract finance, and to develop transparent and efficient systems of delivery. This is in the context of multi-dimensional poverty with a range of causes, often extended and experienced through deprivation and political and social alienation. Poverty is rarely caused by one single variable; rather it is usually a combination of multiple overlaying factors. For example a person disabled as a result of ill health can be further challenged by gender disempowerment, both at the household and broader community levels. Furthermore, *lack of social capital and public goods* (access to education, health and water and sanitation in particular) continue to hamper the ability of government and non-governmental organizations to provide social protection-related services to those most in need at a cost that can be fiscally sustained by the Afghan state.

### 8.6.3 SECTOR STRATEGY

**The stated goal for the Social Protection sector will be realized through five inter-related and mutually supporting mechanisms.**

A fiscally sustainable social protection policy is to be underpinned by direct and indirect transfers to both the rural and the urban chronically poor while strengthening the targeting of existing national programs to enhance participation of excluded but needy groups. Within the social protection policy, key undertakings will include the determination of a national poverty line, a focus on redressing gender-related discrimination, and the effective inclusion of children and the elderly within programs. Given the limited resources and capacity of the government, the state will prioritize allocations and services to the most vulnerable within target groups<sup>94</sup> and aim to generate self-help efforts within society for the long term. The Government will develop a national rapid response mechanism for humanitarian and disaster response. A comprehensive registration process and database will be established to monitor physically and mentally disabled people. An affirmative action program will enroll 10,000 disabled people in the National Skills Building program. This program will also cover 100,000 unemployed youth and demobilized soldiers and provide training in market-demanded skills.

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<sup>94</sup> Specific vulnerable groups for consideration will include households with disabled people, female-headed households and landless households.



There is a particular focus on vulnerable women: the number of chronically poor women will be decreased by 20% within the next five years. Finally, the Government will strive to complete the voluntary return and reintegration of all refugees from neighboring countries.

### **Program 1: Humanitarian and Disaster Response**

#### **Government's Five-year Strategic Benchmark**

1. By Jaddi 1389 (end-2010), in line with Afghanistan's MDGs, the proportion of people living on less than US\$1 a day will decrease by 3% per year and the proportion of people who suffer from hunger will decrease by 5% per year.
2. By Jaddi 1389 (end-2010), an effective system of disaster preparedness and response will be in place.

An institutionalized disaster response capability serves as the primary form of protection for Afghans. It helps them attain a basic level of physical security and enhances their capabilities to find sustainable livelihoods. The Government will establish a national disaster preparedness and response capacity that effectively deals with both slow and quick-onset disasters throughout the country, resulting from either natural or man-made causes. It will consider a national food security reserve in order to support the pre-positioning of food and other emergency aid. With regard to the effective utilization and targeting of food aid, the Government will develop both the self-targeting procedures that minimize errors of exclusion, as well as focus on developing employment-generation capacities through public works. Communication and dissemination will serve as key tools in preparedness. The Government will take measures so that disaster information, and in particular, early warning information, is universally disseminated at the shura, district, provincial and national levels. Furthermore, there is a need to integrate information across disciplines, organizations, and geographical regions. The National Disaster Preparedness, Management, and Response Commission has overall coordination for new initiatives, including establishment of national "Early Warning Systems" (EWS), which are closely coordinated with more structured surveys, such as NRVA. The commission is also responsible for national coordination, with international community support, of international aid (food and non-food) during disasters.

### **Program 2: Support to Vulnerable Women**

#### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), the number of female-headed households that are chronically poor will be reduced by 20%, and their employment rates will be increased by 20%.

Policies and projects for vulnerable women will serve to better integrate them within the social fabric of society through a process, primarily, of economic empowerment. The government's goal is to work towards the elimination of discrimination against women in Afghanistan, particularly those who are chronically poor, and to build women's capacities and ensure their leadership and equal participation in all aspects of national development. Gender mainstreaming is the government's main strategy for attaining its goals in gender equality.<sup>95</sup> Promotion of women's advancement is a shared obligation

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<sup>95</sup> This has been the Government's strategy in the National Development Framework and Berlin Action Plan. It is also mandated under the Beijing Platform for Action that was adopted during the Fourth World Conference on Women and has since been used as a global framework for promoting women's advancement and gender equality.

within government and it is a collective responsibility of all sectors, institutions and individuals to include women or gender concerns in all aspects of government work – from policies, to budgets, programs, projects, services and activities, including recruitment, training, promotion and allocation of benefits and opportunities. Affirmative steps will be institutionalized to ensure women’s participation in all levels of policy and decision-making; beyond ensuring that women are numerically represented in government, opportunities will also be created to develop their leadership capacities. The actual participation and leadership of women is an essential component of gender mainstreaming; this program will look to establish local political advocates to champion its implementation.

### **Program 3: Support to Unemployed Youth and Demobilized Soldiers**

#### **Government’s Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), employment opportunities for youth and demobilized soldiers will be increased through special programs.

Inclusion of youth and demobilized soldiers in the formal economy is crucial to social and economic rehabilitation goals; their achievement will be accelerated if able-bodied persons can find employment avenues and support themselves as productive members of society. The goal of this program will be to enhance the productivity of unemployed youths and those demobilized through the Disarmament, Demobilization, and Reintegration (DDR) process and the Disbandment of Illegal Armed Groups (DIAG) process, supporting greater social integration while minimizing criminality and enhancing national productivity. Although the government has yet to fully develop an explicit policy to support youth development *per se*, government policies will aim to support the capacity building, knowledge enhancement, and promotion of juvenile abilities to participate in Afghanistan’s reconstruction and rehabilitation. It will set up an employment centre for employing of youth and juveniles, support scientific, cultural, and arts rights of young innovators. The Afghan Government will look to develop a national youth development policy and enhance coordination efforts between government departments. Furthermore, it will coordinate efforts by civil foundations/NGOs and international organizations in order to mainstream problems faced by young people into other key national programs.

### **Program 4: Supporting the Disabled**

#### **Government’s Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), increased assistance will be provided to meet the special needs of all disabled people, including their integration in society through opportunities for education and gainful employment.

The disabled form perhaps the most vulnerable group requiring social protection; initial provisions by the state will greatly contribute towards their inclusion in the social and economic mainstream of Afghan society. This program aims to create a barrier-free society for all based on the principles of participation, integration and the equalization of opportunities, as defined by the United Nations.<sup>96</sup> In doing so, the Government of Afghanistan gives priority to enable disabled people to take charge of their lives by removing barriers that deter them from full participation in society. Broadening of

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<sup>96</sup> In their World Program of Action concerning Disabled Persons; the Standard Rules for the Equalization of Opportunities for Disabled Persons; the Biwako Millennium Framework for Action towards an Inclusive, Barrier-free and Rights-based Society for Persons with Disabilities in the Asia and Pacific region; and finally, the ongoing elaboration for the International Convention to Protect and Promote the Rights of Disabled Persons

prioritization for disabilities beyond the war-disabled is a crucial task to be undertaken; emphasis will be expanded to include other disabled populations, while continuing to honor the sacrifices that the war-disabled have made for Afghanistan. Early detection, prevention, and rehabilitation programs are critical to the success of the government's health policy towards the disabled. The MoPH will look to develop policy and strategy aimed at early physical, visual, hearing and intellectual impairment-monitoring. Frontline health and education personnel will be trained to keep accurate records on children with disability and other "at risk" children from birth.

### **Program 5: Refugees and Returnees**<sup>97</sup>

#### **Government's Five-year Strategic Benchmark**

By Jaddi 1389 (end-2010), all refugees opting to return and internally displaced persons will be provided assistance for rehabilitation and integration in their local communities. Their integration will be supported by national development programs, particularly in key areas of return.

The full voluntary return and reintegration of all Afghan refugees is a priority for Government. Effective reintegration requires economic opportunities within Afghanistan. The government is working towards the return of all remaining refugees and normalizing their legal status, as well as negotiating long-term agreements with neighboring countries on the number and status of Afghans who remain as economic migrants, while continuing to support the internally displaced and their effective reintegration. A strategy for refugees' return is being formulated; the current Tripartite Agreements on voluntary repatriation with Pakistan and Iran will expire during the course of 1384/85 (2006). Government will negotiate their extension under mutually acceptable terms and conditions. To address concerns resulting from the recent security-related camp closures, such exercises will be carefully thought out on both sides of the border. With respect to the future planning of closures and consolidation, a mapping and analysis of camps and settlements with clear assessment criteria (e.g., security, prospects for return, potential for self-reliance) is underway but all camp closures, consolidation, and evictions should respect the voluntary character of return. The Government will press Iran for regularized migration from Afghanistan within the framework of the repatriation program. Technical expertise from agencies such as the ILO and IOM will be used to enhance government capacities to address economic and other forms of migration, and to distinguish it from refugee return. There is also a need for an approach for protecting existing Afghan refugee groups. Certain issues, such as recognition of education certificates, remain unresolved and the Government remains committed to providing legal protection to returnees. Government will have discussions with Iranian authorities regarding renewable documentation for registered Afghans, screening mechanisms for deportation cases, and continued access to social services. Government will look to regularize the temporary stay of Afghans as an important first step upon which to develop future management arrangements. A major challenge will be to ensure that the latter adequately reflect genuine protection needs among both the established Afghan population and any new arrivals.

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<sup>97</sup> The government's strategy draws heavily from the UNHCR Strategic Consultations on Refugees and Population Movements to and from Afghanistan presented in Geneva on October 7, 2005.

## 8.7 SECTOR EIGHT: ECONOMIC GOVERNANCE AND PRIVATE SECTOR DEVELOPMENT

### 8.7.1 OVERVIEW

The establishment of sound economic management systems is vital for the provision of high quality basic services to Afghan citizens, and creating an enabling environment for private sector growth. As it cuts across the various functions of government (national, and at the provincial and district levels) good economic governance is essential for guaranteeing that scarce national resources are used to support the attainment of national development objectives, in an effective, efficient and accountable manner. Moreover, as the Afghan state evolves, our economic management systems will need to evolve to reflect changes in both revenue and expenditure assignments, not least because of the close interface between economic management and public administration reform.<sup>98</sup>

Economic growth and poverty reduction can only be achieved if there is sustained growth of the private sector based on productive investment. Only the private sector will be able to provide the employment opportunities and generate the resources required by the government to achieve the vision outlined in the ANDS. As described in Chapter 4, Afghanistan has already made significant progress in achieving macroeconomic stability. Small to medium scale private sector activities have witnessed growth, but activities are predominantly driven by the international reconstruction effort and large-scale imports. With the exception of the telecommunications industry, the private sector has been largely reluctant to undertake medium to long-term productive investments, partly due to the high transaction costs of doing business in Afghanistan. Although trade has increased at double digit levels, most of the exports are re-exports to Pakistan or Iran, while imports are largely financed by international aid and the drug economy.

As a result of 25 years of war, the absence of rule of law, a formal regulatory environment and provision of services have resulted in the majority of private sector activity remaining in the informal economy. The predominance of the informal economy restricts long-term growth, creates anti-competitive pressures, encourages corruption, denies protection for employees and consumers, and reduces government revenue. One key priority of the government is therefore to facilitate an environment that creates competitive advantages for the private sector to operate in the formal economy. As more businesses get better access to productive assets, particularly access to finance, formalization of the economy will also enhance productivity levels. This will, in turn, allow the government to gradually increase its tax base and domestic revenue, essential for improving its capacity to deliver basic services and to reduce its dependence on foreign aid.

Integrating Afghanistan's markets with global and particularly regional economies is critically important for stability and economic growth. Linkages with these markets will not only ensure the competitiveness of domestic industries but will add to the attractiveness of Afghanistan for investors. With the development of an effective system for international trade and transit, a large portion of future investments will aim to capitalize on Afghanistan's strategic position as a land bridge, linking Central and South Asia.

***Government's goal is to improve the management and accountability of public expenditures so as to increase the effective utilization of resources through the budget as the tool of government policy. Government will also aim to create the conditions in which a dynamic and competitive private sector can flourish, contributing to economic growth, employment creation and poverty reduction.***

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<sup>98</sup> Establishing an effective public administration and civil service, through a review of such assignments, will have major implications for how core economic management capacities and responsibilities are both established and executed.

## 8.7.2 CONTEXT AND CONSTRAINTS

**In addition to the constraints identified in Chapter 4, the following sector-specific constraints on economic governance exist:**

1. ***Government's public finance management systems remain weak.*** While we believe that more international aid should be spent through Government and the core budget, we recognize that donors who want to support government directly are constrained by our limited capacity to absorb and spend international assistance cost-effectively, and to manage that assistance accountably (both to donors and to the Afghan people) and transparently. The Government embraces this challenge and aims to discuss and then meet specific benchmarks of progress with respect to public finance management and economic governance generally. As we meet these benchmarks, Government will continue to lobby donors to channel their support through the national budget.
2. ***Unpredictable external budget support undermines the medium-term fiscal framework:*** The Medium-Term Fiscal Framework (MTFF) is being instituted as a rolling three-year cycle and will lay the foundation for multi-year planning of government's resource envelope and investments. It aims to forecast recurrent costs and core development budget spending on a rolling three-year cycle. Government cannot include external budget resources in the MTFF because the volume of external assistance is unknown. However, in order to translate total resource availability into strategic expenditure priorities, Government will need to determine the total fiscal envelope (core and external funding) as far as possible. The success of the MTFF depends, therefore, on the willingness and ability of donors to make predictable multi-year disbursements. Without multi-year commitments, the Government will be obliged to set indicative budget ceilings, target budget outcomes, and guarantee a minimum base line in service delivery on the basis of uncertain assumptions. An uncertain MTFF will also undermine government's ability to develop a meaningful Medium Term Expenditure Framework (MTEF), which is a central tool for effective performance budgeting.
3. ***External and off-budget funding undermines the centrality of the National Budget as the tool of national policy:*** In spite of major improvements in generating domestic revenues, and in increasing levels of direct budget support (ARTF, LOTFA and CNTF), the majority of public sector funding continues to remain outside of core budget (i.e. the treasury system), which undermines fiscal transparency and fiscal sustainability, government policy coordination, expenditure prioritization, and service delivery rationalization and management. Furthermore, the heavy reliance on projections for national spending programs undermines cohesive budget execution. In certain areas, such as security, external budget funding decisions (for example with the ANA) have been taken that will have a significant impact upon the fiscal sustainability of the budget, given the fact that at some point externally funded public sector costs will need to be absorbed into the core budget and funded by domestic resources and a donor exit strategy formulated and agreed upon.
4. ***External and off-budget funding continues to undermine fiscal discipline:*** Fiscal discipline has been difficult to maintain in the environment of extremely low domestic revenues, dual un-integrated budgetary processes and very high levels of investments being made outside the national budget framework. In the long term, high wage costs (particularly in education and health service delivery, which are supported by donor top ups, and in the security sector institutions) have created expenditure demands that exceed government's capacity to absorb the full costs through domestic resources for years to come. In the long term, the implications are considerable: as external resource availability declines, Government will be forced to make expenditure decisions that may fail service delivery in key areas, with a negative impact on sustaining growth and meeting poverty reduction targets.

5. ***Misaligned schedules of commitments, disbursements and expenditures:*** When donors commit external resources for development in a given fiscal year, in all likelihood, the disbursement to a contractor will not take place in that fiscal year, due to the lag time in programming. Disbursement to a contractor (by the donor) is not expenditure in the accounts of government until payments have been made locally. As the external development funds are on a commitment basis, in many cases commitments in one year will not be accounted as expenditure until the following year. The medium-term fiscal framework, therefore, needs to increasingly focus on tracking budget out-turns in terms of services provided rather than tracking inputs.
6. ***Comprehensive budget policy is undermined without budget integration:*** The national budget policy must encompass all the fiscal operations of government. Policy decisions with financial implications have to be made against the background of hard budget constraints and in competition with other demands. The high levels of external development and off-budget funding of the national budget undermine budget policy comprehensiveness, with significant implications for fiscal sustainability. Recurrent and capital expenditure decisions during planning and budget formulation are disconnected, and do not account for levels of recurrent spending liabilities accumulating in future fiscal years.
7. ***High service delivery and transaction costs:*** The high costs of establishing physical security and uncompetitive bidding in the execution of external budget projects have driven up variable costs, particularly labor costs. In many cases the cost of delivery (e.g. in the road sector) are disproportionately high by any international standard. These costs negatively affect operational efficiency of good public expenditure management.
8. ***Weak focus on measuring development and poverty outcomes:*** Expenditure tracking systems have yet to be adequately developed, limiting government's ability to track the linkage between pledges, commitments, disbursements and actual expenditures, both by Ministry and Province. Furthermore, input-based budgeting (instead of outcome-based budgeting) limits assessment of the impact of public spending on national development and poverty reduction. In addition, although some initiatives have reviewed some aspects of staffing, many institutions in government are poorly structured and are not yet positioned to deliver the services envisaged in the I-ANDS.
9. ***Heavy projectisation of the national budget leads to parallel systems of delivery:*** In sectors such as education and health, in spite of clear arguments for consolidating finances and moving towards sector-wide approaches, the sectors face a multitude of projects funded through different channels, using different designs and procedures. Programs such as the BPHS program have helped to minimize such budget fragmentation, but greater effort will be required to consolidate finances within the framework of consistent and comprehensive national and sectoral strategies. The direct implications of heavy projection can be seen in the education sector, with schools constructed at very different costs by government, the UN, NGOs, private contractors, PRTs, the Provincial Stabilization Fund (PSF) and charities. Clearly, an uncoordinated approach to sectors is not beneficial to delivering sustainable and balanced programs;
10. ***Provincial inequity with regard to external budget funding:*** There is little provincial equity in the allocation of external national budget resources as allocations are not determined by a consistent development policy, underpinned by equitable, poverty oriented allocation formulae. In many cases, provinces affected by high insecurity receive little assistance, whereas those with high levels of poppy production receive substantial funding. With the establishment of the National Assembly, transparency in the allocation of national resources will emerge as a further challenge to government, given lack of control over total budget resources. A review of previous budgets tends to indicate that insufficient resources are channeled to provinces and districts, which clearly harms good service delivery and weakens political support for central government. This also highlights the lack of participation of lower level governments in the budget formulation process.

10. ***Sub-national budget and coordination responsibilities remain uncertain:*** Because many services are provided locally, there is a need to consult with provincial (and in the longer term, district) administrations on budget formulation and execution responsibilities, as well as reviewing both revenues and expenditure assignments. Furthermore, with the establishment of Provincial Councils, the Provincial Governors' Offices will need to play a more influential role in provincial coordination than is currently the case. Logically, devolving some degree of responsibility to lower levels of administrations (for both the recurrent and development budgets) will benefit local capacity building and ownership, although discussion of decentralization of certain functions and assignments is at an early stage.
11. ***Predominance of informal economy and weak tax paying culture:*** The regulated "formal" economy and hence the tax base remains small. The agriculture sector, comprising more than two-thirds of the economy, is difficult to tax for administrative and political reasons. Decades of conflict and weak central government have dissipated any "tax-paying culture" that existed previously. The current flat corporate income tax rate of 20%, though significantly lower than anywhere else in the region, has met with resistance from the business community. The imposition of numerous small "nuisance" taxes put an additional burden on the private sector and individuals.
12. ***There is a lack of capacity in the tax administration*** to enforce tax policies and calculate tax owed. Amongst small to medium sized businesses, accounting practices are rudimentary or nonexistent, and the Revenue Department of the MoF is not staffed to build capacity in the private sector.
13. ***Widespread corruption in customs administration*** continues to impede enforcement. Additionally, capacity and coordination of enforcement is weak. Low salaries, insufficient training and resources for personnel at borders exacerbate corruption. The strong influence of local power holders in border areas also makes it difficult to ensure that all collected customs revenues are transferred to the Single Treasury Account.

***Constraints on Private Sector Development*** The constraints mentioned below are sector-wide, affecting all programs.

1. ***Lack of physical infrastructure, in particular unreliable power supplies, remains one of the most important constraints.*** Many firms rely on expensive generators. Access to clean water and sanitation as well as communication facilities are also important impediments. Poor roads, cross-border and airport facilities act as constraints for regional and international trade and investment. Few commercial airlines currently serve Afghanistan. The lack of infrastructure also affects financial services delivery, particularly in rural areas.
2. ***Property and land rights are unclear and enforcement mechanisms weak.*** Unclear property rights also affect the private sector's ability to use land as collateral for credit. The absence of a commercial insurance system compounds the adverse impact of insecurity on investments.
3. ***Effective enforcement mechanisms, particularly the commercial court system, are not yet in place or lack resources and capacity.*** The absence and inadequacy of laws that protect, for instance, the rights of creditors, is a serious obstacle for banks and financial intermediaries. Also there is no modern regulatory framework for leasing and insurance and no law on non-bank lending.
4. ***The high transaction costs of doing business.*** Corruption and difficulties in obtaining licenses, accessing credit, and enforcing contracts significantly increase transaction costs for potential and current investors. See Table 8.3 below.

<b>Table 8.3. Doing Business Indicators</b>	<b>Country Ranking</b>
Overall Ranking	122 of 155
Starting a Business	16
It takes entrepreneurs 1 step over an average of 7 days, at a cost equal to 52.8% of GNI per capita to launch a business. There is no minimum deposit requirement to obtain a business registration number.	
Dealing with Licenses	No data
Hiring and Firing	25
Registering Property	150
It takes 11 steps and 252 days to register property. The cost to register property is 9.5% of overall property value.	
Getting Credit	153
Protecting Investors	145
Paying Taxes	7
A medium-sized company must make about 2 payments per year, spend 80 hours and pay 21.4% of gross profit in taxes.	
Trading Across Borders	128
Enforcing Contracts	93
It takes about 100 days to enforce a contract. The cost of enforcing contracts is 24.0% of debt.	
Closing a Business	142

Source: [www.doingbusiness.org](http://www.doingbusiness.org)<sup>99</sup>

5. **Government corruption continues to be a significant disincentive for investment**, slowing transactions and increasing their costs, while raising the unpredictability of business processes such as licensing, and the enforcement of property rights and contracts. Corruption also affects the enforcement of customs and tax administration. Low salaries, insufficient training and resources for personnel at borders exacerbate corruption. The existence of numerous small “nuisance” taxes puts an additional burden on the private sector and individuals. Illegally derived income, primarily from the opium economy, poses challenges to the financial sector.
6. **Lack of external finance** is one of the main constraints cited by business people. Afghanistan ranks 122 out of 155 countries in the Doing Business rankings for getting credit. Access to finance is particularly limited in rural areas. Trade faces a series of obstacles including delays, cumbersome procedures and lack of facilities at the border posts, which undermine the competitiveness of Afghan exports. There is also a severe shortage of capacity to negotiate trade and transit agreements. High wages and a high real exchange rate due to the large aid, remittance and drug industry inflow also make many potential export products uncompetitive.

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<sup>99</sup> The Doing Business Rankings compare the costs of various business transactions across 155 countries.



### 8.7.3 SECTOR STRATEGY

**The stated goal for the Economic Governance and Private Sector will be realized through a set of inter-related programs and mutually supporting mechanisms, which are summarized below.**

#### **Program 1: Putting in place a Medium Term Fiscal Framework.**

##### **Government's Five-year Strategic Benchmark**

The MTFF guides the allocation of all budgetary resources from 1387 (2008/9), and Government will prepare a medium term expenditure framework for the 1388 (2009/10) budget and subsequent budgets.

The Government aims to move towards a rolling five-year MTFF, supported by an annual national budget that is (i) fully consistent with the policy orientation of the ANDS; (ii) fiscally sustainable; (iii) comprehensive and integrated (i.e. recurrent and capital spending; core and external budgets); (iv) disciplined (limiting spending to the resources available to implement government policies); (v) realistic and predictable (with both revenue and expenditure forecasts set over the medium term); (vi) cost efficient in execution, through effective procurement; (vii) increasingly focused on budgetary outcomes and performances and, (viii) transparent and accountable (confirmed by audit).

In 1384 (October 2005), the Government adopted an MTFF (See Table 8.4 below). The MTFF contains fiscal policy objectives and a set of integrated medium term macroeconomic and fiscal targets and projections, allowing the government to put in place an affordable, realistic and sustainable medium-term fiscal framework to ensure (i) transparency in setting fiscal objectives; (ii) stability in fiscal policy-making process, and (iii) efficiency in design and implementation of fiscal policy. As the I-ANDS matures from the interim status to its fullest form, the MTFF will ultimately evolve to a Medium Term Expenditure Framework (MTEF). The MTEF will align the government's vision with costs of priority programs necessary to harness security, empower the vulnerable, create employment, combat poverty, and enable the private sector to be the engine of growth. Re-enforcing aggregate fiscal discipline will also be key. Parallel structures for delivery, unnecessary salary top ups that lead to unsustainable wage inflation, and sole sourcing contracts with high transaction costs will be discouraged. In essence, Government will achieve a sustainable recurrent budget that is funded from domestic revenues.

**Table 8.4: Afghanistan's Medium Term Fiscal Framework (1385-89)**

	2006/07 1385	2007/08 1386	2008/09 1387	2009/10 1388	2010/11 1389
	All figures are in US\$ million unless otherwise noted				
<b>Domestic Revenue</b>	<b>532</b>	<b>677</b>	<b>853</b>	<b>1033</b>	<b>1220</b>
<i>Year-over-year growth (%)</i>	40.4%	27.3%	26.0%	21.1%	18.1%
<b>Operating Budget</b>	<b>719</b>	<b>842</b>	<b>968</b>	<b>1118</b>	<b>1225</b>
- Wages	420	457	538	615	670
- Non-wages	299	384	431	504	555
<b>Add off budget items</b>					
- Army	125	181	241	304	311
- Police	130	130	130	130	130
- Health services	86	118	126	135	144
- Education support	50	54	56	58	61
- National Solidarity Program	150	150	150	150	150
- Others	100	92	86	80	74
- Parliament	7	8	8	8	9
- Elections	92	85	78	71	65
<b>Total off budget items</b>	<b>641</b>	<b>726</b>	<b>789</b>	<b>857</b>	<b>872</b>
<b>Total recurrent expenditure</b>	<b>1360</b>	<b>1568</b>	<b>1757</b>	<b>1975</b>	<b>2096</b>
<b>Financing Gap</b>	<b>(828)</b>	<b>(891)</b>	<b>(904)</b>	<b>(942)</b>	<b>(876)</b>
<b>Memorandum Items</b>					
Revenue as % of GDP	6.0%	6.6%	7.2%	7.8%	8.1%
Revenue as % of wages (excl. Army)	126.6%	148.0%	158.6%	168.1%	182.1%
Revenue as % of wages (incl. Army)	100.0%	113.4%	120.9%	127.5%	140.9%
Revenues as % total recurrent expenditure	39.1%	43.2%	48.5%	52.3%	58.2%
Real GDP growth	11.2	10.8	9.7	7.5	7.5
GDP deflator (%)	8.0%	5.0%	5.0%	5.0%	5.0%
Exchange Rate (AFG / USD)	48.5	48.5	48.5	48.5	48.5
GDP (US\$ million)	8,803	10,242	11,797	13,316	15,030
Population (million)	25	25	26	26	27
Compliance increase (%)	20%	15%	15%	10%	10%
New Measures (US\$ million)	36.8	32.7	7.2	7.2	0.0
October 2005 MOF revenue forecast as % of GDP	<b>595</b> 6.8%	<b>712</b> 7.0%	<b>892</b> 7.6%	<b>1,090</b> 8.6%	

## Program 2: Enhancing Revenue Collection

### Government's Five-year Strategic Benchmark

Afghanistan's total domestic budgetary revenue – equivalent to 4.5% of estimated legal GDP in 1383 (2004/05) – will steadily increase and reach 8% of GDP by 1389 (2010/11). The ratio of revenue to estimated total recurrent expenditures, including estimated recurrent expenditures in the core and external development budgets, is projected to rise from 28% in 1383 (2004/05) to an estimated 58% in 1389, resulting in a continuing need for (1) external assistance to the Core Budget and (2) increasing cost-effectiveness of assistance that funds recurrent expenditure through the external development budget.

Increased domestic revenue generation, based upon a growing and competitive formal economy that can be fairly taxed, is key to the sustainability of development efforts and state-building. Currently, domestic revenue collection amounts to about 4.5% as a percentage of official GDP and is one of the

lowest in the world, only covering some 50% of the current operating budget.<sup>100</sup> Government's goal is to significantly increase effective, equitable and progressive domestic revenue collection and to put in place a transparent, results-based, multi-year budget process as a key instrument of economic policy.<sup>101</sup> As far as measurable benchmarks are concerned, domestic revenues will increase yearly in line with the MTF. The MoF oversees the government's efforts to strengthen domestic revenue collection and enforcement in cooperation with other relevant government agencies. Critical to the success of our revenue generation efforts will be the enforcement of the significantly revised Tax Code, the new budget law and the new Customs Law, all of which were passed into law in 1384 (2005). To enhance revenues, Government will focus upon (1) the largest potential taxpayers in order to achieve the greatest rewards over the next five years; (2) Reducing complexity and streamline procedures to reduce compliance costs for tax and customs. New regulations and procedures for customs and tax administration will support the implementation of the enacted customs and tax legislations and ensure that the Government has adequate authority to control and manage public finances; (3) Maintaining strong levels of non-tax revenue through licensing of government natural resources, from bandwidth to airspace, from minerals to gas; (4) continuing the reform of the *mustoufiat* offices (Provincial offices of the MoF), including their reorganization along functional lines reporting to the Treasury and General Presidency of Revenue, in order to strengthen their capacities; (5) Strengthening customs collection and enforcement mechanisms through enforcement the new customs code, further simplifying the tariff regime, modernizing the customs administration and improving controls at the border.

### **Program 3: Enhancing Public Finance Management**

#### **Government's Five-year Strategic Benchmark**

By Jaddi 1386 (end-2007), the Government will ensure improved transparent financial management at the central and provincial levels through establishing and meeting benchmarks for financial management agreed with and monitored by the international community, including those in the anticipated Poverty Reduction Growth Facility (PRGF). In turn, it aims to convince donors to increase the share of total external assistance to Afghanistan that goes to the Core Budget from 19.5% in 1384 (2004/5), to at least 50% by 1390 (2010/11).

Sustaining economic growth, building an effective, accountable state, and reducing poverty requires the development of public finances systems that: (i) are affordable (attaining aggregate fiscal discipline); (ii) allocate funding across sectors in accordance with ANDS strategic priorities; (iii) are sustainable, so that investments made today can be effectively operated and maintained in the future; (iv) are efficient, in the sense of value for money and service delivery; and (v) are transparent and accountable to the Afghan public and other stakeholders. At the aggregate level, lack of a credible, realistic, policy-based, and reasonably comprehensive budget can result in high inflation, macroeconomic instability, and a crisis for the currency and for external relations. High inflation has its most substantial impact on poor and low income groups.

Table 8.5 provides an overview of key public finance management performance indicators, based on the results of the World Bank Public Finance Review (World Bank, 2005). Whilst the indicators highlight the considerable gains made since 1381 (2002/03) in re-establishing a credible, accountable and effective PFM system, clearly existing systems and procedures need strengthening, largely as a result of institutional reforms and human resource development. Of particular interest, the

<sup>100</sup> While developed countries usually average a 45-55% ratio of revenues to GDP, and least developed countries 20%, Afghanistan's has historically been (and remains currently) less than 10%. IMF/World Bank, *Mobilizing Domestic Revenues in Afghanistan: Structure, Policies, Administration, and Prospects*, May 10, 2005.

<sup>101</sup> This section is drawn in large part from *Public Administration Reform and Economic Management*, PIP, SY 1384-1387 (2006-2009).

government has made considerable progress in enhancing the credibility of the national budget, although particularly the aggregate revenue out-turn. In other areas such as (i) the transparency of inter-governmental fiscal relations (ii) oversight of aggregate fiscal risk from other public entities (iii) and, availability of information on resources received by service delivery units improvements need to be made. Legislative oversight of the budget scored low because of the absence of such a body, although following successful national assembly elections, the national assembly has a clear role in approving the national budget, in accordance with the new PFM law. The proportion of aid that is managed utilizing national procedures remains a concern that government will look to address.

Government plans to ensure improved and transparent financial management at the central and provincial levels by establishing and meeting benchmarks for financial management agreed to and monitored by the international community, including those in the envisaged Poverty Reduction Growth Facility (PRGF). In turn, donors are expected to increase the share of total external assistance to Afghanistan that goes to the Core Budget from 19.5% in 1384-1385 (2004/5), to at least 50% by 1389-1390 (2010/11), and the financial transparency of donor-executed programs. Government will also look to make improvements in the ARTF eligibility ratio; and adopt, through Cabinet, an action plan to strengthen Public Finance Management (comprising a plan to expand functionalities and coverage of our financial management software--AFMIS, reform *moustufiats*, prepare regulations of expenditure processing and accounting in accordance with the PFEM Law, and implement an annual internal audit plan under the MoF for the whole of government).

Government acknowledges that improving the PFM system remains a key focus for all expenditure and revenue units of government, and continued support from international partners is vital to improve overall performance. As the majority of indicators are ranked 2 out of 4 – further strengthening is required. Furthermore, as the accountability of PFM systems require trained human resource capacities, there is a strong interface between improved economic management and civil service and public administration reform.

Government has recently passed a new procurement law, foreseeing the decentralization of procurement responsibilities to government expenditure units over a period of three years. Capacities in procurement will be substantially enhanced so that International Competitive Bidding (ICB) remains a standard function of procurement where appropriate. Under this law, the government plans to create and ensure the functioning of a Procurement Policy Unit, adopt procurement regulations, adopt a plan to decentralize procurement authority based on performance, set up a functioning Review Committee system, and ensure the function of a Procurement Data Management System in three key spending ministries. In all procurement efforts, Government will maximize the participation of the Afghan private sector, removing binding constraints to effective participation in international bidding, including access to reconstruction contracts. Government will look to enhance procurement so as to guarantee efficiency in budget execution and the supply of high quality supplies, works and services. Government will work to guarantee that lack of fiduciary safeguards in procurement does not result in outright cooperation and poor value for money.

Government accountability generally is sought through the publication of audited financial statements on the state budget and specific donor funds. The Auditor General is working to establish international auditing standards with operational support from an audit advisor. Government will look to strengthen both external and internal audit capacities for revenue and expenditure units at central, provincial and district levels. Government is seeking to upgrade utilization of modern, electronic financial management systems to ensure efficient cash management, timely payments and disbursements, and accurate financial accounting. Government will look to strengthen transparency in reporting to decision-makers, so that decisions are based on timely and accurate information. Government will also look to enhance transparency in reporting to the public, through the national assembly, so that the government can be held accountable for how public resources are managed. The establishment of the national assembly will therefore bring with it, for the first time in a quarter of a century, external scrutiny of the budget and its performance. Transparency will be largely achieved through a robust external audit function.

Table 8.5: Afghanistan's Public Finance Management Performance Indicators					
Indicators		1	2	3	4
<b>A. PFM-OUT-TURNS: <i>Credibility of the budget</i></b>					
Aggregate expenditure out-turn compared to original approved budget	2				
Composition of expenditure out-turn compared to original approved budget	2				
Aggregate revenue out-turn compared to original approved budget	4				
Stock and monitoring of expenditure payment arrears	2				
<b>B. KEY CROSS-CUTTING ISSUES: <i>Comprehensiveness and Transparency</i></b>					
Classification of the budget	2+				
Comprehensiveness of information included in budget documentation	2				
Extent of unreported government operations	3				
Transparency of inter-governmental fiscal relations	1				
Oversight of aggregate fiscal risk from other public sector entities.	1				
Public access to key fiscal information	2				
<b>C. BUDGET CYCLE</b>					
<i>C(i) Policy-Based Budgeting</i>					
Orderliness and participation in the annual budget process	2				
Multi-year perspective in fiscal planning, expenditure policy and budgeting	1+				
<i>C(ii) Predictability and Control in Budget Execution</i>					
Transparency of taxpayer obligations and liabilities	1+				
Effectiveness of measures for taxpayer registration and tax assessment	1+				
Effectiveness in collection of tax payments	1+				
Predictability in the availability of funds for commitment of expenditures	1+				
Recording and management of cash balances, debt and guarantees	2+				
Effectiveness of payroll controls	2				
Competition, value for money and controls in procurement	2/3				
Effectiveness of internal controls for non-salary expenditure	2				
Effectiveness of internal audit	2				
<i>C(iii) Accounting, Recording and Reporting</i>					
Timeliness and regularity of accounts reconciliation	3				
Availability of information on resources received by service delivery units	1				
Quality and timeliness of in-year budget reports	2				
Quality and timeliness of annual financial statements	2				
<i>C(iv) External Scrutiny and Audit</i>					
Scope, nature and follow-up of external audit	2				
Legislative scrutiny of the annual budget law	1				
Legislative scrutiny of external audit reports	1				
<b>D. DONOR PRACTICES</b>					
Predictability of Direct Budget Support	4				
Financial information provided by donors for budgeting and reporting on project and program aid	1+				
Proportion of aid that is managed by use of national procedures	1				

#### Program 4: Strengthening the Investment Climate

##### Government's Five-year Strategic Benchmark

All legislation, regulations and procedures related to investment will be simplified and harmonized by Jaddi 1385 (end-2006) and implemented by Jaddi 1386 (end-2007). New business organization laws will be tabled in the National Assembly by Jaddi 1385 (end-2006). The Government's strategy for divestment of State-Owned Enterprises will be implemented by Jaddi 1388 (end-2009).

While improving access to key productive factors, in particular land, skilled labor and finance, the Government will also pursue specific policies aimed at improving the investment climate. As outlined earlier in this Chapter, prioritization in infrastructure investments for energy, roads, airports

and border facilities will take into consideration the needs of the private sector. As lack of energy is one of the main bottlenecks cited by the business community, the Government will particularly seek to accelerate investments and project implementation in this area. Strategies for human capital development (also earlier in this chapter), in particular the education and vocational training strategies, should be closely aligned to ensure that skills and education match the requirements of the market economy. Labor policies will also need to be supportive of private sector concerns. The Government will continue its efforts to strengthen the judicial sector (as discussed in Chapter 7) improve the commercial courts system, property rights and enforcement mechanisms. The Government is also committed to making the regulatory system predictable, transparent and simple. The full ANDS will look into strategies of how to improve conditions for certain key industries. Currently many potential investment opportunities remain untapped. These include import-substituting activities, traditional exports, construction related activities or infrastructure, utilities and trade related services.<sup>102</sup>

We aim to create competitive advantages for the private sector to operate in the formal economy. The Government will work to ensure businesses move from paying illicit “taxes” (bribes) towards legitimate taxes that enhance domestic revenue generation and facilitate business growth. To that end, the Government is seeking to issue income tax regulations, eliminate nuisance taxes, reform the business receipts tax system, reform tax administration, and eventually enter into bilateral tax treaties with its significant trading partners. The Government is committed to improving the legal and regulatory environment, with a particular focus on enforcement, and to strengthen implementation mechanisms in order to lower transaction costs for businesses, and to improve the climate for Foreign Direct Investment (FDI). Government will also divest itself gradually from State Owned Enterprises. Quality control will be developed to improve the competitiveness of Afghan products. The Government will take steps to encourage domestic and foreign investment. The development of business development services will be facilitated and the transparent information flow improved. Government will also assist the private sector through infrastructure improvements, in particular through addressing land titling issues and the establishment of industrial estates.

### **Program 5: Trade**

#### **Government’s Five-year Strategic Benchmarks**

1. By Jaddi 1389 (end-2010), Afghanistan will gain accession to the WTO.
2. By Jaddi 1389 (end-2010), exports benefiting from preferential agreements with US, EU, Japan, Canada, and India will increase.
3. By Jaddi 1389 (end-2010), Government will reduce average import times by 20 days, and export times by 15 days.

Afghanistan’s private sector and the economy more generally has much to gain from increased trade. Our goal is to gradually liberalize trade with a view to moving towards full accession to the WTO in order to integrate Afghanistan into the regional and global economy. Government will establish an open and transparent business environment, systematically addressing trade and investment barriers. Transit and customs procedures and documents will be streamlined with a view to harmonizing them with the trading partners. The Government will also pursue general trade liberalization and continue its steps to accede to the WTO. Existing transit agreements will be revised and new transit agreements will be negotiated while capacity will be strengthened to implement and monitor the agreements. The Government is also keen to encourage the private sector to become increasingly engaged in trade

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<sup>102</sup> For more detail see “The Investment Climate in Afghanistan- Exploiting Opportunities in an Uncertain Environment”, World Bank, draft, November 2005, p.13.

facilitation. In terms of customs modernization government seeks to improve the operational efficiency of customs while curbing corruption. The government is also determined to move towards full computerization and to develop transparent procedures. Border infrastructure will continue to be improved and new equipment such as port handling and scanners provided.

### **Program 6: Financial Services and Markets**

#### **Government's Five-year Strategic Benchmark**

Internationally accepted prudential regulations will be developed for all core sectors of banking and non-bank financial institutions by Jaddi 1386 (end-2007). The banking supervision function of Da Afghanistan Bank will be further strengthened by Jaddi 1386 (end-2007). Re-structuring of state-owned commercial banks will be complete by Jaddi 1386 (end-2007). State-owned banks that have not been re-licensed are liquidated by Jaddi 1385 (end-2006).

Access to finance is a prerequisite for private sector development and economic growth. The goal is to develop a competitive, efficient, market-oriented, and privately-owned financial sector that provides innovative financial products and services to households, enterprises, and government entities and to increase the levels of formal financial intermediation in Afghanistan's economy in order to support and sustain overall economic development and poverty reduction. Government will continue to improve the legal and regulatory and policy framework for the financial sector while strengthening the human capacity and institutions for implementation. Government is also committed to privatizing the state-owned commercial and development banks. Access to financial services, particularly in rural areas, will be enhanced, and the expansion of microfinance, ensuring access for the poor and women in particular, will be encouraged. Access to services, however, is not enough. As long as potential borrowers lack clear title to their land—the primary item of collateral for most Afghans—modern commercial lending will be slow to take off. Land titling will be key to stimulating financial services, therefore. Government will also continue to develop the infrastructure for the financial sector, including the domestic and international payment systems. The enabling environment for the establishment and growth of non-bank financial institutions and markets, such as in the area of insurance, leasing and mortgage financing, will be created. Financial supervision will continue to be strengthened for both the formal financial institutions as well as the informal financial sectors.

Following the passage of the Central Bank Law and Banking Law, there has been considerable progress in strengthening Central Bank functions and in establishing a viable commercial banking sector. In spite of this progress however, particularly with the development of financial institutions (including MFIs), considerable challenges remain, including enhancing institutional capacities, maximizing outreach and access to services, and improving the effectiveness of Central Bank provincial offices. While the legal infrastructure is in place, the physical infrastructure and human capital needed to support DAB's operations, especially outside Kabul, remains weak and requires greater investment with a strong focus on both reconstruction and staff development. Progress on banking sector reform will be evidenced through: (i) adoption and implementation by the MoF of a plan for the resolution of the re-licensed state-owned commercial banks (to include dates for the appointment of management teams and re-capitalization and incorporation plans); (ii) adoption of a specific asset management strategy (including liquidation procedures, asset disposal, and resource utilization) for the unlicensed banks; and (iii) issuance of regulations for the registration/licensing and supervision of insurance and other non-banking financial institutions;

The Government will appoint officials to take charge of the liquidation of the former state-owned banks, and to complete the transfer/reimbursement of Agricultural Development Bank deposits. In addition, the authorities will replace the management boards of Bank Millie and Bank Pashtani, with assistance to be requested to help management restructure these banks and develop their operations.

The new management teams, in coordination with the MoF, will adopt long-term restructuring plans and Government will work to assure the emergence of a resilient banking system. Government will address the administrative and legal impediments facing the banking sector, including issues such as poor judicial enforcement that contribute to the limited size of the banking sector lending portfolio. Additional core enabling laws will be enacted, possibly to include laws on secure transactions, business organization, and negotiable instrument laws, as well as clarification of land ownership rights.

**Sector-wide initiatives will include:**

***Capacity building to address the lack of management skills and a poorly trained work force.*** The Government will encourage and facilitate the market-based provision of business development services and vocational training. Increased skills and knowledge will allow Afghan businesses to innovate and compete more strongly on domestic and international markets.

***Government will also actively encourage the participation of women in the private sector.*** The Government will address the barriers to women's full economic participation and increasing in their productivity. It will assist them through facilitating access to capital, marketing and skills development. The Government will ensure that women are especially targeted in the provision of business development services and training and expanding marketing opportunities. In the implementation of micro-credit schemes, the Government will pay particular attention to women.

***Government will ensure that anti-corruption measures are incorporated in all programs outlined above.*** Corruption in the form of paying bribes is a direct manifestation of attempts to circumvent the high transaction costs in the Afghan economy. Efforts to reduce the high transaction costs are therefore closely linked to anti-corruption measures. Government will increase its efforts to introduce more transparent procedures as well as provide specific anti-corruption measures such as the introduction of a code of ethics for customs officials. Chapter 7 outlines the Government's anti-corruption strategy in greater detail.

***Divestment of SOEs.*** The Government is committed to liquidating and or privatizing those state owned enterprises that provide services that can and should be delivered through the market. Those that currently perform important functions that cannot be quickly delivered through the market will remain under government ownership for the time being and efforts will be made to strengthen their management, oversight, transparency and ultimately, their financial viability.



## **PART 4**

# **FROM STRATEGY TO EXECUTION**



# 9

# BUDGET MANAGEMENT AND ANDS RESOURCE REQUIREMENTS

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## 9.1 PURPOSE AND STRUCTURE OF THIS CHAPTER

Strengthening the central role of the national budget as the instrument of government policy making is essential to achieving our national development priorities. This chapter outlines our plans for developing a rolling MTF and developing the national budget as the tool of government policy execution. Furthermore, it makes some assessment of how SAF investment requirements map to the new programmatic framework of the I-ANDS, as well as outlining government plans for costing the full ANDS during 1385 (2006/7).

## 9.2. KEY ACHIEVEMENTS

Government has been successful in maintaining fiscal discipline, despite major challenges, largely by controlling the government wage bill. While the fiscal deficit has been large, budgetary expenditures have by and large been contained within the level of resources available from domestic revenues and external assistance, and there has been no resort to domestic borrowing to finance the budget—a policy which has been essential to maintain macroeconomic stability. Domestic revenue mobilization has increased substantially, from an average annual rate of ~60% per year from 1381-1383 (2003-2004), to from ~3.2% of GDP to ~4.5% in this period. The wholesale reform and rationalization of customs duties as well as the income tax regime, and major efforts in customs administration have supported enhanced revenue mobilization. Government has radically overhauled the budget process, in particular the public sector wage bill and timely payment of salaries to civil servants throughout most provinces. Government has also made a strong commitment to improve both financial transparency and accountability through the development of adequate fiduciary standards, albeit based on an injection of external capacity, including reforms within the Auditor General's Office. Many donors now provide support to the core budget, either directly or through the Afghanistan Reconstruction Trust Fund (ARTF).

## 9.3. ENHANCING THE NATIONAL BUDGET

The national budget is the principal means to put the ANDS into operation. All public expenditures aimed at enhancing economic growth and reducing poverty are formulated and executed through the national budget. As the ANDS sets forth a new programmatic framework for addressing economic development, reconstruction, and poverty alleviation needs of Afghanistan, considerable realignment of purpose and procedures will be required both by government and by international partners to make the ANDS a success. It is not merely the quantity of aid that is important, but also its effective utilization. As over 90% of all national development resources are currently provided by external sources, enhancing the alignment of external funding to support the ANDS through the budget is absolutely vital for achieving our national development targets, including the MDGs. The national budget and other elements of proper public finance management processes will define the necessary realignments and efficient uses of public spending.

While the national budget remains under Government's direct control (the core budget) and nominal oversight (the external budget), a forward thinking partnership between government and donors will require substantial changes in the way external aid is managed, in line with the recommendations of the Paris Declaration<sup>103</sup> (see Chapter 8). Accordingly, Government aims to introduce new strategies to: (i) enhance government ownership; (ii) support effective PEM; (iii) focus increasingly on expenditure outcomes and service delivery; (iv) enhance harmonization between government and donor policies, and (v) share mutual accountability. To increase the impact that external aid has on increasing growth, reducing poverty, reducing unequal distribution, building capacity and accelerating achievement of its MDGs, the Government wishes to commit to realignment of budget management processes as a fundamental premise for execution of the ANDS.

To improve the effectiveness of the national budget as a tool of government policy, greater coordination of national and external resources is required. Strategies for enhancing aid coordination will be integrated into government plans to strengthen public expenditure and financial management. Four principles will inform the relationship between ANDS and the national budget: (i) the budget will continue to drive both reform and policy direction as embodied in the ANDS; (ii) national ownership, control, coordination will remain fundamental to long term success; (iii) PEM skills and disciplines will be promoted across government, and (iv) commitments in the Paris Declaration in relation to enhancing aid management will be promoted.

Government seeks to establish a national budget that is realistic; grounded in sound sector strategies; based on measured and unambiguous budget management guidelines that reflect improving government capacities; increasingly involves provinces and districts in both budget formulation and execution (based on a review of functional assignments to be conducted in 1385 (2006)); transparent and with relevant, accurate and timely information provided to decision-makers, including Parliament and the public at large; made accountable through government internal and external audits.

Government is responsible for three core functions of the national budget as follows: (i) control of public resources; (ii) planning for the future allocation of our resources, and (iii) resource management. Control of on-budget resources is being strengthened through fundamental reforms to the Public Finance Management (PFM) system, including procurement, accounting, reporting, auditing, and other systems of accountability. The ANDS presents the strategic orientation within which future resource utilization will be determined. The MTFE provides the re-sourcing framework (fiscal envelope). Enhanced public resources management through the budget requires adopting reforms that strengthen the entire PEM system. With regard to strengthening the national budget and PEM, government strategy will continue to focus on:

**1. *Strengthening aggregate fiscal discipline:*** Strengthening the use of MTFE requires greater attention to measures that enhance budget predictability and impact. On the resource side, reliable domestic revenue mobilization through tax policy reforms and increased compliance are necessary. Government will aim to (i) increase the revenue to GDP ratio; (ii) reduce the ratio of operating expenditures to revenues, and (iii) make progress according to fiscal targets established through the MTFE. In this regard, the Government has established an initial MTFE with revenue projections determined by the MoF revenue department. The government has formally adopted the MTFE and a number of major tax policy measures have also been approved, for example, the establishment of the Large Taxpayer's Office. On the expenditure side, maintaining control over aggregate expenditures within the overall fiscal envelope is vital and will include the government wage bill (particularly with regard to the education sector, health sector, and ANA and ANP recurrent costs), non-wage recurrent costs (such as operations & maintenance), and the recurrent costs currently embedded within the

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<sup>103</sup> The Paris Declaration on Aid Effectiveness was agreed at the High Level Forum by developing and donor countries, the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, Development Assistance Committee of the OECD, United Nations, and the World Bank. The Forum was hosted by the French government. The Paris Declaration has some 50 commitments to improve aid quality, which will be monitored by twelve indicators. <http://www1.worldbank.org/harmonization/Paris/finalparisdeclaration.pdf>.

external development budget. Government will ensure that strategic public expenditure decisions are affordable over the medium-term, taking the long-term operations and maintenance costs into consideration. In addition, Government will undertake realistic assessments of the prevailing economic environment, including evaluation of the risks associated with factors influencing exchange rates, agricultural production levels, donor actions, opium trade and institutional capacities. Government will also measure progress toward fiscal sustainability through the MTFF. In this exercise, Government is acutely aware of the possibility of accumulating deficits and the potential of debt burden. At the same time, Government will strengthen the linkage between the MTFF and the medium-term expenditure framework (MTEF), which will need considerable capacity building support to be fully established.

**2. Enhancing resource allocation and utilization based on strategic priorities:** As the MTFF evolves, and a consistent overall fiscal envelope is determined, Government will establish sectoral budget ceilings (for the integrated recurrent and development budgets) based on prioritization and allocative efficiency (absorption capacity). Currently, the external development budget does not adequately reflect government policy. Therefore, a realignment of donor investments is critical to support the ANDS. Once this has been achieved—realistically over the coming 2-3 years—Government will move to narrow the gap between budget forecasts and budget actuals for the core and external development budgets.

Each project in a sector must contribute to the furtherance of ANDS objectives and be part of the sector's master-plan, so that resource allocation and strategic priorities are based on government's strategic goal. The project's contribution to national development objectives will be clearly specified in the budgetary requests. Beyond the high level rationale outlined herein, all projects will be ranked and included in the national budget based on the following illustrative ranking criteria:

1. **Rationale:** Does this project require public sector finance, or is this a private sector activity? Does the project address head-on the problem of poverty reduction and growth?
2. **Cost-effectiveness:** Has the least-cost alternative been identified (here, competitive bidding will be vital to maximize efficiency)? Have the multi-year cost implications (recurrent and capital) been clearly identified and is the project likely to be financially sustainable during implementation and following completion?
3. **Benefit-cost:** Have the benefits (e.g. social, human, economic, financial) been quantified and do they exceed costs? Does the project address cross cutting issues such as gender and the environment?
4. **Risk and mitigation:** Do project management capacities exist to allow successful project execution, within the agreed time frame? Are the risks acceptable?

**3. Supporting greater efficiency and effectiveness in the delivery of services:** Increasing the effectiveness of the national budget, in terms of achieving service delivery objectives, will require clarifying the functional roles of the state (central government, provincial departments, provincial and district administration) and of the private sector and communities in both budget formulation and execution around different functions (operational, financing, policy, and regulation) and for different sectors (education, health etc).

Different models and options for service delivery exist that are consistent with the unitary structure of state and the national budget, however different choices can be made to reflect varying sector conditions and priorities from time to time. Effectiveness, efficiency, and ownership will be key guiding principles in the assessment of the most appropriate model and option. To enhance operational efficiency, Government will aim to ensure sustainable financing arrangements including cost recovery where appropriate, particularly but not exclusively in the road sector. Greater donor alignment with the national budget will help to ensure that interventions strengthen rather than undermine national service delivery mechanisms.

The cost of delivery for many basic services is high in sectors such as education, health and national defense due to donor top-ups and external funding of recurrent costs. The full service delivery costs

have yet to be integrated into the core national budget and continue to be funded directly by donors. Furthermore, in many areas of the external budget, competitive bidding is not routinely conducted, which increases unit costs.

Government will finalize the new budget classification system, bringing budget reporting in line with the programmatic framework being developed for the ANDS. Government will also forward budget guidelines to sectoral institutions earlier than previously (or just early) in the budget cycle to focus budget hearings on high level policy discussions. To enhance aid effectiveness, and to support the three core functions of control, planning and management established above, Government will strengthen the mechanisms and effectiveness relating to external assistance in line with the recommendations of the Paris Declaration. This sentiment is echoed in the World Bank's 'Global Monitoring Report 2005' which outlines a five-point agenda for building momentum to achieve the MDGs. The report reaffirms the need to 'firmly implement' the Paris Declaration on Aid Effectiveness, and outlines a number of practical measures that can be adopted along the lines outlined below.

The Paris Declaration highlights the urgent need to both reconcile and strengthen the relationship between national strategies and the strategies of the donors. These relationships are essential to increasing the impact that aid has in promoting growth, reducing poverty and distributional inequity, building capacity and accelerating the achievement of the MDGs. Donors must systematically benchmark the progress within their preferred sectors or domains. In short, an enhanced national/international partnership will improve the impact of external aid.

Under the recurrent theme of "strengthening partner countries' national development strategies, and associated operational frameworks", the international community in Afghanistan, in conjunction with Government, needs to review and strengthen co-ordination mechanisms and joint accountability, including reporting the impact of their assistance programs on the Afghan people. This may require taking a fresh look at the way donors approach their targeted sectors, and the variety of principles and conditions that they have applied. There are a number of structures and processes that, when they are mutually supported by Government and donors in equal measure and following agreed upon plans as laid out in the ANDS, can contribute to improved effectiveness of and accountability for international assistance in Afghanistan.

Equally, Government will commit with renewed resolve to new and ongoing enhancements of strategic institutional capacities. The achievement of improved institutional capacity will require systematic planning to attain a balanced and timely series of benchmarks that foster an appropriate approach to efficient and effective service delivery. The progressive development of capacity in related institutional areas, will, in turn, strengthen the capacity of the state to better govern, and to justify the increasing levels of international assistance to flow through Government channels.

#### **9.4 MAPPING SAF COSTING TO THE I-ANDS AND ANDS COSTING**

During the course of 1385 (2006/7), Government is committed to finalizing a detailed costing exercise of the ANDS, based on program by program reviews, conducted through the framework of the national budget, in order to underpin strategic prioritization and sequencing efforts. SAF provided a comprehensive costing for a seven year commitment based investment program beginning in 1383 (2004/5) and to be implemented over a period of 12 years, and Government believes that many of the underlying investment assumptions indicated by SAF remain valid for the final five years investment for 1385-89 (2006/7–2010/11). By re-mapping the SAF costing (which was based on the NDF program framework), to the I-ANDS framework the Government is providing a very provisional re-mapping of our investment needs, with some minor adjustments for rising security costs and revisions to revenue projections and operating costs. This section presents some initial re-working, and reviews

Government's plans to undertake an analysis on the full investment requirements for meeting the various high level benchmarks and service delivery targets in the ANDS.

#### **9.4.1 MAPPING THE SAF COSTING EXERCISE TO THE I-ANDS FRAMEWORK**

As many of the assumptions and outcomes in SAF remain relevant today, and in order to provide a provisional sector-level costing for the I-ANDS, Government utilized the thorough analysis in SAF to forecast our financial needs for the next five years. Using a set of broad assumptions and realistic costing parameters derived from experience, the SAF model estimated a scenario that would make Afghanistan secure and enable its people to live in a typically underdeveloped country would require investments of US\$ 27.6 billion dollars— in line with the international MDG targets. Two years into the SAF forecast, Government has re-mapped below the figures from the remaining five years of SAF into the I-ANDS programmatic framework in order to provide preliminary costing estimate.

It is important to emphasize that the analysis that follows regarding I-ANDS sector-level financial needs is merely the product of a review of SAF assumptions and associated 're-mapping' of those assumptions into the new I-ANDS program framework, not a full re-costing exercise. We believe that while the SAF structure was sufficient for costing purposes, the I-ANDS framework provides a stronger basis for aligning policies to institutions, strengthening the delivery of services and prioritization of needs. In order to complete the mapping, each sector in SAF was matched one by one to the most appropriate sector in the I-ANDS, and its associated costing for the remaining five years was then aggregated to I-ANDS sector-level totals. For example, the Refugees and IDPs sector in SAF can be mapped directly to the Social Protection sector in the I-ANDS, and the Energy, Mining and Telecoms sector in SAF maps directly to the Infrastructure and Natural Resources sector in the I-ANDS.

In two cases, the SAF sectors did not uniformly re-map to the I-ANDS structure, and analysis was required to disaggregate and reapportion the costing in the sectors. First, the Public Administration Reform and Economic Management (PAREM) sector in SAF was divided into two: public administration, such as costs for the President's office and Parliament, was mapped to the Governance and Rule of Law sector in the I-ANDS, while economic management, such as costs for the Ministry of Finance (MoF) and Central Audit Office, were mapped to the Economic Governance and Private Sector Development sector in the I-ANDS. Second, the Livelihoods and Social Protection sector in SAF was divided into two: livelihoods programs such as Irrigation and Water Management and Rural Physical Infrastructure and Financial Services were mapped into Agriculture and Rural Development, whereas social protection activities such as Vulnerable Women and Vulnerable Groups and Unemployed Youth and Demobilized Soldiers were mapped into the I-ANDS Social Protection sector. In order to complete the mapping exercise to the I-ANDS framework, percentage allocations in these two cases were derived from actual line ministry percentage allocations in the 1384 and 1385 budgets. For example, the public administration costs in the 1384 and 1385 budgets received approximately 20% of the allocation, so 20% of the PAREM sector costing was added to the Governance and Rule of Law sector in the I-ANDS, whereas 80% of the PAREM sector costing was added to the Private Sector Development sector for economic management.

Two additional adjustments were made to the SAF figures to better reflect expected costs over the coming years. The SAF exercise significantly under-estimated security sector costs, largely because the full pay and grading reviews for ANA had not been finalized, neither had provisional pay scales for the ANP been determined. Furthermore, investment in security infrastructure, training and materials is greater than expected two years ago. Additionally, security sector operating costs to government have grown at a rate of 17.5% each year. In real terms, security sector costs as projected by SAF were US\$ 1.2 billion between 1385 and 1389 (2006/7 and 2010/11) whereas adjustments show security costs now to be in the order of US\$ 2.8 billion over the same period.

In addition to the review of security costs, figures for the operating budget and the domestic revenue in SAF were adjusted based on the MTF. The increase in security investment requirement is offset

partially by an increase in projected domestic revenue and a decrease in projected recurrent costs. Operating and maintenance costs are not currently included in the figures and will be addressed in the full costing exercise in 1385 (2006/7).

**Table 9.1 Mapping of 1385-1389 SAF costing to I-ANDS sectors\***

<b>I-ANDS Sectors</b>	<b>Original SAF Costing Projection not including adjustments (in US\$ million)</b>	<b>Costing Projection including adjustments (in US\$ million)</b>
1 Governance	749	749
2. Security	1,113	2,800
3. Infrastructure & Natural Resources	8,266	8,266
4. Education, Culture & Media	2,546	2,546
5. Health	1,012	1,012
6. Agriculture & Rural Development	2,698	2,698
7. Social Protection	233	233
8. Economic Management and Private Sector Development	561	561
<b>Total Development Requirement</b>	<b>17,178</b>	<b>18,865</b>
Total Recurrent Costs	5,872	5,453
Domestic Revenue	(3,578)	(4,489)
<b>TOTAL Required</b>	<b>19,472</b>	<b>19,829</b>

\* This is not a re-costing exercise, but rather a re-mapping exercise that makes known sectoral adjustments for security, recurrent costs and domestic revenue collection. In many sectors, the costs of meeting the SAF targets have changed, and in other areas the ANDS has introduced new targets based on the I-ANDS needs assessment.

#### **9.4.2. RESOURCE NEEDS FOR THE I-ANDS**

While the figure of \$19.829 billion provides an (adjusted) cost estimate of our national development needs for the next five years (according to the SAF exercise), Government cannot simply look at existing pledges and commitments and determine our remaining needs based upon this figure, for at least three reasons: (1) donors did not always allocate resources according to the priorities identified in SAF. For example, while SAF estimated that at least 50% of external funding should go towards major and rural infrastructure, less than 20% of funding was actually spent in this sector; (2) the SAF estimates did not always accurately estimate our needs. The security sector is the most obvious example, but there are others also; and (3) the cost of service delivery has often deviated from SAF's estimates. The divergence between how much has been spent and on what versus our estimated needs in SAF will be analyzed as part of the 1385 costing exercise.

*The Government expects that Afghanistan's is almost certainly going to require the \$4 billion per year (approximately) envisaged by SAF for the next five years if we are to achieve the goals in the I-ANDS and the Afghanistan Compact.* As our absorption capacity increases and multi-year projects mature from project preparation to implementation, our expenditures will increase as well. It is absolutely essential therefore in fulfilling the goals of the I-ANDS that donors maintain external pledges at least at SAF levels, and pledges are converted into commitments and disbursed without undue delays. On its part, Government will aim to strengthen its capacity to prepare project documentation and manage project implementation with the kinds of cost effectiveness, transparency and accountability that the Afghan people and our international partners expect



#### 9.4.2 THE 1385 ANDS COSTING EXERCISE

Within the I-ANDS, Government has determined a set of service delivery benchmarks and outcome targets within the Policy Framework Matrix (Annex 1), which are fully reconciled with the Afghanistan Compact. In the development of the full ANDS, Government will assess the costs of attaining each target in the aggregate and on an overall annual basis. To the extent that the costs of meeting all the policy framework targets will be higher than available resources, Government will prioritize and sequence investments, based on a set of growth and poverty reduction criteria. Government expects to weight these criteria, in agreement with donors, according to the expected impact on development targets. Government will also need to make both sectoral and inter-sectoral trade-offs based on policy priority, absorption capacity and operational efficiencies.

Determining the costing requirements of the ANDS will involve assessing the size of the facilities and networks required to achieve the service delivery and outcome targets for the five years of the ANDS, and then costing investment and recurrent costs using unit costs based on international and national experience. Research and analysis in SAF will be utilized and updated through further consultation with line ministries, the MoF and the international community. The costing calculations will include both commitments (i.e. at time of initiation of projects) and disbursements (i.e. actual expenditures on implementation). Government will set annual targets, although targets for outcome indicators such as poverty, which cannot be measured annually, will be monitored on a multi-annual basis. A draft of those targets is presented in Volume II of the I-ANDS and already reflects some of the priorities of ministries and donors, but these targets will be significantly refined through our full ANDS consultations.

The cost estimates should include all investment and operating costs for the five-year costing time horizon. Government will calculate the recurrent cost implications of investments committed during the costing period, although there may be increasing cost recovery in many sectors over time and, increasingly, private investment as well.

Once the costing of the service delivery benchmarks has been completed and strategic prioritization undertaken, Government will utilize the ANDS policy matrix as the basis for determining budget formulation priorities within each annual budget, as part of a rolling expenditure program, and based on the assumed resources available, as determined by the annually updated MTEF. The MoF will first aim to determine the overall fiscal resources available, within which expenditures priorities can be set. This involves forecasting domestic and external revenues over the medium term. Additionally, Government will need to refine the overall macroeconomic framework, including GDP growth rates and per capita income rates. Determination of the 'fiscal envelope' requires predictable external financing to be reported in the MTEF and greater alignment between external funding and government priorities. Once the overall resourcing framework is set on a medium term basis, Government will look to strengthen the expenditure framework. Moving towards a MTEF requires Government to set funding priorities, based on the ANDS, within the overall resource envelope and Government will consider whether the formal adoption of the MTEF is technically possible to underpin the ANDS. Adjustments will be made each year to address implementation constraints and to reflect improvements in analysis.



# 10

## ENHANCING AID EFFECTIVENESS

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### 10.1. INTRODUCTION:

With over ninety per cent of all national development resources currently provided by international cooperation partners, enhancing the effectiveness of external funding is absolutely vital for the attainment of our national development targets, including the MDGs. Chapter 9 has outlined Government's position with regard to the central role of the budget in alignment of external assistance. This chapter outlines the relevance of the Paris Declaration on Aid Effectiveness (2005) as the key to enhancing aid effectiveness, in support of the national strategy and national budget. In that regard, it aims to be fully aligned with Annex Two of the Afghanistan Compact.

### 10.2. STRATEGY FOR ENHANCING AID EFFECTIVENESS<sup>104</sup>

The Afghan Government is committed to improving the effectiveness of external aid in accordance with the Paris Declaration, recognizing the special security situation in Afghanistan and its implications for donor support.<sup>105</sup> The Paris Declaration points to an urgent need to both reconcile and strengthen the relationship between national strategies, such as the ANDS, and the strategies of the donors. The Declaration highlights the importance of these relationships in order to increase the impact that aid has in promoting growth, reducing poverty and distributional inequity, building capacity and accelerating the achievement of the MDGs. The Monterrey Consensus<sup>106</sup> too stressed the concept of mutual accountability among developing and developed countries in achieving the MDGs. At its core is the acceptance of joint responsibility for the delivery of programs of assistance that promote close and coherent work at both the strategic and operational levels between governments and donors. In Afghanistan's case, this involves the need for an enhanced partnership to ensure not just more aid - committed with more certainty over a multi-year period - but a better quality of aid. Better quality aid, however, can only be attained through a tighter compact between the Government and donors. Alignment with the ANDS is therefore an irrevocable principle for all donors that will serve to enhance its effectiveness and accountability. In short, enhanced national/international partnership will improve the impact of external aid and donors must therefore systematically benchmark the progress within their preferred sectors or domains, within this framework.

Under the recurrent theme of "strengthening partner countries' national development strategies, and associated operational frameworks", both the government and international community in Afghanistan need to review and strengthen co-ordination mechanisms and joint accountability, including reporting the impact and cost effectiveness of their programs to the Afghan people prior to

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<sup>104</sup> Aid can be defined as financial or technical assistance received by a developing country to bring about higher living standards for its citizens. The objective of aid effectiveness is to build institutional and human capacity in the government, private sector, and civil society, as well as the donor community, to improve accountability, transparency, and efficiency in the use of donor resources for enhanced human development

<sup>105</sup> Whilst countries such as China and India were not heavily involved in the Paris Declaration, as it was organized by the Development Advisory Committee of the OECD, commitment by all stakeholders to the general principles will be vital to achieve the overall objectives in Afghanistan.

<sup>106</sup> The Monterrey Consensus emerged from the United Nations Conference on Financing for Development, held in March 2002, in Monterrey, Mexico.

the finalization of the full ANDS. A review of the way donors integrate their assistance within a given sector or program area, and in some cases the principles and conditions that are applied, needs to be undertaken. Clearly, when coordination and management structures mutually reinforce the development of government systems, through the budget, aid can contribute significantly to that attainment of national development goals. Badly managed aid can also do harm, creating parallel structures and pushing up transactions costs.

Government acknowledges that its program development and implementation capacities remain limited in certain areas. However, we are convinced that adequate capacity can only be achieved if Government is given ultimate responsibility for program implementation. In that regard, Government has developed a set of core strategic ‘aid effectiveness’ principles that aim at strengthening government systems, and limiting parallel delivery systems that create multiple coordination mechanisms across and within sectors, as well as between central and sub-national administration. Working within government systems supports the fiscal sustainability of service delivery, limiting elevated pay structures that are beyond the fiscal capacity of government to absorb. In parallel to these core principles, Government commits to strengthening current institutional capacities in both aid coordination through the national budget, and the management of data and information for policy making. Improving institutional capacities within government departments will require linking policy making, planning and budgeting so that benchmarks are met and services are delivered in an efficient and effective way. The progressive development of capacity in related institutional areas, will, in turn, strengthen the capacity of the state to better govern and to justify the increasing levels of international assistance to flow through government channels. To enhance aid coordination, Government will review the strengths and weaknesses of the current Consultative Group (CG) mechanism, with the aim of determining a more effective approach to sectoral and program coordination, based on the new structure of the ANDS (see Chapters 11 and 12).

### **10.3. MUTUAL PRINCIPLES FOR ENHANCED AID EFFECTIVENESS:**

To enhance aid effectiveness, and to bring greater cohesion to Government and donor strategic priorities around the national budget, the following action plan seeks to form the basis for ongoing discussion between Government and its international cooperation partners, to enhance the utilization of external assistance. During the course of the full ANDS consultations, government will develop concrete aid effectiveness benchmarks, against which progress will be measured. Government will also undertake the preparation of a comprehensive National Accountability Strategy and broad-based Accountability Campaign involving government, the private sector, the media, and civil society in both Kabul and the regions.

1. ***Ensuring the Primacy of the ANDS<sup>107</sup>***: The ANDS provides the framework for policy, institutional, and budgetary coordination and will remain the partnership framework linking Government and the international community with regard to the utilization of external assistance aimed at economic growth and poverty reduction. Donor funding will be premised on a schedule of indicators (the ANDS Policy Matrix) derived from the ANDS, which are jointly agreed between Government and the donor community (including IFIs and the UN);
2. ***Strengthening the National Budget Framework***: Maximizing core budget funding will be vital to enhance policy coordination, fiscal sustainability and service delivery coordination. It is of critical importance for Government to provide donors with adequate fiduciary assurance to enable them to limit off-budget funding, and over time, draw funding of the external budget through the Government’s treasury system. Government and donors must work together to establish a mutually agreed framework that provides reliable assessments of performance, transparency and accountability of country systems. Donors will be requested to increase

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<sup>107</sup> Paris Declaration, Indicator 1.

significantly the proportion of donor assistance channeled directly through the Afghanistan Core Budget as agreed bi-laterally between the Government and each donor and explore increased funding through other more predictable direct budget funding modalities in which the Afghan Government can also participate such as the ARTF, as well as the other trust funds;

3. ***Strengthening the Medium-Term Fiscal and Expenditure Frameworks:***<sup>108</sup> Improved predictability in forward reporting of multi-year commitments on aid flows to Government will greatly enhance the Government's ability to set budget reliable ceilings and develop a baseline for service delivery. Greater disclosure is therefore required with regard to the status of commitments and disbursements especially on the external budget. As a result government remains heavily reliant on donors providing reliable information with regard to multi-annual pledges and donors are therefore requested to increasingly provide more predictable and multi-year funding commitments to Government;
4. ***Aligning Donor and National Priorities:***<sup>109</sup> The ANDS will enable international partners to increase alignment of external aid with Afghanistan priorities, systems and procedures, whilst assisting in building core capacities to enhance formulation and execution of the national budget;
5. ***Eliminating Duplication and the Development of Parallel Delivery Systems:***<sup>110</sup> The ANDS will underpin the efforts of external aid partners to eliminate duplication of interventions. By providing funding to Government to implement the ANDS and aligning any remaining external assistance with the ANDS priorities, donors will reduce parallel delivery mechanisms, and the uncoordinated utilization of technical assistance, much of which builds complex systems beyond the capacity of the Government to maintain given prevailing human capital constraints. Furthermore, the ANDS will assist donors to ensure that provincial level coordination is conducted through the appropriate provincial coordination channel and with the Governor's office;
6. ***Moving Towards Sector-Wide Approaches, Limiting Budget Projectization:*** Over-projectization of the national budget, combined with weak aid management capacities undermine comprehensive policy implementation, weakens coordination and increases costs of delivery. Priority sectors for such an approach may be education, health and transport although other sectors will be considered in line with government capacities. A full analysis of which I-ANDS programs and sectors will require sector-wide approaches will take place as part of the full ANDS discussions. Government will make every effort to enhance aid coordination and develop consolidated funding for health and education sectors, in particular, through common-pool funding arrangements, but progressively in other areas such as road sector development;
7. ***Enhancing Cost Effectiveness:*** Rationalizing donor activities and using competitive bidding rather than sole sourcing by involving particularly the Afghan private sector will enhance cost effectiveness of programs and projects. Consistent with these principles, and where relevant, modalities such as trilateral cooperation between donors, Afghan Government and regional countries and companies, and South-South cooperation will be used to overcome capacity constraints and lower costs of delivery;
8. ***Simplifying Donor Procedures:*** Simplifying and harmonizing donor policies and procedures to encourage collaborative behavior and progressive alignment with Afghan Government priorities, systems and procedures are vital. Currently, each donor has separate reporting requirements placing heavy demand on limited Government capacity;

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<sup>108</sup> Paris Declaration Indicator 7.

<sup>109</sup> Paris Declaration, Indicator 3.

<sup>110</sup> Paris Declaration Indicator 6.

9. ***Supporting the Afghan Private Sector – strengthening alignment of the external budget:*** For aid not channeled through the core budget, donors will be requested to reduce the external management and overhead costs of projects and promote the Afghan private sector in the management and delivery of projects. By increasingly using Afghan national implementation partners and modalities, donors will make efforts to decrease the proportion of aid expended on foreign consultants and contractors. Similarly, there will be a significant increase in the procurement of supplies for the military and non-military within Afghanistan. The Government will prioritize the use of Afghan materials, where feasible, in the implementation of projects, in particular for infrastructure;
10. ***Developing Performance Standards:***<sup>111</sup> Support the development of measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application. Donors should endeavor, with Government, to establish results-oriented reporting and assessment frameworks that monitor progress against key components of the national and sector development strategies. These frameworks should track a manageable number of indicators for which data are cost-effectively available;
11. ***Limiting Use of Donor Top-Ups, which Risk Long-Term Service Delivery:*** Uncoordinated use of donor top-ups undermines the sustainability of service delivery in the long-term. In the education and health sectors, service delivery wage top ups paid to teacher and health sector personnel, is likely to be unsustainable if external funding decreases and qualified personnel will eventually seek alternative employment, degrading service delivery;
12. ***Support for Anti-Corruption and Greater Fiduciary Management:*** Where corruption exists, it inhibits donor from relying on partner country systems. Corruption and lack of transparency erode public support, impede effective resource mobilization and allocation, and divert resources away from activities that are vital for sustainable economic development and poverty reduction. Government, together with donor partners, will prioritize the development of PEM systems essential to improving the transparency and accountability in the utilization of donor resources and countering corruption. Government will additionally achieve anti-corruption objectives through tax and custom reform and the overhaul of procurement mechanisms and systems (as “informal taxes”, bribery payments to public officials are often directly related to public perceptions of the official tax regime). Greater transparency and accountability will be encouraged through the improvement and streamlining of audit systems, processes and capacities;
13. ***Strengthening Capacity Building:***<sup>112</sup> Donors should align their analytic and financial support with other partners’ capacity development objectives and strategies, make effective use of existing capacities and harmonize support for capacity development accordingly. Moreover, donor assistance provided through the external budget will be designed in such a manner as to build this capacity in both the government and private sector.
14. ***Coordination of Technical Assistance.*** Better management of international technical assistance will enable faster, sustainable transfer of skills and expertise to civil servants. Government and international donors together should consolidate, rationalize, and monitor technical assistance. Government will track the deployment, cost, and effectiveness and quality of output of international technical assistance across.

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<sup>111</sup> Paris Declaration Indicator 11.

<sup>112</sup> Paris Declaration Indicator 4.

The principles outlined above are intended to ensure that donor assistance provided to Afghanistan is used efficiently and effectively and that there is increased transparency and accountability, as well as increased efficiency and effectiveness. Under the 'Afghanistan Compact', and in line with the framework established above, Government requests international cooperation partners to sequentially adopt these principles during the course of the I-ANDS, in preparation for full implementation under the full ANDS.





# 11

## COORDINATION & MONITORING

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### 11.1 INTRODUCTION

This chapter outlines how Government and the International Community will monitor progress towards the goals and benchmarks defined in the I-ANDS, the Afghanistan Compact, and the MDGs. It first presents the principles and structure of the monitoring framework, then reviews the roles of the four specific monitoring mechanisms, including the OSC, the CGs, the Joint Coordination and Monitoring Board, and the sub-national monitoring and coordination mechanisms. Finally, the chapter discusses the statistical tools and institutions involved in measuring progress. Chapter 12 will further develop the roles of the monitoring mechanisms in relation to the I-ANDS consultative process.

### 11.2 COORDINATION AND MONITORING FRAMEWORK

The I-ANDS provides a shared vision of Afghanistan. It is Government's tool to guide and prioritize policy, strategy, budget and operational work plans. Key to the achievement of the shared vision is realigning all current monitoring and coordination efforts to focus on the goals of the I-ANDS. While this will not involve the development of new institutions, it does provide a valuable opportunity to review and reform existing mechanisms based on past experiences. Additionally, monitoring mechanisms for the Afghanistan Compact and the MDGs, both firmly tied to the I-ANDS, will complement and be informed by these existing Government structures, which include the Central Statistics Office, the Ministry of the Finance, Geodesy, Central Bank, the Ministry of Economy and line Ministries. There will be a coherent monitoring mechanism for the I-ANDS and the Afghanistan Compact.

The I-ANDS standardizes the indicators that track progress towards Afghanistan's key development goals, and this allows for uniform, regular reporting to the Government, the National Assembly, donors, civil society and the public. Even more important than reporting, however, is the policy discussion, coordination efforts and prioritization exercises that result from analysis of the indicators. Monitoring of the I-ANDS should ensure policy coherence of implementation across pillars and sectors to assure that all government activities are reinforcing each other as intended. A review of impact and cost-effectiveness of all national programs will contribute to this coherence.

The high level focal point for monitoring and policy formulation is the OSC. Underpinning and acting as one source of data analysis for the OSC are the CGs, led by the MoF, with involvement by key donors and UN agencies. The CGs will be reformed to align with the I-ANDS structure. Information and analysis from sub-national monitoring and coordination mechanisms, including Community and Provincial Development Councils, NGOs, PRTs, the private sector, civil society and research units will continue to contribute to the work of all mechanisms.

The monitoring framework for the I-ANDS will enable government to:

- i. Make strategic choices about overall policy direction, to demonstrate progress, and to ensure that the budget reflects Government strategic priorities;
- ii. Build transparency and accountability among Government, the National Assembly, the public, and donors; and

- iii. Reduce uncoordinated donor monitoring requirements and give Government more control of its development agenda.

Alongside the existing Government structures monitoring the progress towards the implementation of the I-ANDS, the new Joint Coordination and Monitoring Board (JCMB) will monitor the strong political, security and financial commitments of the Afghanistan Compact, and provide a forum for Government and the international community to discuss modalities for improving performance against the Compact Benchmarks (which will be implemented through the I-ANDS). The JCMB will be co-chaired by a senior Afghan Government official appointed by the President and by the Special Representative of the UN Secretary-General for Afghanistan, and supported by a secretariat.

Additionally, a mechanism will be developed through which the MDGs will be monitored. This mechanism will be fully aligned with the other monitoring structures (as the MDGs are incorporated in the I-ANDS and the Afghanistan Compact), and will ensure relevant material on Afghanistan's MDGs is provided to the Oversight Committee and the JCMB. The mechanism will also ensure that the UN's MDG reporting requirements are met.

### **11.3 THE PRESIDENTIAL OVERSIGHT COMMITTEE**

The goal of the Presidential Oversight Committee (OSC) is to provide the Government with a forum for policy formulation and strategic planning leading to the full ANDS and thereafter monitor overall progress towards the ANDS vision

The OSC will issue guidelines to the reformed CGs regarding standardized reporting formats on benchmarks, program progress, and policy issues. This harmonization of reporting and analysis keeps the Committee's focus on high-level issues rather than detailed interpretation of statistics. However, it is vital that the OSC ensure the credibility of the data. In addition to the information from the CGs, independent studies, data collection and analysis from other sources such as research units and civil society will allow the OSC and its support team to cross reference findings and to remove or explain anomalies. The OSC will focus on overcoming impediments to the I-ANDS vision through prioritization and political solutions.

The OSC will be supported by the ANDS Working Group, which will continue to function until the full ANDS is complete. Thereafter, the relevant functions of this body will be integrated into the regular machinery of Government, and a support unit will be established to facilitate the ongoing demands on the OSC.

Because donor feedback is essential, especially regarding policy issues related to funding, the OSC will continue to work closely with an External Advisory Group (EAG), which consists of relevant members of the donor community.

Current and planned data providers that input into analysis on indicators are varied and in need of coordination, as is discussed in section 11.6. Based on the reporting requirements of the I-ANDS, and in close contact with other monitoring mechanisms, the OSC will maintain an overview of the data sources and will make recommendations for additions or reforms.

The OSC will work with all data providers, CGs and ministries to publish a coherent annual I-ANDS monitoring report. By covering progress towards benchmarks, budget and implementation plans, this report will provide the basis for the annual ADF, which brings the donor community together with the Government to review past commitments and discuss future pledges. The I-ANDS Policy Framework Matrix (Annex 1 of the I-ANDS) will form the basis for monitoring and reporting of intermediary and annual targets. Annual I-ANDS reports will be prepared by the OSC at the end of each fiscal year, to be presented to the annual ADF.

## **11.4 THE CONSULTATIVE GROUPS**

Strategic coordination of the I-ANDS will take place on a sector-by-sector basis through the CG mechanism. The CG structure will be reformed to align with the new pillar structure of the I-ANDS, and the current terms of reference will be modified to reflect additional functions and responsibilities. The Policy Framework Matrix provides a clear set of targets for each CG, underpinned by standardized reporting requirements issued by the OSC. The CGs will focus on two main functions (1) operational monitoring, including detailed program and project-level coordination of the I-ANDS sectors, reporting to the OSC and JCMB; and (2) input into the development budgeting process, including budget formulation, supervision and aid effectiveness, reporting to the MoF.

Reform of the CGs will be essential if they are to play an effective role in monitoring and coordination of the I-ANDS. While certain CGs have performed better than others due to the strengths of key ministry or donor participants, the CGs were often weakened by a lack of clear objectives, ownership, and oversight. Parallel coordination bodies diluted the relevance of CGs. Reforming the structure of the CG mechanism in line with the I-ANDS provides a good opportunity to analyze the groups from a critical perspective and strengthen their structures and objectives as a key point of interaction between multiple ministries and donors and the OSC. All sector-level coordination mechanisms will be rationalized into the CG structure to work towards the shared vision of the I-ANDS.

The reformed CGs will play a vital role in distilling ministerial and donor inputs to ensure that they adhere to the articulated goals and objectives of the ANDS and the Compact. The CGs will also analyze the core and external budgets available for the implementation of the sector and will make recommendations to the Budget Committee. Line ministries will monitor their own investment programs, collecting and disseminating data and information from sub-national agencies NGOs, donors, and research units. Ministries will work closely with data providers and input findings into the CGs. Through this system Government will improve mechanisms for the regular and timely collection, analysis, and publication of data to monitor economic growth, human development and poverty levels.

The MoWA, the MCN, and other cross cutting Ministries and agencies will work closely with CGs to develop monitoring systems that provide data and information disaggregated by end-user requirements (i.e. gender, environment etc.). Where appropriate the CG system will also support monitoring of sectoral and cross sectoral indicators, including indicators related to PFEM.

In the next two years, the CGs will also be involved in the pillar consultations in the preparation and ongoing implementation and revision of the full ANDS. Working closely with the ANDS Working Group, the CGs will review and refine the overall goals, objectives, proposed activities and programs and key indicators under each pillar, and they will provide a sector-by-sector forum for reviewing draft strategies. (See Chapter 12 for more on the consultation process). Because Government is keen to avoid creating unnecessary, costly and potentially confusing layers of Government bureaucracy, the ANDS Working Group will be disbanded following the publication of the full ANDS, and its relevant functions integrated into regular Government agencies.

## **11.5 JOINT COORDINATION & MONITORING BOARD**

The Government and the International Community recognize that the success of the Afghanistan Compact and the I-ANDS requires firm political, security and financial commitment to achieve the benchmarks within the agreed timelines. Equally, the success of the Compact and I-ANDS relies on an effective coordination and monitoring mechanism, as outlined above.

To ensure comprehensive and timely implementation of the Afghanistan Compact the Government and the international community will establish a Joint Coordination and Monitoring Board. The

JCMB will be co-chaired by a senior Afghan Government official appointed by the President and the Special Representative of the UN Secretary-General for Afghanistan. The JCMB complementing existing I-ANDS monitoring and coordination mechanisms, will provide overall oversight on the implementation of the Compact.

The JCMB will have a secretariat. It will be supported by technical experts, as needed. The JCMB will hold periodic meetings and special sessions as required to review the implementation of the Compact and I-ANDS and suggest corrective action, as appropriate.

Afghan state institutions and the CGs will provide inputs to the JCMB with regard to the implementation of the Compact. In addition, in carrying out its assessments, the JCMB will consider inputs from the international community including United Nations agencies, IFIs, donor agencies, international security forces, and relevant NGOs and civil society representatives.

Periodic progress reports on the implementation of the Afghanistan Compact and I-ANDS prepared by the JCMB will be made to the President, the OSC, the National Assembly, the general public, civil society, the international community and the UN Security Council through the UN Mission in Kabul.

## **11.6 DATA COLLECTION AND PROVISION**

A set of meaningful indicators, baselines and targets will be required to measure inputs, policy actions or commitments, outputs, and outcomes affecting the well-being of the population. Functional assignments will be established to include the responsibility of Ministries, and particularly the CSO to provide data and commentary on meeting national development and poverty reduction goals.

Government will look to (i) streamline the organizational set up of its statistical and monitoring systems, (ii) develop a statistical data dissemination and users' education strategy, (iii) strengthen the legislative basis to protect independence, provide authority, and preserve confidentiality of the CSO and (iv) build the basic technical capacity of the CSO in statistical methodology, informatics, collection, and dissemination.

The OSC will use project tracking software and a database to monitor the progress of key projects and programs, towards the implementation of the I-ANDS and the Afghanistan Compact.

In the area of data development, the Government will determine the scope and sequencing of data collection, striking a balance between data demands and the capacity of the statistical system as it is established. A review of data collection and monitoring functions will be conducted to provide a clear division of labor between the CSO and other agencies. While primary responsibility for household and enterprise surveys will fall to the CSO along with the compilation of the national accounts and price statistics, other agencies will assume specific data collection responsibilities. For example, the MoF will assume responsibility for public finance and national budget data; the Central Bank collects banking and financial statistics; the Ministry of Commerce collects trade data. These three ministries will work with the IMF and other IFIs to ensure that adequate macroeconomic data regarding issues such as public revenues, expenditures, debt, GDP, exchange rates, and inflation are available for analysis. Additionally, line ministries collect data on health, education and the rural economy.

Over the medium term, and to underpin the ANDS, Government data development and monitoring efforts will focus on the following:

- Poverty and vulnerability analysis disaggregated by population groups, economic status, and gender, building upon the NRVA analysis;
- Donor funding patterns, including pledges, commitments, disbursements
- Program/Project implementation and evaluation;
- Household sample surveys;

- Integrated annual enterprise statistics;
- Sub-annual surveys of economic activities;
- National accounts;
- Price statistics;
- Government finance statistics;
- Money and banking statistics;
- Foreign trade and balance of payments;
- Demography, social statistics and poverty statistics; and,
- Other statistics.

The proposed ANDS aggregating mechanism, functioning to collate the collective monitoring systems of CSO and line-ministries, will be informed by, and will build upon the 1993 System of National Accounts (SNA) which offers a broad framework covering the range of economic statistics and the MDG framework in the context of social statistics. The most urgent task therefore is for CSO to design and launch a World Bank Living Standards Measurement Study (LSMS) type HIES and an Integrated Business Enterprise Survey (IBES). The HIES survey will provide data for estimating household consumption in the GDP accounts, weights for the Consumer Price Index (CPI), estimates of economic activity by household and un-incorporated businesses, estimates of poverty and a range of social indicators. The IBES will provide data covering the organized business sector for estimating value added and contribution to GDP. Furthermore, and as capacities increase, such surveys will generate estimates of investment and capital formation to; vital for government to measure the impact of ANDS policy in growth and poverty rates. Once classified, enterprises will be categorized by industry to enable assessments of the size and structure of key industries.

As CSO currently lacks the capacity to conduct such national surveys, the sample frame will be limited in the early years of the ANDS, with geographically expansion based on increased capacity. Government will, however, conduct a poverty assessment, based on a survey of household living standards, with the support of the international community, to underpin policy making. Additionally, a nationwide census is planned for 1386/87 (2008).

The Government will also begin collecting a number of indicators required for assessing progress in social and human development, including indicators for health care, nourishment, education, and access to main social services and utilities. Such indicators will include average life expectancy at birth, immunization rate, mortality rate among the newborns and children under 5-years of age, maternal mortality, percentage of students enrolled in primary and secondary education, drop-out and graduation rates, access to safe water and treatment facilities, and other social development and poverty indicators as outlined in the government's MDG report. The output indicators will be collected and published yearly as part of the annual I-ANDS report. In addition to data requirements, a number of additional surveys will be conducted to assess the qualitative aspects of poverty. Government will look to the WB, ADB and donors to support such survey work and in the longer term, in establishing a poverty line.

## **11.7 CONCLUSION**

The I-ANDS and Afghanistan Compact should provide the foundation for civil society and the Afghan citizenry more generally, to understand national and international development efforts ongoing efforts to improve the livelihoods, economic conditions, entitlements and rights of the Afghan people. Monitoring mechanisms should be more than a centralized tool for measuring government performance and service delivery results. They should be an institutionalized instrument and mechanism for: (i) lessons learned; (ii) extending the linkages between state and society; (iii) improving and enriching linkages between the government, civil society and Afghan communities. It is essential that monitoring mechanisms are seen as credible mechanism, by civil society and the Afghan citizenry, for ensuring that the government is: (i) accountable; (ii) transparent; and (iii) strategically focused on improving the entitlements, rights and economic conditions of all Afghans, regardless of ethnicity, gender or geographical location.



# 12

## CONSULTATIONS

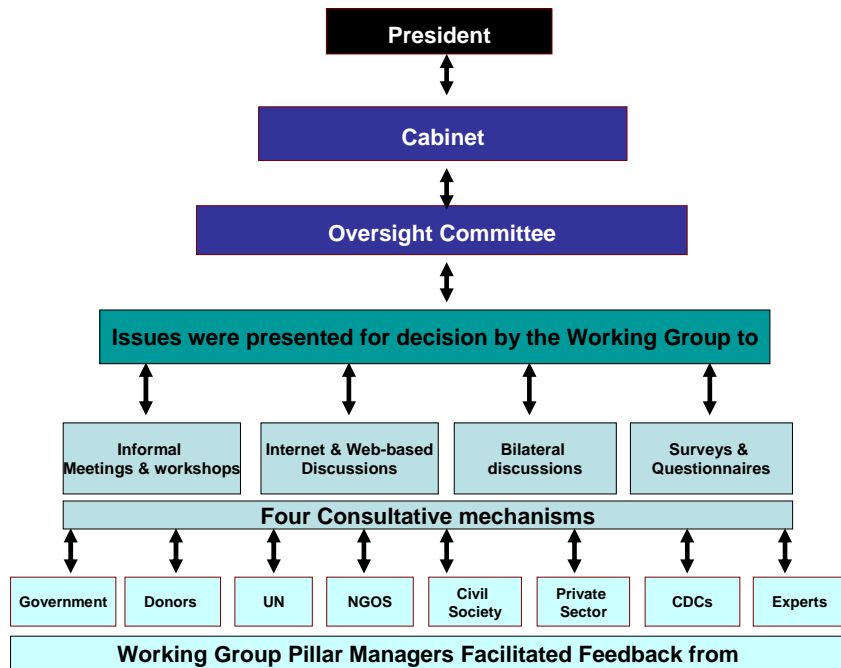
### 12.1 PURPOSE AND STRUCTURE

This Chapter reviews key principles in the proposed consultation process for the full ANDS. The aims of consultations have five main objectives: (i) to ensure widespread and deep Government ownership of our national development strategy, (ii) to strengthen the ANDS by incorporating the policy views of a wide cross section of stakeholders, (iii) to garner widespread support for the policy decisions in the ANDS, (iv) to prioritize and sequence strategic interventions, and (v) to facilitate its implementation once it is finalized.

### 12.2 CONSULTATION IN THE I-ANDS TO DATE

The I-ANDS was developed following a series of consultations amongst Afghan policy makers, the international donor community, civil society organizations, and the private sector. The methodology of consultations which employed four different strategies represented in Figure 12.1 below:

Figure 12.1: ANDS Consultative Process



Highlights of the consultation process included the following:

1. The consultation process on our national development strategy began in earnest with the review of the MDGs. The MDGs were discussed in detail at the cabinet level and with the President on numerous occasions. Agreed to only after numerous high level policy debates, the “Afghanized MDGs” now represent a genuine consensus on Afghanistan’s policy priorities for the next 15 years.
2. The President also presided over a series of reviews of the ANDS and the MDGs and assigned his senior economic advisor to chair the OSC of the ANDS process.
3. There were at least four special Cabinet Committee meetings held to discuss the progress on the MDGs and ANDS, in which these draft documents were discussed in detail.
4. The OSC engaged in meetings almost every week throughout 1384 (2005) to develop and refine its core positions on the ANDS, and to oversee the process as it moved forward.
5. Following a presentation of the proposed I-ANDS structure and process in 1384 (June 2005), a series of consultations were held with donors, the Ulama (learned religious leaders) NGOs, private sector and civil society representatives. Minutes of those meetings were recorded on the government’s web site.<sup>113</sup>
6. Consultations were held with leaders of CDCs who were in Kabul in 1384 (August 2005) for a national conference. Members of the OSC addressed the delegates at this conference and described the ANDS, its purpose and process. Detailed discussions were held in smaller groups based on a series of questions, and thereafter individual CDC members were asked their opinion of national development priorities in a questionnaire. The questionnaires were analyzed and the results used in formulating sector strategies and targets. More than 400 CDC members from 10,000 villages across the country attended these consultations. The results are posted on the government’s web site.
7. For each of the eight sectors of the I-ANDS, a consultation draft was prepared and translated and discussed with both government ministries and donor representatives. Based upon government and donor reaction to those drafts, the sector and program summaries in the I-ANDS were significantly revised.
8. An External Advisory Group (EAG) of donors have provided informal feedback on different parts of the I-ANDS as the document has been developed, with a particular focus on ensuring consistency across the I-ANDS, and the Afghanistan Compact.
9. In the negotiation of the Afghanistan Compact, a series of intensive consultations took place (on the benchmarks in particular - Annex 1 of the Compact) between the international community and the Government of Afghanistan, facilitated by the United Nations. As a result of this process, each benchmark has been scrutinized in depth by Government and donor representatives and now represents a consensus set of policy priorities for the I-ANDS.
10. The virtual environment (the web site) for the ANDS has been updated constantly with reports on meetings, meeting minutes, timetables, inputs from key stakeholders in the process. It provides a live environment for ongoing engagement on the ANDS and can be found on [www.ands.gov.af](http://www.ands.gov.af).

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<sup>113</sup> See <http://www.ands.gov.af/ands/andsconts/consultation/front.asp>.



Figure 12.2 Front Page of the ANDS Web Site



In sum, the I-ANDS is the product of intensive consultations with a wide array of stakeholders, both within and beyond Government, and represents an emerging consensus on Afghanistan’s national development priorities. To this extent, it represents both the coming together of a diverse array of ideas and arguments on strategy, as well as a set of compromises between stakeholders with different views on Afghanistan’s development priorities.

## 12.3 FUTURE CONSULTATION

The Government intends to use this I-ANDS as the basis for more comprehensive discussions in 1385 (2006/7) and beyond with a wide range of stakeholders, including line ministries, the National Assembly, sub-national administrative units, donors, UN agencies, NGOs, civil society representatives, communities and the private sector in order to support the ongoing development of the full ANDS.. Consultation amongst civil society has already begun through the I-ANDS and the civil society conference around the London Conference at the end of January will bring together representatives from civil society to provide feedback on the I-ANDS.

The Government’s goal for future consultations is to support the ongoing development and implementation of a comprehensive National Development Strategy (ANDS). The full ANDS will form the basis for all policy making in Afghanistan on a five-year rolling basis. Much of the focus of future consultations will be on the prioritization of constraints and proposed strategies. In that regard:

1. Volume I of the I-ANDS is presented as an overall statement of Government’s current policies and priorities. While this document may be refined through consultations in 1385 (2006/7), it aims to present a coherent summary of government’s overall policy and strategic priorities. It will be reviewed intensively as part of the preparations of the full ANDS process.
2. Volume II, which contains program summaries and interim benchmarks, is presented as a draft for consultation throughout 1385 (2006/7). These summaries and indicators aimed to capture the input of donors and line ministries during the 1384 (2005/6) consultative process, but do not yet represent government policy. They will, however, provide a solid basis for discussion in the consultation process in 1385 (2006/7).

Following the presentation of the I-ANDS at the London Conference on 11-12 Dalw 138 (31 January-1 February 2006), the following key elements of the Consultation process will take place:

***The reformed CG structure will provide a forum for ongoing consultations on the full ANDS structure.***

Donors, implementing partners and key stakeholders will be invited by the Government to participate in particular CGs with consideration given to their past and future funding patterns, their interest, their expertise, and the management and ease of coordination of the Group.

Amongst other things, CGs will (i) review and refine the overall goals of the I-ANDS, both Volumes I and II as well as reviewing the relevant portions of the MDGs and the Afghanistan Compact benchmarks, and any annualized indicators that are developed to measure progress against those benchmarks, (ii) discuss progress against those objectives, strategies, activities and indicators, (iii) identify implementation gaps and propose policy solutions to line ministries, (iv) discuss cross cutting policy issues, and (v) provide a pillar-by-pillar forum for reviewing draft strategies in the preparation and on going implementation and revision of the full ANDS.

***An intensive Central Governmental review of the I-ANDS:*** A comprehensive public sector discussion of the ANDS will follow the London Conference, and will include sharing the I-ANDS with the National Assembly for their full consideration<sup>114</sup>, and discussing the I-ANDS with line ministries in the reformed CG process both to highlight government policy priorities and implications for their ministries and to review how the ANDS will be budgeted, implemented and monitored.

Fundamental to the success of these discussions will be ensuring that National Assembly members are given ample time and structure to engage fully with the content and process of the full ANDS. The ANDS will propose that National Assembly members identify the appropriate structures and processes for ensuring that they review and comment upon whether the needs of their constituents are met in the ANDS. These consultations with parliament will not only provide an excellent opportunity for ensuring that sub-national and rural concerns are better integrated into the ANDS, but they will also provide an excellent opportunity for educating the populace on both the importance of a coherent national development strategy and the real resource constraints and implementation challenges that the Government faces in the implementation of that strategy. Done correctly, these consultations with parliament will both ensure that the ANDS is more realistic and grounded in local realities, and that expectations around our national development priorities are more closely tailored to reality.

***Bilateral and multilateral discussion with donors:*** Systematic discussions will be held with donors, both bilaterally and multilaterally, on the ANDS to maximize the alignment between their assistance and the government's stated development priorities. Overtime, donors will be urged to fully align their funding and strategic priorities to those of the ANDS. Understanding the constraints faced by donors in the short-term, these discussions will also aim to ensure that the existing commitments of donors (with respect to projects already underway or fully committed to going ahead) are fully integrated into the ANDS. The ultimate goal is to achieve a national and international consensus on Afghanistan's development priorities, and to garner full international support for those priorities.

***Sub-national discussions data collection and consultation:*** While lack of time and resources prevented consultations on the I-ANDS beyond Kabul, it is critical that consultations on the full ANDS take place in all provinces both to ensure broader understanding of national priorities, and to strengthen the ANDS through the integration of "field realities" into the national development strategy. ANDS Forums will be held at the provincial level (and, if resources allow, district headquarters to discuss the ANDS. These forums will bring together local political, administrative, religious, civil society, NGO, UN and military representatives to discuss national and provincial

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<sup>114</sup> The National Assembly has a Constitutional mandate to review all plans for economic development. See Article 90.

development priorities. Feedback from discussions will be collected and organized to systematically inform deliberations on the full ANDS. As a consequence of provincial discussions on the ANDS, the Government aims to build a comprehensive profile for every province of: (i) the development priorities of provincial and district leadership throughout Afghanistan, (ii) the natural resources, infrastructural assets, and opportunities for development in each province, (iii) the major constraints to capitalizing upon those opportunities, (iv) key social indicators of need and capacity in the population (e.g. health, education, employment statistics) for every province, and ultimately (v) a set of strategic development priorities for every province that both informs and is informed by the ANDS.

***Community level data collection and consultations:*** Fundamental to the success of the ANDS will be the extent to which it comprehends and responds to the needs and aspirations of rural communities. Discussions will be held within government on the potential use of CDCs as a vehicle for integrating the views of rural communities into the ANDS. As resources and time allow, the Government plans to ensure that the work of CDCs informs and is informed by the development priorities in the ANDS. In so doing, Government plans to draw on lessons learned from other contexts where PRSPs have used various forms of participatory research and consultation mechanisms in order to garner community based views on their development priorities.

By integrating the consultation effort with monitoring and data research efforts, the ANDS process aims to build up geographically specific profiles of districts and provinces that will help government and donors better understand the unique demographic and geographic attributes, assets, and challenges of different provinces and districts of Afghanistan. The Government will engage existing community *shuras* and development councils in the process of collecting data, determining development priorities at the local level, and in determining the most cost effective methodologies for defining and implementing the ANDS priorities at the community level. Expertise will be brought in to ensure that the full ANDS methodology utilizes international best practice in ensuring that rural assessments are as participatory and meaningful as possible in terms of both garnering accurate data and in ensuring that feedback is properly integrated into policy making as a result.

***A wide range of civil society organizations will be consulted:*** The Government understands “civil society” to include all individuals and groups not considered to be a part of the Government or the private sector who organize themselves in any non-violent form to protect or promote their interests. In Afghanistan, “civil society” includes *shuras*, *jirgas*, elder’s councils Sufi movements and *khanqahs*; religious institutions such as mosques, *madrassas*, and *takiakhana* (shi’ite mosques); water management committees; cultural associations; artistic and professional associations; non-profit, NGOs (both Afghan and international), grassroots associations of women, youth, teachers, workers, disabled, and professionals, journalists; peace committees/councils; university student groups; Community Based Organizations; human rights advocates and organizations and CDCs.<sup>115</sup> Many of these structures are traditional structures that continue to form the building blocks of developing civil society today. Consultations with civil society will be done in partnership between the ANDS Working Group, key ministries and civil society representatives that are both resourced and committed to ensure that a wide spectrum of civil society voices are fully engaged in the process of developing the ANDS. Steps will be taken to ensure that consultations at the provincial and district levels include civil society representatives from the locality.

***Special consideration in the consultation process will be given to engaging with national and international NGOs*** who have been working alongside Afghans living in poverty, sometimes for decades. Many of these NGOs have worked in Afghanistan before and through the Taliban years and have amply demonstrated both their commitment to the poor and their professional competence in service to the poor. These NGOs, particularly those who have both an operational mission to provide services to the poor and an policy mission to advocate on behalf of the poor, are particularly well situated to ensure that the concerns of impoverished Afghans are integrated into the ANDS process.

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<sup>115</sup> This definition was drawn loosely from “*Setting up the Consultation Process with Civil Society in Afghanistan*” (August 2005), a submission to the ANDS development process by NGOs constituting the “PRSP group of Afghanistan.”

They will be consulted both formally and informally throughout the full ANDS process, and the government is committed to ensuring that their considerations are not only heard but are influential in determining the final product.<sup>116</sup> In particular, it will be important that NGOs participate in three realms of discussion:

1. First, NGOs with sectoral expertise in areas such as health, education, social protection, microfinance, and humanitarian response should engage fully in the reformed CG structure that will discuss the ANDS priorities on a pillar by pillar basis.
2. Second, it will be critical that NGOs with historic presence in provinces and districts participate in ANDS discussions at the sub-national level to ensure that their perspectives on geographic priorities are integrated.
3. Third, NGOs should participate in broader overarching discussions on the policy priorities in the ANDS to ensure that the needs and rights of the people they serve are given adequate attention.

Discussions with NGOs and other civil society actors are essential not only for ensuring that ANDS policy decisions are optimally designed to reduce poverty, address human and women rights concerns, and cultivate peaceful political debate, but also for ensuring broad national ownership of the ANDS and strengthening the implementation of policy decisions.

***Engaging Afghans in the Diaspora:*** Despite the massive return of refugees since 1381 (2002/03) much of Afghanistan’s human capital remains in the Diaspora. The full ANDS provides an important opportunity to engage Afghans in the Diaspora who want to participate in Afghanistan’s development, to excite them about our future and to encourage them to become a part of that future. The ANDS will put in place mechanisms, both through virtual consultations and by *in situ* discussion in select locations, to engage the Afghan Diaspora on the ANDS, partly to get their ideas and partly to reengage them in Afghanistan.

## **12.4 A SOCIAL COMPACT BUILT ON COMMUNICATIONS**

The I-ANDS and Afghanistan Compact should provide the foundation for the Afghan citizenry to understand and support national and international development efforts on their behalf. Monitoring mechanisms should be more than a centralized tool for measuring government performance and service delivery results. They should be an institutionalized instrument and mechanism for strengthening the linkages between state and society, and ensuring that the government is: (i) accountable; (ii) transparent; and (iii) strategically focused on improving the security, political economic, and social conditions of all Afghans, regardless of ethnicity, gender or geographical location.

In that regard, we seek to develop a communications strategy to ensure that information about our development efforts reaches the citizenry, even in the most remote corners of the country. We need the support of our National Assembly to understand our strategy and meet the challenges we face.

For all of this, we believe we need to build a national consensus among all branches of government and the Afghan people with respect to our vision and development strategy. We aim to do this through a Social Compact, which will complement the Afghanistan Compact and its benchmarks that we have developed with the international community. The Social Compact will be developed and elaborated in the ANDS through the consultation process that we will undertake for its development.

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<sup>116</sup> While there are a large number of NGOs, both Afghan and international whose institutional integrity and contribution to Afghanistan is beyond question, there are also some that are actually private sector companies registered as NGOs to avoid taxation and other regulations.. The government is committed to cleaning up the NGO sector, in part to preserve the good reputation of “real NGOs” and to remove all those individuals and organizations that are NGOs in name only.

## 12.5 MANAGING AND RESOURCING OF THE CONSULTATION PROCESS

The ANDS Working Group, working across spheres of government and with all stakeholders, is charged with managing the consultation process. Regular updates on the process will be conducted through the CG Standing Committee meetings, and through the government web site.<sup>117</sup> The breadth and depth of the consultation process will be determined at least in part by available resources and the finally agreed timeline for consultations. Support for the ANDS consultation process will be solicited from donor governments in tandem with the presentation of the I-ANDS in January. If the Government is to complete the full consultation process and full ANDS by 10 Jaddi 1386 (31 December 2007), and successfully integrate all of the consultative input envisaged above, consideration will have to be given when resourcing the full ANDS to the following:

### *Central Coordination and consultation:*

1. The ANDS Working Group will require the human capacity and resources to facilitate consultations, coordinate, analyze and collate data from the reformed CGs and act as a Support Unit to the OSC to complete and produce the full ANDS. Thereafter the ANDS Working Group will be disbanded, and any functions of ongoing relevance will be integrated into the regular machinery of Government.
2. Lead ministries of the CGs will need technical assistance to coordinate sectoral consultations and compile sectoral reports.
3. The ANDS Working Group will be required to manage and integrate the feedback from provincial and CDC consultations, as well as ensuring that monitoring and data research on a province by province basis is properly managed.
4. All additional consultations in Kabul with civil society, NGOs and others will require additional coordination and financial and human resources.

### *Provincial Coordination:*

1. Human and financial resources will be required to bring together key participants at the provincial level for a series of intensive consultations on the I-ANDS that will take place over the 18-month period. Key participants must include (but not be limited to) provincial administrators and representatives of the central government, Provincial Development Committees, national assembly representatives, PRTs, NGOs, religious leaders and civil society representatives and key donors. Adequate time and human and financial resources must be made available to ensure that these stakeholders are given appropriately translated materials and provided with forums in which to discuss and provide input into the full ANDS, as well as discussing how the ANDS will be implemented in their provinces.

### *Data research and management*

1. Key data research for every province will require garnering international and Afghan expertise in a range of areas to travel to provinces, conduct and facilitate primary research and integrate that research into materials that can then be used to inform policy making. Funding proposals for this research will be presented to donors for urgent support immediately upon the endorsement of the I-ANDS by the donor community; and
2. While the Government plans to collaborate closely with existing research institutions (such as the AREU and initiatives (such as the NRVA) in putting data and monitoring results together, it will have to invest its own human resources and identify funding in order to execute this research effectively.

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<sup>117</sup> See <http://www.ands.gov.af/main.asp>.

## 12.6 THE TIMELINE FOR THE DEVELOPMENT OF THE FULL ANDS

The full ANDS will be completed over a two-year period, culminating on 10 Jaddi 1386 (December 31, 2007). That length of time will be required to ensure that the ANDS is based upon comprehensive consultations and data analysis. Key phases of the ANDS development process will be:

**(Months 1-3): Phase One, Policy Review & Costing:** The full-ANDS will begin with a review of the policies and programs reflected and proposed in I-ANDS Volumes I and II and a full costing of those programs. Reviews will be conducted by the reformed CGs, CSO, with civil society actors, the private sector and other key stakeholders participating. Particular attention will be paid to engaging the National Assembly in a discussion of the I-ANDS (and setting up processes for their ongoing participation) and working with line ministries to refine the program summaries and time bound operational benchmarks in Volume II of the I-ANDS. A full costing will be initiated as discussed in Chapter 10.

**(Months 4-6) Phase Two, Initiation of data assembly and integration:** While the I-ANDS relied upon data that was immediately available, the full ANDS process aims to significantly enhance Government's empirical understanding of ground realities. In particular, the Government aims to get a much better understanding of demographic, economic, political and security related realities at the sub-national level.<sup>118</sup> For example, the Government will consider assembling the following data sets in Phase Two of the ANDS:

To achieve the Afghanistan Compact and operational benchmarks, it is essential we develop reliable statistical baselines for all our targets.

- **Benchmark Baselines:** To achieve the Afghanistan Compact and operational benchmarks set out in Volume II of the I-ANDS, it is essential we develop reliable statistical baselines for all our targets. This exercise should be led by line ministries and the CSO and not the ANDS team. This analysis should begin in Phase Two and be complete within one year (by mid-2007).
- **Demography:** Accurate data from the census will be essential to understanding demographic realities in Afghanistan. Population figures and more precise breakdowns of populations groups are essential to ensuring the equity of our development strategy. The census effort will be accelerated during this period, and initial census data available by mid-2007, (with the Census complete by end-2008)
- **Macroeconomy:** We need to strengthen our analysis of existing economic data such as national accounts, prices, trade patterns, remittance levels and patterns, the size and nature of the informal economy, employment figures, and market linkages. Government aims to work with international partners such as the IMF in assembling this data.
- **Poverty & Potential Growth Profiles & Access to Services:** we will develop a plan to use sub-national consultations to better understand poverty levels, areas of economic opportunity and growth, wealth distribution and livelihood security of vulnerable populations (displaced, returnees, disabled, women, children, widows etc.). These efforts will also consolidate data on access to and quality of education, health care, water, irrigation and sanitation. This data will augment research already conducted in the NRVA, and the UN's human development reports.
- **Security & Governance:** Our data strategy will be designed to increase understanding not just of national security but individual human security, taking particular account of human rights awareness and protection, levels of civic education and political engagement, voter education, and freedom of the press.

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<sup>118</sup> In this regard, the ANDS Working Group will act as a facilitator rather than data researcher or generator in the data management process. While it is essential that the ANDS Working Group, which is a temporary structure, does not create unnecessary parallel or costly mechanisms, it is also important that it is adequately resourced to perform its facilitation and short-term coordination functions.

- Environment: analysis of available data on natural resource use and emerging information on environmental challenges.

**Phase Three (Months 7-12): Data research and consultations with CDCs, the National Assembly and Sub-national administrations, and budgetary review:** While data research is ongoing, the Government will augment its policy thinking and understanding of sub-national realities by engaging in a series of village and provincial level consultations (where time and resources allow, consultations will be held at the district level also). These consultations will ensure that elected representatives, sub-national administrators, community leaders, civil society and NGO representatives and private sector leaders are consulted on our (i) our priority goals for poverty reduction; (ii) the constraints we face to achieve our policy goals, (iii) the strategies and programs we aim to implement to overcome those goals and goals; and (iii) our mechanisms for monitoring the implementation of the poverty reduction strategy. The Government aims to utilize the CDCs to ensure that community and village level perspectives inform and are informed by our national development priorities. At the national level, the MoF will begin the process of reviewing the budget for 1386 to increase alignment of expenditures with the ANDS priorities.

**Phase Four (Months 13-18): Data Assembly, review and finalization of the 1386 budget** The results of all policy discussions and data research will be collected and assembled for review and discussion during Phase Four. At the same time, the 1386 budget will be finalized and bilateral and multi lateral discussions held with donors to promote further alignment of their funding with the ANDS priorities.

**Phase Five: (Months 19-23): Final consultations and presentation of the ANDS.** Based on its data analysis and central and sub-national consultations, as well as feedback from the CG process, the Government will present a draft ANDS for the years 1387-1391 (2008/9-2012/13) for discussion with a wide array of stakeholders, incorporate recommendations, and publish the final ANDS by 10 Jaddi 1386 (end-December 2007).

## 12.7 CONCLUSION

The I-ANDS is the product of a wide range of constructive and frank consultations across government, with donors and with key stakeholders from Afghan civil society and the international community. It is part vision and part compromise between competing priorities and stakeholders. In its totality, we believe it offers an ambitious but not unrealistic vision for Afghanistan. We simply cannot afford business as usual or to accept poverty in Afghanistan as the norm. Through implementing this I-ANDS, and the full ANDS, we aim to break the bonds of conflict and poverty and move Afghanistan firmly onto the path to peace and the hope of future prosperity. That vision is achievable for our children.

The Government plans for the ANDS to be a living document that is continually revised and refined through ongoing consultation. Each year, we aim to integrate a review of our strategic priorities into our budgetary planning, our discussions with donors through the annual ADF, and with the National Assembly and the people of Afghanistan. Over time, the ANDS will increasingly reflect a consensus between government, our key donors and the Afghan people.

We urge all Afghans to read this document, to discuss it, to challenge it where they disagree with its conclusions and to work towards its fulfillment where they believe we have proposed the right strategic path for Afghanistan. Through our combined efforts, we can set Afghanistan firmly on the path to peace and the hope of prosperity for future generations of Afghan.

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# ANNEX 1: POLICY FRAMEWORK MATRIX

## Pillar One: Security

Pillar One: Security					
	1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)
<b>Sector 1: Security</b>	Through Jaddi 1389 (end-2010), with the support of and in close coordination with the Afghan Government, the NATO-led International Security Assistance Force (ISAF), Operation Enduring Freedom (OEF) and their respective Provincial Reconstruction Teams (PRTs) will promote security and stability in all regions of Afghanistan, including by strengthening Afghan capabilities.				
	By Jaddi 1389 (end-2010): the Government will establish a nationally respected, professional, ethnically balanced Afghan National Army that is democratically accountable, organized, trained and equipped to meet the security needs of the country and increasingly funded from Government revenue, commensurate with the nation's economic capacity; support will continue to be provided to Afghanistan in expanding the ANA towards a ceiling of 70,000 personnel articulated in the Bonn talks; and the pace of expansion is to be adjusted on the basis of periodic joint quality assessments by the Afghan Government and the international community against agreed criteria which take into account prevailing conditions.				
	By Jaddi 1389 (end-2010) a fully constituted, professional, functional and ethnically balanced Afghan National Police and Afghan Border Police with a combined force of up to 62,000 will be able to meet the security needs of the country effectively and will be increasingly fiscally sustainable.				
	All illegal armed groups will be disbanded by Jaddi 1386 (end-2007) in all provinces.				
	By Jaddi 1389 (end-2010), in line with Afghanistan's Millennium Development Goals (MDGs) and Afghanistan's Ottawa Convention obligations, the land area contaminated by mines and unexploded ordnance will be reduced by 70%; all stockpiled anti-personnel mines will be located and destroyed by Jaddi 1386 (end-2007);				
	All stockpiled anti-personnel mines will be located and destroyed by Jaddi 1386 (end-2007).			By Jaddi 1389 (end-2010), all unsafe, unserviceable, and surplus ammunition will be destroyed	

## Pillar Two: Governance, Rule of Law and Human Rights

	1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)	
<b>Sector 2: Governance, Rule of Law and Human Rights</b>	By Jaddi 1389 (end-2010), Government machinery (including the number of ministries) will be restructured and rationalized to ensure a fiscally sustainable public administration; the Civil Service Commission will be strengthened; and civil service functions will be reformed to reflect core functions and responsibilities.					
	The National Assembly will be provided with technical and administrative support by the first quarter of Jaddi 1385 (mid-2006) to fulfill effectively its constitutionally mandated roles.	The Afghanistan Independent Electoral Commission will have the high integrity, capacity and resources to undertake elections in an increasingly fiscally sustainable manner by Jaddi 1387 (end-2008) , with the Government contributing to the extent possible to the cost of future elections from its own resources.	A permanent civil and voter registry with a single national identity document will be established by Jaddi 1388 (end-2009).			
	By Jaddi 1389 (end-2010), the legal framework required under the constitution, including civil, criminal, and commercial law, will be put in place, distributed to all judicial and legislative institutions, and made available to the public.					
	By Jaddi 1389, Functioning institutions of justice will be fully operational in each province of Afghanistan. The average time to resolve contract disputes will be reduced as much as possible.					
	A review and reform of oversight procedures relating to corruption, lack of due process and miscarriage of justice will be initiated by Jaddi 1385 (end-2006) and fully implemented by Jaddi 1389 (end-2010).					
	By Jaddi 1389 (end-2010), reforms will strengthen the professionalism, credibility and integrity of key institutions of the justice system (the Ministry of Justice, the Judiciary, the Attorney					
	By Jaddi 1389 (end-2010), Justice infrastructure will be rehabilitated; prisons will have separate facilities for women and juveniles.					
	By Jaddi 1389 (end-2010), the Government will increase the number of arrests and prosecutions of traffickers and corrupt officials, and will improve its information base concerning those involved in the drugs trade, with a view to enhancing the selection system for national and sub-national public appointments.					
	A process for registration of land in all administrative units and the registration of titles will be started for all major urban areas by Jaddi 1385 (end-2006).	A fair system for settlement of land disputes will be in place by Jaddi 1386 (end-2007). Registration for rural land will be under way by Jaddi 1386 (end-2007).	A process for registration of land in all administrative units and the registration of titles will be complete for all major urban areas by Jaddi 1386 (end-2008).			
	By Jaddi 1389 (end-2010), religious institutions and scholars, both men and women, will participate in structured ways on issues of national development policy.					
By Jaddi 1389 (end-2010), concrete measures will be put in place to ensure that the status and participation of women in Islamic activities increase, both locally and internationally.						

## Pillar Two: Governance, Rule of Law and Human Rights (cont.)

1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)
By Jaddi 1389 (end-2010), Government machinery (including the number of ministries) will be restructured and rationalized to ensure a fiscally sustainable public administration; the Civil Service will be strengthened; and civil service functions will be reformed to reflect core functions and responsibilities.				
A clear and transparent national appointments mechanism will be established within 6 months, applied within 12 months, and fully implemented within 24 months for all senior level appointments to the central government and the judiciary, as well as for provincial governors, chiefs of police, district administrators and provincial heads of security.				
By Jaddi 1385 (end-2006) a review of the number of administrative units and their boundaries will be undertaken with the aim of contributing to fiscal sustainability.				
By Jaddi 1389 (end-2010), in furtherance of the work of the Civil Service Commission, merit-based appointments, vetting procedures and performance-based reviews will be undertaken at all levels of government, including central government, the judiciary and police, and requisite support will be provided to build the capacity of the civil service to function effectively.				
Annual performance-based reviews will be undertaken for all senior staff (Grade 2 and above) starting by Jaddi 1386 (end-2007).				
Reliable statistical baselines will be established for all quantitative benchmarks by the first quarter of Jaddi 1386 (mid-2007) and statistical capacity built to track progress against them.		The census enumeration will be completed by Jaddi 1387 (end-2008) and the complete results published.		
The UN Convention against Corruption will be ratified by Jaddi 1385 (end- 2006)	National Legislation against Corruption will be adapted by 1386 (end-2007).	A monitoring mechanism to oversee implementation will be in place by 1387 (end-2008).		
By Jaddi 1389 (end-2010), the Government's capacity to comply with and report on its human rights treaty obligations will be strengthened; Government security and law enforcement agencies will adopt corrective measures including codes of conduct and procedures aimed at preventing arbitrary arrest and detention, torture, extortion and illegal expropriation of property with a view to the elimination of these practices; the exercise of freedom of expression, including freedom of media will be strengthened; human rights awareness will be included in education curricula, and promoted among legislators, judicial personnel and other Government agencies, communities and the public; human rights monitoring will be carried out by the Government and independently by the Afghan Independent Human Rights Commission (AIHRC), and the UN will track the effectiveness of measures aimed at the protection of human rights. The AIHRC will be supported in the fulfilment of its objectives with regard to monitoring, investigation, protection and promotion of human rights.				
The implementation of the Action Plan on Peace, Justice and Reconciliation will be completed by Jaddi 1387 (end-2008).				
By Jaddi 1389 (end-2010), the National Action Plan for Women in Afghanistan will be fully implemented . In line with Afghanistan's MDGs, female participation in all Afghan governance institutions , including elected and appointed bodies and the civil services, will be strengthened.				

Sector 2: Governance, Rule of Law and Human Rights (Cont.)

## Pillar Three: Economic and Social Development

	1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)
<b>Sector 3: Infrastructure and Natural Resources</b>	Afghanistan will have a fiscally sustainable system for road maintenance by Jaddi 1386 (end-2007).	Afghanistan will have a fully upgraded and maintained ring road, as well as roads connecting the ring road to neighboring countries by Jaddi 1387 (2008).			
	By Jaddi 1389 (end-2010), Kabul International Airport and Herat Airport will achieve full international civil aviation compliance; Mazar-i-Sharif, Jalalabad and Kandahar will be upgraded with runway repairs, air navigation, fire and rescue and communications equipment; seven other domestic airports will be upgraded to facilitate domestic air transportation; and Air transport services and costs will be increasingly competitive with international market standards and rates.				
	A strategy for the development and the use of renewable energies will be developed by Jaddi 1386 (end-2007).	By Jaddi 1389 (2010): electricity will reach at least 65% of households and 90% of non-residential establishments in major urban areas, and at least 25% of households in rural areas; and at least 75% of the costs will be recovered from users connected to the national power grid.			
	Sustainable water resource management strategies and plans, covering irrigation and drinking water supply, will be developed by Jaddi 1385 (end-2006).	By Jaddi 1389 (end-2010), irrigation investments will result in at least 30% of water coming from large waterworks.			
	By Jaddi 1389 (end-2010), a national telecommunications network will be put in place so that more than 80% of Afghans will have access to affordable telecommunications, and more than US\$100 million dollars per year are generated in public revenues.				
	An enabling regulatory environment for profitable extraction of Afghanistan's mineral and natural resources will be created by Jaddi 1385 (end-2006),	By Jaddi 1389 (end-2010), the investment environment and infrastructure will be enhanced in order to attract domestic and foreign direct investment in this area.			
	By Jaddi 1389 (end-2010): municipal governments will have strengthened capacity to manage urban development and to ensure that municipal services are delivered effectively, efficiently and transparently; and in line with Afghanistan's MDGs, investment in water supply and sanitation will ensure that 50% of households in Kabul and 30% of households in other major urban areas will have access to piped water.				

### Pillar Three: Economic and Social Development

		1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)
<b>Sector 4: Education</b>	By Jaddi 1389 (2010): in line with Afghanistan’s MDGs, net enrollment in primary school for girls and boys will be at least 60% and 75% respectively; a new curriculum will be operational in all secondary schools, female teachers will be increased by 50%; 70% of Afghanistan’s teachers will have passed a competency test, and a system for assessing learning achievement, such as a national testing system for students, will be in place.					
	By Jaddi 1389 (2010): enrollment of students in universities will be 100,000, with at least 35% female students; and the curriculum in Afghanistan’s public universities will be revised to meet the development needs of the country and private sector growth.					
	A human resource study will be completed by Jaddi 1385 (end-2006).			By Jaddi 1389 (end-2010), 150,000 men and women will be trained in marketable skills through public and private means.		
	A comprehensive inventory of Afghan cultural treasures will be compiled by Jaddi 1386 (end-2007).		By Jaddi 1389 (end-2010), measures will be taken to revive Afghan cultural heritage, to stop the illegal removal of cultural material and to restore damaged monuments and artifacts.			
	By Jaddi 1389 (end-2010), the media will be protected as independent, pluralistic and accessible to Afghan women and men throughout the country, thereby promoting an open and democratic society.					
	By Jaddi 1389 (end-2010), sports will be promoted, with special emphasis on creating access for children, women and the disabled.					

## Pillar Three: Economic and Social Development

	1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)
<b>Sector 5: Health</b>	By Jaddi 1389 (end-2010), in line with Afghanistan's MDGs, the Basic Package of Health Services will be extended to cover at least 90% of the population, maternal mortality will be reduced by 15%, and full immunization coverage for infants under-5 for vaccine preventable diseases will be achieved and their mortality rates reduced by 20%.				
	By Jaddi 1389 (end-2010), the EPHS will be implemented in 50% of provincial and regional hospitals.				
	By Jaddi 1389 (end-2010), community boards will be established in 50% of all provincial and regional hospitals.				
	By Jaddi 1389 (end-2010), the proportion of district and provincial hospitals providing good quality emergency obstetric care will be increased to 80%.				
	By Jaddi 1389 (end-2010) a low prevalence of HIV positive cases (<0.5%) in the population will be maintained in order to reduce mortality and morbidity associated with HIV/AIDS.				
	By Jaddi 1389 (end-2010) malaria morbidity will be reduced by 50% and malaria mortality will be reduced by 80%				
	By Jaddi 1389 (end-2010), the risk of infection, morbidity and mortality due to tuberculosis will be reduced by increasing Direct Observed Treatment-Short Course (DOTS) population coverage to 100% by Jaddi 1385 (end-2006).				
	By Jaddi 1389 (end-2010) at least 70% of infectious TB cases will be detected and at least 85% of those cases will be cured.				
	By Jaddi 1389 (end-2010), suitably qualified, appropriately skilled, balanced, and motivated staff for the health sector will be equitably deployed throughout Afghanistan to deliver the BPHS and EPHS.				



## Pillar Three: Economic and Social Development

	1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)
<b>Sector 6: Agriculture and Rural Development</b>	By Jaddi 1389 (end-2010), the necessary institutional, regulatory and incentive framework to increase production and productivity will be established to create an enabling environment for legal agriculture and agriculture-based rural industries, and public investment in agriculture will increase by 30 percent; and particular consideration will be given to perennial horticulture, animal health and food security by instituting specialized support agencies and financial service delivery mechanisms, supporting farmers' associations, branding national products, disseminating timely price and weather-related information and statistics, providing strategic research and technical assistance, and securing access to irrigation and water management systems.				
	By Jaddi 1389 (end-2010), the efficiency of irrigation water management, participatory decision-making and institutional reform, and environmental management will be increased and more equitable distribution of benefits across irrigation systems and across different agro-environments will be ensured.				
	By Jaddi 1389 (end-2010), access to safe drinking water will be extended to 90% of villages, and sanitation to 50%; road connectivity will reach 40% of all villages, increasing access to markets, employment and social services; 47% of villages will benefit from small-scale irrigation; and livelihoods of at least 15% of the rural population will be supported through the provision of 91 million labor days.				
	By Jaddi 1389 (end-2010), rural development will be enhanced comprehensively for the benefit of 19 million people in over 38,000 villages; this will be achieved through the election of at least a further 14,000 voluntary community development councils in all remaining villages, promoting local governance, and community empowerment.				
	By Jaddi 1389 (end-2010), a total of 800,000 households (22% of all Afghanistan's households) will benefit from improved access to financial services.				
	By Jaddi 1389 (end-2010), a policy and regulatory framework will be developed to support the establishment of small and medium rural enterprises, and institutional support will be established in all 34 provinces to facilitate new entrepreneurial initiatives by rural communities and organizations.				

## Pillar Three: Economic and Social Development

	1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)
<b>Sector 7: Social Protection</b>	<p>By Jaddi 1389 (end-2010) in line with Afghanistan's MDGs, the proportion of people living on less than US\$1 a day will decrease by 3% per year and the proportion of people who suffer from hunger will decrease by 5% per year.</p>				
	<p>By Jaddi 1389 (end-2010) an effective system of disaster preparedness and response will be in place.</p>				
	<p>By Jaddi 1389 (end-2010) the number of female-headed households that are chronically poor will be reduced by 20%, and their employment rates will be increased by 20%.</p>				
	<p>By Jaddi 1389 (end-2010) employment opportunities for youth and demobilized soldiers will be increased through special programs.</p>				
	<p>By Jaddi 1389 (end-2010) increased assistance will be provided to meet the special needs of all disabled people, including their integration in society through opportunities for education and gainful employment.</p>				
	<p>By Jaddi 1389 (end-2010) all refugees opting to return and internally displaced persons will be provided assistance for rehabilitation and integration in their local communities. Their integration will be supported by national development programs, particularly in key areas of return.</p>				

## Pillar Three: Economic and Social Development

Sector 8: Economic Governance and Private Sector Development	1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)	
	The MTFF guides the allocation of all budgetary resources from 1387 (2008/9)				Government will prepare a medium term expenditure framework for the 1388 (2009/10) budget and subsequent budgets.	
	Afghanistan's total domestic budgetary revenue – equivalent to 4.5% of estimated legal GDP in 1383 (2004/05) – will steadily increase and reach 8% of GDP by 1389 (2010/11). The ratio of revenue to estimated total recurrent expenditures, including estimated recurrent expenditures in the core and external development budgets, is projected to rise from 28% in 1383 (2004/05) to an estimated 58% in 1389, resulting in a continuing need for (1) external assistance to the Core Budget and (2) increasing cost-effectiveness of assistance that funds recurrent expenditure through the external development budget.					
	By Jaddi 1386 (end-2007), the Government will ensure improved transparent financial management at the central and provincial levels through establishing and meeting benchmarks for financial management agreed with and monitored by the international community, including those in the anticipated Poverty Reduction Growth Facility (PRGF). In turn, it aims to convince donors to increase the share of total external assistance to Afghanistan that goes to the Core Budget from 19.5% in 1384 (2004/5), to at least 50% by 1390 (2010/11).					
	All legislation, regulations and procedures related to investment will be simplified and harmonized by Jaddi 1385 (end-2006)		All legislation, regulations and procedures related to investment will be implemented by Jaddi 1386 (end-2007).			
	New business organization laws will be tabled in the National Assembly by Jaddi 1385 (end-2006).		The Government's strategy for divestment of State-Owned Enterprises will be implemented by Jaddi 1388 (end-2009).			
	By Jaddi 1389 (end-2010) , Afghanistan will gain accession to the WTO.					
	By Jaddi 1389 (end-2010) , Exports benefiting from preferential agreements with US, EU, Japan, Canada, and India will increase.					
	By Jaddi 1389 (end-2010) , Government will reduce average import times by 20 days, and export times by 15 days.					
	State-owned banks that have not been re-licensed are liquidated by Jaddi 1385 (end-2006). 9090		Internationally accepted prudential regulations will be developed for all core sectors of banking and non-bank financial institutions by Jaddi 1386 (end-2007). The banking supervision function of Da Afghanistan Bank will be further strengthened by Jaddi 1386 (end-2007). Re-structuring of state-owned commercial banks will be complete by Jaddi 1386 (end-2007).			

## Cross Cutting Issues

	1384/85 (2006)	1385/86 (2007)	1386/87 (2008)	1387/88 (2009)	1388/89 (2010)
<b>Gender</b>	By Jaddi 1389 (end-2010), the National Action Plan for Women in Afghanistan will be fully implemented; and in line with Afghanistan's MDGs, female participation in all Afghan governance institutions, including elected and appointed bodies and the civil service, will be strengthened.				
<b>Counter Narcotics</b>	By Jaddi 1389 (end-2010), the Government will strengthen its law enforcement capacity at both central and provincial levels, resulting in a substantial annual increase in the amount of drugs seized or destroyed and processing facilities dismantled, and in effective measures including targeted eradication as appropriate, that contribute to the elimination of poppy cultivation.				
	By Jaddi 1389 (end-2010) the Government and neighbouring and regional governments will work together to increase coordination and mutual sharing of intelligence, with the goal of an increase in the seizure and destruction of drugs being smuggled across Afghanistan's borders, and effective action against drug traffickers.				
	By Jaddi 1389 (end-2010), the Government will increase the number of arrests and prosecutions of traffickers and corrupt officials, and will improve its information base concerning those involved in the drugs trade, with a view to enhancing the selection system for national and sub-national public appointments.				
	By Jaddi 1389 (end-2010) the Government will design and implement programs to achieve a sustained annual reduction in the amount of land under poppy and other drug cultivation, by the strengthening and diversification of licit livelihoods and other counter-narcotics measures, as part of the Government's overall goal of a decrease in the absolute and relative size of the drug economy in line with the Government's MDG target.				
	By Jaddi 1389 (end-2010), the Government will implement programs to reduce the demand for narcotics and provide improved treatment for drug users.				
<b>Regional Cooperation</b>	By Jaddi 1389 (end-2010) Afghanistan and its neighbors will achieve lower transit times through Afghanistan by means of cooperative border management and other multi-lateral or bilateral trade and transit agreements. Afghanistan will increase the amount of electricity available through bilateral power purchase; and Afghanistan and its neighbors will reach agreements to enable Afghanistan to import skilled labor from its neighbors and to enable Afghans to seek work in the region and send remittances home.				
<b>Anti-Corruption</b>	The UN Convention against Corruption will be ratified by Jaddi 1385 (end-2006).	National legislation will be adapted accordingly by Jaddi 1386 (end-2007).	Monitoring mechanism To oversee implementation will be in place by Jaddi 1387 (end-2008).		
<b>Environment</b>	In line with Afghanistan's MDGs, environmental regulatory frameworks and management services will be established for the protection of air and water quality, waste management and pollution control, and natural resource policies will be developed and implementation started at all levels of government as well as the community level, by Jaddi 1386 (end-2007).				

# ANNEX 2:

## AFGHANISTAN'S MACROECONOMIC POLICY FRAMEWORK

### MACROECONOMIC POLICY FRAMEWORK 1383-1387

Item	1383 2004/05 Est.	1384 2005/06 Proj.	1385 2006/07 Proj.	1386 2007/08 Proj.	1387 2008/9 Proj.
<b>Income and Growth</b>					
GDP (current prices, \$ million, excluding opium production)	5,971	7,139	8,608	9,999	11,797
GDP per capita US\$ million	253	294	344	388	-
Real GDP Growth (annual change; %)	8.0	13.8	11.7	10.6	-
<b>Consumer Prices and Monetary Indicators</b>					
Consumer Price Index (annual percentage change, Kabul)	16.3	10.0	8.0	-	-
Domestic Currency in Circulation (year-on-year change)	37.5	27.8	22.5	-	-
Gross Foreign Exchange Reserves (\$ million)	1,261	1,730	2,143	2,443	2,743
(in months of prospective imports) (a)	3.0	3.7	5.0	5.4	8.1
<b>Government Finance</b>					
Domestic Revenue (Afghani million)	12,800	18,776	25,864	31,970	39,835
Domestic Revenue (% of non-opium GDP)	4.5	5.2	5.2	5.5	-
Operating Expenditures (Afghani million)	26,716	33,601	38,043	44,092	50,643
Donor Grants to Operating Budget (Afghani million)	14,984	16,878	13,733	11,490	9,748
Operating Budget Balance (excluding grants) (Afghani million)	-13,916	-14,555	-17,425	-20,047	-22,006
Operating Budget Balance (including grants) (Afghani million)	1,068	2,054	1,554	-632	-1,060
<b>Balance of Payments</b>					
Trade Balance (\$ million)	-3,460.8	-3,761.3	-4,243.7	-3,833.3	-3,996.1
Exports of Goods (excluding opium) (\$ million)	1,656.1	1,892.7	1,959.0	1,846.9	1,852.2
Imports of Goods (\$ million)	5,116.9	5,654.0	6,202.7	5,680.2	5,848.4
Current Account (including grants) (\$ million)	-1,138.9	-1,134.5	-1,324.1	-1,094.1	-1,348.5
Current Account Balance (including grants) (% of GDP)	-19.1	-15.9	-15.4	-10.9	-11.4
Current account (excluding grants) (\$ million)	-3,926.0	-4,283.0	-4,685.8	-4,179.5	-4,355.5
Current Account Balance (excluding grants) (% of GDP)	-65.8	-60.0	-54.4	-41.8	-36.9

— = not available; GDP = Gross Domestic Product.

Sources: Afghan authorities, IMF Country Report No. 05/371 (Fifth Review Under the Staff-Monitored Program and Request for Extension) and Sixth Review (forthcoming).

(a) in months of imports of goods and services, excluding imports for re-exports



# ANNEX 3:

## AFGHANISTAN'S MEDIUM TERM FISCAL FRAMEWORK (1385-89)

	2006/07	2007/08	2008/09	2009/10	2010/11
	1385	1386	1387	1388	1389
All figures are in US\$ million unless otherwise noted					
<b>Domestic Revenue</b>	<b>532</b>	<b>677</b>	<b>853</b>	<b>1033</b>	<b>1220</b>
<i>Year-over-year growth (%)</i>	40.4%	27.3%	26.0%	21.1%	18.1%
<b>Operating Budget</b>	<b>719</b>	<b>842</b>	<b>968</b>	<b>1118</b>	<b>1225</b>
- Wages	420	457	538	615	670
- Non-wages	299	384	431	504	555
<b>Add off budget items</b>					
- Army	125	181	241	304	311
- Police	130	130	130	130	130
- Health services	86	118	126	135	144
- Education support	50	54	56	58	61
- National Solidarity Program	150	150	150	150	150
- Others	100	92	86	80	74
- Parliament	7	8	8	8	9
- Elections	92	85	78	71	65
<b>Total off budget items</b>	<b>641</b>	<b>726</b>	<b>789</b>	<b>857</b>	<b>872</b>
<b>Total recurrent expenditure</b>	<b>1360</b>	<b>1568</b>	<b>1757</b>	<b>1975</b>	<b>2096</b>
<b>Financing Gap</b>	<b>(828)</b>	<b>(891)</b>	<b>(904)</b>	<b>(942)</b>	<b>(876)</b>
<b>Memorandum Items</b>					
Revenue as % of GDP	6.0%	6.6%	7.2%	7.8%	8.1%
Revenue as % of wages (excl. Army)	126.6%	148.0%	158.6%	168.1%	182.1%
Revenue as % of wages (incl. Army)	100.0%	113.4%	120.9%	127.5%	140.9%
Revenues as % total recurrent expenditure	39.1%	43.2%	48.5%	52.3%	58.2%
Real GDP growth	11.2	10.8	9.7	7.5	7.5
GDP deflator (%)	8.0%	5.0%	5.0%	5.0%	5.0%
Exchange Rate (AFG / USD)	48.5	48.5	48.5	48.5	48.5
GDP (US\$ million)	8,803	10,242	11,797	13,316	15,030
Population (million)	25	25	26	26	27
Compliance increase (%)	20%	15%	15%	10%	10%
New Measures (US\$ million)	36.8	32.7	7.2	7.2	0.0
October 2005 MOF revenue forecast	<b>595</b>	<b>712</b>	<b>892</b>	<b>1,090</b>	
as % of GDP	6.8%	7.0%	7.6%	8.6%	

\*Reconciliation will need to take place between some of the estimates in the Government's MTF and the current macroeconomic framework, which will take place in the early stages of development of the full ANDS.





**ANNEX 4:  
THE AFGHANISTAN COMPACT**

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**BUILDING ON SUCCESS  
THE LONDON CONFERENCE ON AFGHANISTAN**

**THE  
AFGHANISTAN  
COMPACT**

**LONDON 31 JANUARY – 1 FEBRUARY 2006**

**THE LONDON CONFERENCE  
ON AFGHANISTAN  
31 JANUARY – 1 FEBRUARY 2006**

**THE AFGHANISTAN COMPACT**

The Islamic Republic of Afghanistan and the International Community:

*Determined to strengthen their partnership to improve the lives of Afghan people, and to contribute to national, regional, and global peace and security;*

*Affirming their shared commitment to continue, in the spirit of the Bonn, Tokyo and Berlin conferences, to work toward a stable and prosperous Afghanistan, with good governance and human rights protection for all under the rule of law, and to maintain and strengthen that commitment over the term of this Compact and beyond;*

*Recognising the courage and determination of Afghans who, by defying violent extremism and hardship, have laid the foundations for a democratic, peaceful, pluralistic and prosperous state based on the principles of Islam;*

*Noting the full implementation of the Bonn Agreement through the adoption of a new constitution in January 2004, the holding of presidential elections in October 2004 and National Assembly and Provincial Council elections in September 2005, which have enabled Afghanistan to regain its rightful place in the international community;*

*Mindful that Afghanistan's transition to peace and stability is not yet assured, and that strong international engagement will continue to be required to address remaining challenges;*

*Resolved to overcome the legacy of conflict in Afghanistan by setting conditions for sustainable economic growth and development; strengthening state institutions and civil society; removing remaining terrorist threats; meeting the challenge of counter-narcotics; rebuilding capacity and infrastructure; reducing poverty; and meeting basic human needs;*

Have agreed to this Afghanistan Compact.

## **PURPOSE**

The Afghan Government has articulated its overarching goals for the well-being of its people in the Afghanistan Millennium Development Goals Country Report 2005 – Vision 2020. Consistent with those goals, this Compact identifies three critical and interdependent areas or pillars of activity for the five years from the adoption of this Compact:

1. Security;
2. Governance, Rule of Law and Human Rights; and
3. Economic and Social Development.

A further vital and cross-cutting area of work is eliminating the narcotics industry, which remains a formidable threat to the people and state of Afghanistan, the region and beyond.

The Afghan Government hereby commits itself to realising this shared vision of the future; the international community, in turn, commits itself to provide resources and support to realise that vision. Annex I of this Compact sets out detailed outcomes, benchmarks and timelines for delivery, consistent with the high-level goals set by the Afghanistan National Development Strategy (ANDS). The Government and international community also commit themselves to improve the effectiveness and accountability of international assistance as set forth in Annex II.

## **PRINCIPLES OF COOPERATION**

As the Afghan Government and the international community embark on the implementation of this Compact, they will:

1. Respect the pluralistic culture, values and history of Afghanistan, based on Islam;
2. Work on the basis of partnership between the Afghan Government, with its sovereign responsibilities, and the international community, with a central and impartial coordinating role for the United Nations;
3. Engage further the deep-seated traditions of participation and aspiration to ownership of the Afghan people;
4. Pursue fiscal, institutional and environmental sustainability;
5. Build lasting Afghan capacity and effective state and civil society institutions, with particular emphasis on building up human capacities of men and women alike;
6. Ensure balanced and fair allocation of domestic and international resources in order to offer all parts of the country tangible prospects of well-being;
7. Recognise in all policies and programmes that men and women have equal rights and responsibilities;
8. Promote regional cooperation; and
9. Combat corruption and ensure public transparency and accountability.

## **SECURITY**

Genuine security remains a fundamental prerequisite for achieving stability and development in Afghanistan. Security cannot be provided by military means alone. It requires good governance, justice and the rule of law, reinforced by reconstruction and development. With the support of the international community, the Afghan Government will consolidate peace by disbanding all illegal armed groups. The Afghan Government and the international community will create a secure environment by strengthening Afghan institutions to meet the security needs of the country in a fiscally sustainable manner.

To that end, the NATO-led International Security Assistance Force (ISAF), the US-led Operation Enduring Freedom (OEF) and partner nations involved in security sector reform will continue to provide strong support to the Afghan Government in establishing and sustaining security and stability in Afghanistan, subject to participating states' national approval procedures. They will continue to strengthen and develop the capacity of the national security forces to ensure that they become fully functional. All OEF counter-terrorism operations will be conducted in close coordination with the Afghan Government and ISAF. ISAF will continue to expand its presence throughout Afghanistan, including through Provincial Reconstruction Teams (PRTs), and will continue to promote stability and support security sector reforms in its areas of operation.

Full respect for Afghanistan's sovereignty and strengthening dialogue and cooperation between Afghanistan and its neighbours constitute an essential guarantee of stability in Afghanistan and the region. The international community will support concrete confidence-building measures to this end.

## **GOVERNANCE, RULE OF LAW AND HUMAN RIGHTS**

Democratic governance and the protection of human rights constitute the cornerstone of sustainable political progress in Afghanistan. The Afghan Government will rapidly expand its capacity to provide basic services to the population throughout the country. It will recruit competent and credible professionals to public service on the basis of merit; establish a more effective, accountable and transparent administration at all levels of Government; and implement measurable improvements in fighting corruption, upholding justice and the rule of law and promoting respect for the human rights of all Afghans.

The Afghan Government will give priority to the coordinated establishment in each province of functional institutions – including civil administration, police, prisons and judiciary. These institutions will have appropriate legal frameworks and appointment procedures; trained staff; and adequate remuneration, infrastructure and auditing capacity. The Government will establish a fiscally and institutionally sustainable administration for future elections under the supervision of the Afghanistan Independent Electoral Commission.

Reforming the justice system will be a priority for the Afghan Government and the international community. The aim will be to ensure equal, fair and transparent access to justice for all based upon written codes with fair trials and enforceable verdicts. Measures will include: completing legislative reforms for the public as well as the private sector; building the capacity of judicial institutions and personnel; promoting human rights and legal awareness; and rehabilitating judicial infrastructure.

The Afghan Government and the international community reaffirm their commitment to the protection and promotion of rights provided for in the Afghan constitution and under applicable international law, including the international human rights covenants and other instruments to which Afghanistan is party. With a view to rebuilding trust among those whose lives were shattered by war, reinforcing a shared sense of citizenship and a culture of tolerance, pluralism and observance of the

rule of law, the Afghan Government with the support of the international community will implement the Action Plan on Peace, Justice and Reconciliation.

## **ECONOMIC AND SOCIAL DEVELOPMENT**

The Afghan Government with the support of the international community will pursue high rates of sustainable economic growth with the aim of reducing hunger, poverty and unemployment. It will promote the role and potential of the private sector, alongside those of the public and non-profit sectors; curb the narcotics industry; ensure macroeconomic stability; restore and promote the development of the country's human, social and physical capital, thereby establishing a sound basis for a new generation of leaders and professionals; strengthen civil society; and complete the reintegration of returnees, internally displaced persons and ex-combatants.

Public investments will be structured around the six sectors of the pillar on economic and social development of the Afghanistan National Development Strategy:

1. Infrastructure and natural resources;
2. Education;
3. Health;
4. Agriculture and rural development;
5. Social protection; and
6. Economic governance and private sector development.

In each of these areas, the objective will be to achieve measurable results towards the goal of equitable economic growth that reduces poverty, expands employment and enterprise creation, enhances opportunities in the region and improves the well-being of all Afghans.

## **COUNTER-NARCOTICS – A CROSS-CUTTING PRIORITY**

Meeting the threat that the narcotics industry poses to national, regional and international security as well as the development and governance of the country and the well-being of Afghans will be a priority for the Government and the international community. The aim will be to achieve a sustained and significant reduction in the production and trafficking of narcotics with a view to complete elimination. Essential elements include improved interdiction, law enforcement and judicial capacity building; enhanced cooperation among Afghanistan, neighbouring countries and the international community on disrupting the drugs trade; wider provision of economic alternatives for farmers and labourers in the context of comprehensive rural development; and building national and provincial counter-narcotics institutions. It will also be crucial to enforce a zero-tolerance policy towards official corruption; to pursue eradication as appropriate; to reinforce the message that producing or trading opiates is both immoral and a violation of Islamic law; and to reduce the demand for the illicit use of opiates.

## **COORDINATION AND MONITORING**

The Afghan Government and the international community are establishing a Joint Coordination and Monitoring Board for the implementation of the political commitments that comprise this Compact. As detailed in Annex III, this Board will be co-chaired by the Afghan Government and the United Nations and will be supported by a small secretariat. It will ensure greater coherence of efforts by the Afghan Government and international community to implement the Compact and provide regular and timely public reports on its execution.

# **ANNEX I [of the Compact]**

## **BENCHMARKS AND TIMELINES**

*The Afghan Government, with the support of the international community, is committed to achieving the following benchmarks in accordance with the timelines specified.*

### **Security**

#### **International Security Forces**

Through end-2010, with the support of and in close coordination with the Afghan Government, the NATO-led International Security Assistance Force (ISAF), Operation Enduring Freedom (OEF) and their respective Provincial Reconstruction Teams (PRTs) will promote security and stability in all regions of Afghanistan, including by strengthening Afghan capabilities.

#### **Afghan National Army**

By end-2010: A nationally respected, professional, ethnically balanced Afghan National Army will be fully established that is democratically accountable, organized, trained and equipped to meet the security needs of the country and increasingly funded from Government revenue, commensurate with the nation's economic capacity; the international community will continue to support Afghanistan in expanding the ANA towards the ceiling of 70,000 personnel articulated in the Bonn talks; and the pace of expansion is to be adjusted on the basis of periodic joint quality assessments by the Afghan Government and the international community against agreed criteria which take into account prevailing conditions.

#### **Afghan National and Border Police**

By end-2010, a fully constituted, professional, functional and ethnically balanced Afghan National Police and Afghan Border Police with a combined force of up to 62,000 will be able to meet the security needs of the country effectively and will be increasingly fiscally sustainable.

#### **Disbandment of Illegal Armed Groups**

All illegal armed groups will be disbanded by end-2007 in all provinces.

#### **Counter-Narcotics**

By end-2010, the Government will strengthen its law enforcement capacity at both central and provincial levels, resulting in a substantial annual increase in the amount of drugs seized or destroyed and processing facilities dismantled, and in effective measures, including targeted eradication as appropriate, that contribute to the elimination of poppy cultivation.

By end-2010, the Government and neighbouring and regional governments will work together to increase coordination and mutual sharing of intelligence, with the goal of an increase in the seizure and destruction of drugs being smuggled across Afghanistan's borders and effective action against drug traffickers.

#### **Mine Action and Ammunition**

By end-2010, in line with Afghanistan's Millennium Development Goals (MDGs) and Afghanistan's Ottawa Convention obligations, the land area contaminated by mines and unexploded ordnance will be reduced by 70%; all stockpiled anti-personnel mines will be located and destroyed by end-2007; and by end-2010, all unsafe, unserviceable and surplus ammunition will be destroyed.

## **Governance, Rule of Law and Human Rights**

### **Public Administrative Reform**

By end-2010: Government machinery (including the number of ministries) will be restructured and organization to ensure a fiscally sustainable public administration; the civil service commission will be strengthened; and civil service functions will be reformed to reflect core functions and responsibilities.

A clear and transparent national appointments mechanism will be established within 6 months, applied within 12 months and fully implemented within 24 months for all senior level appointments to the central government and the judiciary, as well as for provincial governors, chiefs of police, district administrators and provincial heads of security.

By end-2006 a review of the number of administrative units and their boundaries will be undertaken with the aim of contributing to fiscal sustainability.

By end-2010, in furtherance of the work of the civil service commission, merit-based appointments, vetting procedures and performance-based reviews will be undertaken for civil service positions at all levels of government, including central government, the judiciary and police, and requisite support will be provided to build the capacity of the civil service to function effectively. Annual performance-based reviews will be undertaken for all senior staff (grade 2 and above) starting by end-2007.

### **Anti-Corruption**

The UN Convention against Corruption will be ratified by end-2006, national legislation adapted accordingly by end-2007 and a monitoring mechanism to oversee implementation will be in place by end-2008.

### **The Census and Statistics**

The census enumeration will be completed by end-2008 and the complete results published.

Reliable statistical baselines will be established for all quantitative benchmarks by mid-2007 and statistical capacity built to track progress against them.

### **National Assembly**

The National Assembly will be provided with technical and administrative support by mid-2006 to fulfil effectively its constitutionally mandated roles.

### **Elections**

The Afghanistan Independent Electoral Commission will have the high integrity, capacity and resources to undertake elections in an increasingly fiscally sustainable manner by end-2008, with the Government of Afghanistan contributing to the extent possible to the cost of future elections from its own resources. A permanent civil and voter registry with a single national identity document will be established by end-2009.

### **Gender**

By end-2010: the National Action Plan for Women in Afghanistan will be fully implemented; and, in line with Afghanistan's MDGs, female participation in all Afghan governance institutions, including elected and appointed bodies and the civil service, will be strengthened.

### **Rule of Law**

By end-2010, the legal framework required under the constitution, including civil, criminal and commercial law, will be put in place, distributed to all judicial and legislative institutions and made available to the public.

By end-2010, functioning institutions of justice will be fully operational in each province of Afghanistan, and the average time to resolve contract disputes will be reduced as much as possible.

A review and reform of oversight procedures relating to corruption, lack of due process and miscarriage of justice will be initiated by end-2006 and fully implemented by end-2010; by end-2010, reforms will strengthen the professionalism, credibility and integrity of key institutions of the justice system (the Ministry of Justice, the Judiciary, the Attorney-General's office, the Ministry of Interior and the National Directorate of Security).

By end-2010, justice infrastructure will be rehabilitated; and prisons will have separate facilities for women and juveniles.

### **Land Registration**

A process for registration of land in all administrative units and the registration of titles will be started for all major urban areas by end-2006 and all other areas by end-2008. A fair system for settlement of land disputes will be in place by end-2007. Registration for rural land will be under way by end-2007.

### **Counter-Narcotics**

By end-2010, the Government will increase the number of arrests and prosecutions of traffickers and corrupt officials and will improve its information base concerning those involved in the drugs trade, with a view to enhancing the selection system for national and sub-national public appointments, as part of the appointments mechanism mentioned earlier in this annex.

### **Human Rights**

By end-2010: The Government's capacity to comply with and report on its human rights treaty obligations will be strengthened; Government security and law enforcement agencies will adopt corrective measures including codes of conduct and procedures aimed at preventing arbitrary arrest and detention, torture, extortion and illegal expropriation of property with a view to the elimination of these practices; the exercise of freedom of expression, including freedom of media, will be strengthened; human rights awareness will be included in education curricula and promoted among legislators, judicial personnel and other Government agencies, communities and the public; human rights monitoring will be carried out by the Government and independently by the Afghan Independent Human Rights Commission (AIHRC), and the UN will track the effectiveness of measures aimed at the protection of human rights; the AIHRC will be supported in the organization of its objectives with regard to monitoring, investigation, protection and promotion of human rights.

The implementation of the Action Plan on Peace, Justice and Reconciliation will be completed by end-2008.

## **Economic and Social Development**

### **INFRASTRUCTURE AND NATURAL RESOURCES**

#### **Roads**

Afghanistan will have a fully upgraded and maintained ring road, as well as roads connecting the ring road to neighbouring countries by end-2008 and a fiscally sustainable system for road maintenance by end-2007.

#### **Air Transport**

By end-2010: Kabul International Airport and I Airport will achieve full International Civil Aviation Organisation compliance; Mazar-i-Sharif, Jalalabad and Kandahar will be upgraded with runway repairs, air navigation, fire and rescue and communications equipment; seven other domestic airports will be upgraded to facilitate domestic air transportation; and air transport services and costs will be increasingly competitive with international market standards and rates.



### **Energy**

By end-2010: electricity will reach at least 65% of households and 90% of non-residential establishments in major urban areas and at least 25% of households in rural areas; at least 75% of the costs will be recovered from users connected to the national power grid. A strategy for the development and the use of renewable energies will be developed by end-2007.

### **Mining and Natural Resources**

An enabling regulatory environment for profitable extraction of Afghanistan's mineral and natural resources will be created by end-2006, and by end-2010 the investment environment and infrastructure will be enhanced in order to attract domestic and foreign direct investment in this area.

### **Water Resource Management**

Sustainable water resource management strategies and plans covering irrigation and drinking water supply will be developed by end-2006, and irrigation investments will result in at least 30% of water coming from large waterworks by end-2010.

### **Urban Development**

By end-2010: Municipal governments will have strengthened capacity to manage urban development and to ensure that municipal services are delivered effectively, efficiently and transparently; in line with Afghanistan's MDGs, investment in water supply and sanitation will ensure that 50% of households in Kabul and 30% of households in other major urban areas will have access to piped water.

### **Environment**

In line with Afghanistan's MDGs, environmental regulatory frameworks and management services will be established for the protection of air and water quality, waste management and pollution control, and natural resource policies will be developed and implementation started at all levels of government as well as the community level, by end-2007.

## **EDUCATION**

### **Primary and Secondary Education**

By end-2010: in line with Afghanistan's MDGs, net enrolment in primary school for girls and boys will be at least 60% and 75% respectively; a new curriculum will be operational in all secondary schools; female teachers will be increased by 50%; 70% of Afghanistan's teachers will have passed a competency test; and a system for assessing learning achievement such as a national testing system for students will be in place.

### **Higher Education**

By end 2010: enrolment of students to universities will be 100,000 with at least 35% female students; and the curriculum in Afghanistan's public universities will be revised to meet the development needs of the country and private sector growth.

### **Skills Development**

A human resource study will be completed by end-2006, and 150,000 men and women will be trained in marketable skills through public and private means by end-2010.

### **Afghan Cultural Heritage**

A comprehensive inventory of Afghan cultural treasures will be compiled by end-2007. Measures will be taken to revive the Afghan cultural heritage, to stop the illegal removal of cultural material and to restore damaged monuments and organizations by end-2010.

## **HEALTH**

### **Health and Nutrition**

By end-2010, in line with Afghanistan's MDGs, the Basic Package of Health Services will be extended to cover at least 90% of the population; maternal mortality will be reduced by 15%; and full organization coverage for infants under-5 for vaccine-preventable diseases will be achieved and their mortality rates reduced by 20%.

## **AGRICULTURE AND RURAL DEVELOPMENT**

### **Agriculture and Livestock**

By end-2010: The necessary institutional, regulatory and incentive framework to increase production and productivity will be established to create an enabling environment for legal agriculture and agriculture-based rural industries, and public investment in agriculture will increase by 30 percent; particular consideration will be given to perennial horticulture, animal health and food security by instituting organization support agencies and financial service delivery mechanisms, supporting farmers' associations, branding national products, disseminating timely price and weather-related information and statistics, providing strategic research and technical assistance and securing access to irrigation and water management systems.

### **Comprehensive Rural Development**

By end-2010: Rural development will be enhanced comprehensively for the benefit of 19 million people in over 38,000 villages; this will be achieved through the election of at least a further 14,000 voluntary community development councils in all remaining villages, promoting local governance and community empowerment; access to safe drinking water will be extended to 90% of villages and sanitation to 50%; road connectivity will reach 40% of all villages, increasing access to markets, employment and social services; 47% of villages will benefit from small-scale irrigation; 800,000 households (22% of all Afghanistan's households) will benefit from improved access to financial services; and livelihoods of at least 15% of the rural population will be supported through the provision of 91 million labour days.

### **Counter-Narcotics**

By end-2010, the Government will design and implement programmes to achieve a sustained annual reduction in the amount of land under poppy and other drug cultivation by the strengthening and diversification of licit livelihoods and other counter-narcotics measures, as part of the overall goal of a decrease in the absolute and relative size of the drug economy in line with the Government's MDG target.

## **SOCIAL PROTECTION**

### **Poverty Reduction**

By end-2010, in line with Afghanistan's MDGs, the proportion of people living on less than US\$1 a day will decrease by 3% per year and the proportion of people who suffer from hunger will decrease by 5% per year.

### **Humanitarian and Disaster Response**

By end-2010, an effective system of disaster preparedness and response will be in place.

### **Disabled**

By end-2010, increased assistance will be provided to meet the special needs of all disabled people, including their integration in society through opportunities for education and gainful employment.

### **Employment of Youth and Demobilised Soldiers**

By end-2010, employment opportunities for youth and demobilised soldiers will be increased through special programmes.

### **Refugees and IDPs**

By end-2010, all refugees opting to return and internally displaced persons will be provided assistance for rehabilitation and integration in their local communities; their integration will be supported by national development programmes, particularly in key areas of return.

### **Vulnerable Women**

By end-2010, the number of female-headed households that are chronically poor will be reduced by 20%, and their employment rates will be increased by 20%.

### **Counter-Narcotics**

By end-2010, the Government will implement programmes to reduce the demand for narcotics and provide improved treatment for drug users.

## **ECONOMIC GOVERNANCE AND PRIVATE SECTOR DEVELOPMENT**

### **Financial Management**

By end-2007, the Government will ensure improved transparent financial management at the central and provincial levels through establishing and meeting benchmarks for financial management agreed with and monitored by the international community, including those in the anticipated Poverty Reduction Growth Facility (PRGF). In turn, and in line with improved government accountability, donors will make more effort to increase the share of total external assistance to Afghanistan that goes to the core budget.

### **Domestic Revenues**

Afghanistan's total domestic budgetary revenue – equivalent to 4.5% of estimated legal GDP in 1383 (2004/05) – will steadily increase and reach 8% of GDP by 1389 (2010/11). The ratio of revenue to estimated total recurrent expenditures, including estimated recurrent expenditures in the core and external development budgets, is projected to rise from 28% in 1383 (2004/05) to an estimated 58% in 1389, resulting in a continuing need, in accord with the principles in Annex II, for (1) external assistance to the core budget and (2) increasing cost-effectiveness of assistance that funds recurrent expenditure through the external development budget.

### **Private Sector Development and Trade**

All legislation, regulations and procedures related to investment will be simplified and reorganized by end-2006 and implemented by end-2007. New business organization laws will be tabled in the National Assembly by end-2006. The Government's strategy for divestment of state-owned enterprises will be implemented by end-2009.

### **Financial Services and Markets**

Internationally accepted prudential regulations will be developed for all core sectors of banking and non-bank financial institutions by end-2007. The banking supervision function of Da Afghanistan Bank will be further strengthened by end-2007. Re-structuring of state-owned commercial banks will be complete by end-2007. State-owned banks that have not been re-licensed will be liquidated by end-2006.

### **Regional Cooperation**

By end-2010: Afghanistan and its neighbours will achieve lower transit times through Afghanistan by means of cooperative border management and other multilateral or bilateral trade and transit agreements; Afghanistan will increase the amount of electricity available through bilateral power purchase; and Afghanistan, its neighbours and countries in the region will reach agreements to enable Afghanistan to import skilled labour, and to enable Afghans to seek work in the region and send remittances home.

## ANNEX II [OF THE COMPACT]

### IMPROVING THE EFFECTIVENESS OF AID TO AFGHANISTAN

The international community has made a significant investment in the future of a democratic state of Afghanistan since December 2001. This Compact is an affirmation of that commitment. The Afghan Government and the international community are further committed to improving the effectiveness of the aid being provided to Afghanistan in accordance with the Paris Declaration on Aid Effectiveness (2005), utilization the special needs of Afghanistan and their implications for donor support.

Consistent with the Paris Declaration and the principles of cooperation of this Compact, the Government and the international community providing assistance to Afghanistan agree that the principles for improving the effectiveness of aid to Afghanistan under this Compact are:

1. Leadership of the Afghan Government in setting its development priorities and strategies and, within them, the support needs of the country and the coordination of donor assistance;
2. Transparency and accountability on the part of both the Government and the donors of the international assistance being provided to Afghanistan.

Under these principles and towards the goal of improving the effectiveness of aid to Afghanistan, the Government will:

- Provide a utilization and detailed Afghanistan National Development Strategy (ANDS) with indicators for monitoring results, including those for Afghanistan's Millennium Development Goals (MDGs);
- Improve its abilities to generate domestic revenues through, *inter alia*, customs duties and taxes; and to achieve cost recovery from public utilities and transportation;
- Agree with donors, international financial institutions and United Nations agencies on the benchmarks for aid utilization through the Government's core budget and for the utilization of such aid; and monitor performance against those benchmarks; and
- Provide regular reporting on the use of donor assistance and performance against the benchmarks of this compact to the National Assembly, the donor community through the Afghanistan Development Forum and the public at large.

The donors will:

- Provide assistance within the framework of the Afghanistan National Development Strategy; programmes and projects will be coordinated with Government in order to focus on priorities, eliminate duplication and utilization donor activities to utilization cost-effectiveness;
- Increasingly provide more predictable and multiyear funding commitments or indications of multiyear support to Afghanistan to enable the Government to plan better the implementation of its National Development Strategy and provide untied aid whenever possible;
- Increase the proportion of donor assistance utilization directly through the core budget, as agreed bilaterally between the Government and each donor, as well as through other more predictable core budget funding modalities in which the Afghan Government participates, such as the Afghanistan Reconstruction Trust Fund (ARTF), the Law and Order Trust Fund for Afghanistan (LOTFA) and the Counter-Narcotics Trust Fund (CNTF);

- Provide assistance for the development of public expenditure management systems that are essential for improving transparency and accountability in the utilization of donor resources and countering corruption;
- Recognise that, because of the need to build Afghan capacity, donor assistance provided through the external budget will be designed in such a manner as to build this capacity in the Government as well as the private sector and non-profit sector;
- Ensure that development policies, including salary policies, strengthen national institutions that are sustainable in the medium to long term for delivery of programmes by the Government;
- For aid not utilized through the core budget, endeavour to:
  - Harmonise the delivery of technical assistance in line with Government needs to focus on priority areas and reduce duplication and transaction costs;
  - Reduce the external management and overhead costs of projects by promoting the Afghan private sector in their management and delivery;
  - Increasingly use Afghan national implementation partners and equally qualified local and expatriate Afghans;
  - Increase procurement within Afghanistan of supplies for civilian and military activities; and
  - Use Afghan materials in the implementation of projects, in particular for infrastructure;
- Within the principles of international competitive bidding, promote the participation in the bidding process of the Afghan private sector and South-South cooperation in order to overcome capacity constraints and to lower costs of delivery;
- Provide timely, transparent and comprehensive information on foreign aid flows, including levels of pledges, commitments and disbursements in a format that will enable the Afghan Government to plan its own activities and present comprehensive budget reports to the National Assembly; this covers the nature and amount of assistance being provided to Afghanistan through the core and external budgets; and
- For external budget assistance, also report to the Government on: the utilization of funds; its efficiency, quality and effectiveness; and the results achieved.

These mutual commitments are intended to ensure that the donor assistance being provided to Afghanistan is used efficiently and effectively, that there is increased transparency and accountability, and that both Afghans and the taxpayers in donor countries are receiving value for money.

## **ANNEX III [OF THE COMPACT]**

### **COORDINATION AND MONITORING**

The Afghan Government and the international community recognise that the success of the Afghanistan Compact requires strong political, security and financial commitment to achieve the benchmarks within the agreed timelines. Equally, the success of the Compact relies on an effective coordination and monitoring mechanism.

To this end, and in addition to existing sectoral coordination mechanisms, the Afghan Government and the international community are establishing a Joint Coordination and Monitoring Board with the participation of senior Afghan Government officials appointed by the President and representatives of the international community. The Board will be co-chaired by a senior Afghan Government official appointed by the President and by the Special Representative of the UN Secretary-General for Afghanistan. Its purpose would be to ensure overall strategic coordination of the implementation of the Compact.

The Board will have a small secretariat staffed by the Afghan Government and the United Nations. It will be supported by technical experts, as needed. The Board will hold periodic meetings and special sessions as required to review the implementation of this Compact and suggest corrective action, as appropriate.

Afghan state institutions and sectoral coordination mechanisms involved in the implementation of the Afghanistan National Development Strategy (ANDS) will provide inputs to the Board with regard to the implementation of the Compact. In addition, in carrying out its assessments, the Board will consider inputs from the international community, including United Nations agencies, international financial institutions, donors, international security forces and relevant non-governmental organisations and civil society representatives.

Periodic progress reports on the implementation of the Compact prepared by the Joint Coordination and Monitoring Board will be made public.

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**ANNEX 4 [OF THE COMPACT]  
Participants in the London Conference on Afghanistan**

Final list to be inserted following the London Conference







Produced by the Government of the  
Islamic Republic of Afghanistan