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Draft

Transitional Islamic Government of Afghanistan

POLICY STATEMENT FOR THE TRANSPORT SECTOR

1. Background and Purpose

The transport sector is one of the keys to the future development and well-being of Afghanistan. The country's mountainous features give rise to high transport costs, leave many communities profoundly isolated, and pose a challenge to nation-building. Being land-locked adds to Afghanistan's vulnerability. An efficient transport sector will not only reduce costs in comparison with the current situation; it is a pre-condition for strengthening the unity of the country, and promoting cohesion and the Afghan identity.

With this Policy Statement, the Transitional Islamic Government of Afghanistan (TIGA) wishes to chart a course for the development of the Afghan transport sector based on explicit policy formulations. The Statement represents the first policy document for the transport sector since the Bonn Agreement in December 2001, and supplements the National Development Framework. It is viewed as an interim policy as the current administration is transitional; it is expected to be restated once the new administration in terms of the new constitution has come into power. Relevant provisions of the new constitution will be reflected in the restated Policy Statement for the Transport Sector. The restated Statement will also incorporate relevant recommendations from the Civil Service and Privatisation Commissions, accepted by Government. These Commissions were still working on their recommendations at the time of preparing this Statement

The need for a Policy Statement emanates from the condition that current legislation and institutional arrangements in the public sector have to a large extent been shaped during the period of occupation when foreign powers exerted heavy influence on policy matters in Afghanistan. The transport sector is hence characterised by heavy reliance on public ownership, centralisation and archaic organisational arrangements in the public sector. Production of transport services is often in the hands of the public sector, and ministries are therefore not only engaged in determining policy but also, and more so, in operations and regulation.

The current arrangements do not promote efficiency and often also make it difficult to effectively address matters of public interest. The evidence may be seen all over the country: roads are not being maintained, transport services are of poor quality, the aviation safety system does not meet international standards, and road traffic safety is poor by any standards. This position is not only a result of the past conflicts and lack of funds; they also derive from inadequate policies and institutional arrangements.

The purposes of this Statement are

- to formulate a long term vision (10-15 years) for the overall development of the transport sector; the realisation of this vision assumes peaceful conditions prevailing in the country; and
- to provide a framework for the identification of key actions required in the first phase for transforming the transport sector, encompassing the period up to the end of year 2008 (1387).

This Statement will serve as a guideline for the work of TIGA and its successor; it is also expected that donors active in the transport sector will take it as a guide, to ensure that their support achieves maximum development impact, and ultimately the successful reconstruction of Afghanistan.

The focus of this Statement is on the role and structure of government, the role of the private sector, and the approach for how to address public interest issues in the transport sector.

All modes of transport are covered.

2. The Basic Policy Objectives

The basic policy objectives of the Government are to:

- promote economic growth;
- eradicate acute poverty; and
- strengthen national unity.

To attain these objectives, resource utilisation in the transport sector must be radically improved. This will have to be achieved whilst adequately addressing public interest issues such as:

- the provision of safe and secure transport services;
- the protection of the environment;
- the promotion of gender equality, attention to women needs in transport and participation of women in the sector;
- the improvement in accessibility to rural and urban areas; and
- the promotion of competition.

3. The Means to Attain the Objectives

The main functions in the transport sector can be identified as follows:

- The supply of transport services, including intermediate services such as freight forwarding, clearing, and other agency services.
- The provision and preservation of infrastructure.
- The performance of regulatory activities to address public interest issues.
- The performance of policy making and overall monitoring of sector development.

The Government's view is that efficiency in the provision of transport services will best be attained by allowing competition and private sector participation. Transport services are, in general, best produced subject to the minimum of economic regulation with regard to entry, capacity and pricing.

The public sector has a much more central role in the provision of infrastructure on account of characteristics that cannot easily be handled by private interests, including high risks, network effects and other external effects. However, the Government is cognisant of international experience in relation to arrangements for the planning, provision and operation of infrastructure that may significantly contribute to efficiency. These include:

- The need for delegation of management to autonomous organisations within a governance framework providing for effective enforcement of accountability.
- The importance of ensuring involvement by the users of infrastructure in the governance of the organisations charged with management. This may also entail decentralisation of the management of infrastructure.
- The importance of establishing self-financing mechanisms for the preservation, and also provision, of infrastructure facilities.
- The need to engage contractors by competitive tendering procedures for the provision and preservation of infrastructure facilities.

This notwithstanding, the Government recognises that a market-based approach in the transport sector combined with autonomous management and self-financing of infrastructure facilities, whilst necessary, is not sufficient means to ensure a well-functioning transport sector. There are a number of public interest issues to be addressed as well, and these require regulation, which is a domain of the public sector.

The nature of the regulation required varies. Thus, some issues are not simply a concern of the transport sector, but cut across all sectors of the economy. For example certain aspects of environmental control relate to activities in other sectors as well. And the promotion of competition is a regulatory activity which apply throughout the economy; it is therefore not considered further here.

Other issues are exclusive concerns of the transport sector, such as safety, security and the dimensions and environmental features of vehicles and aircraft. Regulatory activities in these areas essentially comprise the setting and enforcement of -- or the provision of incentives to abide by -- standards. Regulation is primarily directed towards individuals or companies.

With regard to accessibility and gender, regulation may include standard setting and enforcement, but the issues at hand may require a more pro-active role by the public sector. Accessibility is related to the provision of transport and infrastructure services at affordable prices to certain communities, which would be inadequately served by way of a purely market-based approach. These communities, in addition, often tend to be poor and to live in very remote areas of the country or in inaccessible parts of urban areas.

The Government's role with regard to accessibility is threefold:

- To formulate policies and establish standards with regard to accessibility.

- To identify and establish an institutional framework which can effectively identify and put in place the means to implement policies and improve and achieve standards of accessibility.
- To provide finance to ensure improved accessibility.

Regulatory activities with regard to gender normally cut across all sectors in the economy, for example measures to promote women careers in the public service. But there are also some transport sector dimensions to be noted:

- There are specific enforcement issues with regard to the use by women of taxis, buses and other means of transport, to ensure an equal treatment of both sexes.
- There is a need to identify and develop transport solutions which are responsive to the needs of women. An implication of this is that the organisations charged with the management of infrastructure and the provision of solutions for meeting accessibility standards must also review needs from a gender perspective. This may be achieved by ensuring women representation on boards in agencies and/or incorporating appropriate instructions in planning and design manuals.

Since much regulation is of an operational nature, efficiency in performing regulatory functions can often be achieved by delegation to autonomous organisations, agencies, which perform their business within a transparent governance framework. This applies e.g. to the performance of regulatory functions to promote safety and security in transport and infrastructure operations, as well as to improve the environment. It is desirable that such organisations are largely self-financing. It is the Government's wish to promote the development of agencies of this nature.

Policy formulation, international relations, the drafting of legislation and sector monitoring are obvious functions for the public sector, and indeed the main functions to be performed by a ministry in the transport sector.

4. The Long Term Vision for the Transport Sector.

In terms of the overall objectives and the means identified to attain these objectives, and based on international experience, the Government has formulated the following vision for the transport sector.

Transport services: Transport operations will be performed by private operators, subject to competition. This will apply to the provision of taxi, road haulage and bus transport, all intermediate services and air transport services. Subject to international agreements, competition is also expected to rule on international routes, including with respect to air transport, bus transport and road haulage.

Transport operations will normally be provided without public subsidy. However, certain domestic services may be provided under public service obligations, in order to ensure that minimum standards of accessibility in the country or urban areas are met. Such public service obligations will be procured by competitive tendering.

Roads: The national road network will have been rehabilitated, and where required, upgraded. It will be managed by an autonomous road agency, and its preservation and further

development financed by road user charges, which are not part of the consolidated budget. Provincial and local roads will be managed by provincial and/or local road authorities, and a substantial part of their costs will also be financed by way of road user charges. A road fund will have been established to collect the road user charges and to serve as the procurer of road services from the road agency and local roads authorities, and hence to serve as the regulator of the road sector. Donor assistance will be directed towards the development of rural roads required to improve accessibility. Road works will mainly be done by contractors, including under long-term contracts for maintenance. A substantial amount of work will be contracted out to small contractors using labour-based techniques.

Airports and the air navigation system: The airports of the country will be managed by a number of airport companies. It is expected that these, with the exception of the airport in Kabul, will essentially have provincial ownership. The airports will be self-financing for their operations (but not necessarily for their development). The air navigation system (ANS) will be operated by a separate corporate self-financing entity; it will also operate the ANS at the airports. Legislation establishing the airports and ANS corporations will enable the facilities and services to be privately financed and operated in terms of a concession. A system for economic regulation, comprising mainly self-regulatory arrangements, with regard to the airports and ANS will have been established.

Safety: A new agency for the regulation of safety, security and environmental protection in aviation will have been established. Similarly, the regulation of road traffic with regard to safety and environmental aspects specific to the road sector will have been entrusted to another agency, also expected to handle registration of licences and vehicles. Both as concerns aviation and road traffic, Afghanistan will regulate safety and security adequately in terms of internationally accepted standards.

Railways and rivers: Investments in river transport facilities and railways will be encouraged. River and railway transport developments will essentially be a responsibility of the private sector. The government may participate in such developments provided that demonstrated economic benefits may be derived therefrom, which cannot be captured by private investors, or in order to improve accessibility to remote regions in a cost-effective manner.

Organisation of government in transport: A new ministry will have been established, to replace the current three ministries in the transport sector, i.e. Ministry of Transport, Ministry of Civil Aviation and Tourism and the Ministry of Public Works (MPW), and will be charged with policy work for the road sector, road transport, multi-modal transport, air transport, and new modes, such as rail and river transport. This new ministry will ultimately also be responsible for road traffic (except enforcement), an area which today partly falls under the Ministry of Interior, as well as policy matters related to rural roads, which are today handled by the Ministry of Rural Rehabilitation and Development. The new ministry will additionally have become responsible for international relations and for preparing the public budget in the sector. The ministry will have a staff of a couple of hundred persons.

To ensure accountability of the new agencies and corporations, an explicit governance regime will have been put in place. The governance regime will encompass objectives for these organisations that may be measured, the publication of periodic and annual reports to shed light on the attainment of the objectives, and arrangements to allow for the involvement of users and other stakeholders. The day to day monitoring of these organisations will normally be performed by the new ministry in the transport sector.

5. Short Term Considerations

The vision formulated above is ambitious; it will be a challenge to Afghanistan to restructure the transport sector accordingly, but to ensure the well-being of its citizens attempts must be made. In the short run perspective it is important to embark on a process of change that will eventually lead towards the realisation of the vision.

In the short term, the Government has decided to also take the following considerations into account:

- Privatisation is not possible in the near future of the national carrier, Ariana, as it is loss-making. Similarly, in the near future it will not be possible to privatise the Ministry of Transport road haulage and bus transport operations, as the country has received and is receiving a substantial number of donated vehicles. These operations should, however, be commercialised, as a first step towards later privatisation.
- In international air transport operation there will be a need to offer protection to Ariana for a period of time. There are two reasons, viz. the need to ensure international connectivity given that the aviation safety and security system in Afghanistan has not been ICAO certified, and the modalities with regard to international aviation in the region. Ariana is, however, expected to be profitable and only to serve routes not expected to be loss-making in a medium term perspective. Also, the small domestic market, in part on account of the inadequate facilities at present, does not lend itself to open competition for the time being, but may provide scope for a regulated system designed to encourage the participation of the private sector. However, air cargo may be liberalised.
- The country at present does not have an established corps of contractors. Whilst construction works, and large maintenance contracts may be handled by way of international contractors, local contractors can for some time only be expected to handle part of the maintenance works. There will therefore be a need for the MPW to maintain limited force account capacity for the time being to perform (routine) road maintenance and also to undertake emergency repairs to supplement the capacity of the private sector.
- The current administrative weakness of the provinces implies that decentralised solutions as concerns e.g. airports and road sector management will have to be delayed for some time.
- For the time being, the financing arrangements in the road sector are subject to agreement reached by the TIGA with the World Bank concerning the implementation of the Emergency Transport Rehabilitation Project.
- Fundamental restructuring of the ministries is not possible at present. However, partial restructuring in terms of the Decree on Priority Reform and Restructuring within Ministries may be effected. This Decree allows for departments of ministries to be given priority reform and restructuring (PRR) status, so that individuals appointed to key posts in these departments may be offered better conditions on a time-limited basis and subject to performance. In addition, in the near future the functions related to (i) vehicle registration and drivers' licensing should be transferred from the Ministry of Interior to

the Ministry of Transport, (ii) airport airside infrastructure should be transferred from the Ministry of Public Works to the Ministry of Civil Aviation and Tourism, and (iii) rural roads from the Ministry of Rural Rehabilitation and Development to the Ministry of Public Works.

6. Short Term Actions

Based on the above considerations, a number of short term actions -- in order to initiate reform of the transport sector -- will be proposed by the Transport Sector Review for implementation during the period up to the end of 2008; see the Action Plan of the Transport Sector Review.

7. Capacity Building

The Policy Statement places emphasis on the private sector in rebuilding and developing the transport sector. The Government's view is that a key to trigger this development, but also to ensure a balanced approach with adequate attention paid to the public interest issues, is building the capacity of the public sector. The challenge is formidable in view of the shortage of skills and the fact that the ministries until recently were steeped in a culture inappropriate to the future needs. To be able to move forward, the existing ministries will have to be used as a platform to implement change and reform.

The following steps are envisaged by Government as part of capacity -- including institution - - building:

- ❑ Each ministry will set up a new department to be charged with capacity building. This capacity building department¹ (CBD) is envisaged to be given priority reform and restructuring (PRR) status in terms of the decree on Priority Reform and Restructuring within Ministries. The head of the CBD will report to the deputy minister or the minister.
- ❑ Each CBD will be provided with a technical assistance (TA) team comprising three types of experts: (i) development of the management and administration of a ministry; (ii) experts in the specific functions of the ministry concerned; (iii) experts in training in the skills to be possessed by the ministry concerned. The TA team leader will report to the head of the CBD, and on an interim basis to the minister/deputy minister.
- ❑ The CBD will design new departments corresponding to the future needs of the Ministry. Once such a department has been designed, and key staff members identified, an application for PRR status will be made, and the department will then be launched.
- ❑ New structures, including the envisaged future airports corporations, ANS corporation, and agencies in aviation, roads and road traffic, will initially also be established as a new department, which will be given PRR status. Once this department has been set up, and basic recruitment completed, the next step will be prepared by the CBD, leading up to the launching of the agency or corporation, and subsequent closure of the department in question.

¹ The CBD is referred to as the Reform and Restructuring Office (RRO) in other documents of the Transport Sector Review.

- The CBD will serve as the gender focal point to the Gender Advisory Group, and will be expected to implement a gender operational policy.

It is expected that the capacity building units can be established in the form of a department within by the three transport ministries by the end of 2003 (1382).

8. The Role of Donors

The Government expects donors to play a key role in supporting the reform of the transport sector both in the short and long run as set out in this Policy Statement. Donors are encouraged to make reference to this Policy Statement when designing and proposing support activities to the Government. Donors are furthermore encouraged to co-ordinate their efforts within the framework of the Consultative Group of Transport. It is anticipated that this Group will provide a forum for debate on support to the sector, but also serve as a platform for streamlining donors' approach to the planning of support, as well as procedures for procurement.

Donors are particularly encouraged to in the shorter term lend their support to the envisaged capacity building units in the three ministries in the transport sector, as proposed in this Statement. In the medium term donors can fruitfully assist with the establishment of new corporations and agencies, including the required governance framework, and the building of capacity to handle procurement and contract supervision, including labour-based works. In the longer term, a main concern of donors could be to assist with improving accessibility.