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Securing Afghanistan’s Future:
Accomplishments and the Strategic Path Forward

March 17, 2004

A GOVERNMENT / INTERNATIONAL AGENCY REPORT

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Asian Development Bank

United Nations Assistance Mission to Afghanistan

United Nations Development Program

The World Bank Group

Steering Committee:

The 'Securing Afghanistan's Future' Exercise was overseen by a Steering Committee co-chaired by the Minister of Finance, H.E. Dr. Ashraf Ghani, Minister of Reconstruction, H.E. Minister Farhang and Minister of Foreign Affairs, H.E. Dr. Abdullah Abdullah. The Steering Committee represented a partnership between the Government and the ADB, IMF, UNDP, UNAMA and the World Bank.

For the Government, members of the Steering Committee include Dr Arif (Office of the President), Seema Ghani (MoF), and Adib Farhadi (MoFA). Members of cabinet actively participated in the preparation and review of the report. Delegates to the Constitutional Loya Jirga also provided valuable inputs.

The following advisers contributed to the Steering Committee: M. Afzal Rashid, Michael Carnahan, Clare Lockhart, and Aidan Cox. The exercise was coordinated by Peter Middlebrook (World Bank).

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High Level Advisory Committee:

A High Level Advisory Committee composed of Chris Donnelly (UK Defense Academy), Hafiz Pasha (Assistant Secretary General, UNDP), Shantayanan Devarajan (Chief Economist South Asia Region - World Bank) and Zmarak Shalizi (Senior Manager - World Bank) provided guidance to the Steering Committee and Working Group in the development of key themes, based on international experience.

Working Group:

The Working Group Team Leader for the exercise was Peter Middlebrook (World Bank).

The Steering Committee appointed the following Chapter Managers: William Byrd (World Bank – Economic Growth - Prospects) with support from Stephane Guimbert, Omar Noman (UNDP – Pillar I), Mohiuddin Alamgir (ADB) and Alain Locussol (World Bank) as Joint Managers for Pillar II, Nick Manning (World Bank – Public Administration and Economic Management), Amer Durrani (World Bank - Trade and Investment) with support from S. Chander and Robert Bestani (ADB) on Private Sector Development. Mark Sedra on Security Sector, Inder Sud (Consultant) and Daud Ahmad (Consultant) on Implementation. The overall fiscal framework and costing details were consolidated by Stephane Guimbert (World Bank).

The macroeconomic scenarios were prepared by the Government of Afghanistan with the advisory support of the World Bank and IMF staff.

The sector leads and team members are acknowledged in the various Technical Annexes available for download from www.af/.

ABBREVIATIONS

ACD	Afghan Customs Department
ADB	Asian Development Bank
AFMIS	Afghan Financial Management Information System
AIHRC	Afghan Independent Human Rights Commission
AMF	Afghan Military Force
ANBP	Afghan New Beginnings Programme
ARTF	Afghan Reconstruction Trust Fund
CAO	Control and Audit Office
CND	Counter-narcotics Department
DAB	Da Afghanistan Bank
DABM	Da Afghanistan Brishna Moassesa
DDR	Disarmament, Demobilization and Reintegration
EC	European Commission
EU	European Union
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IARCSC	Independent Administrative Reform and Civil Service Commission
IDA	International Development Assistance
IDP	Internally Displaced Person
IMF	International Monetary Fund
ISAF	International Security Assistance Force
LOTFA	Law and Order Trust Fund
MAPA	Mine Action Plan for Afghanistan
MDG	Millennium Development Goals
NATO	North Atlantic Treaty Organisation
NDB	National Development Budget
NDCS	National Drugs Control Strategy
NEEP	National Emergency Employment Programme
NSC	National Security Council
NSP	National Solidarity Programme
O&M	Operation and Maintenance
PAREM	Public Administration and Economic Management
PIP	Public Investment Programme
PMU	Programme Management Unit
PPP	Purchasing Power Parity
PRR	Priority Reform and Restructuring
PRT	Provincial Reconstruction Teams
PSP	Provincial Stabilisation Plan
TISA	Transitional Islamic State of Afghanistan
UNAMA	United Nations Assistance Mission to Afghanistan
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNODC	United Nations Office of Drug Control
UXO	Unexploded Ordinance
WSS	Water Supply and Sanitation

CURRENCY EQUIVALENT

Currency Unit = Afghani
US $1 = 49 AFN (2004 Average)

GOVERNMENT FISCAL YEAR

March 21 – March 20

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PRESIDENTIAL MESSAGE

A stable Afghanistan is a precondition for regional stability and global security. Investing in securing Afghanistan's future is an investment in both political stability and expansion of economic opportunity. Our goal is a state that has internal and external legitimacy, the capability to underwrite its budget and that contributes to, rather than detracts from, regional and global stability.

We have assets that permit us to think that this is a realistic goal. The most important of these assets is the consensus of our people that stability must be achieved through political means and not through coercion. We are an entrepreneurial people that, as individuals, have managed to thrive in today's interdependent global economy.

Our location, a source of instability in the last 150 years, is now turning to an advantage. We intend to be the land-bridge between Central Asia, South Asia and the Middle East. We have learned much from the lessons of fifty years of development and fully understand that without good governance there can be no lasting peace and prosperity.

To reduce and then eliminate poverty we must create wealth. Therefore we view the private sector as the engine of growth. We are committed to create the enabling environment for both the domestic private sector including the Afghan diaspora, and the international private sector to thrive in our country.

The private sector cannot risk its hard earned money without security, rule of law and a government committed to transparency and accountability. We are committed to a comprehensive set of reforms that would enable us to have the institutions that would make our people secure and our country stable.

Investing in our people to meet the Millennium Development Goals is key to our wellbeing and a measure of the road that we must travel. It is true that we have the world's lowest social indicators today. But we must also keep in sight the potential of what we can be and to mobilize our energies to bring forth that potential.

Our proposed program of public investment is the major instrument for translation of our vision into concrete and visible benefits for our people. This investment is essential to making the benefits visible to every woman and man, regardless of location, social background, age or physical ability. We are particularly keen to ensure the inclusion of those of our citizens who have sacrificed during two generations to ensure our freedom against totalitarianism and extremism.

We have forged a very productive partnership with the international community. The production of this report and the Berlin conference are hallmarks of a partnership based on mutual values and mutual benefits. I commend our international colleagues and institutions that have partnered with my Afghan colleagues to produce this report.

This exercise lays the analytic and policy foundations for the tasks that we must achieve during the coming seven to twelve years. The positive reactions of the international community to the quality of the analysis and to the policy recommendations of the report is a sign of ongoing commitment. We will succeed with the deepening of our partnership around the goal of securing Afghanistan.

With these foundations laid, we are confident that we will meet our goal of a stable, democratic, financially sustainable State that is committed to the goal of poverty elimination and creation of wealth, and that will regain its place as a respected member of the international community.

Hamid Karzai
President

EXECUTIVE SUMMARY

Introduction

This report represents a major effort in collaboration across the Afghan and international community. Over 100 international experts, generously provided by the United Nations family and the multilateral development institutions, collaborated with their Afghan colleagues to prepare *Securing Afghanistan's Future*. It is this cooperation at both the multilateral and bilateral level, combined with the tenacity and spirit of the ordinary Afghan women and men that makes the virtuous circle of growth out of poverty and aid dependence possible. The coalescence around the centrality of building a State by all partners and the commitment to partnership and engagement in achieving this goal is a tremendous resource that needs to be leveraged.

Afghanistan's response to the emergency situation it found itself in two years ago has been both to ensure that the immediate needs were met, but it was also a long term and structural response. The Government prepared its National Development Framework to provide a long term structure within which short term and emergency interventions could be situated. The NDF has begun to be operationalised both through the National Development Budget and specifically through the implementation of the priority national programs articulated by President Karzai two years ago. A number of key structural and systemic reforms have already been carried.

However, many reforms remain to be carried and increased harvests of poppy highlight the need for more concerted efforts in this area. There have also been concerns raised about the difficulties in terms of both cost and the need for a more systematic and sustainable approach to the investments being proposed, and in some cases implemented, by Afghanistan's development partners. These evolving circumstances have drawn the attention of both the Government and its partners; and has forged a consensus around the state-building agenda as the only one that promises a sustainable Afghanistan and offers a long term exit path for the partners.

The goal of the program of action outlined in *Securing Afghanistan's Future* is to create a self-sustaining country that can fund its operations – including its security sector, its social sector, operate its infrastructure and address its poverty elimination goals using its own resources. This focus on self-sustainability immediately brings the critical political economy issues around revenue-raising and the structural issues around a private-sector friendly environment into stark relief. It identifies the constraints that are faced and highlights the need to consider different ways of doing business. This understanding has led to the logic of the private sector. The revenue angle forces a focus on the private sector, for without growing the economy it is not possible to raise adequate revenues to make the country sustainable.

Key Findings

Securing Afghanistan's Future puts forward a program of investments to lay the foundations for the sustained economic growth needed to support a financially sustainable State that is capable of undertaking social development and poverty reduction. It is situated within the vision outlined in the Government's National Development Framework; and expands upon the investment program outlined in the National Development Budget. The analysis is based on outcome targets to be achieved in 2015 to align with the Millennium Development Goals framework. The assessment of investment and recurrent costs is over a 7-year time horizon (on a commitment basis for investments and a cash basis for recurrent expenditures), and a more detailed program for the next 3 years.

The report concludes that:

- Growth in Afghanistan's non-drug economy on the order of 9 per cent per annum will be needed to ensure that there is acceptable, visible economic and social progress while eliminating the drug economy over time;
- Such growth is feasible if the preconditions for private sector growth are in place, particularly in relation to security, institutions, capacity and public investments. However, this growth will only lead to GDP per-capita of about US $500 by 2015 – Afghanistan will still be a poor

country. Therefore, a focused social welfare policy is needed to address the needs of the poor and vulnerable, especially the disabled, female-headed households, and other victims of war who will not be well-placed to benefit from growth;

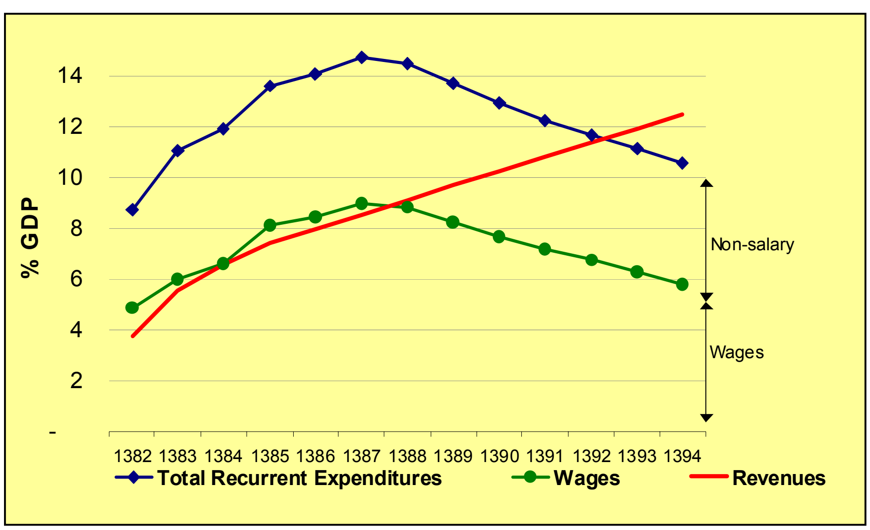
- The private sector must be the driver of economic growth, so removing obstacles to private sector development is an urgent priority;
- With a strong revenue effort, focusing on compliance and enforcement, the Government will be able to finance its wage bill within 5 years and its entire recurrent budget in 9 years (see Figure on recurrent cost financing below);
- Over the 7 year costing horizon, recurrent expenditures are estimated at US$7.2 billion, of which US$4.3 billion is expected to be financed by domestic revenue and US$2.9 billion from external resources. The development program and capital expenditures are estimated to cost US$24.6 billion over 7 years (See Table on external financing below); and,
- Accordingly, Afghanistan will require total external assistance in the range of US$27.6 billion over 7 years on commitment basis. A minimum of US$6.3 billion of external financing will be required in the form of direct support to the national budget – preferably more, since budget support helps build the State and its legitimacy.

Table E.1 Required External Financing

(USD million)	1383	1384	1385	1383-85	1386-87	1388-89	1383-89
Expenditures							
Recurrent Expenditures	601	733	925	**2,258**	2,273	2,673	**7,205**
Capital and Development Budget	4,068	3,351	3,378	**10,797**	6,885	6,995	**24,678**
Total Expenditures	**4,669**	**4,084**	**4,303**	**13,056**	**9,159**	**9,668**	**31,882**
Financing							
Domestic Revenues	300	400	500	**1,200**	1,298	1,779	**4,278**
External Financing (direct to government	701	783	925	**2,408**	1,975	1,894	**6,277**
Project financing	3,668	2,901	2,878	**9,447**	5,885	5,995	**21,328**
Total Financing	**4,669**	**4,084**	**4,303**	**13,056**	**9,159**	**9,668**	**31,882**
Memo: external financing	4,369	3,684	3,803	**11,856**	7,860	7,889	**27,605**

The 1383 government budget was finalized this morning (March 18) with recurrent expenditures of $609m. The final version of this document will reflect this change.

Figure E.1 Recurrent Cost financing



This international assistance to Afghanistan should be looked on as an investment in stability, peace-building, and development at local, regional, and global levels. It is not charity. It will enhance regional stability, reduce the global threats of drugs and terrorism, and lower the associated defense and security-related costs of many nations. It should also be seen in the context of continuing international security costs in Afghanistan, including over US $13 billion per year of spending on Coalition and ISAF forces, as well as the more than US $2 billion spent over the past two years in responding to humanitarian emergencies that a failed state would have no capacity to address. Success in Afghanistan will permit drastic reductions over time in these expenditures.

The economic modeling that has taken place highlights the centrality of the agricultural sector to the overall economy. Agriculture is currently estimated to account for 52 per cent of legal GDP. It currently provides livelihoods for over sixty per cent of the population, so it must be a critical component in any poverty reduction strategy. Even with the growth projected in the industrial and services sector from their current low base, agriculture is still estimated to contribute 43 per cent of GDP in twelve years time.

Centrality of the Agricultural Sector

The investment program outlined in this report (discussed below) recognizes the importance of agriculture. Investment in roads and water and power and health are investments in agriculture. By addressing the farm to market transport constraint, the productivity and profitability of farms will be increased. The irrigation strategy aims to move from 10 per cent of water coming from large waterworks to 30 per cent – a critical change given the variability around rainfall.

The projected rates of growth in this sector are realistic, in part because the current levels of productivity are so low. There is potential for significant increases through building on regional relationships and know-how. Moreover, removing obstacles to investment by the private sector and focusing on issues of rural finance will provide the foundation for the projected growth.

Agriculture is also central because it is through this sector that the alternative livelihoods policies that will be needed as a cornerstone of any successful counter-narcotics strategy can be addressed. The key is to diversify the income opportunities of the household that is currently engaged in poppy production away from solely plant based income. The focus in each household must be encouraged to move towards areas including horticulture, animal husbandry and handicrafts. Only through ensuring that at least half, and preferably two thirds of household income comes in this way will it be possible that households have the income level that, when combined with a strong enforcement effort, provides them with sufficient incentive not to cultivate poppy.

Moreover, these areas of off-farm income have traditionally been the preserve of women. So, such a focus on diversifying the household income will address in a very natural way a broad range of gender issues and issues around the empowerment of women.

Alternative Scenarios

Securing Afghanistan's Future focuses on outlining a scenario where Afghanistan can become a financially self-sustaining State, with the capacity to meet basic social needs and embark on the process of poverty eradication. This is not necessarily the most likely scenario – however it is the only scenario that will lead to a sustainable outcome. Achieving these outcomes will only take place if the investments outlined in the report are coupled with ongoing reforms in the economic and security areas and the creation of lasting institutions.

An alternative set of economic projections is also presented in the report. These projections presented as 'Putting Afghanistan's Future at Risk' envisage considerable lower growth and much slower progress in security reform, institution building and therefore in private investment. There are three possible scenarios that could result in this outcome.

One possibility is that the international community at a multilateral level, including the United Nations and international NGOs, and at a bilateral level reduce their engagement in Afghanistan. This could be caused by increased insecurity or targeted attacks on the international development community; or by the emergence of competing priorities around the world. If this is the case, the significant progress that has been made to date is likely to be rapidly unwound, with an increasing descent into lawlessness, characterized by local militias and increasing drug production.

Alternatively, after the Tokyo pledges are fully disbursed, donor countries could revert to aid flows that are typical of countries at Afghanistan's level of per capita income. In this scenario the prospects for institution building, both in the security and economic domains will be limited. Given the backlog of destruction, demining needs, lack of security and traumatized and dispersed human capital, it is very unlikely that Afghanistan's growth rates will be close to those of countries at a similar per capita income.

The third scenario is that donors continue to provide support at or around the levels that they pledged at Tokyo and disbursements continue at or around their current rates and work to gradually strengthen institutions and restore security. There is no doubt that institution building, restoration of security and elimination of the parallel drug economy will take time. However, many of the processes are non- linear. Staying too close to a minimal effort for too long will adversely affect expectations and commitments of the different segments of Afghan society. In this scenario the investment in building security and economic management institutions will not translate into outcomes quickly enough to convince people (both within the country and outside) to invest in the country's human and physical capital, and restore the productivity of social and environmental assets.

Under such a scenario, it will take much longer for the country to generate adequate tax revenue to cover its own current expenses, and it will be more difficult for it to implement cost recovery/debt servicing capability to mobilize additional resources – except for a subset of enclave projects. However, with slow institutional development, even these enclave projects are likely to produce little benefit for the community, as weak institutions enter into sweetheart bilateral deals.

However, this slow progress is actually unlikely to materialize. Associated with this slower movement, will be a lack of visible progress. This will undercut the broad consensus that currently exists in the community for reforms in the economic and security domains. There are currently strong and concentrated interests in Afghanistan who are angling for a weak central government which will allow them to undertake narcotic production and illegal natural resource exploitation. These interests will conspire to actively undermine the creation of a sustainable State and a stable environment. Without visible and rapid progress, the consensus for reform will not be sustained. Without this consensus and therefore these reforms, even modest levels of economic growth in legal activities will not occur.

The Public Investment Program

The Public Investment Program outlined in this report reflects the deepest wishes and aspirations of the Afghan people. At the Loya Jirga (Grand Assembly) held to decide on the nation's constitution, delegates from across the country expressed their views over the investments needed for the future of the country. Of the 502 delegates to the Loya Jirga, 280 spoke and a content analysis of these written and oral statements reinforced the focus on the three pillars outlined in the National Development Framework, and forming the basis of this investment program: human capital; physical infrastructure and good governance.

No private sector investment program has a single or even two or three year time horizons. Private investment programs are conceived in terms of decades, not years. This Public Investment Program involves a careful sequencing of activities. The overall investment horizon presented is seven years on a commitment basis and twelve years on a disbursement and project completion basis. However, a number of the projects in the investment program have a 1 to 3 year horizon to ensure that there is visible progress to build a sense of trust in delivery. The timeframe for an effective investment program reinforces the need for longer term financial planning and predictability, discussed below.

There is an inherent relationship among the three pillars of the National Development Framework: human capital; physical infrastructure and good governance. It is the net impact of the program across these pillars that will produce stability. Investment in security is one component, but it is the investment in human and physical capital that is also key to producing stability.

Human Capital

Investment in human capital will have immediate and long term impacts. Investment in the area of health has immediate pay-offs as well as delivering benefits in the short to medium term. Evidence in other countries with very low health indicators has shown that dramatic improvements can be made from these low bases if there is concerted and focused action. Amongst the Afghan community, education is being seen as an inclusion in modern life and modernity – therefore the quality and not just the quantity is the issue here. In both health and education, the gender element is critical, given we are moving from gender apartheid to gender integration, addressing the capabilities of women in the culturally appropriate way requires special attention. However, as shown by the Loya Jirga, when women take on these roles they are accepted, the key is not to discuss the role of women in Afghanistan, but to create facts on the ground regarding integration and women's roles. Key aspects of the Public Investment Program include the following areas.

- Resources for the return of refugees and protection for IDPs are estimated to decline sharply after 1384/1386. Future challenges relate to stability, security, and economic prosperity. The Government will actively engage in discussions with its neighbors to seek long-term solutions for economic migrants;
- The education sector has received limited donor support in view of the centrality of education in securing Afghanistan's future. This imbalance urgently needs to be addressed to attain universal access to primary education over the longer term;
- In health, the priority is to expand the Basic Package of Health Services, supported by improvements in quality of hospitals and wider coverage of vertical programs;
- Under the livelihoods and social protection program, the focus on productive aspects – through the NSP, NEEP, micro-finance, and community water supply – will remain key to poverty reduction. Direct social transfers will be limited to extreme vulnerability and emergencies; and,
- In Culture, Media, and Sports, investments must aim at creating a more open society, reviving the cultural diversity of Afghanistan, promoting values conducive to democratic practices, and utilizing the nation-building power of sports.

Physical Infrastructure

The investments in physical infrastructure represent the minimum integrated package needed to allow for growth. Infrastructure development underpins growth directly. In the case of agriculture discussed above, the reduction in farm to market times encourage grater productivity through specialization in crops where there is a competitive advantage and open the way for diversification into new products for new markets. However, infrastructure investments also support the provision of an enabling environment for economic growth. Investments in transport infrastructure bring the country closer together, allowing for a more effective and cost efficient deliver of security. Investments in clean water and sanitation are considered to be some of the most cost effective in delivering health outcomes – ensuring both a higher standard of living and a more productive workforce. Key aspects of the public investment program include

- A major focus on transport, critical for both national and regional economic growth including completing the ring road, and building a umber of regional airports to bind the country closer together;
- Investments in the areas of power generation, transmission, and distribution; and undertaking a minimal amount of public investment to lay the foundations for major private investment in the oil, gas, mining and telecoms areas;
- Investing in natural resource management, including a major focus on irrigation to both increase the productivity of the agricultural lands, but also to address issues around flooding; and

- Ensuring that the investments in urban management, particularly in the areas of water and sanitation contribute to health and livable cities.

The implementation modalities for infrastructure are critical to the Government's vision for a future Afghanistan. Implementation strategies will vary across infrastructure sectors, reflecting specific circumstances, but key common elements include the establishment of Program Management Unit (PMU) in each ministry responsible for infrastructure, building on existing departments where appropriate and making use of the Provisional Restructuring and Reform (PRR) facility to accelerate ministerial reforms on an interim basis; relying, at least in part, on central capacity for project preparation and implementation support; improving contract management on a sustainable basis; and developing the Afghan contracting and consulting industries.

Improving Security and Good Governance

The success of Afghanistan's state-building effort depends on the establishment of a well-functioning and well-structured security sector, which will provide a basic level of safety and security for the public and facilitate a return to normalcy. The overall objective of security sector reform is to strengthen the capability of the security sector to provide an accountable, equitable, effective, and rights respecting service. While this is primarily the responsibility of the Afghan Government, the support of the international community will be key to success. Over the medium term, the nascent Afghan security institutions will be developed into efficient and effective bodies that meet international standards. Afghanistan's path to security is contingent on the contribution of the necessary investments from the international community, and moreover, donor contributions need to be well-coordinated within the overall umbrella of the National Security Framework proposed in the report.

Reconstruction and other national objectives are heavily dependent on an effective and efficient civil service. Afghanistan is aiming for a small yet effective government, whose role will, as far as possible, be limited to ensuring the security and safety of citizens, creating an enabling but properly regulated environment for the private sector, and ensuring that all citizens have access to basic services.

The vision of Afghanistan's economic management system includes an affordable and sustainable budget, with robust revenue mobilization capacity and effective collection processes, and an expenditure structure that is affordable with minimal donor assistance. The budget process will be: multi-year, based on a medium-term economic forecast and realistic fiscal strategy; tied to policy development through a strategic planning process; comprehensive, integrating capital and operating components and including all sources of revenues and all expenditures; and results-based, with budgets developed on a program basis, focused on outputs and outcomes rather than inputs, and with performance indicators of the effectiveness of program delivery.

Regional Issues

Public investments in Afghanistan are an investment in the region – they make regional integration possible. By completing the transport linkages Central Asia becomes linked to South Asia with major potential for trade and economic growth. Central Asia's natural resources such as its rich cotton crop can be sent to Pakistan and India for processing and garment manufacture, while in Pakistan and India the presence of a skilled and semi-skilled labour force allows for the production and export of a large range of finished and semi-finished products. The region can also be bound by energy related links including through the proposed gas pipeline from Central to South Asia, and through possible power purchase agreements through developing a power grid.

A major challenge in the region is the flow of refugees. Historically this has involved Afghans fleeing from persecution by extremist regimes. This imposes considerable costs on Afghanistan's neighbours. However, since the fall of the Taliban, over 2 million refugees have returned – removing part of the burden from neighbouring countries. The recent reconstruction boom has also opened up opportunities for skilled labour movements. Greater regional integration and a more open labour market will lead to gains for all regional partners.

Building the Private Sector

This Public Investment Program also plays a critical role in creating a viable and sustainable Afghan private sector. Afghanistan is beginning its return to normalcy in an environment where the private sector cannot yet be the engine of growth. There has been remarkable progress and considerable investment in some key sectors, such as telecoms. However, until key concerns around the security situation and the extent to which rule of law is followed are addressed the level of private investment will be limited. Moreover, there is also the need for a progressive shift in mental models by the Afghan private sector away from a mercantilist approach and towards an approach that focuses on the basis of margin of competitiveness, not on speculation. In this environment, the private sector needs to be constructed, and a critical element of this Public Investment Program is that it provides the basis to establish a functioning Afghan private sector based on profitability and competition.

Strengthening and accelerating implementation

Implementation will make or break Afghanistan's reconstruction efforts. A separate chapter of the report is dedicated to outlining the steps that are proposed to be taken to ensure that this Public Investment Program will be implemented. The key areas where progress is expected include: accelerating civil service reform in key ministries; expediting the establishment of program management capacity in key ministries; developing and strengthening implementation capacity at provincial/municipal and district levels; developing central capacity for project preparation and implementation support; making greater use of regional capacity; and developing local construction and consulting industries.

Predictability of Finances and Financing Modalities

The investment program outlined in the report is designed to provide the basis for a growing private sector. Critical to the effective implementation of this investment program is predictability in financing. Without knowing the broad order of magnitude of funds available it is not possible to effectively allocate resources across investment options.

For example, depending on the overall level of resources available, it would be more cost efficient to choose to provide power to Kabul through diesel generation at a local power plant; construct a transmission line and enter into a power purchase agreement with a Central Asian country; or construct a major new hydro dam near Kabul. These options would lead to different levels of power at different unit costs. Without predictable financing, there are two risks: there may be too large an investment on this project relative to overall resource availability; or the investment may be too low relative to overall resources, meaning that a less efficient scale of production is utilized.

The way in which assistance is offered is of equal importance as the overall volume assistance. Funding provided to the Government, through the budget and to national programs, subject to international standards of transparency and accountability builds the State. It reinforces the budget as the major tool of policy, promotes transparency in procurement and in the choice of implementing partner, it ensures spatial and ethnic equity as it supports the government's national programs and most importantly it strengthens the service delivery capacity and therefore the legitimacy of the State. For this reason the report notes that over $6 billion is needed by the Government to fund its recurrent expenditure and its critical programs. This will support the State-building agenda. Having a greater proportion of the remaining $21 billion of required project financing directed through the Government accounts will strengthen the agenda further.

The Role of the Government

The Government of Afghanistan will face a particular challenge as much of this agenda will require difficult decisions to be made, across the five domains of state-building: security, rule of law, administrative, financial and social. In each of these areas there are multiple stakeholders and a complex political economy calculus. However, the Government has shown a willingness to tackle major issues and to move forward, although there will always be criticisms about the pace of progress, particularly from observers without an understanding of the complexity of the political economy situation and a failure to recollect that Afghanistan had over two decades of armed conflict before the last two years of relative peace. In particular the Government has made major strides.

- the Bonn process remains on track – two Loya Jirgas have been held peacefully, one of which elected the President by a secret ballot for the first time and the second which ratified a constitution;
- commencing a major reform in the Ministry of Defence and the successful commencement of the demobilization and disarmament campaign that has seen significant number of heavy weapons turned over to the center;
- making major financial reforms including introducing a new currency in four months in the face of international advice that the process would take two years and was very risky, and rigidly maintaining a "no overdraft" financing rule despite a history of overdraft financing over the preceding ten years;
- in the area of private sector investment receiving $100m in investment in one sector (telecoms) and seeing a number of private banks seeking licenses as soon as the Central Bank Law and Banking Law were passed;
- in the area of public administration introducing a Priority Restructuring and Reform process that allows reforming ministries to upgraded positions and staff following a rigorous process.
- the Constitution is the foundation in the judicial and legal area and drafts of codes in the criminal, commercial and public sector domains have been developed in a participatory manner –the challenge is now to have these laws first promulgated, and then to ensure that the judicial system is equipped to enforce them.

Lessons Learned

Across the various chapters of the Report, a number of the lessons that have been learned over the past two years are presented. These include the following.

- Afghan ownership is key – where ideas are externally imposed they fail to take root and cannot be implemented. Ultimately implementation always comes down to having capacity on the ground – if this capacity does not agree with the direction, the activities will fail.
- The budget must be the central tool of policy. When activities are undertaken in a haphazard and uncoordinated fashion the results are mixed at best. It is only when resources are allocated through the discipline of a budget process that the scarce resources available to Afghanistan can be allocated to their highest priority uses and the difficult trade-offs between choices made effect.
- Community action, involvement, and therefore ownership will be key to the security and sustainability of reconstruction efforts. Enhancing community participation can promote the effectiveness and efficiency of implementation. Central government can best convince communities of its legitimate leadership through the provision of support to communities in ways that empower them, such as the National Solidarity Program.
- The Government's commitment to enabling and supporting the private sector is also critical. Recent work has shown that an additional legacy of the Soviet occupation was the adoption by many of a State-ist approach to economic activity. In this regard Afghanistan has much in common with other transition economies. Efforts must be redoubled to ensure that the State adopts its role as a regulator of the private sector, not its competitor.
- Action is needed on the issue of the twin public sectors. That is, donors simultaneously fund their own and the international agencies' bureaucracies, while also underwriting the civil service bill for the government. This requires coordinated action including major investment in human capital and a commitment to invest in innovative schemes to level the playing field between the international agencies and the government as competing employers.

- The way in which social capital is considered needs to be rethought. Historically the State has divided the villages to penetrate them and deplete the social capital to maintain its control. The current approach is the opposite – the aim is to harness solidarity at the local level as the basis for national integration. The program of community development based on secret election of councils based on equal participation of men and women in the process has already begun a process of transfer of resources and decision rights to the local level, while maintaining a national focus on national goals. This apparatus is now in place, expanding it is a question of the availability of resources.

Conclusion

Securing Afghanistan's Future outlines a range of investments that, when accompanied by reforms in the security and economic domains, lays the foundations for the private sector growth that is needed to generate both the employment growth and revenue growth to create a sustainable State. This investment program will make major improvements in the human development indicators in Afghanistan. However, it is important to realize that even after this investment, Afghanistan will not have reached the Millennium Development Goals: in twelve years 20 per cent of the population will still not have access to safe drinking water, and the maternal mortality rate will at that time still be double the current average of our five neighbours.

However, this investment will make it possible for Afghanistan to participate on a normal basis in the international development system. The goal is to allow for the financing of recurrent expenditure from domestic revenue, with major infrastructure being financed either through concessional loans, or even via access to the international capital market; or through foreign investment via private-public partnerships. Afghanistan's goal after this program is completed is to become a normal low income country with a fully legal economy and able to meet the most basic of social needs; with aspirations to move into low-middle income status over the following decade.

1. ECONOMIC FRAMEWORK AND PROSPECTS

INTRODUCTION

Afghanistan suffered grievously during nearly a quarter century of conflict and is now one of the poorest countries in the world. Its social indicators rank at or near the bottom among developing countries. The challenges of reconstruction and development – in the context of a difficult security situation, a delicate process of political normalization and national reconciliation, and a critical state-building agenda – are enormous. These challenges are exacerbated by an increasingly pervasive drug economy which worsens security and undermines both the political process and the state-building agenda.

Nevertheless, there are opportunities and resources which the country can draw on, including its strategic location as a bridge between Asia and Europe and regionally between Central and South Asia; its natural resources; a Government committed to reform and development; full multilateral engagement by the international community; and most important the Afghan people themselves.

The situation in Afghanistan is complicated further by the financial and other links – direct and indirect – between the drug industry and terrorist networks. The general lawlessness surrounding a pervasive drug industry could lead to emergence of another fundamentalist law and order Government harboring Islamic extremists. There is a growing consensus around the idea that victory in the war on terror can only be achieved if the war on drugs is successfully prosecuted.

The key to success is simultaneous progress in the economic, political, security, and counter-narcotics domains. Improvements in the security situation are reinforced by a functioning, representative, and inclusive political system. Economic growth will only occur if security is improving and the political situation becomes more stable, but increased economic growth is itself the foundation upon which a sustainable political and security outcome can be built over the longer term. It is only robust economic growth that will generate the employment needed to draw people out of the drug economy. It is also this economic growth, coupled with a strong domestic revenue system, that will ensure that the Government can fund an adequate domestic security and counter-narcotics force. Hence a virtuous cycle can be generated by forward movement on these several fronts, leading toward creation of a stable and prosperous society.

Challenging this success and underlining the urgency is the increasing entrenchment of the drug industry. In the absence of effective action as part of a well-thought out longer-term counter-narcotics strategy, it will become increasingly difficult and costly to get rid of the drug industry over time. While there is alarm that Afghanistan is producing some three quarters of the world's opium, this is being done using only a very small portion of the country's available land and labor. The scope for expansion of the production of poppy and the deepening of the skill base, are a major concern. Moreover, the drug economy and other illicit activities constitute the "tax base" for insecurity – so long as they thrive, providing ample funding to terrorists and others who want Afghanistan to fail, improving security on a sustainable basis will be an uphill battle.

The purpose of this report is to put forward the Government's programme and delineate the associated public investments necessary to achieve sustained economic growth as well as progress on the other fronts outlined above. This chapter discusses the Afghan economy and assesses the level of aggregate growth over a twelve year horizon that will be needed to ensure that visible and tangible economic progress is maintained while the drug economy is progressively eliminated. Using the current structure of the Afghan economy as context, the chapter then evaluates the feasibility of this level of growth using a sectoral breakdown. The extremely low level of economic activity in economy paradoxically means that high growth rates are more achievable than if the base was higher. The chapter then outlines the methodology that has been applied for assessing the costs of necessary public investments, based on the following time horizons:

i. a 12 year time horizon for outcome targets for different programmes and sub-programmes, in line with the Millennium Development Goals (2015) and required growth of the non-drug economy;
ii. a 7 year framework for costing the investments needed to be commenced in order to achieve the twelve year outcome targets; and
iii. a 3 year horizon for detailed programming linked to a three year development budget horizon.

Finally, the chapter discusses issues of revenue generation and fiscal sustainability, including debt sustainability, concluding that if sustained economic growth is combined with a strong revenue effort by the Government, Afghanistan can be fiscally self-sufficient by the end of the twelve year period.

The following five chapters outline the strategic context, specific investment programmes, and key policy issues in the areas of human capital and social protection (chapter 2), physical infrastructure (chapter 3), public administration (chapter 4), trade and investment and private sector development (chapter 5), and security (chapter 6). Chapter 7 deals with the critical issues surrounding implementation and absorptive capacity, putting forward the Government's strategies to ensure that the considerable investments proposed in the previous chapters can be implemented. Finally, chapter 8 outlines the overall cost estimates and financing required.

THE AFGHAN ECONOMY: STRUCTURE AND PERFORMANCE

Income and Poverty

With an estimated non-drug Gross Domestic Product (GDP) of around US $4 billion and an estimated population of around 22 million[1], Afghanistan at the time of the cessation of major conflict had a per capita GDP below US $200 – one of the lowest in the world. Around 70 per cent of the population is estimated to have been living in extreme poverty – on a Purchasing Power Parity adjusted income of less than US $2 day.[2] The impact of this poverty – in an absolute and relative sense – is highlighted in Table 1.1 which shows Afghanistan's current performance in key areas against Millennium Development Goals. Afghanistan ranks below the average for both developing countries and for Sub-Saharan Africa – and considerably below these averages on some indicators. The situation of girls and women in particular is dire. Overall, a recent estimate of the Human Development Index (HDI) for Afghanistan places the country second-worst in the world after Sierra Leone (See Annex 2).

Poverty is about people, and behind the dry statistics on Afghanistan – or on any poor country – is the human suffering and deprivation that constitutes the concrete manifestation and human face of poverty. One aspect of poverty is hunger and poor diet. According to preliminary analysis from a recent household survey, more than half of rural Afghans cannot afford a food consumption level of 2,100 calories per day (which defines the poverty line). Poverty is also about lack of access to essential services, whether basic social services like education and health (shown in Table 1.1) or infrastructure services like water and power (it is estimated that less than 20 per cent of the population has access to safe drinking water, only 6 per cent to a regular supply of electricity). These shortcomings mean worse health and reduced opportunities for the poor, with women and girls disproportionately affected. It is likely that around one million people in Afghanistan are

[1] Population growth rates are based on official 2003 Central Statistics Office (CSO) estimates of 22.2 million with a growth rate of 1.9 %. Adjustments to population growth resulting from refugee return has also been factored in.
[2] While GDP is reported on a per capita basis to allow international comparisons, poverty measures are often presented on a purchasing power parity (PPP) basis which takes into account the purchasing power of the money people have. The methodology looks at the cost of buying a basic bundle of consumption goods in different countries, and adjusts the amount appropriately.

disabled – about 25 per cent due to war (wounded combatants and civilians, landmine victims) and 75 per cent due to poverty, inadequate health care, poor nutrition (e.g. in mothers), preventable diseases, congenital defects, and accidents. In addition, traditional coping mechanisms for deprived groups like widows and orphans have become exhausted, necessitating new approaches to social protection.

Table 1.1 Afghanistan Poverty Indicators against Millennium Development Goals

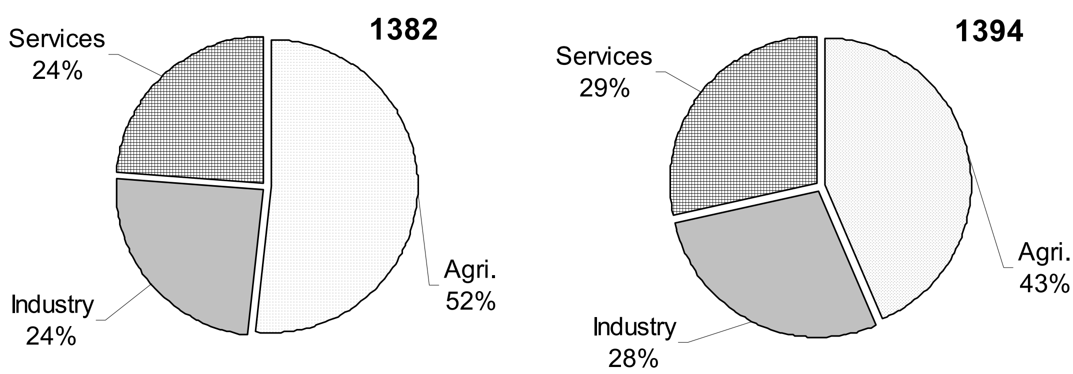
MDG	Indicator	Afghanistan	Five Neighbors	Sub-Saharan Africa	Developing countries
	GNI per capita in 2001 – PPP $	1,000	3,118	1,952	4,402
1	Population below $2 day (%)	70	52	73	42
1	Children under 5 moder./severe underweight (%)	48	23	26	18
2	Net primary enrollment	29	90	58	80
3	Ratio of girls to boys in prim. and sec. education (%)	43	88	82	91
4	Under five mortality rate (per 1,000 births)	257	50	155	74
5	Maternal mortality rate (per 100,000 live births)	1600	115	1,100	469
6	Incidence of tuberculosis (per 100,000 people)	321	105	341	192

Simple averages over all available data. Source: World Development Indicators (2003), except Gross National Income per capita and population below $2 day in Afghanistan (staff estimates).

Structure of the Economy

The economy of Afghanistan has long been agriculture-based. The agricultural sector has been subsistence-oriented, and the growing of cereal crops (mainly wheat) is predominant. Other crops and vegetables, such as grapes, apricots, and almonds, generate higher income yields and potentially exports. The livestock sector produces milk and meat. Water is the key input for agriculture, and overall Afghanistan has utilised its water resources only to a very limited extent. Limited use of modern techniques (e.g. fertilizers) also has constrained the development of the sector. On the output side, agricultural growth is constrained by transport, marketing, quality issues, and standardization and packaging.

Figure 1.1 Structure of the Economy (1382 (2003) and Projected for 1394 (2015)



Source: Central Statistical Office; economic projections.

Although under-exploited, Afghanistan has rich underground resources. These include copper, coal, construction materials, gemstones, etc. There are also deposits of iron and gold, not currently exploited. Reserves of oil and gas could be significant: natural gas was exploited in the 1970s and 1980s, generating significant production, downstream activities, and public revenues.

Large-scale industry is at an infant stage, not much developed, and what little there was in the late 1970s – most of it in the public sector – has become defunct, or is poorly performing. Most industrial production consists of upstream (fertilizers) or downstream (mostly handicrafts) activities related to agriculture. The electric power sector has only limited capacity to import electricity and even more limited capacity to generate and distribute electricity within the country.

Among services, trade has been very important, stimulated in large part by restrictive trade regimes in neighboring countries, which encourage unofficial trade. In the year 2000, official trade flows were estimated at around US $600 million, unofficial flows at US $2 billion. The financial sector is becoming more formalized through the passage of key legislation and the opening of new financial institutions, but a majority of transactions will continue to be provided by hawalas (informal money dealers) in the foreseeable future. Construction is extremely important at present due to rebuilding of housing and infrastructure.

The economy is dominated by small-scale enterprises – more often than not at the household level – in all sectors. Entrepreneurial dynamism among Afghans is pervasive, but it is channeled by the business environment, insecurity, and limited capacity into trade and small-scale service and processing activities, as well as informal and illicit activities. Harnessing this dynamism to promote sustained longer-term economic development is a critical need.

The Drug Economy

Afghanistan's drug economy has expanded significantly since the mid-1990s (see Table 1.2 below). With opium exports estimated at more than US $2 billion in 2002, around one-third of total (drug-inclusive) national income is generated by the production, processing, and trafficking of opium. It is estimated that almost three quarters of the world's opium supply was coming from Afghanistan in 2002. There are obvious linkages with the non-drug economy: diversion of capital (including, but not on a large scale, irrigated land) and labor from legal activities; income generation for farmers (and therefore higher consumption); and increase in foreign trade and impact on the balance of payments. In addition, linkages between the drug economy and local and regional authorities have clear political and security implications, as do linkages with criminal elements in neighboring countries.

Table 1.2 Afghanistan's Opium Economy

	1995	2000	2001	2002	2003
Production (tons)	2,335	3,276	185	3,400	3,600
World Market share (%)	~52	70	11	74	N/a
Number of provinces producing opium		23	11	24	28
Area under poppy prod (Ha)	54,000	82,000	8,000	74,000	80,000
Area under poppy/ Area under cereals (%)	2.0	3.2	n/a	3.2	n/a
Gross income per ha (US$)	1,000	1,100	7,400	16,200	12,700
Value of opiate exports (million USD)	n/a	850	n/a	2,500	2,300

Source: UNODC: Afghanistan Opium Survey(2003) and The Opium Economy in Afghanistan: An International Problem (2003).

Dynamic trends in the drug economy are alarming. The footloose nature of the drug industry, its apparently competitive structure, and the availability of large areas of land that could be diverted to opium poppy cultivation make considerable further increases in production in response to demand or price changes a major risk. While income has stabilized in 2003 because of lower prices, the volume of poppy production is still growing. The size and structure of the drug industry in Afghanistan greatly complicate anti-narcotics efforts.

Afghanistan's drug economy operates within the environment of a broader informal criminalized economy – including arms trade, smuggling, and illegal and environmentally-damaging natural resource exploitation. This criminal economy is diametrically opposed to the longer-term interests and the reconstruction and state-building objectives of the Afghan people. On the one hand, this economy funds terrorist and other elements who are opposed to the state-building agenda, and on the other hand this economy itself can thrive only in an environment of insecurity which it therefore strives to maintain. Since the criminal economy directly or indirectly supports the livelihoods of many Afghans, measures against it face economic and social as well as political risks. This is one of the central challenges that Afghanistan faces.

Economic Growth and Development Over the Last Thirty Years

In terms of economic growth, Afghanistan performed like other South Asian countries in the 1960s-70s. With growth in the 2-4 per cent per year range, income per capita was hardly increasing. The economy was subject to climatic risks such as the drought in the early 1970s, but by the end of the decade was reaching cereal self sufficiency and starting some diversification.

The many years of conflict have had a profound impact on the performance and structure of the Afghan economy. The conflict disrupted transport and trade and thereby reduced available inputs, as well as potential sales. More importantly because of its long-term effects, the conflict depleted and degraded the stock of factors of production: (i) reduced availability of labour (people becoming combatants or fleeing the country); (ii) lower quality of human capital due to the very poor education system and a severe "brain drain" as well-educated people left; (iii) destroyed or useless physical capital, as illustrated by the irrigation system and road network; and (iv) contraction of available land due to landmines. One mitigating factor is that the Afghan Diaspora have, in many cases, built significant capital over time. Much of this is in the Gulf area and in Iran and Pakistan and so is well networked to return as productive investments.

The adverse economic impact of the conflict was compounded in the late 1990s, moreover, by a four year drought which further depressed the economy by sharply reducing agricultural production and devastating livestock. Although good data are not available, income distribution most probably worsened during the long period of conflict, and the ownership of land and other forms of wealth appears to have become more skewed. Moreover, uncertainty in land ownership and land tenure discourages investments in land improvements.

Since the fall of the Taliban, economic performance has been strong, with GDP growth estimated at 30 per cent in 2002 and projected at around 20 per cent in 2003. The main contribution has come from agriculture, thanks mainly to better precipitation. Services are also booming, mainly in major cities and in construction and in the public sector, which are directly linked to the reconstruction effort. Income increased to almost US$200 per capita, still very low compared to other countries; an additional US $100 per capita is estimated to be generated by the drug economy.

ECONOMIC GROWTH: WHY IS IT CRITICAL? WHAT IS NEEDED? IS IT FEASIBLE?

Why is Economic Growth Important?

The only way for nations to get out of deep poverty is for their economies to grow rapidly on a sustained basis over long periods of time – measured in decades, not years. This has been borne out universally by international experience. Although robust economic growth is not sufficient for poverty reduction and social development, it is certainly a necessary condition.

Broad-based economic growth is also crucial for progress in political normalization and national reconciliation. Growth must be broad in the sense of being spread broadly across the country and throughout the society; otherwise it may not help and even could be de-stabilizing. Undoubtedly the strong economic recovery seen in 2002 and 2003 helped prevent continuing political tensions from becoming exacerbated, and facilitated political management.

Economic growth also impacts positively on security, although the reverse causation undoubtedly is stronger in the short run. One key linkage is from economic growth to employment (particularly of young men), which provides people with a stake in society and less idle time or other incentives to engage in activities which undermine security. Employment growth also means viable income-generating alternatives to opium poppy cultivation. Economic growth creates revenue potential, which if tapped in a transparent and non-distortionary way through effective taxation, will generate the domestic fiscal resources that will enable Afghanistan over time to become financially self-sufficient and to fund its domestic security institutions. Thus robust economic growth comprises, together with a strong enforcement effort and other measures, a key element in an effective comprehensive strategy to fight drugs.

The quality of growth is very important. What is needed is growth with improving social indicators (reflecting investments in human capital) and without a significant deterioration in income distribution. This ensures continuing broad consensus around the policies and decisions needed to create the enabling environment for economic growth. In the Afghan context, growth needs to be labor-intensive, sustainable macro-economically and financially, and environment-friendly and conducive to social development. Growth also needs to be reasonably well-balanced ethnically and regionally in order to avoid exacerbating political tensions among different groups and regions.

What Rate of Growth is Needed?

What rate of economic growth is needed in order to achieve these beneficial effects? There is no easy answer, and it varies across countries. The industrialized countries in Western Europe, starting with Great Britain, achieved their development through real growth of average per-capita income on the order of 1 per cent per year over long periods of a century or longer (see Table 1.3). Although modest, growth of this duration meant a tripling of per-capita income over the period. Over a similar period of time (but starting somewhat later), the United States of America grew at nearly double this rate in per-capita terms, and Japan even faster.

More recently, a number of economies in East Asia have seen unprecedented rapid economic growth. This has allowed them to transform their economies and enabled them to sharply reduce poverty. Part of the reason for these rates of growth has been the low base from which they started and the catch-up factor in terms of importing and productively utilizing technology from more developed countries.

Table 1.3 Long-term Growth Rates of Selected Countries

Country	Time Period	Average Annual Growth of Real per capita GDP (%)
Great Britain	1820-1913	1.1
Western Europe	1820-1913	1.1
United States	1870-1973	2.0
Japan	1870-1973	2.7
South Korea	1960-1998	6.5
Malaysia	1970-1998	4.5
China	1980-1998	6.1

Source: Maddison, "The World Economy, a Millennial Perspective" (OECD, 2001).

Somewhere between these extremes – in the range of 3 per cent p.a. – people in a poor country like Afghanistan will see perceptible improvements in their levels and conditions of living within a short period of time, allowing the economic, social, and political benefits from economic growth to be realized at least to a large extent. Per-capita income would double in real terms within a generation (20 years), and would increase substantially enough during shorter periods like 3 to 5 years as to be noticeable to the entire society. Although per-capita income growth of higher than 3 per cent per annum would be even better, anything significantly less than this rate would risk being lost in the "noise" of year-to-year fluctuations and not delivering results quickly enough to make a difference. Given the expected population growth of two per cent per year, the growth rate in total GDP needs to be in the range of 5 per cent per year.

The situation is more difficult in Afghanistan because the drug economy is currently producing income for many people, yet a key national goal is to eliminate opium poppy production, processing, and trafficking over the next decade. Thus in order for total drug inclusive GDP to grow at 5 per cent per year while the drug economy is being eliminated over time, the growth in non-drug GDP needs to be 9 per cent per year. This macro perspective tells us what level of growth in the non-drug economy would be necessary to "replace" the drug economy over time while maintaining an acceptable rate of growth in average per-capita total (drug-inclusive) GDP of 3 per cent p.a., that would enable Afghanistan to make good progress in reducing poverty and addressing other problems. The year-by-year required growth rate is plotted in Chart 1.1. If there is significant deterioration of income distribution, the level of growth required would be more than 9 per cent p.a.

At the micro level, there are many poor households in Afghanistan that get involved in opium poppy cultivation (through share-cropping, wage labor at harvest, etc.) because that is the only way they can make ends meet. It would be important for there to be a way forward for the economy to ensure that the bulk of households, even the poorer ones, can achieve at least an income level high enough for survival, and that an increasing proportion of households are escaping from poverty over time. Many income generation opportunities will come with the employment growth associated with economic growth. Moreover, as the level of human capital increases and employment growth increasingly occurs in semi-skilled and then skilled jobs, wage rates also will rise. However, to the extent that employment growth is not evenly spread across the country, there may need to be medium and possibly longer term interventions in publicly funded temporary employment programmes as part of a comprehensive safety net strategy.

Is This Rate of Growth Feasible?

A key question is whether economic growth on the order of 9 per cent per year is feasible for Afghanistan. Table 1.4 provides a sectoral break-down of feasible growth ranges across the key sectors. More detail on the likely areas of growth is provided in Annex 1 of this report.

The first source of growth for Afghanistan is the direct impact of the end of the conflict and of the initiation of the reconstruction programme – this will fuel growth across all sectors. First, the recovery, in particular in agriculture with the rebuilding of livestock herds, the rehabilitation of the irrigation system, and the re-opening of roads, should generate significant economic growth in the short run as has already been occurring during the past two years. Second, the reconstruction programme will directly generate growth in several sectors, including notably construction and transport. Moreover, the economic recovery is starting from an extremely low base due to conflict and drought in recent years, so initially very high rates of "catch-up" growth are possible.

In the agriculture sector, expansion of irrigation will raise the productivity of land and bring previously non-arable land under cultivation; improved techniques will also increase yields; diversification will increase average income per hectare, particularly when improved transport linkages open up new markets for different products; and restoration of livestock herds and better husbandry will contribute to steady growth of livestock production. As a result of all of these improvements, the productivity of farmers and agriculture more broadly will rise – increasing average wages and average returns received by those involved in agriculture.

The industrial sector will benefit considerably from better infrastructure and more supply of skilled labour as a result of training programmes. Also, developments in the financial sector – both micro-credit and larger commercial lending operations – will provide a climate conducive to greater investment, and therefore greater economic activity. The initial recovery of the economy is expected to generate considerable additional demand on sectors like construction, transport, and power. The services sector will also see increased demand associated with the reconstruction programme, and key services like finance are expected to expand dramatically. Employment growth in both industry and services will be associated with semi-skilled and skilled labour and rising wages.

A final area of considerable growth potential is the gas and mining sectors. They provide a good illustration of the need for the Government to create an adequate regulatory framework and security conditions, and the complementary need for sizable private sector investments.

Table 1.4 Growth Potential by Sector

Sector	Sub-Sector	Short-medium term (1-5y)		Longer term (~10y)	
		Growth	Source	Growth	Source
Agriculture		**10-15%**		**5-6%**	
	Cereals	10-20%		3%	Marginal technical progress
	Livestock	10%	Rebuilding stock	3%	
	Other	10-15%		8-10%	Diversification
Industry		**10-12%**		**10-12%**	
	Transport	12%	Road construction	10%	General economic growth (demand)
	Power	8-10%	Catch up to match demand	8-10%	
	Oil and gas, mining	8-10%		8-10%	New exploitation
	Construction	15-20%	Reconstruction activity	8-10%	General economic growth
	Manufacturing	5-10%		8-10%	Result of private investment
Services		**12-15%**		**9-10%**	
	Trade	10-15%	Catch up	8-10%	General economic growth
	Public Adm.	15-25%	Reconstruction	5-10%	Steady state
	Other	5-10%		10-12%	Growth in finance and tourism
Total		**10-15%**		**7-9%**	

Source: See Annex 1.

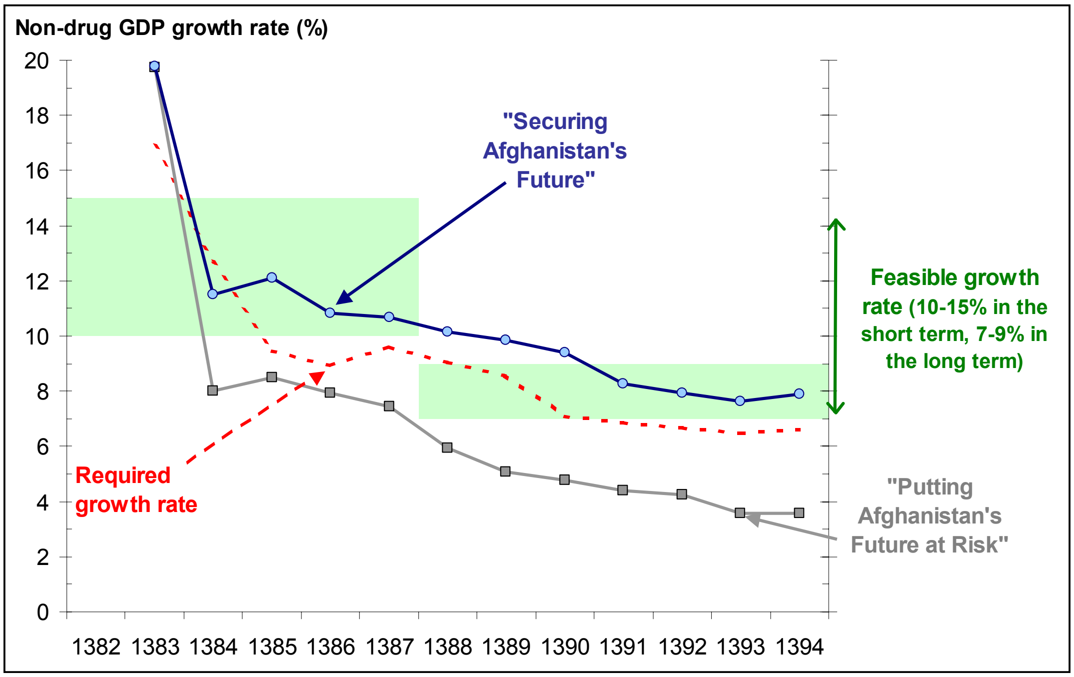
There are major challenges and risks to achieving this economic growth potential (outlined in greater detail in Annex 1). The investment climate is weakened by the lack of security in many parts of the country. Improving the investment climate will also require a well-functioning legal and regulatory environment, including a transparent Government, clear legal framework, and well-established tax system, as well as clarifying and improving land tenure arrangements. A second challenge is the current low level of infrastructure. In the transport, power, and water sectors, among others, services either are not delivered at all, or are unreliable. Irrigation is clearly required in a country so dependent on agriculture and seasonal precipitation. Transport and power are critical cost factors for businesses. Finally, weak human resources, which reduce the ability of the private sector to make the best use of physical capital and thereby reduce the incentive to invest in the future, need to be strengthened. Problems include the low general education level, lack of more specific professional skills (from agricultural techniques to financial or accounting skills), and poor health indicators.

Based on possible sources of growth and if security and other prerequisites are in place, Afghanistan has good potential for economic growth. In the short run, and as demonstrated by recent high growth, feasible rates of annual GDP growth would be quite high (in the 10-15 per cent p.a. range), reflecting recovery from an extremely low base and demand stimulation from the reconstruction programme. Over the medium term, growth prospects would settle down, but nevertheless it is possible for rapid economic growth (in the 7-9 per cent p.a. range) to continue, if the facilitating environment and enabling conditions are in place. Over the longer term, growth would depend on the factors that drive long-term growth in all countries, and human development would be as critical as a good investment climate.

ECONOMIC GROWTH PROJECTIONS

Taking into account the growth potentials identified in the previous section, two sets of long-term economic projections have been developed,[3] one of which represents a scenario that helps secure Afghanistan's future, the other of which puts Afghanistan's future at risk. Figure 1.1 presents the two growth projections which are briefly discussed below. It also shows the feasible range of growth rates, and the required rate of growth, that is the annual rate of growth in the non-drug economy that given the increase in population, the return of refugees, and the elimination of the drug economy over time, is needed to ensure that there is 3 per cent real per-capita growth in overall GDP – which will bring tangible and visible economic progress for Afghanistan's people.

Figure 1.1 Required, Feasible, and Projected Rates of Economic Growth



Securing Afghanistan's future: This projection, under which average per-capita GDP increases to about US $500 in 2015, is the basis for assessing the medium-term cost of Afghanistan's reconstruction. Average per-capita GDP would double in a little over a decade, reflecting around 9 per cent p.a. GDP growth on average throughout the 12 year projection period (or close to 7 per cent p.a. growth of average per-capita GDP). Initially there would be a spurt of especially high growth reflecting recovery, especially in the agriculture and construction sectors, followed by lower but still robust growth in the 8 per cent p.a. range. Reflecting its optimistic nature, this projection shows success in ridding Afghanistan of the opium economy during the projection period, and also is based on the assumption that the constraints on growth discussed above are effectively addressed over time.

Putting Afghanistan's future at risk: Under this less optimistic projection, there would be slower progress on the security, political, state-building, and anti-narcotics fronts. It also assumes no increase and possibly a modest decline in external assistance, and continuing low levels of private investment. Growth of the non-drug economy would be slower and in particular would slow down

[3] The growth and financial projections in this report are all in real terms, i.e. constant-price US dollars with 1381/2002 as the base, and exchange rates are assumed to be unchanged. Including inflation and exchange rate assumptions would have complkicated the analysis, while providing little additional insight. To the extent that there is expected to be some degree of price inflation affecting US dollar prices, the figures in this report understate future nominal US dollar levels.

more after the initial spurt of recovery, resulting in considerably lower average per-capita non-drug GDP at the end of the projection period. Efforts to eliminate the drug economy would be relatively weak and successfully resisted, although it is not projected to grow further.

This second projection should not be viewed as a likely or stable outcome for Afghanistan, as it carries serious downside risks and therefore is not very likely to materialize. It is associated with continuing entrenchment of the drug economy and failure of state-building. Since economic growth during nearly the entire projection period would be significantly lower than what would be required to make a difference in people's lives, political and social tensions would not be alleviated and could get worse. As a result, negative outcomes including possible resumption of widespread conflict might well ensue. Even if this scenario turns out to be reasonably accurate in describing Afghanistan's future economic performance, it would mean long-term dependence on external support in the security, military, and political arenas, with associated costs.

The downside risks for Afghanistan's future in this second scenario justify why the first, more optimistic scenario is used as the basis for assessing the cost of reconstruction. In this light, the "Securing Afghanistan's Future" scenario should be viewed as the growth required for Afghanistan to effectively address its main problems and move forward along the path of economic, political, and social development. Thus it is indeed optimistic in relation to the current situation and trends, but represents the economic growth requirements for success.

Table 1.5 Economic Projections

	1381	1382	1383	1384	1385	1389	1394	1383-85	1386-89	1390-94	1383-94
	Estimates		*Projections*					*Average*			
Securing Afghanistan's Future											
GDP (USD million)											
Non-drug GDP	4,064	4,868	5,428	6,085	6,744	9,886	14,454	6,086	8,653	12,510	9,618
Drug related income	2,540	2,449	2,262	2,075	1,888	885	-	2,075	1,293	367	1,103
Growth (%)		**20**	**11**	**12**	**11**	**9**	**8**	**11**	**10**	**8**	**9**
Agriculture		24	11	11	9	8	5	10	8	5	7
Industry		10	11	13	14	12	10	12	11	10	11
Services		20	13	13	12	11	10	12	11	9	11
GDP per capita (USD)											
w/o opium	186	219	232	251	273	371	493	252	334	443	364
with opium	303	330	328	336	349	404	493	338	384	456	406
Growth (%)											
w/o opium		18	6	8	9	7	6	7	8	6	7
with opium		9	0	2	4	4	4	2	4	4	3
Revenues (GDP %)	2.9	3.1	5.5	6.6	7.4	9.7	12.5	6.5	8.8	11.4	9.3
Putting Afghanistan's Future at Risk											
GDP (USD million)											
Non-drug GDP	4,064	4,867	5,257	5,704	6,157	7,716	9,334	5,706	7,176	8,700	7,443
Drug related income	2,540	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,449
Growth (%)		**20**	**8**	**8**	**8**	**5**	**4**	**8**	**6**	**4**	**5**
Agriculture		24	6	7	6	4	3	6	4	3	4
Industry		10	10	9	9	6	4	9	7	4	7
Services		20	11	11	10	5	4	10	6	4	6
GDP per capita (USD)											
w/o opium	186	219	224	235	249	289	319	236	277	308	282
with opium	303	330	329	336	348	381	402	338	371	395	374
Growth (%)											
w/o opium		18	2	5	6	3	2	4	4	2	3
with opium		9	0	2	4	2	1	2	2	1	2

Source: See Annex 1.

The "Putting Afghanistan's Future at Risk" scenario does not capture what would happen if downside risks actually materialize – for example if security does not improve, if political normalization and national reconciliation stall, or if the international community pulls out or sharply reduces the level of assistance to Afghanistan. The outcome of such adverse developments would likely be a descent into some or all of the following: lawlessness, resumption of significant conflict, further expansion of the drug economy and entrenchment of a narco-state, worsening poverty and displacement, emergence of a law and order theocracy, and regional instability – in other words a return of economic, political, and social collapse of the kind seen in the 1990s.

There are four implications of these projections that should be stressed:

i. Growth is critical. Afghanistan cannot afford a longer-term growth slowdown – for economic, political, security, and drug-related reasons;
ii. Longer-term planning and preparations are required. It is important to start now on planning and initiating the major investments that will be needed to sustain rapid economic growth over the next decade;
iii. Private investment is vital. While major public investments in infrastructure and other sectors are required now, sustaining high levels of growth will require private investment in all sectors. Critical elements such as enforcement of the rule of law and a sound regulatory framework, the delivery of quality services in infrastructure, and the development of human resources, will form the basis for a sound investment climate;
iv. Agriculture will remain key. Even though manufacturing and services are expected to grow faster, agriculture will continue to play a dominant role in the Afghan economy. Large investments in water conservancy and diversification away from wheat will be required.

METHODOLOGY FOR COSTING RECONSTRUCTION

The Millennium Development Goals (MDGs), endorsed by the international community and targeted to be achieved in 2015, form one anchor for costing investment/assistance requirements for different sectors. The other anchor is the "Securing Afghanistan's Future" economic growth projection described above, with its projected level of average per-capita GDP of around US $500 in 2015. The first step is to set appropriate targets for individual sectors/programmes in 2015 (12 years from now), reflecting outcomes and service delivery achievements, based on a common methodology using one or both of the following two approaches:

i. Achievement of or at least major progress toward MDGs (or substitute indicators where MDGs have not been established). For the 12 year target, there should be some prospect of reaching or approaching the relevant MDG; and,
ii. Setting one or more key service delivery/outcome indicator targets, at a level in line with international experience (e.g. cross-country regressions and situation in comparable countries) at the projected US $500 level of per-capita GDP in 2015.

After determining outcome/service delivery indicators and specific targets for each sector and major programme, the size of the facilities and service delivery networks required to achieve these targets are ascertained, from which investment requirements and recurrent cost requirements for operations and maintenance are derived. The cost estimates reflect good-quality service provision, as there is no point in making large investments if service delivery is poor or intermittent. The cost estimates are also based on efficient, cost-effective service provision.

As mentioned earlier, the time horizon for cost calculations is seven years (i.e. 1383-1389), since there is a lag between commitment of funds (in the sense of assured funding for initiation of particular projects and programmes) and results in the form of service delivery and outcomes on the ground. Especially in the case of large infrastructure projects but also for activities with significant gestation periods like teacher training, funds need to be committed by around year seven in order to translate into service delivery and outcomes by around year twelve. In addition to the 7 year costing time horizon, more detailed expenditure requirements for the first three years (1383-1385) are presented, starting from existing development programmes and near-term plans.

FISCAL AND DEBT SUSTAINABILITY

The stability, security, and prosperity of Afghanistan will depend on the ability of the State to raise the resources needed to fund the provision of necessary public services. This includes providing a basic level of social services and social protection, operating and maintaining key infrastructure (although much of this should be funded through cost recovery); and funding at an adequate level the security forces needed to ensure protection of persons and property. While donors have stated their commitment to stay the course in supporting Afghanistan's reconstruction, the strategic path forward must be one where the country can service its external and internal debts, and phase out dependence on external financing for its core recurrent expenditure budget.

The basis for the fiscal revenue projection is the "Securing Afghanistan's Future" macroeconomic scenario, under which the country is projected to approach normal international standards for countries at comparable income levels (US $500 per-capita GDP) in 2015, including for domestic revenue mobilization. A review of comparable international experience suggests that a revenue to GDP ratio in the range of 10-15 per cent could be achieved, compared to the current level of about 4 per cent. Accordingly, the fiscal projection shows this ratio rising progressively to reach 12.5 per cent in 2015, based on fiscal revenue of US $1.8 billion (see Table 1.5). This would enable Afghanistan to achieve fiscal self-sufficiency, with domestic revenues more than covering core recurrent expenditure requirements (see chapter 8). Given that domestic revenue collection is starting from a low base, it will need to build up over time. Thus substantial external financing of Afghanistan's recurrent budget will continue to be necessary for an initial period, but will decline subsequently.

Achieving the projected level of domestic revenue collection will require strong efforts at revenue mobilization, especially since the absolute increase in revenue is quite large considering the projected rapid growth of aggregate GDP. A number of parameters will be critical, including size and taxation of international trade (including of goods and services imported by foreign agencies); effectiveness of taxation of agriculture; size and taxation of the petroleum and mining sector; and effectiveness of revenue administration and tax compliance. Fiscal revenues under the alternative scenario "Putting Afghanistan's Future at Risk" are not projected but would be much lower, and there would be no end in sight for dependence on external funding of Afghanistan's recurrent budget.

Because of the fragility of the economy and the public sector, it is critical that the budget is not over-burdened with debt service requirements. Accordingly Afghanistan will need to rely mainly on grants (as opposed to loans), and limit its new external borrowings (even on concessional terms) in order to attain its reconstruction and development goals while ensuring debt sustainability. The findings of a preliminary debt sustainability analysis show that, over the medium term, Afghanistan's external debt ratios would be sustainable only on the assumptions of a strong economic recovery (as under the "Securing Afghanistan's Future" projection), enhanced revenue collection, forgiveness of all existing bilateral debts, and some new borrowing (on highly concessional terms) from international financial institutions. The net present value of the debt to exports ratio would then remain below the threshold of 150 per cent for designation as a Highly Indebted Poor Country (HIPC) . Under alternative assumptions, and notably in the case of larger than expected bilateral debts or a high share of borrowing in external financing, this ratio would exceed the HIPC threshold by 2015.

2. BUILDING SOCIAL AND HUMAN CAPITAL

INTRODUCTION

Social capital is the fabric of networks, relationships, norms and institutions that bind a society together and enable it function and grow dynamically. Human capital refers to the acquired knowledge, skills and capacities that allow individuals to operate within this fabric. In Afghanistan, both have been severely affected by years of conflict. Rebuilding social and human capital will require decades of careful investment and nurturing to restore capacity, confidence and trust within society. By making social and human capital the first Pillar in its National Development Framework, the Government of Afghanistan has signalled to its own people and to the international community the importance it accords to core human and social investments in the areas of education, health care, social protection, refugees and IDPs, and culture, media and sports, detailed in this chapter and accompanying Technical Annexes.

Developments over the past two years suggest that the people of Afghanistan have begun to break the vicious cycle of poverty and deprivation, and there are encouraging signs of progress. Close to two and a half million people have returned home from neighbouring countries, an additional 600,000 internally displaced people have returned to their homes, more than 4 million children now attend school (a third of them girls) and the incidence of polio and measles has been significantly reduced. Importantly, growth in the agricultural sector and a post war expansion in local construction and commercial services have helped to generate new employment and strengthened food security. For the first time in several decades, economic growth has occurred in several regional centres simultaneously, illustrating a positive and hopeful nationwide trend. In urban areas especially, professional opportunities for women are beginning to expand.

Having achieved such significant gains, the challenge now is to consolidate them, and to use them as foundations for self-generating social and human development in the years to come. However, success is threatened from several quarters. Large proportions of Afghans still live in extreme poverty and deprivation, as shown in Table 2.1 below, and after decades of neglect, the essential infrastructure of human and social development does not exist. Ongoing instability in the country threatens to arrest economic recovery at a time when increasingly heavy demands are being placed on national resources and capacities, not least by large numbers of returnees and ex-combatants seeking to reintegrate, and by the rapid growth of urban centres. Although Government has assumed a clear policy lead in directing and managing the recovery process, institutional capacity to implement programmes efficiently and effectively through out the country remains weak. Existing skill-sets within the national labour pool are not yet matched to the structural requirements of national recovery. Early gains made over the past two years have not have been equitably distributed. As a result, many communities remain marginalised from the peace dividend, and excluded from participation in essential decision-making processes.

Finally, international assistance has been essential, but the current mechanisms of aid provision have not been optimal. Non-integrated, project-based planning and delivery modalities have weakened the coherence of investments, producing overlaps, variations and gaps in service delivery. The costs of delivery have been unsustainable. Such practices represent a missed opportunity for improving the delivery capacities and social accountabilities of permanent national institutions. There is now a consensus to move from a project-based approach to a program-based approach, based on equitable and affordable policies.

Investing in Afghanistan's social sectors is not only a matter of meeting immediate social needs. It is about fighting poverty through the creation of new wealth, in households, in communities and nationally, by better equipping Afghans to respond to the requirements and opportunities posed by a recovering economy. It is essential to the formation of professional classes that will sustain efficient public administration and a dynamic, competitive private sector. Investment in universal education to prepare a peacetime generation of young Afghans to enter the economy, especially the education of girls, is a priority. Girls that have been to school transform their country as they grow up. They tend to marry later and have fewer, healthier children. They help increase household income and in turn they insist on access to education and health care for their own children. Likewise, investment in health care not only saves and improves lives but also can produce enormous economic gains. In sum, human and social capital development is a long-term transformational process, through which the outlook, expectations, and motivations of Afghans are shaped to generate new demands for progressive improvements in local and national governance, the rule of law, observance of human rights, and political participation. In this broader sense, successful social investments that will ensure a healthy, educated and secure society will enable Afghanistan to meet, but also eventually exceed, the minimum targets set out in the MDGs.

SOCIAL INDICATORS AND THE MDGS

Targets for social and human capital in Afghanistan are based on the twelve-year time horizon of the MDGs. As Table 2.1 shows, the distance between today's indicators and the 2015 Millennium targets, to which Afghanistan now subscribes, is significant, especially in the areas of health, water and gender.[4] However, when comparing these targets with indicators for countries that today have a per capita income of approximately USD 500, as projected for Afghanistan in the year 2015, the targets look less daunting, though they remain ambitious. A full comparative analysis is provided in Table 2.10 and 2.11 at the end of this chapter.

Table 2.1 Social Indicators

		Current Level	MDG 2015 Target
Poverty (rural)		53%	21%
Hunger		48%	24%
Adult literacy (age 15 and older)		36%	56%
Female		21%	
Primary school enrolment ratio, net		54%	100%
Girls		40%	100%
Life expectancy at birth (2001)		42.8 years	
Infant mortality per 1,000 births (2001)		165	55
Under-five mortality per 1,000 births (2001)		257	130
Maternal mortality (per 100,000)		1600	205
Main diseases (cases p.a.):	Measles	718	0
	Polio	10	0
	Malaria (% at risk)	16%	8%
	Tuberculosis	321	48
Access to safe drinking water		13%	80

Sources: Central Statistics Office of Afghanistan; UNDP Human Development Indicators, 2003; UNICEF, The State of the World's Children, 2003; World Bank, World Development Indicators, 2003.

[4] Afghanistan has been identified as one of the priority countries throughout the world as far as international support for addressing the MDGs.

GOVERNMENT VISION AND STRATEGY

The Government's vision for investment in human and social capital is to create the conditions necessary for the people of Afghanistan to secure sustainable livelihoods in the legal economy and to lay the foundations for the formation of long-term human development. Moving towards this vision over the coming years will require substantial improvements in basic services, continue institutional reform, growth of private sector activities, and progress in ensuring better security and legal rights for all citizens. Six main strategic elements will be pursued jointly by partners within the sector:

1. **Secure, diversify and manage investments for core social sectors and programmes in the longer term.** Even with per capita GDP growth factored in at 9% per year (as outlined in Chapter 1) Government revenues alone will not generate sufficient public resources to cover the anticipated costs of service delivery and social protection over the next 12 year time period. Long-term external financial commitments will therefore remain critical for the foreseeable future. At the same time, investment options will be diversified, moving increasingly toward public-private partnerships, community contributions and individual cost-recovery solutions. Where possible, recurrent expenditures will be directed toward reform, rather than maintenance, of national service delivery systems.

2. **Reform and strengthening of public institutions responsible for social services.** This will include at least 4 components: (i) continued reinforcement of central programming and financial management capacities, consistent with ongoing civil service reform efforts (ii) renewed efforts to recast ministries as enablers, regulators and monitors of social services, as opposed to direct implementers (iii) an acceleration of investments to strengthen provincial and district administrations, with a view of reducing geographical disparities, and improving the quality and efficiency of services at delivery points, and (iv) intensified efforts, within public institutions, to promote information sharing and to raise levels of transparency and accountability towards domestic and external stakeholders.

3. **Develop a national strategy for poverty reduction.** To accelerate the poverty reduction outcome of sustained economic development, this will promote targeted social and economic opportunities while maintaining a safety net for the most vulnerable. The framework will need to incorporate several strategic components which include (i) continuing to develop knowledge and analytical tools, so as to better understand evolving vulnerabilities and coping strategies, better match services with needs, and better identify new opportunities for private sector and community led social recovery solutions (ii) promoting an integrated approach which favours unified national programmes over single projects, links core elements of national strategies now in place, and reinforces initiatives in other vital areas, such as security and the rule of law (iii) adopting and adhere to clear targets, standards of quality and delivery, and indicators to measure progress towards established targets and (iv) building binding partnership frameworks with non-Government agencies, communities, and businesses in a manner that rationalises delivery, lowers costs, and strengthens the accountabilities and long-term commitments of investors and implementing partners.

4. **Nurture and harness Afghanistan's private sector.** Small and medium sized enterprise development, in particular, micro-finance and business development services, will play a vital role in alleviating poverty, improving livelihoods, generating employment, and sustaining economic growth in both rural and urban settings. Targeted financial support for small business and farm development will be strategically directed to facilitate the resettlement of returnees and IDPs, and to encourage demobilisation and abstention from the illicit drugs economy.

5. **Enhance the stake for communities in the development of their own human and social capital.** Getting communities to invest in their own future is essential to the formation of social capital networks. Communities must have a more direct say in how services are designed, and participate more fully in financing and management. Community decisions, such as the use of locally available development funds and micro-finance, will increasingly determine the local shape and orientation of programmes that are coordinated from the centre.

6. **Ensure basic protection and guarantees for all**. Investments in human and social capital will not be productive if citizens do not enjoy basic protections and guarantees. These will improve as communities themselves take a more direct ownership of investments. At the same time, an integrated strategy must address core structural issues of human rights, human security and the rule of law. In particular, security of land tenure, property rights and access to natural resources will be promoted. Access to employment, and existing labour conditions, in particular as they affect children and women, will progressively be brought into line with international standards and legal provisions through improved regulatory and monitoring mechanisms. As Afghanistan's formal fiscal and legal systems expand, measures to strengthen protections from illegal taxation and other forms of abuse by local power-holders, will need to take effect.

INVESTMENT REQUIREMENTS AND FINANCING

An investment programme of nearly US$7 billion will be required to end displacement and permit refugee and Internally Displaced Persons return to homes of their choice, create a literate nation, provide a basic package of health services, create a minimum level of social security targeted to the most vulnerable, improve livelihood security, and inject cultural dynamism (see Table 2.2 below). More detailed information on core sectors of investment is provided in the remaining sections of this chapter. For each sector, key targets and expected outcomes are identified. These have been determined on the basis of GDP growth assumptions set out in Chapter 1, and are considered feasible if related progress is made in crucial areas such as security, institutional reform and private sector investment, and if requisite levels of financial support are made available.

In addition, recurrent costs above US$2.2 billion would be required over the next 7 years in order to deliver social services (largely reflecting the costs of teachers' wages).

Table 2.2 Required External Funding Assistance ($ 000,000)

Sub-Sector	1383-85	1386-89	1383-89
Refugee Return and Reintegration	155	0	155
Education	704	1,998	2,703
Health	525	842	1,368
Livelihoods and Social Protection	1,308	964	2,272
Culture, Media and Sports	124	276	400
TOTAL	**2,861**	**4,081**	**6,896**

REFUGEES AND INTERNALLY DISPLACED PERSONS

Present Situation

In the last two years, some 2.5 million of an estimated 5.9 million refugees returned home to Afghanistan, while an additional 600,000 IDPs of nearly 1 million have moved back to the their areas of origin. Nonetheless, an estimated 3.4 million Afghans remain outside the country and approximately 200,000 IDPs remain uprooted.[5]

While the large-scale returns of 2002/2003 transmitted a positive message about Afghanistan's prospects for stabilization and brought valuable human and financial capital into the country, the large numbers placed significant pressure on already fragile national resources, services, and institutional capacities. This is exacerbated by pressures by asylum countries to accelerate the rate of return.

Government Vision and Targets

The overall goal of the Government with respect to refugees and IDPs is to build the structural stability in Afghanistan required to end refugee and internal displacement flows and to permit the return of Afghans to the homes of their choice. The National Return, Displacement, and Reintegration Strategy aims to support the voluntary return, in safety and dignity, and initial reintegration of Afghan refugees and IDPs in their chosen communities, as well as to provide protection, humanitarian assistance, and solutions to residual IDPs. It also seeks to assist returnees with identification of secure livelihoods. Details on the Refugee and IDP Public Investment Programme are in the Technical Annexes available at www.af/.

The specific nature of refugee and IDP issues makes it difficult to project with full accuracy the level and kind of investment that will be required in the medium and longer terms. Investments must be based on reasonable calculations of migration patterns, which in turn are exceptionally sensitive to domestic and international political, economic, security and legal developments. Fixing targets along a single timeline would be erroneous. There are three possible scenarios for refugee and IDP return for the period 2004-2007 (see Table 2.3 below), which provide the basis for setting targets for service delivery.

Table 2.3 Possible Scenarios for Refugee Return

	Situation	Targets
SCENARIO ONE	Assuming the most optimistic scenario all remaining (c. 2.4 million) Afghan refugees and IDPs return 2004 – 2007	▪ Return, processing and transport for 2.4 million refugees over a 3 year period ▪ Provision of essential non food items ▪ 100,000 houses constructed ▪ Essential support to IDPs in camps ▪ Monitoring of conditions of return and reintegration
SCENARIO TWO	Assuming no substantive change in present circumstances, 1.5 million Afghan refugees and IDPs return 2004 – 2007. Assisted return framework may need to be extended beyond 2007.	▪ Return, processing and transport for 1.5 million refugees over a 3 year period ▪ Provision of essential non food items ▪ 60,000 houses constructed ▪ Essential support to IDPs in camps ▪ Monitoring of conditions of return and reintegration

[5] IDPs are located mainly in the southern Provinces of Kandahar and Helmand and in the western Province of Herat. They are primarily destitute nomadic *Kuchi* or ethnic Pashtuns uprooted by ethnic violence in the north and west.

SCENARIO THREE	Assuming less favorable circumstances including rising poverty driven economic migration, increased deportation and stricter border controls, 1 million Afghan refugees and IDPs return 2004 – 2007.	▪ Return, processing and transport for 1 million refugees over a 3 year period ▪ Provision of essential non food items ▪ 50,000 houses constructed ▪ Essential support to IDPs in camps ▪ Monitoring of conditions of return and reintegration

Implementation and Reforms

The Refugee and IDP Public Investment Programme (RIDP PIP) encompasses a systematic approach that considers comprehensively the needs of returnees, particularly in basic social services and livelihood creation, to build up their asset base. The following specific objectives have been identified across the three scenarios illustrated above:

(i) The strengthening of the legal framework for refugees, IDPs and Returnees, including a strategic framework for migration, and a pro-poor legal framework to support property rights of returnees;

(ii) The mobilization of resources for investments to attract and sustain refugees;

(iii) Enhanced coordination between ministries responsible for sustainable reintegration and institutional capacity building;

(iv) The identification of long term solutions to the problem of displacement, and prevention of new displacement using legal, human rights, and humanitarian instruments;

(v) The provision of appropriate support and assistance to existing IDPs and returnees, with special emphasis on the most vulnerable; the promotion of IDPs to self-supporting communities; and, the development of programmes to address the specific needs of pastoralists;

(vi) The close monitoring and analysis of urbanization and the channelling of public investment to priority areas.

Assuming the situation improves in Afghanistan, the Refugee and IDP programme will be refocused and scaled down as required, with a greater emphasis on targeted interventions increasingly aligned with national policies and programmes. If events continue to develop positively over time, the focus of resources may eventually shift to related sectors, in core areas of health, education and livelihoods support. However, it is currently estimated that further financial commitments will be required until at least 2007 to meet essential needs of returnees.

The Tripartite Agreements for the voluntary return of Afghans from Pakistan and Iran are currently scheduled to conclude in 2005/2006, and depending upon which scenario unfolds, the future status and management of populations currently regarded as refugees will require negotiation in the medium and long term. Given the policy and institutional shifts required to address population movements within an expanded regional or bilateral framework, there will be a need for a change in focus of the present Consultative Group and a shift in institutional responsibilities.

To address IDP issues two ad hoc bodies exist – the Return Commission (chaired by MoRR) and a Kandahar based IDP Task Force. During the period 2004-2007, these mechanisms will need to attract greater political support and resources to integrate political, economic and social protection interventions for internal displacement within mainstream reform processes and national programmes.

Key implementation issues will need to be addressed in 2004 if programme objectives are to be achieved later on. These include: the requirement to improve security conditions; recognition that protracted displacement necessitates sustained investments both among populations in exile and within areas of origin; the need to better integrate policies and priority programmes in support of sustainable integration; the requirement for extended dialogue around the implications and responsibilities involved in the event of an inconclusive repatriation process; analysis of costs and benefits of economic, trade, and labour related migration movements to inform the development of an asylum and migration framework; and the rationalization and strengthening of institutional mechanisms.

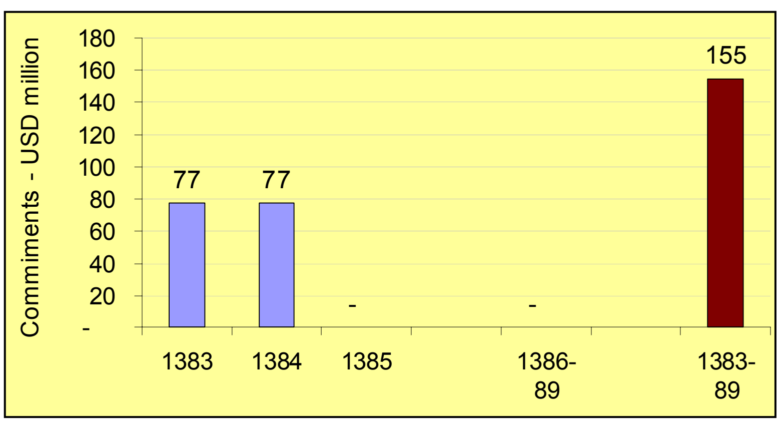
Required Financing and Investment Priorities

The resource requirements (see Table 2.4 below and Figure 2.1 below) for the RIDP PIP for 2004/07 are disaggregated in the table below on the basis of the three scenarios outlined above. Requirements have not been estimated beyond 2007 although recurrent funding for disaster preparedness and response and administrative costs are anticipated in the long term. More detail is provided in the Technical Annex.

Table 2.4 Costing Different Scenarios for Refugee Return and Repatriation

Sub Programme	Scenarios 1 (US$)	Scenario 2 (US$)	Scenario 3 (US$)
1. Repatriation and Return	66,000,000	42,500,000	30,000,000
2. Assistance to IDPs	2,000,000	1,500,000	1,000,000
3. Initial Reintegration Assistance	72,000,000	45,000,000	30,000,000
4. Protection and Social Services	12,000,000	9,000,000	6,000,000
5. Capacity Building	2,500,000	2,000,000	1,500,000
Total	**154,500,000**	**101,000,000**	**68,500,000**

Figure 2.1 Financing Requirements for Refugee Return



EDUCATION

Present Situation

Education is a long-term investment in Afghanistan's social and human capital, success cannot only be measured by sending children to school, but equally by equipping them with the necessary literacy, numeracy, problem-solving and critical thinking skills to better face the challenges and requirements of an expanding peacetime economy. Quality education with these characteristics is thus among the most critical investments in Afghanistan, one which must start today and continue in the years to come.

The first two years of reconstruction in Afghanistan have witnessed a significant leap in student enrolment; especially in Grades 1-2 (see Figure 2.2 below). According to the Ministry of Education, 4.3 million students have enrolled in Grades 1-12 in 2003, of which 3.9 million are in primary schools. This figure is by far the largest in the history of Afghanistan. Female participation in primary schools exceeded the pre-Taliban period, though it still remains nearly half that of boys (see Figure 2.3 below). In 2003, 54% of school-aged children (40% girls) were enrolled in primary schools. Enrolment targets are set for 70% (60% girls) by 2006, and 85% (75% girls) by 2010, with the overall aim of approaching as closely as possible the MDG target of universal primary enrolment by 2015. Higher Education has also seen a substantial increase in the number of students, which jumped from 4,000 students in 2001 to 31,000 in the fall of 2003. Currently, all 17 higher education institutions in the country are operating. As in primary education, a large majority of students (69%) are attending first and second years.

Figure 2.2 Student Enrollment (1940-2003)

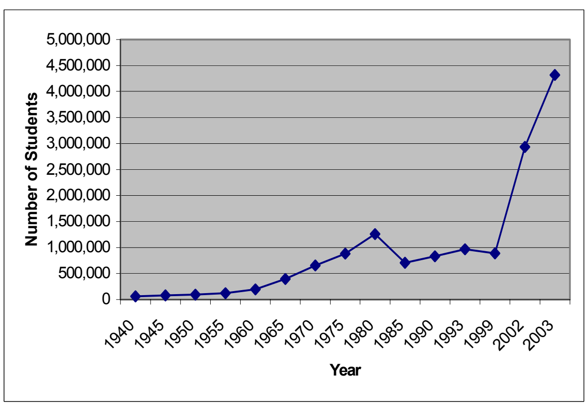
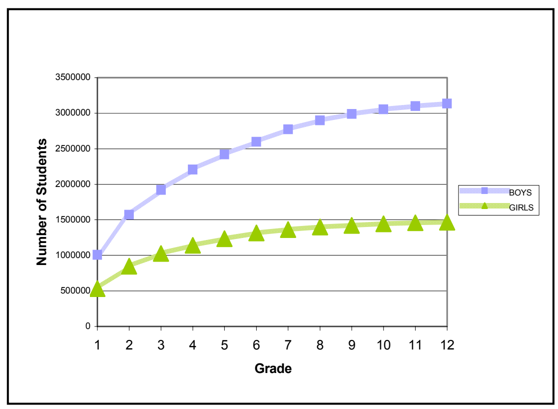


Figure 2.3 Cumulative Enrollment by Gender



Despite these achievements, fundamental challenges remain. First, available indicators show that the content and quality of education must be raised substantially. This will require substantial investments to improve teacher qualifications, strengthen curricula and the quality of textbooks, and enhance the quality of learning spaces. Second, infrastructure, equipment and services are not sufficient to meet current and future demand. Emergency measures to date, such as renting buildings or using tents, employing partially qualified teachers, and instituting multiple shifts, have been useful. These must be replaced by substantial longer-term investments which, in turn, will need to be sequenced so as to satisfy evolving demand over time. Medium term investments will also need to address acute regional and urban/rural disparities in the supply of education infrastructure and services.

Gender disparities are prevalent across both regions and levels of education. In Kabul, 81 % of school age girls attend primary school. In many provinces, however, the rate is well below 15%. Likewise, female attendance in schools and higher learning facilities drops dramatically as girls progress towards higher grades. Closing the gender gap in education will require concerted efforts to strengthen "cultural" demand for girls' education in the provinces and at advanced levels, while ensuring that opportunities to attend (supply of learning spaces, female teachers) are well in place.

Government Vision and Strategy

The Government fully recognises that education is a principal foundation for poverty reduction and social capital formation. The Government's vision is to ensure that all children complete compulsory education (9 years), and have opportunities to continue to higher levels.

As more children enter school, it will be critical in the years to come that they be equipped with the appropriate skill sets and knowledge to meet the challenges and opportunities of the labour market. The content and orientation of educational services will need to be reviewed periodically to optimise the match between students' skills and the needs of the economy. Investments will need to be adjusted accordingly.

In order to achieve this vision the Government will work in 3 strategic directions: (i) Expand access and raise the quality of primary and secondary education country-wide (ii) Build a higher education system that responds to Afghanistan's reconstruction needs, creates new professional and income opportunities for Afghans, and meets international standards (iii) Expand citizens' access to vocational and informal education, with specific focus on improving livelihoods opportunities for vulnerable populations like widows and the disabled, returning refugees and IDPs, demobilised soldiers and unemployed youth.

Progress along these three pathways will be underpinned by substantial changes in the governance and management of the education and higher education sectors. These will involve 1) a rationalisation of the role of the Ministries, 2) a broader sharing of planning, decision-making and financial responsibilities among levels of Government (national, provincial, and district) and communities and; 3) securing long-term partnerships with private actors, such as the business community, educational foundations and NGOs. More detailed options for each of these are set out in the Technical Annex.

Outcome, Implementation and Reform Targets

Although ambitious, outcome targets for the education sector are in line with the education targets of the Millennium Development Goals: universal primary education and gender parity by 2015. To measure the progress towards this objective, primary school enrolment and completion rates are used as global indicators. Table 2.5 below highlights Afghanistan's targets for progress towards MDG and national targets in Education.

Table 2.5 Targets for the Education Sector

	1383-85	1386-89	1390-94
Primary & Secondary Education	▪ Primary enrollment target: girls 55% boys 75% ▪ Rehabilitation of existing schools (7,400) completed ▪ New textbooks for Grades 1-6 developed and used.	▪ Primary enrollment target: girls 75% boys 85% ▪ 400 new schools built each year to meet the increased enrollment. ▪ New textbooks for Grades	▪ Primary enrollment target: girls 100%, boys 100% ▪ 300 new schools built each year to meet the increased enrollment at upper primary and secondary schools.

	▪ Teacher development framework developed with an emphasis on in-service training ▪ Training programme for school principals developed. ▪ Civil service reform in the education sector implemented, and rational salary structure defined.	7-12 developed and used ▪ 70% of teachers meet the competency-based certificate requirement. ▪ 70% of school principals are trained on management and educational leadership skills. ▪ Ratio of non-salary recurrent budget increased to 30%. ▪ Support functions of Provincial and District Education Offices strengthened. ICT in secondary education introduced.	▪ All teachers meet the competency-based certificate requirement ▪ All school principals are trained on management and educational leadership skills. ▪ Ratio of non-salary recurrent budget increased to 40%. ▪ School-based initiatives and innovation rewarded. ▪ ICT in primary education introduced.
Tertiary education	▪ Enrollment target: 60,000 students with female share of 30% ▪ System reform and development of legal framework completed. ▪ Quality assurance and accreditation system established. ▪ Public university system rationalized. ▪ Master's programme in key disciplines developed.	▪ Enrollment target: 100,000 students with female share of 35% ▪ Formula-based funding in place. ▪ Private financing increased (20%) and 5 private universities established. ▪ Scholarships and student loan systems developed. ▪ Ph.D. programme in key disciplines developed.	▪ Enrollment target: 150,000 students with female share of 40% ▪ Private financing increased (35%) and 10 private universities established. ▪ Transparent scholarships and student loan systems used. ▪ Equity in access to higher education achieved through targeted scholarships
Vocational and technical education	▪ Flexible programmes to meet needs of diverse implemented. ▪ Internship programme developed for new graduates, leading to employment. ▪ Strategy to rationalize vocational school infrastructure and personnel across ministries developed.	▪ Integration of vocational and technical content into general secondary education. ▪ Shift of specialized vocational schools to community college approach ▪ Sponsorship programmes of students by private enterprises implemented.	▪ The private sector implements continuous internship and employee development programme. ▪ Vocational training system fully reformed for efficient use of resources, with a strong voice of employers in the orientation of the programme.§ ▪ Special programme to encourage females in technical training implemented.

Spending on national education is expected to absorb approximately ¼ of annual Government revenues between 2004 and 2015, although real costs are expected to triple over the same period for primary and secondary education, and to double for higher education. These projections highlight the need for sustained international commitments to the education sector over the next decade, and for a diversification of financing options. Likewise, fiscal discipline will be required to ensure that the rehabilitation and construction of educational institutions does not outrun capacity.

Primary education will be the first priority for public spending in the foreseeable future, particularly while resources are scarce. However, investments will need to be calibrated against the moving demographics of the current student population. Today, the overwhelming proportion of resources is concentrated at the lower end of the educational system. Beginning in 2005, higher proportions of both recurrent and capital spending must begin to shift towards higher grade levels of the compulsory system, focusing as appropriate on the areas of teacher qualifications, curriculum development, equipment and infrastructure. Since only about half of all secondary school graduates are expected to continue on into university, secondary schooling will be an increasing priority in shaping Afghanistan's educated workforce. As part of an overall investment to rebuild Afghanistan's social capital, medium to long term financial commitments will need to fully reflect the central role of secondary education.

The broad investment strategy is to increasingly use the education budget for education reform, rather than maintenance, with particular focus on pro-poor and pro-girls policies and quality improvement strategies. Another key feature of the education investment requirement is to increase both the volume and share of non-salary recurrent spending and capacity building components in order to secure sustainable quality improvement. Although this is classified as "recurrent", it represents a de facto "investment" in the future. Overall, the education sector will require a sequenced build-up of investments over time, taking into account student demographics, available resources, human capacity levels and recurring cost implications. The most effective rate of this investment build-up will need to be agreed within the Government, on the basis of analysis in the Technical Annex for Education and relevant assessments.

At the institutional level, implementation of the Education programme during 2004-15 will include significant reform measures in pubic administration and management. The education sector comprises the Ministry of Education (MoE), Ministry of Higher Education (MoHE), Ministry of Labour and Social Affairs (MLSA), and the Ministry of Women's Affairs (MoWA).

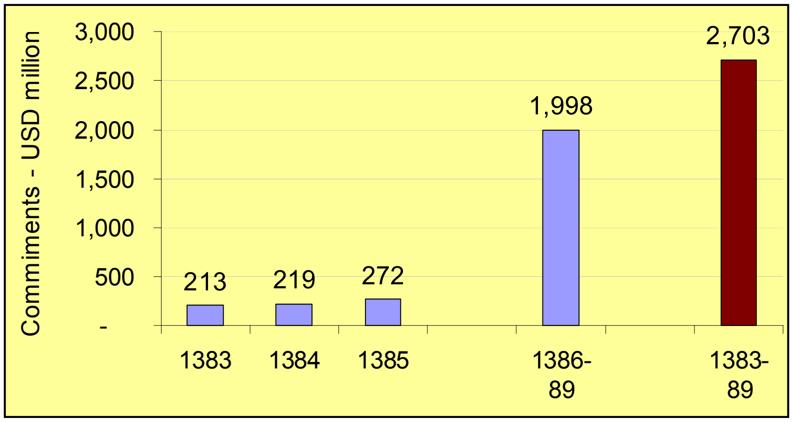
The reform of the MoE will continue in the direction of recasting the ministry's role as policy-maker, regulator and monitor of service delivery, facilitating the roles of other institutions, and service contractor. This policy shift will be particularly reinforced at provincial and district levels. It is anticipated that NGOs will continue to play a vital role in providing primary education services, especially in rural areas. NGOs will be crucial particularly in promoting community participation in service delivery and financing, and in engaging with rural communities to close the gender gap in education. The Ministry of Higher Education (MoHE) is embarking on an ambitious reform programme to recast the mission, financing, governance, and curricula of Afghanistan's colleges and universities, as well as to open the higher education system to private institutions. The managerial capacity of the Ministry and of the higher education institutions will be built on a step-by-step approach.

Tertiary and technical education will be reformed so that it meets the needs of the private sector and becomes more competitive. In the short term "importing" qualified faculty from overseas may be necessary to improve and modernize institutions. From 2004-05, faculty and curricula will be revamped through twinning arrangements with first-rate universities overseas, and through fellowships. Courses will be modernized and shifted to a credit system. National student scholarships will become available beginning in 2007, and will be used, *inter alia* other things to encourage female enrolment in advanced disciplines, such as the sciences, economics, law and engineering, where they are under-represented. Finally, partnerships will be sought with the private sector and foundations in order to mobilize resources and diversify tertiary education. Further resources will be mobilized through cost- sharing with students (e.g. fees for certain services, tuition, income contingent tax after graduation). Implementation and reform targets are set out in Table 2.5 above.

Required Financing and Investment

The Government estimates that a total of US$2.703 billion (see Figure 2.3) is required over the seven-year costing horizon. More detail is provided in the Technical Annex.

Figure 2.3 Financing Requirement for the Education Sector



NUTRITION AND HEALTH

Present Situation

Over the past two years, significant achievements have been made in the health sector. The Ministry of Public Health, together with other ministries and international agencies, has made considerable progress in policy and institutional reform, as well as in service delivery. Through successful mass vaccinations, the number of confirmed polio cases was reduced to 7 in 2003. A measles vaccination campaign reached more than 90% of children between 6 months and 12 years old, resulting in an estimated 30,000 lives saved. In the area of nutrition, the first large-scale iodised salt production plant has been established to tackle iodine deficiency, and 300,000 malnourished women and children have received support. Within the Ministry, a Grants Management Unit has been established to manage the Health budget and coordinate with donors.

Despite these achievements, the health situation in Afghanistan remains dramatic. Most Afghans do not have access to basic nutrition and health services that impact on health and well-being. Forty percent of existing health facilities do not have female staff, which means that women are very unlikely to access those facilities. More than 80 per cent of the services that do exist are provided by NGOs. The average maternal mortality rate is 1,600 per 100,000, while in the north eastern province Badakhshan, the rate is 6,500 per 100,000—the highest ever reported globally. The infant mortality rate is 165 per 1000, the highest in Asia, while the under-five mortality rate is 257 per 1000. The average life expectancy in Afghanistan is just over 42 years. Notwithstanding the success of recent campaigns, routine immunization coverage (DPT3) is estimated at only 30 per cent country-wide. The rate of chronic malnutrition (moderate and severe stunting) remains around 50% reflecting a combination of livelihood factors, such as poor caring practices, micronutrient deficiency, and chronic food insecurity. The country also has the highest rate of iodine deficiency in the world.

Among children, diarrhoea, acute respiratory infections, and vaccine preventable illnesses likely account for 60% of deaths. Among adults, tuberculosis accounts for an estimated 15,000 deaths per year with 70% of detected cases being among women.

Currently, the most significant constraint to improving public health and nutrition is the lack of basic health services. Even simple and effective interventions, such as routine immunization, are only slowly becoming available. Major challenges to improving service delivery include: (i) the shortage of skilled health staff in rural areas, particularly of female staff; (ii) the lack of managerial capacity, especially at provincial level; and, (iii) the existence of managerial and organizational structures that do not provide incentives or accountability for results.

Preventive health practices are weak, due in part to lack of information and to inadequate practices in hygiene, nutrition, water-related health behaviour, and simple disease prevention (mosquito nets). Weak prevention underscores the fundamental importance of education as a factor in improving public health, particularly the education of women as primary care givers in the home. It also raises the need for better informed, better trained primary health staff within the national system.

There are also several cross-cutting issues that impede improvements in health status, *inter alia* the lack of physical security and accompanying human rights violations, the low social status afforded to women, and the extremely low availability of basic infrastructure in rural roads, electricity, safe water, and sanitation systems. Poor education, particularly female education, and the increasing problem of narcotics addiction also have an adverse impact. The absence of a secure, long-term expenditure framework is yet another constraint.

Government Vision and Targets

The objective of the National Health and Nutrition Programme is to reduce the high levels of mortality and morbidity, especially among women and children, through the development of an equitable, effective, and efficient basic package of health services that address priority health and nutrition problems, and through developing the capacity to deliver the necessary services.

As indicated in Table 2.6, basic targets for the Health sector in Afghanistan are to reduce by half the current rates of infant and under-five mortality, and to reduce average maternal mortality from 1,600 to 205 per 100,000. Main diseases will need to be reduced, and access to safe drinking water increased from the 13 % to 80 %, if the targets are to be met.

In working towards these objectives, the Government's first priority is to universalise access to primary healthcare, by ensuring that a Basic Package of Health Services (BPHS) is delivered to all Afghans country-wide. This package contains five essential elements for the delivery of basic healthcare services: Maternal and newborn Health, Child Health and Immunisation, Nutrition, Communicable Diseases, and Supply of Essential Drugs. Currently, the BPHS covers some 40% of the population. According to current projections, coverage will be raised to 80% in 2006, 90 % in 2011, and 95% by 2014.

Once the core elements of the BPHS have been delivered, additional components will be added in a second stage, based on a prioritisation derived from current and projected morbidity and mortality rates. The additional components will include Mental Health, Disability and HIV/AIDS. In the interim, community-based disability care will be managed in large part through the Livelihoods and Social Protection Programme (see below). According to current projections, a national surveillance system for HIV/AIDS will in place by 2010, composed of a total of 41 sentinel sites (minimum 1 per province) and 6 reference laboratories. A fuller discussion of BPHS expansion and the HIV/AIDS surveillance system is contained in the Health and Nutrition Technical Annex.

Without compromising primary health care delivery, a corollary objective of the Government is to improve the quality of existing hospital services, with priority to emergency obstetrical care and trauma management.

Table 2.6 Summary Health and Nutrition Sector Targets

1383-85	1386-89	1390-1394
Maternal Mortality: three quarters reduction in Maternal Mortality by 2015/1394 The current 1382 MMR is 1,600 maternal deaths per 100,000 life births	1,000/100,000	400/100,000
Child Mortality: two thirds reduction in the under five mortality rate The current U-5 mortality rate is 257 deaths per 1,000 life born children.	150/1,000	86/1,000
Basic Package of Health Services: coverage of 80% of the Afghan Population	BPHS: 90 % coverage	BPHS: 95% coverage
Expanded Programme on Immunization >90% of women of child bearing age receive at least three doses of tetanus Toxoid and >90% of children under five years old receive measles vaccination	Wild polio virus eradicated; maternal and neo-natal tetanus eliminated	Afghanistan polio free and less than 1/1,000 neonatal tetanus in all districts
Malaria Morbidity Reduced by 20%	Malaria morbidity reduced by 50%	
Nutrition: >50% of Households have access to iodized salt	>90% of households have access to iodized salt, decreasing iodine and other micro nutrient deficiency disorders	More than 8 functioning salt iodizing factories, 10 provincial TFU training centers and 50 district TFU's
Tuberculosis: >70% of expected TB cases detected and 80% of cases cured	85% of expected TB cases detected and 90% cured	Keep 100% coverage and 659 facilities provide diagnosis/DOTS services
Provincial Preparedness and Response units established within PHC	>90% of emergencies/outbreaks managed by provincial and district teams	100% of Districts have MOH focal point for emergency preparedness and response
Nation wide HIV/AIDS surveillance system Established	Maintain low prevalence rate among high risk groups, very low prevalence rate among the general population	100% of district Hospitals provide blood screening services and 100% of provinces have quality STI/HIV care and treatment centers
Improving Quality of Hospital Services <1% case fatality rate for obstetric procedures	<1% case fatality rate for obstetric procedures	<1% case fatality rate for obstetric procedures
Human Resource Development: 50% of BHC's and 55% of CHC's staffed with midwives. Ratio of allied health workers to physicians increased.	70% of BHC's and 75% of CHC's staffed with midwives Ratio of allied health workers to physicians increased	90% of BHC's and 95% of CHC's staffed with midwives. Ratio of allied health workers to physicians increased
Administrative Reform and Capacity Building 66% of PHO allocated budget expended	75% of PHO allocated budget expended	90% of PHO allocated budget expended

Implementation and Reforms

Recognising that the delivery of services will primarily be contracted out to implementing partners, the Government has decided to keep for itself the following roles: financing; monitoring and evaluation; coordination of donor inputs; strategic planning; setting technical standards; regulation of the for-profit private sector; and coordination and regulation of the NGO sector. This is consistent with strategic reforms taking place in other ministries within the social sectors, such as the Ministries of Education and of Rural Rehabilitation and Development.

As an overall health policy framework is now in place, reforms will focus increasingly on human resource development and improving administrative capacities, as well as on the financing, staffing, and maintenance of provincial, district, and community structures. Critically, substantial investments will be made in the recruitment and training of health care staff, with priority on increasing female staff numbers. Nine existing Institutes of Health Sciences will become operational in 2004 and three additional ones in 2013. Through these facilities, 2,400 midwives, 4,700 nurses, and 5,700 other paramedical staff are projected to be newly trained by 2015 to work thought the national BPHS network.

Strengthening of provincial health offices is being initiated through the Priority Reform and Restructuring process. Currently, only 40% of the annual health budget allocation is being expended through provincial health offices. This share is projected to increase to 66% in 2006, 75% in 2010, and fully 90% in 2015.

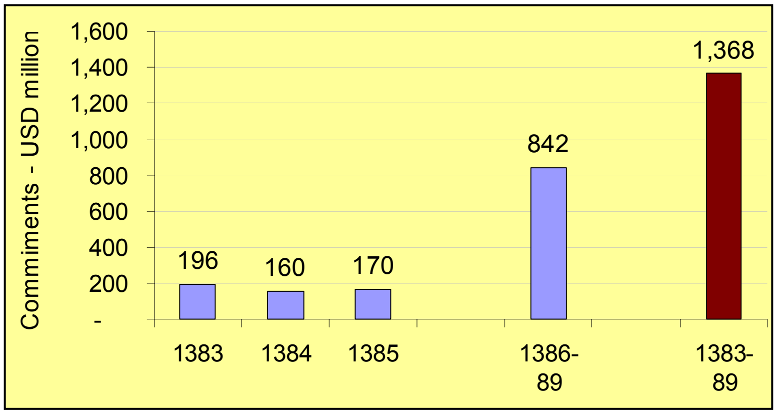
Additionally, the Grants and Contract Management Unit (GCMU), established in early 2003, will continue to manage and monitor contracted health services delivery. Performance-based Partnership Arrangements are being implemented by NGOs and other service providers contracted by the Government through a competitive process.

Required Financing and Investment

Building Afghanistan's national health programme will require continued international support to cover both capital and certain recurrent costs for the foreseeable future. Even with the assumption of 9% growth in annual GDP per capita over the next decade, it is estimated that the Government's own contribution will remain insufficient to meet costs by 2015. The overall Health expenditures will thus need to be supported by the international community through 2015. As in the education sector, this projection starkly raises the need to examine additional financing options, such as private sector participation, community contributions, and, where feasible, individual-level service fees.

Investment support for health and nutrition, to attain the objectives laid out above, is estimated to cost US$1.368 billion over the coming 7 years. Specific financing requirements for the health sector are outlined in Figure 2.4 below. More detailed information is provided in the Technical Annex.

Figure 2.4 Financing Requirement for Health Sector



LIVELIHOODS AND SOCIAL PROTECTION

Present Situation

As a result of decades of conflict and political instability a significant proportion of Afghans live in extreme poverty, risk, and deprivation. According to preliminary estimates, overall rural poverty is nearly 53 percent.[6] (Box 2.1) The cumulative effects of war, destruction, drought and displacement, have contributed to the successive erosion of households' asset base,[7] greatly affecting their ability to manage risks and frequently leaving families in deteriorating circumstances without adequate support. Due to the prolonged conflict in Afghanistan, legal, social, physical and financial infrastructure has been negatively affected, generating a fertile environment in rural areas for an explosion in illicit opium poppy cultivation. The absence of licit non-farm income opportunities has forced many Afghans, a large proportion of whom are landless, into a narco-agricultural production which has increasingly been counted on to provide a relatively secure cash income.

The Government has sought to initiate a strategic shift beyond purely humanitarian relief to a more integrated and efficient programmatic approach, providing sustained support to poor people so that they are better able to protect their assets and rebuild their livelihoods. Through the provision of immediate and tangible assistance across Afghanistan, the Livelihoods and Social Protection Public Investment Programme (LSP PIP) has performed a crucial legitimising function for the Government. Significant achievements of 1382 are highlighted in Table 2.7 below.

6 R. Varkis and A. Pinney. This estimate is based on preliminary analysis of the NRVA 2003, and refers to the rural population only.

7 Assets can be tangible such as land, labour, capital and savings, or intangible such as social capital, proximity to markets and health / education facilities, empowerment etc.

Table 2.7 Significant Achievements in 1382

National Emergency Employment Programme (NEEP)	The NEEP generated 8 million labours day through the establishment of a nationwide employment based safety net for the construction of rural infrastructure (including 5000 km of rural roads) using mainly cash payments
National Solidarity Programme (NSP)	The launch of the Afghanistan's flagship programme to provide resources through block grants for community managed small-scale reconstruction and development in rural areas, and to promote more participatory and inclusive decision making and governance at the village level. The target is to cover the country's approximately 20,000 villages over a four year period. Implementation is currently in progress in 1,450 villages.
Comprehensive Disabled Afghan's Programme (CDAP)	The delivery of services to 30,000 disabled people in Herat, Farah, Kandahar, Ghazni, Mazar and Takhar. Stipend paid to around 300,000 disabled and martyred persons.
Community Based Rural Water Supply and Sanitation Programme (CBRWSS)	The construction of over 12,000 water points across the country with prioritisation given to areas where pressure on host communities resulting from returning refugees and IDPs has resulted in particularly acute needs for safe water and sanitation facilities.
National Risk and Vulnerability Assessment (NRVA)	The design and implementation of the first nation-wide NRVA building on the WFP Countrywide assessment in 1381 to ensure the inclusion of women at all levels of data enquiry from community Shuras, wealth groups and households and expanded coverage to address the situation including short and long-range migratory Kuchis.
National Area Based Development Programme (NABDP)	The formulation and implementation of immediate recovery and development projects in areas where the local economy has been particularly damaged, based on local resources and existing / historical skills and productive enterprises.
Micro-Finance Support Facility in Afghanistan (MISFA)	The establishment of MISFA following a National Micro-Finance Workshop in February to provides funds for the competitive contracting of specialist professional agencies to sustainably deliver financial services to poor Afghans.

Key Issues

The weakness of public institutions in Afghanistan coupled with the fact that the poor are primarily based in rural areas and in the informal sector, means that public support and market based options for risk management are limited in the immediate future. The challenge for Afghanistan's social protection strategy therefore lies in effectively reaching the poorest and most vulnerable groups in the short term, while sequencing priorities for poverty reduction in the medium and longer term. Fiscal resources and administrative capacity will remain limited in the short and medium terms. As a result, there are difficult social policy choices to be made regarding the prioritisation of resource transfers to different socio-economic groups. A national poverty reduction strategy would assist in framing these choices.

A greater degree of national and community-led ownership and control needs to be ensured, and rates of implementation accelerated through enhanced procurement capacities (increasingly seeking to involve the private sector where appropriate). Informal risk management instruments and coping strategies need to be revitalized and supported in a manner that encourages learning and innovation. Such measures will depend on success in developing impact assessment capabilities, and a national knowledge base for risk and vulnerability.

Key constraints to be addressed include: inadequate, ineffective and unsustainable public expenditures; lack of ownership, poor maintenance of facilities and no cost recovery for operation and maintenance; and weak capacity in local Government institutions and community organizations to efficiently plan, implement and operate new investments, thereby restricting efforts to scale up.

Government Vision and Targets

The overall goal of the Livelihoods and Social Protection Public Investment Programme is to enhance human security and promote the reduction of poverty. It aims to empower and support the poorest and most vulnerable people in Afghanistan, thereby helping individuals, households, and communities to better manage risks through both supporting sustainable livelihood strategies and direct provision of assistance to people who are unable to help themselves.

The Government's vision begins from a commitment to better understand existing informal and market based risk management arrangements and to developing their effectiveness and impact on development and growth. Risk management instruments play a double role: on the one hand protecting basic livelihood assets and existing strategies and on the other, promoting risk taking to assist poor people to secure higher returns and thereby gradually move out of chronic poverty. Activating such strategies will require substantial public investment in poverty and livelihoods analysis systems. The impact of social protection policies and programmes will be felt across the sectors. For example, social protection plays a vital part in reducing the vulnerability of the poor so that they are better able to access health and education services. Over time, good social protection policies will contribute to higher economic growth and accelerated poverty reduction.

Implementation and Reforms

The four key ministries responsible for implementation of the Livelihoods and Social Protection Public Investment Programme are: Ministry of Rural Rehabilitation and Development (MRRD – the coordinating ministry), Ministry of Women's Affairs (MoWA), Ministry of Martyrs and Disabled (MMD), and the Ministry of Labour and Social Affairs (MLSA).[8] For 1383–1394, the LSP PIP comprises six priority sub-programmes, which provide a coherent focus for sector wide reform.[9] Targets for service delivery under each sub-programme are indicated in Table 2.8 below.

Several revisions have been introduced with the LSP PIP for 1383 and beyond to produce stronger synergies between sub-programmes for poverty reduction and empowerment. These include the progressive scaling up of micro-enterprise support and micro-finance service delivery to promote the inclusion of poor people in economic growth and the promotion of disaster and multiple risk management as an autonomous sub-programme area. Significant investments in NEEP and NSP have already begun to kick start growth through the injection of cash into local economies, the creation of productive infrastructure, and the promotion of community management capacities. Micro-finance is potentially one of the most important poverty reducing growth drivers that exists: Afghanistan will continue to be a country of self-employed and small enterprises for years to come.

In order for these targets to be achieved, the LSP PIP will need to increasingly move beyond a fragmented project driven approach. Greater consistency between Government execution policy and implementing partners (whether NGOs, UN Agencies, or the private sector) will be sought, and coordination within the budget and CG framework will be strengthened. Emerging analysis of poverty and vulnerability will be harnessed and key programmes closely monitored. In the immediate future the focus will be on ensuring that key programme pillars (NEEP, NSP, MISFA and Rural Water and Sanitation) are effective and that any major gaps are identified. Good policy will focus mainly on productive programmes rather than more narrowly on direct transfer payments, which will be reserved as a last resort.

[8] The Department for Disaster Preparedness (DDP) is expected to play an increasingly significant role in the coordination of national disaster and risk management efforts and the Ministry for Border and Tribal Affairs (MBTA) together with the Counter-narcotics Department (CND) of the National Security Council (NSC) is responsible for ensuring the integration of pastoralist and alternative livelihoods to poppy issues.

[9] These are (i) Targeted Public Safety Nets; (ii) Community Based Poverty Reduction; (iii) Support for Micro-Enterprise Development; (iv) Strengthening Financial Service Markets; (v) Disaster Risk Management; and (vi) Institutional Reform and Restructuring.

Table 2. 8 LSP Programme: 7 and 12 Year Service Delivery Targets

SY Year	1389 (2010)	1394 (2015)
Sub programme 1: Targeted Public Safety Nets		
NEEP Labor Days Generated	*244,746,297*	*306,535,909*
NEEP New Tertiary Roads (Kms)	*10,500*	*18,000*
NEEP Community Based Irrigation	*21000*	*36000*
% Coverage Transfers for Urban and Rural Unemployed Disabled	*60% and 18%*	*60% and 18%*
Women's Development Centres (No.)	*27*	*27*
Reintegration of War affected children (No.)	*20,000*	*30,000*
Sub programme 2: Community Based Poverty Reduction		
NSP No. of Block Grants to New Villages	20,000	20,000
NSP No. of Repeater Block Grants	20,000	20,000
No. of New Water Points	135,000	257,000
No. of New Latrines	1,650,000	3,260,000
No. of People Benefiting from Potable Water	22,500,000	29,292,000
No. of Block Grants to Nomadic Communities	250,000	250,000
Annual Risk and Vulnerability Assessment	7	12
Living Standards Measurement Survey	2	4
Sub programme 3: Enterprise Support Services for the Poor		
Promotion of Business Training Service Providers	75,367	170,734
No. of Women Entrepreneurs Participating in Pilot	23,808	40,728
Development of Provincial Action Plans for Poppy Eradication	32	32
Sub programme 4: Micro-finance		
No. micro finance clients receiving services	925,000	925,000
Sub programme 5: Disaster Risk Management		
Provincial Emergency Operations Centres Established	32	32

In order to strengthen the national knowledge base and ensure that as formal institutions are put in place, they do not supplant or destroy valid existing options for the poor, a strategic and institutional framework for the regular assessment and analysis of poverty, risk and vulnerability will need to be installed with the Central Statistics Office and sectoral ministries.

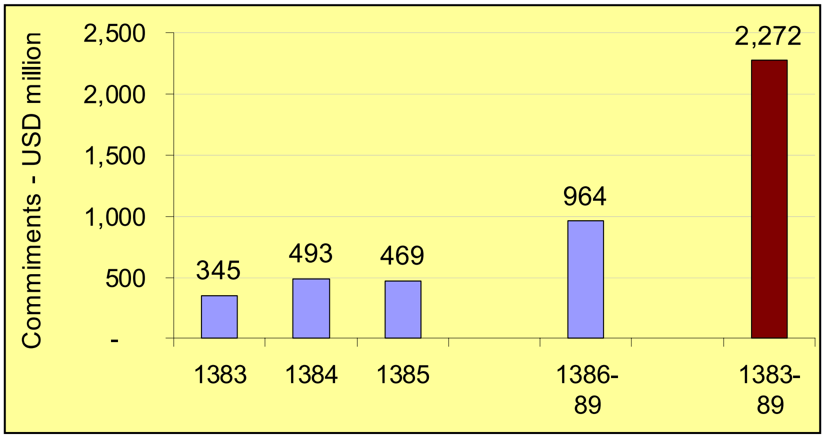
Finally, additional efforts in policy and institutional reform are required to ensure the integration of cross-cutting issues into each sub-programme. These include, the integration of gender and disability issues, nomadic interests, counter-narcotics objectives, environmental sustainability and human rights / humanitarian principles and the private sector),

Required Financing and Investment Priorities

Total investment requirements for the LSP PIP amount to around US$ 2,272 million over 7 years (see Figure 2.4 below).[10] Three sub-programmes account for 98 per cent of all requirements: Targeted Public Safety Nets; , Community Based Poverty Reduction; and Micro-Finance. Three complementary sub-programmes; Institutional Reform, Enterprise Support, and Disaster Risk Management - remain strategically significant in the attainment of national targets.

10 This does not include the cost of either programmable or emergency food aid assistance. If food aid assistance was to decline by between 20-30% per year, total costs for the next seven years are estimated to be around $690 million (WFP).

Figure 2.5 Financing Requirement for Livelihoods and Social Protection



CULTURE, MEDIA AND SPORT – STEPS TOWARDS A MORE OPEN COMMUNITY

Present Situation

Investments over the past two years have focused on the rebuilding of cultural policy and legal frameworks, the initiation of emergency scientific interventions to protect Afghanistan's cultural heritage, the rehabilitation of cultural institutions and museums, revival of creative expression in the arts, music, and literature, as well as of customs and traditions, the rehabilitation of media infrastructure, the revival of sports activities and infrastructure at the national level and the reengagement of Afghan sports people internationally through the Afghan National Olympic Committee (ANOC). In the main, these investments have been directly implemented by international agencies.

The national public and private media outlets currently existing in Afghanistan consist of dozens of newspapers and magazines, the state-owned Radio–Television-Afghanistan (RTA)—so far able to reach only to a small minority of Afghanistan's population, six non-RTA-affiliated local television stations, and approximately 25 independent local radio stations. In addition, over 400 international TV channels are broadcast into the country via satellite and are available to the few houses (no estimate is available) equipped with televisions, satellite receivers, and reliable electricity. Some international radio channels broadcast programmes in Afghan national languages (Pashtu, Dari) in the Afghanistan territory via short-waves and medium-waves (AM) and partly via FM transmitters. With a large percentage of the population illiterate, broadcasting media is a central means of disseminating information related to livelihoods, including the right to education, public health messages, and other news needed for informed participation in public decision-making. This is especially important given the key role that it will play in the electoral process.

Sports infrastructures and equipment are almost non-existent. The few stadiums in the country are damaged and do not meet basic international standards. Opportunities for women to practice sport remain extremely limited. Women can only practice sports in an indoor environment, yet there are very few gymnasiums. Teacher training centers around the country have no department for physical education, and currently there are no physical education teachers being educated. Nonetheless, there has been progress. The International Olympic Committee (IOC) lifted the suspension of ANOC in July 2003 in recognition of its efforts to reintegrate women into athletics. A "National Consultation on Sports for All" was organized by the ANOC jointly with UNESCO for the revitalization of sports, based on principles of equal access, tolerance and nation building. National competitions have started again in a number of sports, including football, athletics, volleyball, and tae kwon do, with encouraging participation from the provinces. Importantly, women have begun to compete again in a number of sports.

Key Issues

Ensuring effective implementation of the Media, Culture, and Sport investment programme faces several general constraints, including: (i) the disproportionate investment in institution-building in Kabul to the detriment of the provinces; (ii) the absence of legal frameworks to protect the free press and cultural heritage, as well as to promote sports federations; (iv) low investment levels; (v) poor human resource development in the public and private sectors; and (vi) a lack of basic infrastructure, particularly in media and for sport, with resulting limitations on access to certain populations, particularly women. Key issues relating specifically to media, culture, and sport are outlined below.

In the area of culture, legal and policy frameworks, such as those guaranteeing respect of cultural rights for all Afghans, are weak and not comprehensive. The country's cultural heritage (monuments, sites, but also audio/visual and intangible heritage) is in an overall state of severe degradation or destruction. There is no overview of Afghanistan's current cultural heritage; inventories of cultural property (artefacts as well as sites) have disappeared or are incomplete, which makes it more vulnerable to looting.[11] Afghanistan has not yet ratified international instruments that would allow it to make legal claims for the return of stolen cultural property. Finally, due to the previous (and in some cases, ongoing) persecution of artists and intellectuals, Afghanistan is now facing a gap in the transmission of knowledge necessary to keep its intangible cultural heritage alive.

Most media infrastructure and equipment for both print and broadcast media are out-of-date or have been damaged or deliberately destroyed. State-owned media needs to be reformed in order to ensure that it promotes democratic values and is editorially independent of influences from various interested factions.

Access to sports is constrained by the unavailability of minimum public and school facilities, as well as shortages of funding for this purpose. Women and girls still face social and cultural pressure not to participate in sports. National sports federations need increased funding in order to promote participation, as well as to organize competitions and support athletes with an international potential. There is also a shortage of trained and skilled instructors and coaches. Communication means are required in order to revitalize sport competition in Afghanistan, particularly at national level.

Government Vision and Targets

The Media, Culture and Sports, public investment programme in Afghanistan has the following core objectives: (i) to ensure that the media are independent, pluralistic and accessible to Afghan women and men throughout the country thereby promoting an open and democratic society; (ii) to preserve and protect the cultural heritage of Afghanistan and hand it on to new generations to foster cultural creativity; and (iii) to promote accessible sports, with special emphasis on children, women and the disabled, as a unifying element in society.

[11] It is estimated that illicit trade in Afghanistan's cultural property is worth $32 million dollars per year, and that 70 per cent of the Kabul Museum's collection has been stolen.

The MCS PIP is guided by a number of fundamental principles that include freedom of expression and non-discrimination, the upholding of international standards for the preservation, protection and promotion of cultural heritage, and adherence to sporting principles followed by the International Olympic Committee.

Targets (as shown in Table 2.9 below) have been developed for each of the three sub-programmes corresponding to the core objectives of the MCS PIP.

Table 2.9 Targets for Culture, Media and Sport

Sub-Programme	Baseline Indicators	Targets
1. MEDIA: Democratic society based on an informed citizenry	▪ 10% population access public T.V. ▪ 35 operational broadcasters	▪ 100% population access public T.V by 2010 with satellite broadcasting established by 2015 ▪ 150 (public and private) broadcasters operational by 2015
2. CULTURE: Valorize and protect Afghanistan's cultural diversity	▪ Less than 10 public cultural institutions accessible to public ▪ 10 emergency interventions to protect cultural heritage	▪ Basic public cultural services operational in all provinces by 2015 ▪ Cultural heritage valorized, conservation and management plans devised and operational for all major monuments and sites, public access to major archaeological collections
3. SPORT: Foster social cohesion through sports	▪ No public sports facility in Afghanistan meets international standards ▪ National competitions in minority of registered sports with very low participation of women, girls and disabled people	▪ Public sports facilities available for women and men in all provinces ▪ Afghanistan hosts regional sports competition, women regularly participate in organized sports

Implementation and Reforms

The Ministry of Information and Culture (MoIC) is responsible for implementation of the MCS PIP. To provide overall coordination and to promote the alignment of international assistance with national priorities through the MCS Consultative Group, an Aid Coordination Unit has been established within the MoIC.

Key policy priorities for revitalization of culture, media and sport include: ensuring greater recognition of the crosscutting significance of the MCS PIP for national reconstruction; achieving an appropriate balance between the roles of the public sector, private sector, and civil society; and strengthening inter-ministerial cooperation, e.g. on the protection of cultural heritage against illicit traffic and development of educational TV programming.

Further reform and strengthening of administration are also required in order to improve the ability of the Ministry to develop policies and to design and manage programmes. Establishment of a competitive salary structure will be crucial to attracting and retaining trained staff. The focus on institution-building and conservation activities in Kabul will need to be shifted to provide increased emphasis on provincial development of media, culture and sport. Rehabilitating provincial departments of the MoIC and providing means of communication to the Ministry will be necessary. In the longer term, the ANOC will need to be separated from the General Directorate for Sports so that the sports sector is anchored in a Ministry.

Finally, there is a need to rethink and make effective the delivery of public cultural services throughout the country, for example, by redefining the role of public cultural institutions and creating an enabling environment for the development of private cultural initiatives. The Government is keen to move away from state control over many media in particular, and establishing a free press, properly regulated, will remain an important longer term objective.

Core reform and implementation targets, for 2006 and beyond include strengthening legal and policy frameworks to protect the constitutionally acquired freedom of expression and full implementation of the 1980 law on cultural heritage. In the area of sports, targets include the opening of equipped indoor and outdoor sports facilities in all major cities, and readiness by national teams to compete at Olympic, Paralympic and other international competitions. Further specification of targets and indicators is contained in the Technical Annex for Culture, Media, and Sport.

Required Financing and Investment Priorities

A total of US$ 400 million will be required for support to enhancing cultural expression, expanding access to media and sport (see Figure 2.6 below). Greater detail is provided in the Technical Annex.

Figure 2.6 Financing Requirement for Culture, Media ad Sports

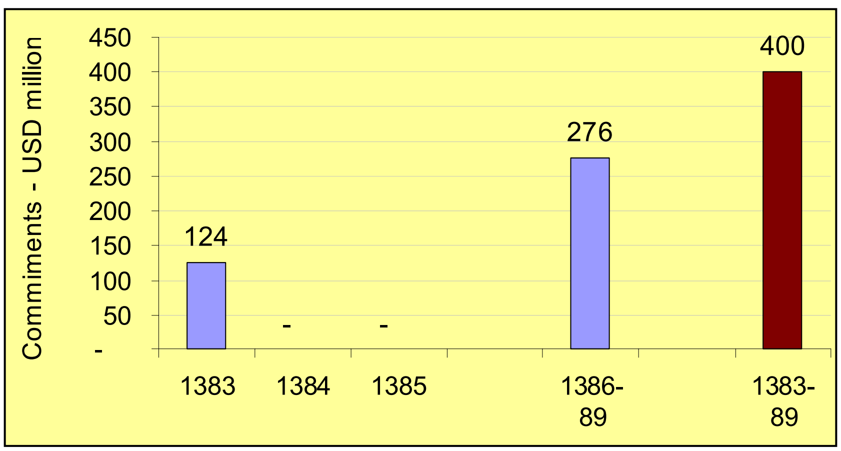


Table 2.10 Afghanistan MDG Targets

	MDG's	Current level (indicators)		Target 2015 (indicators)	
1	**Eradicate extreme poverty and hunger**	Poverty[a]: 53% Hunger[b]: 48%	Population below min level of dietary energy consumption: 70 %	Poverty: 23% Hunger: 24%	Population below min level of dietary energy consumption: 35 %
2	**Achieve Universal Primary Education**	Primary Net Enrollment Rate (total): 54% (female 40%, male 51%) Adult Literacy rate: 36 %		Primary (total): 100% Adult Literacy rate: 56 %	
3	**Promote Gender Equality and Empower Women**	Female primary net enrollment: 40% Girls enrollment share: 30% Ratios of girls to boys in primary education (1990): 0.52		Female primary net enrollment: 100% Girls Enrollment share: 50% Ratios of girls to boys in primary education: 1	
4	**Reduce Child Mortality**	Under-five mortality rate: 260 per 1000 Infant mortality rate: 165 per 1000		Under-five mortality rate: 130 per 1000 Infant mortality rate: 55 per 1000	
5	**Improve Maternal Health**	Maternal mortality ratio: 1600 per 100, 000		Maternal mortality ratio: 205 per 100,000	
6	**Combat HIV/AIDS** ***Malaria other diseases***	Measles: 718 cases per/year Polio: 10 cases/year Malaria: 16% of population at high risk, 3 million cases/year Tuberculosis: 321 cases per 100,000; 91 deaths per 100,000 (65 % of cases are women)		Measles: 0 cases per/year Polio: 0 per/year Malaria: 8% of population at high risk Tuberculosis: 48 cases per 100,000; 8 deaths per 100,000	
7	**Ensure Environmental Sustainability/ Access to safe drinking water and sanitation**	Population without access to safe drinking water: 87%		Population without access to safe drinking water: 20%	
8	**Develop a global partnership for development**	ODA (% of GDP): 48% GDP per capita ($): 170 Total GDP ($): 3.7 Billion		ODA (% of GDP): 20% GDP per capita ($): 450	

Sources: HDR 2003, UNDP, Various reports compiled by UNDP and UNCIEF, World Bank, 2003, Asian Development Bank on Afghanistan, 2003

[a] Incidence of poverty (percentage) based on national poverty line figures.
[b] Percentage of the hungry in total population

Table 2.11 Comparing MDG's: Afghanistan (2015) and Similar[12] Economies (2003)

	MDG's	Projected level of MDG indicators for Afghanistan in 2015	Current average level of MDG indicators for economies with GDP per capita levels similar to those of Afghanistan (2015)
1	Eradicate extreme poverty and hunger	Poverty[a]: 23% Hunger[b]: 24% Population below min level of dietary energy consumption: 32 %	Poverty: 21% Population below min level of dietary energy consumption: 30.3 %
2	Achieve Universal Primary Education	Primary enrollment (total): 100% Combined primary, secondary and tertiary: 51 % Adult Literacy rate: 56 %	Primary enrollment (total): 50.4% Combined primary, secondary and tertiary: 51 % Adult Literacy rate: 56 %
3	Promote Gender Equality and Empower Women	These figures are not "projections" but "targets" – the natural projection will be much lower. Female primary enrollment: 100% Girls Enrollment share: 50%	Female primary enrollment: 44.7 % Girls Enrollment share: 44.3 %
4	Reduce Child Mortality	Under-five mortality rate: 130 per 1000 Infant mortality rate: 55 per 1000	Under-five mortality rate: 90 per 1000 Infant mortality rate: 62 per 1000
5	Improve Maternal Health	Maternal mortality ratio: 400 per 100,000	Maternal mortality ratio: 510 per 100,000
6	Combat HIV/AIDS *Malaria other diseases*	One yr olds fully immunized against measles: > 80% Malaria: 8% of population at high risk Tuberculosis: 48 cases per 100,000; 8 deaths per 100,000	One yr olds fully immunized against measles: 66% Malaria: 7% of population at high risk Tuberculosis: 135 cases per 100,000; 35 deaths per 100,000
7	Ensure Environmental Sustainability/ Access to safe drinking water and sanitation	Population with access to safe drinking water: 100%	Population with access to safe drinking water: 80%
8	Develop a global partnership for development	ODA (% of GNP): 20% $ 2.86 Billion GDP per capita ($): 450	ODA (% of GNP): 8.8% GDP per capita ($): 463

Sources: HDR 2003, UNDP, Various reports compiled by UNDP and UNCIEF, World Bank, 2003, Asian Development Bank on Afghanistan, 2003

[12] Economies considered: Armenia, Haiti, India, Pakistan, Senegal and Vietnam based on similar GDP figures
[a] Incidence of Poverty (percentage) based on national poverty line figures. Dollar a day poverty line not available
[b] Percentage of the hungry in total population

3. DEVELOPING PHYSICAL INFRASTRUCTURE / NATURAL RESOURCES

INTRODUCTION

Development of Afghanistan's physical infrastructure[13] is essential for achieving sustained economic growth as outlined in chapter 1, and for political and social progress based on national integration:

i. Infrastructure directly contributes to economic growth since it comprises a significant proportion of GDP, and also because infrastructure services are essential inputs for other services, agriculture, and industry. Infrastructure is crucial for market integration, for attracting private investment, and for trade and other international economic ties;

ii. Infrastructure provides critical basic services to the people, contributing to their well-being, not just their economic productivity. The importance of, for example, electricity and clean water in people's daily lives cannot be overstated. A better urban environment makes all the difference to the life of a city;

iii. More broadly, infrastructure promotes national integration in a number of ways. Telecommunications, movements of goods, movements of people – all facilitate positive interactions between different parts of the country, and can support a development-oriented Government's efforts to reach out to the people;

iv. Finally, infrastructure provides a highly visible index of Government performance, whose functioning and efficiency are readily apparent to all.

More than two decades of conflict, lack of investment, and neglect of maintenance have taken a heavy toll on Afghanistan's infrastructure, which in most sectors was not very well developed in the first place. Available international data on selected infrastructure indicators is shown in Table 3.1 below. In critical areas of transport, power, communications, and water and sanitation, Afghanistan is one of the most poorly endowed countries in terms of infrastructure assets.

Table 3.1 Afghanistan and International Indicators – A Comparison

	GNP Per/Cap 2000	Total Kms Road Per sq km Area 2000	Percent of road paved	Motor Vehicles Per 1,000 people 2000	Electricity Consumption per capita kwh	Telephones per 1,000 people	Access to Water 2000	Access to Sanitation 2000
Armenia	520	0.531	96	5	957	152		
Azerbaijan	600	0.287	92	49	1750	104		
Bangladesh	370	1.441	9	1	89	4	97	53
Congo Republic	570	0.037	10	18	48	7	51	
Guinea	450	0.124	17	4		8	48	58
India	450	1.010	46	8	379	32	88	31
Indonesia	570	0.180	47	25	345	31	76	66
Nepal	240	0.090	31		47	12	81	27
Pakistan	440	0.320	43	8	321	22	88	61
Sri Lanka	850	1.465	95	34	255	41	83	83
Tajikistan	180	0.194	83		2163	36		
Turkmenistan	750	0.049	81		944	82	58	100
Uzbekistan	360	0.183	87		1650	67	85	100
Zimbabwe	460	0.047	48		894	18	85	68
Afghan (2003)	186	0.032	16	14	12.16	1.6	13	12

Source: World Bank, World Development Indicators 2002.

[13]Under the definition used in the National Development Framework, infrastructure includes transport, energy, mining, telecommunications, natural resource management (irrigation), and urban management.

The Government has focused on urgent infrastructure rehabilitation from the beginning of its tenure, and good progress has been made in several areas. The rehabilitation of existing major national highways is well underway, and large numbers of other roads have been repaired under the National Emergency Employment Programme (NEEP). Successful initial development of telecommunications has been achieved mainly with significant private investment. Air transport has resumed and expanded despite constraints. In other sectors rehabilitation of key facilities has occurred or is underway. However, in general, progress in rehabilitation of infrastructure has fallen short of the public's high expectations. Most of the large new investments that are required to support the Afghan economy and society in the future, including irrigation, power, additional roads, and civil aviation infrastructure have not yet begun.

KEY ISSUES

In addition and related to grossly inadequate levels and quality of service, there are serious institutional and policy issues which retard infrastructure development. Although these vary across sectors, the following key problems are typical.

Increasing but Still Limited Capacity: As in the rest of Afghanistan's public administration, capacity for overseeing and regulating infrastructure is increasing. However, in the context of the lack of human capital investment over the last 23 years, capacity is still limited and needs to be further expanded. The entities responsible for operations also face shortages of qualified staff. Short- and longer-term actions to rectify this situation need to be expanded.

Regulation: Regulation of infrastructure activities – whether in the private or public sector – is almost non-existent. Where it does exist, much of it is a legacy from the period of Soviet occupation, so it has a command economy approach. While it should not be heavy-handed or a vehicle for corruption, effective regulation – separate from the entities concerned – is required in order to ensure that infrastructure is efficiently provided with adequate quality of service.

Public Enterprises: Afghanistan faces a legacy of numerous public enterprises responsible for various infrastructure operations, created during the period of the Soviet occupation or in some cases earlier. Most of them are defunct or providing a very low level of service.

Weak Finances and Lack of Commercial Orientation: A further Soviet legacy is that infrastructure services have been provided by the public sector without consideration of costs, with no commercial orientation, and with weak business and financial management. The Afghan people have demonstrated willingness to pay for services if they are effectively delivered, but the concept of cost recovery is not a familiar one in Government departments and in public enterprises. Without major changes, the operational costs of the proposed investments in infrastructure will become fiscally unmanageable.

Need to Mobilize and Expand the Afghan Private Sector: The response of the international private sector to infrastructure tenders in Afghanistan has often fallen short of needs – in terms of the number of bidders, their quality and ability to work in Afghanistan, speed of response, pricing, etc. These problems, to a large extent related to logistical, security, and other concerns, need to be addressed. Space for and accelerated development of the Afghan private sector and greater reliance on regional companies (which already play a significant role, in some cases as subcontractors) are options for moving forward.

Short-term versus Longer-term Orientation: Initial support for infrastructure focused on urgent rehabilitation activities, expected to bring quick, visible results. These efforts delivered important results, but they also diverted attention from making an early start toward sizable new investments through project design work and feasibility studies. There is still only a small number of well-prepared, "bankable" projects to present to donors for funding of major longer-term investments in infrastructure. Arrangements have been put in place specifically to address this problem, including the creation of a Design and Feasibility Studies Unit, and this has led to an increase in the number of designed projects.

The ad hoc approach taken by many development partners acting bilaterally and the short-term "emergency" orientation of infrastructure rehabilitation projects sometimes meant that investments did not always yield the expected results because of poor coordination or bottlenecks elsewhere – such as failure to procure fuel in a timely fashion for completed power facilities or refurbishing Government buildings without connections or funding for utilities. The lesson from this experience is two-fold: design work and feasibility studies for significant infrastructure investments cannot be neglected even if the initial focus is on urgent rehabilitation work; and the focus must be on the actual delivery of service so projects must incorporate all of the inputs that are required for the resulting infrastructure assets to be effectively utilized.

Security: Problems and uncertainties with security in some parts of the country have impeded and delayed infrastructure projects and raised costs. There are close linkages between security and infrastructure – poor security can render it more difficult to construct, repair, and utilize infrastructure, ranging from roads to irrigation systems. On the other hand, well-functioning infrastructure will facilitate improved security.

GOVERNMENT VISION AND STRATEGY

The Government's strategic vision for infrastructure development reflects its: recognition of the critical importance of investments in infrastructure, demonstrated by its designation as one of the three main Pillars of the NDF; commitment to a private sector-based market economy, in infrastructure and in other sectors; strong emphasis on transparency and competition both in infrastructure investments and in operation and utilization of infrastructure assets, with appropriate regulation; and commitment to sound financial management and efficient, commercially oriented functioning of infrastructure entities so as to best meet the needs of the people.

The Government's vision is of efficient, well-functioning infrastructure networks supporting the economy, contributing in a major way to people's well-being, facilitating improved security, and promoting political and social development, in particular through interconnections and integration. In this context, equity considerations in terms of access to infrastructure – for different regions of the country, for women, and in particular to reach out to largely excluded groups, are important.

The national strategy for development in each infrastructure sector varies in detail, reflecting the specific circumstances of the sector concerned. For example, the public sector role in investments in and operation of irrigation facilities and roads will be much greater than in other sectors like telecommunications. Nevertheless, sector approaches are informed by the Government's overall vision of infrastructure development. Implementation strategies also vary somewhat across infrastructure sectors, but key common elements include the following (also discussed in chapter 7):

i. Establishing a Programme Management Unit (PMU) in each ministry responsible for infrastructure, building on existing departments where appropriate;[14]

ii. Relying in part on central capacity for project preparation and implementation support;

iii. Improving contract management on a sustainable basis;

iv. Making greater use of regional capacity; and

v. Developing the Afghan contracting and consulting industries.

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[14] This approach would make use of the Priority Restructuring and Reform (PRR) facility discussed in more detail in chapter 4.

In addition to adequate funding for infrastructure, the institutional reforms that have been begun need to be continued. Ongoing work to clarify the areas of portfolio overlap and the mandates of different ministries must continue. Further work on corporatisation and commercialization and opening up a wider vista for private sector participation also is needed.

Outcome/service delivery indicators and targets have been developed for each sector to serve as a basis for costing required investments. These are consolidated and summarized in Table 3.2. The rest of this chapter outlines the situation, issues and problems, Government vision and strategy, approach to implementation, and cost estimates in each of the main infrastructure sectors, based on the relevant Technical Annexes.

Table 3.2 Infrastructure Targets

Sector	2003	2010	2015
Transport			
Road Infrastructure			
Paved roads (%)	16.0%	32.0%	48.1%
Paved roads (km per 1,000 people)	0.15	0.19	0.23
Civil Aviation and Tourism			
No. of airports ICAO standard	0	20	30
No. of international airports ICAO standard	0	4	5
No. of tourist sites opened	0	20	30
Road Transport and Traffic			
Motor vehicles per 1,000 people	13.71	26.71	40.00
No. of buses per 1,000 urban population	0.06	0.15	0.30
Railways			
Construction of dispatching and receiving stations (No.)	0	5	5
Natural Resource Management			
Institutional Strengthening and Capacity Building			
No. of river basin management agencies in place	0	5	5
Irrigation rehabilitation/improvement by year (ha)	negligible	1,000,000	2,200,000
National Long Term Irrigation & Power			
Increased power generation (MW)	0	0	180
National capacity for environmental management (scale of 0 to 1)	0	0.5	1
Wheat yield-irrigated (ton/ha)	2.85	3	3.5
Wheat yield-rainfed (ton/ha)	0.8	0.9	1.1
Area of orchards (ha)	80,000	100,500	137,700
Enhanced Performance Livestock Programme		8%	14%
Energy, Mining and Telecommunication			
Countrywide Electricity access ratio to national grid	6%	24%	33%[15]
Urban Access ratio	27%	77%	89%
Gas			
Countrywide gas access ratio	8%	23%	42%
Annual mining production value ($ million)	85	223	
Teledensity (phones/1,000 people)	1.6	49	120
Urban Management			
Population with basic services (%)	10%	100%	100%
Paved coverage of urban roads (%)		59%	100%
Informal plots with tenure-Kabul (%)		100%	100%
Informal plots with tenure-other (%)		100%	100%
Kabul water supply coverage (%)	20%	64%	80%
Kabul sanitation coverage (%)	20%	64%	80%

[15] The target of 33% encompasses access to electricity through the national grid only, it does not include access to rural electrification.

INVESTMENT REQUIREMENTS AND FINANCING

Total capital expenditure requirements for infrastructure (shown in Table 3.3) are estimated at nearly US $13.9 billion during 2004-2010. Investment requirements are back-loaded, reflecting the typical gestation periods for sizable infrastructure projects, with a total of US $5.4 billion needed over the next three years (2004-2006) and another $8.0 billion in the following four years (2007–2010). The estimated resource requirement does not include funds already committed by donors except in the case of power, which includes US $375 million already committed. Forty-six per cent of the total seven year resource requirement is for the transport sector; 27 per cent for energy, mining, and telecommunications; 14 per cent for natural resource management; and 14 per cent for urban management (Table 3.3):

i. Over the next seven years the required funding commitments for *transport* total US $6.1 billion for roads infrastructure, civil aviation and tourism, road transport, and railways.

ii. *Energy, mining, and telecommunications* will require US $3.6 billion in public investment commitment during the period 1383-1389; US $2.7 billion or 76 per cent, will go to power generation, transmission, and distribution, 11 per cent for oil and gas, 3 per cent for mining, and 10 per cent for telecommunications.

iii. *Natural resource management* will require US $1.8 billion, of which US $1 billion (43 per cent) is for long-term development of irrigation and power.

iv. *Urban management* will require US $1.8 billion, 66 per cent for urban development and 34 per cent for urban Water Supply and Sanitation (WSS).

In addition, depending on the rate of cost recovery, recurrent expenditures in the order of US$ 1 to 1.5 billion are required to operate and maintain this investment over the next seven years (see Chapter 8).

Table 3.3 Required External Funding Assistance ($ 000,000)

Sub-Sector	1383-85	1386-89	1383-89
Transport	2,445.	3,690	6,136
Energy, Mining and Telecom	1,287	2318	3,606
Natural Resources	687	1,161	1,849
Urban Services	1,025	814	1,839
TOTAL	**5,445**	**7,984**	**13,429**

Note: The required external funding assistance includes both capital and development expenditure, and operations and maintenance expenditure over the period.

These sizable investment requirements demand sound, commercially-oriented management of the infrastructure assets thereby created, with sustainable finances. This is an integral part of the Government's strategy for infrastructure development. Otherwise the assets will not function properly and/or will have a short usable life. The Government has already revised both gas and power prices upward as an initial step, and metering and collection systems are being improved. Tariffs for urban water supply also have been increased. In the case of the ***road network*** the Government is ready to institute self-financing for road maintenance and is considering imposing tolls, in particular on roads that have recently been upgraded, and collecting a surcharge on fuel. ***Electricity*** customers in most parts of the country are prepared to accept relatively high tariffs when power is actually provided, so enhanced cost recovery can go hand-in-hand with improved coverage and service delivery. ***Telecommunications*** services in Afghanistan are being and will continue to be priced at levels that allow for full cost recovery and provide resources for further investment (based on competitive market rates). In ***national resource management,*** the Government is committed to avoiding price supports and input subsidies. Water users are to bear the cost of

Operations and Maintenance (O&M). In the case of ***urban management,*** property tax rates are extremely low (a maximum of US $4 per year in Kabul), so there is ample scope for enhancing municipal revenue generation to help cover the cost of general urban services. The Government is committed to enhance cost recovery for the O&M costs of urban WSS, but reaching full cost recovery will take time, and access to safe water supplies for the poorest will require special attention.

TRANSPORT – A KEY TO DEVELOPMENT

Present situation: As a landlocked country Afghanistan relies heavily on road and air transport, which will be critical for achieving robust economic growth and national integration. The very poor state of roads and airports at present, however, substantially increases the costs of moving both people and goods. The country's airports and civil aviation infrastructure are in urgent need of rehabilitation. Railways have never previously been a factor in Afghanistan, but they will need to play a role in facilitating transit trade and could be important in the future for bulk shipments from neighboring countries and to support the economic exploitation of ore and coal deposits. Skilled manpower in all areas of transport was seriously depleted during the years of conflict.

The task is formidable: only about 16 per cent of the country's 21,000-km national road network is paved (Table 3.1). In particular, it is essential that the primary road network be rehabilitated on an urgent basis to keep up with increasing traffic volume, improve movement of goods and people, foster domestic trade and commerce, and promote trade links with neighboring countries. Upgrading of rail links will also promote trade. With the private sector taking the lead in road transport, the Government should focus on providing the enabling and regulatory environment. The three Ministries concerned, Ministry of Public Works (MPW), Ministry of Civil Aviation and Tourism (MCAT), and Ministry of Transport (MOT), need to be strengthened to meet future challenges. The Government has already taken several initiatives with international support to rehabilitate major sections of national highways (e.g. Kabul-Kandahar, Kandahar-Spin Boldak, and Kabul-Doshi including the Salang tunnel) and key airports (e.g. Kabul International Airport).

Key issues in the transport sector include the poor state of roads and civil aviation infrastructure, and constraints on cross-border trade – a large bureaucracy, corruption, and lack of trade facilitation services such as customs and warehouse facilities and standardized bulk transport carriers. As with other taxes and levies, toll collection on national and provincial highways needs to be regularized and audited. The current state of road transport and traffic highlights the need to quickly resolve key issues like the role of the Government in providing transport services, regulating private providers, and defining the structure of Government institutions dealing with the sector.

Government vision and targets: The Government's objective is to dramatically reduce travel times to promote national and regional/sub regional integration, development, and security by restoring, expanding, and improving roads and highways, civil aviation, and transport services. The targets of the road transport investment programme put forward include raising the share of total paved road from the present 16 per cent to 32 per cent by 2010 and 48 per cent by 2015, or from the present 0.15 km of paved road per 1,000 people to 0.23 km by 2010 and 0.46 km by 2015 (Table 3.2). In the case of the major corridors, the outcome objective is to reduce travel times as shown in Table 3.4 below. In civil aviation, it is expected that the number of airports meeting International Civil Aviation Organization (ICAO) standards will rise from the present none to 20 in 2010, including four international airports, and 30 in 2015, including five international airports. With the security situation improving, it is hoped that 20 tourist sites will be opened up by 2010 and 30 by 2015. In the transport sector during the same period, the number of motor vehicles per 1,000 people is projected to increase from 14 in 2003 to 27 in 2010 and 40 in 2015.

Table 3.4 Distances and Travel Time on Selected Road Corridors

Corridor	Distance (kilometres)	Present travel time (hours)	Travel time after improvements (hours)
Regional Corridors			
Dushanbe-Kabul-Karachi	2035	65	29
Tashkent-Kabul-Karachi	2720	72	36
Ashgabat-Kabul-Karachi	2805	88	39
Dushanbe-Herat-Bandar Abbas	2818	74	40
Tashkent-Herat-Bandar Abbas	3175	58	44
Ashgabat-Herat-Bandar Abbas	2342	49	34
National corridors			
Sher Kahn Bandar-Pule Khomri	138	5.5	2.0
Pule Khomri-Kabul	228	9.3	3.3
Kabul-Kandahar	510	20.5	7.5
Kandahar-Spin Boldak	101	2.5	1.5
Hairatan-Naibabad-Pule Khomri	221	9.0	3.0
Andkhoy-Pule Khomri	389	15.5	5.5
Andkhoy-Herat	542	18	7.75
Herat-Delaram	348	8.5	5.0
Delaram-Zaranz	213	6.5	3.5
Torghandi-Herat	116	3.0	2.0

Source: ADB staff estimates.

Investment priorities: Priority sub programmes in the transport sector include roads and highways, civil aviation and tourism, road transport and traffic, and railways. Key investment priorities for roads and highways include construction of 2,323 km of "Super Corridors," – constituting a ring road connecting major cities and expansions to link the ring road to neighboring countries. This initiative is critical for fostering regional trade with Iran, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. The programme will also include the National Highway network (2,175 km) extending Super Corridors to provincial capitals. In addition, 4,484 km of provincial roads will be widened, paved, and given appropriate shoulders for safety and convenience, to link district headquarters to one another and to provincial capitals. Envisaged investments in the road network are illustrated in Map 3.1. Finally, the Ministry of Rural Rehabilitation and Development's (MRRD) ongoing Rural Roads reconstruction programme will be continued to cover 1,500 km, bringing hinterlands into commercial contact with markets and their district and provincial Administrations.

The civil aviation sector will be crucial to support high-value export industries. It will be improved to meet international standards and carry a substantially increased volume of people and goods. Key priorities include: upgrading Kabul Airport to a full-fledged international airport; upgrading Herat, Mazar-I-Sharif, and Jalalabad airports to international standards; upgrading 15 domestic airports; and establishing an air traffic management system that meets international standards. A major push to revive and enhance tourism in the country would involve systematic development of at least 20 national tourist sites.

Solving the issues of traffic management and road congestion, and encouraging environmentally friendly modes of transportation, will require a focus on the existing public transport system and an examination of other mass-transit solutions. Options include the construction of improved passenger terminal facilities to encourage greater use of buses for intercity travel and rehabilitating technical and maintenance workshops to effectively manage the existing fleet of buses. Over time, as economic growth continues, with associated growth in congestion and pollution in Kabul, consideration will need to be given to more environmentally-friendly mass transit solutions, such as electric trolley buses. Sector priorities also include improvement of vehicle fleet regulation.

In the railways sector, the Government envisages constructing rail links between the borders with Iran, Pakistan, Turkmenistan and Uzbekistan and the national ring road. Initially work will begin with the construction of dispatch and receiving stations at railway border terminals at Islam Qala, Torghandi, Hairatan, Spin Boldak, and Torkham to handle bulk shipments from and through neighboring countries. This will be followed by the construction of rail links – the feasibility study for the link between Chaman and Kandahar has already been completed. This link is critical to ensure greater predictability in the delivery of reconstruction materials and to support the effective management of transit trade. As a medium to longer term priority, consideration must be given to the development of a more comprehensive rail network, through public-private partnerships. Expanding and upgrading the road network will provide a solid basis for strong growth, including export growth. However, it is only with the development of a rail network that the exploitation of bulk natural resources including iron ore and copper deposits would become feasible.

As growth continues, the focus on roads as the sole mode of land transport could constrain development. The option for a rail link becomes more attractive when placed in the context of the existing rail infrastructure in the Central Asian Republics. The likely route would be from Chaman through Kandahar and then northwest to link both with Torghandi (on the border with Turkmenistan) and through Herat with Islam Qala (on the border with Iran), with extensions to Kabul, and, across the north, to Hairatan (on the border with Uzbekistan) possible over the longer term. This extended rail option has not yet been included in the transport investment programme, primarily because its economic feasibility cannot be assured until there is more certainty around the magnitude of the ore and mineral deposits in Afghanistan.

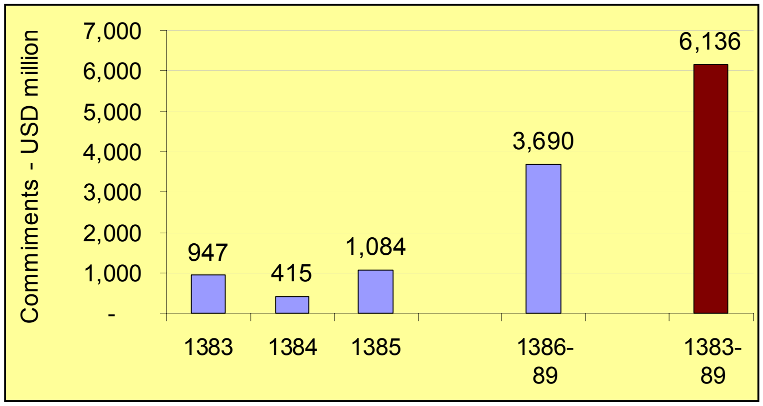
Implementation and reforms: In line with the overall approach to implementation outlined earlier in this chapter, the Government plans to establish a Programme Management Unit (PMU) in the Ministry of Public Works (MPW), employing domestic and international experts and staff (including Afghan expatriates), to manage the entire programme of road and bridge construction – from feasibility studies to design, procurement, contract administration, and supervision. Furthermore, a strong regulatory framework will be put in place to ensure provision of efficient services, irrespective of whether these are provided by the private or public sector. Financing arrangements and cost recovery will have to be addressed. In the short term, some of this capacity would be contracted in, while a serious "Afghanization" development and administration programme is put in place.

Such reforms would leave MPW with the primary task of setting policies, planning the country-wide road network, setting standards (including technical, safety, social and environmental safeguards) and regulations and enforcing them, and managing the Super Corridors and National Highways (for which works would be contracted out). MPW provincial staff will manage the implementation of the roads programme at the provincial level, using a model similar to that for the Super Corridors and National Highways. Rural roads will continue to be the responsibility of MRRD.

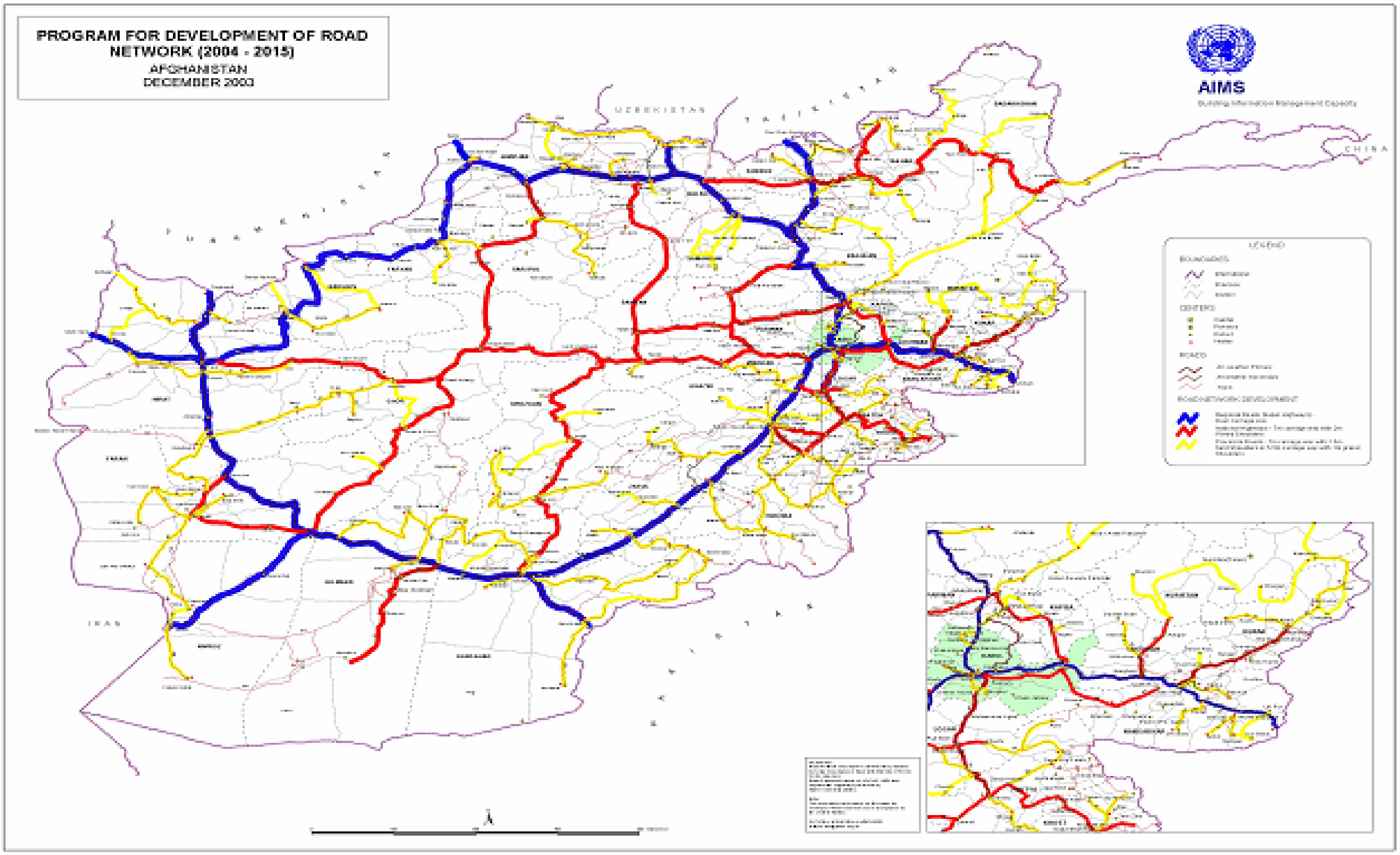
In civil air transport, MCAT will focus on (i) policy and strategy formulation, (ii) planning and budgeting, and (iii) database creation and maintenance. Specialized airport companies will manage airports. Ariana, the Afghan national airline, will be run without Government involvement in commercial or operational matters.

Total investment costs for transport sector development are US$ 6.13 billion as shown in Figure 3.1 below.

Figure 3.1 Investment Costs for Transport Sector Development



Map 1 Proposed Road Network Development in Afghanistan



ENERGY – CRITICAL FOR ECONOMIC GROWTH

Present situation: Afghanistan is well endowed with natural gas, coal, and hydropower; some estimates put hydropower potential at 25,000 Mega Watts (MW). This resource base has not been extensively developed for the production of electricity or other forms of energy. This must be rectified, since energy is an essential input for economic activities and a crucial ingredient in overall economic growth.

Afghanistan's power sector needs to be developed to support the country's development. Only about 6 per cent of the population has access to power, and electricity consumption per capita at 12 kwh/year is among the lowest in the world (Table 3.1); only 234,000 customers are connected to the public grid, approximately 30 per cent of whom are in Kabul. The other provinces have even less access, and rural areas are virtually un-served. The existing power network is dilapidated, and the Da Afghanistan Brishna Moassesa (DABM), the power utility responsible for generation, transmission, and distribution of electricity, is in urgent need of strengthening. A number of ongoing projects supported by external funding are intended increase power production and improve transmission and distribution.

Afghanistan depends on imports for most of its petroleum product requirements, which account for about half of total commercial energy consumption. Imported petroleum products are often of poor quality due to inadequate regulation and control. Much of the petroleum product storage, transportation, and distribution infrastructure has been destroyed or damaged.

Afghanistan's most important potential energy source in addition to hydropower is natural gas. Reserves are estimated at about 120 billion cubic meters (m^3), sufficient to support significant gas-fired electric power production. However, present gas utilization is only about 0.6 million m^3 per day because production and transportation facilities are lacking. Limited expertise further hampers rehabilitation of existing producing fields and pipelines, while leakages cause significant revenue losses and create safety hazards.

Key issues: Several factors combine to make the development agenda for the power sector a formidable challenge, among them: the poor state of the physical infrastructure and the utility's operations, leading to poor quality of service; the sector's dependence on donor financing for both recurrent and development costs; poor governance and lack of commercial orientation; and cross-cutting issues with the Ministry of Mines and Industry (MMI) over coal and gas reserves to develop power plants using indigenous fuels, and with the Ministry of Irrigation, Water Resources and Environment (MIWRE) on developing multi-purpose dam projects.

Promoting private sector investment and cost recovery are two critical issues confronting the energy sector. Other issues include reducing subsidies to gas and power utilities and gradually separating the Government's policymaking and regulatory functions from operations. Institutional capacity has to be created for negotiating and monitoring investments in oil and gas exploration and development, establishing appropriate codes and standards for the oil and gas industry, and preparing monitoring and enforcement procedures.

Government vision and targets: The Government's vision for the energy sector includes much greater development of energy resources on a sustainable, environment-friendly basis, efficient provision of energy in its most convenient forms to a growing percentage of the population, and reducing energy bottlenecks for the rest of the economy.

A key economic and social objective in the power sector is to increase the number of new connections: the electricity access ratio is to increase countrywide from 6 per cent in 2003 to 24 per cent in 2010 and 33 per cent[16] in 2015, and the urban gas access ratio from 8 per cent to 23 per cent to 42 per cent over the same periods. By 2015, the urban electricity access ratio is expected to be almost 90 per cent (Table 3.2). The Government has assigned high priority to developing oil and gas as significant sources of the country's energy, in particular increasing gas production and developing gas transmission and distribution infrastructure, so that a higher proportion of the country's energy requirements can be met by natural gas and its dependence on imported oil reduced.

Investment priorities: The power sub programme requires an estimated US $2.8 billion during the 2004-2010 period for investments in generation, transmission, and distribution as well as for capacity building to meet the sector objectives targeted for 2015. Approximately 50 per cent of this amount would be needed for new power generating capacities. Over the 2004-2006 period, an estimated US $700 million would be required, distributed almost evenly between generation, transmission, and distribution.

New generating capacity includes investments such as rehabilitation of existing hydroelectric plants, completion of gas turbines in Kabul, construction of new hydro plants (Baghdara, Kajakai 2, and possibly Sarobi 2), construction of new combined cycle capacity in Sheberghan based on natural gas, import of electric power from Uzbekistan to supplement shortfalls in domestic generation capacity, and installation of small diesel generators in various underserved localities. Critical investments are needed in transmission – in the northern provinces to enable import of additional power to Kabul and neighboring provinces, and in the western provinces to enable import of power from Iran to meet future demand in Herat. An intensive investment programme in distribution is critical to meet the connection goals of about 150,000 new connections in 2005 and 2006 and some 100,000 new connections each year thereafter.

In the oil and gas sector, initial public investments required are in technical assistance. Other public investments during 2004–2010 include rehabilitation of gas production and transmission and oil storage tanks. Specific physical investments include: rehabilitation of the gas processing and fertilizer plant in Sheberghan; construction of a gas pipeline from Sheberghan to Kabul (if supported by the ongoing feasibility study); drilling of new production wells and work-over of some of the older wells; and investment in monitoring and regulation of activities in the oil and gas sector.

Implementation and reforms: A key element of the energy implementation strategy is to adopt a "programme management approach" within the ministry responsible for power, which would involve the following elements: (i) strong leadership by the ministry, which would take responsibility for the design and implementation of the investment programme; (ii) setting up a Programme Management Unit within the ministry, staffed with national and international consultants; and (iii) giving special attention to distribution through an intensive and carefully prepared implementation plan for Kabul and other urban centers, involving "dedicated" implementation teams with prior experience working in densely populated urban environments.

The Government plans to open up the hydrocarbon sector to private participation, specifically oil and gas exploration, petroleum import and marketing, and the energy mining sector. Fiscal and tax policy must balance the need to attract private sector investment to hydrocarbon exploration and development with ensuring that the benefits of these resources are shared by all Afghans. It is also recognized that there is a need to establish separate policy and regulatory functions in the Government; to undertake sector restructuring; and to improve operation, maintenance, and safety standards. It will, however, take time to formulate new policy frameworks, modify existing legislation and regulations, achieve financial sustainability, and reorganize the sectors. The Government, therefore, will pursue a parallel approach of using existing Government structures to implement capacity building and reconstruction work, while exploring options and creating

[16] This total reflects access to electricity from the national grid only, not access to rural electrification. It is anticipated that access to rural electrification by 2015 will be between 10-15%.

consensus for implementing policy and structural changes appropriate for each sub-sector.

Consistent with international best practice, the policy and regulatory functions of the Ministry of Mines and Industries need to be separated from its operations. The responsibilities for oil and gas and mining will also need to be separated into two distinct departments. Afghan Gas (the gas utility) is under consideration for commercialization. An appropriate legal and regulatory framework will be developed for promotion of private sector investment and efficient development of resources in an environmentally acceptable and safe manner. It is planned to establish a technical unit within the ministry that would implement, monitor, and regulate Government policies for the oil and gas sector and that would also be the custodian for the management of exploration and production resource data for the country. The unit should be the primary point of interface between the State and the private sector and also would provide technical support and advice to the Government's policymaking body in the petroleum sector. Measures will be taken to rehabilitate and equip the Afghanistan Geological Survey so that it can provide technical support.

The main energy utility, DABM, is to evolve into an autonomous enterprise providing reliable and affordable electric power service to all Afghan citizens in an environmentally responsible manner. A key first step would be its corporatization to enable it to operate more as a commercially and financially viable enterprise; technical assistance and capacity building efforts will focus on this transition.

MINING – HIGH GROWTH POTENTIAL BUT IN NEED OF APPROPRIATE REGULATION

Current situation: Afghanistan has substantial reserves of solid minerals, among them coal, quarry materials, marble and dimension stone, industrial minerals, some metals, and semiprecious stones, as well as others. Production, however, historically has amounted to only about 1 per cent of GDP, and suffered greatly during the conflict years. The sector is largely outside the Government's direct knowledge or control, with most production unregulated and risking environmental damage. Growth in solid minerals production over the next five years would contribute significantly to overall growth of the Afghan economy, and would mainly come from regularizing the production of existing quarry materials and gemstones and rehabilitating coal mines.

Key issues: Afghanistan has a legacy of poorly developed mining laws, regulations, and taxation and fiscal measures for the mining sector from the period of Soviet occupation. The public institutions to supervise these activities need considerable strengthening. Development is also constrained by the small size of the sector and the absence of significant private investment in exploration and development. The lack of access infrastructure, the existence of unexploded ordnance often located in and around producing and prospective areas, and the insecurity around some mineral resource sites are key issues. Shortage of skilled labor will require contracting in foreign experts. Investor perception of the difficulties of doing business in Afghanistan constrains funding from international markets for exploration and development.

Government vision and targets: Based on international experience (see Table 3.4) and initial analysis of Afghanistan's resources, the mining sector has the potential to make a much greater contribution to the Afghan economy in the future. The annual gross value of solid minerals production could increase from US $70 million to US $225 million in the next five years. This will be achieved by putting emphasis first on regularizing existing production of quarry materials and gemstones and rehabilitating some coalmines. New private sector investment could be made in a new salt mine, exploration, small-scale production, and a medium-sized copper mine. Further into the future may come the development of very large iron ore deposits, as well as one or two gold mines and other industrial minerals.

Table 3.4 Mining Sector Reform Before And After						
Country	**Exploration Value US $ Million**		**Production Value US $ Million**		**Exports Value US $ Million**	
	Before	After	Before	After	Before	After
Argentina	<3	150	340	1,310	70	700
Chile	15	250	2,400	7,500	2,300	6,900
Peru	10	200	2,000	3,900	1,900	3,600[17]
Tanzania	<1	35	53	350	53	350
Ghana	<1	N.A.	125	700	125	650
Mali	<1	30	<1	242	<1	230

Source: World Bank staff estimates

Investment priorities: Investments would be geared toward regularising existing production of quarry materials and gemstones, as well as rehabilitating some coalmines. Substantial public sector investments are anticipated in coal and copper production and exploration. Minor investments could take place in quarries, salt, gemstones, and manual production.

Implementation and reforms: Policy and strategy are expected to emphasise the primacy of the private sector and the role of the State as regulator. It will be important to provide security of tenure and introduce a licensing system for minerals exploration, development, and exploitation. A cadastral office is expected to be established to provide for the issuance and registration of mining titles. At the same time, Government oversight departments will be strengthened and reorganized. To attract mining investments, a fiscal package will be put in place. Special programmes will be established for small-scale mining and quarry materials, and the geological database will be modernized. While pursuing mining development, a major emphasis will be placed on environmental protection measures and safety. Figure 3.1 below shows the financing requirements for Energy and Mining combined.

TELECOMMUNICATIONS – RAPID PRIVATE SECTOR-BASED DEVELOPMENT

Present situation: Afghanistan's telecommunications sector is rapidly developing – and contributing to economic growth and vibrancy – after more than two decades of debilitating conflict. Telecommunications were in a dilapidated state at the end of recent hostilities, when the tele-density (telephones per 1,000 people) of 1.6 was one of the lowest in the world (Table 3.1). Over the past two years the Government, supported by donors, has played a significant investment role in extending the quality and reach of telecommunications services, improving international connectivity and fixed services in major cities, and strengthening Government communications. Toward the end of 2003/1382, full mobile services were rapidly taking off, passing 135,000 subscribers in December 2003. Confidence in the sector has resulted in private investments in excess of $80 million. The Ministry of Communications (MOC) is rolling out wireless local loop services in major towns and cities, while also undertaking a rapid and ambitious reform agenda to ensure that private, competitive services are the driving force behind future sector growth. Capacity development within MoC has already been initiated through training and technical assistance, but needs to be sustained.

Key issues: Building the current successful start into sustained longer-term growth of telecommunications on an efficient basis is the main challenge. The telecommunications sector needs to maintain an open and technologically neutral environment, further develop an open and transparent system of licensing, and further emphasise private ownership and operation.

Government vision and targets: The over riding objectives of the Government's national

[17] Peru figure includes value of Antamina which will begin production in 2001 at about $ 650 million value.

communications policy are to achieve modernization and rapid expansion of telecommunications networks and services, and to aim for universal access across Afghanistan. The Government also sees information and communication technologies as a sector that can create opportunities for disadvantaged groups (including, among others, women and the disabled), and would invest on an ongoing basis in developing these opportunities. Overall, the country's tele-density is projected to increase from 1.6 in 2003 to 49 in 2010 and 120 in 2015 (as shown in Table 3.5 below).

Table 3.5 Predicted Teledensity

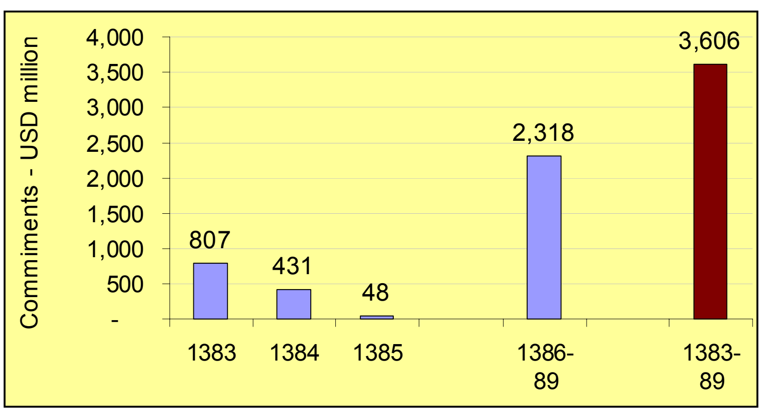
Date	**Predicted Teledensity (per 1,000 population)**
1985	8.6
2000	38.9
2015 (linear forecast)	69.1
2015 (exponential forecast)	175.5

Investment priorities: Government priorities in the telecommunications sector will be to provide backbone services, fixed mobile services in major urban areas, and services at the district level. The bulk of investment in the sector, however, is expected to be private investment.

Implementation and reforms: The private sector will continue to play the key implementation role in the mobile phone service sector and is expected to play a growing role in other aspects of telecommunications as well. The Ministry of Communications will re-orient itself mostly as a policy-making body. In this regard, MOC's telecommunications operational arm, Afghan Tel, will soon be corporatized, and the postal arm will follow. A regulatory body has already been established and will be strengthened over the course of the next few years.

Total investment requirements for Mining, Energy and Telecommunications equal US$ 3.6 billion as shown in Figure 3.2 below.

Figure 3.2 Financing Requirements for Energy, Mining and Telecommunications



NATURAL RESOURCES – A CRITICAL SECTOR FOR AFGHANISTAN

Current situation: Agriculture is the mainstay of Afghanistan's economy and will remain so in the future. More than 80 per cent of Afghanistan's population is dependent on agriculture, but only 12 per cent of the country's total land area of 65 million hectares (ha) is arable.[18] In 1999 about 30 per

[18] It is possible to distinguish between seven broad systems of cultivation, as follows: (i) mixed irrigated and rainfed cropping, relatively large livestock component; (ii) intermediate altitude intensive cropping system; (iii) intermediate-low altitude high productivity, double cropping system; (iv) high altitude cold area intensive food cropping system; (v) low intensity subsistence cropping and livestock systems; (vi) large-area mechanized food grains and industrial crop production; and (vii) intensive commercial horticulture and cereal cropping. See Sloane (2001, p.6)

cent of total arable and permanent cropland was irrigated, mostly for wheat and horticulture. Existing irrigation systems are operating at efficiency rates of about 25 per cent, so considerable scope exists for reducing wastage of water and increasing irrigated area. Productivity levels for both rain-fed and irrigated farming have been low compared to regional averages, indicating considerable potential for improvement. In the late 1970s, the horticultural sector was contributing over 40 per cent of total export earnings, but protracted civil war combined with a four year drought has reduced the area under horticultural cultivation. Livestock, an integral component in most farming systems and a source of cash income, has suffered from the severe drought and lack of support services. Pastureland is a principal source of conflict, as competition over this valuable resource leads to clashes among settled and nomadic land users. Due to poor management and drought, rangelands have suffered severe overgrazing. Forests have suffered extensive damage during the last 20 years. Extensive harvesting of old growth cedar forest for export and the depletion of pistachio forests for firewood are matters of serious concern. At the current rate of deforestation, no forest will be left in 25 years.

Key issues: The main constraints to crop production include: limited utilization of Afghanistan's water resources and unsustainable water resource management and use practices; lack of access to rural credit for provision of improved farm inputs; lack of access to improved technologies for rain-fed crops; limited private sector involvement in input and service delivery; and lack of land security and tenure. Widespread animal diseases and limited access to animal health preventive services and vaccine programmes constrain improvements in livestock productivity. Lack of effective quality assurance and certification systems limit the scope for cash generating export oriented production. Over the longer term, productivity improvements will need to be supported by improved animal health services, better flock management, improved breeding and feeding, processing, and marketing.

Additional consideration will need to be given to the recognition, monetisation, enhancement and modernization of skills of women who contribute in various ways throughout the agricultural sector. A strategy of focusing on diversifying household income in the rural sector, including into areas of animal husbandry, horticulture and handicrafts – all of which have traditionally been the domain of women will make a major contribution to poverty alleviation and the empowerment of women. It will also more effectively utilize all potential labour.

Government vision and targets: The Government's vision calls for an integrated approach to natural resource development and management, with active participation by communities and the private sector, based on efficient and sustainable utilization of natural resources, to achieve economic growth while supporting peace-building, security, and equity. Above all, the vision is of much greater and more efficient use of Afghanistan's water resources to expand and intensify irrigation, for which the potential is great as indicated in Table 3.6. Productivity would be improved through market-based development, with efficient and sustainable use of natural resources – land, water, forests, and rangeland. Specific targets to measure performance include five river basin management agencies fully operational by 2010; irrigation rehabilitation/improvement reaching one million ha by 2010 and 2.2 million ha in another five years, and multipurpose water schemes generating at least 180 MW of power by 2015. Productivity improvement targets are also set for wheat and livestock. The area of orchards is projected to increase by over 70 per cent, from 80,000 ha in 2003 to 138,000 ha in 2015.

Table 3.6 Existing Irrigation for Rehabilitation and Potential New Irrigation Area

Items	Hectares
Area irrigated before the war to be brought back to permanent irrigation through rehabilitation works	240,000
Area under irrigation that require potentially improvement/rehabilitation works to	1,310,000

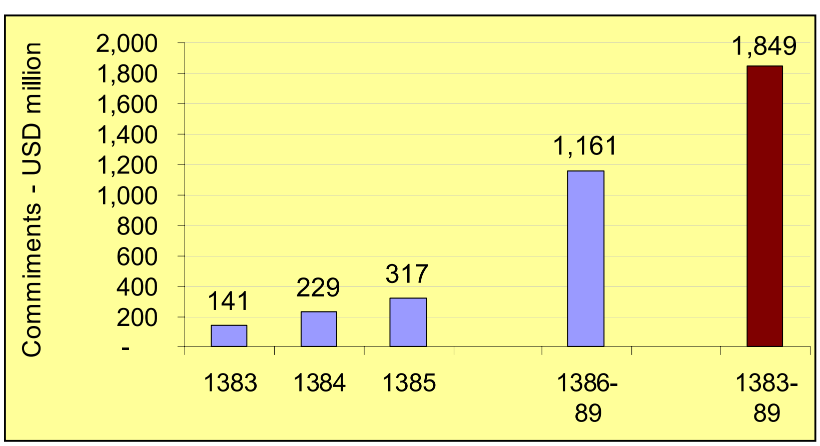
allow more intensive cultivation	
Area under intermittent irrigation that can be brought to intensive irrigation mainly through development of storage infrastructure.	953,000
Area never irrigated that could be brought to intensive irrigation through development of new irrigation schemes	1,035,000
Total	**3,328,000**

Priority investments comprise ten well-defined programmes. Attention will be given to institutional strengthening and capacity building, including establishment of national river basin agencies to improve watershed management. Given the importance of irrigation in crop production, small and medium-scale irrigation schemes will be rehabilitated on an emergency basis and longer-term major investment programmes for irrigation and power will be implemented. Irrigation and complementary investments will bring about enhanced performance in both the food/cash crop and livestock sectors. The Government places high priority on environmental preservation and regeneration, hence greater emphasis would be placed in coming years on improved forest and rangeland resource management. These investment programmes will be supported by policy planning, programming, and systems development.

Implementation and reforms: The Ministry of Agriculture and Animal Husbandry (MAAH) and Ministry of Irrigation, Water Resources and Environment (MIWRE) are committed to privatise state-owned enterprises under their responsibility, and rely on the private sector in the delivery of agricultural goods and works. Both have established special procedures and mechanisms to ensure community participation in project identification, implementation, and monitoring, and in promoting sustainable practices, especially in the operation and maintenance of irrigation systems. Finally, a special focus is needed on strengthening the capacity of the Afghan private sector to contribute to the rehabilitation and improvement of existing irrigation facilities, and at a later stage to be involved in the construction of new irrigation facilities.

The Programme Management Unit in MIWRE for natural resource management will be a central tool for enhancing implementation capability. MAAH has now begun a process to establish an Aid Coordination and Management Unit for existing donor-funded programmes. Fertilizer and seed companies will be privatised. The existing non-functioning Agricultural Development Bank will be dissolved and replaced with financial institutions appropriate for current and future rural financial market needs. At least three to five river basin organizations will be set up over next 5-7 years. The Department of Forestry will be reformed to meet future challenges. A review will be conducted in 2004 to assess the needs, policy, functions, and institutional structure to establish and operate an efficient agricultural research and technology transfer system that will respond to farmer-identified priorities and future farming needs. The total financing requirements for natural resources are shown in Figure 3.3 below.

Figure 3.3 Financing Requirements Natural Resource



URBAN SERVICES – COPING WITH LARGE AND GROWING POPULATIONS

Present situation: Urban services are critical for well-functioning cities and towns, which in turn support sustained economic growth. Conflict, drought, and returning refugees have contributed to massive urbanization in Afghanistan. Kabul's population has increased from some 400,000 in the 1970s to an estimated 1.7 million in 2000 and 2.8 million in 2003. Other cities have seen similar proportional growth in population. Total urban population is likely to nearly double by 2015, at a growth rate twice that of Afghanistan's population as a whole. Ironically, the very urban services that draw refugees and migrants to the cities are inadequate if not lacking. Over 60 per cent of Kabul's urban roads have been destroyed, as well as much of its housing; no more than 60 per cent of solid waste is collected, and access to safe water in the city is only about 30 per cent. In 2000, Afghanistan was at the bottom in access to safe water (13 per cent) and sanitation (12 per cent) among comparable countries (Table 3.1). Waste-water collection by sewerage systems is limited to a few large cities and is only partially treated. Intermittent piped water service, inadequate water treatment, and contamination of groundwater have resulted in a precarious sanitary situation. Summary information on urban service delivery in Afghanistan's main cities is shown in Table 3.7.

Table 3.7 Urban Service Delivery Indicators For Selected Cities

City/town	Access to Safe Water (%)	Destroyed Roads (%)
Kabul	29	60
Kandahar	20	25
Mazar-I-Sherif	40	13
Jalalabad	50	50
Herat	85	46
Kunduz	0	23

Source: See Water and Sanitation Technical Annex (www.af/)

Key issues: The urban challenges facing Afghanistan include rapid urban growth, massive service delivery backlogs, property rights disputes, and weak urban management. Developable urban land (in terms of legality and availability of services) is in extremely short supply. Most new urban residents - including substantial unprecedented new categories such as unsupported widows - have to settle in unplanned and therefore un-serviced areas of the cities. Land property rights remain somewhat precarious; almost half of the residents of Kabul are under the threat of eviction or relocation. This insecurity of property tenure militates against development of an efficient land market, equity in access, and preservation of the environment. Major urban management challenges include institutional fragmentation and unclear functional responsibilities and roles between the Ministry of Urban Development and Housing (MUDH) and municipalities, poor governance, and the weak capacity of municipalities to generate revenue to fund the provision of local public services.

A number of issues must be urgently addressed in order to ensure the sustainability of investments in Water Supply and Sanitation (WSS). MUDH needs to be strengthened particularly in sector policymaking, oversight, and coordination and monitoring. The legal status of the main sector institution, the Central Authority for Water Supply and Sewerage (CAWSS) needs to be clarified. CAWSS operations have historically been centralised in Kabul, with little operational autonomy in the provinces. At present, no institution monitors or regulates the allocation of water resources across sectors, so disputes among users may arise. While financing for reconstruction and extension needs to be provided by donors, improved cost recovery will be required to finance an increasing share of operations and maintenance . Cost recovery will also be essential for improved demand management thereby addressing general water scarcity issues.

Government vision and targets: The Government's vision for the urban sector is to create hubs of economic activity and growth, organically linked to rural areas, and to develop cities through improved housing and infrastructure to reduce overcrowding, improve access to basic services, and increase employment and economic growth. Urban growth should facilitate women's safe and free mobility, enhancing their opportunities to participate in public life and economic development. The main targets for the urban sector include full coverage of major city populations with basic services by 2010, 59 per cent of significant urban roads paved by 2010 and 100 per cent by 2015, and clear and secure tenure for all informal plots by 2010. Kabul WSS coverage should increase from the current 20 per cent to 64 per cent in 2010 and 80 per cent in 2015 (Table 3.2). Specific objectives include (i) upgrading under-serviced planned and unplanned areas; (ii) rehabilitating and extending WSS services; (iii) rehabilitating and extending roads and drains; (iv) improving solid waste collection and disposal; (v) creating new serviced land; (vi) undertaking land titling; (vii) implementing housing reconstruction; and (viii) improving urban planning and management, including municipal financial management, policy formulation, and institutional development

Investment priorities: Urban development programmes will cover urban infrastructure, urban land and housing, and urban planning and management. Urban infrastructure programmes include upgrading of under-serviced planned and unplanned areas; rehabilitation and extension of WSS services; rehabilitation and extension of urban roads and drains; construction of city bypass ring roads in Kabul, Kandahar, Herat, Mazar e Sharif, Jalalabad, and Kunduz; and improvement of solid waste collection and disposal. New serviced land will be created; tenure will be improved through land titling, thereby eliminating the prospect of eviction due to illegal occupancy; and emergency housing reconstruction will be undertaken for the most vulnerable urban population groups including single and unsupported female-headed households. In order to ensure smooth implementation of these programmes, municipal management and urban planning will be strengthened.

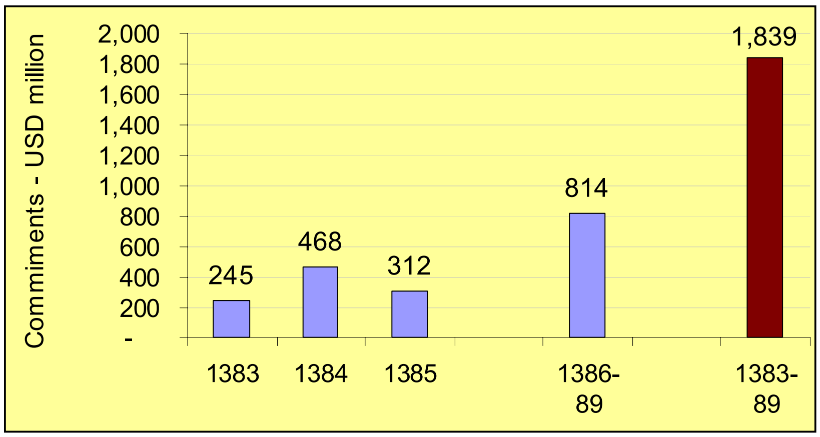
An urban WSS programme has been drawn up for Kabul, five major cities, and 32 provincial towns. Since 2002, investment has been concentrated on short-term rehabilitation of existing systems in Kabul and 13 provincial cities. Following the initial rehabilitation phase, investment priorities in Kabul and elsewhere will include construction/expansion of bulk water systems (production and transmission) and of piped water networks. In order to maximize coverage, water will be supplied through a mix of private and shared connections and community distribution systems. Investment in sewerage will be limited to the city cores and high-density areas of Kabul and the major urban centers, and will prioritise low-cost options. On-site systems, which will continue to be used by a large majority of the population for the foreseeable future, will be upgraded over time.

Implementation and reforms: Municipalities are the natural implementers of urban development programmes, but their implementation capacity is variable. The municipality of Kabul (KM) is independent of the Ministry of Interior (MOI) and has a reasonable implementation capacity. All other municipal Governments report to MOI. The four largest secondary cities (Herat, Kandahar, Kunduz, and Mazar Sharif) have some human and financial resources. Smaller towns have limited capacity; central Government agencies will implement programmes in these municipalities, in close collaboration with them. To assist these municipalities in the short run, a central Programme Management Unit will need to be formed. Initially, MUDH will still be responsible for implementing selected housing programmes, but in the long term its role should be limited mostly to coordination and policy setting.

Responsibility for the WSS sector has recently been transferred to MUDH. CAWSS will initially be responsible for implementing the WSS programme, but later on regional WSS utilities will. All major construction projects are being implemented with the assistance of specialized international consulting firms. The limited implementation capacity of both MUDH and CAWSS will be addressed through options including medium-term management contracts with private operators in each of the provinces or design/build/operate contracts. The small size of operations will provide an opportunity for the Afghan private sector as international operators are unlikely to be interested and local arrangements will have to be put in place.

Municipal Governments are reasonably autonomous and can collect revenues, formulate budgets, and hire staff. Revenue generation capacity, budgeting, expenditure control, and financial management are weak, and the skills of municipal staff at all levels need to be updated. Housing and informal settlements issues do not currently have a natural home in municipalities. Thus the urban sector requires a progressive evolution of the role of central Government agencies into that of coordinators, policymakers, and technical assistance providers. It also requires a gradual increase in autonomy for local Governments, combined with greater transparency and good governance. Private sector participation in the delivery of urban services, such as solid waste management, will be critical. The total financing requirements (US$ 1.8 billion) for urban services are shown in Figure 3.4 below.

Figure 3.4 Financing Requirements Urban Management



4. PUBLIC ADMINISTRATION REFORM AND ECONOMIC MANAGEMENT

INTRODUCTION

An efficient and effective civil service is essential to fulfilling the Government's aim of restoring peace and stability, embedding democratic governance, and regenerating economic growth. It is only with an effective administration that the enabling regulatory environment to support rapid private sector growth can be provided. It is only with an effective administration that the physical infrastructure needed to support industrial development and growth can be planned, provided, and maintained. And it is only with an effective administration that the investments in human and social capital, particularly health, education, and social protection which are so critical for poverty reduction, human development and broad stakeholder buy-in to the political process, can be financed and delivered.

A legacy of poor administration and lack of human capital investment over the last twenty years has left Afghanistan with a legacy of an aging public service whose skills and abilities have depreciated over time during this neglect. Against this background there has been some remarkable progress. Perhaps most importantly, the size of the civil service has not increased over the last twelve months – this degree of discipline in public hiring, which is rare in post-conflict or developing countries more broadly, augurs well for future reform efforts. In some major ministries, for example health and communications, an integrated approach combining the best available resources from the existing Government staff, senior transfers from outside Government (particularly from the Non Governmental Organization (NGO) community), and international expertise has resulted in a significant improvement in service delivery. In the area of Finance, there has been major progress in both the raising of revenue and its effective planning and spending. Across the public sector, reforms in Ministries under the Priority Restructuring and Reform framework are moving ahead, leading to better trained, better paid, and more highly motivated pockets of high performance in the administration.

This substantial progress represents only the first steps on the long path of building a strong public administration. Major challenges remain and must be addressed in a carefully sequenced manner if the progress to date is to maintain traction.

A major challenge is the existence of a second public sector, comprising the national staff of donor Governments, international agencies, and NGOs who are involved in traditional Government work, including the coordination of expenditure, the reporting and monitoring of that expenditure, the implementation of projects, and the delivery of public services such as education and health care. This second public service draws a large number of the most talented candidates from the civil service pool by offering higher wages and better conditions. Until progress is made in resolving this systemic issue there will be major difficulties in building the best possible public administration. Other challenges involve the need to undertake a more systematic pay and grading review than the current ad hoc Priority Reform and Restructuring (PRR) approach allows, and the need to redouble efforts to invest in the skills and development of civil servants and provide them with the physical infrastructure and operations and maintenance expenditure to do their jobs.

On the economic management front, the focus on aggressive revenue mobilization must be maintained to ensure that dependency on foreign aid to fund the operating budget can be phased out. Moreover, the focus on implementation of expenditure at the provincial and district levels needs to be strengthened, and a forum for provincial and district level consultations on expenditure priorities needs to be introduced.

ACCOMPLISHMENTS AND FUTURE CHALLENGES

Public Administration Reform

A Public Administration Reform (PAR) Programme has been developed to provide a framework for a series of programmes and projects that, together, will build a sound legal, administrative, and physical environment in which civil servants can function efficiently and effectively, and be held to account for their performance. Overall responsibility for coordinating and managing the Programme rests with the Independent Administrative Reform and Civil Service Commission (IARCSC). An inter-ministerial committee, the Ministerial Advisory Committee on Public Administration Reform (MAC), supports the Chairman of the IARCSC in managing the Programme. The Committee provides an important degree of political legitimacy for the difficult choices that inevitably must be made. In addition, focal points in ministries have been designated to facilitate the collection and dissemination of information on the PAR programme.

The IARCSC comprises a Civil Service Management Department, with responsibility for developing a new Civil Service legal framework (including a Code of Ethics) and modern human resource management policies and procedures; the Independent Appointments Board, charged with the protection of merit in appointments; and the Independent Appeals Board that will hear complaints from civil servants against unfair, illegal or discriminatory treatment in the workplace.

Priority Reform and Restructuring

A core element of the public administration reform programme is the PRR Programme. It was launched by Decree in July 2003 to kick-start the process of reforming the most critical functions of Government. The PRR process allows the staff of entire ministries/agencies or selected departments undertaking core functions to be placed on an elevated pay scale for a fixed term in exchange for restructuring. To date, ten units have been awarded PRR status.

The PRR pay scale has seven bands and is intentionally designed to deter simplistic transfers of existing staff onto the new grades without consideration of their responsibilities. Approximately 1,653 civil servants have now been placed on the PRR pay scale; by the end of 1382 this number is expected to rise to 5,000.

Early analysis of the limited labor market data available suggests that the PRR pay scale is reasonable for general staff who operate purely within the Afghan labor market. The proposed additional allowances of 11,000-11,750 Afs per month for top civil servants still leaves their total earnings considerably below UN pay levels, but they are roughly on par with the earnings of self-employed and small businessmen in the "professional" and "managerial" occupations.

Initial assessments indicate that PRR has been an effective tool for structural and functional reform, and that widening and deepening the PRR process should therefore be a priority. Many ministries and agencies require technical assistance to formulate credible plans for reform and restructuring and support for this is envisaged under the decree.

Decompression of the pay scale for civil servants

The Cabinet approved a major decompression of the civil service pay scale for all civil servants (excluding teachers, police and military).[19] This reform began to address the problem that over the last twenty years the salary scale had become very compressed – the pay differential between the most junior and most senior officials being in the range of US$10. The decompression was achieved as part of an overall pay reform with a full year cost of Afs 950 million. The focus of the pay reform was to provide larger increases to senior professional and managerial staff, which will make salary levels for professional staff more attractive and should help to retain qualified staff.

[19] The pay for each of these groups had previously been adjusted.

This decompression could not have been achieved without some pay increases at the lower levels, a consequence of which is that salary levels for unskilled labor are at the upper end or slightly above those observed in the private sector.

The case for a general pay increase as part of a policy to decompress public sector wages is compelling – not least because unless some general relief was offered, further ad hoc pay increases would be politically all but inevitable – as previously happened in the case of teachers and some police. The next step in the reform process is to carry out a comprehensive, cross-Government pay and grading review - to be phased as productivity increases are achieved through other systemic reforms. This is likely to commence in early 2004. Without this review, there is a risk of competitive leapfrogging between sector pay reforms, which could lead to significant fiscal problems. Furthermore, the implications of PRR for the provinces are complex, as questions of pay comparability are likely to be more sensitive at this level, and the implementation and management of the reforms more demanding. The Ministries of Public Health, Public Works, and Rural Development and Reconstruction are taking the lead in using the PRR process to roll out modest administrative and pay reforms to the provinces.

Economic Management

With respect to economic management, progress has been made on a number of fronts, including revenue collection, budget preparation, financial management, procurement, audit, and banking.

Revenues

A number of actions have been taken to improve the collection of customs revenues. The Cabinet approved the new customs tariff regime and dramatically simplified administrative arrangements after wide discussion with other Government ministries and the trade community. The new tariff structure has six bands, reduced from 25; and requires uniform countrywide use of the daily Central Bank exchange rate in valuations and assessments, rather than an artificially low rate as had been the case previously. The Afghanistan Customs Department (ACD) has also prepared a five year plan with an emphasis on increasing revenue collection; improving clearance times; bringing customs tariff, exchange rates, and valuation in line with internationally accepted practices; enabling remittance of all customs revenues collected in the regions to the central treasury; improving the key customs infrastructure; re-organizing and re-building capacity of the Kabul and regional offices; building a stable and comprehensive legal framework for customs; and establishing effective enforcement controls.

The Ministry of Finance is also in the process of operationalising a "Large Taxpayer Office" in Kabul to focus on domestic revenue collection from the "top 100" or more tax-paying entities. In addition, there are plans to create "model offices" in the provinces that would handle medium sized-taxpayers. These offices would be separate from the provincial finance directorate (mustoufiat), and would be outside the normal provincial structure that reports through the governor.

As a result of these actions, the Government's revenue collection estimate of US $200 million in 1382 is significantly higher than the US $83 million collected in 1381. Domestic taxation represents around 30 per cent of the current revenue stream to the central Government; this proportion is expected to rise to 40 per cent next year and 50 per cent in the following year. To achieve this, considerable training and technical assistance will be required in addition to basic facilities for provincial revenue collecting bodies.

Budget preparation

Budget making in Afghanistan has evolved considerably over the last two years, with the Government taking increasing control over the allocation of resources. The first budget in March 2002 was little more than an attempt to describe what was happening – particularly in the case of bilaterally funded development or reconstruction projects. However, as the Government approaches its third budget cycle, the level of technical sophistication and understanding has increased, the budgets have become more prescriptive, and the budget is used more substantively to allocate both cash and in-kind contributions to the Government's highest-priority tasks. This is particularly true for the development budget, which is based on a structure of 16 programme areas within the three broad pillars of the NDF.

In the case of the operating budget, a major achievement of the 1382 budget review held in October 2003 was the reconciliation of the establishment (staffing) controls with the budget allocations. Previously these were done separately, leading to a major disconnect, with associated budgetary problems, when Ministries did not have enough funds to meet their authorized establishment levels.

The improvements underway during the 1383 budget process include building capacity in the line ministries and building on the gains of the mid-term review related to control over establishment. The ordinary budget will continue to reflect an input orientation; however, ministries will be asked this year for information on ministry goals and objectives, as a first step toward programme budgeting.

Challenges in the near to medium term for the budget formulation process include establishing a fiscal framework based on a simple macroeconomic model, with expenditure limits for ministries when preparing their budgets. The treatment of the provinces in the budget process remains a major challenge as, to date, they have had limited involvement in budget formulation.

Financial Management and Treasury Reforms

Significant progress has been made in laying the foundations for a financial management system within the Ministry of Finance (Treasury). In the first stage, with the assistance of a Financial Management Agent, a system for computerized check issuance went into operation in Kabul in October 2002. This enabled a "real time" reporting of all expenditures processed through Kabul. By the start of 1382 this accounting system had been augmented to allow for control of budget execution against budget allotments – again for all expenditures processed through Kabul. Recording of revenues is now also possible.

Despite this progress, there remain considerable challenges in the overall expenditure system including cash management and payments systems. The timeliness of budget execution, especially in the provinces, needs to be improved, while expenditure tracking also must also be enhanced. A capacity building process is already underway in key line Ministries, where groups of 10 to 15 people are receiving training. In addition, the Government has hired international Chief Financial Advisers and placed them in eight major ministries to build capacity in financial and budget management. There are demands from other ministries to extend this programme to them.

Procurement

To ensure that major procurements were undertaken with best-practice transparency and accountability, the Government hired an international firm as its procurement agent. To support further reforms, a discussion paper on the possible structure of a procurement function has been circulated. The Ministries of Planning and Reconstruction have been given oversight of the procurement function that is currently being managed by the procurement agent. The long-term institutional arrangements in regard to the Government procurement function, including its structure and reporting arrangements, need to be finalized.

A major step forward will be the enactment of a modern procurement law. A review of existing procurement legislation and regulations has been undertaken and a draft procurement law and regulations have been circulated for comment. To ensure sustainability and effective skills transfer, training has now been provided in procurement practices for a wide range of ministry staff. The ongoing training of procurement officers and the recruitment and training of new procurement officers will be crucial.

Audit

Along with hiring international firms to assist with financial management and procurement, the Government hired an international audit firm to support the audit function in the Government. This firm is providing capacity building support to the Auditor General's office with the objective of assisting the Control and Audit Office (CAO)[20] to become an operational, independent, and effective Supreme Audit Institution for Afghanistan that will provide a critical link in accountability for public revenues and expenditures. A major step forward in establishing the integrity and therefore the effectiveness of the Auditor General was the confirmation via Presidential Decree of the independence of the Auditor General.

A wide range of technical courses have started in which over 100 staff have participated. Both pilot and practical audits have been conducted, in order to engage staff directly in new audit techniques in ongoing activities. Providing core audit, legal, bookkeeping and accounting training, and helping the CAO to set up a modern audit methodology with associated audit manual, rules, regulations, working practices and procedures will be a key focus of assistance over the next year.

Banking and Finance

One of the outstanding achievements of the Government has been the currency reform. Prior to October 2002, at least three currencies were circulating in Afghanistan, making monetary policy impossible and exposing the public to risk of counterfeit currency. The reform, in which the entire stock of currency was exchanged for a new currency, was carried out in a quarter of the time predicted the international experts and with no major civil disruptions or allegations of impropriety.

More recently two Presidential Decrees – a Central Bank Law and a Banking Law – have been promulgated and provide a modern legal framework for a two-tier banking system. Subsequently three international banks have been licensed under this new framework. Restructuring and modernization of the Central Bank commenced in mid-2002 – albeit with difficult challenges. Assistance has been provided to DAB to upgrade its branches throughout the provinces as well as to improve capacity in banking supervision and other areas. Some cash transfer services are now provided through Da Afghanistan Bank (DAB), and it is possible to transfer funds out to the 32 provincial capitals.

Following the passage of the Central Bank Law and Banking Law, there has been considerable interest from both regional and global financial institutions. To date, 5 licenses for financial institutions have been issued and 3 branches have opened. Despite this progress in the development of financial institutions, considerable challenges remain. While the legal infrastructure is in place, the physical infrastructure and human capital to support DAB's operations – particularly outside of Kabul – is weak. Considerable effort will be needed in both reconstruction and staff development.

STRATEGIC VISION, GOALS, AND KEY PRIORITIES

A Vision for Afghanistan's Civil Service and Economic Management

The greatly increased reconstruction effort that is necessary to create a peaceful, dynamic and sustainable economy and society is heavily dependent on an effective and efficient civil service. Significant changes in the organization, performance, and management of the civil service will be required to support the reconstruction effort and achievement of the MDGs over the next 12 years.

The long-term vision for the civil service is based on four key assumptions:

i. Afghanistan is aiming for "small Government" whose role will, as far as possible, be limited

[20] The formal title for this body is the General Control and Inspection Presidency of the Council of Ministers. This Presidency now reports directly to the President of Afghanistan.

to ensuring the security and safety of citizens, creating an enabling but properly regulated environment for the private sector, and ensuring that all citizens have access to basic services.

ii. The civil service serves the executive branch of Government. The role of civil servants is to assist Ministers to formulate and implement policies, but responsibility and authority for policy decisions (and ultimately for implementation) rests with Ministers. Ministers and other political officials are not civil servants.

iii. Civil servants are employed by the state, not by the individual Government ministries and agencies to which they may be appointed. The body or bodies designated to recruit and appoint civil servants act on behalf of (and are answerable to) the state, not the executive.

iv. Within the civil service there will be a number of broad categories of employees. Terms and conditions of service may vary between these categories.

Based on these assumptions, the vision is that, within 12 years, the civil service will be:

i. ***Small, as at the present, but more focused***. Non-core functions will have been hived off, including state-owned enterprises and functions that can be equally or better carried out by private sector contractors or NGOs.

ii. ***More diverse and decentralised***. Structures and management systems will be designed around the tasks to be performed

iii. ***Driven by an accountable, results-based ethos***.

iv. ***Significantly better skilled, equipped, and managed***.

v. ***More representative*** of Afghan society in terms of gender and ethnicity, and ***bound by common ethical principles*** that are rigorously enforced.

In the area of economic management, Afghanistan has made remarkable progress in establishing basic financial management mechanisms during the past two years. And in working through these reforms, senior members of the Government and the donor community have also developed much greater in-depth knowledge and understanding of the issues and challenges in this area that are unique to Afghanistan. These basic improvements, along with a stronger knowledge base, position the Government to begin looking further ahead and envision what the economic management system in Afghanistan must become if the country is to achieve its policy objectives along with improved security and stability, and how to get there.

The vision of Afghanistan's economic management system includes:

i. A budget that is ***affordable and sustainable***; this means that there needs to be a robust revenue capacity with effective collection processes, and an expenditure structure that is affordable with minimal donor assistance;

ii. A ***budget process*** which is:

  - ***multi year,*** based on a medium-term economic forecast and realistic fiscal strategy
  - tied to policy development through a ***strategic planning process;***
  - ***comprehensive***, integrating capital and operating components and including all sources of revenues and all expenditures;
  - ***results-based***, in which budgets are developed on a programme basis, focused on outputs and outcomes rather than inputs; this will require a system of performance indicators that can demonstrate the effectiveness of programme delivery.

iii. ***Increased delegated authority*** for financial management, concurrent with ***stronger accountability mechanisms***. This means giving greater authority to managers in ministries and in provinces to manage finances within a clear set of rules and procedures. These managers will in turn be held responsible for ensuring that these rules are followed, that only budgeted funds are expended, and that they are expended only on authorized activities;

iv. ***Modern, electronic financial management systems*** are in place to ensure efficient cash management, timely payments and disbursements, and accurate financial accounting; and,

v. ***Transparency*** in reporting to decision-makers, so that decisions are based on timely and accurate information; and transparency in reporting to the public, so that the Government can be held accountable for how public resources are managed. Transparency is achieved in part through a ***robust external audit function***.

Targets and Priorities

There is no doubt that achieving these twin visions will be challenging, even over a 12 year timeframe. Before moving directly to the specific areas for priority action, it is important to establish overarching performance targets. For public administration reform, two critical targets have been chosen (see Table 4.1 below):

(1) Achieving a professional, merit-based civil service. This target will be achieved when the overwhelming majority of civil service appointments are made through a robust, transparent, merit-based recruitment process. An interim target of 90 per cent of senior civil service appointments (grade 2 and above) made on a merit basis is set for 1389, and the full target (90 per cent of all appointments at grade 6 and above) will be achieved by 1394.[21]

(2) *Achieving a more decentralised and pro-service delivery civil service.* This target will be achieved if Government employees in the provinces and districts increase as a proportion of total civil service employment. Currently, an estimated 63 per cent of employees are located outside of Kabul. The target requires that the direction of change is consistently toward the provinces and that each year this proportion increases.[22]

For economic management, one target has been chosen:

(3) *Achieving a recurrent budget that is funded from domestic revenues.* Currently, only 36 per cent of the 1382 ordinary budget is planned to be resourced from domestic revenues; the balance is being funded by donor contributions. And none of the development budget is funded from domestic revenues. If an aggressive investment plan, as laid out below, is followed, the following targets are reasonable (i) by 1389 all wage expenditure should be funded from domestic revenues; and (ii) by 1394 95-100 per cent of the recurrent budget should be funded from domestic revenues.[23]

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21 This does not mean that Ministers will have no say in the appointment of the most senior officials with whom they have to work directly on a day-to-day basis; but rather that Ministers' personal views should be taken into account as part of a transparent, competitive, merit-based selection process, and should not be permitted to override this process.

22 Specifying the exact proportion of centrally versus locally based staff is of little value as there is no golden rule, and country situations are too variable to allow any useful comparators to be developed. The focus of the target is therefore on the direction of change rather than the size of the change.

Table 4.1 Targets for Service Delivery

	1382 (baseline)	1389	1394
Public Administration Reform			
(1) % of staff at sub national level	63%	+ve increase over the previous year	+ve increase over the previous year
(2) % of civil servant appointments through a transparent, merit-based process		90% of senior civil service appointments (grade 2 and above) made on a merit basis	90% of civil service appointments at grade 6 and above made on a merit basis
Economic Management			
(3) % of Recurrent Budget funded by Domestic Revenues	36.4%	75%	95-100%

Achieving these targets will be challenging, and a broad range of coordinated efforts is needed if these targets are to be successfully realized. These actions, along with a summary of objectives and expected results, are listed in the Technical Annex available at www.af/.

COSTING OF TARGETS

The cost of the investments needed to implement the Public Administration Reform and Economic Management (PAREM) programme are summarized in Table 4.2.

Table 4.2 Summary of Estimated Costs, ($US millions)					
	1383	1384	1385	1386-1389	7-Year Total
Capital Expenditures					
Public Administration					
8. Personnel Management: Capacity Building, Training and Development	3.0	6.0	3.0	0.0	12.0
12. Personnel Management: Retraining, Reskilling and Redeployment	5.7	5.3	5.3	5.3	21.6
14. Physical Infrastructure	42.0	21.9	20.3	35.5	119.6
Economic Management					
1. Revenue policy and administration	2.4	2.3	2.6	11.6	18.8
2. Customs policy and administration[24]	0.0	0.0	0.0	8.6	8.6
3. Budget Formulation & Financial Control Systems[25]	3.9	3.4	0.7	11.0	19.0
5. Statistics and Data management	1.0	1.2	1.2	0.6	4.0
7. DAB - modernization, infrastructure (center & provinces), supervisory role (also includes some technical assistance)	8.7	5.2	1.7	1.7	17.4
9. Funding for Municipalities (500,000 Afs annually)	0.4	0.4	0.4	1.4	2.5
Block grants to provinces and small scale capital improvements	100.0	100.0	100.0	400.0	700.0
Total Capital	167.0	145.6	135.2	475.7	923.5
Technical Assistance					
Public Administration					
1. Policy Development and Machinery of Government	2.6	0.3	0.0	0.0	3.0
2. Institutional Streamlining and Development	5.2	4.2	2.9	3.7	16.1
3. Civil Service Law	1.2	0.0	0.0	0.0	1.2
4. Personnel Management: Establishment Control Systems	1.2	2.6	0.7	0.7	5.0
5. Personnel Management: Policies, Procedures and Practices	1.7	1.8	0.0	0.0	3.5
6. Personnel Management: Employment Contracts	0.2	0.1	0.1	0.0	0.4
7. Personnel Management: Appointments Procedures	1.1	0.4	0.0	0.0	1.6
8. Personnel Management: Capacity Building, Training and Development	1.7	1.4	0.5	0.0	3.6
9. Personnel Management: Gender and Ethnicity	3.5	3.4	2.0	1.9	10.8
10. Personnel Management: Civil Service Pay and Grading	1.4	0.8	0.8	0.8	3.9
11. Personnel Management: Pensions and Other Post-Service Benefits	0.8	0.0	0.0	0.0	0.8
13. Administrative Efficiency	0.4	0.3	0.3	0.3	1.3
Economic Management					0.0
1. Revenue policy and administration	3.0	3.1	2.6	7.6	16.3
2. Customs policy and administration[26]	0.0	0.0	0.0	33.7	33.7
3. Budget Formulation & Financial Control Systems:	3.4	3.7	8.3	15.1	30.5
4. Government Audit (internal and external)	3.2	3.2	2.4	3.3	12.0
5. Statistics and Data management	0.4	0.5	0.5	0.3	1.7
6. Procurement	3.0	3.0	2.5	4.0	12.5
7. DAB - modernization, infrastructure (center & provinces), supervisory role	0.4	0.2	0.1	0.1	0.8
Total Technical Assistance	34.5	29.2	23.6	71.4	158.6
TOTAL	**201.5**	**174.8**	**158.7**	**547.1**	**1082.1**

Impact on the Civil Service Wage Bill

A major consequence of the ongoing public administration reform is that the Government wage bill will increase over the coming decade. The reconstruction and reform agenda that Afghanistan must pursue over the next 12 years in order to build a secure and stable Government, and improve basic services, will increase the recurrent costs of Government. While there are some savings to be gained by increased efficiencies and streamlining Government, they are minimal when compared to

[24] Reconstruction in customs is shown as a component of the overall revenue improvement programme until a separate programme is initiated in 1386.

[25] Including the introduction of a computerized payroll system and the establishment of a Single Treasury Account

[26] Capacity building in customs is a component of the overall revenue administration capacity building until a separate programme is initiated in 1386.

the need to extend basic services across the country. The key is to maintain the civil service at its current size – which is very low on a per capita basis by international and regional standards. However, the average level of productivity in the civil service must be increased by a combination of training and development for existing staff, an early retirement programme for surplus and low skilled staff, strategic merit-based recruitment from outside Government at senior levels, and an aggressive recruitment campaign at the graduate and junior entry levels of the civil service. The estimates for the civil service wage bill over the next twelve years are presented below in Table 4.3.

Table 4.3 Projected Wage Bill to 1394 ($US million)

Salaries & Benefits	1383	1384	1385	1386	1387	1388	1389	1390	1391	1392	1393	1394
Non-police employees	216.4	272.1	375.1	442.9	531.5	585.6	599.0	609.5	615.2	620.5	622.6	622.7
Police	38.6	38.6	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8
Increase in Pension benefits		6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Recurrent salaries	**255.0**	**316.8**	**456.0**	**523.8**	**612.4**	**666.5**	**679.9**	**690.4**	**696.1**	**701.4**	**703.5**	**703.6**

In evaluating the overall reconstruction and reform agenda and the allocation of their financial assistance, donors will need to be very mindful that support for specific investments must be balanced against the need to finance recurrent costs while the country's revenue base is being strengthened.

IMPLEMENTATION STRATEGY

The policy actions and investments outlined in this chapter address the service delivery and institution-building agenda, by laying out a programme designed to create a strong, modern public administration and economic management system based on a pro-province and pro-service delivery agenda. The implementation strategy requires actions on the part of the Government and its development partners in four key areas.

First, the central agencies must have the capacity to deliver their core mandates – in particular the IARCSC and the Ministry of Finance must act as the custodians of the vision for public administration and economic management outlined above.

Second, it is critical that funds and resources are provided to the provinces and districts to support service delivery. The key steps include resolving the problems caused for the provinces and districts by Kabul-based delays in salaries and staff appointments, under-provision of the non-salary budgets, and providing more funds and resources to the provinces and districts to support service delivery through the Afghanistan Stabilisation Programme (ASP).Programme. The ASP has its focus on both human capital and physical infrastructure in the provinces and districts. As part of this programme, the PRR process will need to be extended to a greater number of provincial and district departments of major ministries.

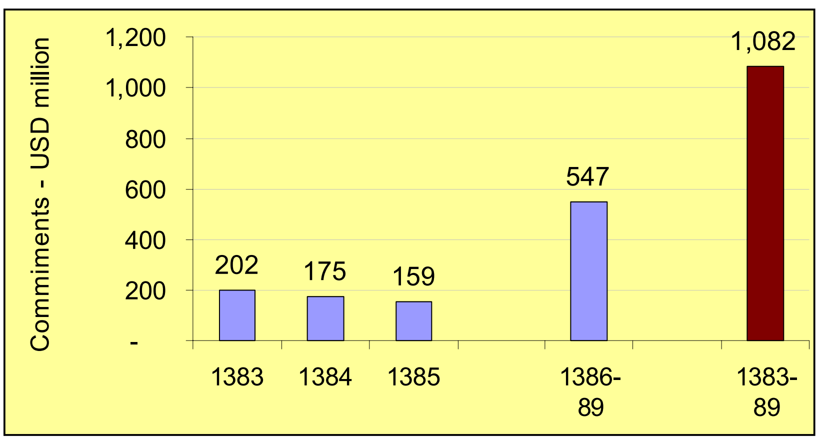
Third, direct budget support will remain essential for some years to come. Demands on the recurrent budget will grow ahead of any likely increases in revenue. Budget support is not only necessary, it is also feasible. There is no guarantee of absolute probity, but recent work has highlighted that there are good basic systems in place, particularly pre-approval and pre-audit, that make theft and mis- procurement less likely than might previously have been expected.

Fourth, it is extremely important that international partners respect the basic structures and traditions of the Afghan State. Where budget support is unwise or impracticable, parallel project arrangements should seek to support and not undermine existing public sector arrangements. In particular, project design should avoid further entrenching a Kabul-centric view that denies the significance of sub national administration as the service providers/project implementers. Project design should emphasize a shift in the orientation of the ministries from project implementers to programme managers.

In this regard, traditional Project Implementation Units can create as many problems as they solve because of the resentment generated in staff that do not work in them, their narrow focus on a few individual projects, and the confusion in accountabilities generated by external consultants who are effectively in line positions. The remedy is: (i) to focus project support on *programme* management rather than *project* management – so the staff are engaged in a range of projects and are not excessively loyal to the implementation of one particular operation; (ii) to build programme management *functions* rather than programme management *units*, using existing departments if appropriate, and applying PRR where helpful; and (iii) bringing in contract staff to plug critical senior and middle management-level capacity gaps, distinguishing them from regular civil servants by ensuring that they are in fixed term positions with no prospect of regularization, and by making sure that all staff contracted under these arrangements can reasonably claim to fall under an international or at least regional labor market.

The actions outlined above will not be sufficient. However, these technical actions are undoubtedly necessary if a modern civil administration is to be created that can support the delivery of basic services and provide the enabling regulatory environment that will support rapid private sector growth. There is no specific deadline, but evidence points to a closing window of opportunity for making the administrative system at the central and also at district and provincial levels work effectively.

Figure 3.4 Financing Requirements Public Administration and Economic Management



5. ENABLING TRADE, INVESTMENT, AND THE PRIVATE SECTOR

INTRODUCTION AND CONTEXT

Private sector-led development – the engine of economic growth – is the key to Afghanistan's longer-term economic development and poverty reduction. This will require concerted efforts in creating a suitable enabling environment for the private sector and in pushing forward with public sector reforms redefining the State as the regulator of the private sector – not its competitor. The goal is a dynamic and well-regulated formal economy.

Trade, both within the region and more globally, will be a driving force in Afghanistan's economy. At the recent Cancun trade meeting, Government representatives pledged to build a foreign trade regime that will allow Afghanistan to easily pass the standards required for WTO accession over the next few years. The Government is preparing or holding consultations on a wide ranging set of new laws, including on trade in goods and services, and on economic governance including bankruptcy, competition, and land use. Afghanistan has also joined the World Customs Organization, and on September 15, 2003 the Government approved new laws for central banking and the regulation of all other banks.

The context for private sector development in Afghanistan is difficult but nevertheless has areas of strong potential. The following key features have been taken into consideration in determining the overall focus of policies and the investment programme:

i. Afghanistan is a land-locked country, with porous borders and surrounded by neighbors with different trade and investment policies, in many cases quite restrictive;

ii. The Afghan economy is largely informal and undocumented, with the informal economy including most importantly the illegal drug industry;

iii. In 2000, official trade flows were estimated at around US$600 million, and undocumented flows were much higher;

iv. Insecurity severely constrains the most productive private sector development and channels it into shorter-term activities;

v. Infrastructure constraints, both nationally and within the region, undermine the cost efficiency of both trade and transit and thereby hurt private sector production;

vi. Afghanistan is an agriculture-based economy, for which growth is constrained by transport, marketing, quality guarantee issues, and standardization and packaging;

vii. Afghanistan's rich underground resources are under-exploited, and large-scale industry is still in its infancy;

viii. Afghanistan's labor market is already highly integrated into the regional economy, as a result of the large numbers of refugees and economic migrants;

ix. Lack of banking and insurance services undermines the formal economy;

x. Land allocation and uncertain property rights over land are commonly cited as the most severe bottleneck to urban economic activities – both formal and informal.

Afghanistan has all along been a strong trading nation, but today, formal regional trade flows between Afghanistan and its neighbors are relatively small. In 2002, Tajikistan was the country with the highest proportion of regional trade, over 20 per cent, followed by Turkmenistan and Afghanistan with about 10 per cent as shown in Table 5.1 below. However, informal trade flows are quite large, particularly with Pakistan.

Table 5.1 Regional Trade, 2002

	Afghanistan	Iran	Pakistan	Tajikistan	Turkmenistan	Uzbekistán
Exports						
Region	28	274	276	118	430	158
Rest of World	76	25,890	9,610	619	2,280	1,605
Regional share (%)	*27*	*1*	*3*	*16*	*16*	*9*
Imports						
Region	284	468	240	195	136	101
Rest of World	2,396	21,640	10,998	525	1,683	2,124
Regional share (%)	*11*	*2*	*2*	*27*	*7*	*5*
Total						
Region	312	742	516	313	566	259
Rest of World	2,472	47,530	20,608	1,144	3,964	3,729
Regional share (%)	*11*	*2*	*2*	*21*	*12*	*6*

Note: Million of $ and percentages.
Source: IMF Direction of Trade Statistics, 2002.

Capitalizing on Afghanistan's position as a "land bridge" for trading within the region, and promoting its wider integration in the formal global economy, requires both policy and institutional reforms to be rapidly put in place. To this end the Government has established foreign trade policies, which are applied uniformly throughout Afghanistan, and has signed new bilateral or trilateral agreements with most of its neighbors. A new Customs collection system is being put in place, including the adoption of a simplified tariff law. A new Customs code has been adopted, and the Government is planning to adopt new internationally-recognized customs declaration forms. The Customs department has adopted a Five Year Plan for Customs Modernization.

International experience shows that economies that are positively integrated into the world economy have achieved higher growth in incomes, longer life expectancy, and better schooling over the past two decades. Enhanced regional cooperation and participation in the multilateral trading system is therefore an important long term objective. The Government will continue to pursue efforts to increase the transparency and predictability of the trade regime, limiting the use of non-tariff measures to legitimate objectives such as health, safety, or environmental reasons.

KEY CONSTRAINTS

To achieve the economic growth target outlined in chapter 1, which will enable Afghanistan to reach GDP per capita of US$500 by 2015, a number of serious constraints will need to be systematically overcome, including, among others, the following:

(i) insecurity;

(ii) weak human resources, on which the long period of conflict has taken an enormous toll;

(iii) the inherited policy regime whereby public enterprises crowded out the private sector in the formal economy;

(iv) a poor understanding in parts of the Government of the benefits of market integration and trade;

(v) weak infrastructure and trade administration;

(vi) a poorly diversified economy (including agriculture) and consequent poor trading position; and

(vii) lack of banking, insurance, and other trade facilitation services.

GOVERNMENT VISION AND STRATEGY

The Government's National Development Framework, promulgated in 2002, identifies the private sector explicitly as the engine of growth, and views the administrative apparatus of Government as an enabler and facilitator of private sector development. Central themes of the NDF include: adopting an open trade regime with low and predictable tariffs and customs procedures that are in harmony with international standards; a market-determined, unified exchange rate; establishment of modern banking laws; building an enabling environment for investment that will successfully attract private and public capital for trade-related infrastructure; and measures to prevent corruption. Considerable progress has been made with implementation in some of these areas.

More generally, a strategy of openness to international trade combined with a strong enabling environment for the private sector is seen as the best path to exploit opportunities for private investment and economic growth in the longer term. The overall objective is to harness the economic potential of Afghanistan, and all of its citizens, to maximize the growth of the formal economy, through better policies and trade facilitation, including a secure and conducive environment for domestic and international investment. To this end the Government will create an attractive business environment for both domestic and foreign traders and investors through the establishment of a predictable legal framework for business, by (a) providing the necessary institutional, legal, and physical infrastructure; (b) facilitating their activities through a simple and transparent regulatory mechanism; and (c) promoting trade, investment, and local business.

Specific directions and areas of engagement for private sector policies are summarized below:

i. Encouraging Legitimate Businesses – the Formal Sector: In the absence of a strong formal sector, people seeking employment as well as entrepreneurs are drawn toward a wide variety of illicit and criminalized activities to seek their livelihoods. It is therefore critical to provide an enabling environment for expansion of the formal sector – legitimate private enterprises and their employment;

ii. From Comparative Advantage to Competitive Advantage: Afghanistan needs to further exploit its comparative advantage in areas like horticulture, agriculture-based labor-intensive products such as carpets, mineral resources, etc. But over the medium to longer term, it will be vital for Afghanistan to develop more dynamic competitive advantage based on its location, an increasingly skilled and educated labor force, its entrepreneurial dynamism (channeled into the formal sector), and regional business networks;

iii. Good Governance: The enabling environment for the private sector depends critically on good governance and avoiding corruption and extortion;

iv. Encouraging Business Development: The strong revival of the economy and the reconstruction programme itself provide great opportunities for the development of the Afghan formal private sector, in activities which provide substantial value addition and employment. This needs to be facilitated by pro-active efforts at private sector capacity building, development of business support services, and the like;

v. Industrial Clusters: While it may not be possible to provide high-quality industrial infrastructure across the country, this can be done for special industry clusters or industry development areas, which should be privately managed on a commercial basis;

vi. Political Risk Insurance: Larger foreign companies find it difficult to invest in Afghanistan because of the real or perceived insecurity of their investments. The Government has received bilateral support for this and is looking for additional bilateral and multilateral support for investment insurance instruments; and,

vii. Equity: In many areas women are a driving force in economic growth, and this has a direct impact on the social and economic status of the household. Thus enabling and facilitating their participation in economic activity is of very high priority. Regional equity and social inclusion also are critical.

SECTOR PRIORITIES FOR PRIVATE DEVELOPMENT

The Government, while not singling out individual industries for special support, will prioritise interventions that have maximum impact on private sector economic activity and employment overall. Priority sectors from this perspective include (i) agriculture; (ii) transportation; (iii) energy; (iv) housing; (v) communications; (vi) banking and financial services; and, over a longer timeframe, (vii) tourism.

i. Agriculture: Since the vast majority of the Afghan population depends on agriculture for survival, it is necessary that this sector be revived as a highest priority (see Technical Annex 1.3 to chapter 1 and chapter 3 on natural resource management priorities). Typically, while the Government can support provision of inputs and advice on a macro level, as well as key investments in irrigation infrastructure, the role of the private sector will include (i) the provision of inputs – seeds, fertilizers; (ii) minor irrigation facilities; (iii) post harvest support in marketing of output; (iv) dairy farming and animal husbandry; and (v) income stabilization through crop insurance.

ii. Transportation: Transport infrastructure – such as roads, railways, and airports – involves large and lumpy capital projects with long payback periods. Based on public investments in such sectors, with commercial management of infrastructure assets and adequate cost recovery, private provision of transport services will be further stimulated and can flourish.

iii. Mining: The potential for mining in Afghanistan is considerable. To expand extraction the Government will rehabilitate some existing mines but will put the main emphasis on attracting new private sector investment. The Government will adopt appropriate policies and programmes to stimulate private sector investment, rather than making new direct Government investment in mining. Emphasis will also be placed on those sub-sectors which can show results quickly.

iv. Energy: Afghanistan is rich in primary energy resources such as coal and natural gas, and has significant resources of hydropower. Options for the effective utilization of both solar and wind power may also be profitable over the medium term. The private sector could assist in developing these resources as well as the bulk import, storage, and distribution of petroleum products. This is projected to increase sharply in the future.

v. Housing and Construction: Large public works, such as highways and bridges, are being constructed by the Government through contracting of private firms, but reconstruction of homes and workplaces remains a private activity. To enhance individual efforts, the availability and quality of construction materials, most of which are imported from neighboring countries, should be steadily steadily improved and prices reduced. Domestic production should increase, and while it is relatively simple for aggregate and bricks to be produced by the unorganized sector, production of good quality, reasonably priced cement and its distribution needs to be in the formal sector.

vi. Communications: Afghanistan has a difficult terrain and hence fixed communications make sense only within and between urban conglomerations. Low-cost mobile communications technology provided by the private sector meets the needs of the situation and is flourishing.

vii. Banking and Financial Services: The private sector must be supported largely through local capital, channeled by way of banks and the capital market into productive investments. Banking is clearly a priority for private sector investment, subject to appropriate regulation and prudential supervision. The need for appropriate regulation and prudential supervision cannot be overstated if intermediation locally is not to result in large capital outflows at a critical juncture in the development process; and,

viii. Tourism: Afghanistan is a land of stark beauty and important historical sites, of wide open spaces and hospitable people. Hence tourism, including eco-tourism and adventure tourism, has great potential over the longer term. Tourism is expected to provide greater employment, thereby reducing poverty. Development in this sector is crucially dependent on security and, over time, adequate tourism infrastructure. Importantly, the early preservation and enhancement of Afghanistan's cultural heritage (as discussed in chapter 2) is essential to guarantee tourism over the longer term – even if revenues from tourism will not be mobilized for some time.

INVESTMENT PROGRAMME

To achieve the critically important objectives of the trade and investment programme, and to provide a conducive enabling framework for the private sector, the Government has structured its future investments around five core investment themes (programme areas):

Trade, Investment, and Private Sector Development Policy

This programme area will focus on developing appropriate, researched, trade and investment and private sector development policies for Afghanistan – to drive the overall policy direction for the Trade, Industry, and Private Sector (TIPS) Programme. Hence implementation of the remaining four sub-programmes will fall under this overall policy umbrella. The Government has defined its role as the promoter of trade and investment by providing the enabling environment for activities to be carried out by the private sector. Government's reforms are geared toward achieving a transparent and simple trade and investment regime that integrates the global trade system premised on free and fair trade with all its partners. The goals of this particular programme, and related results, are provided in Table 5.2 below.

Table 5.2 Trade, Investment and PSD, Policy Objectives and Results

Objective	Results
Open, transparent and simple trade and investment regime with optimal public-private role in conduct and growth of economy.	▪ A sustainable mechanism for developing and continuing policy formulation and dialogue in the public and the private sector ▪ WTO accession ▪ Developing the enabling legislative, institutional and regulatory framework for implementing policy ▪ Trade Promotion

Administrative Reform and Restructuring

The Government is undertaking vital administrative reform and restructuring of key ministries, their associated departments, associations, and state-owned enterprises (SOEs). This will ensure: a clear institutional mandate; enhanced human resource development and administrative capacity; and, thereby, improved public sector management capabilities (policy, provision, regulation, operation, and maintenance), with both public and private incentives linked to performance. The goals of this particular programme and related results are shown in Table 5.3 below.

Table 5.3 Administrative Reform and Restructuring Objectives and Results

Objective	Results
Sustainable institutional arrangements, resource optimization, adequate local capacity and skill development to deliver short and long-term trade, investment and private sector development goals	▪ Improving policy and management functions of Ministry of Commerce through administrative reform & restructuring, to reorient its role as a state regulator and facilitator ▪ Clarification of institutional roles of key stakeholder ministries, eradication of functional fragmentation and overlapping. ▪ Reform and restructuring, and rationalization of the roles of associated state-owned companies. ▪ a Building capacity of ministries and institutions in specific areas of trade, investment, transit, transport & PSD ▪ b Creating and operating new institutions for policy coordination, stakeholder

Table 5.3	Administrative Reform and Restructuring Objectives and Results
Objective	**Results**
	consultations and standards development in areas of trade, investment and PSD.

Trade, Transit, and Transport Facilitation

This sub-programme aims to enhance trade and transport competitiveness in Afghanistan by reducing logistical and other transit costs. It will implement the key policy recommendations from the trade and investment policy programme area, and will provide analysis and feedback to the other programme components regarding evolving trade facilitation issues. This will be a vital input to enhanced bilateral and multi-lateral trade discussions. Here, trade facilitation is defined as the process of removing obstacles to – and hence streamlining – trade transactions and related logistics, at and behind the borders. Objectives and results are laid out in Table 5.4 below.

Table 5.4	Trade, Transit & Transport Facilitation Objectives and Results
Objective	**Results**
To restrict obstacles to and hence, streamline trade transactions and related logistics at and behind the borders, with a view to reducing transactions costs and time delays.	▪ Harmonize and rationalize trade, transport, and transit, documents, procedures throughout Afghanistan, and enable their use in daily trade, transport, and related transactions. ▪ Bring a gradual and measured change from informal to formal transactions in trade, transport, and transit, transactions. ▪ Integrate Afghanistan into the regional and international transit and trade regimes—furthering the "land-bridge" agenda. ▪ Assess the cost of poor and "informal" trade facilitation for Afghanistan's economy ▪ Create a public-private institutional base for analysis, review, and revision, of evolving required trade facilitation measures

Infrastructure, Equipment, and Logistics

This sub-programme will facilitate the provision of supporting infrastructure (including information and communications) for development of the overall trade and investment programme. This includes facilitating the improvement of, and further creation of, trade related infrastructure such as industrial parks and access infrastructure (roads, airports, etc.). The Government will limit provision of infrastructure to bare essentials, while encouraging (wherever possible) further provision through either public-private partnerships or entirely by the private sector, in accordance with the objective and expected results outlined in Table 5.5 below.

Table 5.5	Infrastructure, Equipment, and Logistics Objectives and Results
Objective	**Results**
To create the enabling and supporting infrastructure, both in the public and private sectors, for the realization of the TIPS agenda.	▪ Create, rehabilitate, maintain, equip, and operationalize trade related infrastructure for b***oth public and private entities*** ▪ Create, rehabilitate, maintain, equip, and operationalize transit and transport related infrastructure

Direct Support to the Private Sector

The Government will provide an enabling environment to support and facilitate development of the private sector in Afghanistan – in particular by helping target private sector activities that: add value to the Afghan economy; assist in domestic business establishment and value addition; encourage legitimate business; have a competitive advantage in local and global markets; and can be developed in industrial clusters. The focus is on developing specific mechanisms for public-private partnerships. Objectives and results for this sub-programme are provided in Table 5.6.

Table 5.6 Direct Support to Private Sector Objectives and Results

Objective	Results
Enhanced (to full potential) productive capacity & work opportunities for the private sector.	▪ Promotion of private sector entities that significantly and rapidly add value to the Afghan economy, assist in import substitution, encourage legitimate business, have a competitive advantage in the local and global markets, and can be supported through industrial clusters.

IMPLEMENTATION AND CAPACITY BUILDING

Although the financial resources required for the TIPS programme are not extremely large, implementation will be challenging because of the institutional, policy, and capacity requirements. Thus policy design and implementation, institution-building, and capacity will be critical.

A trade, investment, and private sector regime that is not harmonized across the various tiers of the public sector management structure will lead to barriers to growth. Accordingly, provinces, districts, and municipal structures all have a role to play in implementation of policies. To ensure sustainability, public policy dialogue with traders and the private sector will remain a modus operandi for implementation. The Ministry of Commerce is planning to establish a Programme Management Unit to assist in managing the proposed programme, in line with the approach outlined in chapter 7.

Building central ministry and provincial capacities will be an important factor in the success of the programme. Institutional reforms will follow agreed public sector management reforms in line with the PRR decree (see chapter 4). Where interim capacity is required, this will be procured from the private sector through contracting. The Government envisages that TIPS will be executed by competent civil servants, and managers with appropriate skills and experience. The capacity of the private sector too will need to be enhanced, through the enabling environment and technical support. It is recognized that public-private partnerships should start small and can be expanded as the capacity of the local private sector builds up.

CONCLUSIONS

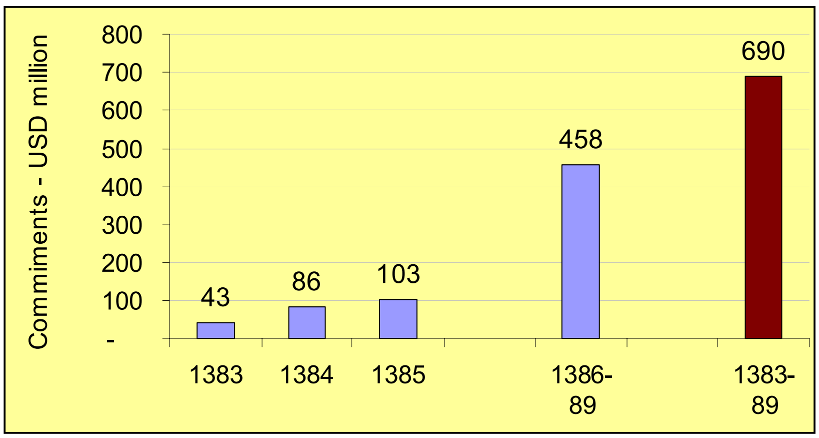
Overcoming the constraints to trade, investment, and more generally private sector development can best be achieved through: institutional capacity building for both public and private sectors; improved public sector management; formulation of a sound enabling regulatory framework for businesses; development of banking and insurance services; introducing standards, metrology testing, and quality certification services; labor market training and skill enhancement; land titling; infrastructure development for trade and investment; trade, transit, and transport facilitation; and direct support to the private sector where appropriate. The Afghan private sector also needs to benefit more directly from the present reconstruction process, and efforts to create partnerships and consortiums need to be given high priority.

Table 5.7 presents the investment requirements (US$ 690 million over the coming seven years) needed to enhance trade and the private sector as the centerpiece of the NDF, and the time profile of investments is illustrated in Figure 5.1.

Table 5.7 Trade and Investment Financing Requirements (US % '000,000)

Sub-Sector	1383-85	1386-89	1383-89
Trade, Investment, and Private Sector Development Policy	41	50	91
Administrative Reform and Restructuring	109	97	206
Trade & Transport Facilitation	12	8	20
Infrastructure, Equipment, and Logistics	55	200	255
Direct Support to Private Sector	15	102	117
TOTAL	**232**	**457**	**690**

Figure 5.1 Financing Requirement for Trade, Investment and the Private Sector



6. SECURITY[27]

INTRODUCTION

Security is the number one issue and constraint for Afghanistan's reconstruction. Without an adequate level of security, the country will fail to achieve key national goals for economic growth, political normalization and national reconciliation, reconstruction, and social development. Not only would the private sector not invest and Afghanistan fail to develop, but in the absence of adequate security recent progress on all fronts will be reversed, and resumption of large-scale conflict would become more likely.

Significant gains have been made in the security sector in the past two years which have laid a solid foundation for continued and accelerated reform. Achievements include: the inauguration of an Afghan National Army (ANA) and national police force; the commencement of major reform in the Ministry of Defense; the initial implementation of a disarmament, demobilization, and reintegration (DDR) programme; the formulation of a National Drug Control Strategy; the initiation of a comprehensive review of the country's judicial infrastructure; the establishment of the Afghan Independent Human Rights Commission (AIHRC); and steady progress in de-mining. These are important steps toward establishing security and the rule of law in the country, but they constitute only a beginning, and in order to guarantee further progress on this path a significant expansion and acceleration of security sector reforms is necessary.

Despite this progress, the security situation across parts of Afghanistan has deteriorated significantly over the past two years. While considerable success has been achieved in rebuilding state institutions and stimulating economic growth in Kabul and some other cities, adverse security conditions have prevented such progress in other areas, particularly in rural areas. This has served to fragment the reconstruction process, creating an untenable situation in which up to one-third of the population may have been deprived of any peace dividend.

In light of the ubiquitous security, economic, and social ramifications that the collapse of Afghanistan's peace-building process would have for the international community, security is an investment that donors cannot afford not to make. The US Government currently spends over US $11 billion per year on Operation Enduring Freedom, and the International Security Assistance Force (ISAF) peacekeeping mission is costing contributing nations roughly US$2 billion per year. Without the presence of these international forces, the likelihood of a resumption of violence and the country's re-emergence as a haven for international terrorists would have been high. However, dedicating approximately US$13 billion per year to combat insecurity is an unsustainable burden for the international community. If a fraction of this total were invested in the reconstruction of national security institutions over the next three years, this large commitment could be progressively phased out.

In the area of narcotics, Afghanistan produces three-quarters of the world's opium, up to 90 per cent of which finds its way in the form of heroin to the streets of Europe, with enormous adverse social implications. Consumption of opiates and heroin in neighboring and nearby countries is growing rapidly, stimulating further expansion of opium production in Afghanistan. The drug economy, which now comprises about one-third of the total national economy (see Chapter 1), strengthens the forces that are opposed to national unity, state-building, and rule of law in Afghanistan. Local and regional drug lords are becoming entrenched. Slow action on this front over the last 18 months has already allowed drug networks to become more entrenched, with poppy planting being reported in areas of the country that have no history of opium production. The risk of a complete descent into a

[27] The preparation of this part of the text was facilitated by UNAMA, in consultation with ministers of the Government of Afghanistan in the security sector. Given that the preparation of the security sector strategy for Afghanistan is an evolving process at the time of print, this part of the report has been included with the understanding that it may be supplemented or superceded by a more updated strategy currently under preparation by the office of the National Security Adviser.

narco-mafia state continues to increase. Extracting Afghanistan from such a state will be far more costly than the estimates contained in this paper to secure Afghanistan's future. Moreover, given the established direct and indirect links between opium production and terror networks, failure to stop this slide will impose even greater costs in terms of weakening regional and global stability and security.

Insecurity in Afghanistan is a grave threat, not just to the Afghan people and their Government, but to the international community as well. The sooner national security institutions can be established, the sooner the international community will be able to disengage its forces from the country and the outflow of drugs can be curtailed. It is clear that the costs of inaction on the security front in Afghanistan are more prohibitive than the costs of action.

To effectively combat Afghanistan's security problems, a strategy featuring both short-term and medium-term dimensions is required. In the short run (1 to 3 years), a large investment of donor funds is required to accelerate the creation of Afghan security forces able to strengthen the rule of law and help establish the writ of the Government across the country. This investment will help address Afghanistan's immediate security problems and create an enabling environment for the reconstruction and development process. Over the medium term (4 to 7 years), there will be increasing reliance on Afghan national security institutions, but substantial amounts of external assistance will continue to be required to ensure the efficacy and sustainability of these structures. In the long run (7 to 12 years) donor support would continue, focused on training and administrative reform. This long-term reform process will only succeed if it receives the unwavering support of the international donor community.

With hindsight it is now clear that the scale of external support required to rebuild and reform Afghanistan's security sector was grossly understated in the original Afghanistan Reconstruction Needs Assessment, prepared at the end of 2001 (which had not fully incorporated security expenditures and assumed an improvement in security that did not materialize). Hence the January 2002 Tokyo Donors Conference, while a landmark event for Afghanistan, did not generate sufficient resources for security. Only in 2003, following a series of alarming security incidents, did the extent of the security crisis and the true cost of addressing it become fully apparent. This chapter will outline the national strategy and international partnerships required to make a breakthrough in terms of improving security and sustaining improvements over the medium to longer term, and will assess the cost.

STRATEGIC GOALS AND FRAMEWORK

The overall objective of security sector reform is to strengthen the capability of the sector to provide a safe and secure environment for all Afghans. The success of Afghanistan's state-building enterprise depends on the establishment of a well-functioning and well structured security sector. The institutions that fall under its umbrella are needed to provide a basic level of safety and security in public and private life for all men, women and children and to facilitate a return to normalcy in the political, economic, and social spheres.

To achieve this objective the following steps must be taken to: establish democratic oversight over all security forces; ensure that resources are rationally and efficiently distributed within the security sector and through the budget; prepare security forces to meet existing threats and provide the civilian population with an adequate level of security; and clearly delineate the tasks and responsibilities of the various security forces and institutions to avoid overlap and redundancies.

KEY ISSUES AND CONSTRAINTS TO IMPROVING NATIONAL SECURITY

In spite of significant gains made by the Government, in partnership with the international community, the security sector reform process has been beset by difficulties since its inception. These relate broadly to low levels of targeted resources and the search for appropriate coordination structures. A summary of constraints by sub-programmes is provided below:

Police: While there has been some good progress in certain areas, the police reform process initially suffered from poor coordination among stakeholders although in some areas this has now been addressed, other constraints include insecurity; corruption and a lack of capacity; and shortfalls in funding.

Counter-narcotics: To date, the main obstacles to progress on counter-narcotics have been the involvement in the drug business by nearly all sections of society; deteriorating security conditions; the need for an agreed action plan and investment programme to implement the NDCS; the need for coherent, consistent, credible, and well-targeted external support; and the current low level of Government capacity in this area.

National Army: This programme has encountered difficulties in attracting and retaining qualified recruits and suffers from an ethnic imbalance. Recent outreach efforts, targeted recruitment, and a greater focus on retention have partially addressed this concern. A second challenge is the dual focus of the Ministry of Defense on both the ANA and also the pre-existing AMF.

Justice: The reform process is confronted with the following challenges: the need for mechanisms and rules to ensure the independence of judges and to manage the perceived excessive concentration of power and functions within the Supreme Court; the current level and reliability of internal security forces; perceptions of corruption and nepotism; a lack of human capacity in terms of qualified criminal justice professionals; inequities between women and men in access to, interpretation and application of justice, and the low level of adequate correctional facilities and related resources.

Human Rights: The predominant human rights challenge in Afghanistan is the historical record of human rights violations and the perception that this is continuing. Major challenges involve allegations around: forced conscription of civilians, including under-age boys; the existence of private jails and places of detention; and arbitrary and politically-motivated arrests by police and other security forces, ill-treatment, and torture of detainees. Concerns also persist around issues including forced marriages; abductions; and the level of surveillance undertaken by multiple intelligence and security agencies.

Violence against women, particularly abuses by security forces, military, militias and police has been considerable over the years. The Government policy is clear that all such incidents are an abuse of human rights and they will not be tolerated.

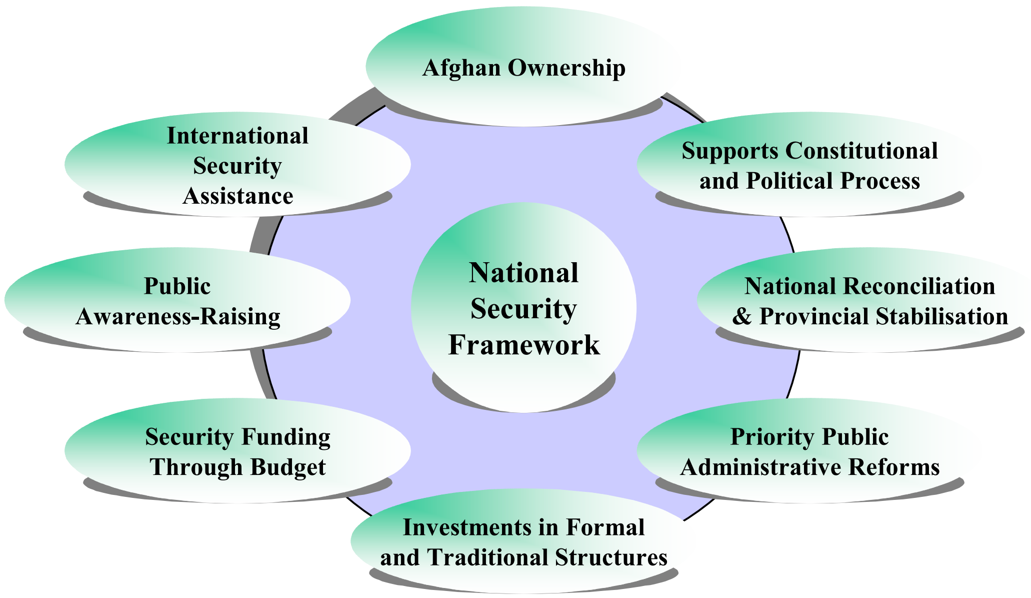
Disarmament, Demobilisation Reintegration (DDR): To replace the 'rule of the gun' with the 'rule of law' in Afghanistan, it is essential to break down the destructive patronage-based power structures that pervade the country. The Government of Afghanistan currently does not have a monopoly on the use of coercive force. The implementation of a DDR programme is seen as an essential element in altering this situation.

De-Mining: A number of challenges remain in order to reach the ultimate goal of a mine-free Afghanistan. Legislation needs to be enacted by the Afghan Government; mine and UXO clearance operations will have to continue; mine risk education should be fully integrated into community structures so that all Afghans are sensitized to existing dangers; and landmine survivors must be provided with assistance to reintegrate and become productive members of their communities. Finally, stockpiles of mines must be destroyed to prevent the recurrence of this scourge in the future.

DEVELOPING A UNIFIED NATIONAL SECURITY FRAMEWORK

A multi-sectoral donor support model, in which individual donor countries have been requested to take the lead on different components has determined the pace and direction of security sector reform. The rationale behind this was that by giving donors a direct stake in the process, their long-term engagement would be assured. A unifying strategic framework has recently been established through initiatives in the Security Sector Working Group and under the guidance and leadership of the President. This will ensure a coherence and continuity among the various components of the security sector. This framework (see Figure 6.1 below) will encapsulate the following elements:

Figure 6.1 Proposed National Security Framework



Afghan Ownership*:* The only actor that can effectively coordinate the security sector reform process and fill the leadership void over the medium to longer term is the Afghan Government. Sustainable reform cannot be achieved if it is donor driven. Factionalization and a lack of human capacity have encumbered Government efforts to assume this role; however, this can also be attributed to the proclivity of certain donor states to pursue initiatives outside the development framework and without adequate Governmental consultation.

Efforts to invest the Government with authority over the security sector reform process must be made. To achieve this objective, a consensus needs to be fostered among the various security ministries and institutions, and their capacity must be developed through training and administrative reform. The Afghan National Security Council (NSC) will coordinate the activities of these ministries and institutions, as well as the actions of donor states as envisioned when the NSC was created. Structures intended to institutionalize and regularize consultation and coordination among the principal stakeholders in the process would be created under the auspices of the NSC. The establishment of a security steering group, that is chaired by the NSC and meets on a bi-monthly basis, would fill this role.

The responsibilities of ensuring civilian control over the armed forces and monitoring its fiscal transparency, which are core objectives of the security sector reform process, can also be advanced by the NSC. The first step in this process – placing the President as the Commander-in-Chief of the armed forces – has been enshrined in the Constitution. The NSC, directly accountable to the democratically elected Government, will be developed as a tool of choice to provide much needed oversight of the security sector.

Funding Security Reforms through the National Budget: Shortfalls in funding for security sector reform can be attributed as much to the ineffective disbursement of donor aid as to an overall lack of funds. The bulk of donor support in the security sector has been allocated to projects outside the budgets of the security institutions. Considering the high levels of alleged corruption and the lack of viable accountability safeguards, donor states have been reluctant to commit funds directly to Afghan Government institutions; however, by circumventing line ministries[28] they have effectively disempowered the Government and divested it of its leadership role in the process.

To foster donor confidence in Afghan institutions, reform efforts could be linked to aid disbursements through benchmarks. Internationally-administered trust funds, with clear monitoring capacity, would also provide a solution. In the longer term (2015), it is vital that the level of security funding through the budget is fiscally sustainable while not undermining public spending on other important areas of investment (country comparisons of defense spending are outlined in Table 6.1 below), such as health and education. Given revenue projections, external assistance to build up core capabilities must be cognizant of the need for sustainability.

Table 6.1 Country Comparatives for Defense Spending

	Defence Expenditure			
Country	**(US $ million)**	**As % of GDP**	**As % of Budget**	**Per Capita ($US)**
Afghanistan	200	4.1	36.4	9.0
Algeria	2300	1.4	12.2	71.3
Angola	2200	7.7	88.0	207.7
Armenia	135	6.5	29.5	40.5
Bangladesh	570	0.3	8.4	4.3
Cambodia	112	3.0	21.1	8.8
Columbia	3300	3.4	12.9	80.4
Eritrea	138	4.1	22.5	31.0
Ethiopia	600	1.4	31.6	8.9
FYR Macedonia	200	6.0	21.1	97.3
Georgia	80	0.6	14.4	16.1
Kazakhstan	173	1.0	3.4	10.3
Kyrgyzstan	19	1.4	8.0	4.0
Morocco	1530	4.0	10.5	44.9
Paraguay	90	1.4	4.5	15.3
Sri Lanka	770	4.2	18.8	36.7
Sudan	581	2.5	30.6	15.7
Tajikistan	35	3.9	1.8	5.3
Turkmenistan	280	1.3	42.5	59.7
Uzbekistan	300	0.5	12.0	11.7
Yemen	483	5.2	15.6	25.8

Regional Security Framework: The influence and interference of neighboring states in Afghanistan historically has been one of the principal sources of conflict and division in the country. Afghanistan's geopolitical importance has impelled regional states to compete for influence and pursue their interests via proxies, a tactic that has served to fragment the country along ethnic, religious, and political lines.

To arrest the growth of insecurity in Afghanistan, it is critical that regional states cease all support for sub-state actors – individual parties, tribes, and warlords. A significant step toward achieving this goal was made with the signing of the Kabul Declaration on Good-Neighbourly Relations, a pledge of non-interference by Afghanistan's immediate neighbors – Pakistan, Uzbekistan, Turkmenistan, Tajikistan, China, and Iran – signed on 22 December 2002. The international

[28] While the circumventing of line departments is not particular to the security sector, it has considerable implications in the early years of reconstruction given the centrality of such reforms in guaranteeing law and order.

community must exert pressure on the signatories of this declaration, along with other states with a history of intervention in Afghanistan, to observe the agreement's fundamental principle: the inviolability of Afghanistan's sovereignty.

International Security Assistance: Regardless of the level of resources and attention that is dedicated to the security sector reform process, it will take up to three years for national security forces to reach their full capacity. The resultant security gap will undermine progress on reconstruction and state-building. An international military commitment to Afghanistan's security, either in the form of an expansion of the International Security Assistance Force (ISAF) or of the Provincial Reconstruction Team concept, will be required to fill this void.

INVESTMENT REQUIREMENTS AND FINANCING

Security is a precondition for development in the short term, while over the long term development is the key to ensuring the sustainability of security and stability. Security sector reform is the vehicle that can achieve the baseline of security needed to advance the reconstruction and development process. This strategic approach has both a short-term and long-term dimension. The short-term dimension calls for massive international investment and engagement to create an enabling environment for reconstruction activities, with an increasing focus on provincial stabilization, while the long-term dimension emphasizes efforts to mold the nascent Afghan security institutions into efficient and effective bodies that meet international standards. Afghanistan's path to security is contingent on the contribution of the necessary investments from the international community – if they do not materialize and the status quo remains, the peace-building process will fail.

Investing in the Afghan security sector will also produce significant dividends for the international community, in terms of both the international war against terrorism and efforts to combat the narcotics trade. It will also allow states contributing military forces for the stabilization of the country to disengage earlier rather than later. As mentioned, the costs of inaction far outweigh the costs of action for the international community. Table 6.2 presents a summary of national security reform investment needs. In addition, recurrent costs in the order of US$ 2.4 billion (mainly wages for the police and army) will be required over the next seven years to finance this programme.

Table 6.2 Financing Requirements (US$ 000,000)

Sub-Sector	1383-85	1386-89	1383-89
National Police and Law Enforcement	504	140	645
Counter-narcotics	98	66	164
National Army	754	289	1043
Justice[29]	73	20	93
Disarmament, Demobilization, and Reintegration	117	100	227
Mine Action	224	196	420
TOTAL	**1,770**	**811**	**2,592**

Note: At the time of printing the costs of direct drug eradication efforts were not available so they have not been included at this stage and will need to be added to the financing requirement for counter-narcotics.

NATIONAL POLICE AND LAW ENFORCEMENT

The core of an effective internal security structure is a national police service that conforms to international standards of policing and inspires the trust and respect of the populace. The Government, in conjunction with the principal donor states in this sector, has set a goal of creating a uniformed police force of 50,000 supported by 12,000 border police, by December 2005. The implementation of administrative reforms, infrastructure development projects, and capacity

[29] Funding for Human Rights is incorporated under investments in the national Justice reform programme.

building measures will ensure that by 2010 Afghanistan will possess a fully professional force conforming to international standards of policing. Table 6.3 summarizes the status and accomplishments for national police and law and enforcement, and Table 6.4 shows the targets for the period of this strategic framework.

Table 6.3 Status and Accomplishments National Police and Law Enforcement
▪ Re-establishment of police central command in Kabul and initiation of reforms in the Ministry of Interior. ▪ Rehabilitation of the Kabul Police Academy, responsible for training the officer/NCO corps of the police services. ▪ Establishment of a constabulary training programme. ▪ Establishment of the UNDP-administered Law and Order Trust Fund for Afghanistan (LOTFA) to assist the Ministry of Interior to cover its recurrent budgetary expenses, most importantly salaries. ▪ Provision of equipment to enhance police communications and mobility.

Sector Needs and Priorities

i. *Maintain the Momentum of the Training & Capacity Building Process:* The current pace of training, if maintained, is sufficient to reach the required force target of 62,000 by 2006. After the conclusion of the training process, monitoring and extended supervision by a team of police experts must continue until 2010.

ii. *Provision of Equipment*: The police lack vital equipment necessary to carry out their duties, notably weapons and vehicles. Equipment is required over the next three years, so that by the conclusion of the training programme all police officers in the country will possess the necessary tools to carry out their duties.

iii. *Accelerate Administrative Reform of the Ministry of Interior:* Comprehensive reform of the Ministry of Interior must be undertaken as a matter of urgency.

iv. *Accelerate the Establishment of Special Branches of the Police:* To address the diverse array of security threats that confront Afghanistan, including terrorism, narcotics, and other aspects of the criminalized economy, specially-trained and equipped units are to be formed within the next three years.

v. *Reform of the National Directorate of Security (NDS)***:** This institution is a legacy of the Soviet occupation and requires comprehensive reform and modernization.

vi. *Extend LOTFA:* LOTFA is scheduled to end in June 2004. However, in view of the need for continuing external funding of the police, it will need to be extended for three years or more.

vii. *Rationalize the Salary Payment System:* A review of the pay and benefits provided to the police needs to be undertaken in the context of a broader civil service pay and grading reform. This reform needs to balance the fiscal capacity of the State with the need to ensure that the police are adequately remunerated.

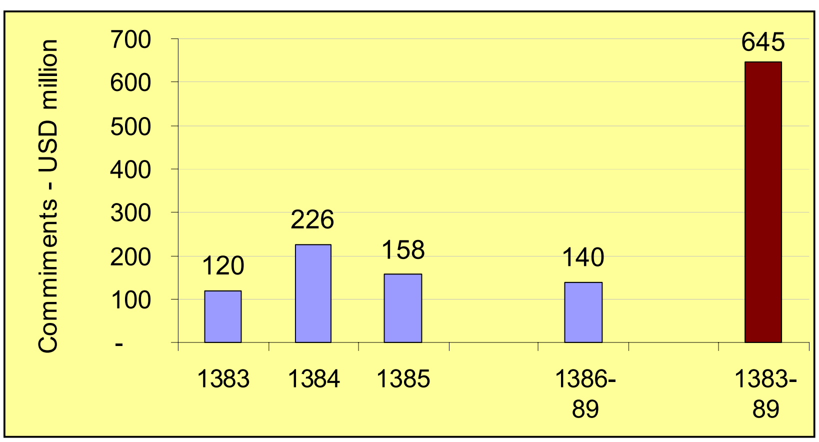
The following key targets (see Table 6.4 below) have been established for this investment programme. The time profile of investment requirements is shown in Figure 6.2.

Table 6.4 Summary National Police and Law Enforcement Targets

1383-85	1386-89	1390-1394
▪ Completion of training/re-training of 62,000 police ▪ Procurement of all basic police equipment. ▪ Completion of Interior Ministry structural reforms. ▪ Launch of Interior Ministry civil service reform, including a recruitment and redeployment drive. ▪ Initiation of UNAMA Model District Programme and the overhaul of 50 districts. ▪ Establishment of Highway Patrol, Crime Laboratory, Counter-Terrorism Department. ▪ Acceleration of reforms of the NDS. ▪ Extension of LOTFA until 2006. ▪ Modern salary payment system developed and the average wage increased to a level commensurate with the standard of living. ▪ Launch of public information campaign to educate Afghans on the role and duties of the police.	▪ Initiation of on-the-job training for uniformed and border police. ▪ Establishment of mobile international police monitoring teams to assess the progress and capability of the police. ▪ Rehabilitation of the State Office of Criminal Investigation. ▪ Completion of Ministry of Interior civil service reforms. ▪ Completion of reforms of NDS.	

The key to implementing this reform programme is the establishment of mechanisms to continue to ensure greater coordination among stakeholders through mechanisms that encourage donors to maintain delivery schedules. With so many actors engaged, the risk of overlap or divergence and gaps is great. A new consultative body or task force that assembles a diverse array of actors is to be formed, both to augment cooperation and to enhance national ownership. The police training process is currently on track and should be completed on schedule by 2006. However, reforms of the Interior Ministry and police structures at the provincial and district level have lagged behind. The training process will have little impact if the civil service and police remain ill-equipped and disorganized, and do not have the trust of the community. It is vital that structural and administrative reforms must parallel training efforts.

Figure 6.2 Financing Requirement for National Police and Law Enforcement



COUNTER-NARCOTICS

The goals and objectives in the counter-narcotics area are set forth in the National Drug Control Strategy (NDCS) for Afghanistan, which was approved by the President on 18 May 2003. The NDCS comprises the following five key elements – the provision of alternative livelihoods for Afghan poppy farmers; the extension of drug law enforcement throughout Afghanistan; the implementation of drug control legislation; the establishment of effective institutions; and the introduction of prevention and treatment programmes for addicts. The overall goal is to eliminate the production, consumption, and trafficking of illicit drugs into, within, and from Afghanistan by 2012.

While the NDCS provides a specific targeted approach to counter-narcotics, it is important to remember that the underpinning element of any counter-narcotics strategy is robust, sustained economic growth. It is only this growth that will provide sustainable alternative livelihoods for those currently in the poppy industry; and it is this growth, coupled with an aggressive revenue effort that will fund the interdiction efforts on a sustainable basis.

The current status of the national counter-narcotics programme is shown in Table 6.5 below.

Table 6.5 Status and Accomplishments: Counter-narcotics

- Creation of the Counter Narcotics Directorate (CND) under the auspices of the National Security Council of Afghanistan to provide technical support and advice to relevant Ministries and to ensure the timely implementation of national drug control objectives.
- CND offices opened in Jalalabad, Kandahar, Faizabad, Mazar-i-Sharif and Herat.
- Aggressive eradication in targeted areas
- Adoption of the NDCS aimed at eliminating the production, consumption, and trafficking of illicit narcotics into, within, and from the country.
- Inauguration of a Counter-Narcotics Police of Afghanistan (CNPA) within the Ministry of Interior.
- CNPA offices established, staffed, and resourced in Kabul and seven regional centers: Kandahar, Jalalabad, Lashkargar, Herat, Mazar-i-Sharif, Kunduz, and Faizabad.
- National communications system for Afghan drug law enforcement procured with the assistance of UNODC, who are providing equipment and refurbishing offices in all of these centers.
- National Drug Law adopted on 20 October 2003.
- Programmes to build the capacity of the Afghan authorities in drug demand reduction initiated.

Sector Needs and Priorities

Short-Term to Medium-Term (2003–2006)

The NDCS needs to be put into operation through a coherent long-term action plan and investment programme. It will be essential to ensure that the immediate steps identified in the NDCS are taken. This means first building the capacity of key institutions such as CND, CNPA, and the Border Police through intensive training, careful selection of qualified staff, and large-scale capacity-building efforts. As the capacities of these institutions expand, they must become more operational. It is also critical that major eradication efforts are undertaken in 2004. These priorities will require major financing of both capital costs and recurrent costs on a scale consistent with the challenge facing these institutions.

A clear action plan and investment programme needs to be put in place to eliminate opium production over time in line with Government targets. This will require a broad and concerted set of actions. First and foremost, it will require the drawing up of a tactical programme, setting out provincial and local level actions, which will be a balance of alternative livelihoods approaches and law enforcement, the balance being determined by equity, security, and political/prudential considerations. The financing of both alternative livelihoods and law enforcement actions will be essential. Monitoring and evaluation will be a vital component, allowing judgments and decisions to be taken and validated objectively.

Medium-Term to Longer Term (2006–2010)

i. *Institutional development* – CND, CNPA, and Border Police: Capacity-building of the CND is expected to be complete by 2006. Operational costs of the headquarters and provincial CND offices will, however, need to be met. The establishment of CNPA offices in each province as well as border control posts will continue in the medium-term.
ii. *Alternative livelihoods:* Work in the alternative livelihoods sector must continue

throughout the medium-term to create and sustain the conditions for farmers and their family members to cease growing poppy.

iii. *Law enforcement* – Eradication: Eradication programmes will need to continue. Attention will also need to focus increasingly on other drugs (marijuana in particular) to ensure former opium poppy farmers do not turn to other illicit livelihoods.

iv. *Law enforcement* – Intelligence, Investigation, and Interdiction: Intelligence, investigation, and interdiction work, as well as strict border control, must continue during this period. Law enforcement activities must make the drug trade as risky and unattractive as possible.

v. *Demand reduction:* In the medium-term, basic demand reduction services/facilities needs to be established in all provinces, and national drug awareness programmes must continue.

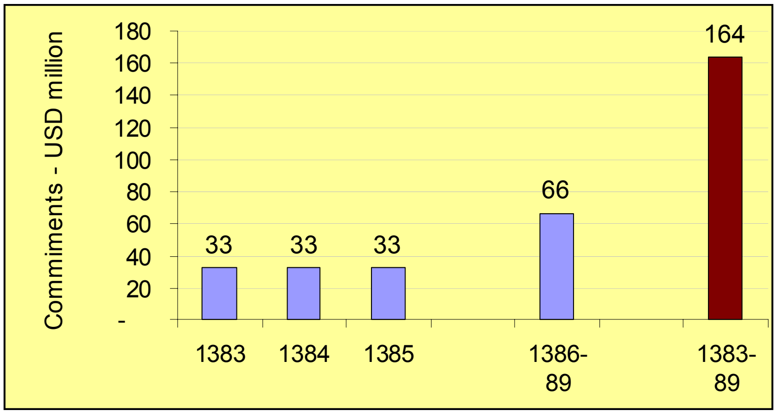
Table 6.6 summarizes the various targets established under national counter-narcotics investment programme.

Table 6.6 Summary of National Counter-narcotics Targets

1383-85	1386-89	1390-1394
▪ Establishment of NDCS through a coherent long-term action plan and investment programme. ▪ Capacity-building of key institutions such as the CND, CNPA and the Border Police. ▪ Development of a tactical programme, setting out provincial and local level actions, which will balance alternative livelihood approaches and law enforcement. ▪ Introduction of monitoring and evaluation mechanisms for the programme. ▪ Establishment of CNPA offices in each province as well as border control posts. ▪	▪ Continuation of work in the alternative livelihoods sector. ▪ Continuation of intensive eradication programmes, with more attention on other drugs such as marijuana. ▪ Continuation of intelligence, investigation, and interdiction work, as well as strict border control. ▪ Basic demand reduction services/facilities established in all provinces and national drug awareness programmes will continue.	▪ Opium poppy cultivation reduced to minor levels. ▪ Staffing levels of CND reduced. ▪ CND focuses on ensuring that a recurrence in opium poppy cultivation does not take place and to complete the eradication of all illicit drugs. ▪ Continuation of work in the alternative livelihoods sector. ▪ Maintenance of basic demand reduction services/facilities and national drug awareness programmes.

The cross-cutting nature of counter-narcotics requires that the NDCS be implemented by line ministries – in particular, the Ministry of Rural Reconstruction and Development, the Ministry of Interior, the Ministry of Justice, the Ministry of Health, and the Ministry of Education. Figure 6.3 provides a summary of the time profile of financing requirements for Counter Narcotics. More international donors need to become involved in supporting this area, including, in particular, EU member states and Afghanistan's neighbors, both of which suffer the economic and social consequences of heroin consumption within their borders.

Figure 6.3 Financing Requirement for Counter Narcotics



NATIONAL ARMY

The establishment of a non-political and effective Afghan National Army (ANA) is a precondition for security and stability in Afghanistan. The primary task of this force will not be to defend Afghanistan from foreign invasion, a capability that would take decades to develop, but to insulate the state from internal and regionally-based groups, intent on undermining the Government's authority. Although the ANA training process has encountered a number of obstacles, the objective of reaching a critical force size of 20,000, which would allow it to project its power across the country, appears achievable over the next three years. Table 6.7 provides a summary of the current status and accomplishments of this national programme.

Table 6.7 Status and Accomplishments: National Army
▪ Reforms of the Ministry of Defense were undertaken; two shuffles of personnel took place, one of which resulted in 22 new appointments at the senior level in the Ministry. ▪ The ANA training process, overseen by the US out of the Kabul Military Training Centre (KMTC), produced 5,200 troops. ▪ ANA units have been successfully deployed in the south and east of the country.

The following sector needs and prioritises have been established under this national programme.

Short-Term (2004–2006)

i. *AMF:* It is unclear what the force size of the AMF will be in 2-3 years. This will depend on the policy decisions around the AMF and the pace of DDR and the ANA training processes. The basic patrolmen from the AMF would be replaced by national police

ii. *Afghan Air Force (AAF):* During Phase 2 of the ANA training process, the creation of an Afghan Air Force is envisaged to provide air lift capabilities to the army.

iii. *Ministry of Defense Reform:* For the Ministry of Defense, civil service reduction will ideally be completed by 2006, resulting in a staff reduction of 30,000.

iv. *Equipment:* Modern, mobile, and precise artillery equipment is needed for the type of counter-insurgency operations that the ANA will be expected to undertake.

Medium-Term (2007–2010)

i. *ANA:* By 2010, it can be expected that the Ministry of Defense will have assumed full control over the ANA and will therefore incur the bulk of the costs associated with its maintenance. The strength of the ANA by this time will reach 40,000.

ii. *AAF:* The AAF will have developed an airlift capacity.

iii. *AMF:* The disbandment of the AMF will have been completed.

Long-Term (2011–2015)

i. *ANA:* The ANA may expand to its projected ceiling of 60-70,000 men, although it is not certain whether this will be the final force target.

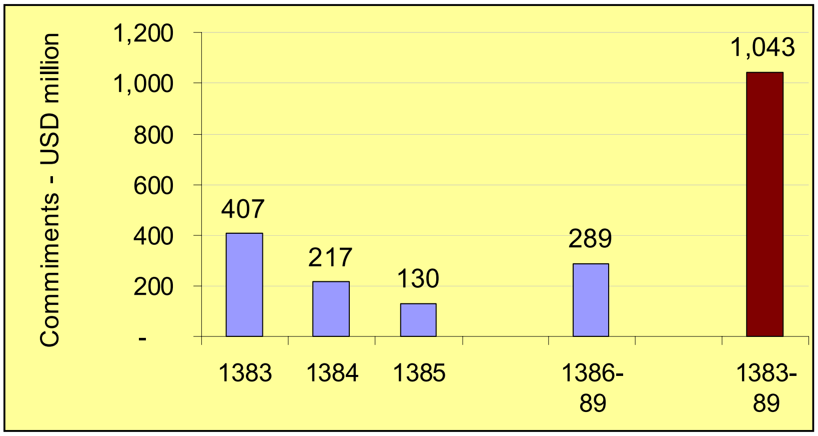
Table 6.8 overviews the key national targets for the National Army investment programme.

Table 6.8 Summary of National Army Targets

1383-85	1386-89	1390-1394
▪ Acceleration of ANA training process – 20,000 soldiers produced by 2006. ▪ Continuation of AMF demobilization through DDR. ▪ Rapid reform, re-training, and re-equipping of special units of the AMF as an interim security measure until ANA is operational. ▪ Creation of an Afghan Air Force (AAF). ▪ Completion of Ministry of Defense civil service reduction, resulting in staff reduction of 30,000. ▪ Completion of the next phase of Ministry of Defense structural reforms, resulting in the appointment and training of 309 mid-ranking officials. ▪ Modern equipment procured for the ANA, notably mobile and precise artillery.	▪ Ministry of Defense assumes full control over the ANA from the United States. ▪ ANA reaches a force size of 40,000. ▪ AAF develops airlift capacity. ▪ AMF disbandment completed.	▪ ANA expands to projected ceiling of 60,000-70,000 troops.

The nature of the insurgent threat that faces Afghanistan demands the creation of a national army. A modest-sized, streamlined force, capable of being deployed rapidly to any area of the country, would meet the medium- and long-term needs of Afghanistan. Its importance transcends its utility as a tool to contain internal disorders, as it will also serve as a symbol of national unity. Given the current fiscal situation, the ANA will remain dependent on international donors for the foreseeable future, especially in regard to the procurement of equipment, thus dedicated and durable donor commitments are required. See Figure 6.4 for the time profile of financing requirements.

Figure 6.4 Financing Requirement for the National Army



JUSTICE

In Afghanistan, the strengthening of a governance system based on the rule of law is key for the success of reconstruction. It provides an enabling environment for development and economic investment and builds public confidence in the current political framework. The overarching goal of the judicial rehabilitation process is to create a functioning justice system, conforming to national and international standards and principles, which will guarantee that the rights of all citizens will be respected and protected before the law.

In pursuing this objective it is critical that international partners recognize that a formulaic, "one-size-fits-all" approach is unlikely to be successful. Local actors must be engaged in the process from the start, and the three main permanent institutions – the Supreme Court, the Ministry of Justice, and the Attorney General's Office – must be reinforced. The long-term aim is to create strong, durable, and sustainable local institutions that will retain their authority when the international community reduces the level of its involvement in the provision of security. The current status and accomplishments of this programme are summarized in Table 6.9 below.

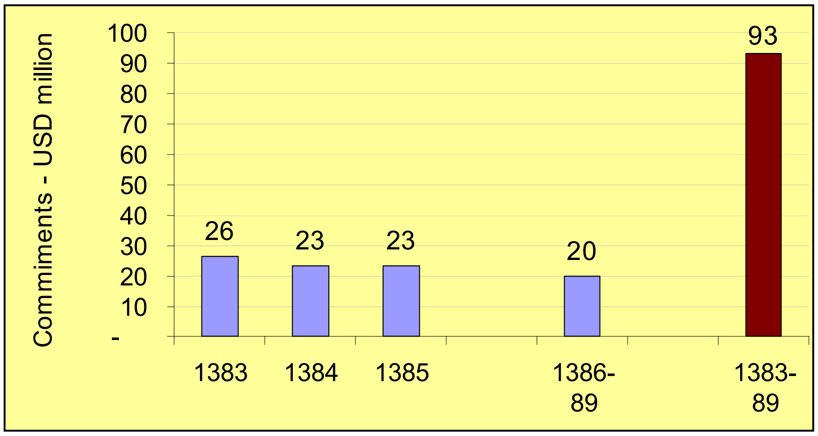
Table 6.9 Status and Accomplishments: Justice
▪ Training for magistrates and defense counselors. ▪ Physical rehabilitation of judicial infrastructure including correctional facilities underway. ▪ Law collection completed, revision and simplification underway. ▪ Public awareness activities via radio and TV launched. ▪ Preliminary research on traditional justice mechanisms and structures undertaken.

Table 6.10 presents the key national targets for the national justice reform programme, based on the detailed technical assessment.

Table 6.10 Justice Reform Targets		
1383-85	**1386-89**	**1390-1394**
▪ Strengthening of the administrative and management capacity of the Supreme Court, Attorney General's Office and Ministry of Justice. ▪ Renovation/reconstruction of headquarters for the Supreme Court, Attorney General's Office and Ministry of Justice – Kabul. ▪ Reconstruction of the judicial apparatus in 15 provincial centers and key districts. ▪ Strengthening of legal education ▪ Establishment of sound procedures and a database to record caseloads and court decisions disaggregated by sex, age, class and ethnicity. ▪ Distribution of legal publications including gazette ▪ Introduction of an automated data system for prisoner registration and tracking. ▪ Construction and rehabilitation of prisons and correctional facilities including Kabul's women's prison, young offenders facility, four regional facilities and Pul-i-Charkhi prison ▪ Establishment of a National Training Centre for justice professionals and development of basic correctional officer training programme. ▪ Establishment of a Law Revision Unit within the Legislative Department of the Ministry of Justice. ▪ Revision of laws in compliance with Constitution and national commitments to universal treaties in key areas, including relating to public administration, procedural codes, trafficking, organized crime, counter-narcotics, land and corruption ▪ Establishment of a Bar Association; ▪ Establishment of functioning jurisprudence archive and publication of decisions.	▪ Completion of the reconstruction of the judicial apparatus in 23 provincial centers and key districts. ▪ Recruitment of qualified staff ▪ Circulation of compilations of court and Jirga decisions (disaggregated by sex and other social indicators) to all relevant courts, prosecutors, and the Ministry of Justice. ▪ Completion of an evaluation of the first seven years of reform ▪ Completion of law revision ▪ Addition of 4 specialized correctional facilities ▪ Submission of initial and/or periodic reports to the human rights treaty bodies.	▪ Completion of the reconstruction of the judicial apparatus in 32 provincial centres and key districts. ▪ Recruitment of qualified staff for the remaining 9 provinces.

There is a need for greater coordination in the judicial rehabilitation process, not only among the principal Afghan actors in the sector (Chief Justice, Attorney General, and Minister of Justice) but also among the main donor states to ensure that the strengthening of the justice system is effectively supported. Figure 6.5 summarizes the time profile of financing requirements for the Justice Sector.

Figure 6.5 Financing Requirement for the Justice Sector



HUMAN RIGHTS

After more than two decades of war and internecine violence, a culture of impunity has become the norm rather than the exception in Afghanistan. People will not begin to feel secure and develop confidence in the authority of the State until accountability mechanisms designed to redress human rights abuses are established. This is a long-term process that may take up to a decade to reach a satisfactory conclusion. However, the next 2-3 years represents a critical formative period in which human rights institutions and capacity must be built, awareness raised, and a societal consensus sought. Table 6.11 overviews the current status and accomplishments in the area of human rights.

Table 6.11 Status and Accomplishments: Human Rights

- The Afghan Independent Human Rights Commission (AIHRC) was established by Presidential decree in June 2002 and institutionalized in the constitution.
- AIHRC headquarters opened in Kabul and seven satellite offices established in Herat, Bamiyan, Mazar-i-Sharif, Jalalabad, Gardez, Kandahar, and Badakhshan.
- Offices staffed with professionals in the five areas of the Commission's work: Monitoring and Investigations, Human Rights Education, Women's Rights, Children's Rights, and Transitional Justice.
- The Commission has hired over 300 staff.

Sector Needs and Priorities

i. Institutionalization of the AIHRC: Although the AIHRC's role may be entrenched in the Constitution, its mandate still needs to be clearly articulated in law.

ii. Legal aid: Sustainable legal aid mechanisms that would increase access to justice, especially by disadvantaged groups (women, refugees and IDPs, rural communities etc.), are to be created;

iii. Land: Disputes over land are a major source of conflict and human rights abuses. To address this problem, a sustainable system for land allocation, distribution, and registration will be established;

iv. Establishment of human rights units at the satellite offices of the Ministry of Interior in at least 20 provinces over the next year (2004). These units can be extended to the rest of the country during the following year (2005);

v. Publication of a simplified police manual with a human rights component in all official languages.

Because of the urgency of actions on the human rights front, all of the targets presented in Table 6.12 are for the period 1383-85.

Table 6.12 National Targets for the Human Rights Reform Programme

1383-85	1386-89	1390-1394
▪ Entrenchment of (i) AIHRC in law; (ii) legal aid mechanisms; (iii) human rights focal points in each national justice institution; (iv) an equitable system for land allocation, distribution, and registration; and (vi) human rights units at all provincial offices of the Ministry of Interior. ▪ Publication of a simplified police manual with a human rights component in both Pashtu and Dari. ▪ Provision of concerted financial and political support for the AIHRC from donor states, inter Governmental organizations, and non-Governmental organizations.		

The key to implementing this programme is coordination and Government ownership. The cross-cutting nature of the human rights sector dictates the need for close coordination across Government institutions, civil society, and international donors. The AIHRC can serve as the focal point for the process, but without widespread support from and within these bodies it will make little headway.

DISARMAMENT, DEMOBILIZATION, AND REINTEGRATION OF EX-COMBATANTS (DDR)

The text for DDR was received too late from the DDR Commission to meet the deadline for inclusion in this electronic version. It will be available on or around March 24 and included in the final published version of this report.

Table 6.13 Status and Accomplishments: DDR

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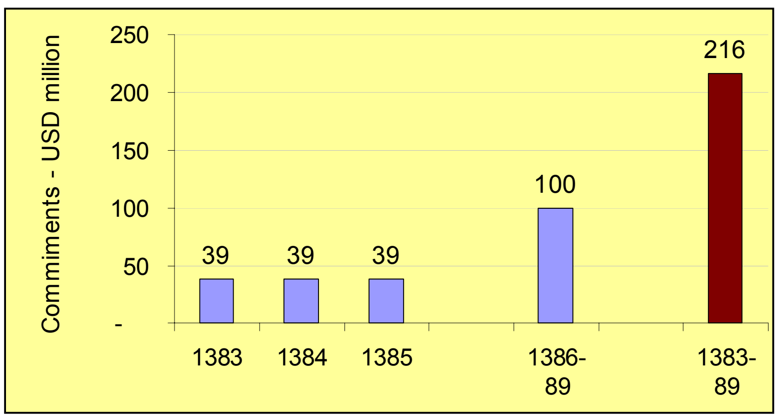
▪

Table 6.14 Summary of National DDR Targets

1383-85	1386-89	1390-1394
▪		

Figure 6.6 Financing Requirement for DDR



MINE ACTION

The goal of the mine action programme is to free Afghanistan from the threat of landmines and unexploded ordnance, thereby providing a safe environment conducive to development. By 2007, the impact of landmines and UXO will be removed from all high impacted areas in all regions of Afghanistan, and by 2015 from the whole country. The current status and accomplishments of the Mine Action programme are presented in Table 6.15 below.

Table 6.15 Status and Accomplishments: Mine Action

- Despite continued progress made by the Mine Action Programme for Afghanistan (MAPA) and its implementing partners over the past decade, Afghanistan is still believed to be one of the most severely contaminated countries in the world.
- The known mine and UXO contaminated area is estimated to total approximately 788.7 km2 in 206 districts of 31 provinces. Of this total, 157.7 km2 affects high-impacted communities. The areas affected include important agricultural land, irrigation systems, residential areas, grazing land, and roads.
- On 28 July 2002, President Karzai announced that Afghanistan would become a state party to the Mine Ban Treaty (the Ottawa Convention), and subsequently the Government of Afghanistan officially ratified the Treaty.
- The Government established the target of freeing Afghanistan from the impact of anti-personnel mines within five years.
- A strategic plan has been designed to achieve this objective.
- Mine and UXO clearance of high impact areas has proceeded steadily.

Sector Needs and Objectives

In support of the overall strategic objective, sectoral priorities have been developed as follows:

i. *Advocacy and the Mine Ban Convention:* To promote effective implementation of Afghanistan's Mine Ban Convention obligations.

ii. *Mine Survey:* Impact Survey – To gather information on the impact of hazards at the community level and, for the Afghan specific Retrofit Survey, to verify the presence and whereabouts of hazards. Technical Survey – To gather precise technical and geographical information on mine and UXO contaminated land and to mark areas for the immediate protection of civilians and subsequent clearance activities

iii. *Mine and UXO Clearance:* To ensure that priority areas are made mine and UXO-free in order to allow economic activity and reconstruction to take place unhindered by mines/UXO.

iv. *Mine Risk Education:* To reduce injuries and casualties related to mines and UXO in Afghanistan by raising awareness about mines/UXO among all parts of Afghan society, with a special emphasis on women, children, and youth.

v. *Training:* To ensure that appropriate capacity-building and technical training are carried out within MAPA and among Government representatives so that the safety and efficiency of mine action activities is enhanced.

vi. *Monitoring and Evaluation:* To implement a Total Quality Management (TQM) plan that will guarantee the standard of MAPA activities, and assist MAPA agencies to achieve continuous improvement in the quality of their work, as well as in the safety, efficiency, and effectiveness with which they carry out their activities.

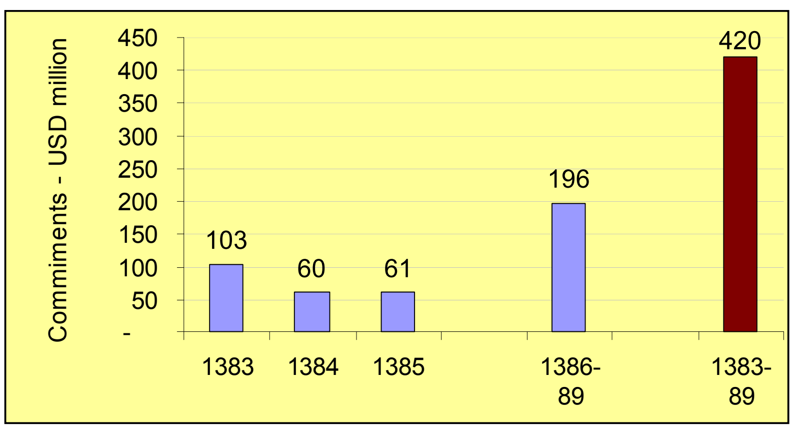
Table 6.16 below presents a summary of the national targets for the Mine Action programme, as agreed under the national strategy.

Table 6.16 Summary of National Mine Action Targets

1383-85	1386-89	1390-1394
▪ Launch of mine advocacy, awareness, and education programmes. ▪ Completion of Impact, Retrofit, and Technical surveys on contaminated areas. ▪ Full mine and UXO clearance of priority areas. ▪ Continuation of technical training and capacity building. ▪ Implementation of Total Quality Management (TQM) plan to monitor and assess the programme. ▪ Provision of Assistance to Landmine Survivors.	▪ Continuation of advocacy and education campaigns. ▪ Continuation of mine and UXO clearance beyond high impact areas. ▪ Enhanced monitoring and evaluation mechanisms. ▪ Continued provision of support for landmine victims.	▪ Mine and UXO clearance completed by 2012, at which time the country is completely mine and UXO free.

This action plan is ambitious but achievable. The key challenge during the first five years will be to ensure that the donor community remains committed to the programme. The Government of Afghanistan has many competing demands on its limited budget, and it will be a number of years before domestic revenues are available for use by MAPA. The substantial investment in people, vehicles, and equipment has created an effective national mine action capability – but significant international support must be maintained if the programme is to realize its full potential (see a summary of the time profile of financing requirements in Figure 6.6 below).

Figure 6.6 Financing Requirement for the Mine Action



7 STRENGTHENING AND ACCELERATING IMPLEMENTATION

INTRODUCTION

Implementation – carrying out reconstruction and development activities and delivering services – will make or break Afghanistan's reconstruction. Achieving results on the ground is critical not only for the success of reconstruction itself narrowly construed, but also for economic growth, state-building, security, and political agendas. The people of Afghanistan understandably expect to see visible signs of progress, sooner rather than later. Hence effective, timely implementation of development activities is essential so that the MDG targets that have been established are achieved. But on the other hand, speedy implementation through "quick fixes" should not detract from the development of national, sustainable, cost-effective, long-term implementation mechanisms.

Capacity is required – in the Government and in the private businesses and other entities which carry out development activities – in order to achieve results on the ground. In Afghanistan, capacity in the Government was very limited at the outset of the reconstruction process (although much more of the Government structure, personnel, and institutional memory remained than expected after a quarter of a century of debilitating conflict). In recognition of this situation, the Government has defined its role as policy-maker and regulator, and decided to contract out implementation of the development programmes outlined above. To increase its capacity, the Government bought in technical support for key management functions of the reconstruction process.

Going forward, strategic options for creating capacity to support implementation include: buying capacity for the Government; building capacity in the Government (temporary or long-term); and direct execution of development activities by donors using implementing partners without reference to the Government.

These choices have different implications for the state-building agenda, sustainability of the capacity created, and speed, effectiveness and efficiency of implementation. Clearly, different implementation arrangements need to be established for the different national programmes outlined in the chapters above based on the nature of public and private capacities over time. The overall Government strategy has been to buy capacity to execute development activities in the short run while striving to build capacity in the Government to increasingly handle these functions over time. In the early stages, some donors have preferred to bypass Government capacity and engage in direct execution of development activities. This may have been justified in the early stages of reconstruction, in order increase speed of implementation, however, quick fixes are not durable and such an approach will only be to the detriment of the state-building agenda and undermine the building of long-term capacity in the Government. The Government urges donors to carefully consider the implications of their choices and avoid or at least minimize donor execution of development activities.

Similarly the Afghan private sector, while very entrepreneurial in activities like trade, lacked experience and expertise for implementation of development activities, particularly sizable projects such as road construction. Reconstruction can and should provide valuable experience, learning, and capacity building by doing for Afghanistan's private sector, in the contracting industry and other services. Space for growth and development by the domestic private sector needs to be provided, although the Government firmly believes in international competitive bidding for large and complex projects.

More broadly, capacity ultimately depends on a nation's human resources, which have been decimated in the case of Afghanistan during the long period of conflict. Thus over the longer term, investments in education are critical to augment national capacity in both public and private sectors. In addition to primary education, secondary and tertiary education will be crucial. From this broader perspective, the capacity-building agenda includes women as well as men, requiring strong efforts to ensure full participation of women in education, training, and other capacity-building initiatives.

In addition to capacity, implementation depends crucially on security. In a problematic security environment, implementing reconstruction programmes may prove impossible in some areas, and delays and higher costs will be encountered in others. Thus investments and improvements in security (discussed in chapter 6) can greatly facilitate implementation of reconstruction programmes, while on the other hand implementation strategies need to take the security environment fully into account.

Building on the discussion of implementation aspects in other chapters and the Technical Annexes, this chapter focuses on generic and cross-cutting implementation issues and presents the Government's short-term and longer-term programme to strengthen implementation on a sustainable basis while striving to accelerate achievement of results on the ground.

ACCOMPLISHMENTS

During the past two years, good progress has been made both in creating capacity and in implementation of important parts of the reconstruction programme. The Government embarked on its reconstruction programme starting in 1381, with a sharp increase in the development budget to US $1.8 billion in 1382. There has been substantial progress in implementing programmes in some sectors but less in others, and many are still in the initial start-up stages. Among the most notable examples of progress in implementation are the following:

i. the sharp rise in primary school enrollment from very low levels to more than four million in 1382 (see Chapter 2 on Education);

ii. five million children receiving measles vaccination and six million vaccinated for polio in 2003 (over 95 per cent national coverage);

iii. some 860 km of major roads rebuilt or at an advanced stage of construction;

iv. attraction of just under $100m of private sector investment into the telecoms market and the conduct of a fully transparent licensing tender for mobile phone operators;

v. generation of 2.3 million labor days of employment and rehabilitation of rural roads and building of other infrastructure assets under the National Emergency Employment Programme (NEEP); and

vi. initiation of the National Solidarity Programme (NSP) in 31 of Afghanistan's 32 provinces, with more than 3,500 villages having participated in election of 600 community development councils with participation of both women and men, 21 NGOs and one UN agency mobilized as implementation partners, some 350 projects approved for implementation, and the first block grants provided to local communities in early December 2003.

In other sectors – such as power, irrigation, municipal water supply – the initial focus has been largely on urgent repairs and rehabilitation. The emphasis in the future will have to be, to a much greater extent, on the scaled up development of these sectors through substantially expanded investment programmes. Progress has also been made in creating implementation capacity by various means:

i. Very early on, the Government contracted international firms to provide capacity in the short run for critical implementation-related functions like centralised procurement, budget execution, and audit.

ii. Several important national programmes (NSP, NEEP, Performance-based Partnership Arrangements in the health sector) are being implemented by NGOs and other service providers contracted on a competitive basis by the Government.

iii. In a number of ministries (Finance, Health, Rural Development, and others) strong management teams have been built up by bringing in well-qualified Afghans from NGO or other non-Government backgrounds and combining them with international consultants working under ministry guidance and management.

iv. Interim civil service reforms under the Provisional Restructuring and Reform (PRR) decree enable reforming ministries and departments to strengthen capacity by streamlining and appointing qualified people to positions and paying higher salaries to those staff on an interim basis.

While these accomplishments are gratifying, the results achieved so far fall short of popular expectations and what is needed to generate rapid progress on reconstruction, economic growth, and other fronts. Progress in capacity building in the Government has a very long way to go, the capacity of the Afghan private sector needs to be strengthened; and much too large a share of external funding for Afghanistan's reconstruction still goes through channels which do not help build sustainable capacity in the Government and Afghan private sector.

CURRENT IMPLEMENTATION ARRANGEMENTS

Implementation is the responsibility of a number of Governmental and non-Governmental entities as sketched out below.

Ministry of Finance (MOF) is responsible for the preparation of a medium-term framework for public expenditures and annual recurrent and development budgets, and for organizing donor funding for capital and recurrent costs. Among the noteworthy accomplishments of MOF is the establishment of the budget as the central instrument of Government policy and public sector resource allocation and the Consultative Group (CG) mechanism for aid coordination with Advisory Group (AG) linkages for integration cross-cutting issues of gender, human rights, environment, disability, de-mining, counter-narcotics, humanitarian assistance and monitoring and evaluation. The 1382 National Development Budget (NDB) sets out Government priorities for 1382-84. The budget process is transparent and is evolving effectively with increasing inputs from and coordination with the line ministries. MOF has engaged in major reforms and streamlining to better carry out budget functions and has a strong management team of women and men. It has also introduced a treasury management system and computerized payment system at the central level, with the assistance of financial management consultants.

Procurement Support Arrangements have been established by setting up a central procurement unit and appointing an international firm as Procurement Advisor, which has been handling Government procurement on behalf of various ministries. This was done in part to overcome the lack of procurement capacity and experience, but also to ensure full transparency and accountability of the process in the early years.

Sector Ministries are responsible for overseeing the implementation of national programmes, which have to-date been funded largely by foreign donors. Given their weak capacity initially and the need for a quick start-up of the investment programme, most ministries that have undertaken major programmes so far have "contracted out" programme management to firms, NGOs, or UN agencies. This is not the only viable option, however, as is shown by the Ministry of Health which has established its own in-house Grant Management Unit staffed mainly by Afghan professionals recruited from NGOs. The PRR decree creates greater opportunities for initiatives of this kind.

Provinces in Afghanistan's unitary system are not autonomous levels of Government. There are 32 provinces, and the provincial offices of line ministries are responsible for implementing programmes locally, but these tend to be very modest. Provincial Governors (who report to the Ministry of Interior) are expected to play a coordinating role at the provincial level. Districts are the local arm of provincial Administrations.

Municipalities are relatively autonomous. There are a total of 217 municipalities, of which 32 are classified as "Provincial Municipalities" – one in each province. Municipalities generate their own revenues from local sources and have their own budgets which, however, are approved by the central Government. The reconstruction and development needs of the municipalities in Afghanistan are enormous, and these are best met by empowering them with funds and greater responsibility for reconstruction.

NGOs: Much of the capacity to implement projects and programmes to achieve rural outreach in Afghanistan today resides in NGOs. Some 150 international and a large number of Afghan NGOs, along with a small number of international humanitarian agencies, are registered in Afghanistan. They are currently implementing a wide range of development and humanitarian activities on behalf of the Government or donors. Major national programmes are being executed by NGOs contracted by the Government on a competitive basis. At the opposite extreme, some NGOs or quasi-Government agencies of donor Governments get tasked by a donor to execute projects funded by that donor, without competition.

UN Agencies: In addition to their other responsibilities, some UN agencies, such as UNOPS, FAO, and Habitat, execute development projects and programmes, on behalf of the Government or donors. Local implementation is often subcontracted to NGOs or the private sector.

The Private Sector (Afghan and foreign) carries out construction and other project activities under contract to the Government (for Government-executed projects) or donors (in the case of donor-executed projects). There are numerous small and medium-sized Afghan contractors who have gained experience with smaller projects, but most of them lack the expertise and capacity to bid for sizable international contracts. On the other hand foreign firms, especially those from outside the region surrounding Afghanistan, often suffer from high costs, delays, and security concerns that may offset their technical and managerial advantages. It is often found that even fairly large contracts put out for international competitive bidding elicit few bidders, and relatively high prices. The way forward is to encourage greater involvement of regional firms and partnerships between foreign and domestic contractors.

Communities: Implementation of national programmes in partnership with local communities has been and remains a national priority. This approach has been adopted to enhance ownership of the development process as well as increased the sustainability of assets created. National programs such as NEEP and NSP are central examples of this Policy.

IMPLEMENTATION ISSUES AND CONSTRAINTS

Limited Institutional Capacity versus Urgent Need for Results

The most critical implementation constraint has been inadequate capacity in the Government. After nearly a quarter century of conflict, the civil service has suffered from a long-term "brain drain" and is out-of-date in its expertise, and under-representation of women. Low pay of civil servants ($30-40 per month), lack of training, and lack of resources have contributed to low morale and capacity in the civil service. With little public investment having taken place for a long time, there is not much recent experience in the Government with project implementation. Nevertheless there was enormous demand to initiate and implement reconstruction activities quickly.

In view of these capacity constraints, a number of emergency initiatives were undertaken to jump-start the reconstruction programme. The experience over the last two years, while positive as indicated above, has raised the following issues that need to be addressed in the next phase:

i. ***Donor driven Projects:*** Some donors have rushed to approve assistance programmes – for the most part funded outside the budget and executed by donors through their selected agencies, NGOs, or foreign private firms. The Afghan Government, particularly the sector ministries, did not have the capacity, or in many cases the option, to adequately coordinate these operations, or to be involved in their preparation. As a result there has been little or no ownership of many of these projects by the sector ministries.

ii. ***Ad hoc Implementation Arrangements:*** A variety of implementation arrangements have been put in place to cater to immediate needs, but most of them do not address capacity building needs and hence are not sustainable over the longer term. Oversight and/or execution of a number of major projects has been contracted out to "implementation partners" (IPs) – NGOs, UN agencies, technical assistance organizations, etc. – who often have complete responsibility for project planning, design, and contracting. The IPs often pay higher salaries than even a reformed civil service pay structure could compete with, raising serious questions about longer-term sustainability. In other cases, some donors have executed projects by employing their own national consulting firms to design and implement projects. These latter arrangements may have facilitated a quick start to the reconstruction process, but at the cost of inadequate national ownership.

iii. ***Impact of the Security Situation on Implementing Entities:*** With the uncertain and at times difficult security situation in some parts of the country, UN agencies, NGOs, and other international entities are sometimes forced to pull back their staff from the field, at least in parts of the country. This has hampered implementation and runs the risk that less secure areas will get less reconstruction assistance than more secure areas. Thus it is important to seek mechanisms that are not so heavily dependent on international organizations as the IPs. One option would be greater use of "joint venture" arrangements between international IPs and contractors with their Afghan counterparts. There is also a need for much greater reliance on national/local staff and implementing entities, particularly in the provinces. And strengthening provincial and district Governments will create opportunities to develop local Government contracting of smaller-scale development activities.

iv. ***Proliferation of Technical Assistance:*** Due to the need for speed and the "emergency" mode of project preparation, donors have tended to provide substantial TA to help with project development and implementation. While individual TA components can often be justified, cumulatively the overall amount of TA included in the portfolio of projects is proving to be excessive and unmanageable. The TA for capacity building provided by different donors also has often been uncoordinated, and provided without adequate consideration of absorptive capacity. Moreover, much TA has been accompanied by little involvement of Government staff, in part because many ministries have not yet gone through the interim civil service reform process and thus have not been able to provide qualified/motivated staff to work with the foreign consultants. In some instances, TA has been provided for studies that have not been of immediate priority, further taxing the limited Government capacity to absorb the outputs. Thus there is an urgent need for the Government to increasingly rationalize and coordinate TA inputs being provided by different donors, so as to ensure that all TA promotes and does not detract from national capacity building.

v. ***Balancing of Short-term with Long-term Needs:*** This requires careful attention. For example, early on the Government used external support to put in place on an emergency basis competitively selected international consulting firms to provide financial management and procurement capacity to facilitate the reconstruction programme, as well as similar capacity to support basic audit functions. As of November 1, 2003, the procurement agent had awarded on behalf of the Government 133 contracts valued at $ 246 million; another 47 contracts for $ 184 million are currently being processed. This scale of procurement could not have been accomplished without these arrangements. However, this is not sustainable because of the growing procurement work-load, which cannot be handled centrally. Moreover, the present set-up has not been able to train adequate numbers of Afghan staff to indigenize these functions.

vi. ***Achieving Progress on Gender Equity in Staffing*****:** Progress on the national commitment to advancing the role of women will require sustained interest and monitoring within all Government bodies. Critical to this is the presence of women within all key national programmes in terms of both numbers and of levels of authority. Initial analysis by sex of staff in Kabul alone indicates that women account for only 3.9% of senior staff; they are known to be significantly fewer in provincial departments. Public administration reform will need to consider targets for increase in women's share throughout and at senior staff levels, provision of accelerated learning programmes to facilitate equitable opportunities with men, and procedures that provide for both gender equity and the specific needs of women in the work place.

Recognizing the critical importance of rebuilding the civil service, the Government has initiated a programme of Civil Service reform (CSR), of which the Priority Restructuring and Reform (PRR) programme is a key element. Under this programme, Government organizations that undertake programmes to restructure and reform (including down-sizing) are in return allowed to award higher salaries to their employees in reformed departments ($250-400 per month). All appointments to the new salary scales are made on a competitive and transparent basis. A number of ministries have started the PRR process, but the programme is still in the early stages of implementation. (See chapter 4 for further details).

Recent analysis of the civil service indicates that despite the disruption from the war and the serious problems with staffing, the basic administrative structures of the State have proven to be remarkably resilient. The arrangements are highly centralised, but provide a coherent management and accountability framework. The administrative laws of the country are basically sound and are well understood and generally adhered to. Finally, there is some capacity within ministries and at the sub-national (municipal) level that can be developed and harnessed. This provides a good basis for designing future arrangements for programme implementation and capacity building.

Narrow Focus of Emergency Projects

In the rush to achieve results on the ground quickly, sometimes essential enabling factors for projects to deliver have not been taken into account. This can result in energy facilities without assured supplies of fuel, new Government offices without electricity or funding for basic operating expenses, water supply or heating facilities with a dilapidated downstream pipe network, and the like. As a result outcome/service delivery objectives cannot be achieved, and public perceptions are adversely affected.

Insufficient Results on the Ground

As is common in most post-conflict situations, it is important to demonstrate tangible and visible results quickly, particularly in basic services. As highlighted at the beginning of this chapter, there has been good progress in some sectors, but in others the experience has been disappointing. This is in part because of weak institutional capacity, as indicated above. But it also reflects other factors such as complex donor procedures; lack of donor capacity on the ground to expedite procurement; inadequate use of regional and local capacities that could be less affected by security concerns; the difficulty generally of implementing projects outside Kabul because of the reluctance of national ministry staff to relocate; exclusive reliance on central Government agencies for implementation, logistical difficulties; the lack of a financial system; etc. There has also been in some cases a tendency to develop overly complex project designs and delivery mechanisms, which have taken an inordinately long time to achieve results. All of these factors appear to have hampered rapid delivery of services to the people.

Limited Project Pipeline

The initial focus on getting a few investments moving has been at the expense of developing a longer-term pipeline of well-prepared projects. Even though the sectoral priorities are generally well known – as confirmed in this report – the sector ministries have lacked the resources for project preparation. Currently, there is an acute shortage of well-prepared investment projects that the donors can support. As donors become more engaged in specific sectors, it is expected that they will also become more pro-active in supporting the preparation of new projects (feasibility and design). Meanwhile, the Government has established a Design and Feasibility Study Unit (DFSU) to support the efforts of sector ministries in project preparation and implementation. DFSU funding will be available to strengthen the overall capacity of sector ministries and to fund policy, sectoral, and project preparation studies for which donor funding is not readily available.

Project Complexity

Even though it is universally recognized that there is limited capacity in Afghan institutions, this has not always translated into ensuring a simple project design and sufficient focus on implementability by national institutions. The complexity of some projects means that it will be difficult to transfer them from international implementing partners to national entities which should happen over time. In addition, several projects have been burdened with longer-term policy concerns at the expense of short-term implementation. This complexity tends to raise costs and is not conducive to long-term sustainability. It also increases reliance on external consultants and reduces the role that national staff can and should play.

ACTIONS TO STRENGTHEN IMPLEMENTATION CAPACITY

Taking into account the issues and constraints highlighted above, the Government is planning to take the following measures to enhance implementation capacity in order to improve the performance of the national reconstruction programme.

Accelerate Civil Service Reform in Key Ministries

The PRR decree has established a systematic process for a ministry to submit a plan for restructuring which, after receiving approval from the Civil Service Commission, can be followed with restructuring proposals for individual units and appointment of staff at higher salary grades. So far, of the key ministries responsible for reconstruction, the Ministries of Finance, Rural Development, Education, Health, and Communications, have been initiating reforms under this programme. Each has received approval from the Civil Service Commission for restructuring specific departments, with implementation at various stages. However, some of the key infrastructure ministries – power, public works, irrigation, municipal water supply and sanitation, urban development – have yet to embark on interim civil service reforms. The Government intends to focus the reform effort on these ministries/agencies in the coming 12 months to ensure that all of them have approved restructuring plans which, at a minimum, allow them to establish the Programme Management Units (PMUs – see below) that are critical for accelerating the investment programme and developing greater ownership in the Government.

Expedite Establishment of Programme Management Capacity in Key Ministries

The Government intends to make sector ministries much more responsible and accountable for the design and implementation of their programmes. It plans to establish a PMU in each of the main ministries involved in the reconstruction programme and in Kabul Municipality (as well as in other selected larger municipalities when they initiate their own development programmes), using the PRR facility. The PMUs would be considered the first candidates for establishment/restructuring within their respective ministries under the PRR programme.

The proposed PMUs would consist of:

i. Ministry staff selected under PRR guidelines, occupying line positions wherever possible, and/or designated as "under training" for these positions;

ii. National consultants/Afghan expatriates retained on contract to occupy line positions, or as consultants; and

iii. International consultants to assist and train the national staff.

Normally, the ministry staff would be designated to occupy all line positions, with Afghan expatriates and international consultants providing support. When there is not a qualified ministry staff available, national consultants/Afghan expatriates could occupy line positions, but with a clear understanding that these positions are time-bound and responsible for training national staff. Only in very exceptional circumstances, when neither a national staff nor an Afghan consultant/expatriate is available, would an international consultant be appointed for a line position, but again with clear responsibility for training an Afghan staff to replace him or her in the future.

Overall, each PMU should have a significant number of ministry staff and national contract staff in proportion to consultants, with the numbers and proportion of civil service staff members increasing over time. The PMUs will be responsible for:

i. Management of all national and donor-funded projects. There would be no separate PMUs created for individual donors or projects;
ii. Appointment and supervision of design consultants for individual projects or groups of projects;
iii. Procurement of works, goods, and services;
iv. Monitoring and reporting on programmes/projects under implementation; and
v. Training staff in other departments/provinces and preparing them for restructuring.

Currently, PMUs exist or are in the process of being established in the Ministries of Health, Irrigation, Public Works, and Civil Aviation. The Government plans to accelerate the establishment of PMUs in the relevant ministries for power, education, urban development, and municipal water supply and sanitation.

The Ministry of Women's Affairs (MOWA) has proposed the inclusion of sector-specific gender expertise to build capacity and ownership for gender mainstreaming into policy, planning and budgeting to key Government departments. Such experts (ideally Afghan women) are to counterpart with ministerial staff for variable periods to transfer knowledge and skills on collection and analysis of sector-specific gendered data to define, implement and assess pilot studies derived from international good practice to address harmful disparities; to determine sectoral benchmarks and targets, and to enhance skills in gender budgeting.

Develop and Strengthen Implementation Capacity at Provincial/Municipal/District Level

The Government will give renewed emphasis to programmes that are implemented "closer to the ground" and which have the potential of yielding quicker benefits to the population. This would be done by: (a) strengthening the existing community-based programmes and (b) developing delivery mechanisms at the sub-national level. The Government will:

i. Review the experience so far with the National Solidarity Programme (NSP) and National Emergency Employment Programme (NEEP) to explore ways to speed up implementation.

ii. More specifically, rationalize different infrastructure sector lines (roads, community water supply, irrigation, schools, community facilities) into one consolidated programme with strong management by Afghan professionals. This would allow selection from a wider menu of labor-intensive public works that best meet local requirements.

iii. Build capacity in Kabul and provincial municipalities to implement urban development programmes. Donor support would be sought for major urban projects in the five to seven larger municipalities. In addition, the Government plans to initiate a programme of block grants to the provincial municipalities to support them in their development efforts. The municipalities will be fully responsible and accountable for the design and implementation of investments, with the central Government providing technical support and monitoring.

iv. Develop a municipal public works programme for labor-intensive small scale works in all 217 municipalities.

v. Develop a programme of provincial public works to be implemented under the direction of Provincial Governors. Initially the focus will be on constructing Government buildings, but subsequently the emphasis will shift to priority small-scale public works. This programme is urgently needed to establish visible presence of Government in the provinces.

vi. Strengthen capacity in the District Government offices to play a greater role in local development.

4. Develop Central Capacity for Project Preparation and Implementation Support

At present there is limited capacity in the core ministries of the central Government (Finance, Planning, and Reconstruction) to undertake monitoring functions in order to ensure basic standards of quality and consistency among projects across sectors. There is also a lack of capacity to monitor implementation in order to resolve emerging bottlenecks or policy issues. This is an important function that is normally performed in most countries by the ministry responsible for donor relations. The Government intends to establish a small unit in the Ministry of Finance for this purpose. The principal areas of focus for such a unit will be the following:

Improve Quality of Projects: Ensure acceptable quality of the projects being approved – that they are "owned" by the sector ministries and implementing agencies, not too complex (given limited implementation capacity), and ready for implementation soon after approval.

Rationalize Technical Assistance Components: Limit TA to the most essential requirements for implementation. Encourage much greater selectivity on policy studies, focusing only on those that have the most immediate relevance under the conditions prevailing in Afghanistan, while postponing the more complex studies to a later date. Seek more advisory services from international agencies for dealing with complex policy issues, rather than relying on consultants for such work. Technical assistance for capacity building needs a special effort to improve its effectiveness. As indicated earlier, most donor efforts in this area have been uncoordinated and thus not very effective. The unit will be responsible for ensuring that these and other Government policies toward TA are applied consistently. The unit will also keep an inventory of all TA activities and monitor their implementation performance.

Rationalize Technical Assistance Funding: In the future, the Government intends to have all capacity building efforts funded centrally (through the ARTF) instead of in individual projects. TA will form part and parcel of the annual line ministry budgets.

Portfolio Monitoring: Regularly review the progress of projects/programmes, in cooperation with sector ministries and donors, and facilitate actions to remove bottlenecks.

Establish Sustainable Arrangements for Contract Management

The Government's strategy for establishment of a sustainable procurement/contract management framework will include the following three elements:

i. Shift responsibility for handling procurement to selected ministries that are able to establish functioning PMUs. They will continue to rely on support from the central procurement unit as needed, mainly for procurement capacity building. Once operational, the PMU would handle all contract management functions for the ministry, i.e. preparation of contract documents, tendering, bid evaluation/award, and contract management during implementation.

ii. Continue with the present central procurement facility, but with greater involvement of Afghan staff, to: (i) provide necessary support to agencies that do not have in-house capacity to handle procurement, and (ii) provide technical support/training to established PMUs, as needed. The Government intends to explore the possibility of the firm that handles the Procurement Agent functions establishing in the future a local company in Afghanistan that could perform central procurement support functions over the longer term.

iii. Establish, in due course, a Procurement Policy and Monitoring Unit in a suitable core agency to develop procurement policies/regulations, standard documents, and overall monitoring of procurement performance in the ministries/agencies. This unit will not handle routine procurement functions.

Make Greater Use of Regional Capacity

Given the difficult logistical and security environment in Afghanistan, consultants and contractors from nearby countries – such as Turkey, Iran, Pakistan, India, Bangladesh, the Central Asian countries, and others – are more likely to be able to adapt to these conditions. Many of these countries have good capabilities in a number of sectors. The Government urges the donors to make greater efforts to tap capacity from nearby countries for work on projects supported by them. The Government will take the following specific actions:

i. Pro-active outreach in selected markets to make the businesses in these countries more aware of consulting and contracting opportunities;

ii. Assigning adequate weight to consultants' and contractors' ability to work in Afghanistan in the evaluation of proposals; and

iii. Pro-active outreach to the consulting and contracting industry in regional countries for collaboration with Afghan counterparts.

Develop Local Construction and Consulting Industries

The Government is committed to enable and enhance the participation of the Afghan private sector in reconstruction. The emerging consulting and construction industries of Afghanistan are expected to be important players in this regard. As a first step, the Government intends to collect the necessary data on Afghan contractors and consultants and make this information readily available to foreign companies to facilitate mutual collaboration. The Government also plans to undertake a review of the prevailing legal and regulatory framework, with a view to creating a suitable "enabling environment" for the local construction industry to flourish and perform, which is essential for achieving the ambitious national development targets outlined in this report.

8. COST AND FINANCING ESTIMATES

Overall Cost and Financing Requirement

Over the 7 year costing time horizon (1383-1389), the investment programme outlined in this study and the Government's ordinary budget would require total external assistance commitments on the order of US$27.6 billion (See Table 8.1 below). Around US $4 billion would be required each year on average from 1383 to 1389.

Table 8.1 Required External Financing

(USD million)	1383	1384	1385	1383-85	1386-87	1388-89	1383-89
Expenditures							
Recurrent Expenditures	601	733	925	**2,258**	2,273	2,673	**7,205**
Capital and Development Budget	4,068	3,351	3,378	**10,797**	6,885	6,995	**24,678**
Total Expenditures	**4,669**	**4,084**	**4,303**	**13,056**	**9,159**	**9,668**	**31,882**
Financing							
Domestic Revenues	300	400	500	**1,200**	1,298	1,779	**4,278**
External Financing (direct to government	701	783	925	**2,408**	1,975	1,894	**6,277**
Project financing	3,668	2,901	2,878	**9,447**	5,885	5,995	**21,328**
Total Financing	**4,669**	**4,084**	**4,303**	**13,056**	**9,159**	**9,668**	**31,882**
Memo: external financing	4,369	3,684	3,803	**11,856**	7,860	7,889	**27,605**

The external funding requirement is broken into two categories, direct external financing and project finance. Direct external financing represents a requirement for direct support to the Government – modalities for providing this support are discussed below. Direct external financing of just over US $6 billion over the seven year horizon and around US $2.4 billion over the next three years will be needed to support the recurrent budget and provide the Government with the ability to undertake and execute critical national development programmes such as the National Solidarity Programme, the Afghanistan Stabilization Programme and the National Emergency Employment Programme. This financing need will be covered by a combination of loans and grants. Development partners need to be aware, however, of the consistent advice of the IMF that given the fragile nature of Afghanistan's recovery, the bulk of this assistance should be provided in the form of grants.

The remaining US$ 21.3 billion will be required in the form of project financing, which can be provided by donors through various modalities, including donors contracting directly with implementing partners to deliver the goods and services outlined in the capital and development budget. However, the overarching state-building agenda will be furthered if a significant portion of the $21.3 billion is channeled through the Government accounts – including special project accounts. The capacity to route funds in this way will increase significantly over time as the Government's financial management systems and reforms mature.

Relationship to the National Budget

It is important to understand the distinction between the expenditure and revenue figures presented in this report and the figures that are subsequently presented in the National Budget. The methodology adopted in this report is to determine, as far as possible given informational and other constraints, what it would take in terms of investments and operating costs to make the Government and economy of Afghanistan fully operational and successful – to yield the rates of growth needed to ensure fiscal self-sufficiency over time and to allow the desperate poverty across the country to be addressed. In many ways this could be characterized as what the country "needs" to be successful in achieving national political, economic, and social objectives.

In contrast, the National Budget for 1383 and onwards will aim to be far more a representation of what will actually happen – the budgets, both recurrent and capital and development, will aim to estimate the actual outcomes, in terms of revenue (from both internal and external sources) and expenditure. Whether the expenditure outlined in the budget meets the "needs" of the national community is a separate issue.

Financing Mechanisms

There are several different mechanisms through which donors can provide direct support to the Government of Afghanistan to fund the recurrent budget and the priority national investment and development programmes. These include:

i. Direct budget support, deposited either in the Single Treasury Account, or in a special account;
ii. Direct support by providing funds into a special project account established for one of the priority national investment and development programmes, e.g. funds can be deposited into an account designated to finance the National Solidarity Programme or the Afghanistan Stabilization Programme;
iii. Contributions to multilateral trust funds, including the ARTF and LOTFA. The Law and Order Trust Fund for Afghanistan (LOTFA) was established to provide support for police activities and development, while the Afghanistan Reconstruction Trust Fund (ARTF) was established to support general Government operations excluding the security sector.

ORDINARY BUDGET

The ordinary budget (see Table 8.2 below) is expected to grow from US$550 million in 1382 to US $925 Million in 1385, US$1.4 billion in 1389, and US$1.5 billion in 1394. The ordinary budget has two main components: wage expenditure and non-salary operations and maintenance.

Table 8.2 Ordinary Budget

(USD million)	1383	1384	1385	1383-85	1386-87	1388-89	1383-89
Recurrent Expenditures							
Wages	325	401	546	1,272	1,368	1,613	4,252
Non Salary O&M	276	332	379	987	905	1,060	2,952
Total	**601**	**733**	**925**	**2,258**	**2,273**	**2,673**	**7,205**

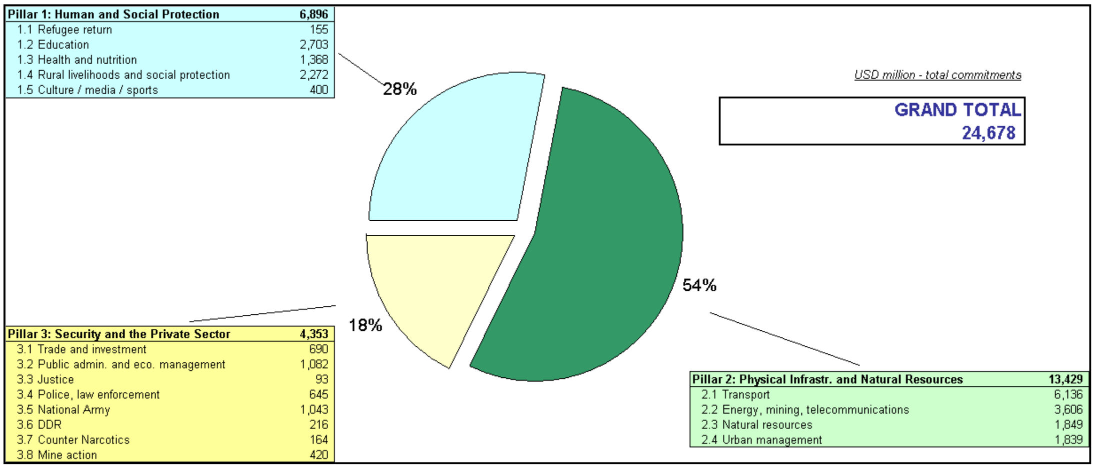
Wages accounted for half of the ordinary budget in 1382. In the next few years, this proportion is expected to increase while the pay reform is implemented (see chapter 4). Beyond 1385 wage growth is expected to decline as a share both of the budget and of GDP. The significant increase in the wage bill in the short term is required in the context of the civil service reform that is needed to provide a more highly skilled, more highly motivated, and delivery-focused bureaucracy, as discussed in chapter 4.

Non salary O&M includes goods and services necessary for the Government to work and to maintain the stock of public investment. Over time, with the implementation of the public investment programme, this component is expected to increase. Despite potential cost-recovery (a 50 per cent cost recovery rate is assumed compared to the O&M estimates presented in the Technical Annexes), the cost of operating and maintaining all of these investments will be rising. An all too common mistake in preparing development programmes is not to allow enough funding for operations and maintenance. In this regard, US $10 billion of investment with US $2 billion over five years for operations and maintenance will deliver dramatically more services to the community than $20 billion of investment with no provision for O&M. Hence the estimates of operations and maintenance expenditure included in the recurrent budget have taken into account the need to provide *functioning* infrastructure, security and social services.

CAPITAL AND DEVELOPMENT BUDGET

Commitments for the development budget would amount to around US$24.7 billion over 7 years (as illustrated in Figure 8.1 below). The development budget will be comprised of investments in physical infrastructure and natural resources US $13.4 billion, or 54 per cent, in human and social protection, just under US $7 billion, or 28 per cent, and security and private sector development, including public administration at just over US $4 billion, or 18 per cent.

Figure 8.1 Sectoral Components of the Development Budget (1383-1389)



In terms of economic classification of expenditure, the bulk of development spending will be on physical capital investment, U$20 billion, or 80 per cent, mainly in infrastructure for economic services (irrigation, roads, power), but also for social services (schools, hospitals). These commitments are expected to be disbursed over the entire 12 year period covered by the Securing Afghanistan's Future exercise. This estimate is based on an end-use analysis, so in programmes such as the Afghan Stabilisation Programme, which involves block grants to villages, the end use has been the basis of calculation.

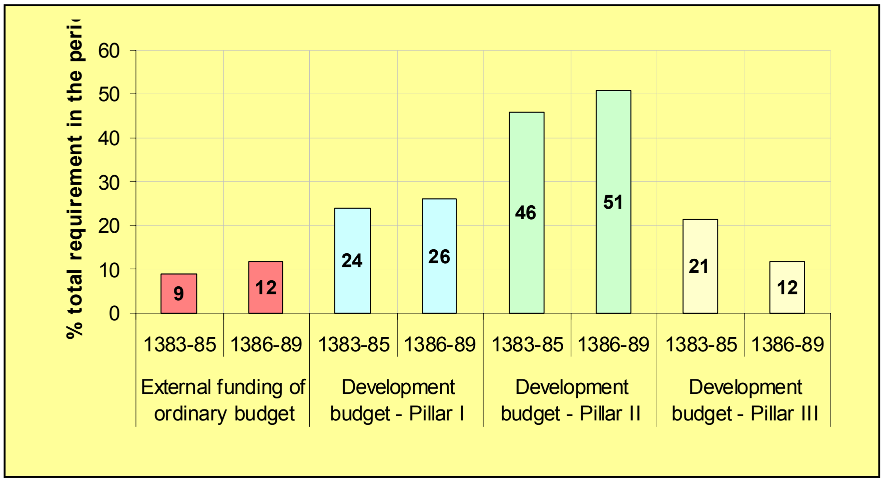
Physical capital investment will be complemented by technical assistance to build capacity in the Government US $1 billion, or 6 per cent, with an emphasis on public administration reform. This component is largely expected to be disbursed over 7 years and is front-loaded.

The last component is by nature recurrent, but is presently incorporated in donor-funded projects. It includes textbooks and teacher training, delivery of basic health services, and transfer programmes (mainly the National Solidarity Programme at present). This component accounts for US $4 billion over 7 years (14 per cent): beyond 1389 its annual cost is estimated at around US $400 million.

TIME PROFILE AND SEQUENCING OF EXPENDITURES

Over time, the composition of total expenditures is projected to shift away from security programmes and rehabilitation investments toward education and health, as well as larger infrastructure projects. The broad categories of total expenditure requirements (including the portion of the ordinary budget funded by domestic resource mobilization) for 1383-1385 and 1386-1389 are shown in Figure 8.2 below.

Figure 8.2 Financing Requirement (1383-85 and 1386-89)

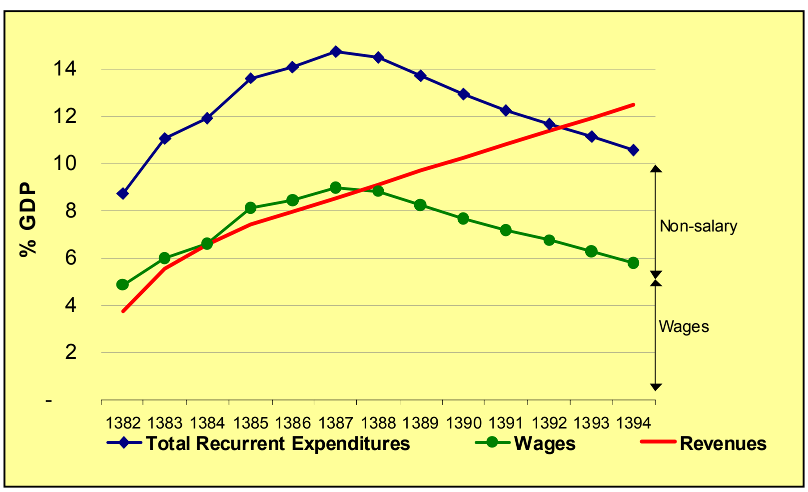


SUSTAINABILITY

Critical to the successful operation of any programme is its long-term sustainability. One of the overarching themes of the Securing Afghanistan's Future exercise is to lay the foundations for sufficient economic growth to provide Afghanistan with a stable and sustainable domestic revenue base. Equally critical is the commitment from all development partners, including the Government itself, that the appropriate policies and compliance and enforcement measures will be put in place to ensure that the revenue is actually raised.

Based on the revenue targets estimated in the positive scenario in chapter 1 and the expenditure programme outlined in chapters 2 - 6, Afghanistan has the potential to cover its wage bill in five-six years time, and its entire recurrent budget in nine-eleven years time.

Figure 8.3 Recurrent Cost financing



MAXIMIZING BENEFITS THROUGH THE QUALITY AND MODALITIES OF ASSISTANCE

The way in which external assistance is provided also is extremely important . In addition to building assets and providing services, if external assistance is provided effectively it can deliver structural and institutional benefits far greater than the dollar value of the goods or services funded. Specifically it can:

i. support state-building, by strengthening the legitimacy of the Government and Government institutions;

ii. reinforce the Government budget as the central instrument of policy, reform, and public resource allocation;

iii. promote transparency and competition in the selection of implementing entities, by requiring that these practices are followed either by the Government for direct support, or within donors' own operations for project financing;

iv. nurture the Afghan private sector by having local content requirements in tenders; and

v. facilitate inclusion among Afghanistan's population.

As part of the broader partnership between Afghanistan and the international community, donors should maximize the extent to which their assistance – by virtue of the way in which it is provided – helps Afghanistan further its objectives in terms of state-building, the Government budget, transparency and competition, development of the Afghan private sector, and inclusion.

This means more assistance going to the National Budget, either directly or through trust funds (ARTF/LOTFA), and by requiring that the Government continues to operate in a transparent and accountable manner in the use of these funds. It also means that all projects and activities supported by external assistance should be consistent with the National Development Framework and National Development Budget, even if the funding is not going through the budget. Selection of implementing agencies should be in a competitive, transparent manner – not through sole-sourcing of those with ties to the donor concerned.

Finally, reconstruction represents an enormous opportunity to jump-start the development of the Afghan private sector – in construction, building materials, various services, consumer goods, and the like – which cannot be missed. So, pro-active measures to ensure the maximum appropriate participation of the Afghan private sector in reconstruction activities are called for.

ANNEX 1 PROJECTIONS OF ECONOMIC GROWTH 2003-2015

This Annex describes in more detail the macroeconomic framework and projections discussed in chapter 1. Section I outlines a rationale and methodology for determining a "required rate of growth" for the Afghan economy. Section II assesses the growth prospects of the three main sectors of the Afghan economy in a scenario of rapid and sustained growth (the "Securing Afghanistan's Future" scenario). Section III analyzes an alternative scenario with considerably lower growth ("Putting Afghanistan's Future at Risk"). Section IV discusses the potential to increase fiscal revenues in Afghanistan.

REQUIRED GROWTH

A starting point for the economic projection exercise is that securing Afghanistan's future will require sustained economic growth. The rate of growth that would be sufficient for this purpose is not something that can be ascertained with great precision. However, growth would need to be rapid enough that improvements in living standards are evident to the population within a short enough period of time that buy-in and political support for the reconstruction process are maintained, and over the longer run rapid enough that there is sustained progress in income growth, poverty reduction, and improvements in social indicators over a long enough period to "secure Afghanistan's future". Obviously, higher levels of growth are more likely to lead to visible results and faster progress, but it is assumed that there is a minimum "required rate" below which growth would not deliver results quickly enough to achieve the desired results.

Based on international experience (see Table 1), it is assumed that GDP per capita should increase by something like 3 per cent per year on average. Such growth means that income per capita will double every generation (20 years), and there would be substantial increases in incomes in shorter periods like 3-5 years. For these benefits to materialize widely, it also needs to be assumed that there will not be a significant deterioration of income distribution.

Table 1: Long-term Growth Rates of Selected Countries

Country	Time period	Average annual growth of real per capita GDP
Great Britain	1820-1913	1.1
Western Europe	1820-1913	1.1
United States	1870-1973	2.0
Japan	1870-1973	2.7
South Korea	1960-1998	6.5
Malaysia	1970-1998	4.5
China	1980-1998	6.1

Source: Maddison, "The World Economy, a Millennial Perspective" (OECD, 2001).

Moreover, in the case of Afghanistan, the 3 per cent p.a. per-capita GDP growth criterion should be applied to the total (drug-inclusive) GDP. This means that growth in the non-drug economy will need to be faster in order to offset the elimination over time of the drug economy, which will reduce incomes to farmers, laborers, and others benefiting from the opium economy. In a scenario with complete elimination of the opium economy over 12 years, this adds significantly to the "required growth" rate.

On this basis, the "required average growth rate" of real aggregate GDP (not including the opium economy) over the next 12 years (1383-1394) would be around 9 per cent per annum, generating 3 per cent p.a. real per-capita growth in terms of the total drug-inclusive GDP (Table 2).

Table 2: Required Growth

SECURING AFGHANISTAN'S FUTURE

This base scenario assumes favorable growth conditions, As follows:

i. security and law and order improve quickly;
ii. the drug economy is eliminated over the next 12 years. This assumes the implementation of an ambitious yet effective anti-narcotics strategy, based on enforcement and alternative livelihood policies, of which economic growth is a critical element;
iii. the country does not face a severe drought of the seriousness of the drought of 1999-2001, at least until major water conservancy investments have enhanced the ability of agriculture to resist drought.
iv. key policy decisions are made, for instance regarding trade, banking, and prices, to improve the investment climate;
v. there is a significant infrastructure investment programme, funded, properly implemented and operated, that provides power, transport, irrigation, and other key services;
vi. there are significant improvements in health and education over the projection period; and
vii. private investment is responsive to these favorable conditions.

Under these assumptions, growth would be sustained over the medium term. In the short run, growth rates would be in the 10-15 per cent p.a. range, reflecting essentially the catch up effect, diversification of agriculture, as well as a boom in transport, trade, and construction. Beyond 1386, growth would somewhat slow down but remain in the 7-9 per cent range. Population is assumed to grow at a natural rate of 1.9 per cent p.a., which is the natural population growth rate as estimated by the Government. In addition, it is assumed that more than 1 million refugees will return to Afghanistan in the next two years, resulting in a total population growth rate of 2.3 per cent p.a. over the 12 year period. On this basis, income per capita (excluding the opium economy) would rise by 7 per cent per year over the next 12 years. From an estimated $219 in 1382 (2003), GDP per capita would rise to $371 in 1389 (2010) and almost reach $500 in 1394 (2015). Assuming that the elimination of the drug economy starts significantly in 1384, total income (including the opium economy) would grow at a lower pace, but would not decline.

Agriculture would grow at 7 per cent per year on average. This sector, which currently amounts to 52 per cent of GDP, would remain the dominant sector of the economy over the projection horizon. It would contribute to a third of the increase in official GDP per capita. Growth would be stronger in the first five years (almost 10 per cent per year), slowing down to 5 per cent p.a. during the latter part of the projection period. This assumes significant investments in water conservancy, to bring the surface of cultivated land from less than 1.5 million ha to 2.5 million in 12 years. This scenario also assumes that other constraints on agricultural growth are addressed (including access to markets, access to credit, land arrangements, increase in yield through the use of modern techniques, etc.).

Table 3: Growth in Agriculture

	1382-85	1385-89	1389-94
Agriculture	**10**	**8**	**5**
Cereals	6	4	3
Other crops and non food	13	12	7
Livestock	11	3	3
Poppy culture	(9)	(19)	(100)
Total Agriculture	**5**	**3**	**3**

The main component of agriculture is cereal production (assumed to account for more than 40 per cent of the entire sector in the base year). Growth in the sector would reflect: (1) an increase in irrigated area (yields in irrigated areas are 2 to 3 times higher in normal years than in rain-fed areas);

(2) a general augmentation in yield resulting from better techniques (e.g. fertilizer use or double cropping) and incentives (e.g., access to market through rural roads); and (3) an increase in the total area under cereal production back to levels observed in the 1970s. These three elements would contribute to a 5 per cent p.a. growth rate in cereal output over the projection horizon, mainly concentrated in the first few years. In the outer years, further improvements in irrigation schemes, added to some marginal technical progress, are expected to contribute to growth. In 2015, the irrigated area used for cereal production is assumed to be around 1.7 million ha (compared to less than 1.1 m ha today) and yields are assumed to increase from 2.8 to 3.9 metric tons per ha (including some double cropping).

Growth in output of other crops (vegetables, grapes, cotton, seeds, etc.) and in non-food production will depend on the effectiveness of the diversification strategy (and will also be linked to development of alternative livelihoods in the drug eradication strategy). It is assumed that this sub-sector contributes about 40 per cent of total agricultural output in the base year. The scenario implies an average growth of 10 per cent per annum, also with a significant catch-up in the short term. The critical assumptions here are also a significant investment in irrigation schemes, investment in orchards, higher yields (including through double cropping), and access to markets.

Current livestock production is depressed by the low stock of animals. Currently, livestock production (meat and milk) is extremely low (accounting for around 5-10 per cent of the agricultural sector), reflecting a relatively small stock of animals after years of conflict and drought. It is assumed that the livestock sub sector can recover at a 10 per cent annual growth rate (level observed in the 1970s after a severe drought), and then grow at a more modest 3 per cent p.a. later.

The drug economy is assumed to be eliminated over the next 12 years (see Technical Annex 2 to chapter 1 for background on the opium economy). It is assumed in the economic projections that drug prices at Afghanistan's borders will not significantly rise despite active and effective pursuit of the anti-narcotics strategy. In this scenario, poppy remains a significant source of income during a few years but then is phased out by the end of the projection period.

Industrial growth is assumed to average 11 per cent per year over the projection horizon, starting from a low base**.** While growth would initially be lower than for agriculture, industry is projected to sustain a 10 per cent annual growth rate over the medium term. This component is highly dependent on the assumptions listed in the first section, in particular on an increase in private investment.

Table 4: Growth in Industry

	1382-85	1385-89	1389-94
Industry	**12**	**11**	**10**
Transport and telecommunicati	11	11	10
Power	45	5	5
Oil and mining	28	24	10
Manufacturing	5	10	10
Construction	16	12	10

i. With the rehabilitation and construction of a road infrastructure network, transport activities could grow by 10 per cent p.a. on average over the next 10 years.
ii. Growth in construction, which currently accounts for a quarter of total industrial output, would be fast over the first few years (above 15 per cent p.a.), driven by reconstruction activities. Growth would stay strong albeit slightly lower in the outer years, reflecting continuing sizable investment activity.
iii. Growth in the mining and energy sector could reach 10-20 per cent p.a. on average, benefiting from the implementation of various energy generation projects as well as from

the rehabilitation and exploitation of the country's mineral resources and mines.[30]

iv. All of these investments will help pave the way for a resumption of activity in the manufacturing sector, which is envisaged to grow by about 10 per cent p.a. on average after a few years. This source of growth is critically related to private sector investment. In the short to medium term, it is also very much dependent on agriculture, since manufacturing activities largely produce downstream products using agricultural outputs as inputs, with potential also for industrial development in production of agricultural inputs.

Services would grow at 11 per cent per year on average. Public administration will be an important contributor in the short term. Trade and other services are expected to grow as a result of the expansion of the industrial sector and the diversification of agriculture.

Table 5: Growth in Services

	1382-85	1385-89	1389-94
Services	**12**	**10**	**9**
Trade	12	13	10
Public Administration	17	10	8
Other Services	7	10	11
Poppy trade	(9)	(19)	(100)
Total Services	**3**	**2**	**6**

i. The public administration sector will be strengthened by public investments, and is expected to grow on average by more than 10 per cent per year, its share in GDP increasing from 10 per cent to 12 per cent.

ii. The construction of a road network, combined with the emergence of manufacturing, will boost local trade, commerce, and transit activity. Growth could reach an average of 12 per cent per year. Growth in other services (including financial services) would be of the same order of magnitude. Additional growth is expected in services like finance and tourism in the outer years of the projections, with the broader development of the economy and securing of the country.

Under these conditions, GDP per capita would reach almost $500 in 2015. The sectoral analysis suggests that growth in the 10-15 per cent p.a. range in the short term and in the 7-9 per cent p.a. range in the medium term is feasible. However, this same analysis highlights that achieving such a high growth rate critically depends on the assumptions listed above.

[30] See Technical Annexes on these sectors.

Table 6: Macroeconomic Framework

US dollars per capita	Scenario I Securing Afghanistan's Future	Scenario II Putting Afghanistan's Future at Risk
1382		
Official GDP per capita	219	219
Opium export per capita	110	110
Total GDP per capita	**330**	**330**
1382-1394 Increase	**164**	**73**
Agriculture	97	33
Cereal	*14*	*5*
Other crops and vegetables	*77*	*26*
Other	*6*	*3*
Industry	89	32
Oil, gas, mining, power	*10*	*1*
Manufacturing	*17*	*5*
Construction	*32*	*15*
Transport and other	*29*	*12*
Services	88	34
Trade	*12*	*3*
Public administration	*40*	*18*
Other	*36*	*12*
Poppy	(110)	(27)
1394		
GDP per capita	**493**	**402**

1. **These projections should be used with caution**. The base year (1381) is derived from data from the Central Statistical Organization and the IMF. The projection exercise is anchored on the investment programme of the Government in the first few years. For the outer years, the exercise combines an analysis of past trends (see Technical Annex 1 to chapter 1), focused sectoral growth analysis (see the relevant Technical Annexes of this study), and assumptions on private investment and structural reforms (see Table 7 and 8 for more details). Projections of trends in the drug economy are especially uncertain and would need to be refined based on analysis of the economic impacts of the specific anti-narcotics strategy implemented. In this scenario, the drug economy is assumed to be eliminated over a time horizon broadly similar to that put forward by the Government in its anti-narcotics strategy document.

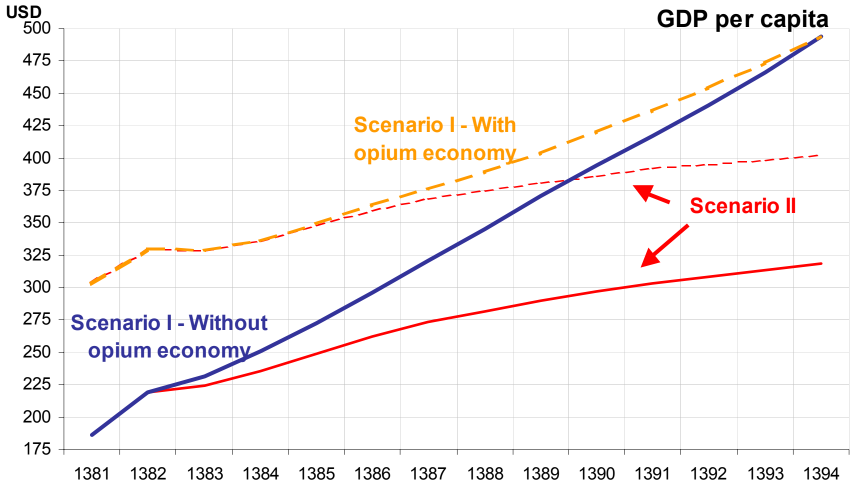
PUTTING AFGHANISTAN'S FUTURE AT RISK

In an alternative scenario, GDP per capita would remain below $325 in 2015, and close to $400 per capita including the drug economy. This scenario is broadly in line with pre-war and current trends but assumes less favorable growth conditions. The two main assumptions are that (i) progress on the drugs, security, and governance nexus is considerably less than in the base scenario, and (ii) the investment programme is smaller. With these conditions, the economy would still experience rapid initial growth in the short run, but growth would quickly slow down, resources being diverted to the drug economy, infrastructure investments being delayed, and private investment not being forthcoming.

This scenario is based on the following assumptions:

i. security and law and order remain uncertain;
ii. drug GDP stays at its current level;
iii. the infrastructure investment programme progressively slows down; and
iv. private investment remains weak because of these more adverse conditions.

Figure 1: Income Per Capita in the Two Scenarios



Based on these assumptions, growth in agriculture would be on the order of 4 per cent p.a. instead of 7 per cent p.a. After a similar initial catch-up, the absence of significant investments to rehabilitate existing irrigation schemes and build new ones would limit agricultural growth, both for cereals and for other crops. Even in the short run, in the absence of new irrigation schemes some rain-fed areas would need to lie fallow before they are planted again. The assumptions on security and on infrastructure investment would lead to less access to credit, modern inputs (seeds and fertilizer), and new markets, thereby also restricting diversification. Slower progress in reducing the area covered by landmines could also impede the recovery of livestock herds. It should be noted that in this scenario, the impact of a drought would certainly be higher than in the first scenario due to lower water conservancy investments which would have made the economy more "drought-proof". To illustrate this with a historical example, while growth on the order of 4 per cent p.a. was possible for Afghan agriculture in the second half of the 1970s, growth over the decade as a whole was almost zero because of a severe drought in the early 1970s.

Industry would grow at an average of 7 per cent per year, instead of 11 per cent. The difference would be small in the short run, with some catch-up still expected in construction and transport during the next few years. However, slower drug eradication and a smaller public investment programme would limit the improvement in the investment climate, reducing private investment and thereby also leading to slower industrial growth. In particular, sectors like oil and mining that are highly dependent on private investment would contribute very little to growth in this second scenario. Industrial growth would mainly be driven by activities linked to agriculture (in the 1970s, Afghan industry was growing at an average 5 per cent p.a. largely on this basis), and therefore industrial growth would also be constrained by the slower growth of agriculture in this scenario.

Services would grow at 6 per cent p.a., instead of 11 per cent. While the public administration component of services would still grow significantly, growth in other services would suffer from the lack of improvement in the investment climate. Growth in non drug-related trade activities would be much smaller, reflecting security and logistical constraints as well as lower trade potential. It is expected that some growth in finance would still occur, starting from the current very low level. But this growth would be limited. No significant growth in other services, such as tourism, is anticipated under these circumstances. The projected growth of services is consistent with what was observed in the 1970s.

This scenario is likely to prove instable and could quickly degenerate into worse outcomes. A vicious circle could be set in motion, where law and order problems lead to deterioration in security and the investment climate, lowering growth and further limiting the potential to implement the anti-narcotics strategy, etc. In particular, if there is a further increase in poppy production

(Technical Annex 2 to chapter 1 indicates a potential to respond to higher demand), growth in the official economy could be still lower and progress on the political and state-building agendas brought to a standstill. Under such circumstances, relapse into conflict – whether localized or broader – would be a very real possibility.

REVENUE POTENTIAL

This analysis of fiscal revenue potential is conducted by comparing the revenue level in Afghanistan to that in a representative group of comparators. There is no attempt to determine the optimal level or the optimal composition of revenues. Besides, international experience suggests that the level of revenue receipts is determined jointly with the level of expenses. Therefore, it should be expected that by 1394, revenue growth will constrain growth in expenditures, while growth in the size of the Government would provide an incentive for the Government to raise more revenues. Three sets of comparators have been considered, suggesting a range of 10-15 per cent for the revenue to GDP ratio:

i. In the 1970s, the Government of Afghanistan was able to raise around 10 per cent of GDP in total domestic revenue; in addition, significant revenues were raised from oil sales in the late 1970s-early 1980s;

ii. Domestic revenues as a percent of GDP raised by neighboring countries are: 21 per cent in Iran (largely from oil), 16 per cent in Pakistan, 11 per cent in Tajikistan, around 20 per cent in Turkmenistan, and around 30 per cent in Uzbekistan (but the last two figures reflect large public sectors in the countries concerned);

iii. Domestic revenues raised in countries emerging from conflicts are: 21 per cent in Kosovo, 7 per cent in Sierra Leone, 14 per cent in Timor Leste (of which only 5 per cent is non-oil domestic revenues), 14 per cent in Mozambique, and 12 per cent in Cambodia.

The current revenue to GDP ratio in Afghanistan is around 4 per cent, based on the 1382 budget ($200 million in domestic revenues). International comparisons highlight the difficulty of sustaining significant growth in revenues over a decade or longer. A revenue to GDP ratio growing at 10 per cent per year is the upper bound of the observed range. Under these favorable circumstances, Afghanistan's revenue to GDP ratio could rise to around 12.5 per cent in 1394.

Thus the revenue projections assume in the first scenario that the revenue to GDP ratio will reach 12.5 per cent in 1394. Strong growth is expected to occur in the short run provided that policy and administrative reforms in tax and customs are implemented and that tax compliance significantly improves. By 1394, additional effort will be needed beyond these reforms to reach this 12.5 per cent level, which is equivalent to $1.8 billion.

A number of parameters will be critical to reach this level of revenue: (i) size and taxation of international trade (including taxation of goods and services imported by donors); (ii) effectiveness in taxing agriculture (which remains the dominant part of the economy); (iii) size and taxation of the oil and mining sector; and (iv) effectiveness of the revenue administration and compliance to laws. In addition, as indicated above, the size of the Government will have an impact on the incentives and capacity to raise revenues.

Table 7: Macroeconomic Framework

7a - Scenario I: Securing Afghanistan's Future

	1381	1382	1383	1384	1385	1389	1394	1383-85	1386-89	1390-94	1383-94
	Estimates				*Projections*				*Average*		
Population (million)	21.8	22.2	23.4	24.3	24.7	26.7	29.3	24.1	25.9	28.2	26.4
Population growth	n/a	1.8	5.5	3.6	1.9	1.9	1.9	3.6	1.9	1.9	2.3
Urban population (%)	n/a	22.3	23.7	24.2	n/a	27.0	30.1	n/a	n/a	n/a	n/a
GDP (USD)	**4,064**	**4,868**	**5,428**	**6,085**	**6,744**	**9,886**	**14,454**	**6,086**	**8,653**	**12,510**	**9,618**
Agriculture	2,105	2,611	2,896	3,223	3,507	4,852	6,292	3,209	4,325	5,696	4,617
Industry	985	1,088	1,208	1,362	1,551	2,450	4,032	1,373	2,093	3,358	2,440
Services	975	1,169	1,324	1,499	1,686	2,583	4,130	1,503	2,234	3,457	2,561
Growth (%)	**29**	**20**	**11**	**12**	**11**	**9**	**8**	**11**	**10**	**8**	**9**
Agriculture	28	24	11	11	9	8	5	10	8	5	7
Industry	21	10	11	13	14	12	10	12	11	10	11
Services	40	20	13	13	12	11	10	12	11	9	11
Exports of Opiates (USD)	2,540	2,449	2,262	2,075	1,888	885	-	2,075	1,293	367	1,103
GDP per capita (USD)											
w/o opium	186	219	232	251	273	371	493	252	334	443	364
with opium	303	330	328	336	349	404	493	338	384	456	406

7b - Scenario II: Putting Afghanistan's Future at Risk

	1381	1382	1383	1384	1385	1389	1394	1383-85	1386-89	1390-94	1383-94
	Estimates		*Projections*					*Average*			
Population (million)	21.8	22.2	23.4	24.3	24.7	26.7	29.3	24.1	25.9	28.2	26.4
Population growth	n/a	1.8	5.5	3.6	1.9	1.9	1.9	3.6	1.9	1.9	2.3
Urban population (%)	n/a	22.3	23.7	24.2	n/a	27.0	30.1	n/a	n/a	n/a	n/a
GDP (USD)	**4,064**	**4,867**	**5,257**	**5,704**	**6,157**	**7,716**	**9,334**	**5,706**	**7,176**	**8,700**	**7,443**
Agriculture	2,105	2,611	2,763	2,950	3,133	3,732	4,421	2,949	3,517	4,152	3,640
Industry	985	1,087	1,192	1,305	1,424	1,912	2,386	1,307	1,737	2,200	1,822
Services	975	1,169	1,302	1,448	1,599	2,073	2,527	1,450	1,922	2,347	1,981
Growth (%)	**29**	**20**	**8**	**8**	**8**	**5**	**4**	**8**	**6**	**4**	**5**
Agriculture	28	24	6	7	6	4	3	6	4	3	4
Industry	21	10	10	9	9	6	4	9	7	4	7
Services	40	20	11	11	10	5	4	10	6	4	6
Exports of Opiates (USD)	2,540	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,449	2,449
GDP per capita (USD)											
w/o opium	186	219	224	235	249	289	319	236	277	308	282
with opium	303	330	329	336	348	381	402	338	371	395	374

Table 8: Detailed assumptions in scenario I

	1382		1383		1385		1389	1394	1382-85	1385-89	1389-94	1382-94
	Estimate		*Projections*						*Average growth*			
POPULATION												
Population (million)	22.2	a/	23.4		24.7		26.7	29.3	24.1	25.9	28.2	26.4
Population growth	1.8	a/	5.5	b/	1.9	a/	1.9	1.9	3.6	1.9	1.9	2.3
Urban population (%)	22.3		23.7		n/a		27.0	30.1	n/a	n/a	n/a	n/a
GDP												
Agriculture												
Total Agriculture	**115,942**	a/	**128,612**		**155,755**		**215,490**	**279,410**	**10**	**8**	**5**	**7**
Cereals												
Total Value added	51,650	c/	54,680		62,090		73,392	86,739	6	4	3	4
Irrigated surface	1.1	d/	1.2		1.3		1.5	1.7	6	4	2	4
Yield in irrigated	2.8	d/	3.0		3.3		3.5	3.9	5	2	2	3
Value added	29,002		34,051		40,214		50,637	62,836	11	6	4	6
Rainfed surface	1.8	d/	1.8		1.8		1.8	1.8	-	-	-	-
Yield in rainfed	1.3	d/	1.2		1.3		1.3	1.4	(1)	1	1	0
Value added	22,648		20,630		21,876		22,755	23,904	(1)	1	1	0
Other crops and non food												
Total Value added	48,680	c/	56,587		72,256		117,983	164,688	13	12	7	10
Surface	0.4		0.5		0.5		0.7	0.8	8	7	3	6
Yield	5.1		5.4		5.9		7.2	8.8	5	5	4	4
Livestock												
Total Value added	15,612	c/	17,345		21,409		24,115	27,983	11	3	3	5
Heads (millions)	20	d/	22		27		29	32	10	2	2	4
Prod. Per head (index)	101	e/	102		104		108	114	1	1	1	1
Industry												
Total Industry	**48,313**	a/	**53,626**		**68,866**		**108,825**	**179,070**	**12**	**11**	**10**	**11**
Transport and telecommunication												
Total Value added	16,805	a/	18,485		23,188		35,835	59,831	11	11	10	11
Power												
Total Value added	569	a/	691		2,178		2,702	3,537	45	5	5	15
Demand (GWh)	746	e/	802		1,237		2,032	2,927	17	12	7	11
Sales / Demand (%)	117		109		59		98	140	(22)	12	7	2
Sales (GWh)	640	e/	736		2,084		2,084	2,084	39	-	-	10
Oil and mining												
Total Value added	1,238		1,631		2,883		7,478	12,440	28	24	10	19
VA in mining	400	f/	400		500		5,000	10,000	7	58	14	27
Oil (barrels/day)	4	g/	8		20		20	20	54	-	-	13
Gas ('000 cubic meter per day)	600	g/	600		600		3,000	5,000	-	40	10	18
VA in oil and gas	26	g/	28		35		35	35	10	-	-	2
Manufacturing												
Total Value added	16,038		16,840		18,566		27,183	43,778	5	10	10	8
Construction												
Total Value added	13,663	a/	15,979		22,051		35,627	59,483	16	12	10	12
Services												
Total services	**51,933**	a/	**58,801**		**74,886**		**114,712**	**183,423**	**12**	**11**	**9**	**11**
Trade												
Total Value added	5,554		6,215		8,005		13,636	22,361	12	13	10	12
Public Administration												
Total Value added	22,324	a/	26,816		36,822		56,267	82,095	17	11	8	11
as a % of total GDP	10		11		12		13	13	6	1	(0)	2
Other Services												
Total Value added	24,055		25,770		30,058		44,808	78,967	7	10	11	10
OFFICIAL GDP	**216,187**		**241,040**		**299,507**		**439,027**	**641,903**	11	10	8	9
Poppy economy	**118,800**		**109,725**		**91,575**		**42,900**	**-**	**(9)**	**(19)**	**(100)**	**(100)**
DRUG INCLUSIVE GDP	**334,987**		**350,765**		**391,082**		**481,927**	**641,903**	5	5	6	5

a/ Source CSO (see IMF 2003).

b/ Includes return of refugees.

c/ structure based on 1989-91 relative prices and 2002 volumes (FAO).

d/ based on FAO data (2002 or 2003).

e/ see Technical Annex on power.

f/ see Technical Annex on mining.

g/ see Technical Annex on oil and gas.

ANNEX 2 ESTIMATING THE HUMAN DEVELOPMENT INDEX FOR AFGHANISTAN

HDI = (1/3) (Life expectancy Index) + (1/3) (Education Index) + (1/3) (GDP Index)

Where,

- **GDP Index** = log (GDP per capita in PPP terms) – log (100) / log (40,000) – log (100)
- **Education Index** = 2/3 (Adult Literacy Index) + 1/3 (Gross Enrollment Index)
- **Life Expectancy index** = Life expectancy – 25 / (85 – 25)

Where, **Adult Literacy Index** = Adult Literacy (%) – 0 / (100 – 0)

Gross Enrollment Index = Enrollment Ratio – 0 / (100 – 0)
Afghanistan's estimated GDP per capita is US $ 170

To calculate the GDP per capita in PPP terms a method of averages was used. That is, a sample of 11 countries (land-locked and neighboring) was taken and the average GDP per capita to GDP per capita (PPP) ratio was calculated. **The average ratio was 4.3272727.**

Therefore, by using this method of 'averages' Afghanistan's **GDP per capita in PPP terms is $ 736.**

Thus, Afghanistan's GDP index is,
= log (736)- log (100) / log (40, 000) – log (100)
= **0.33333**

1.1.1.1.1.1.1.1.1 Education Index is

Adult Literacy Index = 36/100 = 0.36
Gross Enrollment Index = 30/100 = 0.3
Education Index = 2/3 (0.36) + 1/3 (0.3) = **0.339**

Life Expectancy Index is,
(43.1- 25) / (85 – 25) = **0.302**

Afghanistan's HDI is
= (1/3) (0.302) + (1/3) (0.339) + (1/3) (0.333)
= 0.3239

HDI Rank[31] = 174

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[31] By taking HDR, 2003 as a reference.