



Islamic Republic of Afghanistan



Afghanistan National Development Strategy First Annual Report 1387 (2008/09)

Making a Difference:
Transition from Planning to Practice

Part I



**AFGHANISTAN NATIONAL DEVELOPMENT STRATEGY
ISLAMIC REPUBLIC OF AFGHANISTAN**

FIRST ANNUAL REPORT 1387 (2008/09)

**MAKING A DIFFERENCE:
TRANSITION FROM PLANNING TO PRACTICE**

PART I

**DRAFT ENDORSED BY THE GOVERNMENT COORDINATION COMMITTEE (GCC)
(AUGUST 1, 2009)**

ACKNOWLEDGEMENT

I am pleased to present the first progress report of the Afghanistan National Development Strategy (ANDS), a five year strategy for national development and poverty reduction. Upon approval by the President in 2008, the ANDS was endorsed by the international community the same year at a conference in Paris in June. The first year, the transition year from planning to implementation, focused on a reality check to well ground the ANDS to face the implementation challenges within an insecure context and also develop suitable tools and mechanisms to help us plan a clear implementation path for the sector strategies that constitute the ANDS.

The report explains how the sector strategies under the Pillars of Security, Governance and Rule of Law and Social and Economic Development have been broken down into sector results frameworks, which define the implementation plans and also provide the monitoring and evaluation base for ANDS.

I consider that the investment of time over the last year, in linking the ANDS with the government's reform agenda, identifying methodologies and setting up systems and frameworks, which lend the clarity and base required for implantation of the sector strategies and monitoring and evaluation of ANDS, is an investment in the future of Afghanistan. Along with the very intensive efforts for institutionalization of ANDS, sector based action plans were also implemented.

Overall, the foundation for ANDS implementation is established. We will now proceed to build on the foundation; and this work has begun. The mid-term review in 2010 will enable us to improve upon our strategy and programming for a speedier implementation of our planned programs.

The ANDS Annual Report was finalized under the guidance of the Government Coordination Committee (GCC). I acknowledge the contributions of those who helped with the compilation of this report through collection of data and information, provision of the required analysis and building the capacity of our staff to carry forth the institutionalization of ANDS within the government structure. I thank the staff of the ANDS Unit of the Directorate General of Budget in the Ministry of Finance for their tireless efforts for making this report. I also thank Ministry of Economy for their contribution and support. I thank the line ministries, for their extraordinary efforts in designing their respective sector results frameworks. Special thanks go to all Ministers for their hard work in establishing the IMCs. World Bank and International Monetary Fund provided invaluable comments. UNDP assisted through provision of operating budget for the first year and DFID provided international advisory support. I thank UNAMA and the international community for collaborating with us during the difficult but the very productive formative year after the ANDS launch.



Mustafa Mastoor
Deputy Minister of Finance

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ACRONYMS AND ABBREVIATIONS

AAA	Accra Agenda for Action
ACU	Aid Coordination Unit (of Ministry of Finance/Budget Dept)
AFMIS	Afghanistan Management Information System
ANA	Afghanistan National Army
ANDS	Afghanistan National Development Strategy
ANP	Afghanistan National Police
ANSA	Afghanistan National Standards Authority
APTA	Afghanistan-Pakistan Trade and Transit Agreement
ARTF	Afghanistan Reconstruction Trust Fund
ASYCUDA	Automated System for Customs Data
CASA	Central Asia - South Asia
CDCs	Community Development Councils
CEAP	Chief Economic Advisor to the President
CGs	Consultative Groups
CIDA	Canadian International Development Agency
CITES	Convention on International Trade in Endangered Species
CPAN	Child Protection Action Network
CPI	Consumer Price Index
CSO	Central Statistics Office
DAB	Da Afghanistan Bank (Central Bank of Afghanistan)
DAD	Donor Assistance Database (of Ministry of Finance)
DDA	District Development Assembly
DFID	UK Department for International Development
DFR	Donor Financial Review
DIAG	Disbandment of Illegal Armed Groups
GCC	Government Coordination Committee (on ANDS)
GEP	Gender Equality Policy
GoA	Government of Afghanistan
HLCAE	High Level Committee on Aid Effectiveness
IARCSC	Independent Administrative Reform and Civil Service Commission
ICCD	Inter-Ministerial Commission of Capacity Development
ICT	Information & Communication Technology
IDLG	Independent Directorate of Local Governance
IDPs	Internally Displaced People
IMC	Inter-Ministerial Committee
IMF	International Monetary Fund
IOM	International Organization for Migration
ISAF	International Security and Assistance Forces
JCMB	Joint Coordination & Monitoring Board
JSAN	Joint Staff Advisory Note (IMF & World Bank)
M&E	Monitoring & Evaluation
MAIL	Ministry of Agriculture, Irrigation and Livestock
MDGs	Millennium Development Goals
MIS	Management Information Systems
MoEc	Ministry of Economy
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoLSAMD	Ministry of Labor, Social Affairs, Martyrs and Disabled
MOUs	Memorandum of Understandings
MRRD	Ministry of Rural Rehabilitation & Development
MTBF	Medium Term Budget Framework

MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MW	Mega Watt (Electricity)
NADF	National Agriculture Development Framework
NAPWA	National Action Plan for Women of Afghanistan
NEPA	National Environment Protection Agency
NGO	Non-Governmental Organization
NRVA	National Risk & Vulnerability Assessment
NSDP	National Skills Development Program
NSP	National Solidarity Program
PBA	Program Budgeting Approach
PDC	Provincial Development Council
PDPs	Provincial Development Plans
PRGF	Poverty Reduction & Growth Facility
PRSP	Poverty Reduction Strategy Paper
PRTs	Provincial Reconstruction Teams
RBM	Results-Based Management
RECCA	Regional Economic Cooperation Conference on Afghanistan
RTA	National Radio and Television of Afghanistan
SAARC	South Asian Association for Regional Cooperation
SOP	Standardized Operational Procedures
SWAp	Sector-Wide Approach
TOR	Terms of Reference
UNAMA	United Nations Assistance Mission in Afghanistan
UNHCR	United Nation's High Commission for Refugees
UNFCCC	United Nations Framework Convention on Climate Change
UNODC	United Nations Organization for Drug Control
USAID	United States Agency for International Development
USGS	United State's Geological Survey
UXO	Un-Exploded Ordinance
VRF	Voluntary Repatriation Form
WTO	World Trade Organization

ANDS FIRST ANNUAL REPORT 1387 (2008/09)

MAKING A DIFFERENCE: TRANSITION FROM PLANNING TO PRACTICE

OVERVIEW

This report presents the first narrative on progress achieved by the Government of the Islamic Republic of Afghanistan in bringing the Afghanistan National Development Strategy (ANDS) to the implementation stage. A year ago, the ANDS document was approved by the President of Afghanistan and subsequently endorsed by the donors in Paris in June 2008.

Change Management Process: The first year was devoted to translating ANDS concepts and plans into an implementable form, generating a rudimentary implementation and associated monitoring and evaluation framework, and organizing and engaging the government machinery in support of the implementation of the ANDS aimed at poverty reduction. A complex change management process had to be launched to harness intra-governmental support to address the priority implementation measures. The change management process will have to continue until such time as ANDS is on a steady path of implementation producing tangible results in basic public service delivery, justice and rule of law and human security. Aid management and donor coordination constitute a parallel process, which has been ongoing for the past few years. It is now placed under the change management process to support ANDS implementation.

Reporting reflects that the change management process was launched in a timely fashion, with government leadership, for institutionalization of ANDS in development planning, programming, implementation, monitoring and evaluation and also donor coordination.

The ANDS institutionalization process is well on its way. The government's machinery is geared to address the ANDS priorities. The Afghan government has addressed, to the extent possible with a year's operation, its commitments to the National Action Plans, as identified in the ANDS. The sector output results achieved and reported are the precursors to the higher level outcome results planned for the sectors by the line ministries. The cross cutting issues are being mainstreamed into sectoral activities, output and outcome planning with the associated indicators. Overall, the planned Pillar and sector level results frameworks provide a solid base for a monitoring and evaluation framework

Managing for Results and Monitoring and Evaluation: The tool of Managing for Results has been introduced to make the ANDS sector strategies implementable and developing the base for a Monitoring and Evaluation Framework to track ANDS results achievements at the national level. For this purpose, objectives and expected impact results for each of the ANDS pillars have been established and indicators identified. These sets of impact level results and indicators constitute the ANDS Monitoring and Evaluation Framework at the Pillar level (highest level in the ANDS results hierarchy).

The line ministries have developed sector results frameworks to contribute to the Pillar results. The sector results frameworks identified the activities, outputs and outcomes, with the associated indicators. The indicators will be used to track how implementation of sector activities and the outputs/outcomes will help realize the national (Pillar) level impact results. While the sector results frameworks help breakdown the strategies into implementable forms, they also serve as instruments to monitor progress towards results and undertake evaluation in the longer term. The pre-established indicators identified for tracking progress towards the results provide a strong monitoring and evaluation base. The sector results frameworks serve the dual purpose of monitoring and evaluation of the sector performance and also provide the base for monitoring and evaluation of the results of ANDS Pillars.

The World Bank (WB) and International Monetary Fund (IMF) Joint Staff Advisory Note (JSAN) 2008 stressed the need to streamline the Monitoring and Evaluation Framework. The extensive work undertaken (briefly summarized above and narrated in details in Section II of this report) indicates that this recommendation has been addressed.

Given the capacity and security constraints, the plan is to pilot the use of the tool of managing for results and apply the Monitoring and Evaluation Frameworks in 1388 in four sectors and three provinces for monitoring and results reporting purposes while strengthening other sector ministries to fully operationalize results based monitoring and reporting and using Monitoring and Evaluation Framework, by 1389.

The government recognizes the need for establishment of *baseline data* in support of a meaningful monitoring and evaluation framework. It is acknowledged that with a few exceptions, full baseline data is not yet available in most sectors to measure progress towards the planned results even when indicators have been identified. Starting with the pilot sectors, baseline data collection will have to be a routine aspect of all sector results and monitoring and evaluation frameworks. However, it is essential to curb high expectations from Afghanistan in this field, bearing in mind that baseline data deficiency is a problem that continues to persist in more advanced middle income and newly emerging industrial countries, as well.

Institutionalization of ANDS: Intensive efforts to institutionalize ANDS in the line ministries have resulted in the ministries placing highest priority on aligning their programming to contribute to ANDS objectives and results. Full time positions devoted in the line ministries for coordinating all matters related to ANDS is an indicator of progress made in institutionalization of ANDS, in the government structure.

Overall, the government's spending priorities are in line with the ANDS. But donor financing is not appropriately aligned with the government priorities. The fiscal report of 1387 also reflects a funding gap as the amount of grants to the development budget fell, which will impede ANDS implementation. Overall, budget execution increased steadily in certain priority sectors although the execution rate remains low in many ministries, which is an area of priority concern for the government. The government has planned and implemented a number of measures to address the root causes of low budget execution. The government is committed to increase revenue collection to supply additional finances for ANDS implementation.

In addition, for efficiency of implementation and costing of ANDS strategies, a reformed results based program budgeting methodology has been introduced. With the introduction of budgeting for results oriented activities, outputs and outcomes, program budgeting concept would be more meaningfully applied by the line ministries and firmly root their budgeting in the government's budget process. The transparency embedded in results based program budgeting will lend a simplicity and a purpose to the line ministry budgeting process by linking costs to the sector results priorities. The resulting transparency will successfully address accountability, cost benefit and overall effectiveness of development financing.

Provincial Resource Allocations: ANDS is a national program addressing needs of the provinces across the country. The provincial budgeting pilots have not resolved unequal and inequitable allocation of sectoral resources among provinces. Practical mechanisms for fair and transparent resource allocation to provinces (without devolution of fiscal authority over development budget) is receiving utmost attention of the government in order that planning for provincial allocation is undertaken with an eye to the resource constraints, provincial needs assessment and the extent of alignment with the priorities established in the ANDS Sector Results Frameworks. The government's plan is also to ensure that remote areas receive preferential attention. Provincial resource allocation process will take into consideration the Provincial development Plan (PDP) proposals, as well. Coordination between various approaches being introduced for provincial resource allocation is a priority for the Government.

Coordination Arrangements: A coordinating mechanism comprised of a high level Government Coordination Committee (GCC), ANDS Units at the Ministries of Finance and Economy and the Inter-Ministerial Committees (IMCs) provides the traction, profile and leadership essential to manage a complex implementation process for the government's most critical portfolio - the ANDS.

For meeting the leadership and ownership standards for development programs that the government has set for itself and in adherence to the Aid Effectiveness principles of the Paris Declaration (2005) and the Accra Agenda for Action (2008), aid coordination and management received none but the highest priority in the government's agenda. The aid effectiveness principles are closely linked to efficient and effective ANDS implementation as application of these principles systematize results orientation, which is at the base of the sector strategies, and help harmonize and align Afghan government and donor interests, activities and funding. At the earliest stages of development in a country, donor financing and support are critical for implementation of a Poverty Reduction Strategy and achievement of the sector results. Donor financing aligned to the sector strategy results, established by the line ministries will help achieve Afghanistan's PRSP (ANDS) objectives. To promote coordination to this effect, mechanisms both intra-governmental and joint Afghan government and donors have been established.

Successful monitoring and evaluation of ANDS cannot be solely based on government sector program operation, given that development financing in Afghanistan is largely donor dominated. Progress monitoring of ANDS results will remain incomplete, in effect meaningless, if donor program performances are not taken into consideration. Thus, in support of the government's monitoring and evaluation of ANDS, the Aid Coordination Unit of Ministry of Finance (MoF) is in the process of strengthening the Development Assistance Database (DAD) and the Donor Financial Review (DFR) to capture information on donor alignment with ANDS results and their achievements. Efforts are under way for making results of donor development activities integral components of ANDS Monitoring and Evaluation Framework.

Sector Achievements: Progress was made during the first year of the ANDS in virtually all sectors. This was achieved despite greater security challenges in many parts of the country and significant economic difficulties. Progress towards the Millennium Development Goals (MDGs) has been attained, especially in reduction of child mortality, controlling the spread of certain diseases, increase in primary school enrollment (especially for girl children), mine clearance contributing to human security and modest progress in improved access to water and reduction of maternal mortality.

Progress in certain sectors, including in certain MDGs, has been slower than desirable due to inadequate advances made in implementing reforms and establishing systems, which normally prepare the ground for speedy implementation of action plans. The government is speeding up the reform process.

Section 3 of this report further reflects on the MDGs. Detailed reporting in Section 4 and the Annex VII (Part II of this report) addresses the commitments made in the ANDS action plans in the various sectors. Commitments are listed by mostly outputs and a few outcome results identified during the preparation stage of the ANDS. Results frameworks now being developed will modify and put the outcomes in more precise and concrete terms, with associated indicators for monitoring and reporting on achieved results by the end of 1388 (2010). However, such precision could not be attained in the 1387 annual progress report. The reports are also not analytic. A new reporting approach will be phased in through this year and reflected in the results reporting for 1388.

Operation under Stressful Environment: The ANDS progress report had to be based on the economic realities, challenges and constraints the country faces. Other non-economic challenges, such as security concerns, recurring natural disasters, capacity constraints and a range of governance issues impede the ability of the government to implement the much needed economic reforms and reforms in other areas embodied in the ANDS. The government is committed to speed up the reform process in some of the areas showing slow progress.

In the Spirit of Cooperation: This report clearly reflects the government's efforts to work with the international donors, IMF and the World Bank. Managing for Results mantra will well address international donor partners' demand for focus on results rather than on the process. The recommendations of JSAN Saur 1387 (May 2008) have been addressed over the last year, as reported. HIPC Triggers 1 and 4 have also been addressed.

Trigger 8 is achieved as the information contained in Annex III (Part II of this report), shows. On the basis of general international norms, expenditure in basic education, basic primary health service packages and portions of agriculture and rural development are considered primarily poverty related expenditures. Data for planned and expended budget in these poverty related areas was recorded for 1387. For 1388, planned budget amounts are recorded and expenditure data is available for the first quarter. Poverty related expenditure tracking would be easier and more accurate, with disaggregated planning and expenditure data entry for each of the items under the existing classifications. The MoF is working on improved recording of poverty related budget planning and expenditures by designated line ministries using existing expenditure classifications, which will enable the government to better capture poverty related planning and expenditure data and report on it in future years. More analysis is provided in Section 5.5 on issues related to tracking of poverty related expenditure.

The Story of Transition from Planning to Implementation: The report tells a year's story of a government in a fragile situation, facing complex issues, managing to take measures for: putting in place useful institutional mechanisms to provide a kick start to ANDS implementation and coordination; introducing one of the best development planning and monitoring and evaluation models - results based management - and training hundreds of line ministry officials in the use of the tool in the expectation that Results Based Management (RBM) will be institutionalized and systematized; and striving, under adverse circumstances, to take ownership and leadership of its development agenda through coordination efforts with the donors. What remain untold in this story are the trials and tribulations that the government has undergone to take these steps in the first year. Many more complex issues will be encountered in future when the ANDS is fully operational. More streamlined planning and budgeting for results, dearth of data, management of risks so common in states of fragility, inadequacy of financial resources and capacity and, above all, the tense regional environment will crowd the government's agenda in its efforts to keep ANDS on track. Some of the untold stories might be unveiled during the Mid-Term Review of the ANDS in mid 2010.

Meanwhile, the alignment of donor assistance to the government's identified sector results will certainly make a difference in helping our country to transit from the very nascent stage of development and turn around from fragility to stability.

ANDS FIRST ANNUAL REPORT 1387 (2008/09)

MAKING A DIFFERENCE: TRANSITION FROM PLANNING TO PRACTICE

INTRODUCTION

The President of the Islamic Republic of Afghanistan, H.E. Hamid Karzai and the Cabinet approved the Afghanistan National Development Strategy (ANDS) – A Strategy for Security, Governance, Economic Growth and Poverty Reduction on 21st April 2008.¹ A Millennium Development Goals (MDG)-based plan, the ANDS was submitted to the World Bank and the International Monetary Fund (IMF) as Afghanistan’s Poverty Reduction Strategy Paper (PRSP) and endorsed by the Boards of these organizations on 2nd June 2008. This document represents the first Annual Report on the progress being made in implementing the ANDS.

Following the successful Paris Conference, the Afghan government undertook a series of important measures that were designed to shift its focus from strategy development to strategy implementation. Afghanistan is now beginning to see positive results from these measures taken and the combined efforts of line ministries and donors to implement the projects and programs included in the ANDS.

This report focuses on:

1. Overview of Macroeconomic Trends
2. Poverty Profile
3. Paving the Way for ANDS (*implementation, monitoring, evaluation and reporting; and Coordination Mechanisms*).
4. First Year (1387) Sector Achievements and Progress
5. Challenges and Way Forward
6. Planning for Priority Next Steps

Alignment of government plans, measures and actions with JSAN recommendations of May 2008 and HIPC Triggers have been integrated in the analysis provided in each of the sections above.

Although the implementation of the ANDS is only in its first year, some substantial changes have been effected and some concrete results achieved in all of the above focused areas. Admittedly, progress in all areas is not equal. Those that are at a less than satisfactory level will receive greater attention in future years.

1. MACROECONOMIC OVERVIEW

Progress in implementing any national development strategy is inevitably affected by the prevalent economic conditions. An overview offered in this section of recent economic performance and trends and the poverty profile under which the first year ANDS implementation operated, provides an indication of the macroeconomic constraints that had an impact on effective ANDS implementation.

¹ The ANDS covers the period 1387 – 1391 (2008/09 – 2012/13). It builds on several earlier development strategies, reports and plans, including “The National Development Framework” (2002); “Securing Afghanistan’s Future” (2004); the “Interim Afghanistan National Development Strategy” (I-ANDS, 2006) and the “Afghanistan Compact” (2006). The ANDS embodies the country’s commitment to achieving the “Afghanistan Millennium Development Goals” by 2020.

1.1. Key Economic Trends and Challenges

A minimum standard of security is accepted in all quarters as a critical requirement for successful implementation of ANDS. Another requirement for the ease of ANDS implementation is the maintenance of a stable macroeconomic environment that will retain inflation at low levels, support sustained high rates of economic growth and increased levels of private investment. Despite several major challenges during the last year, the Afghan government largely succeeded in implementing sound macroeconomic policies. Among the non-economic challenges that continue to have impact on Afghanistan's economic performance are: increasing concerns about security; potentials of recurring droughts; persistent capacity constraints and complex governance issues. In addition, the government had to contend with a substantial spike in inflation driven by sharp increases in international food and fuel prices. These challenges are being addressed and it is likely that the Afghan economy will return to higher growth with moderate inflation this year.

Many of the measures undertaken by the government in the economic, monetary policy, fiscal policy and public finance and trade areas are in line with the JSAN recommendations of May 2008.

1.2. Economic Growth

The economic and security situation was particularly challenging, during the first year of ANDS implementation (1387 or 2008/09), due to rapid increases in food and fuel prices and sharply increased violence in some provinces. In this difficult economic and security environment, real GDP growth dropped significantly, from 11.5% in 1386 to an estimated 3.4% (see Table 1, next page).

The current global crisis is not expected to have a major impact on Afghanistan's economy due to its limited linkages with the world economy. However, deteriorating economic conditions in the rest of the world are likely to hold back of private investment, exports, remittances and possibly foreign aid, somewhat limiting the prospects for economic growth while this crisis continues. In this context, with more favorable weather conditions forecast for agriculture in the short run and continued reconstruction and investment in infrastructure, real economic growth is expected to return at least to the 7.0% to 8.5% range for the next several years.²

1.3. Inflation and Monetary Policy

As in many other countries, inflation increased sharply during the last two years primarily due to increased petroleum and food prices. The rate of increase in the CPI rose from 5.1% in 1385 (2006/07), to 13.0% in 1386 (2007/08), reaching a peak of 28.2% last year. Recently, lower world prices led to a substantial reduction in inflation for 1388 (- 9%) and the expectation of a return to lower rates at 7.2% or less in the coming years. The government intends to maintain relatively low rates of inflation through achieving IMF targets on limiting the growth of the money supply. The growth of reserve money during the next fiscal year is expected to be about half the current growth rate. To exert greater control over the money supply, DAB will continue to encourage the growth of the market for capital notes and to develop a registry to enable the establishment of a secondary debt market.

Despite the recent sharp increase in domestic inflation, the government has been able to maintain a relatively stable exchange rate while permitting the rate to float to reflect underlying market forces. During the last five years the Afghani depreciated against the US dollar by no more than 2% per year on an annual basis. The government expects the exchange rate to remain stable, at around AF 52 for one US dollar in the years ahead. DAB intervenes in the foreign exchange market only to smooth short term market volatility, not to influence longer term trends. Net international reserves are currently \$2,955 million, which is a comfortable level corresponding to about 11 months of imports, and are expected to remain high in the foreseeable future.

² Note that the IMF in its April 2009 report on the Fifth Review of the PRGF raised the forecast for growth from 7.4% to 9%. In June 2009, due to strong recovery of the agricultural production, projected real GDP growth for 1388 is increased to 15.7 percent.

The DAB is responsible to assist banks to manage the risks involved in their operations, as stipulated in the DAB Law, including the supervision of lending practices and the maintenance of suitable transparency and accountability in their financial transactions. During the last year, the DAB's financial supervision role was strengthened. The Bank's growing capacity in this area was demonstrated by its intervention in an insolvent private bank for the first time. Recently, to ensure that all banks maintain sufficient liquidity, the DAB strengthened its definitions governing reserve requirements; increased the number of bank supervisors; separated onsite and offsite functions; and doubled the frequency of onsite examinations.

Table 1 - Macroeconomic Performance and Projections

	1385 2006/07	1386 2007/08	1387 2008/09	1388 2009/10	1389 2010/11	1390 2011/12	1391 2012/13	1392 2013/14
Real sector	(annual percent change)							
Real GDP (excluding opium)	8.2	11.5	3.4	15.7	8.6	7.9	8	8.2
Nominal GDP (excluding opium)	19.6	24.1	24	16	12.8	12	12	11.7
Consumer Price Index	5.1	13.0	28.2	-9	7.2	4.5	4	4
Fiscal sector	(percent of GDP)							
Total expenditures (A)	20.3	20.6	18.5	21.6	24.5	25	25.6	25.4
Revenues & Grants (B) (operating and development)	19.9	20.5	15.9	20.6	20	19.7	19	19.3
Budget balance (B minus A)	-0.4	-0.1	-2.6	-1	-4.5	-5.3	-6.6	-6.1
Fiscal sustainability indicator (domestic revenues as % of operating expenditures)	66.8	66.5	61	53.9	59.8	66.5	74	84.7
Monetary sector	(percent of GDP)							
Net foreign assets	25.9	29.4	28.3	19.3	16.5	13.9	12.4	..
Net domestic assets	-11.6	-15.9	-12.6	-5.5	-3.4	-1.5	-0.6	..
External sector	(percent of GDP)							
Trade balance	-64.0	-62.7	-56.0	-53.4	-46.9	-40.8	-37.4	-34.0
Current account balance, including official transfers	-4.9	-2.5	-1.6	-1.4	-1	-1.2	-2.9	-3.5
Foreign direct investment	3.1	3.2	1.9	2.0	2.7	3.8	4.4	..
Memorandum items	(percent of GDP)							
External budget grants	27.4	117.1	42.9	36.5	33.5	31.6	30	26.6
External budget (reported expenditure)	18.7	16.0

Sources: MoF (Medium Term Fiscal Framework, Budget 1388, Donor Financial Review 1387), Da Afghanistan Bank (Research Department) and IMF PRGF 5th Review Annex Tables. The fiscal sector numbers beyond 1388 are indicative and subject to change. The numbers for 1388 and beyond for real GDP and inflation are consistent with recently agreed (July 2009) revised macroeconomic framework with the IMF for the HIPC completion point.

1.4. Trade and Balance of Payments

Afghanistan's economic prospects depend on establishing an economic environment that will encourage significant growth in international trade. The ANDS puts considerable emphasis on increasing trade through maintenance of a pro-trade environment:

The Government remains committed to maintaining trade policies with low barriers for imports and exports and a liberal foreign exchange system. The Government's trade policies will take into account the need to increase domestic revenues and support increased domestic production by the private sector (ANDS, page 76).

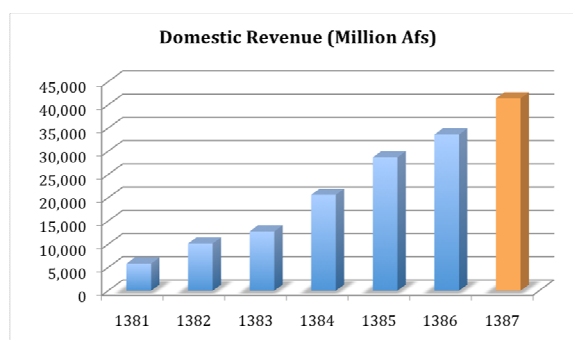
Both imports and exports have been increasing at high rates. During the last year, official exports (recorded by customs or legal exports) are estimated to have increased 25%, while unofficial exports (including re-exports and illegal exports) increased by 14% (IMF Report). Imports, which last year were more than 16 times the amount of official exports, grew at 12%. The net result was an increase in Afghanistan's trade deficit from \$6.0 billion to \$6.7 billion. The capital account shows only a modest surplus in recent years: \$121 million last year. The overall current account deficit was financed almost entirely through grants, which raises concerns of medium term sustainability.

In the coming year, in light of the ongoing international economic crisis, the external current account balance is likely to worsen somewhat due to the impact of global conditions on foreign aid, remittances, and exports. In the medium term, mining and services are projected to increase their contribution to growth.

1.5. Fiscal Policies and Public Finances

A major concern continues to be slow progress in meeting revenue targets and the ability to effectively control spending. Total domestic revenues (tax and non-tax) relative to GDP fell from 7% in 1387 (2007/08) to an estimated 6.9% this year³. This was largely a result of a shortfall in taxes on international trade (customs revenues), which continues to be the largest source of tax revenue, accounting for 32% of the total in 1388.⁴ Between 1386 and 1387 (2007/08 and 2008/09) customs revenues as a share of GDP fell by nearly 16% (from 2.8 % in 1386 to 2.4 % in 1387). During the last fiscal year, estimated customs revenues were Afs. 3.2 billion or 13% below the budgeted amount. Overall, similar shortfalls were experienced for non-tax revenues (from 1.6% of GDP in 1386 to 3.5% of GDP in 1387). In contrast, the revenues derived from taxes increased substantially, (i.e., from 2.5% of GDP to 2.8%, which reflect an increase of 12%). An increase was also observed in miscellaneous revenues. Such a strong performance is attributed to institutional strengthening within the Revenue Department in the MoF.

A major fiscal target for the current fiscal year is to raise revenues from 6.9% to 7.3% as a percentage of GDP.⁵ This will require far reaching policy reforms in a number of areas, including: (i) introduction of a new business receipts tax to be applied on imports;⁶ (ii) giving the Customs Department complete access to the state and private fuel depots; (iii) increasing the use of post-clearance audits by the Customs Department as a means of better enforcement; (iv) further expanding coverage of the Automated System for Customs Data (ASYCUDA) system, including to Kabul airport; and (v) extending the Revenue Department's Large Tax Payers Offices to more provinces. Institutional strengthening in both the Customs and Revenue Departments must also be accelerated, including implementation of measures to increase the responsibility of these Departments for improved human and financial management.



The government's operating expenditures were substantially higher than projected last year. This was primarily due to unexpected expenditures in several areas, including higher salaries and the settlement of arrears for teachers; military spending; and emergency wheat imports due to the drought. As a result, government operating expenditures which were originally budgeted to be reduced last year, from 10.5% of GDP to 10.2%, increased in reality to 11.6%. However, these extraordinary expenditures are not likely to be repeated.

More generally, the government made substantial progress with the introduction and application of improved budgetary systems, including strengthened cash planning and management through more credible spending ceilings and improved accounting and recording. Program based budgeting has now been adopted in many ministries, ensuring closer alignment of development activities with the

³ See IMF Report, Table 4b, page 22.

⁴ See IMF Report, Table 4b, page 22.

⁵ Given that the current year failed to reach the target of 7.0% and the higher projection of GDP growth for the current year (not yet reflected in these tables, this is going to be a very ambitious target to reach.

⁶ The BRT on imports can be offset against future income tax liabilities, in this sense it is a pre-payment of the income tax and not an effective increase in custom tariff rates.

priorities established in the ANDS, enabling the government to meet one of the JSAN recommendations of 2008.

In the current fiscal year, government revenues and grants for operating expenses are to increase by a total of 2.6% of GDP. With an anticipated reduction in operating expenses, based partially on a constrained spending envelope and prioritized public spending in the areas of security, health, and education, it is expected that the operating budget deficit (including grants) will be decreased from -0.5% of GDP last year to zero this year. If grants are excluded, the operating budget deficit is expected to increase from 4.7% of GDP in 1387 to 6.3% of GDP in 1388.

When the ANDS was completed a year ago, it was noted in the Joint Staff Advisory Note on the Poverty Reduction Strategy Paper prepared by staff of the IMF and the World Bank, that:

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. (Page 4 of the JSAN 2008)

The government undertook to update the macroeconomic framework to ensure overall consistency between resource availability and the priorities established in the ANDS. This has been done in consultation with the IMF and World Bank and as stated in the most recent IMF PRGF Review (April 2009), “the overall fiscal envelope is contained and spending priorities are in line with the ... ANDS.” However, while there is broad consistency between the updated macroeconomic framework and ANDS priorities, there are significant issues of alignment of total spending with these priorities mainly because donor activities and financing are not fully aligned with the sector priorities and results nor is full information on development investments made available by donors.

Some of the above issues related to budget and Financing of ANDS have also been reflected upon in Section 2, Paving the Way for ANDS Implementation, under the subsection ANDS and the Budget and Financing.

2. POVERTY STATUS: PROGRESS TOWARDS MILLENNIUM DEVELOPMENT GOALS AND OTHER SURVEY FINDINGS

2.1. Afghanistan Millennium Development Goals (AMDGs)

Activities related to the MDGs were integrated into the respective ANDS sector strategies. MDG related activities and the necessary tracking of progress towards them, with indicators, are now reflected in the relevant sector results frameworks and the ANDS national level results frameworks. MDG activities and indicators being well integrated into the results frameworks have also made the MDG indicators integral components of the ANDS Monitoring and Evaluation system.

The government’s 2008 MDG Progress Report reflected success in reducing child mortality (Goal 4) and controlling the spread of diseases such as malaria and tuberculosis (Goal 6). Access to water (Goal 7) improved only modestly. Given the primacy of security concerns in Afghanistan, security was added as an additional Afghan-specific MDG (Goal 9). Despite serious security challenges and decline in security in a number of provinces, progress has been achieved in expanding recruiting and training of army and police personnel and in mine clearance and elimination of other unwanted remnants of war. Primary school enrollment (Goal 2) especially among girls, increased although drop out rates are recorded to be high. Similarly, while available data suggests modest progress in improving maternal health, high population growth and fertility rates pose serious challenges in

meeting the target of reduction of maternal mortality (Goal 5). Regrettably, two goals made inadequate progress: reduction of extreme poverty (Goal 1) and promotion of gender equality (Goal 3). Focusing attention on monitoring progress towards these MDGs is the government's priority. Action plans to promote gender equality is in place. Monitoring progress with the results framework of Gender Cross Cutting Issue will help the government record progress. Disciplined poverty related expenditure tracking will help the government to plan effective poverty reduction measures.

2.2. Poverty Surveys

The ANDS was developed using the first extensive poverty diagnostic study undertaken in Afghanistan, providing a basis for the development of a strategy for poverty reduction. Key findings from the most recent poverty analysis in 2007 were that the poverty rate was 42%, corresponding to about 12 million people living below the poverty line, with average per capita incomes of about \$14 per month.⁷ In 2007, 45% of the population spent less on food than what it typically costs for relatively poor person to purchase 2,100 calories per day. It was also estimated that 20% of the population was only slightly above the poverty line, indicating that they were highly vulnerable to adverse economic downturns, such as rising food and fuel prices.

The poverty analysis in the ANDS was based on the National Risk and Vulnerability Assessment (NRVA) survey, which was first undertaken in 2003. To date, three rounds of surveys have been completed and analyzed. The 2003 NRVA focused mainly on rural areas and was aimed at assessing the state of food security. The 2005 NRVA collected data from both rural and urban areas, providing a more representative picture of poverty conditions. However, these data were collected only during the summer which was not reflective of conditions at other times of the year. Therefore, in the spring of 2007, a survey was conducted with a small sample to assess poverty conditions in winter, the most difficult period of the year for the poor. The poverty analysis in the ANDS, was based on the 2005 (summer) and 2007 (spring) NRVA surveys. In addition to development of a statistical poverty profile, these surveys enabled estimates of poverty status in the provinces, and supplied improved information on geographical differences in social and economic conditions.

The 2008 NRVA was completed during the ANDS start year of implementation. It included data from more than 20,000 households. This survey improved upon previous survey processes by fielding survey teams in all seasons, thereby addressing previous concerns about seasonal variations. The survey process was also significantly improved, with more effective supervision of the process and full training of the enumerators prior to the launch of the survey. Finally, the consumption module of the 2008 NRVA was expanded to include more non-food items, which was absent in the earlier surveys.

As per JSAN comment of May 2008, the NRVA 2008 survey analysis will enable the government to better link policy recommendations to actual sector strategies. The analysis can be used to establish clear priorities and investments closely linked to poverty reduction objectives.

The data from the 2008 NRVA is currently being analyzed. The NRVA survey team from the Central Statistic Office (CSO) received training for screening and processing of raw data and undertaking the required statistical analysis, including the estimates of people under poverty lines and other poverty indicators. It is expected that this poverty analysis will be completed before the end of 2009. It will provide an important input to the ANDS Review (due to be completed by June 2010) and changes, if any required, in the sector level activities. The latest NRVA can serve as useful data source for monitoring of ANDS pillar and sector results and progress towards the MDGs.

⁷ This is based on the 2007 NRVA which reflects conditions during winter. It was estimated in the 2005 NRVA for summer that 33% of the population fell below the poverty line.

prioritize their needs, based on their sector strategies and the country's overall development priorities established under the ANDS and the MDGs. At the final stage, a Medium Term Expenditure Framework (MTEF) will assist in sectoral allocation of spending across different programs and projects, based on the detailed costing undertaken for producing the sector results. The MTEF should align with the indicators of outputs and outcomes of the sector and program results frameworks.

3.1.2 ANDS and Results Based Program Budgeting

The government's budget has traditionally been prepared on the basis of allocating resources to particular economic categories, for example, allocating funds to line ministries based on amounts required for wages, goods and services, and acquisition of assets (capital). Little information was made available on what will be produced, what services will be delivered, or what development results will be achieved with these resources, particularly for recurrent expenditures. With the ANDS and the accompanying results frameworks, the government now is adopting approaches that will allow the measurement of progress toward the achievement of government's development priorities and policies. When fully introduced, this will help to more effectively align the government's budget (public expenditure) with the ANDS priorities (HIPC Trigger 4) and make the government ministries more accountable for funds invested in development related service delivery.

Because the budget is recognized to be the central tool for addressing government priorities and policy implementation, the national budget has already been restructured to reflect eight ANDS sub-pillars (see figure 1). Measures are underway to further classify budget structure according to the seventeen ANDS sectors that will reflect disaggregated expenditure for each sector.

Program Budgeting (asking ministries to align their activities and outputs, and the associated budget with sector objectives and results) attempts to link public expenditure with ANDS priorities and results. Adoption of this mechanism helps the government to account more transparently for the costs of the results it achieves in a sector. At the same time, the donors get a more transparent picture of results planned, achieved and the related costs.

Line ministries have prepared their strategies and priorities which are aligned with the goals and objectives of the ANDS sector results frameworks. These strategies/priorities will be implemented through the national budget. The 1389 (2009/10) program budget formulation process will enable twenty line ministries to plan allocation of resources for planned sector results and should enable donors to commit financial resources to projects/programs that are more clearly aligned with the ANDS sector results frameworks. .

The primary objectives of introducing program budgeting include:

- Directing resources to the effective implementation of the ANDS by creating stronger links between ministries' objectives and priorities (as stated in the ANDS and sector results) and their budgets, meeting HIPC Trigger 4. This provides opportunities to the ministries to design new and/or redesign current services that will contribute to the achievement of the results identified in the ANDS sector results frameworks.
- Integrating the operating and development budgets. Ministries will increasingly take into account future operation and maintenance costs of existing investments and development projects. This will provide a more accurate estimate of the costs associated with a particular priority or service delivered by the ministry, regardless of the source of funding- operating or core development funds.
- Helping ministries better justify their budgets. Line ministries must be able to explain to the President, Cabinet and Parliament how their proposed budgets relate to the ANDS results framework and sector priorities. Program budgeting, which integrates the ANDS sector outcomes and outputs into the government budget structure (HIPC Trigger 4), will help introduce cost justification and better accountability in the government's budget.

- Enabling effective prioritization/budget allocation decision making process. Program budgeting, produced under the umbrella of ANDS sector results frameworks, will assist the government to allocate resources to its most important and highest priority strategic objectives by providing more information on the benefits and costs of the programs.

It should be noted, thus far, that program budgeting has not been as successful in achieving all of these objectives as anticipated. There are a number of reasons why this has been the case:

- The system was initiated before the ANDS (which provides the underlying priorities and rationale for development programs) was completed;
- Sector results frameworks were not developed; and, thus, the programs under the sectors did not have clearly defined outputs and outcomes;
- Ministries, therefore, developed their own priorities and objectives, without consideration of their role within the ANDS; and
- The introduction of this budgetary system entailed too complex a process beyond the capacity of majority of officials to grasp.

Countries with high levels of technical capacity have not always been successful in fully and quickly implementing a program budgeting process. It is not surprising that Afghanistan, with very limited capacity and little or no experience with these types of systems, is facing difficulties in the early years of this exercise. In light of the past experience, the government is currently engaged in modifying and simplifying the program budgeting tool. Program Budgeting will be fully aligned with the sector results, starting this year. This feature will help to root Program Budgeting in the line ministries, which have already formulated sector results frameworks and implementing activities to achieve the sector results.

3.1.3 ANDS Budget and Expenditures

The government currently tracks expenditure alignment with ANDS through tracking expenditure by ministry, then aggregating up to each of the eight ANDS Sub-Pillars. Actually, the 1387 budget was aligned with the I-ANDS. Pillars and projects in the budget were based on the priorities and pillars of the I-ANDS because development of the full ANDS was completed and approved for implementation, only through mid-1387. Since AFMIS is still aligned to the I-ANDS Pillars and priorities, the 1387 and 1388 Core Development Budget estimates are still aligned to the I-ANDS Pillars and priorities, as shown in Table 2.

Table 2 - Core Development Budget by ANDS Sub-Pillars (All values are in millions of USD)

ANDS Sub-Pillars	1386 Actual	1386 (as % of total)	1387 Budget	1387 Actual	1387 (actual as % of budget)	1388 Budget	1388 (as % of total budget)
Security	29.1	3%	37.91	13.20	34.82%	25.30	1.07%
Governance, Rule of Law and Human Rights	13.7	1%	70.43	17.40	24.71%	76.90	3.26%
Infrastructure & Natural Resources	449.1	47%	935.58	396.90	42.42%	926.90	39.26%
Education & Culture	54.4	6%	214.79	81.70	38.04%	270.40	11.45%
Health & Nutrition	43.4	5%	111.62	64.10	57.43%	149.70	6.34%
Agriculture and Rural Development	315.8	33%	631.14	246.10	38.99%	701.90	29.73%
Social Protection	10.9	1%	15.48	8.40	54.26%	24.90	1.05%
Economic Governance & Private Sector Development	47	5%	140.68	77.40	55.02%	144.50	6.12%
Unallocated	0	0%	89.89	-	0.00%	40.30	1.71%
Total	963.4	100%	2,247.52	905.20	40.28%	2,360.80	100.00%

Source: Ministry of Finance

Comparison of 1386 and 1387 expenditure shows changes in spending patterns, with Security sector expenditure rate increasing by 31% in 1387 and exceeding Infrastructure spending rate, which was the highest in 1386. This is an indicator of declining security in the country and the decision to increase the numbers in the army and a slight increase in the salary of the police. Infrastructure spent less in 1387 than in 1386 because the development budget execution was slow in the Ministry of Energy and Water in 1387. Agriculture and Rural development spending also decreased in 1387 due to slow budget execution in MRRD. Decline in the security situation likely contributed to the slowness. But untimely fund disbursement was the major cause of slow execution in MRRD. The NSP activities (which consumes a very large portion of MRRD budget) are seasonally focused, with most activities taking place in the summer season. Funds disbursement often does not correspond with the season of most intense activities. Receipt of funds after the season does not allow implementation of seasonally planned activities, which results in slow budget execution. The government will address the issue of timely funds disbursement to speed up rural development budget execution. In 1387, Health and Social Protection expenditure grew. Yet, expenditure is comparatively small in these sectors. This is largely due to the fact that these sectors are largely financed from external budget.

The 1388 Core Budget estimate provides highest priority to Infrastructure, followed by Agriculture and Rural Development, Education and Health, in order of priority. The total Core Development budget for 1388 is 50% less than the revised Core Development Budget of 1387, according to the National Budget Report. But the financing is all new not including the carried over funds from 1387 programs. The total is likely to increase with unexecuted funds if multi-year projects are carried over to 1388. But the latter is only an estimated projection.

An analysis of the Table 3 reflects that overall, the rate (from 1386 to 1387) in the Operating Budget category, both for budget approved and executed increased and exceeded those of Core Development Budget. An increase of 22.3% is recorded for approved Operating Budget in 1388, while the increase rate of approved Core Budget is 5%, possibly based on the slippage in budget execution in 1387. The execution rate in Core Development Budget is projected to increase in 1388 and exceed the projected execution rate of the Operating Budget.

The increase in operating budget is largely due to a number of factors, such as, increase in teachers' salaries (by 20%), an indicator of the recognition of the importance of teachers for improved delivery of education, known to be an essential element promoting a country's development. In response to the declining security situation, the operating budget has been covering the salaries of increasing numbers of army and police personnel. The third element is increased inclusion of operation and maintenance costs of infrastructure.

Overall budget and execution rate in Core Development Budget had been increasing steadily up to 1386, in response to increasing development needs in certain priority areas, such as, infrastructure, rural development and education, which constitute 70% of the Core Development Budget. The execution rate of the development budget had increased to 70% in 1386. The needs in priority areas have not certainly decreased but the 1387 execution rate dropped. This is attributed to difficulties encountered in implementation of development projects in areas which were secure before but are now under security threats.

It is acknowledged, however that the execution rate is low in many ministries, with some ministries' expenditure going below 30% to 40 %, which reflects low capacity in the ministries in areas related to speedy service delivery. In certain areas, the execution is low due to deficient performance of private sector contractors, as well. Several other issues hamper efficiency of budget execution. These include: poor planning; inadequate attention to prioritization; excessive transactional costs resulting from uncoordinated approach to programming through an unmanageable number of small projects; a cumbersome procurement system and related complexity of procedures; unavailability of standardized monitoring system to track progress and associated expenditure; and lack of donor coordination with donors exacerbating problems by burdening the ministries, already saddled with low capacity, with excessive individual demands.

The government is committed to give priority attention to the low development budget execution issue. Disciplined public expenditure management is a key guiding principle of the government of Afghanistan.

Certain MoF initiated reforms addressing some of these issues that are believed to cause low budget execution include: directed capacity building measures, introduction of improved budget formulation and execution processes, with assistance provided to the ministries throughout the budget calendar cycle; and use of simple and standardized procurement procedures. ANDS implementation, with the use of the tool of results frameworks and results based program budgeting will form the basis of a monitoring system, which should help ministries to keep track of progress towards development results and the associated expenditure. The Directorate of Aid Management in MoF is making efforts to improve donor coordination to address the need for donor alignment and harmonization with governments systems which would help reduce transactional costs.

Table 3 - Approved Operating and Core Development Budget and the execution rate for 1386, 1387 and 1388
Budgets are in US Million Dollars

Operating Budget							
Budget	Approved Budget		Difference	Increase Rate from 86 to 87	Approved Budget	Difference	Increase Rate from (87 to 88)
	1386	1387			1388		
	1096.31	1476.59	380.28	34.69	1806.80	330.21	22.36
Expenditure	Real Expenditure		Difference	Execution Rate from 86 to 87	Projection	Difference	Execution Rate (Projection)
	1386	1387			1388		
	1016.00	1384.98	368.98	36.32	1662.26	277.27	20.02
Projection for 1388	1476.59	1384.98	93.80				
	1806.80	1662.26	92.00				

Core Development Budget							
Budget	Approved Budget		Difference	Increase Rate from 86 to 87	Approved Budget	Difference	Increase Rate (from 87 to 88)
	1386	1387			1388		
	1796.84	2247.55	450.71	25.08	2360.73	113.18	5.04
Expenditure	Real Expenditure		Difference	Execution Rate	Projection	Difference	Execution Rate (Projection)
	1386	1387			1388		
	970.00	896.48	-73.52	-7.58	1180.37	283.89	31.67
Projection for 1388	2247.55	896.48	0.48				
	2360.73	1180.37	50.00				

Source: Budget Policy, (1386, 1387, 1388 budget decree) and Expenditure report

Note: In both Operating and Core Development Budget 1388, budget execution amount and execution rate are only estimated projections based on the actual of 1387 and what the Budget Department assumed to be reasonable expenditure.

To help reach ANDS objectives and given the expansionary needs in the country, the government's fiscal policy had to remain expansionary. As related above, the pattern of spending focused on security related human resources development, good governance institutions and education to meet the MDG and ANDS priority needs. Because of such developments, the earlier objective of achieving fiscal sustainability in the operating budget by 1391 appears unrealistic.

The government entered into the PRGF (Poverty Reduction and Growth Facility) with the commitment to reach fiscal sustainability (covering increasing operating budget with domestic revenues). Given this commitment, the government is making some hard choices on allocation of resources to ANDS sectors and related ministries. The introduction, this year, of the system of provision of ceilings to ministries will direct the ministries to further prioritize their objectives and activities. The ceilings will hopefully introduce some fiscal discipline. The government continues its efforts to ensure domestic revenue increase at a higher rate than operating expenditure.

Given limited funds availability and increasing uncertainties both from external sources and domestic revenue, *prioritization* of needs, sectors and programs, sub-programs and activities is considered essential. Introduction of the ceilings for the line ministries will no doubt serve as an effective tool to push prioritization within sectors. However, before prioritization within sectors, the government will have to prioritize between sectors within each Pillar of ANDS, starting from sectors of highest priority and counting down to the lowest. The second level of prioritization will begin with allocation of ceilings to line ministries. When the ceilings are provided and the line ministries clearly see the difference between what they had planned for their sector activities, the related costs and actual funds received, they will have to select the highest priorities which fit within their assigned ceilings. Clear statements of activities in the sector results frameworks and the annual planning frameworks with sub-program level activities and costs breakdown, will provide the basic information required by ministries to prioritize their sub-programs and activities.

3.1.4 ANDS and Donor Financing

The fiscal report of 1387 observes a funding gap in the development budget. Grants to development budget fell in 1387, leaving a shortfall of Afs. 15.5 billion, which sends an alarming message. The recent Donor Financial Review (DFR) presents the most comprehensive and up to date assessment of the level and distribution of donor assistance.⁹ This report identified two critical issues. First, there will be a significant shortfall in funding to meet the projected costs of the ANDS. Table 4 below, reproduced from the DFR report, estimates that the funding shortfall for 1388 (2009/10) will amount to approximately \$3.2 billion.

Table 4 - Estimated 1388 Sector Allocations for Core and External Budgets (Figures in million USD)

ANDS Sub-Pillars	Total 1388 ODA	%	Domestic Revenue	External Fund	%	Core Fund	%	ANDS Requirement	Funding Gap
Security	2,329	48%	447	2040	60%	289	0%	2,585	191
Good Governance, Rule of Law and Human Rights	566	12%	204	544	16%	23	1%	558	212
Infrastructure & Natural Resources	639	13%	46	199	6%	440	38%	3,093	-2,408
Education & Culture	253	5%	205	140	4%	114	1%	893	-435
Health & Nutrition	196	4%	24	94	3%	102	3%	465	-245
Agriculture & Rural Development	490	10%	19	238	7%	253	24%	921	-412
Social Protection	41	1%	72	26	1%	16	0%	359	-246
Economic Governance and Private Sector Development	183	4%	16	90	3%	93	9%	215	-16
Unclassified	188	4%	198	5	0%	183	24%	198	188
Total	4,886	100%	1,231	3,375	100%	1511	100%	9,287	-3,170

Note: Total Domestic Revenue includes US\$127 million premium from Aynak Copper Mine
Source: Ministry of Finance

⁹ See the Second Donor Financial Review for 1387 (2008/09), MoF.

Secondly, the table also indicates that some sectors are over funded and some severely under-funded. The largest funding gap is seen in the infrastructure and natural resources sectors, which are identified by the government as highest priority sectors. Approximately, only 22% of the budgeted amount in these sectors has been covered by committed funding. Agriculture and rural development, which are also of high priority, are similarly under funded with only 55% of the total budget covered by committed funding. This leads to the conclusion that scarce aid resources have not always been invested in the most productive manner. The government remains committed to assess the quality of aid although aid volume is also important. The government is also committed to strengthen its revenue mobilization efforts to resource the ANDS priority sectors. Without additional and sustained support, addressing ANDS priority sector results will be difficult. Availability of the sector results frameworks and the line ministry initiated *prioritized* sets of results, should facilitate donor alignment with the ANDS sector results and priorities. The Aid Effectiveness Principles of the Paris Declaration of 2005 and the Accra Agenda of Action (AAA) of 2008 demand such alignments. This subject is further discussed in the following section.

3.1.5. ANDS Results Financing Mechanism

In support of ANDS implementation and the associated budget processes, the government has adopted an ANDS Financing Mechanism. This mechanism through the application of the aid effectiveness principles of Paris Declaration (2005) and the Accra Agenda of Action (2008) will effectively advance ANDS implementation by rationalizing donor funding and promoting donor alignment with ANDS sector results. Application of the mechanism should direct donor funds allocation to the identified *results* of the sectors. Instead of addressing ANDS broad priorities in the three pillars of Security, Governance and Socio-Economic Development or generally operating in the sectors under these priorities, the output and outcome results of the donor funded development activities must show, with the help of indicators that their assistance effectively contribute to the achievement of specific sector results outcomes identified by the line ministries.

Government planned portfolio reviews of donor funding activities will be the means to determine if their development investments make contributions to the attainment of ANDS sector specific results.

The objectives of the ANDS Sector Results Financing Mechanism are:

- To secure adequate financing for the implementation of the ANDS,
- To promote alignment of donor financing with ANDS strategic results priorities,
- To ensure that donor financing to ANDS is well coordinated to avoid duplication, over-funding of some sectors and under-funding of some others,
- To support the Afghan government's development priorities through promoting greater government control, ownership and accountability of its budget through strengthening of the budget process.

Attainment of these objectives would necessitate certain informal and formal agreements between the government and the donors, in the form of umbrella development cooperation agreements to be signed between the government and individual donors; annual bilateral consultations; and grant and/or loan financing agreements at sector investment levels. Annual Portfolio Reviews and Donor Financial Reviews would be routine features.

Key Financing Instruments: The Government's preference is to use the *National Budget* as the central instrument for financing ANDS implementation. The government will encourage funds flow through the Core National Budget. Acknowledging that due to certain continuing gaps in the current budget execution capacity of the government, some donors want to channel funds through the External Budget. The government is committed to address this issue. Within this reality, both the government and the donors have to set their aims to incrementally increase every fiscal year the

inflow of donor assistance through the National Budget, in accordance with the Paris and Accra aid effectiveness commitments.

For funds flow to the National Budget, the preferences are Direct Budget Support- discretionary or preferential- and, Trust Funds. Off budget support is not a government preferred option as use of such instruments result in a proliferation of parallel mechanisms, which makes coordination difficult, increases transactional costs and allows operation of programs/projects outside of ANDS sector results priorities. All off budget projects will be subjected to follow certain procedures established by the government. A semi-annual portfolio review and submission of a results progress report will form an integral part of the ANDS monitoring and evaluation system. This review will confirm if the off-budget donor projects achieved their stated objectives and expected results as included in the Financing Agreements and if their investments and activities are in alignment with and contributed to the government's ANDS sector results priorities.

Key ANDS Delivery Mechanisms: For ANDS implementation, the government needs to translate the ANDS sector strategies into specific sector investment programs.

Project-based programming is an option. But it represents a fragmented approach, increasing transactional costs and generating coordination difficulties for the government. Although the use of project-based programming will be used in the short term, sector wide national investment plans/programs (based on **Sector Wide Approach- SWAp**) is the preferred delivery mechanism for the implementation of ANDS in the longer term. In the medium term, while SWAp preparation is undertaken, a **Program Based Approach (PBA)**, consisting of **National Programs** (such as the National Solidarity Program- NSP), which the government is experienced in designing and implementing, must remain as the preferred alternative to a fragmented project based approach.

Inclusion (through coordination with Independent Directorate of Local Governance and Ministry of Economy) of provincial priorities in the National Programs and SWAps will be of utmost priority.

Programs, developed under any of the above options will be linked to the budget process through the Medium Term Budget Framework in the short term and Medium Term Expenditure Framework (MTEF) in the future. The programmatic approach to be adopted by the government will also be linked with the program-based direction planned for ARTF.

For efficient and effective operation of these delivery mechanisms, capacity strengthening will be a major requirement. The Government of Afghanistan will have to complete translating the ANDS into specific sector results frameworks with associated **sector investment plans consisting of ministry based programs and projects**. Due to capacity constraints, some ministries might not be able to translate their strategies into investment programs/projects in a timely fashion. Donor provision of Technical Assistance for capacity building in such ministries for SWAp development and program/project design, implementation management and monitoring and evaluation, would be urgent requirements. Coordinated efforts between MoF and MoEc and the civilian technical assistance program would be required to eliminate duplication of efforts.

3. 2. MANAGING FOR RESULTS AND MONITORING & EVALUATION

For ANDS implementation, the adoption of the tool, Results Based Management, which implies designing, planning, budgeting, monitoring, reporting and, in the longer term, evaluation, based on results is introduced.

Managing for Results is a mechanism that integrates planning (with the associated program costs and budgets) implementation management and monitoring and evaluation of development results into a

single framework. A set of indicators must also be identified and integrated into this framework to track progress towards results. Development expenditure is effective only when substantive “development results” that address priority needs and gaps in a sector are addressed. Mere implementation of activities, monitoring of their implementation and reporting on completion of these activities are not equivalent to monitoring and evaluation and reporting on “development results”. As mentioned above, an appropriate monitoring, evaluation and reporting system requires integration of a set of realistic indicators for tracking movements towards the results. A framework, thus, developed with objectives and results, activities and their outputs with identified and realistic indicators to track progress will serve as the Monitoring and Evaluation framework.

Meaningful monitoring, evaluation and reporting on development results require the application of the “Managing for Results” approach throughout the life cycle of the ANDS- its three Pillars, the Sector Strategies and the programs/projects designed to meet the strategic objectives and results at each of these levels and track progress towards these results with indicators.

The brief narrative in the following section will help clarify understanding of a results framework that is at the base of monitoring and evaluation.

3.2.1. How the ANDS Results Chain Operates and Helps Monitoring and Evaluation

- The Results Framework for each of the ANDS pillars identifies impact-level results that will be achieved through the outcome results of each sector.

The Impact level results are at the national level and Indicators must be identified to track the Impact results. At this level, many of the Indicators can be deciphered from the NRVA and some indicators are the same as those used for tracking progress towards MDGs. or macroeconomic, fiscal and revenue generation performances.

- Results framework for each of the sector strategies must establish outcome results linked to the goals and impact of the ANDS Pillar under which the sector operates. The logic is that sectors develop programs/projects that will produce results which will contribute to the achievement of their respective Pillar level impact results.

To track progress towards the outcome results, a set of indicators have already been identified and will be further refined.

- Each program and project must develop a results framework, with outcome results, activities and outputs in order to ensure that the program/project contributes to the related sector results.

At this level, as well, outcome and output indicators must be identified to ensure that completion of the activities does produce products that will help achieve the outcome results of the project/program. The outcome indicators at the project/program level measure outcome results of project/program. These outcomes, in many instances, can serve as indicators of achievement of impact level results.

- Notably, Indicators for results at each level are essential to identify and be used for monitoring and measuring progress towards results not only during the implementation stage but for final evaluation.

Indicators can be quantitative or qualitative. The latter is essential for certain types of results and criteria need be set at the design and planning stage to assess performance with qualitative indicators. It is incorrect to assume that ready made sources of collecting data for measuring change with indicators (especially qualitative indicators) are available for all results. Depending on the nature of the result, routine surveys might be required to track if the stated activities, outputs and progress towards outcomes are in progress. Especially, monitoring with qualitative indicators will require such surveillance. Baseline data collection will be required for progress measurement with both quantitative and qualitative indicators, as elaborated below.

- The results chain, with all its components: Goal-Impacts, Objective-Outcomes, Activities-Outputs and a set of Indicators at each of the levels make up the Monitoring and Evaluation Framework.

3.2.2. Baseline Data Requirements

Meaningful operation of any monitoring and evaluation framework requires base line data for appropriate measurement of progress towards results with the use of the pre-established indicators. Although some baseline data is available through surveys already undertaken in Afghanistan (e.g. NRVA and CSO), the government acknowledges weaknesses in data availability and recording. It also recognizes the need to attend to this deficiency in support of monitoring and evaluation of ANDS. Contrary to general perception about baseline data surveys being too complex and expensive, well set up baseline sample surveys or cluster group approach for measuring change need not be too complicated if data collection is directly linked to the results and established indicators. In any case, expenditure on monitoring and evaluation is unavoidable if performance, in terms of development change, is to be measured rather than just carrying out a series of activities.

Some sectors (and the related ministries) which will be piloting the management for results with full results and monitoring and evaluation frameworks will be asked to establish baseline data against which they will measure and track progress towards the results.

Yet, it must also be acknowledged that many donor supported programs in Afghanistan suffer from data deficiencies because of perceived complexities involved in survey and data search, especially under insecure conditions. The data base issues are also not fully resolved in more advanced developing countries, middle income countries and newly emerging industrialized nations. Therefore, despite government's commitments to strengthen the monitoring and evaluation framework with establishment of base line data, expectations on this count should be realistic.

Overall, the current capacity within the government to undertake managing for results, embracing planning, implementation management and monitoring for results is not adequate to successfully undertake these tasks. However, this can be overcome through relatively simple training in results management and monitoring and baseline data surveys. Introduction of complex systems will slow down ANDS implementation and monitoring and evaluation. The training process in managing for results has been launched and is progressing well. The government notes the need for technical assistance in baseline data set up and surveys and usage of cluster group approach.

3.2.3. Monitoring and Evaluation Structure¹⁰

The following units and respective responsibilities for a results monitoring structure are currently being introduced:

- The new unit established in the MoEc has the overall responsibility to monitor and evaluate progress in the implementation of the ANDS, through collection of information from line ministries on progress made in the ANDS sectors.
- The monitoring frameworks, based on the results frameworks are, in effect, developed at the sectoral levels by the related line ministries; and the implementation of the ANDS sector strategies, through planned programs/projects, will be the responsibility of the line ministries. No complex and large bureaucratic structures have been conceived. The structural units related below already exist - just that the tasks of the units are being modified for improved coordination and focus on results rather than on activities.
- While the line ministries' program and project operations teams, at the national, provincial, district and community levels implement the projects/programs, a very small Monitoring Cell for each program/project will be responsible for monitoring the planned results, with pre-established indicators, as identified during the design stage of the programs/projects.

¹⁰ See figure 2 in this report.

- For coordinating monitoring of all programs/projects of a ministry, each ministry will ensure coordination of ANDS implementation and monitoring by its Policy Planning Directorate that will act as the overseer of the ministry's performance in achieving the sector results under its responsibility. This department should guide the program/project operation teams in collection of data directly linked to the planned results; receive and collate the information on results of programs/projects and prepare reports;
- Each of these ministry results reports will be collected by the Inter-ministerial Committee (IMC) Secretariat for the sector. Upon discussions, consultations and effecting any required modifications, the sectoral IMC will forward an integrated report on the sector to the ANDS Joint Secretariat composed of the MoF and MoEc ANDS units.
- The MoEc will oversee the process of monitoring of the results of ANDS, encompassing all sectors and their programs and projects. The MoEc will, in effect, guide the line ministries in collection and collation of data, directly related to sector specific results under the responsibility of the ministry. It will receive reports from the sector IMCs. It will be the responsibility of the Joint Secretariat of the ANDS to prepare and submit an integrated annual results report covering all ANDS sectors, showing progress towards attainment of the ANDS pillar results.
- This report will be submitted to the Government Coordination Committee (GCC). After approval by the GCC, the final results report will be presented to the President and Cabinet and the Joint Coordination and Monitoring Board (JCMB).

A change management process has been launched, acknowledging that effective implementation of what is proposed above will be difficult with the existing capacity within the government, especially when results concepts are elusive and thus not well understood or followed,

3.2.4. Progress in Implementation of Managing for Results and Monitoring & Evaluation

The section includes progress made in formulation of ANDS Pillar Level and Sectors level results frameworks, which form the basis of a monitoring and evaluation system.

- Over 300 Afghan civil servants and contracted national staff (plus some key international advisors) have been trained in Managing for Results and formulation of Results Frameworks, which will also serve as M&E Frameworks.
- ANDS Result and M&E Framework (with the ANDS goal and impact results, each pillar level objective and their outcomes) to which the sector strategies link their objectives and results, has been developed.

Notably, the ANDS National level Results Framework attached to this Report is finalized in terms of the Pillar level "impact" results. But all *indicators* for the impact results are not yet finalized. We are in the process of searching for realistic indicators which will serve as the most practical tools for correctly measuring progress towards attainment of the impact results.

- Seventeen sector results and M&E frameworks have been developed by the line ministries. . These are also at the final stages of refinement. (See *Part II - Annex V* for ANDS Results Framework and *Part II - Annex VI* for three pilot Sector Results Frameworks and one Cross-cutting Issue - Gender Results Framework. These are approved and endorsed by respective IMCs)
- At every level, careful selection of a list of indicators is at the basis of the M&E framework to ensure tracking of progress towards results.

The *Sector Results Frameworks* are developed by the line ministries with advice and training provided to them in results management. These frameworks are ministry formulated and owned. The frameworks annexed to the Annual Progress Report are approved by the line ministries and the related sector IMCs. Unless the "results" and the "indicators" are basically incorrect or illogical, the line ministries have been encouraged to start implementing, managing and monitoring using their IMC endorsed results frameworks.

- With respect to integration of Program Budgeting, the exercise for 1388 is considered the “transition” year before Program Budgeting is fully integrated with the sector results frameworks.

This year’s Budget Circular to the line ministries includes information on the Finance Ministry’s decision to integrate program budgeting within planning, implementation and monitoring of results exercises by next year. Thus, measured steps have been taken with the intent to full integration of Program Budgeting with results planning, management, monitoring and reporting for next year.

- The MoEc-based ANDS Monitoring and Evaluation Team has been provided with initial training on how to guide line ministries to monitor, ‘what’, ‘how’, ‘when’ and ‘by whom’. A planning and reporting guide for use by the line ministries and oversight by the Joint Secretariat of MoF and MoEc is in the final stage of development. Additional training for line ministries in annual and quarterly planning of activities, outputs and costs and reporting against such planning is arranged for August 2009.

With respect to monitoring with indicators, the Ministries were advised to limit the *number of indicators*. The ministries, however, want to start with what they have planned and as they implement and monitor these results with the indicators they have identified (and approved at the IMC level), they might need to change some of the indicators which might prove to be impractical. This adjustment they will undertake within the first year. And results-based management principles comply with the position of the ministries.

The more advanced ministries, included in our pilot (explained below) for 1388, are convinced that *quantitative measurements are inadequate* to track progress on some of the results that are their priorities. They will have to use *qualitative measurements* (which again, comply with results management principles). The ministries will establish specific criteria on which to base the qualitative measurements. Use of proxy indicators is being reviewed.

Capacity building plans for use and refinement of the sector results frameworks are on the way. We do not expect perfection to be reached in the short term. But we need to make a start with the objective of attaining a higher standard.

- Capacity development at sub-national levels for planning, implementation management, monitoring and reporting is required. Development of a mechanism for delivering training for capacity building at sub-national levels is in progress and will be finalized by the end of this calendar year.

3.2.5. Piloting Use of Managing for Results in 1388

The results and M&E model planned for Afghanistan is similar to the one adopted by Vietnam for its PRSP implementation. It has proven to be a successful model and has been fully endorsed by donors. However, even with Vietnam’s stronger human capacity levels and no serious security challenges, while the process has been fairly successful, it still required several years before full implementation of managing by results and operation of the M&E Framework were made possible. Given Vietnam’s experience with PRSP implementation, the Government decided that Afghanistan, starting from a lower capacity level and operating under severe security pressures, should begin with a pilot program in 1388.

The pilot program will involve implementation of sector strategies and monitoring and evaluation utilizing the managing for results tools in four sectors: Agriculture and Rural Development, Education, Health and Energy; and in three provinces: Balkh, Herat and Nangarhar. Gradually, more sectors and provinces will be added, until all seventeen sectors in all 34 provinces implement and monitor ANDS using this approach. The pilot program will use the full sector results frameworks with objectives, outcomes, activities and outputs with the associated indicators at every level. The pilot will include annual planning for activities, outputs, indicators and costs and the sector reporting will be against the planned activities and outputs and the actual costs incurred. Information should be collected with pre-established indicators to confirm the achievement of outputs and progress towards

outcomes.

Since the pilot will represent the first trial on the use of the results frameworks for monitoring and evaluation, the priority focus will be on development of a strong monitoring and evaluation system. Baseline data surveys to facilitate change measurement for the pilot sector results will have to be undertaken. A comprehensive Management Information System (MIS), based on the monitoring and evaluation framework will then be developed. The plan is to further strengthen and replicate the pilot based monitoring and evaluation framework across rest of the 13 sectors and mainstreamed into all provinces, in course of time. Notably, MRRD has developed a MIS for use across all provinces. Perhaps lessons can be drawn from the MRRD MIS to develop a MIS for all sectors and at the national level.

Our Monitoring and Evaluation Framework for ANDS is based on the premise that M&E for “development results”, to which we have committed through the Paris Declaration of 2005, requires more than statistics. All available statistical data from CSO, AIMS and NRVA will be used. The line ministries and MoF/MoEc fully recognize the benefits of using indicators, the data for which is readily available in these organizations’ databases. To serve ANDS M&E needs, the services these organizations provide must be demand based. The line ministries do not want their results or indicators to be supply based, implying that they are not willing to adjust their results and indicators only on what statistics these organizations currently supply.

3.3. INSTITUTIONAL AND COORDINATION ARRANGEMENTS FOR ANDS IMPLEMENTATION (INTRA-GOVERNMENTAL AND DONOR)

An overarching requirement for ANDS implementation and effective execution of the sector strategies require close coordination and cooperation of multiple line ministries, public agencies, and other domestic and international partners. This is a complex undertaking that requires capable leadership at all levels of management of the process.

3.3.1. Institutionalization of ANDS in the Line Ministries

ANDS implementation can only be successful when the line ministries possess the capacity to undertake effective implementation initiatives and to monitor and report on their progress. The government’s measures to institutionalize ANDS in the line ministries align with the recommendations of JSAN of May 2008. The Coordination of ANDS Implementation Unit in MoF is undertaking a series of training programs for officials in line ministries to increase awareness and understanding of their responsibilities under the ANDS. To facilitate government-wide communication and coordination, at least two full time individuals have been identified to serve as ANDS Focal Points in each ministry.

It is acknowledged that the degree to which line ministries have the capacity to adequately understand their roles in implementing the ANDS varies considerably. The distribution of technical assistance also varies across ministries. In the coming months the government will work with donors to ensure additional resource availability to line ministries.

3.3.2. Other steps taken to improve coordination include establishment of following structures

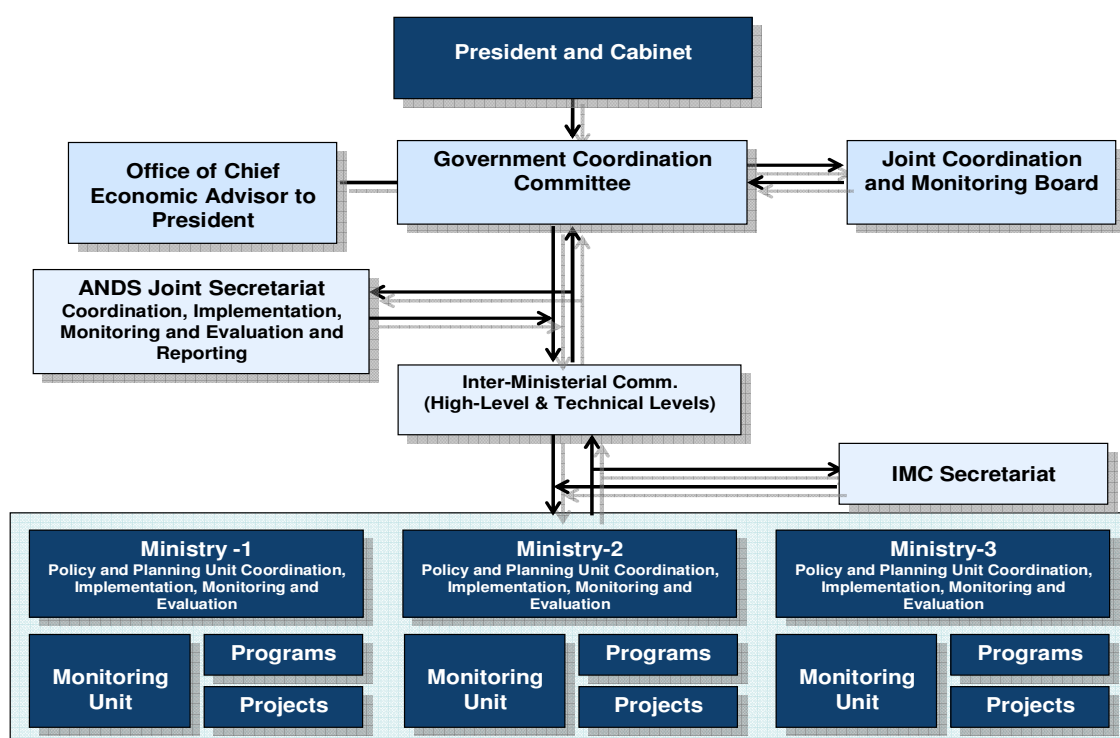
- The Oversight Committee (operating during the ANDS formulation phase) was strengthened and transformed into the *Government Coordination Committee (GCC)*.¹¹ A major responsibility of the GCC is to oversee, and where necessary, to facilitate progress in the implementation of the

¹¹ The GCC is chaired by the Chief Economic Advisor to the President (CEAP) and Minister of Finance and is comprised of the following Ministers: Economy, Foreign Affairs, Defense, Commerce and Industry, Interior, and Justice as well as the National Security Advisor to the President and Director General of the Independent Directorate for Local Governance (IDLG).

ANDS, reporting regularly to the President, the Cabinet and to the JCMB. In this capacity, the GCC is expected to engage regularly with donors and stakeholders, including the private sector, in order to build a consensus in support of effective implementation of the ANDS.

- **New ANDS Units at the Ministries of Finance and Economy** are established to facilitate progress towards the goals of the ANDS. These Units provide support for the GCC and the Inter-Ministerial Committees (IMCs) in their management and oversight roles. The creation of these new units reflects the intention to institutionalize within the government the knowledge and experience derived from implementation of Afghanistan’s development strategies and to ensure that this development is genuinely Afghan-led.
- Eighteen **IMCs** have been established and are coordinating the implementation of the ANDS sector strategies (Part II - Annex I). These IMCs will play a critical role in coordinating the work of different ministries at the sector level. They also help provide a base for cooperation and coordination between the government and donors.

Figure 2 – ANDS Coordination, Monitoring and Reporting Structure



- **Two Key Task Forces** were created in May 2009. The first is led by the MoF to develop more effective financing mechanisms for ANDS implementation. The second Task Force jointly led by the Ministries of Economy and Finance aims to promote the development of projects and programs in all ANDS sectors and improve donor coordination through a ‘peer review’ process¹².
- Following the completion of the ANDS, it was apparent that the existing Joint Coordination and Monitoring Board (JCMB) structure would be inadequate to meet the challenges of joint oversight and coordination of ANDS implementation. Therefore, **three JCMB Standing Committees** were established, corresponding to the ANDS Pillars, (i.e. Security; Governance; and Economic and Social Development). The Standing Committees meet more frequently than the full JCMB and are intended to provide the principal forum for coordinating donor activities to avoid duplication and ensure alignment with ANDS sector results.

Together, the IMCs and Standing Committees have replaced the Consultative Groups that existed

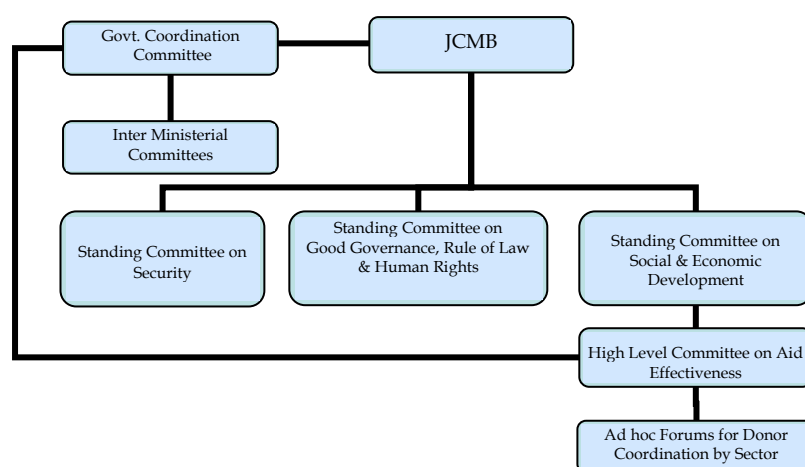
¹² The Peer Review Mechanism is designed to ensure that new programs proposed by donors to be undertaken under the external budget are properly aligned with ANDS priorities and do not duplicate activities that are planned by other donors. Peer review committees will be headed by MoEc, MoF and UNAMA and key donors of the sector.

earlier. These bodies provide opportunities for ministries, donors and stakeholders to work together to address policy and program issues at either the ANDS pillar or sector levels. And where appropriate, Task Forces under the Standing Committees have been established to promote better technical cooperation. So far this approach has proved to be productive, although considerable additional efforts will be required to strengthen the IMCs.

3.3.3. Donor Coordination and Aid Management Structure

One of the most important conclusions from the Paris Conference in 2008, which endorsed the ANDS, was the strong expression of support for the government’s efforts to increase ownership in implementing the ANDS. To achieve this, the donors and the government have agreed to reorganize their approach to consultations and aid coordination. The new coordination structure (closely linked with the coordination arrangement narrated in 3.3.2, above) is based on periodic JCMB meetings, Standing Committees and the IMCs (all defined above).

Figure 3 – Aid Coordination Structure and Mechanism in Afghanistan



As mentioned above, at the sectoral level, intra-governmental coordination is achieved through IMCs. Line ministries’ interaction with donors is, thus, addressed through the IMCs, which participate in donor coordination meetings when necessary. At the highest level, donor-government interaction is addressed through the Standing Committees and the JCMB where the government and its international partners jointly review progress towards ANDS results.

A High Level Committee on Aid Effectiveness (HLCAE) has also been established. Organizationally the HLCAE is placed under the Standing Committee on Social and Economic Development to address aid effectiveness and aid coordination. Sector related task forces/forums/working groups would be established, as needed, under the HLCAE to facilitate working level discussions.

3.4. ANDS FOR THE BENEFIT OF THE PROVINCES

One of the most important challenges for the government is to ensure that the benefits from development are shared by all provinces in the country. JSAN of May 2008 had referred to this area as a priority. The Constitution of Afghanistan delegates no fiscal authority to the provincial governments but ANDS was developed as a national development strategy to benefit all provinces. An extensive process of sub-national consultation during the preparation of the ANDS (in June to August 2007) had been undertaken. During this process, representatives from 14 line ministries explained their strategies to sub-national groups, which included local government officials, members of the Provincial Councils, District Development Assemblies, Community Development Councils, Shuras, ethnic groups, civil society organizations, elders, and international partners working in the provinces. Prior to the completion of the ANDS Framework and determination of the sector level priorities, provinces

developed their five year Provincial Development Plans (PDPs). The participants identified ten proposals in each of the eight main ANDS sub-pillars. A total of 80 proposals were collected. The government made a commitment to find financing for some of these proposals in the financial year 1387 (starting 21 March 2008). The rest of the proposals, were expected to be funded in the 1388-1391 period. Subsequently, during the Governors Conference in Kabul in January 2008, organized by the IDLG, these lists were reviewed and approved by the President through a Presidential Decree with a commitment for financing through the Development Budget. In general, limited budget availability may hamper financing of all of these proposals, especially if they are not aligned with ANDS sector strategy results.

To monitor the status of these PDP proposals, a PDP Coordination Working Group is formed with members from IDLG, MoEc, UNAMA and ISAF, chairing by Coordination of ANDS Implementation Unit in the MoF. With support from UNAMA Field Offices, this working group organized a survey on the status of the 80 priority proposals in each province during March-April 2009 (Part II - Annex II). The survey revealed that on average almost 15% of the proposals were implemented as projects, across all Provinces. Nangarhar Province topped the list with 39% of the projects implemented. Implementing agencies for these projects included local UN agencies, Provincial Reconstruction Teams (PRTs), Non-Governmental Organizations (NGOs), and bilateral donors, such as USAID, DFID and CIDA. Regionally, PRTs dominated in financing and implementing projects in the south and east, while NGOs and UN agencies predominated in the north and northeast. Most of the projects implemented were agriculture related. Other significant areas included education, health, transport and water.

It is acknowledged that implementation of all proposals will largely contribute to the progress of ANDS; yet, it is only realistic to accept that the commitment to fully finance a total of 2,720 proposals covering all provinces in the current year will not be possible. The government seeks donor assistance to finance those proposals that remain unfunded. The IDLG issued a circular to all Governors to appeal to potential funders to consider financing these proposals on a priority basis. The MoF is also issuing directives to line ministries to prioritize some of these proposals for funding from the Development Budget.

The government is conscious of the need to promote transparent and equitable resource allocation to provinces. The results based program budgeting approach already introduced for resource allocations to line ministries would serve as a useful tool for allocation of sectoral resources across provinces, where programs and projects to attain the ANDS sector results will be implemented. Results based budgeting approach applied to the provinces by the line ministries should be based on affordable and client driven needs that are essentially linked with the objectives and outcomes and outputs of the ANDS sector results and indicators already established. In course of time, such a resource allocation process can become an integral element of the annual budget allocation process. Guidance from MoF would be required for the line ministries to prepare their provincial budget ceilings and allocation of sectoral resources.

The government will not be ready until 1389 to introduce this process and might only begin with a pilot for resource allocation to provinces in one sector. If successful, the process could be replicated (within the normal budget preparation process) in other sectors and ministries. Technical assistance will be required to undertake the pilot and the replication phases.

Coordination of the PDP efforts, IDLG supported sub-national programming and budgeting, and provincial resource allocation by line ministries, through the results based program budgeting process, would be essential.

Government acknowledges that capacity constraints in the provinces in terms of project implementation and budget execution, with an eye to accountability, are issues to be addressed. Resource allocation through any of these mechanisms must be accompanied with capacity development in the provinces.

4. FIRST YEAR SECTOR ACHIEVEMENTS AND PROGRESS

This section highlights some achievements considered significant in selected high priority areas with the acknowledgment that reforms necessary to help achieve results in many sectors must be undertaken. The government will prioritize actions required for full implementation of the planned reforms. Many of the achievements in this section and related Annex V (Part II of this report) are at the output level. With the results frameworks used as a base for monitoring, improved reporting on progress towards outcomes is expected by the end of 1388 (2010).

It is also acknowledged that reporting in sector achievements is not analytic. This was the first year of reporting on ANDS for our line ministry colleagues. Training on managing for results, formulation of the sector results frameworks and briefing on the need for analytic nature of reporting took over major part of the first year of ANDS. In the absence of results frameworks and training on standardized annual planning, against which meaningful reporting could be delivered, the nature of reporting remained at the level of stating output achievements mainly, without much analysis. This has been acknowledged several times in the Annual Progress Report. Managing and monitoring for and reporting on results were alien concepts in Afghanistan. These were introduced only over the 1387 reporting period. Surprisingly enough, it has taken roots in the line ministries. We hope to phase in a new reporting approach through this year to be reflected in the 1388 Annual Report.

4.1. SECTORS

4.1.1. Private Sector Development & Trade

The strategy to foster private sector development and promote increased domestic and foreign investment consists of three main components: establishment of an enabling environment for private sector and trade development; development of national resources and infrastructure; and promotion of increased investment from domestic and foreign investors. Under new leadership and reforms introduced in the Ministry of Commerce last year, steps were taken primarily against the first objective of creating an enabling environment:

- Approved a number of laws, namely the Laws on Corporation, Partnership, Arbitration, Mediation, Intellectual Property and Patent Law. Trademarks Law, Chamber of Commerce and Anti-hoarding laws are under review of its relevant agencies. Drafted the Trade and Tariff policy framework.
- Established a Central Business Registry Office as a one-stop-shop to register all corporations, limited liability companies and partnerships.
- Established a Credit Information Bureau at the Da Afghanistan Bank (Central Bank);
- Banking reforms: Initiated the restructuring of both the Millie and Pashtany Banks.
- The central bank launched a 5-year Strategic Plan (2009-2014) in March 2009 that included i) Promotion of effective monetary policy; ii) Strengthening of financial intermediation; iii) Acceleration of capacity building; iv) Effectiveness of information management; and v) Promotion of good corporate governance.
- Initiated efforts for accession to WTO and South Asia Free Trade Agreement, the latter agreement to be soon ratified;
- Established the ANSA (Afghanistan National Standards Authority) for quality control of products towards better business and export purposes.
- 50% progress achieved towards privatizing 21 State-Owned Enterprises as a means of developing the private sector.

Only the first few steps have been taken to promote private sector development and trade. Promotion in this sector will require stronger efforts in future years.

4.1.2. Security

Security is considered an important pre-condition for economic development and poverty reduction in the ANDS document. It covers a wide range of areas from strengthening the army and police; coordinating efforts of foreign and local security forces; enforcing counter narcotics and continuing mine clearance. While achievements have been recorded as outlined below, the government and the international community acknowledge a decline in the security situation and a real need to further strengthen security efforts.

- Developed a national security policy with intent to promote coordination between the Afghan and international security forces for improved security delivery.
- Addressed coordination of security forces, identified to be a priority to ensure effective operations by national and foreign forces through establishment of 15 coordination centers at the police regional zones and provincial security commands. However, security threats at district level are still an issue as almost 50% of districts are categorized as high or middle level security threat areas.
- Strengthened the Afghan National Army (ANA) through training and equipping personnel, and increasing numbers to 86,089 representing 64% of its current goal of 134,000.
- Attained 91 percent of the target set for the Afghan National Police (ANP).
- Overall, strengthening the ANA and ANP process is progressing as planned with training opportunities expanded both at the national and provincial levels.
- Completed the DIAG program in 31 districts with significant progress made in another 39 districts.
- Registered 4,000 individuals in the program for light weapon possession.
- Implemented effective counter narcotics efforts, with 18 provinces reporting zero poppy cultivation and 11 provinces reaching near-zero levels.
- Destroyed 74 narcotics production labs and cleared more than 22 hectares of land from poppy according to UNODC reports.
- Decreased poppy cultivation by 19% compared to 1386 according to the UNODC surveys.
- Cleared 25% of targeted area from mines and Unexploded Ordinance (UXOs).

4.1.3. Governance, Public Administration Reform and Human Rights

The priorities in the Governance sector are to strengthen democratic processes and institutions, human rights, the rule of law and justice; as well as improve the delivery of public services and government accountability. The guiding principles are transparency, participation, accountability, effectiveness, efficiency, coherence, equity and inclusiveness. Outputs have been realized in certain areas but the government recognizes more comprehensive efforts are needed.

- Democratic Process: Took measures for the second Presidential election in Afghanistan. Succeeded in re-scheduling the election date and registering 17.1 million eligible voters.
- Completed the process of establishing constituencies, drawing of borders, nominating the centers, areas, villages and districts in 18 provinces.
- Human Rights: Investigated 97% human rights complaints (887 of 915 cases), of which 60% (532 cases) were resolved.
- Governance: Established the IDLG (Independent Directorate for Local Governance) with a clear mandate to strengthen sub-national governance. IDLG's strategic work plan focuses on sub-national policy, administrative development, comprehensive governance, and national program support. Drafted the Sub-national Governance policy which is now tabled for the cabinet's approval.

- **Public Service Delivery:** Made progress with the public administration reform process, whose intent is to improve performance of civil servants in terms of public service delivery. Covered 84% of civil service positions in 39 out of 44 ministries and organizations; implemented new pay and grading policies; conducted performance appraisals as the basis for greater accountability and transparency.

4.1.4 Justice and the Rule of Law

The role of the Justice Sector is to provide improved access to justice to all through the improved integrity and performance of Afghanistan's judicial institutions that are supported with appropriate infrastructure, streamlined administrative structures and strengthened coordination and integration. The government's Action Plan for Peace, Reconciliation and Justice acknowledges that any mechanism for building peace and justice must be undertaken with the active and meaningful participation of all national stakeholders, including the justice institutions. Reaching these objectives is no easy feat and will require years of well-directed efforts. Some modest progress has been made in the following areas:

- Processed, approved, and published 53 new laws in support of establishment of a rule of law. Initiated the first draft of the indexing of the enforced laws, regulations and other legal instruments to address Compact and ANDS benchmarks
- Established a committee for the simplification of judicial activities (courts procedures related to civil and public law, personal business, penalty issues and public security) and their operation within the legal framework and guidelines to promote speedier delivery of services.
- Reached and signed agreement between the Attorney General and Ministry of Interior on development and implementation of measures and mechanisms to improve prosecution process, ensuring prosecutor coordination in criminal matters,
- Established a mechanism for collection of complaints and responses by all justice institutions through introduction of common telephone numbers for use by the public to register complaints. Received processed and resolved 71 complaints to date.
- Established the Independent National Legal Training Centre, providing technical legal training,
- Established the Independent Bar Association providing comprehensive legal aid to the public
- Established legal aid departments at the center and three initial provinces and settled 1,883 cases in 1387.

4.1.5 Religious Affairs

The ANDS strategic objective for the Religious Affairs Sector is to provide competent and qualified religious services, and to increase public awareness of the Islamic religion and its values. The government's primary interest is to ensure that all Afghans have equal opportunity to exercise their Islamic faith and their religious beliefs and Islamic values are embedded in the growth and development of the country. The strategy intends to integrate religious values in every aspect of government policy. Progress includes the following:

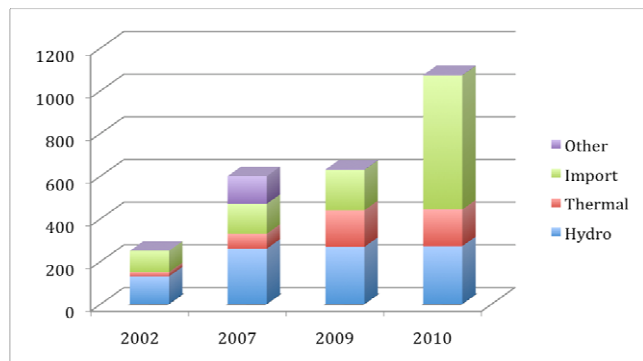
- Registered private Madrassas at the centre and provinces encompassing 1,500 pupils with 250 teachers for improvement and quality control of the religious education system,
- Improved services to Hajjies going to Umra and the Hajj pilgrimage, with an increase of 30,000 Hajjies (20,000 supported by the government and 10,000 privately),
- Improved religious infrastructure, with 25 supplementary buildings to accommodate mosques for women constructed.

4.1.6 Energy

The ANDS visualizes the energy sector as a driver of growth, providing long term reliable, and affordable energy supply, founded on market-based private sector investment and public sector oversight.

The government is taking measures to lay the foundation for transition from public to private provision of electricity. As the Afghan energy sector moves from primarily state owned operations to a more private market oriented service delivery, new institutional arrangements will be established.

Progress made in this sector is considered satisfactory. Achievements include:



- Increased the total electricity supply from 485 MW in 2007 to 630 MW (including Imports) in 2009 and with plans to extend to over a thousand MW in 2010, despite the security conditions that delayed electricity importation. There are currently no updated reports on electricity access to the urban/rural households according to the targets set (65% of urban households and 25% of rural households).
- Nearly completed the 220 KV NEPS transmission system connecting Uzbekistan and Afghan networks; Kabul is now receiving 70 MW supplies through this system since the fourth quarter of 1387 (January 2009).
- Negotiating power purchase agreements for increased power imports as a member of the Central Asia South Asia (CASA) 1300 MW project.
- Incorporated the Afghanistan Electricity Corporation (Da Afghanistan Brishna Mosesa - DABM) with an independent board of directors to manage its operations.
- Implemented a total of 1,168 electricity projects in rural areas producing 11,520 KW of electricity benefiting one million people directly in 1386.
- Piloted a computerized billing system in Kabul that will be expanded to other cities in line with the strategy priorities for improving cost recovery for electricity usage.
- ICE, Inter-Ministerial Commission for Energy, is set up to coordinate energy related issues amongst the government and the donors.

4.1.7. Water Resource Management

The main objective of the Water Sector Strategy is to develop and efficiently manage the country's water resources in order to support economic and social development, improve the quality of life for all Afghans, and ensure an adequate water supply for future generations. Reports reflect progress in the following areas, with some impressive achievements.

- Enacted a new Water Law clarifying the roles and responsibilities of agencies involved in water management, improving the legal and governance structure of water institutions,.
- Established 13,000 water supply networks, providing access to drinking water to 2.8 million rural people by putting in place a sustainable water supply management plan.
- Established more than 95 hydrology stations in 32 provinces, and completed 600 irrigation schemes in different parts of the country.
- Completed feasibility studies for 22 small and medium dams.
- Completed detailed Studies for large dams such as Kokcha-Sufla (Takhar Province), Bakhsh

Abad (Farah Province), Gambiri (Nangrahar Province), and Kelagai (Baghlan Province).

- Initiated detailed studies of Kama energy and water project, Nangrahar dam line, Gulbahar reservoir on Panjshir river, and Shah Toot reservoir with work still in progress.

4.1.8. Transport

The ANDS strategic vision for the transport sector is the creation of a safe, integrated transport network that ensures connectivity between all parts of the country, enabling low-cost and reliable movement of people and goods and services domestically as well as to and from foreign destinations. A high priority is placed on investment in road infrastructure in rural areas. Progress has been reported in roads and air transport as follows:

- Roads: Completed by end 1387 90% of regional roads -1,842 km of convoluted roads and 1,119 km of connecting roads - in line with the benchmark of a fully upgraded and maintained ring road, as well as roads connecting the ring road to neighboring countries by end-2008 - However, no progress is reported for development of a fiscally sustainable system for road maintenance that might gain from increased involvement of the private sector. A number of roads are currently under maintenance that is funded by donors.
- Air Transport: Achieved the benchmark target for a new terminal at Kabul airport. Rehabilitated four major domestic airports that now provide substantially improved facilities, Herat airport has yet to gain the planned international status.

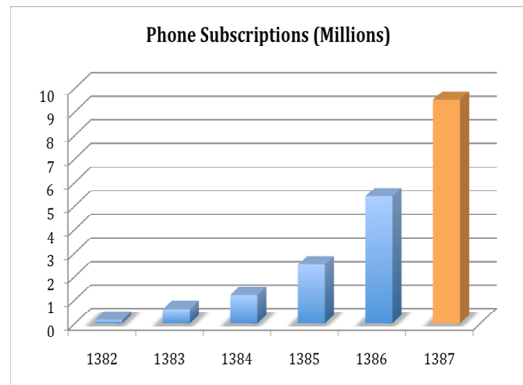
4.1.9. Urban Development

The vision for the urban development sector is to provide increased access to improved social services and affordable shelter while promoting sustainable economic development. Urban areas are hubs for economic growth that require basic infrastructure and services. The management of urban areas can only improve through devolution of authority and responsibility to municipalities. Progress recorded includes the following:

- Established the urban development Inter-Ministerial Committee for strengthening institutional coordination and monitoring of key urban indicators
- Completed 95% Urban Polices, Codes, Regulations & Standards;
- Completed the Kabul new city master plan which is ready for implementation, and will provide increased availability of shelter and generate new job opportunities;
- Completed the regional urban development plan covering eight zones to further expand urban development,;
- Completed technical and economic studies, surveys and plans for 15 historical places in the capital and the provinces;
- Asphalted 400 Km of roads in Kabul and 5 other major cities to improve connectivity within cities.

4.1.10 Information and Communications Technology

The information and communication technology sector can contribute significantly to the social and economic development of Afghanistan. By instituting a modern telecommunications sector, it can enhance the efficiency and effectiveness of social services and essential infrastructure to foster economic growth. The ANDS strategic vision and goal for the Information and Communication Technology sector is to make affordable communication services available in every district and village of Afghanistan through the creation of an enabling environment for private sector investment.



- Achieved private sector investment of \$1.2 billion in ICT through 1387.
- Increased the total fixed and mobile phone subscribers to 9.5 million, of which 3.3 million were in 1387 (2008/09).
- Completed 80% of the fiber optic network project that will connect Afghanistan with the neighboring countries of Tajikistan, Iran and Uzbekistan in 1388.

4.1.11. Mining

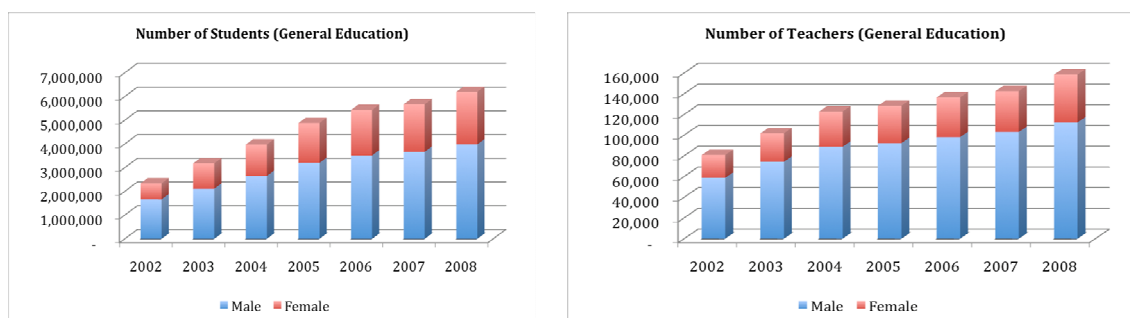
The ANDS Mining Sector Strategy aims to establish Afghanistan as an attractive destination for investment in surveying, exploration and development of mineral resources. The intention is to encourage legitimate private investment for exploration of mining resources in order to substantially increase government revenues, improve employment opportunities and foster ancillary development centered on mining activities. This strategy supports large and small scale mining for immediate and sustainable economic gains. Given the financial constraints and the lack of a full enabling environment for investment, gains are difficult to achieve. Despite the obstacles, some results are in evidence.

- Increased revenue from \$32 million in 1386 to \$114.8 million in 1387.
- Passed a new mining and hydrocarbon law and endorsed for implementation in line with strategy commitments. Proposed regulations proposed are under review by MoJ.
- Reviewed first draft of the gas distribution law by MoJ.
- Surveyed and mapped 339 square km which identified 500 gas fields and 400 mineral deposits.
- Undertook a geological survey for mapping mineral resources in Parwan province and for copper in Dar-e-Saighan. Mapping and topography survey on the scale of (1:5000, 12000) for a total of 5 Km Square in Anaba and Jabal Seraj Districts were undertaken;
- Discovered natural gas of 14 points through data collected from mines search surveys. Sent 34 samples from Herat province for further analysis to the United State's Geological Survey (USGS).

4.1.12. Education

An education sector that engenders a healthy workforce with relevant skills and knowledge is a key to long-term economic growth. The ANDS strategic vision for the Education Sector is that regardless of gender, ethnicity, socio-economic status or religious affiliation, all Afghans must have equal access to quality education to develop their knowledge base and skills sets, thereby maximizing their potential for improved livelihood.

The education sector recorded progress is substantial, with some achievements at the intermediate outcome level.



- Increased the number of students at general education level from 5.7 million in 1386 (2007/08) to 6.2 million in 1387 (2008/09) including 35.8 % female students;
- Increased the number of schools to 11,000 that include 6,072 primary, 3,062 middle school and 1,866 high schools;
- Published and distributed 61 million textbooks (38 million for primary and 22.8 million for secondary grades) in 1387 (2008/09);
- Hired 8000 new teachers, a 14% increase from last year;
- Enrolled 832,000 students with a ratio of male to female students estimated at 45.5%-64.5%;
- Developed the new Higher Education Law;
- Established the National Examination Institute for admission to universities;
- Enrolled 605 students for MA, Ph.D. and Bachelor degree programs abroad, who came from Kabul and the provinces, an indicator of the quality of education provided that enabled students to go for studies abroad.
- Graduated 317,000 (36% female) graduated in 1387 from literacy programs, with over 8.1 million illiterate Afghans (62% female) benefiting since 2002.

Admittedly, the low base from which education needs to be pulled up to a higher plane will require years of efforts. As example, despite the advances made, some 11 millions Afghans are still deprived of literacy facilities, and nearly 44% of schools lack proper classroom space.

4.1.13 Media, Culture and Youth

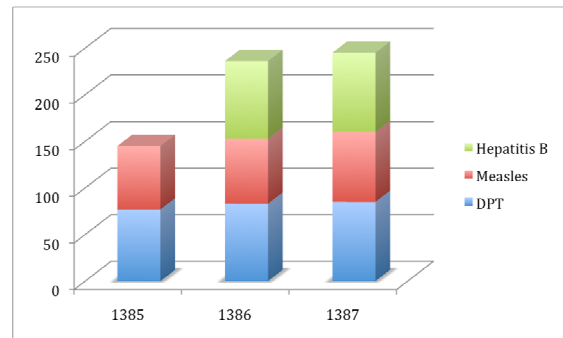
The strategic vision for the Media, Culture and Youth Sector is to preserve and protect the cultural heritage of Afghanistan while fostering cultural creativity and engendering an awareness and confidence in a stable, prosperous and productive future for the country. Article 34 of constitution states that freedom of expression shall be inviolable and every Afghan shall have the right to express thoughts through speech, writing, and illustration. The sector aims to establish a free, independent, pluralistic media that is accessible to the old, young, women and men across the country. The following are some results made during 1387:

- Registered a significant number of Historical remnants, Historical spots and antiques.
- Expanded capacity Building Programs in youth affairs to 10 provinces; the Offices of Youth Affairs in 20 Provinces with 2,500 youths benefiting.
- Undertook planning for preservation and renovation of historical remnants, historical locations and for building a safe place for the upkeep of the antiques.

- Retrieved close to 15,000 stolen or illegally taken pieces of artifacts from the United Kingdom and neared completion of the inventory process.
- Expanded the Afghanistan National Radio and Television (RTA) broadcasts to Europe and Americas and secured 24 hours broadcasting around the world.

4.1.14 Health and Nutrition

The principal objective of the health sector is to improve the health and nutritional status of the Afghan people in an equitable and sustainable manner through provision of quality health care services, promotion of a healthy and hygienic environment and living conditions, and fostering healthy lifestyles. This sector is working effectively with communities and development partners to improve the health and nutritional status of the people, with a greater focus on women and children and underserved areas of the country.



Vaccination Coverage (% Population)

Reaching these objectives will require overcoming many challenges, including destroyed infrastructure, weak systems and catastrophic impacts on the health and wellbeing of the people. Recent decline in the security situation has also hampered progress. Yet, the health sector has made impressive and satisfactory advances in many if not all areas. With improved security this sector is expected to make leaping advances.

- Expanded the Basic Package of Health Services to reach 85% of the population;
- Established 291 Health Sub-Centers and Mobile Centers; 10,000 health posts and 1,688 health facilities, which include sub-centers;
- Established 131 Disease Warning Systems (DEWS) centers in 34 provinces;
- Operated 129 emergency temporary winter clinics and 100 mobile health teams in 129 districts at risk in 22 provinces;
- Implemented immunization programs that covered 95% of children under 5;
- Decreased mortality and morbidity due to tuberculosis disease by more than 50%;
- Decreased cerebral malaria cases by 86% and normal malaria cases by 79%;
- Increased average performance in the service provision domain from 41.4% to 68.2%;
- Increased the capacity for service provision domain 27.9 percentage points since 2004.

4.1.15. Agriculture and Rural Development

The ANDS strategic vision for the Agriculture and Rural Development Sector is to ensure the social, economic and political well-being of rural communities, especially the poor and most vulnerable, while stimulating the integration of rural communities within the national economy. Significant achievements are on record for the Agriculture and rural Development sectors:

- Generated 6.4 million Labor days for more than 10,000 people and 35,000 needy people benefited from 519 income-generating projects;
- Generated 9 million labor days across the country through agricultural cooperatives and investors;

- Improved small-scale irrigation systems for 1,891 villages and irrigated some 48,000 jereeb of land benefiting 644,777 households;
- Established 306 cooperatives;
- Approved New Land Ownership and Cooperative Laws;
- Prepared the Afghanistan Rural Enterprise Development Program (Ministry of Rural Rehabilitation and Development) and the finalization of the Comprehensive Agriculture and Rural Development (CARD) mechanism to commence this year;
- Drafted a National Agriculture Development Framework (NADF) focusing on four main pillars, namely: i) Agriculture Production & Productivity, ii) Natural Resources Management, iii) Economic Regeneration, and iv) Change Management.
- Drafted the Food Quality Law, Plant Protection Law & Improved Seed Law which are being processed for approval;
- Approved New Land Ownership and Cooperatives Laws;
- Licensed private seed production companies with total investment of \$24 million;
- Distributed 53,000 MT wheat seed and fertilizer to the farmers; established 770 orchards; planted 3.2 million saplings; organized 90 experimental crop researches and rehabilitated 588 pistachio forests.
- Established 1,275 new Community Development Councils (CDCs). Currently 21,777 are active covering 28,049 villages in 34 provinces, with 566,000 elected members of which 30% are women;
- Established 30 Districts Development Assemblies (DDA) with 767 members, and trainings provided in various fields. Currently, 326 districts of 33 provinces have DDA with 9234 members (of which 34% are women);
- Completed 12,385 development projects in various areas; constructed 480 km of roads which connected 5.4 million people to economic and social centers.

4.1. 16. Social Protection

Improving social protection is critical for reducing poverty and increasing the livelihood of the poor and most vulnerable Afghans. The Afghan Constitution requires the government to take necessary measures to support the most vulnerable groups identified under social protection.

Overall, since 2001, progress has been achieved in a number of areas: cash transfer benefits were established for martyr's families and people with disability as the main instrument of social support for the victims of the war; regular support to orphanages was provided from the Core Budget; the Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD) established departments in all provinces and strengthened its capacity for improved targeting. Good cooperation links with the NGOs and the donors has been established. Approximately, 2.5 million people are covered with some type of public arrangement for social protection. The following are the progress indicators for 1387:

- Submitted a Pension Regulation reform to the Ministry of Justice for legal vetting, which seeks to introduce a self-sustaining and modern Pension system for PRR employees. The Ministry began the pension reform process, based on this draft;
- Established 11 Employment Service Centers in different provincial capitals of Afghanistan for assisting unemployed men and women to identify their existing skills and to advise them of employment opportunities.
- Established a Labor Market Information and Analysis Unit within MoLSAMD;

- Trained approximately 30,000 (35% women and 5-10% persons with disability) individuals in different marketable vocational skills through the National Skills Development Program (NSDP);
- Established 29 Child Protection Action Network (CPAN) commissions in 29 provinces. These Commissions include representatives from Governmental and Non- Governmental Organizations which helped to resolve more than 500 cases of child abuse;
- Developed Standardized Operational Procedures (SOP) for quick assessment and response, reporting, and rapid mobilization of international assistance for three provinces (Kunduz, Badakhshan and Hirat) and eight districts in Daikundi and Bamyán provinces;
- Published and distributed 50,000 posters and advertisements to reduce the level of vulnerability and raise the awareness for people at risk to protect themselves, to the extent possible, against natural disasters.

4.1.17. Refugees, Returnees and Internally Displaced People (IDPs)

The Refugee, Returnee and Internally Displaced Persons (Internally Displaced People (IDPs)) sector strategy embodies the government's objectives to facilitate safe, voluntary and gradual return of refugees and IDPs and reintegration of these people into the Afghan society and their places of origin. The reintegration of refugees and IDPs contributes to economic benefits as the resettled individuals begin to work. Reintegration also helps strengthen security and stability of the country and the region-experiences in other countries clearly indicate that large, unplanned returns can generate negative consequences if they are not properly managed.

Progress achieved in this area, in the form of service provision, are the following:

- Developed the basic infrastructure and social services in the proposed returnees and IDP towns i.e. Wardak, Paktia, Parwan, Kabul, Takhar and Farah provinces For the reintegration of returnees; Graveled and leveled of 13.5 km roads, 300 deep wells and semi deep wells and extended the water supply network for provision of access to potable water;
- Ensured 200 household benefited from employment opportunities through the private sector, while a limited number of returnees benefited from skills development programs delivered under agreement with NGOs especially the International Organization for Migration (IOM);
- Distributed 3,600 plots of land to the returnees and IDP's, upon the verification of voluntary repatriation form (VRF) through established Commissions in the provinces;
- Rehabilitated 14,137 houses damaged during internal conflicts in collaboration with the United Nation's High Commission for Refugees (UNHCR);
- Held an international conference on refugees to endorse strong support for the Refugees, Returnees, and IDPS strategy.

4.2. CROSSCUTTING ISSUES

Six crosscutting issues were identified under the ANDS, and all sectors are to integrate actions pertaining to these issues in their own plans. While results relevant to crosscutting themes might not appear difficult to identify, they are difficult to achieve as they are dependent not only on actions of other ministries but on their reporting data as well. Despite such obstacles, a number of credible achievements were attained in each of the cross-cutting themes, highlighting the commitment and collaborative approach of various ministries and organizations responsible for coordination and mainstreaming of these themes into the development process. It is acknowledged that stronger efforts will be required in future years for improved integration of cross-cutting issues into other sectors and further, for tracking of activities and results.

4.2.1 Anti-Corruption

Corruption is a growing problem in Afghanistan, undermining the Afghan government's credibility and accountability, lessening public trust in the state institutions, reducing government legitimacy and eroding rights of citizens. While Anti Corruption is a cross-cutting theme, it is also an essential component of the Governance, Rule of Law and Human Rights pillar of ANDS. Anti-corruption should influence three strategic components for delivery of Afghanistan's national development objectives: strengthening public sector management and public accountability systems; strengthening the legal framework and the judicial system; and control of corruption in the counter-narcotics institutions. Anti corruption, thus, must be mainstreamed into all sector strategies in support of the government's stated overall objective of eliminating corruption in the public and private sectors.

To reduce corruption, the government's broad-based strategy is to promote transparency, accountability and integrity in the management of state institutions in administration and delivery of public services and create an environment conducive to investment. Some progress is recorded through activities but reduction in corruption needs to be confirmed with measures and indicators.

- Ratified the United Nations Convention Against Anti-Corruption through the National Assembly;
- Passed an Anti-Corruption law through the national parliament;
- Developed a new National Anti-corruption Strategy and Action Plan, approved and provided to all ministries for implementation. No information is yet recorded about the number of ministries effectively applying the Action Plan.
- Established a High Office of Oversight for Implementation of Anti Corruption Strategy;
- Established anti-corruption units within the Attorney General's Office and the Supreme Court;
- Launched an Asset Registry for all government senior positions starting with the president's;
- Established a Public Complaints Mechanism on corruption.

4.2.2 Regional Cooperation

The vision of regional cooperation in the ANDS is to contribute to regional stability and prosperity, and to restore Afghanistan's central role as a land bridge between Central Asia, the Middle East and the Far East as the most direct way to benefit from increased trade and export opportunities. The Regional Cooperation Strategy advocates the critical position of Afghanistan in the growth, stability and prosperity of the region as a whole, and Afghanistan seeks the support of the international community in adopting the necessary policies and practical measures to achieve this goal.

Despite multiple challenges and numerous delays, there has been some progress since the second Regional Economic Cooperation Conference on Afghanistan (RECCA II) in New Delhi in 2006, and some output achievements. As per RECCA III, the emphasis must be placed on tracking concrete outcomes.

The Third RECCA held in 2009 focused on a number of issues as areas in which mutually beneficial regional cooperation would be fruitful. Progress made in some of these areas is noted below. Although at the output level, some of the progress noted is of great significance because it lays the foundation on which actions required for benefits resulting from regional cooperation would be built.

- Trade and Transit: Signed a Memorandum of Understanding to complete negotiations on the Afghanistan-Pakistan Trade and Transit Agreement (APTA), and its five protocols by the end of this calendar year;
- Labor migration to promote employment opportunities: Signed a bilateral agreement with the State of Qatar on the employment of Afghan workers. Discussions are underway with the

Governments of the Islamic Republic of Iran, Saudi Arabia, United Arab Emirates and Kuwait for similar bilateral agreements;

- Energy: Planned to import up to 300 MW of power from Uzbekistan and Tajikistan and Turkmenistan. CASA-1000 may serve as a transit corridor for electricity from Central Asia to Pakistan and beyond;
- Regional Cooperation: Became the eighth member of the SAARC in April 2007, at the fourteenth SAARC Summit in Delhi.

4.2.3 Gender

Gender is one of the crosscutting issues in ANDS, requiring policy and strategies, programming and budgeting to promote development investments. The government is committed to address gender equality principles in all ANDS Sector Pillars- Security, Governance and Rule of Law and Social and Economic Development. Accordingly, the National Action Plan for Women in Afghanistan (as a part of ANDS) has been formulated. The government of Afghanistan acknowledges that inadequate attention to these issues impact negatively on Afghanistan's development progress, but it requires years of efforts and training to make a real difference in the gender equality area, as evident from experiences not only in all developing countries but in the developed regions of the world.

A large volume of activities under NAPWA has been undertaken, including high level consultations with ministries, agencies and NGOS, resulting in establishment of gender working groups in 12 ministries and the signing of Memorandum of Understandings (MOUs) with many organizations and government and non-governmental institutions for gender specific and gender sensitive project development and implementation. A major requirement identified is establishment of a database on the status of men and women across the country and sectors, which the government wants to compile into a publishable volume updated annually. Progress on this must be tracked and necessary technical assistance deployed.

At this time, AFMIS cannot track gender related expenditure, as disaggregated gender data is not generally with few exceptions not collected by the line ministries. Guidance and instructions need be issued to the line ministries to account for gender specific and gender sensitive programming and gender related expenditure on routine basis. Ample technical assistance has been made available by donors to promote gender equality. Improved coordination of both technical assistance and the TORs of the expatriate gender experts would be necessary to take step by step well planned actions in addressing the needs.

Some progress of significance for moving the gender equality agenda are noted below:

Strengthening Women's Participation and leadership in the civil service:

- Distributed the Gender Equality Policy (GEP) to all ministries and agencies by the Independent Administrative Reform and Civil Service Commission (IARCSC), which requires provision of equal opportunities for men and women applying to government positions;
- Designed Job and promotion interview tools to be gender sensitive;
- Established the Affirmative Action Policy/Strategy for IARCSC;

Development of administrative capacity based upon statistics and gender equality:

- Set up a mechanism for collecting and recording statistics on men and women. The statistics are being published in three languages and will be regularly updated. The plan is to publish the statistics in a book form titled Women and Men in Afghanistan annually.
- Completed planning for the establishment of Gender Working Group in the CSO;

- Identified the role of non-government organizations in statistics and gender Strengthening of NAPWA;
- Trained NAPWA officials across the country;
- Revised projects and programs by focusing on their impacts on women's issues and interests;
- Developed a strategy to ensure that at least 30 percent of all NGOs members and leaders are women.

4.2.4 Counter Narcotics

The government is committed to counter the impact of narcotics production; sales and trafficking in all ANDS sector Pillars, Security, Governance and Rule of Law and Social and Economic Development. The government of Afghanistan acknowledges that inadequate attention to countering narcotics will impact negatively on Afghanistan's development progress. Counter Narcotics, therefore, is one of the crosscutting issues in ANDS, requiring an analysis of the impact of any policy and strategy, programming and budgeting and development investments on narcotics and related issues.

The strategic objective of counter narcotics theme is to promote Afghanistan's movement towards drug and poppy free society and economy.

Under Enforcement of the judicial laws, achievements are tangible and tested with concrete and quantifiable indicators. The impact of the first year's achievements must now be tracked. Acknowledging that narcotics is one of the most difficult issues to handle in a country wherein the rule of law situation needs major improvement, the narcotics issue continues to receive the highest priority of the government, given the damage it has had on the country and its image.

- Confiscated and seized narcotics measured in kg: opium (27,883), heroin (3,186), morphine (96), hashish (298,699), solid chemicals (32,728), liquid chemicals (10,900 lit.);
- Cured around 449 persons in narcotics trafficking crimes through law enforcement organizations;
- Burned illicit narcotics and chemicals used in production and processing of opium, heroin and morphine: 250,965 kg narcotics that included 9,362 kg opium, 25kg heroin, and 241,587 kg hashish; some 120 kg chemicals eradicated;
- Irreparably damaged and demolished 22 laboratories;
- Tried 218 cases of narcotics crimes at the primary special court; approximately 126 cases at the special appeal court; 286 cases through the counter-narcotics special appeal court and also 248 cases through primary special court. Many cases were decided and criminals were sentenced;
- Provided awareness training relating to hazards and use of narcotics to around one million persons through Imams of mosques and Takya Khanas, religious councils and religious networks of the Ministry of Hajj, and religious affair centers at the national and sub-national levels;
- Enlightened 17 million students on the hazards of narcotics through the educational curriculum of the Ministry of Education throughout the country;
- Treated 13,813 addicts through the addict's treatment centers; 12,767 addicts were under surveillance system after treatment; 1,812 addicts were admitted to hospitals because they were infected with other diseases; 1938 addicts who recovered were absorbed into vocational centers, were trained based on market demands and started earning licit and legal income;
- Established two new addiction medication centers, each designated for recovery of female and children addicts in Kabul and Balkh provinces. One accommodation center covering 70 addicts was established in Kabul.

4.2.5 Capacity Development

The objective of Capacity Building is to develop in a coordinated fashion capacity at all levels of ministries, institutions and organizations to enable them to effectively perform their mandated functions, with an eye to delivery of services to the public. The functions touch a variety of areas ranging from administration, financial management and corporate services, human resource management, planning, programming and implementation of projects, monitoring or reporting on progress, direct public service delivery or effective planning and use of aid and non-aid finance flows. Capacity development needs must be met in a timely manner and the capacity built must be sustainable. Given that capacity constraint is one of the most critical issues that slow down the government's progress in all areas, the government is addressing Capacity Building from the highest levels. However, without coordinated donor support, any capacity building program will remain ineffective.

The Capacity Building Strategy assigned the MoEc the lead and proactive role in the coordination, monitoring and evaluation of capacity development. The Capacity Development strategy is based on the following principles:

- The capacity development projects and programs must be needs and demand driven;
- Any capacity development initiative must be based on clearly defined objectives, measurable outcome results and output, to serve the priority needs of the organization. As such, the trainees should be selected carefully in order that precious time and funds are not wasted on candidates who are unsuitable because of lack of qualification required for training or are not responsible for the functions for which training is provided;
- Performance measurement of a Capacity Building project must show that priority national capacity deficiencies are met. To this end, every project must establish a monitoring framework and undertake regular monitoring and periodic evaluations to ensure that capacity is generated and transfer of skills from Technical Assistants and trainers is taking place;
- Well defined plans for timely hand over of responsibilities and processes to local counterparts must be an integral part of any capacity building initiative and its monitoring and evaluation in order to ensure that Afghan counterparts continue to perform the mandated functions and maintain the system following the departure of foreign experts.

Assessment of Capacity Building Activities:

Near USD 2 Billion worth of technical assistance for capacity development was provided over the last 7 years by donors to the Government of Afghanistan. Neither the donors nor the GoA are satisfied with the outcomes (not to speak of the impact) of an uncoordinated, inefficient, ineffective and yet critically needed technical assistance program.

Progress made, albeit measured, is as follows. Note that the progress is only for 1387. The 1388 actions and progress are not included.

- Established an Interim Secretariat under the MoEc, per the Presidential Mandate to lead the Inter-Ministerial Commission of Capacity Development (ICCD);
- Started data collection of CD activities and programs through the ICCD, who is engaged in transparent and direct communication with its stakeholders, and initiated an interactive website to respond to the foremost need to sharing information and coordination of CD programs;

Unfortunately, however, the ICCD had originally received little attention from its stakeholders. The situation somewhat improved recently, with signs of stronger interests from some of the stakeholders (such as the IARSC, UNDP and the UNAMA) to make ICCD and its Secretariat fully functional.

4.2.6 Environment

The National Environment Strategy aims to improve the quality of life of the people of Afghanistan

through conservation, protection and improvement of the country's environment. The Strategy uses a mainstreaming approach for the integration of environmental issues and policies into Afghanistan's development priorities.

A review of the progress listed for one of the most difficult areas to handle (including in developed countries) appears to have made some progress of value.

- Formulated an Action Plan for reduction and prevention of pollution in Kabul city was and forwarded to ministries and agencies with instructions to take required actions;
- Approved ozone regulation for prevention and reduction of green house gases and dispatched to the appropriate ministries and organizations for follow up;
- Finalized the Regulation necessitating the negative effects of environment and the related procedural issues and officially forwarded to line agencies for follow up and required actions;
- Completed Approximately 50% of the work on preparation of policies on standards of air quality, potable/drinking water and waste control;
- Designed, finalized and approved the Regulatory Procedure for protected areas;
- Delivered environmental related courses in various faculties of Kabul University and polytechnic universities and established the environment department in the faculty of geology at Kabul University (KU);
- Compiled the environment topics and themes in curriculum of schools and distributed across the country for lower grades. For higher grades curriculum is in preparation. Translation of the curriculum in several ethnic languages is underway;
- Began preparation and publication of Information Brochures about the status of environment in the country for awareness-raising;
- Provided necessary recommendations to the Ministry of Agriculture, Irrigation and Livestock (MAIL) on the samples of 75 types of wild small mammals and 234 types of Marco Polo sheep dangle for protection of wild life. Complied identification of locations of small wild mammals for preservation purposes;
- Completed Evaluations of environmental impacts and losses of the banks of Amu River in Kaldar and Shortepa districts of Balkh province.
- National Environment Protection Agency (NEPA) received the membership of the 6 following international conventions: Vienna, United Nations Framework Convention on Climate Change (UNFCCC), Convention on International Trade in Endangered Species (CITES), Convention on Biological Diversity, and United Nation Convention to Combat Desertification (UNCCD). Such partnerships are important from the viewpoint of learning lessons, receiving guidance and planning and undertaking activities that are internationally recommended and coordinated.

5. CHALLENGES IN ADDRESSING THE PRIORITY ISSUES

The preparation of the ANDS was a major undertaking that required the active participation of virtually the entire government, inputs from stakeholders throughout the country and the support of the international community. An extensive consultative process was undertaken that included Afghans from all walks of life and from all 34 provinces, resulting in provincial, district and community development plans. During this period when the ANDS was being developed, the government and many donors were focused on the tasks associated with strategy development. An immediate challenge facing the government following the completion of the ANDS, its review and endorsement by the Boards of the IMF and WB and its acceptance by the international community at the Conference in Support of Afghanistan in Paris (2008) was to shift focus from strategy development to begin implementation.

Experience in many countries demonstrates that preparing a national development strategy is relatively easy compared to its implementation. While major steps have been taken to reorient the resources of the government and donors to the task of implementing the ANDS sector strategies, the government recognizes that a large agenda remains unaddressed to which attention must be given by the leadership.

5.1. CAPACITY CONSTRAINT

Of specific concern is the limited capacity of most line ministries to identify, design and manage implementation of projects and programs, including National Programs and SWAps, necessary for achieving the sector strategy objectives and results. A substantial additional capacity development in this area will be critically important in the coming years. Additional capacity development in the new ANDS Units in MoF and MoEc is also urgently needed to face the challenges of implementation, monitoring and evaluation.

5.2. FUNDING CONSTRAINTS

Successful implementation of ANDS depends on Afghanistan receiving the pledged levels of donor assistance and alignment of donor assistance with the results priorities established in the ANDS. At the June 2008 Paris Conference, donors made the commitment that adequate funding would be forthcoming and that it would reflect ANDS priorities. However, the continuing large funding gap (as discussed earlier) raises serious concerns about the future of ANDS.

It is estimated that over the five year life of the ANDS, funding requirements will amount to \$50.1 billion. The government projection is that it will be able to contribute \$6.8 billion, based on a projected revenue growth. And the DFR estimates that pledged donor support for this period amounts to \$20.9 billion. This leaves an external financing gap of \$22.3 billion, or 45% of the total cost of the ANDS. The Government will focus on increased revenue generation to cover portions of this gap. Yet, a large gap in funding will remain.

The most recent Donor Financial Review also shows that donor assistance is not well aligned with the ANDS priorities. A related issue is that a large amount of resources continue to be invested through directly donor managed External Budget as opposed to the Core Budget. Resource distribution from the External Budget is often too uncoordinated and fragmented to allow concentrated impact on any specific priority sector or resource poor geographic locations. The government exercises no management control on expenditures from the external budget and is unable to direct such finances to the ANDS strategic priorities. Of the estimated \$4.9 billion of expected assistance in 1388, only an estimated 31% will flow through the Core Budget and will be subject to the program budgeting process. The remaining 69% will flow through the External Budget. The conclusion is clear about the government's lack of control over such external resources.

5.3. ISSUES RELATED TO AID COORDINATION AND EFFECTIVENESS

JSAN of May 2008 had placed a priority on this issue. The government and the international community are equally committed to the goal of increasing effectiveness of a substantial volume of aid investment in Afghanistan. Some progress has been accomplished in recent years through strengthening of the JCMB. The ANDS sector strategies and the related sector results now provide a meaningful framework to guide effective aid resource investment. Yet, a lot remains to be done to further promote aid effectiveness.

The Accra Agenda for Action (2008) reflects the most recent consensus on best practices in aid utilization. At the core of the Accra Agenda for Action is the commitment on the part of developing countries to take steps to increase ownership of development programming and activities and strengthen financial management. Donor countries are committed to improve aid predictability to the maximum extent possible and to further integrate their processes with government budgets and resource management. Efforts are to be made to increase the amounts of goods and services that can be procured locally and to reduce tied aid. Afghanistan is one of five countries where the agreed Principles for Good International Engagement in Fragile States is adopted. But as noted, substantial amounts of aid continue to be allocated outside of the government's management processes, making it difficult to achieve local ownership of aid-funded activities. Efforts are being made to develop a relationship of mutual trust and transparent partnership, promoting mutual accountability.

5.4 ADDRESSING PROVINCIAL NEEDS AND PRIORITIES

Expectations generated by the PDP process when the ANDS framework was not yet completed, were high and would be difficult for the line Ministries to meet immediately. Notwithstanding the fiscal constraints, those projects that well align to the sector strategy results will indeed receive priority attention. Until the government is able to meet the requirements of all projects well aligned with ANDS, the local investors, NGOs and the international community would be required to fill the gaps. Awareness needs to be raised that for those that do not contribute to the sector results, financing would be difficult.

A process to promote more equitable sectoral provincial resource allocation by line ministries is under discussion. But capacity constraints both in line ministries and in the provinces are hurdles to overcome.

5.5 THE DIVIDE IN COORDINATION OF ANDS IMPLEMENTATION AND MONITORING

The division of responsibility between two ministries of the government (MoF and MoEc) for coordination of implementation of ANDS and monitoring and tracking its results is hampering coordination and progress. The line ministries have raised this issue with the government and international donors. If measures are not taken to amend this separation of responsibility, appropriate planning, budgeting and reporting on progress toward sector results cannot be guaranteed.

5.6 JSAN RECOMMENDATIONS AND HIPC TRIGGERS

5.6.1 ADDRESSING JSAN RECOMMENDATIONS

Government efforts in institutionalizing ANDS within the line ministries and integration of a Monitoring and Evaluation Framework within the government structure are aligned to JSAN recommendations. Government measures on the economy, fiscal and monetary aspects are aligned to JSAN (2008) recommendation. Also, as per JSAN recommendation, the government is currently analyzing the NRVA 2008 survey to link realities with policy, sector programming and priority investments. Government measures to strengthen aid effectiveness and coordination, its priority attention to provincial needs and support the provinces are also addressing issues raised in the JSAN (2008).

5.6.2 HIPC TRIGGERS

HIPC Triggers 1, 4 and 8 are relevant for the government to meet at this time. HIPC Trigger 1 is addressed by the submission of ANDS Annual Progress Report to IMF/World Bank. Trigger 4 is addressed through alignment of public expenditure with ANDS priorities as analyzed in Section 3.1.3.

5.6.2.1 TRACKING POVERTY RELATED EXPENDITURES IN AFGHANISTAN

Tracking of poverty related expenditure, Trigger 8, is being done (Part II - Annex III). The government's policy in the medium term is aimed at robust growth, which is considered to be an essential condition for investment in poverty reduction measures, such as employment generation, rural development in the remotest and least developed areas, and significant spending on the vulnerable groups and on basic health and basic education. The ANDS announced policy is to promote pro-poor growth and pro-poor budgeting (ANDS Chapter 3 Page 37).

Trigger 1: PRSP/ANDS one year implementation

Trigger 4: Alignment of public expenditures with ANDS

Trigger 8: Tracking of poverty-related expenditure

Identifying 'poverty related' expenditures is a difficult task. In Afghanistan the system by which expenditures are classified (the Chart of Accounts) was not designed to directly specify if an expenditure is poverty related. This then necessitates some discretion over what we consider to be poverty related expenditures.

The 'poor' are commonly defined as being people in the bottom 10 percent of the income distribution, whereas 'poverty' in Afghanistan is defined as living on less than \$1 a day. A 'poverty related' or 'pro-poor' expenditure should, therefore, be one that directly benefits these groups. The difficulties all countries face is in linking expenditure data to beneficiaries. This is no easy task and different countries have formulated different definitions of 'pro-poor' or 'poverty related' expenditures, and in some countries these definitions have changed over time. Afghanistan government's plan is to follow this route- start with a limited number of sectors to track poverty related expenditure and cover more sectors in future years.

Looking at the range of Highly Indebted Poor Countries (HIPC) 'pro-poor' or 'poverty related' expenditures generally include some proportion of health and education spending, but may also include water and sanitation, rural infrastructure, forestry and agriculture, youth and employment, DDR activities, justice, and social safety nets amongst others. There is further divide over whether only recurrent expenditures are included, or whether spending on capital assets is also deemed poverty related.

In the context of dearth of data in Afghanistan, a cautious approach has been taken, looking only at expenditures in the Education, Health and Agriculture and Rural Development sectors in the early years. This reflects the current Chart of Accounts structure and the degree of certainty with which we can identify expenditures that are predominantly poverty related as reflected in Table 5 below.

It should be noted that expenditures through the external budget (donor funding that does not pass through the National Budget) are not recorded. The DFR and Budget Department reports show that in the period 1382-1386, donor allocation to Core Budget (which AFMIS captures) was 22% as against 78% donor allocation to the External Budget. An increase in donor allocation to external budget is projected for the period 1388-1391. Donor aid policies normally direct aid allocations to poverty reducing programming; and this would apply to both Core and Development Budgets. If expenditure through External Budget is not recorded, the conclusion is that a significant amount of poverty related expenditure is not accounted for. Operationalization of Aid Management Directorate's revised Development Assistance Data Base (DAD) will help to record sector investments by donors through External Budget. The ANDS Sector Results Financing Mechanisms will enforce more accurate accounting of the development spending of the donors, appropriate recording of the data and facilitate more streamlined tracking of poverty related expenditure.

Table 5 – Poverty related expenditures in three sectors of the ANDS

ANDS Sectors	Expenditures considered poverty related	Justification	Notes
Education	General education operating budget	Covers the recurrent costs of spending on providing education to pupils	Has been adjusted by the proportion of primary school pupils
	Adult literacy programs	High probability that beneficiaries will fall into 'poverty' group	
Health	Basic package of health services	High probability that beneficiaries will fall into 'poverty' group	Excludes capital spending in the development budget
	National Immunization Program	High probability that beneficiaries will fall into 'poverty' group	
Agriculture & Rural Development	National Solidarity Program	Expenditure is in the form of block grants to communities for community development considered a high probability that beneficiaries will fall into 'poverty' group	
	Water & Sanitation	High probability that beneficiaries will fall into 'poverty' group	

Source: Ministry of Finance

A poverty tracking table currently available at MoF (Part II - Annex III) provides an indicative picture of poverty related expenditures in the Government of Afghanistan's Core Budget.

The method by which the GoA formulates its budget does not enforce disaggregated accounting for activities under a broad program category, in many instances. For example under Water and Sanitation the budget was set at the program level (Afs. 1,250 million in 1387) and not disaggregated to the activities level. This is to allow execution units some flexibility on how they use their resources.

5.6.2.1.1 EXPENDITURE ANALYSIS:

Education: We can see excellent performance in planned poverty related budget execution by the Ministry of Education, with data showing poverty related expenditure exceeding the planned budget and reaching 49% of the total recorded expenditure in education sector. This deviation from planned to expended budget is due mainly to a 20% increase in the teachers' salaries, endorsed by donors. The planned poverty related budget increased in 1388 and the 1388 first quarter poverty related expenditure recorded is more than satisfactory. In the Chart of Accounts, primary, secondary and tertiary education data is aggregated under General Education. No breakdown is available in AFMIS. To estimate the percentage spent on primary education (which is considered pro-poor), the proportion of primary school students in total primary and secondary students has been used (93% and 92% in 1387 and 1388 respectively). This simple method of apportionment would be redundant with the introduction of a data system that would disaggregate basic primary education planned and expended budget from the total general education planned and expended budget.

Agriculture and Rural Development: Poverty related agriculture and rural development expenditure shows equally good performance with expenditure reaching 49% in 1387 and a fairly high poverty related expenditure rate (64%) in the first quarter of 1388, despite a slower budget execution than normal by NSP. Late and untimely fund disbursement to NSP largely contributed to the slow execution, as analyzed in Section 3.1.3. Declining insecurity also slowed down the execution rate.

Health: The information provided in Annex III (Part II of this report) shows that poverty related budget and outflow form a small proportion (26%) of the total Health sector budget and expenditure. This is partly because poverty related Health sector financing is dominated by donor funding, data on which is not captured in this Table. But the 1388 projection in DFR provides an indication of the volume of donor financing to the Health sector through the External Budget. The projection shows that US\$94 million is budgeted for health sector financing through the External Budget. A significant percentage of this is expected to be poverty related. An increase in poverty related planned budget is registered in the 1388 National Budget but no expenditure has yet been recorded for the first quarter.

MoF recognizes that overall tracking of poverty related expenditure could be made easier with more disaggregated data entry both for planned and expended budget. A more disciplined approach in recording poverty related budget planning and expenditure will help strengthen coverage of and accounting for poverty related expenditures. Clear advisory to the line ministries to account for poverty related budgeting and expenditure will enable AFMIS (Afghanistan Management Information System) to capture poverty related expenditure more accurately. Measures will be taken to promote systematic data entry process for more efficient and effective tracking of poverty related expenditure. MoF, through the Program Budgeting process, will collaborate with the relevant line ministries to reform and modify the Program structures to allow a more disaggregated recording of poverty related expenditure to facilitate more accurate accounting in 1389.

We also acknowledge that we need to relate our sector results at outcomes levels to the effects they have on the lives of the poor. Such analysis is critical for a PRSP. Quantitative measurements and amount of funds expended on sector items cannot support such analyses. It will require qualitative analyses, which are yet to be undertaken by our government and many IFIs and other donor supported programs in Afghanistan. These are serious inadequacies and we need to plan well to rectify this problem.

But in view of the fact that we have almost completed two quarters of 1388 without a steadier pace of movement from the process oriented discussion on the system of monitoring to practising results oriented monitoring, our decision at this time is to make a concrete plan for better accounting and analysis of poverty related expenditure, move with it (to the extent possible) this year, and make ourselves fully ready to track poverty related expenditure and its impact in 1389.

6. ADDRESSING PRIORITY ISSUES: WAY FORWARD

6.1. ACCELERATE PREPARATION AND IMPLEMENTATION OF KEY DEVELOPMENT PROGRAMS/PROJECTS

While the government's institutional structure for ANDS implementation is already established progress in development and launch of projects and programs to make implementation a reality has not been as speedy as expected. It is urgent that the established 18 IMCs quickly become fully engaged in the implementation of their sector strategies. In particular, they must identify those projects and programs that are of highest importance for achieving the priority sector results; and subsequently work with the appropriate agencies and donors to take whatever steps necessary to accelerate implementation of priority programs, such as completing the roll out of the National Solidarity Program to all villages of Afghanistan.

The government has given high priority to 80 proposals, referred to earlier, identified by the 34 Provincial Development Committees. These projects reflect the concerns of the people living in rural areas, outside of Kabul. To many Afghans the promise of poverty reduction and improved livelihood is embodied in these projects. The MoF will work through the IMCs and donors to accelerate the development and implementation of these projects.

6.2. IMPLEMENTATION OF A CONSISTENT ECONOMIC POLICY FRAMEWORK

The ANDS identifies a number of areas where important economic policy reforms are essential if the Afghan economy is to achieve and sustain high rates of economic growth on which the ANDS progress is largely dependent. This process is underway with the participation of relevant line ministries, the Office of the Chief Economic Advisor to the President and the GCC. In some cases, these reforms will require the amendment of existing legislation or the introduction of new laws. This is typically a lengthy process. Because these policies and laws largely define the economic environment in which investment and production decisions take place, it is important to move this process forward as rapidly as possible. The government will endeavor to put in place a comprehensive set of consistent economic policies within the next two years to address the economic reform priorities.

6.3. LEARNING FROM LESSONS: MID-TERM REVIEW OF THE ANDS – SUMMER 2010

The government is committed to undertake a comprehensive review and update of the ANDS in 2010. This will be an extensive exercise that will review in detail the sector strategies in light of the experience since the completion of the ANDS and especially the pilot operations to be undertaken this year in four sectors and three provinces. The review will examine the tools, and approaches utilized for design, planning, implementation, and reporting for sector strategy implementation and the usefulness of the monitoring and evaluation mechanism adopted. The line ministries, through the IMCs, will play an active role in this process.

6.4. FINANCING FOR EFFECTIVE IMPLEMENTATION OF ANDS

Financing of ANDS requires the government's attention on three issues: (a) prioritization between sectors and within sectors, based on realistic needs assessments; (b) reform process and actions to eliminate the causes of low execution and increase capacity to absorb and expend funds both efficiently and effectively; and (c) revenue mobilization to incrementally increase government financing of ANDS implementation.

As the "Second Donor Financial Review for 1387 (2008/09)" clearly reflects, a considerable shortfall between the amount of donor assistance pledged and the amount required for the implementation of the ANDS exists. The government and the international community, operating through the JCMB, will continue to monitor the commitments for donor assistance to ensure that sufficient funds are available in priority activities. The government will make efforts for partial coverage of the gap from its own revenue resources but uncertainties remain in both sides. The ANDS review of 2010 will make a detailed update of funding requirements and sources of funds. The government will undertake a prioritization exercise to identify the highest priorities that must be resourced. Low execution in certain ministries is linked to low development budget financing by donors. The government acknowledges the need to implement the reforms speedily to root out the major causes of low execution. The government reiterates its commitment to increase revenue collection to earn the ability to finance ANDS implementation.

6.5. MONITORING AND EVALUATION

Developing the capacity of Afghans in both the public and private sectors to manage the development process will remain one of the highest priorities of the government. Strong emphasis will be put on increasing the capabilities within the government to design and manage the implementation of projects/programs, as well as to monitor and evaluate their results.

The Monitoring and Evaluation system might appear to be not firmly grounded today but with further training and learning by doing, the system can be strengthened. Afghan government ministries are making best efforts to buy into a set of concepts which were alien to them. Support from all quarters is required to stimulate further buy-in by the line ministries and for them to assume greater ownership of the sector results and ensure that ministry activities are fully aligned with the ANDS national level

Results Framework. The institutionalization of the monitoring and evaluation functions of ANDS in the existing government structure to stimulate full ownership by the government is in alignment with the JSAN recommendation of May 2008.

The M&E Framework will help provide a realistic foundation for a MIS. Coordination of the data collection and recording institutions (such as AIM, CSO, NRVA etc.) with the ANDS M&E system is essential for effective operation of the M&E system.

6.6. CONTINUED CAPACITY DEVELOPMENT

Capacity building need was identified as a priority in the JSAN of May 2008. Despite negative reviews by both Afghans and the international community of past capacity building and Technical Assistance and Training Programs, problems continue. The Capacity Building Strategy of the ANDS can provide directions to promote effectiveness of capacity building programs. Capacity building being a crosscutting issue the results identified in the Capacity Building Results Framework must be addressed by all sectoral ministries and donors.

6.7. RESOURCE ALLOCATION TO PROVINCES

Careful attention to equitable sectoral resource allocation to the provinces will need continued priority attention of MoF and the line Ministries. Adoption of tools to base resource allocation on sectoral needs identified in the provinces and the extent of their alignment with the ANDS sector results are being reviewed. A result based budgeting approach now used for annual budget formulation process for the line ministries is being considered for provincial allocation purposes on a trial basis in a single sector and replicated later across sectors based on lessons learned.

The unitary budget system in Afghanistan continues and ANDS provides the umbrella framework. Any mechanism for provincial resource allocation, such as PDPs, IDLG led budgeting for provinces or specific criteria-based provincial allocation for equitable distribution of resources, must observe these realities. The government will take utmost care to coordinate consultation, collaboration and actions of various government and donor organizations experimenting with a variety of mechanisms for provincial funding.

CONCLUSION

Our story of progress in the first year of ANDS implementation reflects our efforts to transit from ANDS planning to implementation. We have succeeded in making modest beginning in certain areas, such as monitoring and reporting on development results in terms of concrete outputs, with indicators. We have made advances, unpredicted even six months ago, in undertaking a change management process that will help root results orientation in our development planning, design, implementation management, monitoring/evaluation and reporting with indicators. ANDS Second Year Report will clearly reflect the gains made this year

Within a severely limiting and restrictive environment giant steps have been taken to gain ownership and leadership of our country's development program through institutionalizing mechanisms for sustaining intra-governmental coordination and change management process. Measures to improve coordination and collaboration with donors to promote aid effectiveness are also taken.

This report reflects the way we have addressed the JSAN recommendations of May 2008 and the extent to which the HIPC Triggers 1, 4 and 8 have been attended to, with planned improvements in the area affecting Trigger 8 - accounting for poverty related expenditure. The report is indeed meant to update our international partners on ANDS progress. **But this report is also an intra-governmental tool of communication**, for which reason certain sections in the report have been elaborated upon for clearer understanding of our government colleagues.

With every year of progress in ANDS, we look forward to making advances towards a brighter future and help the country to step out from its nascent development stage to a broader horizon of hope, security and prosperity.



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