



Islamic Republic of Afghanistan

**TOWARDS
SELF-RELIANCE**
Strategic Vision for the Transformation Decade

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TOKYO CONFERENCE ON AFGHANISTAN

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Acronyms

ADB	Asian Development Bank
AISA	Afghanistan Investment Support Agency
AITF	Afghanistan Infrastructure Trust Fund
ANDS	Afghanistan National Development Strategy
ANSF	Afghanistan National Security Forces
ARD	Agriculture and Rural Development
CAREC	Central Asia Regional Economic Cooperation
CBTA	Cross-Border Transport of Persons, Vehicles, and Goods Agreement
ECO	Economic Cooperation Organization
GDP	Gross Domestic Product
GSM	Global System Mobile
HOO	High Office of Oversight and Anti-Corruption
HRD	Human Resource Development
ICT	Information and Communications Technology
ID	Infrastructure Development
IDP	Internally Displaced Persons
IFC	International Finance Corporation
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MEC	Monitoring and Evaluation Committee
NAPWA	National Action Plan on Women in Afghanistan
NEIEP	National Extractive Industries Excellence Program
NESP	National Energy Supply Program
NGPAR	Next Generation of Public Administration Reforms
NPP	National Priority Program
NRRCP	National Regional Resources Corridors Program
O&M	Operations and Maintenance
PFM	Public Finance Management
PSD	Private Sector Development
RECCA	Regional Economic Cooperation Conference on Afghanistan
SAFTA	South Asian Free Trade Agreement
SMEs	Small and Medium Enterprises
TAPI	Turkmenistan-Afghanistan-Pakistan-India
UN	United Nations
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

Vision for 2025 and Beyond

The Government of Afghanistan is committed to improve the lives of its people. Afghanistan is a poor country, but need not remain so. If properly developed and carefully managed, its strategic location, productive agricultural zones, and bountiful mineral resources can provide the basis for a vibrant, sustainable economy. Foundational investments in these and other sectors will establish an environment where the private sector will lead growth, creating jobs and a diversified economy. Access to education and health and well-being of the Afghan people will continue to improve. These along with improvements in governance will establish a platform for self-reliance, prosperity, stability and peace in our country.

In Chicago and Bonn, the International Community recognized the necessity that reductions of donor support take place in a phased and responsible manner. The lessons of the past are clear; precipitous drops in assistance promote instability. It is now our shared responsibility to ensure that assistance is used with ever increasing effectiveness to realize our shared goal of a secure, self-sufficient Afghanistan.

We commit to use this assistance to further transparency, good governance, and sound financial management. We understand that it is only through further progress in these areas that we will realize necessary improvements to the business climate that lead to private investment. We will grow Government revenues to meet an increasing portion of our financial responsibilities, decreasing dependence on donor funds. Responsibly used under Afghan leadership, donor funds will help government create productive jobs and opportunities for individual growth and increased access to higher quality education. We will, with the support of our partners, enhance our ability to bring all areas of the country improved security, peace, rule of law and protection of the rights of all citizens with special attention to women and children. We will work to create an inhospitable environment for corruption, narcotics and nepotism. We will encourage the independence of civil society, promote free media, and will seek friendly and mutually beneficial relationships within the region.

These visions are our guiding principles in the formation of our development strategy to take the country forward. With their realization, we will have achieved the following milestones:

By 2015 Afghanistan will have taken over full operational responsibility for its own security and will be leading development initiatives to build on foundational investments and good governance that will pave the way to economic growth, fiscal sustainability, and sustainable human development.

By 2025 Afghanistan will have reduced its dependence on international assistance in non-security sectors to levels consistent with other least developed nations. Peace and stability will be consolidated in the country through effective development, improved delivery of Government services and the promotion of fundamental freedoms and human rights.

By 2030 achievements in development and governance will allow Afghanistan to emerge as a model of a democratic developing Islamic nation.

Achievements

Afghanistan has seen remarkable improvements in health, education, and infrastructure, its economy and in the delivery of other essential services. With the support and partnership of the international community, Afghanistan's estimated per capita Gross Domestic Product of \$591 in 1390 (2011) is five times higher than the \$123 per capita GDP of 10 years ago. Access to primary health care has increased from 9% of the population to more than 57%; more than 8 million students are enrolled in school, of which 39% are girls; and more than 157,000 students graduated from high school in 2011. Approximately 41,000 students are trained in 142 technical and vocational education and training facilities. Nearly 8,000 kilometres of national highways, regional highways and provincial roads have been built, cutting travel times between centres by 75 percent. The Afghan ring road, which connects Afghanistan to its neighbours, links together all major cities of the country and provides connections to provincial capitals, should be completed by 2014. Civil aviation services have improved considerably connecting Afghanistan to all major hubs in the region and to the rest of the world. Access to electricity has increased by 250% and the national power utility has grown into a more efficient, well-managed corporation.

The Information and Communications Technology (ICT) Sector has been extremely successful growing from almost no coverage in 2001 to 86% of Afghan residential areas and 18.27 million fixed and mobile phone users. The flagship National Solidarity Program has empowered Afghan communities to prioritize and allocate \$1.2 billion for rural development projects. The Agriculture Sector has seen irrigated land increase from 1.2 to 1.8 million hectares; wheat production has grown from 1.5 to 3.2 million tons; and the total horticulture area has grown from 75,000 to 120,000 hectares, increasing grape production by 69 percent and almonds by 195 percent.



The Government has continued to build systems for revenue mobilization and public financial management, achieving a 24.4% year on year increase in domestic revenue in 2011, and an increase of 140% since 2008. Afghanistan's economy remains strong with around 10% average annual growth since 2002. The institutional reforms and transparent processes essential to realising the vast potential of the Afghan extractive industries sector are now falling into place. The first major oil contract was awarded recently, and preparatory work for follow-on tenders in the petroleum sector is well advanced. The Government is successfully managing the contract

for the world-class *Aynak* copper deposit. Amendments to Mineral sector legislation will remove key barriers to foreign and domestic investment and will soon open the way to award of significant iron, copper and gold mining contracts. Afghanistan is one of 23 candidate countries of the Extractive Industries Transparency initiative. The transparency pillar in the Public Finance Management (PFM) Roadmap, a National Priority Program (NPP) endorsed at the Kabul Conference, demonstrates the Government commitment to open public finances.

Afghanistan has emerged as a new democracy, holding successive parliamentary and presidential elections under challenging circumstances. A vocal and vibrant civil society has emerged, and open media provides a forum where a range of views are publicly debated. The increased enrolment of girls in primary and secondary education has led to improved well-being of mothers and children. The role of women in society has grown; 27% of parliamentarians are women and successful women have emerged as political, business and civil society leaders and role models.

Over the past year, the Government has increasingly taken the lead and ownership of security, development and governance. As a result of the third phase of transition launched in May 2012, 75% of population will be living under full ANSF control. Government Ministries, led by their respective Cluster Coordinators, have prepared detailed NPPs in line with the mandate from the 2010 Kabul Conference. The significant progress has achieved through the partnership between the international community and Afghanistan in the past ten years demonstrates the promise of the advancement that can be made over the next decade.

Challenges

Despite the notable progress Afghanistan has made with the assistance of international partners, much remains to be accomplished. An estimated 36% of Afghans live below the poverty line¹, and the population continues to experience high rates of malnutrition and food insecurity. Around 9 million afghan men and women are illiterate. Thirty per cent of the school aged children are out of school and many Afghan youths do not have the right skills to participate actively in a growing economy. Infrastructure is still under-developed, an especially important challenge for a land-locked country. The narcotics trade poses a serious threat to Afghanistan's future, distorting the economy, fueling corruption and undermining security. The number of Afghan refugees who have returned home during this last decade represents almost one quarter of the population of Afghanistan, and it has placed an enormous challenge to the country's existing structures and resources.

While the economy has grown substantially over the past ten years, steps need to be taken to improve the investment climate for the private sector, and to better integrate Afghanistan into the regional economy. Afghanistan ranked 180 out of 182 countries in Transparency

¹ World Bank; Afghanistan Economic Update, October 2011

International's most recent Annual Corruption Perception Index. In the IFC's *Doing Business 2012 report*, Afghanistan ranks 160 out of 183 economies² and last among the 8 economies that make up the South Asia region. The recent Kabul Bank crisis brought attention to the need for strengthening economic governance, especially the regulatory and supervisory mechanisms in the banking sector.

In spite of the increase in revenue collection from 7.5% of GDP in 2008 to over 11% of GDP in 2011, the Government remains dependent on foreign aid for continued development initiatives and operational support. Aid in 2010-2011 was approximately \$15.7 billion – nearly equal to nominal GDP. Over 30% of government revenue is from customs and import duties, which are closely linked to foreign aid. Although domestic revenues have grown by 140% over the past three years, the Government's operating expenditure on average has been rising at around 30% per year for the past three years and will continue to be under pressure.³

Increasing on-budget assistance is critical to the long-term sustainability of donor investments in Afghanistan. The economic impact of on-budget assistance is estimated to be more than three times higher than off-budget support in Afghanistan. Our analysis completed with the World Bank, shows that the impact of moving funds to the budget early pays strong dividends, increasing the base upon which future economic growth builds, leading to higher net GDP. More importantly on-budget support strengthens Afghan institutions building legitimacy through improved capacity to deliver essential services. Sustainability, economic growth, effective use of funds and improved project results, all require progress toward increasing utilization on-budget systems. Recognizing this, donors committed to route 50% of their assistance on-budget; nevertheless, the international community has been slow to respond and nearly 80% of donor funds still flow through off-budget.

Quick-impact projects which aim to win hearts and minds have often bypassed the Government, leaving behind infrastructure that the Afghan government cannot afford to operate and maintain. There is scope to substantially improve donor consultation and coordination with the Government for alignment of donor-funded projects to Afghan priorities.

The Government is committed to learn from the past, and face all challenges boldly so that we can effectively implement our development strategy.

Afghanistan's Growth and Development Strategy

For Afghanistan to achieve self-sufficiency it must develop a vibrant, fast growing, equitable, and sustainable economy requiring good governance and significant foundational investments. Good governance, based on rule of law and responsive, and accountable, institutions, is

² The ease of doing business ranking is a simple average of the country percentile rankings on each of the topics covered by *Doing Business*.

³ Salaries constitute almost 80% of operating expenditure. Current pressures on the wage bill include an increasing number of teachers and trainers, the Afghanistan National Army (ANA) and Afghanistan National Police (ANP) as well as Pay and Grade reform, both of which will result in a higher wage bill in the next three years.

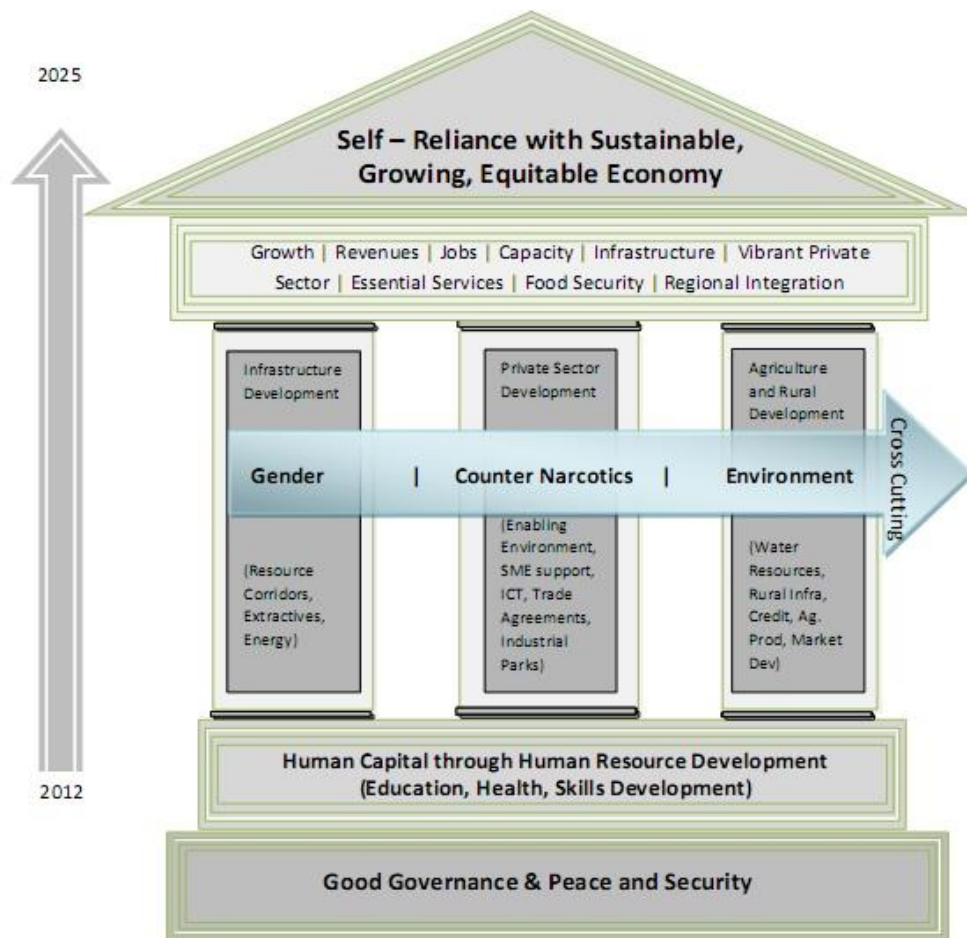
essential for the successful implementation of the Government's development strategy. Foundational investments will trigger further downstream growth in the economy once operational. In addition, human resources development is a key underlying component of the strategy's goals. Critical infrastructure, private sector development and expansion of rural economy with focus on agriculture will be the main drivers of the growth strategy. While infrastructure will deliver results in the medium to long-term, agriculture and the private sector can have a crucial near-term impact. Regional cooperation will also be important for the success of the development strategy. Underpinning this focus are peace, reconciliation, and reintegration efforts. This strategy will lead to higher revenues, job creation, improved capacity, infrastructure development, a promising private sector, provision of essential services, food security, regional cooperation, and stability. Cross-cutting issues like gender, environment, migrants and counter-narcotics remain very important and incorporated within the clusters and programs. The role and participation of women in the economic and social growth of the country is, in particular, considered essential.

This development strategy is embedded in and implemented through the Government's (NPPs), a prioritized version of the Afghanistan National Development Strategy (ANDS). ANDS's life, therefore, will be coterminous with the NPPs.⁴ The basic interconnected pillars and outcomes of the development strategy are depicted in Figure 1.

The sections below describe how various NPPs achieve Afghanistan's strategic goals. Each sector identifies a two-pronged approach of strategic investment and government action to realize the envisaged growth.

⁴ ANDS was initially designed for five years from 2008 to 2013.

Figure 1: Afghanistan's Economic Drivers



Growth, Revenue Generation and Infrastructure Development

Initiatives in all sectors are oriented toward contributing to growth, revenue, and employment to varying degrees. Accelerating growth and revenue will require a balanced approach but improvement in Afghanistan’s infrastructure is critical to facilitating access and progress in the extractive industries and, therefore, a top development priority.

Regional Resources Corridors:

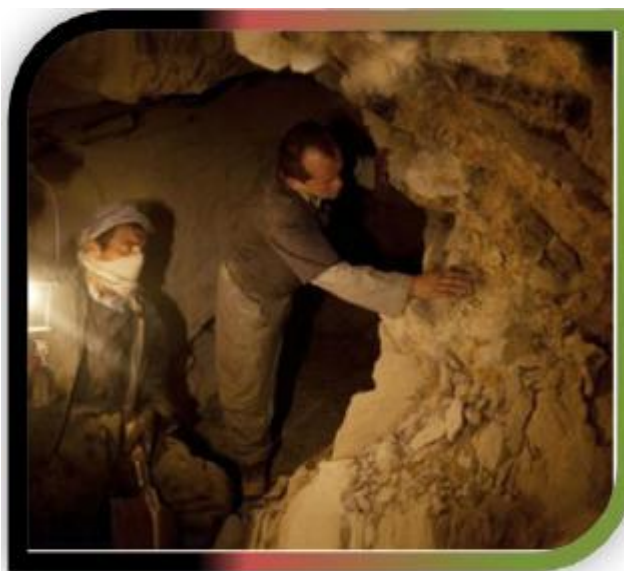
The National Regional Resources Corridors Program is the Government’s flagship program to leverage investment in the resource sector to generate diversified growth. It will sequence investments and actions in “hard” and “soft” infrastructure to maximize job creation and improve livelihoods. “Hard” infrastructure will include incremental investment in roads, power, rail and water, as well as the institutional mechanisms for their operation and maintenance (such as a Rail Authority, road maintenance arrangements, and a grid code). “Soft” interventions include building local firms’ capabilities to supply the mines; matching skills programs to private

sector demand to increase local job creation; simplifying land acquisition processes, strengthening governance and transparency; and implementing community benefit sharing mechanisms.

The program will facilitate open transport corridors within the country and to the region to increase international trade by a targeted factor of ten, cut travel times by at least half, and reduce vehicle operating costs by 50 percent. Though the program itself will account for roughly 23% of the total funding requirement of all the NPPs, this public investment should leverage roughly equivalent private investment in public goods (such as shared use infrastructure), and could mobilize a figure several times larger in overall private sector investment. The primary expected results of this program include: rehabilitation and construction of 1,400 km of roads; construction of 800 km of railways; and improvements to five international airports, ten regional airports, and airfields in select provinces.

Extractive Industries:

The Extractive Industries Sector has been identified by the Government as the sector that can ultimately drive broad development across multiple economic platforms. It is envisioned that the National Extractive Industries Excellence Program NPP, through strategic partnerships with the national and international private sector, will create a vibrant and dynamic extractive industries sector and serve as the main vehicle for revenue generation for the nation.



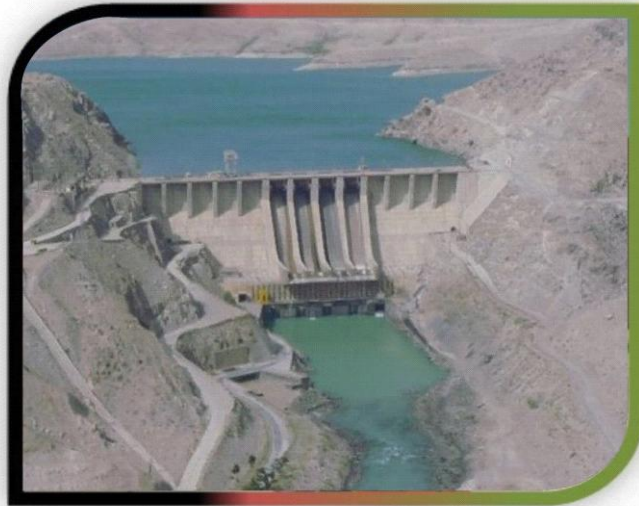
The Ministry of Mines will develop the required capacity to supervise, manage, and regulate large-scale projects, lead transparent sector growth and ensure that benefits flow to the Afghan people. Royalties collected will be re-invested to ensure a more sustainable level of social and economic development for all. Companies will need to invest a portion of their profits in environmental rehabilitation to assist local communities affected by extraction processes.

The largest contributors in this sector are copper and iron mines, and oil and gas fields. Production from the Amu Darya oil fields will begin this year, with copper at *Aynak* commencing as the Transformation decade begins. Further exploration for minerals, hydro-carbons, and coal will be taken up during the Transformation Decade. Current estimates suggest that by 2020, mineral and hydrocarbons will contribute around USD 650 million annually to the Government's fiscal revenues and increase thereafter to around US\$ 1.7 billion by 2025. *Aynak, Hajigak, Amu Darya Oil fields and Afghan Tajik basin* would be major contributors to the revenues in the

extractive sector during the Transformation decade. In the short-term, hydro-carbon assets will quickly begin to contribute to the growth of Afghanistan's GDP and revenue generation, with production from the Amu Darya oil fields likely to begin this year. While the financial rewards of the mining sector will take 5-7 years to materialize fully, the intervening period will be used to finalize any remaining governance issues and build managerial capacity especially for budgets and royalties.

Energy Supply:

The private sector has identified the lack of availability of reliable electricity as the most critical impediment to its growth, as have the World Bank's Doing Business indicators for Afghanistan. The Afghan people have one of the lowest access rates and per capita consumption of electricity. Afghanistan will continue to face demand-supply imbalances due to sub-optimal development of its own resources, as well its high dependence on imports from neighboring countries.



Energy is a critical sector. However, it remains institutionally underdeveloped and cannot meet Afghanistan's energy requirements in the short, medium and long terms. Therefore, there is a need for strengthening the sector's institutional capacity for improved management and the development of domestic energy resources, including the identification and promotion of renewable energy, energy efficiency and the facilitation of public-private investment.

The National Energy Supply Program (NESP) will be instrumental in addressing critical power sector development needs through institutional development, improvements in planning, operations and maintenance, investment in generation, transmission and distribution as well as in demand side management. NESP also aims to strike an appropriate balance between importing inexpensive power from neighbors and developing a greater degree of energy security through development of its indigenous resources.

To achieve this, the sector is undergoing significant reform. Da Afghanistan Breshna Sherkat (the Afghan Power Corporation) has been corporatized and is undergoing commercialization, with a particular focus on raising revenues to cost recovery levels - including covering the cost of operations and maintenance, and some level of self-financing of new investment through concentration on metering, billing and collection for services provided. Further separation of sector operations from policy and regulatory functions is envisaged, and sector-level master planning is under way, including tariff reform. In conjunction with this, Afghanistan will continue

the program of investment started in 2008 to expand and strengthen the grid power system through development of new capacity in generation, transmission and distribution. Although substantial ground has been gained from a low base, NESP envisages additional investments of \$1.5 billion in the short term.

Information, Communication and Telecommunication (ICT):

In today's information era an efficient ICT infrastructure is a basic requirement for economic growth and social development. Afghanistan has made tremendous strides in the last decade on this front. Afghanistan was awarded the Global Leadership Award by the GSM Association 2011, an award that recognizes a country's achievements in wireless telecommunications. Eighty-six percent of Afghans in residential areas have access to telecommunication services, and the number of fixed and mobile phone users has reached 18.27 million, representing 69 percent of the population. A legal and regulatory framework conducive to the development of the ICT sector is in place and improving constantly and on-going work on 4,601 km of the fibre-optic cable network will continue to improve quality and bring down internet services costs by an anticipated 80 percent. Postal services in the Afghanistan were inaugurated by the Universal Postal Union at the district level, total investment in the ICT sector has been approximately \$1.7 billion to date; and the sector is contributing about US\$ 167 million to Government revenues each year. The E-Afghanistan Program, a NPP within the Private Sector Development Cluster, aims to further modernize the Information and Telecommunications sector and E-government to enhance the effectiveness, efficiency, and transparency of the public sector and create a connected, more productive society. Further strengthening of the fiber-cable network and e- and m-governance will also be a focus during Transformation.

Urban Management Support:

Afghanistan's rapidly expanding urban areas are suffering from high degrees of insecurity, deficient infrastructure and – above all – poor governance. These challenges need to be addressed with urgency and therefore the Urban Management Support Program is organized around three priority activity components/objectives: Establishing the foundations for Effective Urban Management; Investing in Urban Infrastructure; and Afghanistan Capital City Development Programme.

Jobs and Employment

To translate growth into meaningful results for Afghans, the economy must generate a sizeable number of sustainable jobs. With over 60 percent of the population under the age of 25 and many of them expected to soon enter the labor market, the employment scenario is



only going to be more challenging. The aspirations of an increasing number of secondary and higher education graduates need to be met in order for our youth to be a source contributing to sustainable economic growth and development. While demand for jobs remains huge, the decline in international spending in Afghanistan will likely have an adverse effect on employment opportunities.

The Government's strategy outlines a response to address this huge challenge. Sustainable jobs can only be created by a growing economy and that is why growth is central to the development strategy. The private sector can generate sustainable jobs while the government facilitates its development and provides the enabling environment and infrastructure. Improvements to the legal framework and business enabling environment for all sectors can contribute to employment opportunities especially in sectors of information and communication, banking and finance, transportation, agriculture and agri-business, and extractive industries. Development of infrastructure itself will create a large number of direct and indirect jobs. If the multiplier effect of the resource sector is maximized through targeted public interventions, as described in the resource corridor strategy, then as many as 150,000 jobs could be created by the end of the transformation decade. Jobs would be created up and downstream, with smaller investments in mining operations such as existing cement plants, sand, gravel and stone quarries. The latter could increase employment in rural Afghanistan. The larger job creation effect of the resource corridor however will necessarily come from its induced effects, particularly the impact of better hard and soft infrastructure on agriculture and agribusiness.

While jobs are created by growth, the people have to be simultaneously equipped with appropriate knowledge and skills so that they can productively perform in these jobs. The Human Resource Development (HRD) Cluster programs, therefore, aim primarily to prepare youth for Afghanistan's future labor market. Gender oriented vocational training will be designed and implemented focusing on increasing the numbers of women as service providers. The Programs for Education and Higher Education under the Cluster will continue to provide basic knowledge to students to participate in job markets including through development of Afghan National Qualification Framework. The Facilitation of Sustainable Decent Work through Skills Development and Market-Friendly Labor Regulations Program will focus on developing policy and institutional frameworks that enable the government to prepare appropriate evidence-based policies for employment and labor, and employment generating growth. Technical Vocational Education and Training, through formal and informal mechanisms, will be utilized along with occupational literacy initiatives to bridge the current skills gaps in the country and enhance the employability of the labor force in relevant, market-driven skills with focus on vulnerable groups. The HRD Cluster Programs, in addition to preparing people for jobs, will also generate employment opportunities in education and health sectors. The skills developed through these initiatives will be better matched to demand by greater involvement of the private sector in curriculum development and standards setting.

Small and Medium Enterprises (SMEs) are responsible for the creation of 70% of new jobs worldwide.⁵ The Government of Afghanistan gives high priority to the development of this sector. Through its PSD Cluster, the Integrated Trade and SME Support Facility Program will take policy, institutional and infrastructure initiatives to strengthen SME development. In addition, the Agriculture and Rural Development Cluster Programs will generate jobs by increasing productivity in rural areas. The farm sector can link agricultural and rural products to markets creating opportunities in rural enterprise in both agricultural and non-agricultural value addition activities.

Food Security/Agriculture and Rural Development

Agriculture continues to be the foundation of Afghanistan's economy, and the primary source of livelihood for the Afghan people, employing over 70 per cent of Afghans and accounting for over 30% of GDP. However, a sizeable number of Afghans cannot get enough food to live active and are on the borderline of food insecurity⁶.



The most important tasks in this sector are to ensure Afghans have food in their households and production reaches levels where surpluses can be used to generate jobs and income. The

availability of snowmelt water appears to be the most limiting factor to crop production. It has been estimated that 85% of output of grains is produced on only 5% of the irrigated land⁷. In 2009, the most bountiful rainfall in 32 years brought harvests that made Afghanistan nearly self-sufficient in cereals. This increase demonstrated that if water can be properly managed, agriculture will offer a tremendous opportunity for achieving food security. However, only about a quarter of Afghan agricultural land is now irrigated, and much of it inefficiently. The *National Water and Natural Resources Development Program* in the Agriculture and Rural Development Cluster will create the infrastructure for development of our water resources for domestic use, irrigation and natural resources to manage environment.

A number of other factors affect agricultural production. As an integral part of agricultural development, the revised Land Management Law should strengthen the community-based approach to land disputes to improve tenure and security of cultivators. Productivity levels

⁵ International Labor Organization

⁶ National Risk and Vulnerability Assessment

⁷ World Bank – 2005

remain low as yields per hectare of various cereal crops are a fraction of levels in surrounding countries. Also, the significant fluctuations in agricultural productivity over the past few years have demonstrated the importance of properly managing the pricing and reserves of grain in the market. The *National Comprehensive Agriculture and Market Development Program (ARD Cluster)* will boost the agriculture sector through forward and backward linkages. Through supporting growth in production and agricultural marketing, jobs and food security the program will help the country reach self-sufficiency levels in food staple crops by 2022.

Agriculture will remain an important driver of GDP and job growth through the Transformation Decade. Agricultural products (including carpets) represent about 80% of total licit exports. Investment of \$215 million per year in agricultural products through the Transformation Decade can result in an increase in the value of agricultural production from \$ 800 million at present to \$3.1 billion per year by 2024⁸. Continued development of agricultural productivity and value will improve livelihoods, and offer an alternative to production of narcotics. Investments in this area will be needed for: promoting improved varieties that will extend growing and cropping seasons; improvements in irrigation management and water supply⁹, facilitating private sector investment in agribusiness areas of packaging, preservation and processing; transporting goods to markets¹⁰ and improving farm to market connections¹¹, and, bolstering programs to promote the growth of rural economies and consequently rapid growth in the agriculture sector¹². The National Rural Access Program (ARD Cluster) will link farmers and communities to the growing national road network while providing nationwide labor-intensive road construction and maintenance. The National Water and Natural Resources Development Program will strengthen community capacity to plan and implement rural water supply, sanitation and hygiene promotion projects, while the Strengthening Local Institutions Program will continue to promote inclusive, community-led development planning and implementation. Protecting biodiversity, rehabilitating forests, rangelands and other natural resources for agriculture will also contribute to sustaining the productivity of the land.

Capacity Development and Budget Execution

Growth requires capacity throughout the economy, whether it is in the government, private sector, social organizations, academic institutions, or implementing agencies. Since 2002, capacity building has been a major focus of the Government. The capacity of civil service, the backbone of the public administration, facilitates or constrains delivery of the government according to the level of its development, effectiveness and efficiency. Realizing the importance of public administration, President Hamid Karzai in his speech at the Chicago Summit on 20 May

⁸ Dalberg Global Development Advisors, "Afghan Agricultural Assessment and Framework Development"

⁹ NPP on National Water and Natural Resource Development, Component A on National Water Resources and Irrigation

¹⁰ NPP on National Comprehensive Agriculture Production and Market Development, Component on Enterprise and Market Development, Sub-Component Comprehensive Agriculture and Rural Development – Facility (CARD-F)

¹¹ NPP on National Rural Access Program Components A, B – Secondary and Tertiary Roads

¹² NPP on National Comprehensive Agriculture Production and Market Development, Component B – Rural Credit and Agriculture Development Fund

2012 declared, “ in the remaining part of my term in office, I will continue to focus strongly on building a system of public administration that is apolitical, professional, clean and founded on the principle of job security for civil servants”. The public administration reforms in Afghanistan have made significant progress in pay and grading, begun to address the legal, regulatory and policy framework, and introduced merit-based recruitment for both national and sub-national levels. Programs implemented through the Effective and Efficient Government NPP in the Governance Cluster will support demand-driven reform within key Ministries, initiate efforts to simplify government’s internal business processes, and conduct better human resources management within government. The important specific interventions will be: finalization of Civil Service Law, Administrative Procedures Law and Administrative Justice Law; completion of Pay-and-Grading and development and implementation of Next Generation of Public Administration Reforms (NGPAR).

Despite the progress made, capacity constraints still remain a big bottleneck to budget execution which hinders public sector program implementation and public service delivery. PFM Program in the Governance Cluster aims to improve the public financial management system, as well as increase budget execution, efficiency, and transparency in the management of public finances. Key challenges in this area include: capacity constraints at the national and especially sub-national levels; weak planning and budget formulation; donor earmarking of funds and funding delays; and challenges in communication and coordination across ministries, among donors and between national and sub-national entities. The Government is committed to: improving provincial-level planning, budgeting and implementation; developing the capacity of line ministries in finance, procurement, and project management; developing a Medium-Term Budget Framework to create hard budget ceilings; and effectively reprioritize spending according to national priorities.

Vibrant Private Sector

Private sector development is the fulcrum of the economic growth strategy and the Government is committed to taking all steps necessary to facilitate its expeditious, orderly and transparent development. The private sector will not only be the driver of growth, jobs and revenues but will also create delivery mechanisms for goods and services in both economic and social sectors, productively utilize available human and natural resources, and help to integrate Afghanistan with the region and the world, and above all generate hope. Its role, reach and impact will be cutting across all sectors.



All ministries and agencies are involved in various ways with the private sector, but some are in the forefront.¹³ The Government has facilitated growth of the private sector by: establishing the rule of law and governance structures; enacting commercial laws and putting in place regulatory frameworks; promoting growth-oriented sector focused policies; providing financial and fiscal structures; creating basic infrastructure for mobility, energy, and telecommunications; developing industrial infrastructure through industrial parks; streamlining processes and procedures for doing business; promoting trade through bilateral and multilateral agreements; supporting the development of factors of production such as credit, investments, and entrepreneurship; supporting human resources development; and improving access to land. These initiatives represent significant developments in the private sector in the last decade.

Despite these achievements, the road ahead is still long. The overall business environment is still characterized by a weak regulatory and legal regime, institutional and structural deficiencies, poor infrastructure and corruption. The cost of doing business remains persistently high due to unwieldy bureaucratic procedures, cumbersome and complicated licensing and registrations processes, unnecessary and opaque regulation, weak credit frameworks, and cumbersome labor laws. There are also deficiencies in the delivery of those educational, health, and infrastructure services that businesses need if they are to operate efficiently. The combined effect of these factors on business has increased uncertainty and risk, shortened investment horizons, limited availability (and high cost) of financing (both external and domestic), reduced worker productivity, and, often, lower profits for businesses and limited employment opportunities.

The Government stands committed to face these challenges and improve its standing on the World Bank's "Doing Business Indicators" by: enacting laws to fill gaps and strengthen the commercial legal and regulatory framework¹⁴; modernizing and developing industrial parks; reducing regulatory and administrative barriers to growth; reforming the business licensing and registration processes; and negotiating new and strengthening existing bilateral and multi-lateral trade agreements. As noted previously, the Integrated Trade and SME Supports Facility Program in the Private Sector Development Cluster aims to improve and harmonize Afghanistan's business climate and address challenges to private sector growth in Afghanistan. Sector-specific policies will be strengthened to take care of different sectors and a policy for Public-Private Partnership will be developed. A twin emphasis is being given to rapidly increase exports and identify areas¹⁵ for rapid import substitution to move to a higher value industrial economy. For this purpose, the SME Sector Action Plans will be implemented and operations of Afghanistan's border ports will be improved.

¹³ Ministries of Commerce and Industries; Communication and Information Technology; Mines; Energy and Water; and Finance, along with the Afghanistan Investment Support Agency (AISA), are in the forefront to create an enabling environment for private sector development. The Da Afghanistan Bank, as the regulator and the supervising authority of the financial sector, facilitates private sector growth by safeguarding monetary and financial stability.

¹⁴ Laws for regulating bankruptcy, intellectual properties, Corporations and Limited Liability Companies, fair competition, and consumer protection to be enacted.

¹⁵ Cement, edible oil, eggs and live chickens, steel beams, etc.

Afghanistan applied for WTO membership in November 2004 and was granted an observer status. Now, Afghanistan would like to apply for permanent membership since accession to the WTO will help consolidate commercial and economic reform and the rule of law in Afghanistan. We are working towards accession through negotiations to achieve the most favorable conditions for Afghanistan balancing the benefits of accession and Afghan concessions such as tariff reduction and domestic market access. The balance of rights and obligations that Afghanistan achieves through WTO accession should contribute to its economic growth and fair trade.

To solicit feedback from Afghan business leaders on private sector development and to address their concerns, the Government recently held consultations with the leaders of industry and trade. As a result, the Government prepared a visionary paper to provide, guidance and a plan on future initiatives in the private sector. The Road Map is provided in Annex 3: Private Sector: the Engine of Growth, Jobs and Delivery.

Human and Social Capital Development

Human and social capitals are absolutely essential for triggering and sustaining growth, and the success of the government development strategy. A continued focus and increased investment in human development will also be critical in building durable peace in Afghanistan; including the development of agriculture, decent work, addressing gender issues, and providing quality essential services. The reliable provision of essential basic services, supported by the promotion of fundamental freedoms and human rights, is a highly visible dimension of the citizen-state contract, and serves to build trust between communities and authorities at all levels. The successful implementation of the NPPs during the Transition and Transformation Decade will strengthen the capacity of the Government to provide basic essential services to the population, especially women and other vulnerable groups, leading to human and social capital development, protected by systems of good governance and justice for all.

There has been significant progress in the past decade towards providing these essential services especially in health and education. The gains of the past now need to be preserved, consolidated and improved further to service the increasing population. The quality and coverage of these services will be improved substantially during the Transformation decade. The Education for All Program in the Human Resource Development Cluster will improve equitable access, quality, and enrollment in primary and secondary education, especially for girls. It will also strengthen community ownership, especially in the most remote, less secure, and disadvantaged areas. The Expanding Opportunities for Higher Education Program (HRD Cluster) will increase access and the quality of higher education, especially in fields that directly contribute to economic growth, in partnership with the private sector. The Health for all Afghans (HRD Cluster) will provide improved health services by creating, maintaining, and operating requisite infrastructure, human resources, and appropriate systems. The National Rural Access Program (ARD Cluster) will link farmers and communities to the growing national road network while at the same time providing for nation-wide labor-intensive road

construction and maintenance. The Programs for water supply, sanitation and energy supply will be implemented through relevant NPPs.

Regional Integration

Geopolitically, Afghanistan has the potential to transform not only itself but also others in Central Asia from land-locked to land-linked, as Afghanistan lies at the heart of Asia. As *President Hamid Karzai declared, Afghanistan aspires to become the “Asian Roundabout”, a central point of interconnection of goods, ideas, services and people in the fast expanding Asian economy, and a peaceful meeting place of civilizations.* It connects three major economic, cultural, and geo-political regions in Asia: the Iranian Plateau and Persian Gulf states to the west, the Indian subcontinent to the southeast, and Central Asia to the north.

Regional cooperation is both to the benefit of neighbouring countries as much as to the benefit of Afghanistan. By integrating with the dynamic Asian economies and leveraging its untapped human and natural resources, Afghanistan can become a financially sustainable trade and transit hub that benefits its citizens and the people of the region by providing more economic opportunities. Regional cooperation is also fundamental to countering narcotics and other illicit trade especially through



border management and helping to interdict international criminal and narcotics trafficking networks. Conscious of such benefits, there have been significant efforts supported by the international community toward building the foundations for stronger regional economic cooperation between Afghanistan and its near and extended neighbours. Economic opportunities and development are crucial, but resolving key political differences is also crucial for enhancing regional economic opportunities and development. For this purpose, political dialogue with neighbouring and regional countries must continue, including through the confidence-building measures identified or already decided to be implemented in the context of the Istanbul Process.

Infrastructure projects with strong regional dimensions have been completed or are under way. The Ring Road, a network of nearly 2000 km, which is close to completion, has already contributed to economic integration of Afghanistan and its neighbours. The country's first railway connecting the third largest city of Mazar-e-Sharif to Hairatan commenced operations in December 2011 linking Afghanistan to Uzbekistan's vast rail network and onwards to regional markets in Europe and Asia. These projects form part of transport corridors being built under the Central Asia Regional Economic Cooperation (CAREC) Program led by Asian Development Bank (ADB). In addition to transport projects, electricity transmission lines from Uzbekistan and

Tajikistan have been built, resulting in 24-hour power supply to Kabul. Afghanistan also has a critical role to play in the transit and trade of energy between the well-endowed countries to its north, and the energy-short countries to the south and east. It will therefore continue to be actively involved in energy transit schemes and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline initiative in gas, as a means of demonstrating its reliability as a transit country for goods and services of all kinds.

On the policy and regulatory aspects, progress is being made to advance trade, transit, and investment regimes, and border management towards the creation of an enabling environment as a regional trade and transit hub. Afghanistan signed and ratified the South Asian Free Trade Agreement (SAFTA), the Afghanistan-Pakistan Transit Trade Agreement, a bilateral transit agreement with Tajikistan, and the Agreement on Cross-Border Transport of Persons, Vehicles, and Goods (CBTA) with the Kyrgyz Republic and Tajikistan (within the framework of CAREC). Afghanistan continues to expand regional cooperation within the framework of the Economic Cooperation Organization (ECO). Significant progress has been made over the last two years toward advancing World Trade Organization (WTO) accession.

The Fifth Regional Economic Cooperation Conference on Afghanistan (RECCA V – 26-27 March 2012 in Dushanbe), building on the progress achieved at previous RECCA Conferences (Kabul, Delhi, Islamabad and Istanbul) and other national and international policy conferences, provided an opportunity to translate the vision of a more durable and prosperous region through a stable and prosperous Afghanistan into a first ever concrete and time-bound action plan. At the RECCA-V fifteen Regional Investment Projects and Policy Priorities covering broad areas of: infrastructure development (railway, roads, energy); human resource development, vocational training, and labour market facilitation; investment, trade, transit and border management; and regional disaster management were presented. Many of these projects and policy priorities are part of existing regional programs, such as CAREC and are also part of specific NPPs.

Funding key regional projects in Afghanistan is a clear priority. The Afghanistan Infrastructure Trust Fund (AITF), established in November 2010 pools donor resources to co-finance and complement ADB-assisted infrastructure projects and is one mechanism that could be explored.

Good Governance: the Key to Successful Implementation of the Strategy

“The fight against corruption lies at the heart of our focus on improving governance.” –Hamid Karzai, the President of Islamic Republic of Afghanistan at the Hague Conference, Netherland (2009).

This statement by our President reflects the commitment of the Government to fighting corruption and captures its importance to good governance. In turn, good governance is the foundation of every component of Afghanistan’s prospects for growth, self-reliance, development and peace, underpinning all of the Government’s institutional, functional and service delivery goals.

We have come a long way since 2002 in terms of the development and consolidation of our governance values, institutions, policies and laws. We refer to the progress shown at the highest levels of our governance systems through the conduct of two Presidential and Parliamentary elections; the development and significant growth of our public institutions; the improved management of our public finances and the reduction in corruption; the professionalization of our police, military and judiciary; the creation of space for civil society and the media; and the renewed and growing respect for the inalienable human rights of women and minority groups in our society. The ability of the Afghan Government to collect revenue and execute its budget has increased significantly over the past several years. The Afghanistan Land Authority (Arazi) was established by Presidential Decree in September 2009 to improve access to Government lands for economic and commercial activities, support agriculture-led economic growth and reduce land-related corruption. Many important laws have been revised and drafted for fighting corruption— such as the Anti-Corruption Law, the Major Crimes Law, the Criminal Procedures Code, the Penal Code and the Audit Law. These have been accompanied by the establishment of the High Office of Oversight and Anti-Corruption (HOO) and the joint Monitoring and Evaluation Committee (MEC) over recent years to further and support an improved legislative environment. Civil society is also increasingly providing valuable contributions to the Government’s anti-corruption efforts.

Despite these achievements, Afghanistan faces many challenges going forward to ensure that the progress we have made is truly transformative and that improvements can be felt from the top to bottom of our society. We acknowledge the need to improve the capacity and management of our public institutions to deliver more and better services, alongside efforts to extend progress to subnational governance institutions. Our public financial management system is still evolving and budget execution is not at the desired levels.



The private sector remains cautious about investing in the country, with the Kabul Bank crisis in particular exposing the weaknesses in our economic governance systems and the need for strengthening banking regulations and supervision as per international best practices. In coordination with our international partners, the Government will also strengthen management of its external resources and aid budget to reduce wastage and increase impact. It is corruption, however, that remains the most important barrier to sustained economic growth: it damages the legitimacy of the Government, affects the quality and quantity of services delivered to our citizens, and undermines the confidence of our people and development partners in the integrity of the state.

Over the coming years we will continue to focus our resources and energies on the building blocks of an effective state, namely: a legislative and policy environment to promote growth,

fighting corruption and enforcing rule of law; development of our justice institutions and a sound legislative framework; strengthening of public institutions and their policymaking and service delivery capacities to improve the quality of life for all Afghans; consolidation of democratic and representative systems from national to subnational level; and the promotion of fundamental freedoms and human rights supported by a vibrant civil society and free press.

In the run-up to the Tokyo Conference, the Government has pledged in the short-term to meeting 17 governance indicators that rest on 5 broad themes: 1. Governance capacity and accountability; 2. Anti-corruption; 3. Budget planning and execution; 4. Rule of law; and 5. Economic governance. Progress against these is provided in the Governance Annex I attached to this paper. Furthermore, recognizing the significant challenges ahead, by 2014 the Afghan Government also commits to achieving the outcomes delineated in the Mutual Accountability Framework.

Cross-Cutting and Humanitarian Issues: Gender, Counter-Narcotics, Refugees, Demining and the Environment

Cross-cutting issues are woven into the NPP framework. The Government has adopted gender as a cross-cutting strategy that derives its inspiration from the country's Constitution. The gender strategy, which was formulated during the ANDS process, spans most national priority programs, activities and outcomes, especially those relating to human-centered development. Gender as a cross-cutting strategy, is included in the three pillars of the National Action Plan on Women in Afghanistan (NAPWA), which are security; governance, rule of law and human rights; and, economic and social development. Gender continues to be mainstreamed throughout the NPPs through the work of the gender mainstreaming task force of the HRD Cluster, chaired by the Ministry of Women's Affairs and UN Women. The Ministry of Women's Affairs is charged with strengthening the capacity of line ministries to address the special needs of women and girls. The Government of Afghanistan is committed to implement UN Security Council Resolution 1325, and to ensure that Afghan women are meaningfully represented in the planning stages and during the reconciliation and transition process. The protection of rights of women, girls, children and ethnic minorities remains high on the agenda of the government and will continue to be addressed during the Transformation Decade through relevant NPPs.

The counter-narcotics efforts of the government are important both from economic and security points of view. They have important implications for the stability and anti-corruption efforts in the country. The Ministry of Counter Narcotics is leading these efforts. Mainstreaming of counter-narcotics in the NPPs is a continuous process starting with the review of NPP's and continuing during implementation and after implementation of the programs in the form of M&E and Post Impact Assessment. An Alternative Livelihood Policy has already been designed cutting across various sectors to provide licit livelihood opportunities to counter dependence of people on poppy cultivation and related activities.

The Government recognizes the importance of involvement of civil society in implementation of the development strategy and looks forward to strengthen the working relationship during the transition and transformation periods. The civil society can play an important role in: delivery of services through the government and non-government programs; providing inputs in the policy formulation especially with regard to needs on the ground; strategically communicating the messages and content of the government programs to the society at the grass-roots level; and becoming the eyes and ears of the government by providing feedback on how the government programs are affecting the population.

During the last 10 years, over 5.7 million Afghan refugees have returned to Afghanistan, constituting nearly a quarter of the current Afghan population. There are still approximately two million registered Afghan refugees in neighboring Pakistan and one million in Iran, making this one of the largest protracted refugee dilemmas in the world. In addition, there are over 400,000 conflict-induced Internally Displaced Persons (IDPs) in Afghanistan. Their situation requires continued efforts to facilitate voluntary repatriation and support to reintegration in Afghanistan. The Afghanistan Government welcomes the Solutions Strategy to deal with the problem of Afghan refugees jointly prepared with Pakistan and Iran, approved at the International Conference in Geneva on 3 May, 2012.

Afghanistan faces the aftermath of war and the challenges of the contemporary world at the same time. Demining needs to be given appropriate attention. Over a million Afghans live within 500 meters of a minefield. Mines block the development of: agriculture; housing; infrastructure, and water. Cleared land reminds us that sustainable development requires that our environment and natural resources are preserved for future generations. The National Water and Natural Resources Program will conserve forests that contribute to biodiversity and natural wealth.

National Priority Programs

Launched in 2008, the ANDS laid out national development priorities. At the Kabul Conference in July 2010, coordinating Ministers translated these development priorities into focused and prioritized implementation plans in the form of the 22 National Priority Programs (NPPs). These programs were chosen based on their contribution to sustainable economic growth, revenue generation, jobs and human development. The NPPs are blue-prints to implement our long-term vision through revolving planning periods creating implementation capacity, establishing institutions, reforming concerned sectors and delivering essential services. They will create foundations for meaningful transitions in socio-economic sectors and extend to bridge the Transition and Transformation periods. Their implementation will be reviewed periodically and necessary adjustments will be made to fine-tune them with changing realities, upcoming challenges and needs.

The Government has strategically sequenced the funding requirements under National Priority Programs over five years to allow for initial capacity building and investments to pave the way for later capital investments. The average annual development funding requirement between

2013 and 2020 is estimated at US\$ 3.9 billion. This economic strategy approach takes NPPs right into the Transformation Decade ensuring smooth and seamless transition. Maintaining NPP implementation into the Transformation Decade will further inculcate confidence in the people that their service delivery will not be affected by Transition.

For this economic strategy, the NPPs have been categorized into the following areas based on their contribution to economic growth and the need to maintain essential support to the population: a) Growth-Inducing NPPs, (b) Growth-Supporting NPPs, (c) Essential Services NPPs, and (d) Other Important NPPs.

Based on our sequenced requirements, relevant line ministries have identified specific deliverables and components within the NPPs that support growth areas. Some NPPs have deliverables which support multiple growth sectors. The Government requests that donors focus their funding to support the components and deliverables of NPPs that have been identified as requirements for accelerated growth.

Addressing the Fiscal Gap

While the long-term financial prospects for Afghanistan are promising, the Government is unable to address the fiscal gap in the medium-term. Based on its initial analysis the Government must look to international donors to overall finance approximately 23.2% of GDP (or about US\$ 7.9 billion) in 2020. This gap will shrink to about 11.8% by 2025. A long-term funding commitment by the International Community, characterized by a gradual drawdown of aid, would provide the necessary financial stability to allow Afghanistan to realize a stable and prosperous future. This approach allows Afghanistan to take increasing responsibility for its own security, continue to implement critical development and governance reforms, and grow its economy while gradually assuming the full burden of these financial obligations. The total cost to finance this plan in 2025 is far lower than the yearly cost of current military expenditure by international forces in Afghanistan.

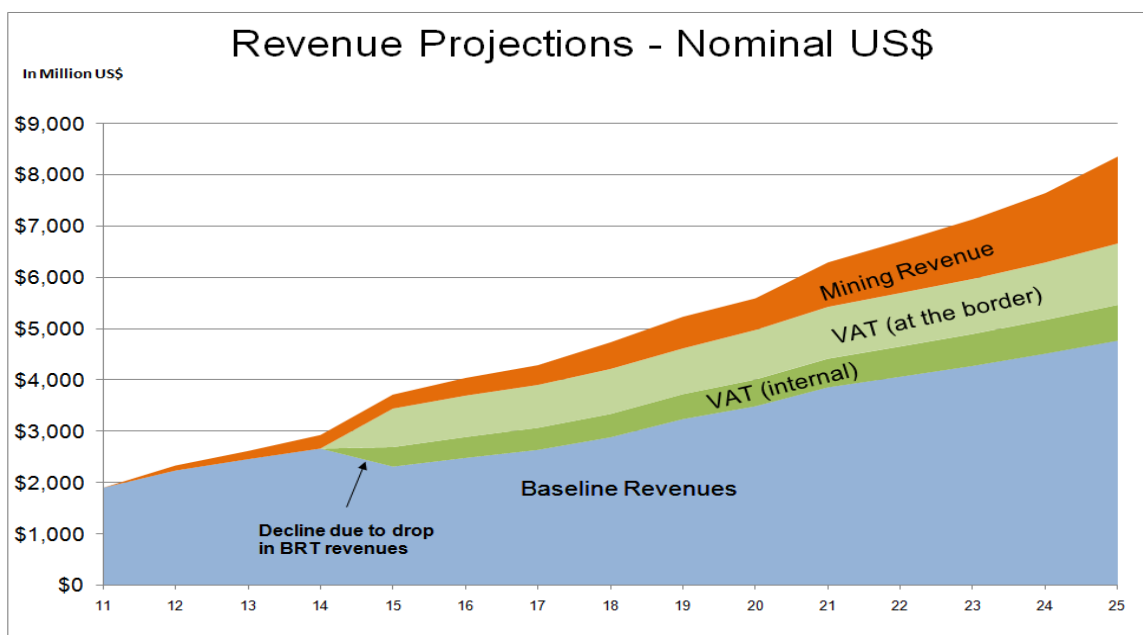
The average annual development funding requirement between 2013 and 2020 is estimated at US\$ 3.9 billion. Funding requirements are based on the identified projects and programs within the 22 National Priority Programs and thereafter similar criteria have been used to estimate requirements. The Government is developing an Operations and Maintenance (O&M) Policy to rationalise our requirements for O&M in the future, given that it is expected to increase significantly after the Transition due to transfer of assets. O&M requirements will continue to grow until the middle of Transformation Decade and will slightly reduce after 2020. In order to address the fiscal gap, the Government has committed to an aggressive program of efficiency and reform as per the IMF-supported Extended Credit Facility program. The key elements of this program include:

- Measures to increase the efficiency of customs and revenue departments;
- Expanding the Government's ability to enforce Afghan laws and continued commitment to and development of a sound public financial management architecture;

- Improved governance and management of state-owned enterprises and corporations;
- Increased capacity and an improved institutional framework to respond to economic crimes;
- Implementation of a series of reforms to strengthen the financial sector, facilitating access to capital for legitimate investors; and
- Introduction of a value-added tax (VAT) by 2014.

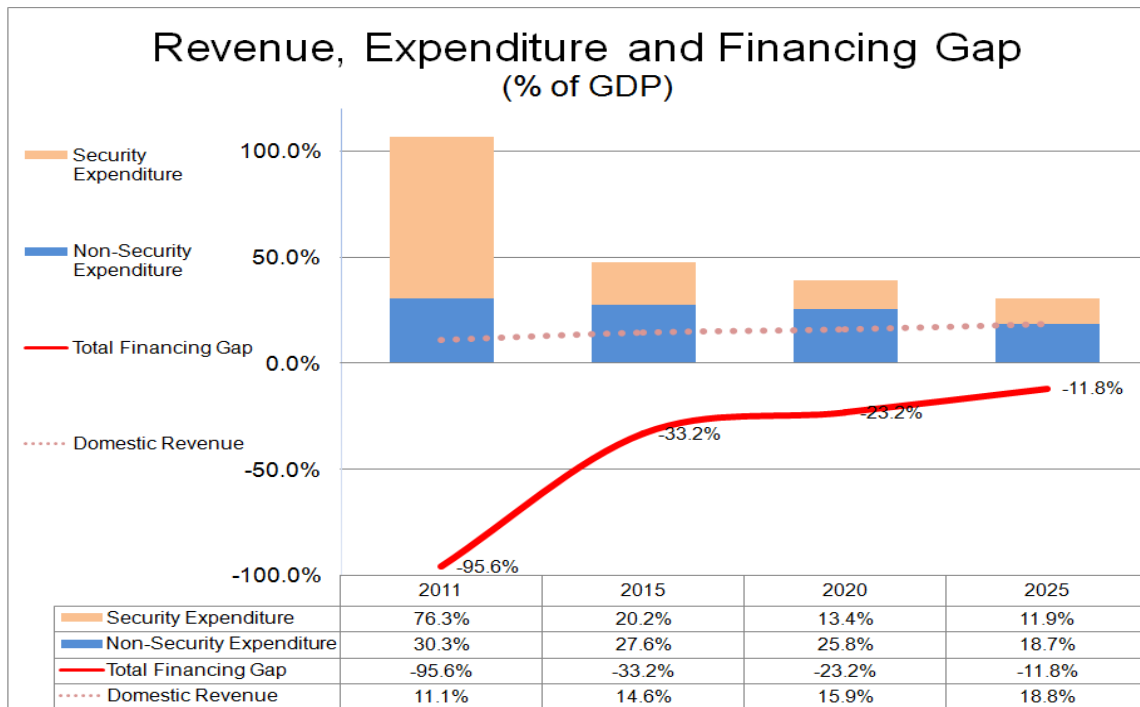
These steps will also improve the economic and investment climate more broadly.

Notwithstanding improvements in the economic framework for the next five years most of Afghanistan's near-term growth will continue to be based on advancements in the agriculture sector and small and medium enterprise development. However, the extractive industries will begin to generate significant revenues for the government through the Transformation Decade. Afghanistan collected US\$ 2 billion or around 11.1 percent of GDP in domestic revenues in 2011-12. The planned VAT implementation will further add revenues equivalent to 2.9 percent of GDP on average starting in 2015. In addition, it is anticipated that the extractive industries will generate revenues of over US\$ 650 million by 2020 growing to US\$ 1.7 billion by 2025. The revenue collection outlook is projected to be promising with domestic revenue collection growing from only US\$ 2 billion in 2012 to around US\$ 5.5 billion by 2020 and US\$ 8.4 billion by 2025. These revenue numbers correspond to around 15.9% and 18.8% of GDP by 2020 and 2025 respectively, which is comparable to Nepal (15.7%), the Philippines (13.4%), and Sri Lanka (14.6%) and well above many other post-conflict, least developed nations. Achieving this scenario would require a significant positive change in security and the Afghan business climate, leading to increases in direct foreign and national investment. To properly manage this trajectory, the Government commits itself to transparent, responsible use of mineral sector revenues.



Source: Ministry of Finance

The Government will seek to narrow the overall financing gap significantly from the current level of 95.6% of GDP. This will be done through delivering on key reforms in governance and by maintaining a careful and disciplined investment strategy in key economic sectors. The international donor community would need to finance the fiscal gap of approximately US\$ 8.4 billion or 33.6 percent of GDP in 2015. The fiscal gap narrows as revenue collection improves during the Transformation Decade; however, the International Community would still need to fund approximately 11.8 percent of GDP in 2025.



Source: Ministry of Finance

To reach 2016 revenue growth targets and build a foundation for 2025, financial support will be required. Improved peace and security will drive development through 2015, when the Transition period comes to an end, and serve as a fundamental building block for economic growth and sustainable gains in human development. However, once Afghanistan enters the Transformation Decade, development will begin to drive security. Job and food security, a growing economy, and good governance will become the new foundation upon which the security gains of the past can be preserved and strengthened for the benefit of Afghanistan's future generations. (See Annex 2).



Islamic Republic of Afghanistan