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ISLAMIC REPUBLIC OF AFGHANISTAN

**Joint Staff Advisory Note on the Poverty Reduction Strategy Paper**

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Development Association (IDA)

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## **I. BACKGROUND AND OVERVIEW**

1. This Joint Staff Advisory Note (JSAN) reviews the Afghanistan National Development Strategy (ANDS)—A Strategy for Security, Governance, Economic Growth and Poverty Reduction. The ANDS, which covers the five-year period from 2008 to 2013, was approved by President Hamid Karzai and his Cabinet on April 21, and submitted to the International Monetary Fund and World Bank as Afghanistan's Poverty Reduction Strategy Paper.

2. The ANDS follows and builds on a series of earlier government strategy documents, including the National Development Framework of April 2002, the Securing Afghanistan's Future report of January 2004, and the Interim-Afghanistan National Development Strategy (I-ANDS) of January 2006. The ANDS also builds on the commitments made by Afghanistan in the context of the 2006 Afghanistan Compact. The Compact was intended to guide the work of the government and the international community after the completion of the Bonn Agreement of December 2001, and set benchmarks to evaluate performance over the five-year period 2006–11. Afghanistan has also endorsed the Millennium Development Goals (MDGs).

3. Following more than two years of preparation and extensive consultations, the ANDS comes at an opportune time, about halfway through the Compact period. As detailed in the ANDS, Afghanistan has made considerable progress in many respects since the fall of the Taliban regime in 2001, but still faces daunting challenges to the country's ambitious efforts to improve security, build an effective and accountable state, and embark on sustained economic development and poverty reduction.

4. The ANDS is a very comprehensive strategy which: (i) provides a development vision for the country; (ii) lays out national objectives for the three ANDS Pillars (Security; Governance, Rule of Law, and Human Rights; and Economic and Social Development); (iii) integrates six cross-cutting issues (Counter-Narcotics, Anti-Corruption, Capacity Development, Gender Equity, Environment, and Regional Cooperation); and (iv) discusses some 17 specific sectors and areas of activity. The ANDS also includes chapters on the participatory process, the poverty profile, the macroeconomic framework, aid effectiveness and coordination, the implementation framework, and the monitoring framework.

## **II. POVERTY DIAGNOSTICS, PARTICIPATORY PROCESS, AND MONITORING**

### **A. Poverty Diagnostics**

5. According to the national household survey conducted during the summer and autumn of 2005, poverty in Afghanistan (headcount rate) is around 33 percent. To better understand the extent of seasonality in poverty rates, a separate survey was conducted in the spring of 2007, which estimated a poverty rate of 42 percent. Staffs welcome the government's decision to go forward with the 2007/08 national household survey, which

is currently underway, as a 12-month round survey to capture seasonality in poverty in a more systematic manner.

6. In staffs' view, the poverty diagnosis in the ANDS is in general well prepared and of good quality. Quantitative data from the 2005 national household survey are combined with qualitative findings from a participatory poverty assessment to provide a detailed profile of poverty. The analysis covers most of the basic determinants of poverty and highlights the disparities between the rural, urban, and nomadic populations, as well as across regions. Limited access to infrastructure and basic services, poor education outcomes, and lack of employment opportunities are identified as the main determinants of poverty, especially among the rural poor. Generation of productive employment opportunities can therefore have a substantial impact on poverty reduction. The poverty profile also indicates that there are large numbers of vulnerable people close to the poverty line who are at risk of falling into poverty in the face of shocks emanating from a variety of sources (for example sickness, conflict, drought, increases in food prices). Data limitations have precluded the measurement of other important indicators like infant mortality, and access to clean water and sanitation.

7. Looking forward, staffs recommend timely compilation and analysis of the ongoing (2007/08) national household survey to fill data gaps, inform and fine-tune policy priorities, and monitor progress in poverty reduction. While the current poverty analysis identifies important correlates of poverty and vulnerability, links to policy recommendations and to the overall strategy as well as to the sector strategies are weak and need to be enhanced. Staffs encourage the government to sharpen the poverty analysis and use it to establish clear priorities among programs and investments that are more closely aligned to the goal of poverty reduction. An updated poverty diagnosis could be presented in the first ANDS Progress Report.

## **B. Participatory Process**

8. The ANDS is based on an extensive participatory process, which included some 17,000 representatives of government, civil society, the private sector, and general public, at the national, provincial, and local levels. Despite significant security and logistical issues, all 34 provinces were included, and nearly half of those consulted were women. The ANDS gives examples of how the consultations and the Provincial Development Plans have contributed to provincial and sectoral priorities. Conflict sensitivity was also included in the consultation process and is discussed in the ANDS.

9. The ANDS states that the government will institutionalize participation in the implementation of the ANDS, although it is not clear how this will be done. Moreover, the ANDS does not discuss plans for its public dissemination. Staffs encourage the government to take concrete steps to institutionalize some level of participation in implementing and monitoring the ANDS, especially at subnational levels, and also to vigorously disseminate the ANDS to the Afghan public.

### C. Targets, Indicators, and Monitoring

10. The ANDS makes an effort to develop a comprehensive framework for monitoring and evaluation (M&E). Although the MDG targets and the Afghanistan Compact benchmarks are integrated in the ANDS, the very large number of indicators, not all of which are well-specified or immediately relevant, suggest that the M&E framework will be difficult to manage.<sup>1</sup> In view of the limited capacity to collect and analyze data, staffs encourage the government to streamline the M&E framework to make it more manageable and useful. A practical solution would be to utilize as best possible the available indicators, and focus new data collection efforts on addressing the most important gaps as capacity is developed over time.

11. The ANDS presents an opportunity to address serious weaknesses in the statistical base, which complicate macroeconomic management as well as M&E. In addition to the national household survey, the ANDS highlights the importance of strengthening the capacity of the Central Statistical Office (CSO) to provide accurate and timely information on macroeconomic and social indicators. In the near term it will be important to develop—building on the earlier Statistical Master Plan—and start implementing a strategy for strengthening the CSO, while progressively broadening the coverage and reliability of the statistical base.

12. Staffs recommend that the M&E framework be institutionalized in the existing structures of government with technical support from the international community, as needed. Staffs consider that this would be more productive and sustainable from the perspective of government ownership than establishing separate structures as envisaged in the ANDS, such as the Central Monitoring and Reporting System (CMRS). At a minimum, the role and location of the CMRS should be reviewed to avoid unnecessary duplication of activities. In addition, staffs consider that having the CMRS report to both the Joint Coordination and Monitoring Board (JCMB) Secretariat (which is not a regular government institution) and the Ministry of Economy may be problematic and needs to be reconsidered.

### III. MACROECONOMIC FRAMEWORK AND RESOURCE REQUIREMENTS

13. Economic performance since the fall of the Taliban regime has been strong, and macroeconomic stability has been maintained. During 2002/03–2006/07, real GDP growth averaged 15 percent per year, reflecting a recovery in agriculture, donor-funded postwar reconstruction, and initial yet promising growth of a range of private sector activities. Prudent monetary and fiscal policies facilitated a decline in inflation to single digits in 2006/07, but inflation has risen recently owing mainly to global commodity

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<sup>1</sup> Approximately 250 indicators are specified in the Monitoring Matrix, many of which are under assessment or still being developed. A separate list elsewhere in the ANDS of 99 indicators has some overlap with the Monitoring Matrix, but also includes data in areas not covered by the Monitoring Matrix.

price increases. Revenue collection increased as a share of GDP from 4.7 percent in 2003/04 to 7.5 percent in 2006/07, before declining to 7.0 percent in 2007/08.<sup>2</sup> Large aid inflows—averaging more than 60 percent of GDP during the past five years—have contributed to a strong build-up of international reserves.

14. The macroeconomic policy framework is broadly in line with the authorities' economic program, supported by the Poverty Reduction and Growth Facility (PRGF).<sup>3</sup> Staffs welcome the stated commitment in the ANDS to fiscal sustainability and, in particular, to the objective of covering recurrent expenditure with domestic revenue within the medium-term. However, the high level of expenditure envisaged in the ANDS would substantially slow down progress toward fiscal sustainability. Moreover, implementation of the reforms envisaged under the ANDS will be crucial to sustain the economic growth needed for poverty alleviation and improvements in living standards.

15. A disciplined approach is needed to meet the fiscal objectives set out in the ANDS. Achieving policy autonomy and getting away from long-term aid dependence will require concerted and sustained efforts by the authorities to increase domestic revenue. In particular, improvements in revenue policy and administration, and a broadening of the tax base, will be essential. These efforts will also be crucial for operating and maintaining the programs and investments put forward in the ANDS. However, the weak revenue performance in 2007/08 demonstrates the importance of high-level political support for the revenue reforms outlined in the ANDS. In addition, the government and international partners should strive to ensure that large availability of external resources does not undermine incentives for increasing the domestic revenue effort, which remains one of the lowest in the world.

16. The total resource requirement of US\$50 billion over five years, of which more than US\$43 billion is projected to be in the form of donor assistance, raises a number of issues which have not been adequately addressed in the ANDS. The ANDS financing table shows a doubling of projected donor assistance for the period between 2009/10 and 2012/13, with US\$18 billion (US\$4.5 billion a year) projected as additional donor support beyond the US\$18 billion that is considered likely to be available from donors, based on past trends and consultations.

(i) Afghanistan's limited absorptive capacity constitutes a major constraint to such a large increase in ANDS spending. The projected aggregate level of expenditure far exceeds historical rates of expenditure execution, and the long gestation periods for sizable infrastructure projects mean that increases in actual spending will take time and require lengthy preparations. In addition, the lack of skilled domestic labor could lead to delays in project completion and to wage inflation. Staffs urge the authorities to take

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<sup>2</sup> 2006/07 ratios have been revised downwards as a result of the upward revision of nominal GDP by the CSO.

<sup>3</sup> The macroeconomic framework in the ANDS is consistent with that underlying the third review of the PRGF, which was discussed by the Executive Board of the IMF on February 13, 2008.

measures to enhance the government’s spending capacity, for example by further improving PFM and procurement systems as well as the budgetary process, and by developing sound national development programs in sectors where these do not yet exist, or need improvement. This could allow scaling-up of expenditures on development beyond that envisaged in the macroeconomic framework, to support the poverty reduction goals outlined in the ANDS.

(ii) Program prioritization should be strengthened—including in those sectors which have been costed—in order to identify which spending programs will be implemented if the envisaged donor assistance does not materialize or absorptive capacity constrains spending. Staffs urge the government to prioritize further its sector strategies and programs to ensure that priority expenditures in each sector are executed. This is particularly important in light of the need to avoid the risk of a dramatic increase in external borrowing to offset a shortfall in donor assistance, which could undermine the government’s prudent debt management strategy and debt sustainability. In addition, staffs encourage the Government to avoid wasteful spending or spending directed toward low-priority areas resulting from an increase in the availability of resources.

(iii) The envisaged scaling-up of expenditure—which as noted in the ANDS is not incorporated in the macroeconomic framework—could complicate macroeconomic management. Overcoming this challenge will require improvements in the coordination of monetary and fiscal policies, and an emphasis on productivity-enhancing investment projects to avoid overheating and a further loss of competitiveness (through so-called “Dutch Disease” effects).

17. Overall, historical budget execution rates and the experience from reconstruction over the past six years (at both the sector and the program levels) suggest that the way resources are channeled, spent, and monitored is as important for economic development and poverty reduction as the amount of available resources.

#### **IV. SECTORAL POLICIES AND PROGRAMS**

18. The ANDS includes a chapter summarizing 12 sector strategies plus the strategy for private sector development (PSD). In staffs’ view, addressing several general issues that apply to most sectors will be very important for successful implementation of the ANDS, requiring urgent attention.

(i) While laudable sector objectives are laid out, the “how” of achieving them—getting from here to there—is often not specified and needs to be developed.

(ii) There are far too many actions and projects throughout the ANDS document, which detracts from prioritization both across and within sectors. Moreover, the ANDS generally does not clarify which projects/sectors will be pursued at the expense of others, if necessary, or which of the many legislative actions called for will be prioritized given the limited capacity to process legislation.

(iii) For a number of major projects and programs, there are questions about their viability, their degree of priority, and/or their consistency with Afghanistan's private sector-led and market-oriented approach, calling for reconsideration or, at a minimum, more analysis and pre-feasibility work. Examples include some of the energy and major road projects, public housing, a new Kabul airport, a new city, and the railway.

(iv) The M&E framework for some sector strategies is elaborate and includes large numbers of indicators (many of them yet to be developed), while for others it is weak (missing, for example, baseline data)—which in either case complicates oversight.

(v) In some cases, institutional arrangements, including for program implementation, are not clearly spelled out. Moreover, as the ANDS recognizes, in some sectors inter-ministerial coordination is weak and needs to be improved.

19. Staffs welcome the commitment of the ANDS to PSD, with a private sector-based market economy as the foundation for sustained economic growth and employment generation. As recognized by the ANDS, a stable environment for private businesses and lower costs of doing business will be critical for the success of the entire development strategy. In this regard, the ANDS appropriately highlights the importance of improving security and the business climate, as well as maintaining an open trade regime. In staffs' view, it is of critical importance to avoid ad hoc and frequent changes to the tariff schedule, and press ahead with the much-needed structural reforms set out in the ANDS—including strengthening the legal framework, improving access to land, and developing an efficient transport network. Also, despite a lack of discussion in the ANDS, it will be crucial for PSD that the government take the necessary steps to ensure the continued stability of the banking sector. In this regard, there is an urgent need for the Central Bank to further increase its capacity to effectively supervise the banking system and to strengthen enforcement procedures. In addition, staffs consider that the challenging environment confronting the private sector in Afghanistan requires the government to take pro-active measures aimed at generating momentum for PSD, while ensuring a level playing field for the private sector.

20. The Energy sector strategy puts forward ambitious goals, including for expanding access to electricity. Staffs agree with the general direction of the strategy, including its emphasis on regional energy development in cooperation with Afghanistan's neighbors, but consider that private provision and public-private partnerships in Afghanistan's energy system are likely to take time. Staffs also note that the major energy projects included in the strategy, by virtue of their large and lumpy nature, need to be carefully assessed and prioritized before decisions are made to proceed with them.

21. The Water and Irrigation sector strategy rightly emphasizes expanding the irrigation rehabilitation program in the short run, and calls for an integrated river basin approach. Staffs emphasize that in line with this approach, individual new irrigation and hydropower projects need to be assessed carefully from the perspective of optimizing use of river basin water resources. Staffs also commend the Water and Irrigation sector

strategy's emphasis on capacity building and information collection for management of trans-boundary water resources.

22. Staffs agree with the overall vision and strategy for Agriculture and Rural Development (ARD), including transformation of the agricultural sector to become more productive and commercially oriented. However, the links with the programs in the strategy and with poverty reduction need to be strengthened. The Comprehensive Agriculture and Rural Development Program (CARD), encompassing 15 existing or envisaged programs, needs to be prioritized in light of the medium-term targets as well as funding constraints. The Agriculture and Rural Development Zone approach to encourage commercialized agriculture should be initially pursued on a pilot basis in one to two regions, for programmatic and funding reasons. The recent sharp increase in global food prices, which have had a significant impact on Afghanistan, will need to be taken into account in further developing and implementing the ARD strategy, with national food security as a significant element. While the success of the Community Development Councils (CDCs) under the National Solidarity Program is fully recognized in the ANDS, the CDCs' role in relation to implementation of other CARD programs is not spelled out, nor is the future program of support to the CDCs, which could become key institutions to facilitate local development and service delivery.

23. In staffs' view, the Transport sector strategy summarizes well the issues, but the "how" of addressing them is less clear. Moreover, targets for rural road programs appear to be inconsistent with those in the ARD sector strategy. Although the roads sector is one of the three sectors that have been costed, the results of the costing exercise do not appear to have been used in prioritizing the sector strategy. Although developing the Afghan construction industry is a priority, its capacity to implement the ambitious program for building and rehabilitation of secondary and tertiary roads is likely to be a constraint. Finally, although the ANDS recognizes that there are overlapping ministerial responsibilities in the transport sector, steps to improve this situation are not spelled out, and there is no clear-cut strategy for road maintenance.

24. The Information and Communications Technology (ICT) sector strategy, building on the remarkable success achieved in mobile telecommunications, fully recognizes the role of ICT in development. However, in staffs' view, the strategy does not focus on the actions necessary to address identified impediments to growth of the ICT sector, such as the impact of illiteracy (especially for women). Also, flexibility needs to be maintained as to which technologies to use to increase rural access to ICT, and the role of the Telecommunications Development Fund and private sector participation in expanding access in rural areas should be recognized. In staffs' view, the role of ICT in e-governance deserves emphasis (e.g. automation of customs and trade processing through ASYCUDA, individualized salary payments, e-procurement, and public information on the web).

25. Although the Urban sector strategy targets the required areas of intervention, staffs see several areas that need strengthening. First, programs should be prioritized. Second, some targets appear to be unrealistic; even if funding were available, the volume

of work required is unlikely to allow for completion by the target date (an example is the provision of piped water in Kabul). Third, some of the financing proposals appear to be unrealistic in the short run (e.g. borrowing by municipalities), and administrative and human resources management issues need to be addressed. Fourth, public housing has not worked well in most countries and raises serious questions.

26. Staffs welcome the emphasis in the Mining sector strategy (including hydrocarbons) on attracting private investment through a sound business environment and refocusing the Ministry of Mines from direct involvement in production to a facilitation role vis-à-vis the private sector. Staffs also welcome the stated commitment to a transparent and well-managed fiscal regime for the mining sector. Afghanistan's joining the Extractive Industries Transparency Initiative (EITI) will be a very positive step in this regard. Another priority is the revised Hydrocarbons Law.

27. The Education sector strategy puts forward a vision emphasizing access/equity, quality, and relevance. Staffs agree with the strategy's focus on quality, regulation, and standard setting, along with phased de-concentration of management to subnational levels and eventually to schools and institutions. Priorities for provision of education inputs are laid out. However, the Education strategy does not fully address the issue of sustainability, especially future recurrent cost implications, and prospects and options for recovery of at least some costs related to education are not explored, for example in technical and vocational education and training.

28. Regarding Health and Nutrition, the sector strategy builds on the successful national program to provide a Basic Package of Health Services throughout the country. Staffs are of the view that targets for this sector could be made more consistent with each other, streamlined to eliminate duplication, and standardized in terms of the time period. Finally, the Health sector already has a well-developed M&E approach, which is not reflected in the ANDS.

29. Staffs welcome the well-articulated Social Protection (SP) strategy, which is very important for poverty reduction, and related to the ANDS strategy to support refugees, returnees, and internally displaced persons. In staffs' view, further work is needed on (i) prioritization of SP programs, based on projections of costs which we understand are underway; (ii) design of cash transfer mechanisms, including ways to scale them up when needed to address emergency needs, and of an approach to move toward a poverty-targeted approach over the medium-term, as information constraints are eased;

(iii) differentiation among various categories of returning refugees (for example, in terms of their access to wealth, human capital, land in the area of return, other correlates of poverty) in the strategy to support them; (iv) identification of the causes of internal displacement and how to address them; and (v) development of the M&E framework to include a focused set of measurable indicators with baseline data.

## V. SECURITY, GOVERNANCE, AND CROSS-CUTTING ISSUES

30. The ANDS rightly emphasizes the importance of security as one of its three pillars. (Afghanistan has also included security as an additional MDG.) While not commenting on the specifics of the security Pillar, staffs urge the authorities to be conscious of the fiscal cost and sustainability of Afghanistan's security sector. Although most security sector expenditures are financed directly by donors, salary costs of security forces are almost entirely in the core operating budget and, together with other security sector recurrent costs, constitute a large share of the operating budget. In this context, staffs recommend that issues related to the crowding out of nonsecurity expenditures (including priority civilian nonwage O&M) be taken into account in determining the size of the security budget. The medium-term fiscal sustainability of the security sector also needs to be taken into account in decision-making. Since by all indications Afghanistan's security sector will not be fiscally sustainable for many years, predictable medium-term donor funding for the sector will be required.

31. Increasing the pace and quality of public administration reform (PAR) is identified as one of the main priorities of the governance strategy in the ANDS. Staffs agree that the pay and grading reform is crucial. Implementation of such a challenging reform, which has proven difficult in most other countries, requires urgent attention and high-level political support. In staffs' view, successful implementation also requires (i) a straightforward, clear, and flexible implementation plan; (ii) effective leadership on a day-to-day basis by the Independent Administrative Reform and Civil Service Commission (IARCSC), working closely with other key stakeholders like the Ministry of Finance; and (iii) close cooperation with the half dozen or so line ministries that account for the bulk of total employment in the civil service. In order to be meaningful, pay and grading reform needs to result in a commensurate improvement in the quality, work incentives, and accountability of the civil service. Staffs would like to underline the importance of merit-based recruitment of senior civil servants and appropriate vetting of leadership appointments.

32. Strengthening of subnational structures and service delivery will have an important impact on the success of the ANDS. This is listed as a priority and referred to in many places in the ANDS, but a more substantive discussion is needed. The ANDS stipulates that the recently established Independent Directorate of Local Government will be responsible for developing a subnational governance policy and for driving much of the work on reforming subnational administrations and building capacity at the subnational level. However, staffs consider that other key stakeholders also need to be closely involved, including the Ministry of Finance, line ministries, and the IARCSC.

33. As emphasized in the ANDS, improving the justice system is essential for good governance and rule of law. However, the National Justice Sector Strategy (NJSS) includes a number of broad and not necessarily consistent goals. Moreover, prioritization and sequencing of reforms is weak, and there is no clear link between the envisaged measures and reform outcomes, which will complicate M&E. In staffs' view, there is a need for realism about what can be achieved in the short term in a country with only a small number of lawyers trained in civil law. It is also important to foster ownership of the NJSS among the different agencies concerned in order to ensure that implementation is coordinated. Finally, staffs encourage the authorities to address issues of gender discrimination in existing laws and legal practice, and to ensure compliance with related international obligations.

34. Staffs agree with the emphasis on anti-corruption as a key cross-cutting issue in the ANDS. So far, there has been little progress in reducing corruption. As noted in the ANDS, prevention is an important element of the anti-corruption strategy. The improvements in public financial management (PFM) systems made in recent years have reduced the risk of misuse of budgetary funds, and the additional improvements in PFM envisaged in the ANDS should have further benefits in this regard. Consistent with the government's anti-corruption roadmap paper of 2007 and the discussion in the ANDS, staffs recommend that the government focus on: (i) promulgating and implementing a near-term action program of feasible, yet credible, actions against corruption; (ii) clarifying the institutional arrangements and responsibilities for fighting corruption; and (iii) strengthening leadership and fostering political support for the anti-corruption strategy.

35. Counter-narcotics is an important cross-cutting issue in the ANDS, as the drug industry constitutes a serious threat to the success of the entire development strategy and has important effects on the economy. The government's National Drug Control Strategy (NDCS) puts forward a multi-faceted, balanced approach. However, the implementation of the NDCS poses significant challenges, which may carry adverse side effects (e.g. on poverty and corruption). In this regard, staffs recommend that the following issues be taken into account: (i) the impact of drug-related corruption on state-building and good governance (discussed in the ANDS), and the need to focus law enforcement efforts on important actors in the drug industry and their sponsors inside and outside government; (ii) the impact of different counter-narcotics measures on the economy and poverty, which, for example, has implications for how to approach eradication of opium poppy fields; and (iii) the need for scaled-up, effective rural development programs to facilitate the rural population's shift away from opium to licit economic activities. In the staffs' view, phasing out opium in Afghanistan will be a long-term effort requiring strong and sustained commitment by the Afghan Government and the international community.

36. The ANDS appropriately emphasizes that environmental management, designated as a cross-cutting issue, is essential for development. In staffs' view, conducting proper Environmental Impact Assessments will be especially important in the case of large infrastructure projects with potentially significant environmental consequences.

37. Staffs commend the authorities for including gender equity, a critical cross-cutting development issue, in the ANDS. The identification of gender issues is reasonable, and gender mainstreaming objectives are clearly formulated. However, there is a need to develop measurable indicators and better integrate gender issues in many of the sector strategies (a notable example is the ARD strategy). In addition, staffs consider that access by women to resources and employment opportunities in both urban and rural areas, including in the public administration, deserves more attention.

## **VI. IMPLEMENTATION AND AID EFFECTIVENESS**

38. Staffs agree that implementation will be key to the success of the ANDS. The ANDS puts forward appropriate principles to guide implementation. A considerable amount of experience regarding the effectiveness of different kinds of programs and projects has been built up over the past six years, and the lessons learned could have been made more explicit in the ANDS. The role of the budget as the key instrument for implementing the national strategy is appropriately emphasized, but although the MTFF is discussed, its role as a medium-term fiscal and planning instrument in support of the ANDS is not sufficiently developed. Moreover, in staffs' view, more effective and coherent economic policymaking, with simpler and clear institutional arrangements, and sound processes for taking into account economic and fiscal implications of policy decisions when they are made, would be important for successful implementation of the ANDS.

39. Development of organizational and human capacity in the government is identified as a central cross-cutting issue in the ANDS; this is highly appropriate in staffs' view. In addition to PAR, which will be critical in the medium-term, better management, use, and coordination of Technical Assistance (TA)—the effectiveness of which has been mixed hitherto—will be required. The ANDS puts forward an institutional mechanism for capacity development, which in staffs' view should be kept flexible, with a focus on improved TA management and coordination at the level of the government line ministries and agencies. The government needs to exert effective leadership over TA, with aligned and harmonized TA support from TA-providing donors. In some cases, this could include considering the possibility of pooling TA funds at sector, ministry, or department levels.

40. The arrangements in the ANDS for oversight and management of implementation do not represent a significant change from the I-ANDS/Compact and need to be adjusted. This should be based on lessons learned over the past two years. With regard to the JMCB, staffs suggest that a streamlined JCMB Secretariat could focus on holding JCMB meetings—which are intended to integrate security, political, and development aspects—that are more decisive and results-oriented. In addition, the existing machinery of Working Groups and Consultative Groups would benefit from review and streamlining.

41. The emphasis on aid effectiveness in the ANDS is appropriate, and is likely to be more important for the implementation and impact of the ANDS than the amount of funding. Staffs agree that the Paris Declaration on Aid Effectiveness provides a useful framework for assessing progress in this regard. Based on strong national ownership of the strategy as evidenced by the extensive participatory process underlying the ANDS, sound PFM systems, and the development of an elaborate results framework, the government is calling for greater alignment and harmonization of aid, along with mutual accountability for results.

42. As the ANDS explicitly recognizes, however, bringing more donor resources onto the core national budget cannot be dictated or mandated. It will be crucial for the government to: (i) demonstrate a clear commitment to accountability for results (including by improving the M&E framework along the lines recommended earlier); (ii) meaningfully prioritize its development program; (iii) redouble efforts to increase domestic revenue mobilization; (iv) make better progress on PAR; (v) further improve PFM and procurement systems as well as the budgetary process; (vi) take concrete actions on anti-corruption; and (vii) demonstrate continuing increases in its capacity to absorb aid through well-designed and well-implemented development programs that achieve results on the ground.

## VII. CONCLUSIONS

43. Staffs consider that the ANDS provides in many respects a reasonable basis for Afghanistan to move forward in addressing the difficult development challenges it faces, but that improvements in some areas are needed as implementation commences, in order for the strategy to have good prospects for success. After several years of strategy formulation, it is time to move forward with implementation, anchored in the regular institutions of government. In staffs' view, the priorities for strengthening the ANDS and its implementation are as follows:

(i) Given the uncertainty surrounding the overall resource envelope and absorptive capacity, there is an urgent need for further prioritization of sectoral programs in the ANDS, taking into account their impact on poverty reduction. This needs to be linked with the budgetary allocation of resources through the MTF.

(ii) The number of policy measures and other actions in the ANDS is overwhelming and needs to be streamlined, for decision-making, implementation, and monitoring purposes. Similarly, more attention needs to be devoted to streamlining and simplifying the M&E framework, while developing the capacity to expand the amount, quality, and timeliness of information over time. In staffs' view, oversight of the implementation of the ANDS, as well as the management of M&E, should be the responsibility of regular institutions of government.

- (iii) Concerted efforts by the government will be required to increase domestic revenue. The authorities and international partners both need to work to ensure that the availability of external resources does not undermine incentives for revenue collection.
- (iv) Capacity development is an urgent priority, requiring a range of actions, including PAR, pay and grading reform, and better management and coordination of TA.
- (v) Enhancing aid effectiveness will require concerted efforts by donors as well as the government. As the prioritization of the ANDS is improved, donors should be able to increasingly align their aid with the priorities of the ANDS, while the government needs to develop its institutional and absorptive capacity to manage an increasing share of donor resources.

44. The ANDS addresses some of the areas of concern raised in the 2006 JSAN for the I-ANDS, but in other areas progress has been limited.<sup>4</sup> First, prioritization across sectors is largely missing, and the identified priorities are not clearly linked to poverty reduction. In addition, the envisaged large increase in expenditure, as well as the faltering revenue performance in 2007/08, implies that the prospects for fiscal sustainability are no closer than they were in 2006. Second, while progress has been made in improving PFM, progress in PAR has been modest, and little headway has been made in the fight against corruption. Third, while the analytical base for the ANDS, in particular the poverty diagnostics, has improved, significant weaknesses in the statistical data remain. Moreover, the M&E framework needs to be streamlined and focused. Fourth, there is continuing concern among all parties involved about the aid effectiveness agenda, despite progress in some areas, and the share of donor funds channeled through the core national budget remains low.

45. Staffs agree with the risk factors outlined in the macroeconomic section of the ANDS, which may affect implementation of the ANDS. These include (i) the political situation; (ii) changes in the security environment; and (iii) weather-related factors. To this list, staffs would add (iv) political support for efforts to expand the tax base and increase domestic revenue, which represents a substantial source of financing in the ANDS; (v) the government's weak institutional capacity and associated limited absorption capacity for sharp increases in resources; (vi) the breadth and depth of government-wide ownership of and commitment to some key elements of the ANDS, such as fiscal sustainability, a merit-based civil service, and a private sector-based market economy; (vii) unpredictability of aid flows and problems with aid effectiveness; (viii) narcotics; and (ix) corruption. Some of these risks are hard to mitigate and will require effective risk management, while others call for strong and sustained efforts by the government and its partners to mitigate and reduce any adverse impacts.

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<sup>4</sup> The JSAN for the I-ANDS emphasized four major challenges for the initial implementation of the I-ANDS and preparation of the full ANDS: (i) setting priorities and ensuring fiscal sustainability; (ii) reforming public administration, tightening public finance management, and combating corruption; (iii) developing monitoring mechanisms and the ANDS analytical base; and (iv) strengthening aid effectiveness.

46. Do the Executive Directors concur that the ANDS provides in many respects a reasonable basis for Afghanistan to move forward in addressing the difficult development challenges it faces, but that improvements in some areas are needed as implementation commences? Do the Executive Directors concur with the areas identified by staffs: (i) as key implementation risks; and (ii) as priorities for strengthening the ANDS and its implementation?