

National Development Framework

DRAFT – For consultation

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Preface

The following is a second draft of the Afghanistan National Development Framework. The first draft reflected directions provided by the Board of the Afghan Assistance Coordination Authority (AACCA), chaired by the Chairman of the Interim Administration and individual consultations carried out by the Ministry of Planning, the Ministry of Reconstruction and the AACCA. It was also based on inputs from the government departments, the Joint Needs Assessment process and inputs from other actors on the ground. This document attempts to set out national strategy and includes national priorities and policy directions. The first draft was presented to the participants of the Implementation Group in Kabul on April 10--11 in order to convey an early sense of the direction taken by the Interim Administration in the development of the country, and to place in an appropriate context the priority projects presented in the course of the meeting.

This current draft has been adjusted in the light of comments from a number of actors, in particular NGOs and some donor governments. It still represents work in progress. However, in order to broaden the consultation process, in particular in the provinces, it was felt necessary to issue the current draft sooner rather than later. It is also necessary to use the NDF as the basis for the development budget.

The ongoing process to create the national development budget has included the establishment of the Development Budget Commission, composed of the Ministry of Planning, Ministry of Finance, Ministry of Reconstruction and the AACCA. All projects are expected to be anchored in one of the programs identified within the National Development Framework, unless exceptional circumstances apply. In this regard mechanisms for project and program review are being established.

NB The highlighted numbers in the text refer to the table of Quick Impact Projects in Annex 5.

The National Development Framework

There is a consensus in Afghan society: violence as a means of compelling the majority to submit to the will of a minority must end. The people's aspirations must be represented and reflected in an accountable government that delivers value on a daily basis. This consensus forms the foundation for a vision of a prosperous and secure Afghanistan, for both its women and its men. The current poverty of the country is painfully obvious; this vision of a peaceful and prosperous future is a beacon that can mobilize the energies of an enterprising and independent people, guide them in their collective and individual pursuits, and reinforce the sense of national unity, mutual dependence and participation in a common enterprise.

Our people are poor, the majority is illiterate, but the sophistication of political debate and awareness is remarkable, in great part due to the international media. Despite the years of war, our opinions are also shaped by a myriad of networks that link us to the international community. There is a widespread desire to retain the current international interest in our country, and to channel it in ways that would lay the basis for multiple partnerships between different groups in our society and the global community.

This desire for engagement is premised on the hope that international engagement will be an instrument for ending our poverty, the re-establishment of our sovereignty and national unity, and a foundation for sustainable prosperity. Our people's expectations have been raised by the promises of world leaders that they will be with us for the long haul. The succession of visits and delegations are a sign to our people that the engagement is continuing.

Discussions of development, however, remain abstract. Public opinion is shaped by concrete manifestations. If the general discussions are not connected to changes in the daily lives and experiences of men and women, public opinion could easily turn skeptical. Afghans have been disappointed by the international community before. Hope could then be replaced by frustration, and frustration, in a context of raised expectations, is a recipe for anger, discord and finally conflict. For us to capitalize on the current consensus, then, we must deliver, and deliver soon; as words become deeds, belief in the possibility of a safe and prosperous future will grow.

Delivering rapidly, however, does not mean delivering unwisely. We must internalize the lessons of 50 years of experience of international assistance. Afghanistan offers a unique opportunity to prove to the skeptics that the aid system is relevant in a post-conflict context, and that difficult challenges can be met with determination, partnership and vision.

Five lessons stand out:

- First, the developmental agenda must be owned domestically, and the recipient country must be in the driver's seat.
- Second, the market and the private sector is a more effective instrument of delivering sustained growth than the state.

- Third, without a state committed to investing in human capital, the rule of law, the creation of systems of accountability and transparency, and providing the enabling environment for the operation of the private sector, aid cannot be an effective instrument of development.
- Fourth, people in general and the poor in particular are not passive recipients of development but active engines of change. Sustainable development requires citizen participation and adopting of methods of governance that enable the people to take decisions on issues that affect them and their immediate surroundings.
- Fifth, donor-funded investment projects, unless they are anchored in coherent programs of government, are not sustainable. Structural adjustment programs, unless they are translated into feasible projects, do not result in reform.

This document, the National Development Framework, sets out our vision for the future of Afghanistan. It takes the lessons of international experience, and applies them to the Afghan context. It lays out our priorities through a series of programs, and lays down broad strategies in each program area. We intend the program to be the primary form of action and the budget to be the central instrument of policy. The NDF forms the conceptual basis for the development budget, where the programs will be costed, hard choices made, and specific projects presented. The administration will not insist that all monies spent on reconstruction in Afghanistan go through our channels, but we expect donors to fund and implement only those projects consistent with the goals and strategies outlined in this document, to respect the priorities decided in the budget process, and to ensure that all interventions have clear outcomes, and are properly monitored.

As a living document, and given the rapidly changing situation in the country, we are ready to adapt and adjust the ideas in this document in the light of new learning and in response to consultation with our partners. We welcome and will encourage constructive engagement with the NDF from all sectors of Afghan society as well as from our national and international partners. However, perhaps the central goal of reconstruction is to ensure that the government of Afghanistan is accountable to the Afghan people. As such it is the government that will take the final decisions, and the government that will be held accountable for those decisions by the people of Afghanistan.

The strategy

Our developmental strategy has three pillars: The first is to use humanitarian assistance and social policy to create the conditions for people to live secure lives and to lay the foundations for the formation of sustainable human capital. The second is the use of external assistance to build the physical infrastructure that lays the basis for a private sector-led strategy of growth, in such a manner as to support the building of human and

social capital. The third pillar is the creation of sustainable growth, where a competitive private sector becomes both the engine of growth and the instrument of social inclusion through the creation of opportunity.

Cutting across all our activities will be the issues of security, of administrative and financial reform, and of gender equity.

A brief outline of the programs and sub-programs contained in each pillar will be provided here, the Annexes contain a more detailed description.

Pillar 1 – Humanitarian and Human and Social Capital

We are still in the midst of a humanitarian crisis. We are keenly aware of the needs and conditions of our vulnerable people, in particular of our women and children, many of whom have been cut off from what little opportunities there have been in recent years. We need immediate action in the following areas: Refugees and returnees; between 1.4 to 2m men, women and children are expected to return to their homes, along with thousands of internally displaced. A systematic and integrated approach will be required if we are to help them re-integrate safely and develop secure livelihoods rather than end up in shanty towns. Education, for girls as well as boys, after years of neglect and worse, will be the foundation of economic growth and poverty reduction. Vocational training is a priority, in particular to assist the mujahadeen, many of whom have sacrificed so much in the cause of freedom **(1.1.2)**, and to assist women **(1.3.1)**. Health and nutrition will require massive and long-term investment if we are to lift Afghanistan from 169 in the human development index **(1.2.1)**. Two areas need particularly urgent attention, malnutrition, and better obstetric care that will bring down the unacceptably high levels of maternal and infant mortality rates **(1.2.2)**. Afghans have shown a remarkable ability to survive in the face of disaster, but there is a need to invest in livelihoods to facilitate our enterprise in the search for a good living. And finally, after the ravages of the Taliban, we must act fast to preserve our national heritage, we must remember the vital role of culture in the process of national reconstruction and defining Afghan identity.

It is vital that we take an integrated and programmatic approach to all work in this pillar. We cannot afford sectoral and localized projects that lead to disconnects. So we are initiating two, large-scale, integrated programs as the foundation of much work in this pillar. Firstly we will initiate a national community development program, known as National Solidarity, which will deliver block grants to communities across the country **(1.4.1)**. And secondly we have designated 10 key areas for special attention because they have been worst affected by human rights abuses and will be centers of refugee and IDP return **(1.4.2)**. We are requesting the UN agencies and bilateral donors to help us develop rapidly a series of projects in these areas.

Pillar 2 – Physical Reconstruction and Natural Resources

We intend to begin the reconstruction and expansion of the physical infrastructure as soon as possible. The government is committed to launching public works programs immediately in order to offer opportunities to the unemployed and under-employed (1.1.1). We have identified a number of programs in this area and are in the process of preparing specific projects within each of the programs. For example, roads (2.1.1), water and sanitation (2.2.1), and the energy sector (2.3.1) all need urgent attention. As the country will be rebuilt by its families, we also need to ensure people have access to building materials (2.3.2 & 3).

In urban management our aim is to invest in a balanced urban development program across the country to create viable cities that are hubs of economic activity, and organically linked to rural areas (2.4.1). With the concentration of population in some cities, they would play a major role in the overall improvement of human development indicators. In terms of municipal infrastructure we need to focus on some immediate and pressing needs such as roads and transport (2.4.2 & 3) sewerage, waste management, drinking water and sanitation.

As much of the physical infrastructure of government has been destroyed, we will implement a national program of construction that will create or restore the physical infrastructure of government across the country.

Our approach to physical infrastructure is based on lessons from international experience. The state will define the areas of priorities, but it will not be the implementing agency. Instead, we will turn to the national and international private sector to help us design and implement our projects. Communities and NGOs will be asked to participate in identification, monitoring and evaluation of these programs and projects.

We will pay serious attention to the operation and maintenance costs of these projects and will be looking closely at their financial and economic sustainability. The issue of medium to long-term consequences of short-term interventions has already become clear in the health sector. For example, there has been considerable interest in the rehabilitation or construction of hospitals in Kabul. But our health experts are pointing out that the recurrent costs of hospitals located in the capital could be a serious drain on resources that could be more usefully directed towards preventative medicine.

Pillar 3 –Private Sector Development

The implementation of the infrastructure program will give some impetus to the development of the private sector, but it is in the development of a competitive export-oriented economy that our real hopes for the private sector lie. We are in the fortunate position that the European and American markets are open to our exports. We are in the process of being granted most favored nation status and we are receiving strong support from the US Administration and Congress for textile quotas. We are also in the process of developing trade relations in the region and with our neighbours.

We need to meet international standards on health, organic agriculture, child labor, certificates of origin, and other technical requirements. We will need assistance in these areas, and consultations with our entrepreneurs to explain the opportunities that exports to Europe will provide both them and our working women and men. The development of the export market for our agricultural and horticultural products is critical to our strategy of eliminating poppy cultivation. With high-value and low-volume products, we can be confident of offering our farmers secure livelihoods. We are planning to use our OPIC guarantee to assist in the development of an agricultural processing industry.

Recognizing the enormous international interest in Afghanistan, we are creating a “Made in Afghanistan” label and “Made in Afghanistan by Women” label to enable Afghan producers to realize the maximum from their labors. We hope to link Afghan producers to a number of large department stores. Afghanistan has considerable assets; sustainable use and development of these assets will require foreign direct investment. We are working on the relevant policy and legal frameworks that would attract investment, including, for example, the urgent need for a basic regulatory and licensing framework for telecommunications **(4.1.2)**.

We must also use internal trade as a way of binding the country back together again, economically as well as politically. Alongside the roads programs already mentioned, this will mean reinvigorating our market places in secondary and tertiary towns **(3.1.1)**.

Governance, financial management and administrative reform

We know that good governance is a precondition for attracting direct foreign investment. We are addressing the issues of financial management, auditing and procurement through hiring international private firms chosen on the basis of direct competition. Our goal is to have a budgetary process that would meet the international standards for receiving direct donor support for reconstruction and development projects. Building the domestic revenue collecting ability of Afghanistan will be a key part of the reconstruction process. Revenue capacities, and particularly the national unity of the revenue collection system, have been in disarray during the recent period and need to be rebuilt.

The degradation of our financial institutions in fact offers us an opportunity to move forward with speed and determination in creating management systems that will provide the underpinning for accountability, efficiency and transparency. Our banking sector requires a major over-haul, and we are embarking on this process. The Central Bank’s role is being strengthened and the government has made a commitment in its budget decree to observe financial discipline and not resort to overdraft. We are emphasizing the need for urgent capacity building in the Central Bank and the banking sector and are requesting urgent technical assistance in this area. We are examining the relevant laws and regulations and are preparing a series of measures to provide a firm legal basis for a modern financial sector.

Rule of law is the basis of good governance. The administration has strictly abided by the Bonn agreement and is determined to see the Emergency Loya Jirga take place on time. We are determined to use the time remaining to the Interim Administration to prepare proposals and plans for strengthening the rule of law and to implement measures that would enhance the confidence of our people in their government.

We view the principle of accountable government as applying as much to our development policy as our administrative and judicial. We are in the advanced stages of planning a national community empowerment program, to be called National Solidarity (Hambastigee Millie), that will deliver a series of block grants to communities to enable them to make decisions in a participatory manner on their key priorities. Particular attention is to be given to ways and means to involve women in the decision-making processes, management, and benefits associated with these grants. We are planning to cover at least 1 to 2 districts in every province under this program. This approach should enable members of the communities to choose their local leaders, and to strengthen their collective efforts in mobilizing their own resources to supplement those provided by the government.

More broadly, a vibrant civil society will be essential for the political, social and cultural reconstruction of the country. Under the Taliban the expression of dissent and diversity were brutally suppressed. We will review the legal framework to ensure the freedom of the press, of political association, and that NGOs and other civil society organizations can flourish with the full protection of the law. Reforms to NGO law will be designed in consultation with NGOs, and as part of this we will be looking to NGOs to initiate a serious internal debate leading to concrete proposals on issues of NGO performance and accountability.

We must get the balance right between Kabul and the provinces, between the urban centers and the rural areas. This is important both to ensure an equitable balance in our investments, and in terms of the political and administrative relationship. All interventions, whether roads, sanitation, power or drinking water, will be chosen on the basis of an even-handed approach to spatial development that focuses on needs not on ethnic group. While Kabul's needs are immense, and there is an urgent need for a comprehensive reconstruction plan of the city, our focus must be the entire country. The physical infrastructure of government is either destroyed or severely damaged. We are therefore planning a major program of construction of the physical infrastructure of governance across the country. Each ministry and district must have a minimum number of facilities **(4.1.3)** and these facilities should be equipped with means of communication to enable speedy flow of information between levels of government and to connect Kabul to the provinces **(4.1.1)**. Only then will we be able to link up the country under a unified government.

We have carried out an assessment of the capacity of our line ministries and have reached the conclusion that we need an innovative approach to the rapid building of capacity as well as a strategy for reform of the administrative system. Our approach to the immediate problem is to create implementation cells, known as Capacity Building Groups, of

between 10 and 40 people in line ministries. The staff of these cells, to be recruited on the basis of clear criteria of merit, technical competence, clear definition of tasks, and with due consideration for gender equity, will be provided with the resources to translate our overall programs into specific projects and oversee the implementation of these projects by the private sector, NGOs and international contractors. They will be supported by technical assistance from donors and will work closely with AACA to enhance coordination between communities, the government, donors, NGOs and the UN. We will be adopting a similar approach to the provincial administration.

The years of conflict degraded the civil service. We now need to start work in earnest on the important task of creating a modern and efficient civil service. The Civil Service Commission has been selected and will start its work soon. It will need to be supported by strong analytic work and by inputs from key actors in the development arena to formulate and implement a comprehensive agenda of reform. Of particular importance will be training, in both management and technical areas. A civil service training college is being proposed. **A key concern in rebuilding our civil service will be the role of women. Conflict, brain-drain and political discrimination have obliterated the progress Afghanistan had once made towards gender equity in its government offices. The total exclusion of women for the past several years also means that the concerns of women are less likely to be promoted or protected. The presence of women within our civil service, at all levels including the top, will be a critical influence in making progress towards the international human rights standards to which we have made a commitment.**

Pay scale is a critical issue. NGOs, bilateral, multilateral organizations and the UN system have pay scales that exceed the government's pay scale by a factor of 50 for their national staff. The differential in pay between international staff and government staff is a factor of 1000 to 2000. Such an uneven playing field militates against the building of capacity. While the market cannot be controlled, there has to be an imaginative and principled approach to addressing this critical issue. Donors should make a clear commitment to increasing the number of their Afghan national staff and should join the government in setting up a task force to propose sustainable solutions to this problem. Without a workable solution, this problem will haunt all our good intentions for creating capacity.

Security and the Rule of Law

Rule of law and good governance depend on security, for both men and women. The Afghan state must have a legitimate monopoly of violence, a corollary of which is that its citizens will not need to pay for the cost of protection as individuals. Freedom of movement, for commodities and ideas, is constrained by perceptions of security. For example, many donors now insist on staying in Kabul, and starting projects there.

Kabul's needs are immense, but in our judgment, there are other parts of the country that are more secure than Kabul. Thus does the perception of insecurity exclude areas urgently in need of development assistance from receiving attention.

We have prepared a detailed program for the creation, training and deployment of a national police force. We have, however, been constrained from implementing our program by lack of funds and exclusion of support for the police from the UNDP administrated Trust Fund. This constraint is being removed, and we hope to embark on our program very rapidly. We have also formulated our plan for the formation of a national army and the first battalion of the new army has been trained and deployed as the National Guard.

We will also need to provide for absorption back into society of the mujahadeen, who have sacrificed so much for the independence and dignity of this country. Absorption of the mujahadeen into the economy, society and polity is a significant challenge. We plan to meet this challenge through a series of measures. A large scale program of vocational training, based on an analysis of the needs of an expanding economy, will be a critical part of this program and we are inviting donors to assist us in implementing this program quickly. Demining is also an urgent priority and a precondition for agricultural recovery and freedom of movement **(4.2.2)**.

We are counting on finding solutions to meeting the expenses of the security sector quickly. In Geneva, there have been extensive discussions on meeting the costs of the national army and police and we now need to act rapidly. Our developmental efforts depend on the provision of security, as without the perception and reality of security of person and property, people will not feel safe to invest.

The judicial system will be revived through a program that provides training, makes laws and precedents available to all parts of the system, and rehabilitates the physical infrastructure and equipment of the judicial sector **(4.2.1)**.

Our vision of security, however, is broader than the services provided by the security sector to the citizens. Security of livelihood is critical to our endeavor, to eliminate poverty, to provide social justice, remove barriers to inclusion and to create a society where all citizens are provided with access to equality of opportunity.

Gender

Progress towards gender equality is a critical issue for us. On this we will adopt a two-pronged approach. First we will adopt measures to restore those rights to our women and girls that they were denied because of the segregationist policies of the Taliban and the threat to their personal security during periods of conflict. To support this, we will need to create women's specific opportunities that will allow them to catch up with men and boys. Particular concerns are the re-instatement of women in employment and income-

earning opportunities, up-grading women's professional knowledge which has fallen out of date because of their years of exclusion, and enhancing their management skills and familiarity with modern technologies in the work place. These will call for specific programs directed to enhancing the capabilities of our girls and women.

We do not want gender equality to be treated as a ghetto. All programs must pay special attention to the respective roles and responsibilities of women and men, and not merely attempt to include women as an afterthought. This leads in to our second approach. We will need to undertake a process of re-assessment in all sectors to see where we can newly promote the inclusion of women as well as men in order to increase their role in all walks of life. This should include the political, the economic and the social.

With respect to the economic sphere of life, there is much potential for more equitable opportunities to be realized between our women and men; because our women are often invisible that does not mean they are always excluded. There is little in Afghan everyday life that does not, in some way, involve both its female and male members. There is certainly room for more work to be done here, but we are realistic, it will involve new approaches, new tools, new technologies as well as some new attitudes. We look to the international community to lend their expertise to show us the way towards realizing and enhancing the participation of both women and men in all sectors of our National Development Framework, whether it be agriculture, enterprise or communications.

To support the above, we have to engage in a societal dialogue to enhance the opportunities of women and improve cooperation between men and women on the basis of our culture, the experience of other Islamic countries, and the global norms of human rights. With the support of the UN and in accord with the human rights provisions of the Bonn Agreement, we have made a beginning on human rights education. Following the first national workshop convened on 9 March, the working group is initiating its consultative process and first meetings to elaborate a two-year plan of action throughout the month of May.

Restoring and enhancing the status of women in Afghanistan is a challenging task. To support this we have established a specific Ministry of Women's Affairs. This will play a key role in promoting policy and strategy to ensure the full participation of women in society. It is equally clear that the Ministry of Women's Affairs cannot alone handle the interests of over half of our total population. Nor does it have the sole responsibility to do so. All arms of government carry responsibility to ensure equitable involvement of women within its offices, and within its own field. The Ministry of Women's Affairs is a new structure in government for us; it will take time for the Ministry to develop and agree its own mandate, and to consolidate its position. Once this is done, we can expect to have a more elaborated gender strategy.

Research, information management and policy-making

As a living document, this framework will be amended, modified and transformed in the light of new research, experience and knowledge. Its implementation will thus depend on access to and management of information. Currently, very little reliable information exists, too often information is fragmented and hoarded. This hampers the government's ability to respond to predictable crises and to make policy based on evidence of what works and what does not.

The government will create and maintain an information management system on all donor activities **(4.1.4)**. Standards for information gathering need to be set, and information shared promptly and widely. Timely monitoring and evaluation of programs and projects will be built into their design. The Afghanistan Information Management System (AIMS) will be one component of this larger strategy. We have already received assistance and are in the process of implementing this policy. All information management systems created by individual donors should provide inputs to the government's information management system currently at the AACA that will be eventually transferred to the Central Statistical Office.

The Role of the State

Finally, our strategy of development provides a clear role for the state. The state must provide security, invest in human capital, and articulate and implement a social policy focused on assistance to the vulnerable and excluded and the elimination of poverty. It must create an enabling environment for the activities of the private sector, make effective use of aid to attract trade and investment, and put the economy on a sustainable path to growth.

We thus need an effective central government that re-establishes the national unity of the country on the basis of strong institutions and the rule of law. Simultaneously, we are committed to building on community level participation and effective management at the local level. We do not see government as the producer and manager of the economy, but as regulator and promoter of the entrepreneurial energies of our people. The state will enter into a direct managerial role only when social justice demands its presence. The government will act in partnership with communities, NGOs, donors, UN organizations and the national and international private sector to implement its programs, and realize its vision. As the legitimate representative of the people, it is the key task and challenge of the government to create the institutions and organizations that would embody principles and practices of good governance.

Annex 1: Pillar I - Humanitarian and human and social capital

The goal of the human and social capital strategy is to create the conditions for people to live and secure lives and lay the foundations for formation of sustainable human capital.

The available human and social capital in the country has been placed under considerable stress. There have been limited opportunities for developing human capital, particularly for women and girls. Social capital, as manifested in community action, coping strategies and organizational capacity, has been exhausted by the prolonged years of drought. Relief must be provided in a manner that supports the capacity for local communities and populations to emerge from a state of severe destitution and impoverishment.

A central function of the government will be to put in place a social policy that supports the creation of human capital, so that all Afghan children have access to quality basic social services and all Afghans have access to adequate health care, good nutrition, and educational opportunities. Developing the social sectors means putting in place the medium-term policies, strategies and implementation mechanisms in the areas of health, nutrition, education, and specific actions to protect the vulnerable from risks. Policies and strategies have to be developed at the central level. They will be viable if they involve representatives from communities and are owned by the line ministries. This opportunity will arrive with the formation of the Emergency Loya Jirga.

In the meantime, the support of the international agencies through the needs assessment missions and existing knowledge in the line ministries is helping to put in place the architecture for the policies and strategies and learning lessons from other parts of the world. Much of this process is already over. What is needed now is the translation of the work done and direction of the future work to arrive at the first set of nationally owned policies, strategies, required institutional structures and implementation mechanisms in each sector. This is the task that each line ministry with the support of international agencies must move towards rapidly. It cannot be all planning and strategy development, but must rapidly move to results within the architecture.

Principles

The government will adopt the following principles in the formation of social policy under this pillar:

- Need to create the capacity within the government for dealing with humanitarian emergencies
- Promotion of cash-for-work as the principal vehicle of public works programs, to be supplemented by judicious use of food-for-work. The emphasis will be labor-intensity and utilization of every opportunity to provide employment.

- Ensuring that food aid contributes toward the creation of sustainable livelihoods and does not undermine the local production and marketing of food.
- The need for creation of information management systems for up-to-date assessment of vulnerability, timely monitoring and responsiveness.

Implementation Capacity

The successful implementation of this vision will depend on the existence of capacity both within the government and with other actors. The NDF recognizes the strengths and constraints of the various actors and organizations that will be key to our success in rebuilding Afghanistan.

Institutions

The government: The current administration has made a strong commitment to use assistance in an accountable, transparent and efficient manner. Its immediate priority is to address humanitarian crises and improve human development indicators. It is also committed to the formation of human capital and a sustainable social policy. It fully endorses the Bonn process and is committed to strengthening institutions of governance, building on its existing laws and procedures. It enjoys the strong support of the international community and the prospect of significant financial resources. In all these tasks the Government recognizes the critical need for international assistance for many years to come.

The functioning of the administration is constrained by the lack of physical infrastructure, which has been destroyed over the years, and the absence of telecommunications. The perceived absence of the rule of law is a legacy of the last 23 years of foreign invasion, war and terrorism. Its personnel, while dedicated, have not benefited from training in recent years. Despite the difficulties ahead, the government remains committed to filling gaps in its capacity to deliver while being conscious of the possibility that the development of national capacity may fall short of the vision, thereby creating a gap between expectations and delivery. This danger will be there, which should strengthen the resolve of all actors, including donors, to stay the course till Afghanistan is able to stand on its own feet again.

UN agencies: The UN agencies have been the dominant actors in the humanitarian area. Their expertise in their respective mandates allows them to focus, be present in different parts of the country and brings with it the skills of managing humanitarian crises. In Afghanistan, they have committed themselves to a light footprint. They are oriented to achieving national targets but these cannot be achieved by their own resources or without government and NGO counterparts.

At the same time they tend to become focused on isolated and fragmented programs rather than collectively address the whole picture from a programmatic and long-term development angle. There is a tendency to expand the number of international staff with enormous salary differentials between them and national staff in government, which can undermine the goal of capacity building. This dependence on international staff reduces opportunities for building national capacity.

There is an opportunity to initiate a limited number of clearly formulated programs with measurable targets and outcomes and to partner with the government on a clearly delineated program of capacity building. Monitoring and evaluation of humanitarian assistance needs to accompany both the planning and implementation of programs and projects. Finally, international agencies in Afghanistan must build exit strategies into their program design and implementation in order to guarantee the building of national capacity.

NGOs: The non-governmental organizations (NGOs) have a proven record of implementation and presence in many parts of the country. It was the NGOs who kept the humanitarian agenda alive against the opposition of the Taliban and secured the respect of the international community. Their focus is on small and medium-sized projects and working directly with the communities. Both the number of NGOs and those working in them will grow in the coming months in the absence of developing private sector capacity. They can make a valuable contribution in humanitarian and social sector service delivery and play a key advocacy role.

However, in accordance with our commitment to efficiency and effectiveness in the utilization of the funds provided by donors and ensuring results for Afghans, NGOs have been asked to address the issues of performance and accountability and to develop concrete proposals to ensure this. NGOs also need a robust coordination mechanism—among themselves and with the international agencies to avoid duplication, harmful competition, pursuit of conflicting agendas, tensions between Afghan and international NGOs and among the established and new entrants, and geographic concentration of operations. All actors will have to be vigilant to avoid overwhelming the implementation capacity of NGOs and to contribute to developing the capacity of Afghan NGOs.

Communities: Communities will be the source of strength and critical to success in whatever we do in humanitarian assistance and in the social sector. This is a lesson derived from other countries but in Afghanistan communities are particularly strong because they have had to work together to develop coping strategies, and have well-developed networks and cross-cutting ties, locally, nationally and internationally. Communities have a strong desire for legitimate local leadership. At the same time, the emergency has split up many communities and many have become internally displaced. Where they are still together there is an absence or weak support for basic social services. With the an estimated 1-2 million returnees, strains are likely to grow and coping mechanisms be tested further. Above all, families are looking for sources of income and livelihoods. Ties with the market have been severed. Failure to provide communities with basic social services and livelihood opportunities can result in migration to cities, which

does not guarantee job opportunities for their skills. It would also lead to the capture of resources in rural areas by the elite. There is a risk that the government, NGOs and UN will adopt hierarchical and bureaucratic approaches to community programs. There is an opportunity to put in place programs that empower communities to choose their own local leadership and select project priorities.

Afghans are enterprising people. The private sector will play a major role in the Afghanistan of tomorrow and entrepreneurs will be tapped both for their financial and entrepreneurial resources. The delivery of many routine government services will be contracted out to the private sector rather than rely on government as the sole deliverer. However, in the social sectors of health and education, the government will continue to be the major player for delivery of services to ensure their universal access but the scope and implications of cost-sharing will also be explored in the medium-to-long-term.

Organizational structures

Much of the institutional and organizational structure that existed has to be re-built – both in the government and the private sector. This provides an opportunity to learn from what has worked best in other countries, but there also existed some well-functioning organizations in Afghanistan in the past and these can be revived (such as in teacher training). The private sector is already equipped to provide transport and logistics. After years of a centralized system of government, there is an opportunity to put in place mechanisms for ensuring decentralized priority setting. The safeguards to protect the public from harmful private practices also have to be put in place in virtually all sectors. The policy of the government will be one of actively promoting the private sector but with an efficient and supportive regulatory structure.

Programs

The government's priority programs include:

- **Return and reintegration** of the internally displaced and refugees.
- The provision of **education** with particular focus on training and recruitment of teachers, and vocational education aimed at the absorption of ex-combatants and the lost generation.
- Addressing the problem of **chronic malnutrition** and providing **preventative health care** with investments directed toward the poor and rural areas.
- Promoting **sustainable livelihoods**.
- **De-mining and demobilization**.
- Creation of a sustainable **social policy**.

Refugee Return

The return of our refugees from abroad marks a happy occasion. After long years of exile, all our people will be congregating at home. Each house that is reconstructed becomes a home, each field rehabilitated a piece of the patrimony, and each child sent to school becomes a source of future hope and a promise of opportunity. Our people are literally staking their claims upon their country, and in the process, becoming stakeholders in a system where as citizens, they expect their government to represent and respond to their aspirations and needs. Their re-absorption into the economy and reintegration into the society and polity is, however, a formidable challenge.

Between 1.4 and 2 million Afghan refugees are expected to return. The measure of success of repatriation is the integration of the family within a community with the assurance of the means to establish a secure livelihood. The established approach, based on providing individuals with transport, limited cash and food is insufficient to ensure orderly integration of these individuals and families into the communities and the nation. Providing them with transport is a means towards this end and not the end in itself. We are therefore asking all stakeholders engaged in the humanitarian arena to help us implement a program for reintegration of the returnees.

Should we fail to create the conditions for reintegration of the returnees in rural areas, there will be an inevitable movement towards urban centers in general and Kabul in particular. Shanty towns, with all their frustrations and disenchantments, will be the consequence.

For those who do return to the countryside, the prospects are not necessarily any brighter. Four years of drought and the near exhaustion of coping strategies of communities inside the country may prevent them from offering assistance to returnees, apart from other tensions that may arise. There are serious concerns about the availability of drinking water, lack of credit for housing programs, and absence of programs for enhancing security of livelihoods.

The NDF envisages a systematic approach, which considers the whole needs of the returnees, particularly those of basic social services and livelihood creation to build up their asset base. What is required is to integrate the projects of the various UN agencies and NGOs into a program devoted to integration of the returnees and enhancing the assets and security of livelihood of communities. Drawing on international experience of project displaced and involuntary resettlement could be valuable, particularly approaches that provided the returnee with a voucher that could turn her or him into a valuable resource for the recipient community.

We are in the advanced stages of preparation of two national programs focusing on labor-intensive works and block grants to communities to provide the means for reintegration of the internally displaced and the returnees. Mechanisms will be established to enhance the absorption capacity of recipient communities by systematically factoring in to

ongoing or planned programs potential returnee numbers. Implementation of these programs should assist in achieving our goal. We do, however, need an urgent reorientation of the effort by bilateral donors, the UN organizations and NGOs to enable us to deal with the issue of absorption of returnees in a coherent and principled manner.

Integration of the internally displaced and enabling them to recreate their communities is a priority of the government. Chairman Karzai has designated 10 areas as the initial focus of a program that would take a developmental approach to enable the internally displaced to return to their places of origin in security and comfort and to provide them with support until their livelihoods are secure. Each of the 10 areas presents a different challenge and requires a tailor-made approach to the realization of the vision of the government. Each of these areas needs to be rapidly assessed and measures for short, medium and long-term support to these people should be proposed, agreed with the government and implemented.

One option would be to establish a national command center to implement and supervise the implementation of a nationwide program for returnees. This command center would be supported by a network of field officers that would provide regular information on the movement and needs of the returnees, communicate relevant information on the support programs and be able to take quick decisions in response to an emergency.

Education and Vocational Training

Quality education is the foundation for poverty reduction and economic growth. The Back-to-School campaign has generated enormous interest and hope. The goal, however, is not only to get 1.5 to 1.7 million children into school. It is to get all children back-to-school and ensure that they are getting quality education. There are a number of additional actions, which are needed in this regard before the desired results from the back-to-school campaign will be seen. There is a need to establish the number of teachers who are actually engaged in teaching, provide teacher training, establish a system for evaluating the skills of teachers and their commitments, provide them support to enhance their skills, and ensuring timely payment of their salaries. The curriculum in primary schools will also be examined for relevance. Providing support to teachers and children through radio programs will be enhanced.

In primary education, a system of monitoring using NGOs, government and communities will be developed to ensure that learning spaces are actually functioning and that programs of construction and maintenance of schools are undertaken with community support. The limitation of space in schools will require using double-shifts. A mid-year evaluation of basic competencies and the use of textbooks for primary schools is necessary. Secondary schools have also to be strengthened. Relevant stakeholders will be brought into a National Task Force to examine the curriculum for secondary schools and develop a program suited to the needs of a private sector-led economy.

In tertiary education too we have to bring within a Task Force the relevant stakeholders to examining the requirements of a tertiary education system. The Task Force will

recommend policies and programs for the creation and sustaining of a nationwide program of higher education devoted to the production of graduates that would manage the developmental effort, promote economic growth, and embody the national unity of the country. Serious attention will be given to the examination of the number of universities that can be centers of excellence and a system of junior colleges that would be suited to harnessing the comparative advantages of different parts of the country. The Task Force will also look at a strategy for securing sustainable funding for higher education.

Vocational training is an urgent priority for us, as it would enable us to address the needs of women, the ex-combatants and the internally displaced and returnees. The mujahadeen, who sacrificed so much in the cause of our freedom, need to be absorbed with dignity and honor and vocational training combined with provision of credit could become a major instrument of reconstruction and growth. Literacy and numeracy programs also need to be considered for those who have missed or received inadequate education in the last decade or so.

Financial management systems to ensure timely payment of salaries and recurrent expenses of the educational system should be developed and mechanisms for ensuring efficient and transparent use of funds in the education sector undertaken. A review of personnel and supporting systems should be developed and implemented.

Finally, health and education interventions need to be linked through the development of school health programs to strengthen primary health care.

Health and nutrition

In *health and nutrition*, the immediate need is to implement an essential package of services that includes significant rehabilitation of existing infrastructure, where it is appropriately located. Immunization campaigns for polio and measles will continue along with strengthened efforts for routine EPI. These are doable and resources should be mobilized rapidly. There is a major nutritional challenge ahead that requires urgent actions to halt deaths due to malnutrition. Concurrent efforts are needed to strengthen health facilities and capacities in all urban centers and outreach clinics. Until such time as the government has the capacity to service the outreach clinics, reliance will have to be placed on NGOs to provide essential health services, again in a coordinated manner so that we cover as much of the population as possible in a relatively short time.

Afghanistan ranks 169 out of 174 countries on the human development index. It has some of the worst child and maternal mortality indicators in the world. Available data suggests that in 1995, infant mortality stood at around 113 per 1000 live births and under-5 mortality at 165. Maternal mortality is difficult to gauge due to lack of data but all the evidence suggests that it is very high. Malnutrition rates among children under-5 are reportedly very high with a number of children dying from malnutrition. Afghanistan must aim to significantly lower infant and under-5 mortality within the next two years

using well-understood measures from around the world. This may be a tall order, but the goal must be set high not low. A major, focused and sustained effort will be required if this target is to be achieved. All the major actors engaged in the reduction of child mortality will need to review their capabilities and jointly arrive at methods for determining the division of labor, systems of accountability and information sharing, and set monitorable targets for achieving the goal across the country.

Some specific **sub-programs** based on assessment of the situation in Afghanistan have been identified:

- Analysis and monitoring of the location of hospitals and clinics and their recurrent costs;
- Training of medical personnel and community health workers;
- Certification of doctors, nurses and pharmacists;
- Provision of affordable quality medication for the poor and reforming the practices of collusion between pharmacists and doctors;
- Procurement and distribution of medical equipment based on national need;
- Translation of the recommended strategy on preventive health care into implementable programs and projects;
- Addressing malnutrition.

Malnutrition in particular needs urgent action including:

- Fortification of wheat distributed by WFP with micronutrients;
- Improving the basic package provided under humanitarian assistance with oils and pulses and distributing these to populations where the information on chronic malnutrition is up-to-date;
- Mobilizing the NGOs, communities, UN agencies and government offices to agree on a format for rapid assessment of conditions in areas of high vulnerability and then in the rest of the country;
- Setting up a joint management team between the government, UN agencies, and NGOs to regularly assess the situation, report to the administration, and take prompt decisions for directing resources to where they are needed.

Livelihoods and social protection

Livelihoods: Afghan communities have shown remarkable resilience in the face of foreign invasion, internal strife, drought and natural disasters. The combined impact of the political, social, natural, and economic crisis has, however, weakened the communities and may have led to the exhaustion of their coping strategies. Furthermore, the dominant position of the commanders in some areas has deprived communities of legitimate voice in determining their priorities. A nationwide community-driven development program, to be called the National Solidarity Program, is the vehicle by which the Interim Administration intends to empower both rural and urban communities. This program, to be undertaken in partnership with the World Bank, the European Union and other interested donors, will involve the transfer of block grants directly to communities against a planning process undertaken by the communities and a facilitator.

Creating employment and supporting livelihoods is critical to assisting local communities to emerge from twenty-three years of conflict and social disruption. The provision of humanitarian aid must respect local community coping strategies and—to the extent possible—promote local economic activity. Food aid should be provided in a manner that supports sustainable livelihoods, ensuring that local production and marketing of foods are not undermined. Cash-for-work assistance may prove to be more effective in areas where access to food rather than availability is the constraint. Immediate investment in labor-intensive public works schemes to place cash in people’s pockets must be given priority. Rapid labor market assessments need to be undertaken to identify skills and occupational profiles in order to help with job matching and the planning of skills training programs. Support to micro, small and medium enterprises through the backing of micro-finance schemes and the provision of training in small business management is essential.

Afghanistan has a cash economy but the vulnerable population has little access to cash. Labor-intensive work programs are the major instruments for injecting cash into the economy. Consequently, a full review of the food-for-work approach should be undertaken to establish a system whereby distribution of food, in the form of grants or food-for-work, sends signals to the local and national markets for production of wheat. The hungry months before the harvest are a serious concern, but given different times of maturation of the cereals of wheat in the country, it is imperative that local production be reinforced and that import of wheat from abroad does not undermine the commitment of farmers to grow and sell wheat.

Social Protection: We are keenly aware of the need for a social protection policy that would address the needs of our disabled and vulnerable populations—including women and orphans. Disability and vulnerability are major problems in our country. Provision of employment and livelihoods for vulnerable populations and protection of the disabled women and children from abuse and neglect are essential elements of a social protection policy. Opportunities for income-generation for families will be critical for maintaining peace and stability in the country.

We will launch a systematic survey to classify these groups into categories whose needs can be addressed through tailor-made programs. In urban centers, programs of public works are expected to be a major source. The greater challenge will be in rural areas. Rapid labor market assessment and available skills, emergency public works programs, vocational training of youth and adults, and microfinance are among the approaches that have been identified. Some of these programs will be in the nature of short-term interventions while others will entail long-term commitments. Drawing on international lessons, we will have to carefully delineate the roles to be played by communities, NGOs, the government and the market in realization of such a policy.

Government employees and pensioners also fall within the category of vulnerable as their current incomes are below one dollar a day. As state enterprises have become largely defunct, currently state employees in Kabul only work four hours a day and devote the rest of the time to supplementing their official incomes. It is also clear that a significant number of employees currently on the payroll of the government are not capable of performing the functions of a modern government. Even more significantly, there are large numbers of mujahadeen who will require reintegration and demobilization.

The challenge for articulating the required social policy is as follows: (1) What should be the role of the market in providing sustainable opportunities? (2) How should vocational training and labor-intensive public works be organized to absorb the maximum number of people during the short-term? (3) What should be the form of assistance to vulnerable households and the ultra-poor? (4) What should be the approach to pensioners and the civil service?

Cultural heritage, media and sports

As one of the original crossroads of history, we have a cultural heritage that reaches deep into pre-history. Preservation of our cultural sites, prevention of looting and theft by unscrupulous individuals and groups, support for artisans who can help and preservation of our key monuments, rehabilitation of parks and neighborhoods surrounding our major monuments and programs to articulate strategies for getting communities to participate in preservation of their cultural patrimony and for the promotion of tourism are some of the activities that we need to undertake urgently in the field of cultural heritage.

Extending the reach of radio Afghanistan to all the country and enhancing the capacity of radio and television to prepare and disseminate programs that cater to the aspirations and needs of the citizens are another critical domain of activities. The circulation and reach of the printed media has been diminished considerably. We need to invest in the infrastructure to enable the printed media to function effectively.

Annex 2: Pillar 2 - Physical Reconstruction and Natural Resources

The goal for the second pillar of physical reconstruction and natural resources is the effective utilization of external assistance to provide the physical infrastructure that lays the basis for a private sector-led strategy of growth.

The attainment of the goal of this pillar will be mutually supportive to the goal of the first pillar of developing human capital and providing social protection. The strategy would be led and managed by the government in partnership with donor agencies, NGOs, communities and households.

Principles

In accordance with the policy and approach laid out by Chairman Karzai , the implementation of infrastructure projects will be entrusted to the private sector. There is consensus in the government on the need for investment in infrastructure as a means of creating jobs and promoting growth and equity and to keep the government out of areas that the private sector can deliver more efficiently. At the same time, the government will promote the participation of communities in establishing their priorities and in the operation and management of infrastructure facilities at the community level. The government will also promote monitoring of implementation by the communities so that the private sector is accountable to those who are the intended beneficiaries of the investments.

The selection and implementation of all key projects will be based on the criteria of economic return with a clear articulation of the social and environmental implications, in particular the risks posed to the poor and other vulnerable populations. Recurrent costs pertaining to operation and maintenance should be clearly analyzed, and mechanisms for ensuring allocation of resources for these items should be established. Policies and implementation arrangements to assess and mitigate the environmental and social impact of infrastructure investments should be adopted and appropriate organizational arrangements for their effective implementation created.

To be able to fulfill its role for the promotion of the private sector for infrastructure development, the government will need to acquire the capacity for setting priorities, evaluating alternative policy options, and regulating and monitoring the activities of its implementing partners. In considering the options, the government will promote the use of labor-intensive methods to create employment.

Good project management techniques need to be supported in the government financing of infrastructure. For example, all projects should have an information management system pertaining to all phases of policy and implementation, which should be disseminated in several languages. Technical assistance should be based on a clear definition of function and role to be performed by the ministry and the articulation and implementation of national priorities.

Realizing the limitations of Afghan private sector capacity within the country, the government is committed to creating the enabling environment for the operation of national and international firms that would implement its major development projects. The government plans to utilize technical assistance in a systematic and coordinated way to enhance the capacity of its staff and partners.

The government will promote the participation of communities in establishing their priorities and in operation and management of infrastructural facilities at the community level. The government should also promote monitoring of implementation by communities.

Implementation capacity

There is a consensus in government that there is a need for investment in infrastructure as a means of creating jobs and promoting growth and equity. The technocrats in the ministries were hoping to resume their relations with development institutions that would promote a state-led model of growth. To build the capacity of the ministries for policy-level interventions, the Cabinet has decided to create implementation cells in ministries. These cells will be composed of 10-40 staff selected on the basis of a clear definition of functions and delineation of specific competencies. Members of these cells will be paid at the market level for the duration of the Interim Administration.

Infrastructure projects will have a significant role in linking the provinces and districts to the central government. This will help in regularizing provincial and district administration as important parts of the government with a stake in monitoring the projects. The government will make a systematic effort to limit the size of personnel in Kabul and create incentives for its staff to be in provinces, particularly the remote ones. A policy and implementation cell for physical reconstruction and natural resource management will be considered in each province.

The government is committed to creating the enabling environment for the operation of national and international firms that would implement its major development projects through performance-based contracting. The government plans to utilize technical assistance in a systematic way to enhance the capacity of its staff and partners. International best practice will be drawn upon to promote the emergence of an Afghan contracting industry. Innovative approaches to building their capacity, setting standards for their performance and periodic evaluation of their performance and dissemination of this information to the ministries and the public should be undertaken. Afghans in the neighboring countries and in the Gulf have acquired significant experience with contracting. These firms and individuals will be attracted to repatriate and assisted to form companies or enter into joint ventures with international firms. Timely preparation of infrastructure projects depends on an effective consulting industry. The government and donors should cooperate to attract international firms to the country and promote joint ventures between capable Afghans and these international firms. Contracts with private firms should be performance-based.

At the same time, the government will enhance its capacity to prepare feasibility studies, to regulate the contracting industry, to manage financial flows and to monitor and supervise project implementation. It will also enhance its capacity to assess the environmental and social impact of infrastructure programs.

International experience has shown that effective operation and maintenance cannot take place without the involvement of communities. As Afghan communities have acquired significant experience in self-management during the years of absent government, it is imperative that community involvement and empowerment be a significant part of the strategy.

Given the lack of interest of the Taliban in infrastructure, UN organizations assumed responsibilities in this area. These, however, do not accord to their mandates or comparative advantage. With the entry of developmental organizations in the private sector, the role of the UN agencies should be redefined and an exit strategy from involvement in infrastructure should be agreed upon with the government and implemented.

The NGOs have performed a valuable role in assisting communities and households to gain access to basic infrastructure. They have a significant implementation capacity to assist in implementing new programs. Some of them have pioneered methods to enhance the capabilities of communities to implement programs directly. Such efforts should be seriously encouraged. Performance-based contracting with governments and donors could be a useful tool of partnership and accountability. Some NGOs are in contractual relations that resemble the relations between the private sector and the government in other countries. As there will be significant opportunities for a contracting industry, these organizations should be encouraged to become firms.

While there is need to address the lack of financial sector organizations and availability of credit, the hawala system which is already in place will provide means of financial transfers.

Programs:

The government's priority programs include:

- Transport
- Energy, Mining and Telecommunications
- Urban Management
- Natural Resource Management

Transport

The goal in the program for transport is to have an efficient, affordable transport system enabling people, commodities, and ideas to move and connect. The transport program consists of roads, air, navigation, and urban transport.

Roads: Priority roads need to be rehabilitated both in the core highway network and for rural access to generate economic activity and provide access to markets both domestic and international. An assessment has been made based on data from the mid-1990s, which will need to be revised and design plans prepared. More recent estimates have been prepared by ISAF for some of the primary and tertiary roads surrounding Kabul. Immediate action on these roads and other infrastructure support is envisaged from ISAF. These actions are intended to take advantage of the presence of ISAF engineers who are in Afghanistan and are not meant to be any expression of a government priority for roads and infrastructure over other immediate social sector needs. Every reasonable opportunity needs to be grasped in all sectors.

The roads program consist of: (1) repair and expansion (where necessary) of the existing or previously paved network; (2) completion of the national ring road and constructing and paving of the Kabul-Herat road through central Afghanistan; (3) construction and improvement of roads linking farms to markets and allowing for improved delivery of assistance to remote and vulnerable areas; and (4) construction of roads for access to mines where local or international capital would be willing to make investments.

Civil Aviation: In the short-term, the priority is the rehabilitation of key airports to permit international companies to land in Kabul, between Afghanistan and other countries and within the country. First, this requires the repair and retrofitting of terminal buildings, cargo and customs storage facilities, and rehabilitation of runway, taxiway and apron in Kabul. Priority also needs to be given to establish on an emergency basis, aeronautical communication and navigational aid facilities at Kabul International Airport. Second, rehabilitation of Jalalabad, Mazar, Herat, and Kandahar airports will allow for rapid internal communications and to use the larger airports for the export of agricultural and horticultural products. Third, rehabilitation and improvement of the small airports that were previously being served by the Bakhtar airline will expedite connections between central, provincial and district governments. Fourth, there is a need to devise a system for granting licenses and landing rights to airlines to privatize Ariana Airlines. Some of these needs can be met immediately using available capacity. In the longer term, there is a need to restore the badly damaged and dysfunctional civil aviation training center.

The **navigation** system is currently limited to the Amu River. Barges on the river have been a major means for the delivery of humanitarian assistance. A systematic review of water transport needs to be undertaken.

Urban transport poses a challenge for creative design, drawing on lessons learned from the experience of developing and developed countries on effective, environmentally-friendly and affordable systems of public transport. The government has designed an

urban transport program that would see traffic systems installed in Kabul and urban access roads paved in major cities.

The private sector was the key actor in urban and intra-urban transport as well as in the carriage of goods from the 1950s to the 1970s. Some of the companies from those days still exist. Inner city transport, however, has been severely damaged. Substantial capital investment would be needed to revive this sector but it would also need an enabling environment. Reliable repair and maintenance workshops that would be certified through a transparent process have not existed for some time and pose a major constraint. The insurance for transport vehicles was at a rudimentary stage in the 1970s and most vehicles are uninsured.

Regulatory Frameworks. The state monopoly on fuel has been broken but there are no processes of certification of gas stations and no regulation on the quality of fuel. Gas emission standards have not existed and pollution from vehicles is emerging as a major urban challenge. In the 1970s there was a progressively higher tax for vehicles depending on their age, with older cars paying a higher tax. With the breakdown of authority, this system is no longer in force.

Energy, mining and telecommunications

Energy, mining and telecommunications have been grouped together into one program because of the similar nature of the issues in the sectors, in particular the regulatory issues

Energy: The goal is to provide power to households, enterprises and government- especially for health and education- by harnessing various sources of energy.

Immediate improvements are needed in the **production, transmission and delivery of electricity** to consumers. There are some hydropower generation projects using small and medium-sized dams that need repair and the injection of capital and technical know how. In addition, renewal or building of a series of mini-hydro power projects in rural areas should be considered for electricity generation for rural areas. This needs to be studied systematically and sources of funds explored for expansion of electricity throughout the country.

The country has proven resources of natural gas, which is currently being utilized in the northern areas under a system of state-owned enterprises. Sustainable exploitation of natural gas requires a systematic review, development of appropriate policies and a series of projects to promote the best use of natural gas for the country. The joint donor mission has proposed a study on the feasibility of a very important pipeline to bring natural gas from the north to Kabul.

Coal has been a traditional source of energy. There exist large deposits of coal but most coal mines require investment to make them operational again. The efficiency, economic

feasibility and environmental implications of using coal in relationship to other sources of energy requires further analysis to arrive at policy decisions.

There are some proven petroleum reserves in the country and indications that there may be substantial reserves in other parts of the country. The right international players need to be attracted. This will require the development of policies on exploration, granting of concessions and exploitation. Pipelines linking the oil and gas of central Asia to consumers in South Asia are both a source of energy and earner of revenues for the government. Mechanisms to gain support for this important project are being explored by Afghanistan, Pakistan and Turkmenistan.

Solar power and windmills are two other possibilities to explore. Afghanistan has among the most number of sunny days in the world, so the feasibility and affordability of solar power can be explored. The same is true for power generated through windmills, which are already in use in parts of the country. Both these alternate sources of energy should be explored in the medium-term.

Telecommunications: The goal in telecommunications is to create the enabling environment for a competitive market that would provide a reliable and affordable service to the people and earn revenues for the government.

Telecommunications is the life-blood of economic development. The system that existed has been destroyed. Telecommunications is a priority if other economic sectors, particularly private sector investments, are to pick up. Apart from rehabilitating what already exists as a short-term measure, a comprehensive assessment of needs based on the IA's policies and principles and statements of policy principles, specifically for the telecommunications sector, will be developed. Early and sustained development of the postal infrastructure and services to increase access and investment will also be carried out based again on the broad policy directions that need to be developed.

The government will adopt a policy framework for granting licenses, setting standards of taxes and establishment of the regulatory system to ensure a competitive market. This would also be needed for broadcast communication. Transparency in the procurement of supplies and equipment will be essential. Trade-offs will have to be considered between generation of revenue and provision of coverage across the country. Experiences from other countries and the opportunities of leap-frogging technologies balanced against their affordability will need to be studied to arrive at an appropriate mix. The entry of the private sector into telecommunications and the transfer of the role of the state from provider of services to regulator will require development of policies and regulatory mechanisms.

Mines: The goal is to attract investment in the natural assets of the country, to develop industrial enterprises, to provide sustainable employment to the people and revenue to the government to invest in human capital and infrastructure.

All sub-soil natural resources belong to the government, according to the Constitution of 1964. Realizing the need for a clear policy framework, the government has initiated work on a framework to enable national and international private sector to participate in the development and sustainable exploitation of the natural assets of the country.

Mines and enterprises relating to the **construction industry** are an urgent priority. The government will make the necessary investments in the relevant mines to allow better utilization. It will invite private sector participation in cement and other areas of construction. It may invest in and revive the cement and brick making factories if private investors do not come forward rapidly. The government will take active measures to promote the formation of a private-led construction industry and it seeks assistance in setting standards and promoting access to credit for enterprises in this industry.

Marble is a significant asset and could provide the basis for employment and development of a specialized industry. The government will establish a framework for the participation of the private sector and seeks technical assistance to revive and develop this industry.

Coal mines have been damaged and have little or no machinery. The government will put a framework for the participation of the private sector in this area, and is considering small investments to revive the mines. Semi-precious and precious metals have been exploited in an unsustainable manner. The government will develop a policy for the sustainable use of these resources and will adopt measures to promote the development of a specialized industry in this area.

The country has large proven reserves of **copper and iron**. The government will draw upon international experience to adopt a policy for the use of these resources to build an industry and an export market.

Oil and gas are assets to be used for meeting the domestic energy needs for the development of related industries and for exports. The government will undertake a comprehensive review of the oil and gas industry to develop a system for granting concessions for exploration and development of oil and gas, and for investment in related industries.

The government is launching a full geological survey of the country and will be in a position to offer a more refined approach for the use and development of the **precious stones**.

Urban management

The goal in urban management is to invest in a balanced urban development program across the country to create viable cities that are hubs of economic activity, and organically linked to rural areas. With the concentration of population in some cities, they

would play a major role in the overall improvement of human development indicators. The municipal infrastructure needs to focus on some immediate and pressing needs; sewerage, waste management, drinking water and sanitation in twelve cities.

The government intends to open up the energy and infrastructure sectors to private participation and investment within an appropriate policy and regulatory framework. Extension of these facilities will follow a decentralized approach working with communities to expand the delivery of infrastructure services. In the short-term, the approach will be to proceed with urgent reconstruction work while putting in place the institutional building blocks for sustainable future delivery.

A program has been designed to enable the reconstruction and rehabilitation of the power systems in Kabul and in twelve secondary towns. This is an urgent need, which has to be simultaneously accompanied by putting in place systems for billing and collection, upgrading and skills training of staff, and a review of longer term options, including a framework for private sector participation. Funds are needed urgently for this sector to begin the reconstruction of its facilities- procure tools, plant and materials, office equipment and vehicles through local sources. Some of the equipment required will be complex and support is needed to determine the design and specificity. The reconstruction and upgrading of the urban systems will proceed simultaneously with the rehabilitation of building of the electricity department. In the more medium to longer term the options of oil and gas, currently being used for power generation in the north, will be explored.

There needs to be a systematic rebuilding program for Kabul, and other cities that have been destroyed. Shelter and housing are critical areas of support for returning populations. Standards will need to be developed and supplies and institutional mechanisms created to support the development of settlements and allow for the creation of new homes.

Urban drinking water infrastructure is very weak. The Central Authority for Water Supply and Sewage has been responsible for urban water supply and sewage. In the past, this authority had the capacity to procure material and had the expertise to manage the city network, including collecting revenues through metering. Much of this capacity has dissipated and the NGOs and some UN agencies have been upholding less than a minimum level of coverage. There is virtually no city water supply. Reliance has shifted to extraction of groundwater through private pumps or wells. The city water supply is dependent on several well fields and the Paghman river basin. If city water is to be supplied, then these well fields will need to be rehabilitated but any extraction must be based on long-term sustainability considerations.

There is no **sewage** system in Kabul city. There existed a sewage treatment plan in Kabul University and Micoyan, which are both now not functional. The sewage from the city now goes to the river untreated. No other city has a sewage system and most houses and building complexes rely on septic tanks. Urban sanitation coverage is estimated at around 23 per cent.

Natural Resource Management

The goal in natural resource management is to preserve, invest in and exploit in a sustainable manner the natural resources of the country to improve the standard of living of the poor. The management of natural resources cuts across many economic sectors: agriculture, forestry, pastoral or animal husbandry, and mining and industry.

Agriculture The objective in the agriculture sector is to enable the farmer to respond to the domestic and international market through better knowledge, tools and linkages with the market. Agriculture is the main source of livelihood for the majority of Afghans. The sector has suffered badly as a result of droughts and conflicts, but it can and must be revived rapidly if another season is not to be lost and the massive dependence on food aid reduced. Every effort will be made to reduce the vulnerability to drought through ensuring the availability and distribution of inputs, repair and rehabilitation of rural infrastructure, including existing small-scale irrigation facilities and water conservation and harvesting. But much also depends on the severity of droughts this year. The focus will be not on devising quick solutions such as uncontrolled exploitation of ground water but rather on evolving a water policy and strategy that significantly reduces the impact of the naturally high variability in rainfall and snowfall. Provision of seeds, fertilizers, approaches to dry-land cropping and building the information base and knowledge of the farming community are all part of the evolving strategy and actions.

A private sector-led strategy of agricultural growth requires redefining the role of the state in the area of policy and reorganization. Functions and areas of responsibility of the ministry will be redefined and staff with the right qualifications to lead such a process will be recruited. The critical role of small-holder and rural communities for reviving the agricultural sector and rural economies will be emphasized.

A number of opportunities exist and actions are needed. After years of drought, agricultural credit is a major need to re-start the sector. Affordable **credit** has to be provided to farmers who have a major debt burden because of poppy cultivation and years of drought. A program to document the existing range of seeds, develop a gene bank and implement a program for obtaining and disseminating improved varieties of seed is needed. Both organic farming and the ecological variations of the country will be exploited to develop niche products for the European and Gulf country markets.

Afghanistan has had a rich heritage of growing **fruits**, but both vineyards and orchards have incurred substantial damage. A systematic approach relying on the market will need to be followed to allow farmers to revive their vines and grow marketable fruits, though some farmers will need state support to rehabilitate damaged orchards which may take some time until they are again productive. But greater value has to be added in this sector by processing agricultural products for the external market. The development of a private industry around the processing of agricultural products, which meets the health and

regulatory standards of the European market is essential. Similarly, spices and pharmaceutical plants such as saffron and cumin, which are already produced for the export market have to be increased. There is a systematic need for investigation of high value, low volume agricultural products that can serve as substitutes for opium.

To enable the agricultural sector to increase its productivity, modern **agricultural tools** will be necessary. A program to enable the private sector to produce affordable agricultural tools and machinery will be launched and training and credit provided to farmers to improve their productivity. Years of war and drought have inflicted severe damage to draft animals used by farmers. A program to enable them to obtain disease-free draft animals will be launched.

The growth of agriculture as a major sector will also require investment in **agricultural research**, soil and crop analysis and a major outreach effort to provide farmers access to best practice and scientific analysis in easy-to-read languages. Use of radio and expanding access to radios will be explored. To ensure sustainable use of resources, a systematic assessment of the different ecological zones of the country will be carried out and measure for protection of vulnerable ecosystems will be developed. Possibilities of eco-tourism will also be explored.

Access to **land** is regulated through Islamic and customary law. There is need for a program to produce nationwide land registry and to settle disputes between individuals and groups on land. Such a registry would allow for the use of land as collateral for entrepreneurial activities.

Forestry The goal is to protect existing forests and to green Afghanistan through partnership with international organizations, companies, NGOs, communities, and the international ecological movement. Afghanistan will sign the Conventions that will enable it to gain access to grants provided by the Global Environmental Facility. The government will prepare proposals to the GEF for the protection of existing forests. The government is inviting the international ecological movement to assist it in carrying out an assessment of the existing forests, rangelands, pastures and marginal ecological areas and help it develop policies.

The Government is requesting assistance from donors to develop the capacity for utilizing funds made available through carbon trading to invest in nationwide greening efforts. Afghanistan's forests are in danger of disappearing. The government will review the existing legislation on forests, and drawing on international best practice, adopt a regulatory framework that would promote the protection, sustainable use and expansion of forests.

Pastoralism is a significant part of the cultural tradition of the country. Years of war and drought have, however, taken a significant toll on the livestock of both the nomadic and the settled populations. The goal here is to improve the living standards of the pastoralists, to ensure that the pastures of the country are used in a sustainable manner, and to promote cooperation between the pastoralists and the settled populations.

Access to pastures and the rich way for nomads through the lands of settled populations are areas of recurrent disputes that require solutions. In consultation with communities and other stakeholders, the government will undertake a systematic review of the pastures and rangeland of the country to arrive at a policy of sustainable use of these resources.

The government will launch a major program to assist pastoralists and settled populations to obtain access to suitable livestock and promote the development of a service industry geared to the needs of the pastoralists. Pastoralists have traditionally supplied the rural and urban populations with meat. In the 1970s, a program for exporting meat was also initiated. The government will launch a program to promote the development of a meat industry that would provide quality products to consumers in Afghanistan and abroad.

In rural drinking water, NGOs have emerged as significant actors. They have also been involved in irrigation and sanitation. NGOs have also been assisting communities in rehabilitating traditional water supply systems. At the same time, their assumption of responsibility for cleaning water channels in some cases may have adversely affected the established habit of collective responsibility of communities for their maintenance. **Rural sanitation** coverage is very lower at an estimated 8 per cent. There is, therefore, a mammoth task for the country in sewage and rural sanitation. With the onset of summer, there is an urgent need to tackle urban sewage if a major health epidemic is to be averted.

Small and medium-sized irrigation works. For centuries the people of Afghanistan have been self-sufficient in water resources. They have found ways of managing the resource base in which communities themselves had knowledge of and designed ways in which the water resource base could be used in a sustainable manner. The traditional, simple but sophisticated karez underground water channel system has provided some water for both agriculture and drinking. Islamic law and customary law have provided a sophisticated framework for mobilization of labor for operating and maintaining irrigation networks and for distribution of water among communities and individuals. By contrast, in government-build projects, the state has played a role in the operations and maintenance of irrigation systems. Communities have instead been working with NGOs in implementing small-scale projects to improve the drinking water and irrigation access and management. Also, in the recent past, installation of deep wells and pumping from channels for both domestic water supply extraction and irrigation has increased the scope for greater exploitation of water resources. Ground water depletion and the successive droughts have made water scarce in many parts of the country leading to large-scale migration of populations. The use and manner of extraction of water for irrigation must, therefore, be seen in conjunction with other needs for domestic, industry and environment, including that for nature.

River basin management. Rivers are among the most important natural resources of the country. Sustainable management of the rivers and their use for irrigation and generation of power is critical to the prosperity of this country. International experience has shown that river basin management is the best instrument for dealing with the management of

water resources. The government is therefore considering creating a Commission for management of each of the major river basins of the country.

Water

Water will not form a separate program, rather the issues will be dealt with by the urban management and natural resources program. However, we will need to ensure water resources are used and preserved in the most environmentally and socially sustainable manner and that there is coherence in policy-making. Major reforms may be necessary to achieve this goal. Several government departments have jurisdiction over water resources of the country – Ministries of Water Resources and Irrigation, Rural Development, Agriculture, Mines, and Water and Power. They are all users of the water resources and claim responsibility for some section of water resource management. In addition, the Ministry of Urban Development and municipalities have responsibility for drinking water and sewage. Because of lack of attention to planning and management of water resources in the last two decades, government departments are reviving projects that were prepared in the 1960s and 1970s. Water is also a concern of a number of UN agencies. Without a single water program to plan and implement an overall strategy, the efforts of agencies have been driven by a sense of opportunities.

The repeated droughts in Afghanistan and increased food dependence mean that water is one of the most precious resources and must be managed judiciously and in a sustainable manner. In order to bring this about, consideration will be given to setting up a national water authority or mission at the most senior level, or a single water ministry charged with the responsibility for guiding all aspects of water use across all other ministries. In the interim, there will be close monitoring and control on the exploitation of ground water aquifers through drilled bore-wells equipped with a motorized pump for irrigation or industrial purposes. Bilateral and multilateral funds will be expeditiously mobilized to improve management of water resources. A number of Afghan experts have been engaged in management of water resources internationally and have been returning to formulate and implement programs and projects in this area.

One of the first and foremost tasks is ensuring water for domestic use and agriculture. Lack of water has been the source of large-scale movements of populations within the country. Ways to manage the resource base so that it leads to mutual win-win situations in its competing uses with a priority for drinking water have to be found in both rural and urban areas. The government is approaching water resource management on a priority basis. There are a number of existing projects in domestic water supply, irrigation and hydropower, which had been started but have not been completed. Following a quick environmental assessment of these projects we can move rapidly to complete them. These are being identified. New projects must undergo a more thorough scrutiny to ensure that while they will provide water for the multiple needs, they will at the same time do so in a manner that preserves and conserves water resources.

Annex 3: Pillar 3 - Private Sector Development

The goal is the creation of sustainable growth in order for a competitive private sector to become the engine of development and the instrument of social inclusion through creation of opportunity.

The Afghanistan Interim Authority (AIA) views the promotion of sustainable private sector activity and an open and competitive economy as critical to building a peaceful and prosperous Afghanistan. The building blocks of private sector development are: security and the rule of law, property rights, functioning infrastructure, a sound financial system and a stable macro-economic environment.

The Role of the Private Sector

The AIA envisages the private sector playing the following main roles in rebuilding the country:

- *A creator of productivity growth* that will lead to job creation and higher living standards.
- *As a contractor for public investment projects.* Outsourcing the implementation of public investments is the most efficient use of scarce government resources and contributes to a strengthening of the private sector as a whole.
- *As a source of management and technological expertise.* The private sector can provide a source of information, know-how, technology and new ideas within the economy especially if openness to trade and foreign investment is encouraged.
- *As a source of capital for investment.* Private investment, both domestic and foreign, can accelerate the development and reconstruction of Afghanistan. The private sector is the principal engine of sustainable economic growth in an environment in which government's own investment capacity may be constrained.
- *Basic service delivery* that can empower the poor by improving infrastructure, health and education. It is these services that will generate the conditions for sustainable improvements of living standards.

In fulfilling these roles, the private sector will contribute to two of government's key objectives;

- *Poverty reduction.* A thriving private sector will be a critical engine of job creation and higher incomes. By generating employment, the private sector will play an important role in reducing social exclusion within Afghan society.

- *Supporting political and social stability.* In the short-term, private sector development can provide employment and alternative income sources to ex-combatants. Over the longer term, it will give increasing numbers of Afghans a stake in the peace, and help build the social institutions that are the basis of civil society.

Principles for Private Sector Development

AIA's approach to developing the private sector is based on five key principles. Policies will:

- Be based on competitive market-led solutions wherever possible;
- Seek to build clear and transparent rules to establish and implement property rights;
- Seek to outsource all non-core services to private enterprise, and privatize state assets wherever appropriate;
- *Minimize* government intervention in the market, and ensure that necessary interventions are aligned with market forces;
- Ensure transparency and accountability in all government decisions; and
- In the short term (next 6 months), identify and target key bottlenecks that hold up economic development before addressing longer-term issues.

Programs

Finance

An efficient financial sector is a crucial enabler of economic growth. Government institutions will create the stable macro-economic environment that is vital for economic growth and private sector development. Financial institutions are critical in channeling scarce resources to the areas in which they are most productive and in enabling transactions between buyers and sellers in diffuse markets.

In the long term, the successful reconstruction of Afghanistan will require the re-establishment of a functioning central bank, a competitive commercial banking sector and non-bank financial services including micro-finance, credit unions, insurance and pensions. Financial sector development will form one of the main planks of the AIA's private sector development agenda. In this sector AIA will:

- Establish an effective payments and transfers system.

- Create a financial system that offers businesses and individuals access to credit and other basic financial services.
- Establish the institutional basis for government to pursue appropriate macro-economic policies and regulate the financial sector.

Immediate priority initiatives:

Payments system: There is a need for the establishment of an emergency payment system to facilitate key payments and other essential financial services in the absence of a functioning financial system. It may be necessary to set up a system for receiving and channeling funds, including foreign assistance, and establishing correspondence accounts under the emergency payment system. This could also serve as a channel to collect budgetary revenues with its functions eventually being taken over by the banking institutions as they are re-established. At the moment, the Hawala market is effectively carrying out this function and no alternative exists in the short-term. AIA will:

- (i) Review options for means to effective payments with adequate transparency and regulation (including the Hawala market)
- (ii) Establish a rudimentary payments system, including re-establishing a functioning Central Bank and the licensing of a few reputable foreign banks with good regulatory oversight.

Small and Medium Enterprise (SME) Access to Credit: Small and medium enterprises in most economies account for the majority of new jobs and value-added. Access to finance can be a major obstacle to their establishment, operation and expansion. Finance that is geared towards SMEs is desperately needed in Afghanistan and government can play a role in removing obstacles to allow the private sector to respond to this demand. Key initiatives include:

- (i) Facilitate the establishment of a private sector SME bank catering to the middle-market of Afghan entrepreneurs in the main urban centers in partnership with reputable foreign banks.
- (ii) Facilitate the establishment of a private sector Venture Capital fund in Kabul to support local SMEs. The initiative will be funded by private donors and could build on Islamic finance practices.

Micro-finance: Micro-finance refers to a range of financial services for the poor including savings, insurance, transfer payments and credit and should be viewed in the wider context of financial sector development and deepening. Microfinance providers in Afghanistan operate a number of different models with varying degrees of success. Obstacles to successful Micro-Finance Institution (MFI) operation include; high inflation,

lack of infrastructure, security, skilled staff, religious restrictions and cultural sensitivities. The following are options for promoting a supportive framework for micro-finance:

- (i) Establish a micro-finance support facility
- (ii) Support private initiatives to establishment of cooperatives and credit unions following up on currently expressed interests.
- (iii) Support housing finance for the poor with micro-loans designed for incremental house-building and shelter repair.

Medium and long term initiatives:

Medium term initiatives will focus on the development and regulation of the commercial banking sector on private sector principles. International experience has shown that the vast majority of state owned banks are costly failures characterized by large portfolios of non performing loans, capital inadequacy, overstaffing and lack of appropriate controls.

- Re-establish the legal framework and the functioning of the central banking function. The government will enact legislation to set up a central bank responsible for monetary policy and banking supervision.
- Re-establish commercial banking sector starting with “fit and proper” foreign bank market entry. Private foreign banks will provide commercial banking functions and will also provide a range of trade finance instruments that will enhance the attractiveness of Afghan products to foreign buyers. The government will promote foreign bank entry using a range of facilitation methods and active supports.
- Offer compensation to former depositors in defunct public banking system. The government will review the feasibility of establishing a compensation fund for depositors of the former public banking system to help restore trust in banking institutions.
- Remove obstacles to the development of finance companies and private leasing and factoring services. Leasing services will facilitate the establishment of SMEs in key capital-intensive sectors, such as construction. The government will promote the development of private leasing companies with a mixture of an appropriate tax environment and active support.

Investment

Private investment is critical to the recovery and long term growth of the Afghan economy. The government of Afghanistan will develop a supportive and credible strategy for generating foreign investor confidence and interest. This will improve the overall enabling environment for direct investment in Afghanistan and increase realized investment from three main sources; (i) domestic investment, (ii) Afghan Diaspora and (iii) foreign direct investment

All three groups of investors are likely to be deterred by the current investment climate characterized by:

- a prevailing perception of physical threat and insecurity;
- the absence of a commercial legal and regulatory environment; and
- the absence of markets providing access to business inputs including capital, land, labour, utilities and financial and telecommunications services.

In the short-term Afghanistan also lacks not only clear policy directives on both the legal environment and market development but also the capacity to either develop these policies or to administer them. This policy and procedural vacuum extends across a broad range of fundamental issues including, but not limited to:

- foreign investment approval and registration;
- company formation and registration;
- tax registration;
- foreign exchange regulation;
- land ownership and use;
- building codes;
- environmental protection;
- expatriate work permits;
- import processing and facilitation;
- utility provision; and
- business operating licences.

Government will establish a simple and transparent investment regime. It will avoid using foreign investment applications as test cases for the development of the necessary policy and procedures. Such a strategy results in the foreign investment approval process perceived as highly non transparent, discretionary, discriminatory, cumbersome, unpredictable and lengthy. Such an environment, by virtue of the very high risks it generates, acts as almost a complete constraint to long term, committed foreign investment.

Immediate Priority Initiatives

A clear and effective private investment policy will take time to develop. Rather than risk a decline in investor confidence, government will not consider any philosophy which is based on screening and approval of foreign investment applications. Government will move to a simple registration system, implemented through a simple and transparent list of proscribed activities.

- **Set-up of simple company registration** procedures to make it as easy as possible to start up an enterprise, including changing company law to allow for easy registration.

- Applying a **uniform low company tax rate** to all investors, without the use of tax holidays.
- **Establishment of a simple land title registration scheme** to ensure that property rights are clearly defined and that titles to land etc can be easily transferred. If access to land continues to be an issue, government will consider providing access to serviced industrial sites at market rates.

Medium to long term initiatives:

In the medium term, government will reduce its presence in the economy and encourage small businesses through the following initiatives.

- **Establish a body to oversee the privatization program.** Experience from other post-conflict areas such as Rwanda suggest that such preparatory bodies are crucial to the success of the privatization program.
- **Compile a survey of state assets** so that it can assess the saleability of elements of its portfolio
- **Privatize appropriate state assets** including: state hotels, state cement factories and other state-owned enterprises.
- **Establish a foreign investor facilitation centre.** This agency would be charged with guiding foreign investors through the investment approval and implementation process. To avoid corruption, the agency would have no regulatory role what-so-ever. Thus avoiding the risk of duplication.

Trade

Trade is critical to the economic future of Afghanistan. Foreign markets will have to provide the main source of demand for Afghan goods over the short-term as poverty will limit the demand for goods within Afghanistan. In addition, trade will be critical to opening the door to the foreign goods and services and transfer of skills necessary to help rebuild the country. Developing legitimate export markets will also be essential if the AIA's initiatives to eliminate the production of narcotics are to be successful.

A free trade regime and a stable currency are the most important ingredients in a successful trade promotion strategy.

Despite decades of underdevelopment, Afghanistan still produces a range of tradable goods that could provide the basis for the development of a lucrative export sector. Based on its natural comparative advantages, Afghanistan's most promising export commodities include:

- Agricultural produce
- Textiles (including carpets)
- Stone and marble
- Leather products (including karakul)

These commodities can be marketed under a “Made in Afghanistan” and a “Made by Afghan Women” label as appropriate. Government will review the supply chain for Afghanistan’s most promising commodities removing obstacles to trade at every stage.

The government has already made significant strides in opening up relationships with key trading partners. It has won tariff-free and quota-free access to EU markets, and is currently negotiating with the US government over the granting of Most Favored Nation status. Government will supplement this with low, simple and predictable tariffs on imports of raw materials.

The AIA has also taken strong steps to end the trade in narcotics, banning the production and trafficking of poppies and creating incentives for farmers to sow alternative crops. However, scope remains for the government to further improve the attractiveness of legitimate Afghan exports and to eliminate illegal trade by creating incentives and reducing barriers to trade, by actively promoting Afghan trade and by providing further incentives for Afghan farmers to switch to legitimate export products.

Immediate Priority Initiatives:

- **Establish a free trade regime** with low and predictable tariffs and an explicit negative list that removes the potential for discretion.
- **Streamlining customs procedures and trade legislation.** The AIA will simplify all customs procedures and initiate a training program for customs staff to minimize barriers to trade presented by official procedures.
- **Support the establishment of a Chamber of Commerce.** The AIA will support together with partners, a business-led body that represents the interests of the private sector to government firstly at the national level and then regionally. As part of this process, the AIA will seek to twin the Chamber with others in OECD countries to help transfer expertise and to build trade links.

Medium to Long Term Initiatives:

- **Establishing a standards and certification body;** to disseminate information on export requirements, provide standards certification (including sanitary and phyto-sanitary) and certificates of origin to facilitate access to export markets. Such a body operated under private management can be strengthened through twinning arrangements.

- **Trade missions.** The Afghan government will request donors to establish trade missions in Kabul facilitated by the respective donor community resident missions. Government will also establish its own foreign trade missions abroad.

Preventing Corruption

Preventing corruption plays a critical role in AIA's vision for the development of the Afghan private sector. Corruption undermines economic growth by imposing high and unpredictable costs upon business, by siphoning investment and government expenditure into unproductive uses and by damaging the reputation of the country among potential investors and trade partners.

Corruption may take several forms, including:

- The use of official status to extract bribes in exchange for the provision or omission of official services- for example, when customs officials demand payment to grant goods entry to the country
- Corrupt procurement- the awarding of contracts in exchange for bribes
- Preferential treatment- the granting of favored treatment in official procedures to individuals based on connections and wealth

The AIA is committed to fighting all forms of graft. Government has made a start in with international firms providing emergency capacity support for procurement, government accounting and audit. While eliminating corruption in the long term will require a transformation in the way the Afghan government functions, ensuring a simple system of non-discretionary regulations and enacting a few key policies can have a substantial impact.

Annex 4: Governance and Security

The goal is to create an effective central government that reestablishes the national unity of the country on the basis of strong institutions, while building community level participation and effective management at the local level. To create strong systems of financial and information management and to use the budget as the instrument of policy

The creation of conditions of good governance and security are essential to the well being of the Afghan people. We are committed to the establishment of accountable and representative governance structures, ensuring the respect for the rule of law, setting up effective and transparent financial management systems, and the protection of civilians.

Proper financial management and accountability is one of our first priorities. We are committed to transparency in all financial undertakings and the involvement of foreign reputable firms in the auditing of financial activities. Naturally this openness and the success of our developmental efforts depend on the provision of security. We seek support in the establishment of a national army and police force. The recent meeting in Geneva fills us with the hope that the course has effectively been set to accomplish this.

Key to the establishment of conditions of good governance and the promotion of security conditions is the empowerment of communities. We are in the advance stages of planning of a national community empowerment programme that will deliver a series of block grants to communities to enable them to make decisions in a participatory manner on their key priorities. In this regard we see central government as responsible for the reestablishment of national unity as well as functioning as a regulatory body rather than entering into a direct managerial role. As the legitimate representative of the people, it is the key task and challenge of the government to create the institutions and organizations that would embody principles and practices of good governance.

Governance Program

Sub-programs:

Physical infrastructure of government

The infrastructure of government needs a systematic sub-program to rehabilitate buildings and provide equipment. The proposed approach is to provide all ministries with an initial rehabilitation and equipment project- including vehicles, refurbishment, furniture, computers, while a thorough survey of the government's needs is carried out. A second phase would then ensure that every province and district had the physical infrastructure necessary for modern government, including telecommunications linking them to the central government.

Management training

The civil service has suffered from years of neglect. A comprehensive management and technical training program will be provided to civil servants across levels and functions of government. The creation of a national civil service training college is being proposed.

Land registration

Uncertainty over land ownership will hinder investment from the private sector as well as the ability of individuals to use land as collateral. A credible system to resolve land disputes and provide certainty is urgent.

Technical assistance for financial management, revenue service capacity building, currency

We have already signed our first IDA grant to provide us with international firms to build capacity in financial management, audit and procurement. We have benefited from world class expertise in assembling our budget. We will continue to welcome technical assistance as we rebuild our economic and financial management systems.

Information management and donor tracking

We are putting in place an information management system and donor tracking system to be able to track needs and activities. While the government will take responsibility for tracking donor activities, activity mapping will continue to be carried out by AIMS.

Security and the Rule of Law Program

Sub programs

Creation of a national army

Our challenge today is clear: we must create a disciplined security force that is the instrument of a legitimate government that represents the aspirations of all the people of Afghanistan. The national army, air force and border guards are the key components of the security force.

We are pleased with the experience gained from the formation of the first battalion of 600 men that are being trained by ISAF and will be ready to assume their post as the National Guard on April 6th. This group of men is drawn from all parts of the country and represents the social composition of our society. We will be following their example for the formation of the remaining parts of the national army. We are seeking an active partnership with the United Nations, ISAF and the Coalition Forces to be able to undertake the recruitment and training that is necessary to create the national army in as short an interval as possible.

Creation of a national police force

The overarching goal is to create a national police force to ensure security throughout Afghanistan and to contribute to regional and global security. This force would contribute toward the creation of an enabling environment for the formation of civil society. This force would also be directed towards a systematic and effective struggle against the trafficking of narcotics.

The mechanisms to create the force entail the recruitment of men from across the country who would be subjected to an organized process of learning and nurturing. Starting each month, one hundred men from each of the 32 provinces would be trained for a period of 15 days in Kabul and then for 2.5 months on the job in the provinces. This approach would be followed until a police force of 25,000 would have been trained after a period of eight months.

The police academy will be revived and men and women who are graduates of high school will be chosen on the basis of a competitive exam. Training will include particular attention to civil rights on the basis of a code of conduct. As the entire infrastructure of the police has been wiped out, the police would need to be provided with equipment and uniforms.

Justice system

The judicial system will be revived through a sub-program that provides training, makes laws and precedents available, and rehabilitates the physical infrastructure and equipment of the judicial sector.

Mine clearance and awareness

The UNOCHA Mine Action Program for Afghanistan (MAPA) is one of the largest and is recognized as one of the most efficient and cost-effective mine action programs in the world. In terms of impact, Afghanistan is the most mine and UXO affected country in the world. Given the return of displaced and refugees to their home areas and the resumption of normal economic activity, assistance is needed to restore MAPA at least to previous operating levels. In undertaking operations close liaison is maintained with other sectors and the interim government, in order to ensure that mine action activities support plans and priorities of the other sectors. It is envisaged that greater emphasis will be placed on the development of national capacity to manage, prioritize, and coordinate all aspects of the mine action sector. Mine action programs will also support ongoing demobilization efforts by absorbing up to an additional 5,000 personnel.

Demobilization

The Afghanistan conflict is complex and defies the utilization of standard demobilization templates. Demobilization plans must ensure the full involvement of local communities

and be built bottom-up with the support of all. Demobilization efforts should recognize and reinforce local reconciliation processes. Voluntary demobilization should be encouraged and particular focuses given to how best reduce and/or eliminate warring incentives. Given the levels of impoverishment of the population, plans must largely be based on economic support to communities rather than the targeting of ex-combatants as a special group. Tensions are best diffused through the creation of equitable income-generating opportunities. The launching of national reconciliation initiatives and peace education campaigns contributes to enhancing confidence building.