



ISLAMIC REPUBLIC OF AFGHANISTAN

**REALIZING SELF-RELIANCE
COMMITMENTS TO REFORMS AND RENEWED PARTNERSHIP**



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Abbreviation

AEITI	Afghanistan Extractive Industries Transparency Initiative
AHIRC	Afghanistan Independent Human Rights Commission
AISA	Afghanistan Investment Support Agency
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AYSCUDA	Automated System for Customs Data
CAREC	Central Asia Regional Economic Cooperation
CDCs	Community Development Councils
DAB	Da Afghanistan Bank (the Central Bank of Afghanistan)
EITI	Extractive Industries Transparency Initiative
EVAW	Elimination of Violence Against Women
EVAW Law	Elimination of Violence Against Women Law
FATF	Financial Action Task Force
GDP	Gross Domestic Product
HOO	High Office of Oversight and Anti-corruption
ICT	Information and Communication Technology
IDPs	Internally Displaced Persons
ISAF	International Security Assistance Force
MEC	Monitoring and Evaluation Committee
MOCI	Ministry of Commerce and Industries
NATO	North Atlantic Treaty Organization
NPPs	National Priority Programs
O&M	Operations and Maintenance
OBI	Open Budget Index
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SOM	Senior Officials Meeting
TAPI	Turkmenistan, Afghanistan, Pakistan and India
Tashkeel	Staffing establishment or list of sanctioned posts
TMAF	Tokyo Mutual Accountability Framework
TUTAP	Turkmenistan Uzbekistan Tajikistan Afghanistan Pakistan
VAT	Value Added Tax

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REALIZING SELF-RELIANCE **Commitments to Reforms and Renewed Partnership**

Introduction

1. Afghanistan has entered a new phase in its history with the first-ever peaceful and democratic transfer of political power. The Afghans, both men and women, braved intimidation, violence and other challenges to cast their votes in the hope of a new era of peace and prosperity.
2. The newly formed Government of National Unity is committed to ensuring peace, stability and security in the country; to realizing self-reliance by enhancing productivity, growth and revenues; to improving the welfare and well-being of the people through better opportunities, governance and respect for human rights; to deepening democracy by taking up electoral reforms and institutional restructuring; and above all, to peaceful co-existence with its neighbors.
3. During its two months of existence, the government has already reinstated optimism and hope through bold initiatives towards fighting corruption, better establishment of the rule of law, improving governance, and advancing relations with the international community. Prospects for peace are on the rise and we hope to see the formal peace process launched in the near future.
4. The new administration has significantly advanced the regional agenda for trade and stability through the recent state visits to China and Pakistan. China will be providing support for the national infrastructure development plan with discussions underway for state investments in this sector. Relations with Pakistan are also moving ahead at a substantially improved rate. The state visit to Pakistan produced specific concrete commitments to removing impediments to trade and transit, including agreements to co-present regional projects that would promote trade as well as reinforce regional stability.
5. These developments present an enormous opportunity to take the country forward on a path of growth, development and stability by addressing our most pressing challenges with renewed vision and approach, while building on the success of the past 13 years. Yet while the potential for success is higher than it has been in decades, the risks of failure are also high. Decades of conflict have produced deep distortions to the economy: narcotics, corruption and illegalities of different kinds are wide-spread, and the criminal elements are deeply embedded in both government and society. Rooting them out will require sustained political leadership, a more realistic long-term political vision for the country, and deep commitment of both Afghanistan and its international partners.
6. Afghanistan presented its long-term development vision at the Tokyo Conference and committed to the Tokyo Mutual Accountability Framework (TMAF). The TMAF represented a new phase in the relationship between the afghan government and the international community

based on principles of mutuality and accountability. While a refreshed TMAF will be agreed at the Senior Officials Meeting (SOM) next year based on the new priorities of the government, we will continue to implement the remaining TMAF hard deliverables in the interim period.

7. This paper is intended to present a candid statement of commitment to the reform agenda that can help Afghanistan move towards peace, recovery, productivity and growth. It will be equally candid in its discussion of our failures and the risks that Afghanistan is facing. Our organizing theme is that the new government has the drive, confidence, and focus needed to make Afghanistan's transitions a success and realize self-reliance in the transformation decade.

8. The paper is built around four propositions. The first proposition is that Afghanistan is facing an economic crisis with the transition taking a heavier than expected toll on the economy and the pace of reforms. Private sector confidence has slumped and a fiscal crisis is underway, with the government failing to mobilize adequate revenue to meet its financing priorities. Restoring confidence and improving revenue mobilization are the essential pre-conditions for surviving transition and successfully building a democratic state. The second proposition is that in order to realize self-reliance in the transformation decade, in the face of likely reductions of donor assistance, more private investments and revenue-generating sources will be needed to trigger growth. Building infrastructure for regional integration —trade and transit agreements, connectivity, cross-border investments —will be a fundamental part of our national strategy. Public funds will have to be channeled to sectors with maximum potential for growth, revenue and employment. Aid-effectiveness will have to be substantially improved. The third proposition is that what look like economic and social problems have at their root failures of governance and a lack of serious commitment to fixing problems. Actions to fight corruption, end patronage, and avoid collusive practices have been undertaken half-heartedly or undermined from within. The fourth proposition is that the lessons of the past decade show the urgent need for the senior most levels of the national government to take a stronger hand in managing the overall implementation of policy reforms and development assistance. Government leadership is needed to ensure that the agenda matches national priorities, capacities, and resource envelopes within a multi-year strategic planning framework; to monitor performance and enforce accountability; and to exercise appropriate flexibility to enable changes in response to a highly uncertain environment.

9. Each of these propositions is matched by a series of actions and commitments intended to give credibility to the claims through immediate and near-term actions, and to trigger a longer process of reform. Where possible, we will move quickly to implement actions. However, in many areas the reform process must involve consultation and coordination across a broad range of stakeholders. For these domains we will be signaling the government's overall policy direction and roadmap for change and then using the time between the London Conference and SOM to develop more detailed action plans.

Why Afghanistan needs to be supported

10. **Afghanistan is gearing up to become a full partner to the community of democratic nations.** Afghanistan's successful transfer of power through a participatory democratic election makes it, along with Indonesia, Malaysia, Tunisia, and Turkey, a leading example of democracy taking root in a Muslim majority country. Furthermore, both candidates in the 2014 Afghan election ran their campaigns on platforms of good governance, peaceful re-

gional cooperation, and market-friendly growth. Ordinary Afghans turned out in high numbers throughout the campaign, and their sustained, vocal engagement showed that the modern afghan citizen increasingly demands accountability from their representatives, not just clan loyalty or patronage. Prior to the elections, the consultative *Loya Jirga* that endorsed the Bilateral Security Agreement confirmed again that afghans want engagement with the world community, not withdrawal from it. Afghanistan's current problems are challenging, but the long-term arc of its development is bending towards becoming a stable member of the world's democracies.

11. **Afghan security is essential to regional and global stability.** Cross-border threats from non-state actors are persistent. Criminal networks fueled by narcotics and the illicit sources of income have entered into strategic alliances that seek to produce instability and state weakness within which they can thrive and spread. These threats affect not just Afghanistan but the entire system of states. Helping the Afghan government root out these networks and stop their further spread is in the interest of the entire world community.

12. **Making transition a success will reduce conflict and help address trans-border criminality.** Dealing with the conflict risks posed by the transition is not just a matter of maintaining Afghanistan's security forces. The past decade has transformed much of the afghan economy and social system in ways that now must be managed. Economic growth and tangible service delivery provide the critical anchors for stability as the afghan economy and society begin their difficult re-adjustment to a civilian economy. Too sharp a cutback in the role of the state will sow the seeds for future problems. Weakened governments that are unable (or unwilling) to deliver basic services to their people are easy prey for dissident or radical groups, which spread beyond the confines of any one state. By contrast, a functioning Afghan state that can continue down a path of reform that promotes growth and delivers basic services will be the best defense against instability in the region.

13. **Afghanistan's geographical position affects natural resource management across Central, South, East and West Asia.** Afghanistan matters because it sits in the hub where many of Asia's most important water resources have their origin. Competition for these resources and the potential for conflict will increase as Asian countries continue their development and as climate change forces re-negotiations to traditional water-sharing agreements. Our government is firmly committed to promoting the shared prosperity that will flow from joined-up commitments to sustainable resource development. There is an immense opportunity to re-think the institutional arrangements for sustainable eco-management beyond national boundaries.

Current Context

14. **Development cooperation has achieved a number of important successes.** The narrative of state-building failure in Afghanistan underplays the very real accomplishments that have been achieved in the last 13 years. The country in 2001 was almost bankrupt with most systems and infrastructure destroyed and state institutions either non-existent or non-functioning. Today, Afghanistan's per capita GDP is at \$688 which is five times what it was 12 years ago. Revenues increased from 3 percent of GDP in 2002 to a peak of 11.6 percent in 2011 and the World Bank's assessment shows that Afghanistan's public financial management (PFM) systems have strengthened considerably over time. The Human Development Index has also

improved significantly. Access to primary health care has increased from 9 percent of the population to more than 57 percent; maternal mortality has almost halved; and life expectancy has increased considerably. More than 9 million students (including 3.6 million girls) are enrolled in schools (compared to only 0.9 million boys and very few girls during the Taliban era). Thousands of kilometers of national and regional highways and provincial roads have been built, cutting travel times between population centers by three quarters. Civil aviation services have improved considerably, the Information Communication Technology (ICT) sector is thriving today, and access to electricity has more than doubled. Irrigated land has increased from 1.2 to 1.8 million hectares, significantly increasing agricultural production. During the past decade a strong and vibrant private sector, including foreign investors, has emerged investing in the various economic sectors. A vocal and lively civil society has also come up, with an open media providing a forum where a range of views are publicly debated. The role of women in society has grown, with many emerging as successful political, business and civil society leaders and role models.

15. **Despite successes, Afghanistan has not been able to adequately institute growth-promoting reforms.** While it is important to acknowledge Afghanistan's achievements, it is equally important to acknowledge its failures. First and foremost has been corruption, a plague that infuriates the ordinary afghan as much as it does our international partners. Second, because of the way aid has been delivered so far, Afghanistan became addicted to help from the international community rather than using aid for moving towards sustainable economic growth, job creation, infrastructure development, investments and trade. Third, while the criminal economy has flourished in Afghanistan, the legal economy has been hampered by regulatory incoherence and parallel institutions. Fourth, despite Afghanistan's tremendous endowment of natural resources, which could lift the afghan economy and improve the welfare of people, we have not yet been able to manage them well because of a lack of needed infrastructure and weak institutions and regulations. And last, while the urgency of ending the conflict and achieving a sustainable peace should be obvious, for more than a decade an agreeable path has not been formulated that could move disputes from the battlefield to the political field.
16. **Irrespective of the conflict, formidable development challenges persist.** Poverty remains high, with more than 36 percent of Afghans living below the poverty line. Stunting and malnutrition, particularly among women and children, affect nearly half of the population. Another overwhelming challenge is to create sufficient number of jobs that can provide productive employment to the poor. While most Afghan children have access to education, many are still deprived, and the current low quality of education will require greater attention going forward. Basic health services, mainly financed by donors, will need to increase further with particular attention to excluded and vulnerable groups, while also addressing concerns about cost effectiveness and sustainability of delivery and financing models. Although some key infrastructure has been built, more resources will have to be invested in the sector. While the status of women has improved, the level of female participation in the economy remains far too low, and violence against women is a problem that must come to an end. Finally, corruption, production and handling of narcotics, illicit economy and personal insecurity remain critical impediments to development progress across the board, but particularly to the private sector.

17. **The security and political transitions have taken a heavier than expected toll on the economy and the pace of reforms, pushing Afghanistan to a fiscal and confidence crisis.** For many years the major drivers of economic growth has been external to the afghan economy. The infusion of ISAF expenditure drove economic growth, but the massive withdrawal that was planned for on the security side did not receive sufficient attention. The social and economic impacts of the sharp scale-down of activities were considered to be marginal, but it is now clear that this was a miscalculation and the economic effects of withdrawal have been and will continue to be severe, creating a sizable fiscal gap in the afghan economy. Political uncertainty coupled with the deteriorating security situation aggravated the decline. Economic growth has fallen sharply to 1.5 percent (estimated) in 2014 from an annual average of 9.4 percent during 2003-12. Domestic revenues have fallen to 8.7 percent of GDP (projected) in 2014 from the peak of 11.6 percent in 2011. Despite austerity measures, the government faces an un-financed fiscal gap in 2014, with depleted cash balances and accumulating arrears. The crisis calls for urgent and immediate reforms, but it also provides Afghanistan with an opportunity to take bold actions.

18. **The new government is determined to meet these challenges.** Immediate reforms are, therefore, being introduced to address priorities in seven critical areas: (i) improving security and political stability; (ii) tackling the underlying drivers of corruption; (iii) building better governance; (iv) restoring fiscal sustainability; (v) reforming development planning and management; (vi) bolstering private sector confidence and creating jobs; and (vii) ensuring citizen's development and securing human rights. The full program will require a comprehensive and well-thought through reform strategy which we will present at the SOM in 2015. To launch this strategic discussion, we will seize all immediate measures to "walk the talk" of credible, substantive reform beginning with immediate actions to security, corruption and the culture of impunity.

Improving Security and Political Stability

19. Security and political stability are key prerequisites for economic development and for the success of the broad-ranging reform agenda now being proposed by the government. Prospects are improving. NATO/ISAF's goals of completing the security transition by the end of 2014 are on track. Both the Bilateral Security Agreement (BSA) and the Status of Forces Agreement (SOFA) have been signed. The all-volunteer Afghan citizen's army has shown itself to be resolute and capable. As with the civilian sphere, Afghanistan's security establishment will be undergoing a wholesale program of governance reform to professionalise their core structure and modes of operation. Alignment between security and development objectives has been lacking. For example, security spending now occupies more than 60 percent of the Afghan budget, yet security procurement and spending are not factored into national development strategies or systems of accountability. As part of Afghanistan's forward-looking reform program, civilian systems of procurement, human resource management, and financial transparency and accountability will be brought into the armed forces' normal operating procedures.

Tackling the Underlying Drivers of Corruption

20. Corruption remains endemic, increases the cost of development and service delivery, affects revenue collection, and damages credibility and legitimacy of the government in the eyes of its people and partners. The main drivers of corruption in Afghanistan have been collusive procurement practices, weak rule of law and abuse of the legal system, and arbitrary regulations that build in incentives to pay bribes. We will immediately tackle all three areas. Our strategy for fighting corruption rests on the twin pillars of strengthening enforcement and reducing opportunities. Specific actions include the following:

- The high level Monitoring and Evaluation Committee (MEC) has made recommendations on a national action plan to reduce corruption. We will accept them and put them into practice immediately;
- The appeals court has issued judgments in conformity with the seriousness of crimes in the Kabul Bank case. On the basis of these decisions, the government will now be able to confiscate properties and recover assets from abroad.
- We will provide the Supreme Court with the resources needed to implement its comprehensive reform program that will ensure that judges are appropriately compensated, protected, and held to high standard of professional behavior.
- We will form an independent anti-corruption commission with time-bound prosecutorial powers. Membership of this commission will be drawn from civil society and qualified legal specialists as well as from the government.
- We will reform and improve the Supreme Audit Agency,
- We will institute a requirement for all government officials to provide public declarations of their assets;
- Afghanistan will form a national procurement board staffed by qualified professionals who will manage all large-value contracts using internationally recognized standards and procedures.
- To the extent possible, technical ministries will be confined to policy, strategy and monitoring. Physical construction will be outsourced through a professionally managed national construction agency that uses standard cost registers and publicly audited accounts.
- We will introduce mobile banking services, which have been proven to reduce opportunities for leakages. Mobile banking is particularly valuable for programs designed to help the poor.
- We will modify the existing laws, regulations and procedures which cause corruption in the area of the provision of public services.

21. **We are taking significant actions to root out corruption from critical institutions of the state.** We are conducting a rigorous staff review in the critically important customs and revenue departments. We will replace staff, including senior-most managers, who do not meet strict criteria for professional conduct, performance, or conflict of interest. We are delineating the roles, responsibilities and jurisdiction of anti-corruption institutions such as the High Office of Oversight and Anti-Corruption (HOO) and the Attorney General to restrict them to focus on their core function of enforcement instead of oversight. The government is committed to prevent the partnership between government officials and businessmen that reduces competition and creates monopolies.
22. **Ministries will diagnose the sources of corruption and prepare anti-corruption action plans, to be issued as binding public documents.** We are streamlining and simplifying opaque and non-transparent processes across all governance systems that currently constitute the breeding ground for corruption. We will be doing this in a systematic way across all ministries. An illustrative example is the reforms proposed by the Ministry of Education which include an end to the practice of annual changes to the curriculum, direct payment of teacher salaries through mobile banking to end the problem of fictitious teachers, community oversight of teacher attendance through community development councils, and reforms to teacher certification and testing systems that currently encourage bribe-paying by unqualified candidates. Other ministries will produce similar reform proposals.
23. **We will establish our credibility through a series of high profile actions.** We have already shown our commitment to the anti-corruption agenda with the prosecution of the Kabul Bank case within two days of taking office. A second test of the government's anti-corruption action program will come soon with the announcement of a tender for eleven mines. We will invite international observers to evaluate the conduct of the tender, which we intend to use as a concrete example of our commitment to fair and transparent bidding from now on.
24. **Afghanistan will intensify efforts to control narcotic production and sale.** The narcotics trade has major consequences for the social, political, economic, and security arenas in the country as well as corruption, livelihood and health. The government will adopt a broad approach targeting both the production base as well as the handling and refining of narcotics. Strict and effective counter-narcotic measures will increase the costs of operating in the sector, with a particular focus on poppy-eradication and financial tracking. The government will complement enforcement with programs that provide licit alternatives for rural livelihoods.

Building Better Governance

25. The high levels of public participation in the election and the substance of the policy debates highlighted how much afghans care about improving the performance of the government. Previous approaches to governance reform have overly concentrated on the executive branch, with less investment in developing the capacities of the judicial and legislative institutions of the state. What Afghanistan needs now is a "whole of state" approach to stability, peace and prosperity. The judiciary must become the means to internalize and interpret the rule of law so that trust in rules and courts gets established. The executive branch then has to become the embodiment of rule based behavior. Our legislative branch needs to pass legislation about rules that can be implemented and internalised, not abstractly driven agendas that breed cynicism ra-

ther than meet needs. Representation and voice must be channeled fairly and transparently through the political system rather than outside of it, and citizen's aspirations turned into programs that invest in people's welfare.

With its popular mandate for reform, the government will be supporting a strong program of actions to increase government accountability, performance, and ability to deliver results from within the framework described above. Measures include:

- **Reforming the electoral system:** To insure that future elections in Afghanistan are fully credible, we are fully committed to carrying out a comprehensive reform of electoral laws and institutions, including introducing e-Tazkeera.
- **Justice Sector Reform.** Ensuring the rule of law and restoring confidence of the people in justice institutions will be the foremost priority of the government. The government will take steps for a comprehensive review of the qualifications of all legal professionals and make replacements and new appointments; an improved and more transparent case management system; a plan to reducing corruption in courts and provisions for improved legal aid and coordination mechanisms between justice institutions. An immediate action will be to review the cases of thousands of afghans being illegally held in pre-trial detention, without charges or trials, thus reducing abuse, corruption and pressure on the prison system.
- **Professionalizing public administration.** Going forward, we will focus on restructuring ministries and agencies to avoid any overlap and duplication of functions. Ministries will be instructed to prepare business process management plans that clarify their functions, streamline their structure, and align their performance measurements behind their attainment of results.

26. **Improving government efficiency and effectiveness.** We are committed to creating a lean, effective, and appropriately paid public service. We have already ordered an austerity program across government and reduced or eliminated non-essential expenditure.

- **Civil service reforms:** Strengthening the core civil service and progressively reducing reliance on parallel systems and expensive contract staff are important priorities. The New Civil Servants Law, the Basic Organizational Law and the Administrative Procedures Law will be enacted and required regulations, procedures and guidelines developed. These actions form the legal basis for strengthening cadre management in the civil service. We will ensure merit-based appointments within the civil service and eradicate the role of financial transactions in appointments. Business processes and service delivery arrangements will be rigorously simplified across the civil service. The e-Governance strategy of the government will be supported through targeted interventions in important service delivery and high spending ministries.
- **Strengthening public financial management (PFM):** Afghanistan has made significant strides in building credible and transparent systems for public financial

management as evident in Afghanistan's ratings on the Open Budget Index (OBI)¹ and Public Expenditure and Financial Accountability (PEFA)². Afghanistan PFM systems are reasonably capable of effective controls over public finances, the budget process is transparent, and, in combination with donor oversight, PFM standards increasingly satisfy most donor fiduciary requirements. This has led to about \$5 billion on-budget civilian and security financing in 2014. The government will take all necessary measures including through a new PFM roadmap, if needed, to enable donors to further increase their on-budget assistance

The government will maintain its commitment to continuously improve its PFM systems by (a) applying whatever controls are needed to manage the budget and report reliably to all stakeholders on public finances; (b) building sustainable capacity in the spending ministries to improve their internal controls; (c) establishing government-wide internal audit under the Ministry of Finance; (d) strengthening the independence of the external auditor; and (e) harmonizing audit standards.

- **Improving sub-national governance:** With the majority of the Afghan population living in rural areas, improving sub-national governance is extremely important. The 2010 Sub-National Policy will be reviewed to provide greater clarity on the roles and responsibilities of sub-national officials and to strengthen links between planning and budgeting so that people across all provinces have a greater voice in their development. Governors, as representatives of the reform government, will be individually reviewed to ensure proper qualifications and performance. To demonstrate our commitment to enhancing development at the provincial level, a significant percentage of discretionary development spending will be assigned to provinces in the 2015 budget.
- **Making cities the economic drivers for development.** In order to do so we need to improve living conditions and service delivery in urban centers. Urbanization will need to be managed by reducing disparity between rural and urban areas and thereby controlling rural-to-urban migration. The government plans to appoint mayors based on merit and a public consultation process. The government will prioritize municipal development by advancing revenue improvement plans in Afghan cities. Establishing metropolitan development authorities and funds will allow for coordinated development planning and professionalized management.

Restoring Fiscal Sustainability

27. The root cause of Afghanistan's current economic weakness is the country's dependence on aid and military expenditure rather than on a vibrant, functioning real economy. While the short-term fiscal crisis is discussed below, the proper solution to what will otherwise be periodic cycles of fiscal imbalance is for the Afghan state to provide the private sector with clear and se-

¹The Open Budget Index rates countries on how committed their government is to budget transparency and accountability.

²The Public Expenditure and Financial Accountability (PEFA) Program was founded in 2001 as a multi-donor partnership to assess public expenditure, procurement and financial accountability systems and develop reform and capacity-building actions.

cure property rights (both urban and rural), a reliable system of justice to protect them, and increased global and regional market access. Stable growth only can generate stable revenue. While a full explanation of the strategy to stabilize government revenue through predictable and sustainable sources of growth coupled with increased enforcement of tax payments will be fleshed out by the time of the SOM, its priority areas are:

- Developing natural resources through public-private partnerships that bring in rents, taxes, and profits;
- Removing obstacles to trade and transit and ending smuggling that diverts revenue away from the treasury;
- Negotiating expanded market access in regional and global markets;
- Gradual formalization of informal economy and changing the compact between the state and citizens to one where citizens pay taxes for services they tangibly benefit from;
- Transferring government payments electronically to eliminate losses in transit.

28. Critical to the long-term sustainability of the economy will be bringing to fruition our efforts to promote trade and stability through regional integration. Afghanistan will now turn these early initiatives into operational programs for reform, investment, and cooperation with neighboring governments and the private sector. High-level working groups will concentrate on both the “hard” investments in connectivity, energy, and water resource development as well as on the “soft” but critical areas such as accelerated licensing, streamlined transit and visa requirements, and opportunities for securing financial guarantees.

29. While the long-term solution to fiscal sustainability lies in reforms that expand the economy, in the short-term improving revenue mobilization has become an existential priority for Afghanistan. The new government is taking immediate and urgent steps to boost revenue collection. We will improve the governance of customs, revise the existing tax regime, and strengthen enforcement to reduce leakages and raise revenues through steps that include:

- **Strengthening enforcement and fighting corruption in customs:** Within the first weeks of the new government, we have set the stage for a new wave of customs reforms. The customs action plan that was agreed by all concerned ministries will be strictly implemented. Controls at customs are being significantly enhanced by rebalancing customs officials across customs houses to reflect traffic at borders, introducing additional randomized post-inspections, and mobilizing post clearance audit in major custom houses. Additional border crossing points will be established to reduce border leakages. We also intend to roll out the ASYCUDA valuation module countrywide. But most importantly, we have strengthened the enforcement powers of the customs authority through a Cabinet-endorsed memorandum of understanding between the Ministries of Interior and Finance which places the customs police under supervision and direction of the customs department. This signifies a major step towards the integration of administrative and enforcement functions and it will allow us to extend performance-linked salary bonuses to both customs officers and customs police.

- **Creating an Independent Revenue Authority.** The government will amend the legal and institutional framework for enforcement. Consideration is being given to the creation of an autonomous, independent authority for customs and revenue. Such an authority would potentially be able to reduce interference from other state institutions, provide more flexibility in designing appropriate incentives, and offer greater independence in exercising HR decisions and punitive measures.
- **Increasing tax income and strengthening tax enforcement:** The government will pursue with the parliament for expeditious passage of the VAT Law (with an appropriate rate) and the Tax Administration Law. In addition, we are exploring application of new taxes and fees such as road tolls and increasing fuel import duties and other applicable fees. The government has begun to conduct risk-based taxpayer audits as part of strengthening and streamlining the tax clearance process for firms to increase domestic revenue collections in the short-term.
- **Using the budget to manage policy.** The current fiscal problems have arisen in part because spending commitments were made without regard to the status of the country's budgetary limitations. However, using the budget as an effective instrument for managing national policy requires that the budget accurately reflect the full range of financial resources. To make this possible, the government is proposing two changes to the current practice. First, a working group between the security sectors and the economic advisory council will bring security expenditures within the overview of Afghanistan's budget systems. Second, all donor spending in Afghanistan will be recorded in the national budget, even if it is not spent through the treasury. These two reforms will let policy makers see the full landscape of income and expenditure. Periodic high level reviews will track progress at consolidating budgetary information across all three of these main expenditure categories.
- **Strengthening fiscal discipline.** The 2015 budget represents a fundamental change in the role of budget as an instrument for development planning which will reinforce fiscal discipline. Specific measures include providing budgetary guidance for the size of the civil service, consolidating the number of discretionary development projects, curtailing social benefit allocations, and ensuring adequate allocations for operations and maintenance (O&M). We intend to revisit the legal framework for social benefit spending to enhance sustainability and tighten delivery systems to eliminate benefits for unintended recipients. In the future, we intend to change the national development budget to a three-year cycle which will be guided by the national priorities and the budget in turn will then guide government policies and planning. For instance, the size of the civil service ("Tashkeel") will be guided by the allocation given to a ministry rather than vice versa.

Reforming Development Planning and Management

30. Development management has become too complex and filled with too many small, unsustainable activities. Improvements are needed in development planning, implementation and monitoring to effectively spend resources leading to concrete deliverables. The government will introduce immediate reforms in these areas:

- **Improving strategic management.** The Cluster coordination mechanism will be reinvigorated under the leadership of the National Economic Advisor to make planning more effective and results-oriented. The national budget-making process will be guided by the national strategic priorities and development strategy within a new three-year budget and expenditure management framework.
- **Consolidating and streamlining priorities.** National Priority Programs (NPPs) will be reviewed, prioritized and revised in a time-bound manner reflecting the new priorities of the government. The current 22 national priority programs are too many to manage properly. They will be reduced to no more than 10-12 and re-structured around results. Of particular importance will be a national infrastructure plan; an employment and human capital development plan; a national program for private sector development; and a national program for effective governance. Donor funding will be aligned with the deliverables of the NPPs. Systems to monitor implementation of NPPs and to measure their results will be reintroduced.
- **Development costs must be reduced** because money saved is money earned. Our cost of development is very high and unsustainable. Neighbouring countries are developing the same infrastructure for much less. We are aware of the special challenges our country is facing, like security, difficult terrain and non-availability of basic material in some cases, but still, there is scope for reducing costs. The government will assign high priority to this task, seeking cooperation from international partners in the process. A critical review of all off and on-budget development spending in Afghanistan will be taken up with an aim to increase cost-effectiveness and sustainability. In this regard, the government is reviewing its operations, including budget planning, procurement systems, and contract-awarding mechanism (especially sub-contracting) to identify where savings can be made. We will work with donors and development partners to ensure a joined-up effort on cost effectiveness.

Bolstering Private Sector Confidence, Promoting Growth, and Creating Jobs

31. Afghanistan's growth and job creation for the next decade will hinge on private sector growth and investment in extractive industries, infrastructure, services, agriculture and trade. To a large extent it will also hinge on peace and civic order allowing the legitimate private sector the security it needs to invest and grow.

32. Improving Afghanistan's business enabling environment is the top priority. In the past, coordination of investment climate reforms often lacked the political support needed to implement and monitor business-friendly reforms. We have therefore created a National Economic Council at the highest level of government in order to elevate and coordinate important economic reforms. The government has prioritized the following initiatives:

- **Improving the Investment Climate:** Fragility and conflict still represent the most binding constraints to private investment in Afghanistan. However, there are

serious institutional challenges that need to be addressed. Currently, Afghanistan ranks near the bottom (183rd out of 189 economies) in the World Bank's 2015 Doing Business Report which measures the attractiveness of the investment climate and ease of doing business in various countries. The government will significantly reform licensing and registration procedures. Reforms will include streamlining and unifying the system for issuing and renewing trade and investment licenses. They will be integrated with the business registration system to establish a one-stop-shop for private businesses. Progress will be regularly monitored and disclosed. We will clarify the role of the Afghanistan Investment Support Agency (AISA) and Ministry of Commerce and Industry (MOCI) to avoid duplication and ensure that the government provides high quality and low cost services to the private sector.

- **Strengthening the Financial Sector is critical for restoring confidence of the private sector and partners.** While since the Kabul Bank crisis many critical administrative and legislative improvements have been introduced, weaknesses remain. The commercial banking sector operates as a depository institution with very limited lending. Access to credit remains one of the main factors inhibiting the growth of the private sector. The government is committed to strengthen and restore confidence in the financial sector, increase the level of transparency, and improve access to finance. The government also met its commitments to pass anti-money laundering and anti-terrorist financing laws that were made to the Financial Action Task Force (FATF) recommendations. The government will take measures for effective implementation of these laws.
- **The government will strengthen regulatory and supervisory capacity of the central bank to exercise effective regulatory** and prudential oversight of all financial institutions, with a focus on enforcement. In particular, DAB is to exercise effective Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) supervision of all financial institutions. The approval of the new Banking Law and accompanying regulations is another priority. To enable growth of the private sector, the government aims to play a facilitating role to increase access to financial services. Strengthening the financial sector infrastructure, including public credit registry, collateral registry and modernization of payment system, remains at the forefront of DAB efforts in this regard.
- **Promoting growth in key economic sectors:** Agriculture, transport, and extractive industries will be the main pillars of economic development over the next decade.
 - o **Extractives industries will be a key source for revenue generation** over the next few decades and beyond. The government is strongly committed at the highest level to unlock the potential of minerals and petroleum by consolidating progress on the legislative and regulatory framework and making heavy investments in critical infrastructure, particularly in railroads linking the major mining projects to outlet and port facilities and to an enhanced national energy grid. Transparency and accountability will be a priority during development of the sector. Every effort will be made to leverage major mining projects for enhancing regional economic cooperation,

nation building, promoting economic growth and sustainable economic diversification. Extractive industries will create upstream, downstream, and side stream opportunities leading to further economic growth and expanded employment.

The new government is also committed to designing a stable and predictable extractive industries fiscal regime as one of the fundamental prerequisites for realizing the revenue potential that would ensure that Afghanistan gets a reasonable share of the rents from extractive industries and attracts investment despite some of the challenges in the country. The government is considering options for establishing revenue stabilization and investment funds to assist with infrastructure and other national development initiatives. We are also developing capacity and systems in contract management, cadastre, revenue collection and inspectorate functions and a program to formalize the informal mining sector.

The government will amend the new minerals law to address important shortcomings in the transfer of licenses. The government will speed up the implementation of the law by issuing and reinforcing the requisite set of mining regulations. The new government is strongly committed to the Extractive Industry Transparency Initiative (EITI) process and will place utmost emphasis on resolving issues that are currently inhibiting full compliance with EITI standards and improving our Resource Governance Index score. These include moving coordination of the Afghanistan Extractive Industry Transparency Initiative (AEITI) activities to the National Economic Adviser in the president's office, publishing all extractive industry contracts under the open government initiative, preparing a high level engagement strategy for government-industry, putting our full support behind civil society dialogue on extractive industries and with respect for community rights and environmental stewardship.

- o Raising agricultural productivity.** The government sees the agriculture sector as the largest source for job creation and poverty reduction and is committed to comprehensive development in the sector. The future role of the Ministry of Agriculture will centre on planning, regulation and enforcement instead of direct provision. Developing agriculture and increasing productivity will require large, multi-sectoral investments in irrigation and the development of value chains. Given resource limitations, public investment will be very strategic and focus on those segments of agriculture which show the largest potential for growth and job creation. Appropriately tailored support strategies will be needed for smallholders.
- o Improving land governance.** The government is undertaking land governance reforms that will radically change the landscape for land management and administration. We will soon approve amendments to the Land Management Law and the Land Acquisition Law, which are expected to improve security of tenure and introduce orderly, legal land markets. Once enacted, the government will aggressively facilitate the implementation of these laws by enhancing the capacity of the Afghan Land Authority. The

government will also explore lessons from other Asian countries on mechanisms to create public-private land-development partnership.

- o **Prepare a comprehensive national infrastructure development plan to build domestic and regional connectivity.** Better connectivity through improved infrastructure, logistics management, and rational tariffs will be key to successful export development. The core document will be a national infrastructure development plan that combines a physical investment program with major improvements to the governance of infrastructure development and maintenance. Priority will be given to investments that improve rural-urban linkages and which extend Afghanistan's cross-border trade.

Ensuring Citizen's Development Rights

33. Afghanistan's underserved poor need to receive a basic-level of economic services in order to participate productively in the arenas of economic growth. To help poor communities get a minimum-level of services, we will develop a Citizens Charter that will set a threshold of core services to be provided to all communities. The government will formalize Community Development Councils as village councils through a new law, which will become the mechanism for line agencies to plan and manage local-level service delivery. The government will continue to help make Community Development Councils inclusive and representative bodies.

- **Continuing expanding services but through new delivery models for greater sustainability.** Service delivery plays a dual role in Afghanistan: promoting social cohesion and trust in public institutions, while laying the foundation for job creation and growth. With levels of education, health, and infrastructure access among the lowest in the world, Afghanistan will need to continue expanding service delivery. However, current levels and institutional arrangements for service delivery may be unaffordable in the future unless there are reforms to how services are delivered. Critical priorities are to maintain the gains, improve the quality, and generate efficiencies in the management of our human and financial resources, while at the same time improving accountability to citizens. It is particularly important to ensure that service delivery austerity does not disproportionately victimize women, poor, and socially marginalized groups.
- **Empowering women.** The government's strategy for addressing gender inequities in Afghanistan rests on three pillars. The first pillar consists of continued commitment to Afghanistan's national and international commitments to end discrimination and violence against women and to ensure the fair and legal treatment of women before the law. The second pillar consists of government leadership and policy to provide women and girls with increased economic and educational opportunities, as illustrated further below. The third pillar focuses on government itself, through implementing measures such as ending workplace gender harassment, unjust treatment of women prisoners, or insufficient support to women police officers or other government employees where the government must set the example of gender fair treatment and gender friendly employment policies.

The government will continue to strengthen measures for protecting women against violence and other violations of their human rights. The government is committed to

implementing the Elimination of Violence against Women (EVAW) law. We will work towards developing a comprehensive online database reporting cases in coordination with human rights and justice institutions.

While gender issues are broader than questions of economic policy alone, Afghanistan cannot afford the current marginalization of women. Conversely, providing schooling to women has been one of the proudest achievements of the afghan government as well as of our international partners. This government believes that investing in a girl's education is an investment for the next five generations of afghans. For that reason, there are no circumstances under which we will reduce our commitment to the education of girls and to improving maternal health and mother/child nutrition.

- **A National Economic Empowerment Plan for women will be prepared.** The plan will provide a general framework that then gets developed through consultations with afghan women leaders, the business community, and religious leadership. A core set of programs will include:
 - o Nationwide provision of citizenship documents such as birth, marriage, and divorce certificates;
 - o Revitalization of Islamic laws on inheritance and women's property ownership;
 - o Mosque and community-based literacy courses for women and girls;
 - o Support for financial literacy, financial inclusion and small business development;
 - o Reviews of the statutes governing women's legal standing;
 - o Affirmative action employment programs within government;
 - o Support for higher education for women that provides business-related skills;
 - o Reviews of economic statistics to ensure that woman's economic activities are properly captured in national plans.
- **Supporting Human Rights.** Afghanistan is fully committed to supporting human rights. We will continue to take actions for promoting human rights in justice and security sectors through professionalizing the court system and increasing access and representation; reforms to police training and oversight; and reforms to the prison system and prisoner processing. Dealing with abuse of children and the rising levels of violence against civilians will be a priority. We are pleased to report that the Afghan Independent Human Rights Commission (AIHRC) is in the final stage of review process to retain its "A" accreditation.
- **Improving the well-being of refugees and internally displaced persons (IDPs).** A peace agreement will in the long-term provide a big dividend to the country, but in the short-term it will incur significant costs. It is imperative that the refugee camps on Afghanistan's borders be peacefully dismantled and their inhabitants reintegrated into afghan society.

Similarly, former combatants on both sides not only need to be notably disarmed, but also reintegrated and provided with the training, health care, and skills to find productive employment.

With an estimated five million refugees abroad and about one million internally displaced people the issue of their well-being requires a comprehensive approach. Afghanistan cannot absorb large numbers of returnees into cities that already cannot provide adequate services and are experiencing economic contraction. Furthermore, while refugees and former combatants may be the most visible victims of the conflict, large numbers of people suffered varying degrees of damage and loss. Therefore, Afghanistan's refugee and repatriation policy will recognize the diversity of post-conflict vulnerability and be built around locally developed definitions and solutions to post-conflict reintegration.

Development Partnership

34. Afghanistan needs a renewed partnership with the regional and international community. It is a war-torn state that has experienced 40 years of near-continuous conflicts, violence, and disruption. The government will seek an enduring relationship with our international and regional partners based on mutual interests and benefits to advance our shared objectives of peace, stability, and prosperity. To realize our vision, even as we get our own house in order, there is no escaping the fact that Afghanistan will continue to require considerable financial assistance from the international community. Furthermore, we need to enhance the predictability and effectiveness of development assistance to Afghanistan. The following are thus priorities for further enriching our development partnership:

- **Regional cooperation for economic prosperity.** Historically, trading routes crossed Central and South Asia and interactions between its people were commonplace (the 'Silk Road'). Today, complex and contested politics have resulted in the region being one of the least connected in the world. Energy and transport infrastructure is weak, and there is great potential to promote both intra-regional and inter-regional trade. Greater economic cooperation using existing regional cooperation programs like Central Asia Regional Economic Cooperation (CAREC) can enhance prospects for poverty reduction, improve economic growth, and achieve long-term stability in the region. Afghanistan is at the centre of this natural corridor for trade – and greater connectivity can play a key part in helping the country strengthen its economy and achieve fiscal sustainability. Our vision for Afghanistan is to regain its historic place as a regional roundabout connecting South Asia, Central Asia, the Far East, Middle East and Europe. CASA1000, TAPI, TUTAP, the economic confidence building measures of the 'Heart of Asia'-Istanbul Process as well as new regional initiatives, i.e. the Lapis Lazuli Corridor connecting Afghanistan to Turkey through Turkmenistan, Azerbaijan and Georgia are key components of our evolving relationship with our regional partners and beyond.
- **Reaffirming the financial commitment to Afghanistan.** While we will continue working towards realizing self-reliance, Afghanistan is not expected to become fiscally sustainable anytime in the next decade. Our goal is to achieve a "soft landing"

as peace takes hold and the conditions for self-sustaining growth are realised. Nevertheless, a large fiscal gap is expected to persist through 2025 and Afghanistan will continue to require high levels of donor grant assistance while the growth and revenue reforms we are putting in place take hold. Fragility, conflict, and low levels of development combine to generate considerable security and civilian expenditure needs. While Afghanistan's transition will require reforms to increase efficiency, an overly abrupt exit poses serious challenges to the stability of the state and a resurgence of violence.

- **Sustaining a budget in light of enormous security expenditure.** More than 60 percent of our national operating budget goes towards covering security sector costs and the government is bearing an increasing responsibility for security expenditures at the expense of critical civilian operating and development priorities. While we seek to take on an increasing responsibility for our security costs, we must look for ways to do this without compromising development outcomes. As a first step we are planning to streamline our PFM system in the security sector to make planning, expenditure and control more efficient and transparent. Moving forward, we need close cooperation with our partners in thinking through ways to make the security sector more fiscally manageable.
- **Changing the role of aid.** Given the scale of destruction and the very low baselines with which our partnership with the international community began, Afghanistan enormously appreciates the role that development cooperation has played in helping us to rebuild. However, both partners believe that it is time for us to move on. As this paper has tried to articulate, Afghanistan's self-reliance will emerge from confident investments in regional integration, sound budgetary planning and management, and investments in infrastructure and human capital of the country. To support these goals, aid should now play a facilitating and enabling role to build the systems, trade agreements, and investment environment that will allow Afghans and overseas partners to invest with confidence.
- **Enhancing our cooperation with civil society.** Afghanistan has a visible and vocal civil society, which has proven to be an important partner. We recognize their importance and would like to build an open and strong civil society. We would further strengthen it through enhancing public oversight of government reforms, particularly by using electronic media to accelerate transparency and disclosure. We are fully committed to ensuring civil society autonomy and freedom of action. We would like civil society organizations to adopt a common framework for financial reporting and public disclosure, which will help lay the ground work for long-term domestic sustainability of the sector. Contributions for civil society organizations are already tax deductible, so more vigorous pursuit of high value tax collection is likely to increase the domestic funding base for civil society organisations.

35. In this paper we have put forward a reform agenda for Afghanistan that is based around the principles of making the government accountable to the people. Our revitalised compact builds on our TMAF commitments to carry through specific reforms in the following areas: (i) moving away from aid dependency to growth built through regional integration and an enabling partnership for private sector development; (ii) thoroughly streamlining government to increase its efficiency; (iii) realising national policy through the instrument of the budget, a three-year

strategic development plan, and a consolidated, results-focused development portfolio; and (iv) supporting human rights and inclusive development.

36. Our agenda needs to be complemented by reforms to the donor half of this compact. For both donors and the Afghan government, transition will happen in full only when progress on our half of the compact is mirrored by working together to help embed the reforms into Afghan national systems that can last beyond the era of aid.

- **More on-budget assistance.** We cannot be accountable for resources over which we have little or no control or oversight. Furthermore, we do not have the fiscal space to maintain infrastructure built without reference to where it might sit within Afghanistan's recurrent budget. The case for significant levels of off-budget aid is increasingly weak. In many domains, on-budget assistance is substantially more effective than off-budget assistance. However, it is also true that government systems face constraints that must now be overcome. Between now and the SOM, the government will work with its partners to remove bottlenecks to routing more funds on-budget and to scale-up their support through the budget.
- **Aligning with national priorities to enhance the effectiveness of financial assistance.** Aligning aid with national priorities is critical for aid effectiveness; brings value for money; meets felt-needs of the people; and increases the legitimacy of the government.
- **Adjusting technical assistance.** As Afghanistan moves into transition, technical assistance that builds up effective, sustainable systems is more useful than technical assistance that offers one-time solutions. Afghanistan and its partners will increasingly design demand-driven and sufficiently resourced technical assistance around the needs of the national priority programs. Technical assistance should draw upon the world's collective knowledge of what meets state of the art standards so that donor aid can eventually move entirely to programmatic, on-budget approaches with confidence that their funds will be used well.
- **Reviewing the instruments of on-budget cooperation.** The government will review the functioning of multi-donor trust funds to increase their programming flexibility and to ensure full alignment with government priorities.
- **Sharing information.** Aid information collection and management enables the government to better plan, implement and monitor outcomes of financial assistance. It is simply good international practice to insist that all money spent in Afghanistan be registered within the Afghan budget, even if not all of it is spent through the budget itself. There has been significant, positive progress in recent years but gaps still exist and these gaps adversely affect proper development management. The government will request that a working group be set up to improve the quality of information sharing, registration and management.
- **Increasing local content.** An "Afghan First Policy" should be considered by Aid agencies in order to give preferences to contract Afghan firms, hire Afghan citizens and buy local products. Investing in Afghan skills and suppliers is a critical element of enabling a transition to self-reliance.

Conclusions

Afghanistan is at a crossroads. Over the coming year the country and its international partners will be making choices that will affect an entire region and whole generations of people. Afghanistan's future rests in our hands.

After thirteen years of state-building, Afghanistan is proud of what has been accomplished. And yet while there are many successes, there have also been many mistakes and lost opportunities. Endemic corruption is a curse that has pervaded Afghanistan since reconstruction began. Preventing failure to implement firm commitments on reforms and aid effectiveness that would set Afghanistan on a path of sustainable growth is an even more critical going forward.

Our international partners have rightly asked why they should believe that "this time is different." The purpose of this paper has been to present the overall framework and set of actions that will prove Afghanistan has changed. The Government of National Unity is aware that there is no time to waste. The time for reform is now.

The reforms proposed in this paper address Afghanistan's need to overcome the current fiscal crisis and return to a trajectory suitable for sustainable growth and moving towards self-reliance. The strategy we have outlined in this document not only puts Afghanistan firmly on the path towards self-reliance, but on the road to becoming a fulcrum of growth, prosperity and stability across its neighborhood. Making Afghanistan's transition a success will require patience, understanding, and a readiness to stay the course despite the occasional setback. A successful Afghanistan is entirely within our reach.