



**ISLAMIC REPUBLIC OF AFGHANISTAN
MINISTRY OF COMMERCE & INDUSTRIES**

**MINISTRY OF COMMERCE & INDUSTRIES STRATEGY
FOR
AFGHANISTAN NATIONAL DEVELOPMENT STRATEGY
(WITH FOCUS ON PRIORITIZATION)**

(DRAFT)

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SECTION ONE: OVERALL SECTOR GOALS AND RESULTS

The Ministry of Commerce and Industries (MoCI) aims to create an enabling environment for sustainable and equitable economic growth in a socially responsible market economy leading to an increase in employment and reduction in poverty.

1.1 Goals:

The Ministry of Commerce and Industries has set two goals for specific broad technical areas and two that run across all strategic objectives the Ministry is working to achieve. The goals for specific areas are:

- **Create the conditions for a flourishing private sector. through**
 - *Investment policy*
 - *Market and business development*
 - *Advocacy for private sector development focused policy making across government*
- **Establish an international trade system that measurably benefits and accelerates the efficient/productive development of Afghanistan's economy focusing on:**
 - *Elaborated national trade policy*
 - *Regional and global integration and cooperation*
 - *Transit and trade facilitation*

The goals that support all the Ministry is doing are the following:

- **Establish and implement a legal and regulatory framework necessary to ensure the efficient and equitable operation of a market economy.**
- **Enable the Ministry to execute its tasks efficiently and effectively**

1.2 Expected Results with a five year perspective:

The strategy and programming for the Ministry of Commerce and Industries will be planned and adopted for the achievement of the expected results outlined in this section.

A. Priority Expected Results:

The MoCI expects the following results addressing the Afghanistan Compact and I-ANDS benchmarks.

- **Conditions created for a flourishing private sector:** The result will be increased employment and income growth benefiting Afghans as employers, employees, and consumers. Both will be provided by a competitive private sector based on increased productive investment in functioning and functional markets.
- **An international trade system that supports the development of the Afghan economy focusing on:**
 - *Elaborated national trade policy*
 - *Regional and global integration and cooperation*
 - *Transit and trade facilitation*

An effective trade system must benefit the Afghan economy and the Afghan people. Trade policy must be geared at the strengthening of the productive sector in Afghanistan first. Afghan producers need more outlets for Afghan goods and services nationally and internationally leading to more employment opportunity and economic growth. Distortions in market-determined prices set by the trade mechanisms of regional countries should be offset. Trade talks aimed at the elimination of such mechanisms have to take place in a well prepared manner.

A further aim is the adequate supply of a variety of quality, affordable goods and services to the Afghan people.

Transit and trade facilitation are important to exploit the potential benefits for the Afghan population that lie in the jobs that a central transport hub function may create and the potential demand for Afghan products.

- **A legal and regulatory framework necessary to ensure the efficient and equitable operation of a market economy established and adopted:**

A legal framework effectively applied will result in a more easily expanded private sector, increased opportunity for internal and external investment, and the potential for improved trade relationships.

B. Other Expected Results

Additional expected results are critical for achieving the other outcome.

The capacity, effectiveness and efficiency of the Ministry of Commerce and Industries improved.

Improved capacity and effectiveness of the MoCI will allow it to be more capable of achieving its primary goals and better overall support the economic improvement in the country through private sector development and implemented trade policy. What is meant by improved capacity is a combination of a focused organization structure, improved staffing, effective personnel development, strong human resources management, efficient processes, and successful outreach.

SECTION TWO: CONTEXTUAL ANALYSIS

Since the last version of the MoCI strategy was created, there have been many changes in the economy and commerce. This section provides an updated picture of factors affecting the private sector and Afghanistan's posture in trade. It also explains how previous strategies performed and what is now required.

2.1 Analysis of the Current State of the Sector

OVERVIEW

This discussion provides an analysis based on qualitative and quantitative analysis of evaluation information available. There is a basic summary of progress (results achieved) and requirements (key gaps) still to be addressed.

Private Sector

The Afghan private sector is dominated by the agriculture sector (estimated to provide livelihoods for 80% of the population). Non-agricultural enterprises are typically informal, owner-managed, micro or small enterprises, there are very few medium sized or large enterprises. The telecommunications is the one sector where there has been measurable foreign direct investment. Processing and manufacturing are on a negligible scale. Reliable data on investment and business activity are unavailable, the World Bank estimates that “only a fraction” of the investment reported by AISA has actually occurred.

Some 70-80% of the economy is informal. Contracts are rare and effectively unenforceable, regulations governing consumer and employee rights are ineffective, and government revenue collection (as a percentage of GDP) is among the lowest in the world (JCMB III report). There are considerable bureaucratic and capacity related obstacles but very few incentives to formalization. The limited capacity of the private sector to comply with legislative and regulatory requirements is further compromised by lack of publicly available information on compliance procedures and widespread corruption in the public sector.

The business enabling environment is characterized by outdated legislation, confused and inconsistently applied regulation, and excessively complex licensing and regulated transaction procedures. In addition to company formation requirements (previously handled by the commercial courts, now passed to the yet to be created Central Registry), there are investment (AISA) and business (MoCI) licenses and more than 20 sectoral licenses issued by a number of line ministries. The lack of structural competitiveness in the Afghan business climate is reflected in the World Bank “Doing Business” indicators. When placed in a league table of 175 countries, Afghanistan’s overall “ease of doing business” position is 162nd (down from 159th in 2006).

In addition to legislative and regulatory barriers to investment and doing business in Afghanistan; security problems, lack of water and power, non-availability of land, inadequate infrastructure, lack of access to finance, and lack of management and vocational skills are cited by Afghan businessmen as obstacles (World Bank Investment Climate Assessment, 2006).

Education and skills levels in the Afghan workforce are a major impediment to competitiveness and growth (UNDP Private Sector Training Needs Analysis, 2004).

International Trade

Due to vital linkages with the rest of the economy, the Afghanistan external accounts are a reflection of the current weak state of the entire economy. The state of the economy is a heritage of the destruction and dislocations from the long period of social and military conflicts. Analysis of the trend in the trade balance shows that the trade deficit increased from US\$ 1,217.6 million in 2002-03 to US\$ 2,622.5 in 2005-06. The deficit currently represents the equivalent of 36.0% of nominal GDP. The source of this substantial deficit is the limited expansion of merchandise exports which grew by only 24.0% during the same period. Imports, however, rose at a robust 68.0% rate. The import expansion reflects the rapid pace of reconstruction and a nascent private sector unable to compete effectively with imports. The export weakness derives from the fact that the private sector is also unable to rapidly develop the level of competitiveness required to enter the export market. Because of the weakness of the Afghan private sector and the massive influx of foreign currency into the country the trade balance is negative. This situation is aggravated by a series of measures, especially by neighboring countries, to promote their exports and build obstacles for imports stemming from Afghanistan

Moreover, with an economy that has low-productivity and is non-diversified, it is extremely difficult to improve the trade balance in a short period of time. The import content of exports remains very high. Most of the inputs required to create export products are not produced domestically. That means that an increase in exports is inevitably accompanied by a more-than-proportional increase in imports.

In addition to the state of the private sector, Afghanistan’s geographical situation contributes to the slow growth in exports. Afghanistan is far removed from large developed countries with high per

capita income and thus high demand for imports. Its main, primarily regional, trading partners have high rates of import tariffs. As a landlocked country, the competitiveness of Afghan exports is reduced by the costs involved in transit between their production points and nearby ports as well as impediments such as cumbersome customs clearance and transshipment procedures in neighbouring countries, particularly in Pakistan. Within the country, inadequate domestic transportation infrastructure is another major factor slowing down the development of Afghan export competitiveness.

Export-oriented firms and trade-related activities are dependent on the quality of their environment and the incentives it generates. For export to thrive, it is necessary to establish an institutional framework that fosters a private sector enabling environment. This environment must contribute to increasing productivity and to reducing operating costs as well as transaction costs. Fundamental ingredients that should be present in the economy are the respect of property rights, efficient mechanisms to enforce contractual obligations, as well as quality regulation, registration and licensing procedures. When present, they help promote private investment in general and export-oriented activities in particular. This enabling context is particularly important for foreign investors. At this point, Afghanistan is just beginning to create such an environment.

Although Afghanistan is a land-locked country, it is a potential regional hub. Afghanistan's foreign trade is dependent upon two main transit routes which cross Pakistan and Iran and offer the primary access to a sea ports. Like any other land-locked country, Afghanistan faces high transport costs and long delivery delays. At the same time, due to its strategic geographic position, Afghanistan has the potential to become a "land-linked" country (i) providing Iran and Pakistan with direct routes to the Central Asia Region (CAR); and, (ii) providing the CAR with its shortest access to the sea, in comparison with routes to the Black Sea, Europe and China.

Two major transit corridors have been identified:

1. A North-South Corridor connecting Tajikistan, Uzbekistan, and Turkmenistan with Pakistani ports Karachi, Port Qasim and Gawada and continuing via Wagah, Pakistan, in the direction of India and South Asia.
2. An East-West Corridor connecting Tajikistan, Uzbekistan and Turkmenistan with the Iranian ports of Cha Bahar and Bandar Abbas.

These corridors carry significant potential for an increase in trade between energy rich Central Asia and energy deficient South Asia but with high export capacities of manufactured goods. A recent study by the ADB suggests that the development of these two corridors could result in a major shift in trade transit routing from and to Central Asia, with the potential for a very positive impact on both employment and production in the region.

Iran and Pakistan are investing heavily in their transport systems to meet transit potential through Afghanistan. Afghanistan itself is in the process of completing the rehabilitation/reconstruction of the ring road, the circular road linking Kabul to Kandahar, Dilaram, Herat, Mazzar Sharif Polchumri (Kunduz), and Kabul. Similarly, the connections to neighboring countries from the ring road are also progressing well. However, even if Afghanistan's infrastructure is improved, the ability of investment to reduce operating costs is limited as long as the facilitation of transit and trade is deficient.

Elaborated national trade policy

For Afghanistan to reach its potential in trade as well as investment and private sector development, the country must remain committed to maintaining an outward orientation in elaborating and implementing national trade policies. There are the many trade preferences available to the country. To take maximum advantage of them, Afghanistan must undertake systematic trade analysis to identify and exploit the market opportunities provided for Afghanistan's exports.

In cooperation with related ministries and the private sector, the MoCI must continue to work to reduce the high trade logistic costs by enhancing policy and programs for trade facilitation in several areas. In particular, a high priority is being given to the streamlining of border crossing formalities,

the provision of adequate physical infrastructure, and the high incidence of truck trans-shipment at the Afghan borders. More could also be accomplished by streamlining procedures related to regulations, licensing and registration procedures, all key aspects that contribute to reducing transaction costs and enhancing Afghanistan export competitiveness.

Regional and global integration and cooperation

To capitalize on its strategic location as a land-bridge in the Central and South Asia region, integrating Afghanistan's markets with the global and particularly regional economies is of critical importance to the achievement of the national economic goals. Linkages with global and regional markets will not only promote the competitiveness of domestic industries but also add to the attractiveness of Afghanistan for investors.

To become a full member of the global economic community, Afghanistan must complete requirements for WTO accession and create trade agreements with large international markets. This will send strong signals to international investors and traders regarding the stability and parameters of the trade regime. Afghanistan has actively participated in regional economic initiatives including the Economic Cooperation Organization (ECO) as well as bilateral negotiations with neighboring countries including Iran, India, Pakistan, Tajikistan and Uzbekistan. Further opportunities for regional integration are participation in the South Asia Free Trade Area (SAFTA) and the Central Asian Regional Economic Cooperation (CAREC) program.

With the development of an effective system for international trade and transit, a large portion of future investments will capitalize on Afghanistan's location, using Afghanistan as a regional platform for export. The priorities for the immediate future will require a review of the existing regional trading arrangements with regard to their effectiveness and implementation – identifying areas in which these agreements can be strengthened.

Transit and Trade Facilitation

Afghanistan's trade in transit situation is characterized by three essential problems:

1. High logistics costs
2. Ineffective transit agreements
3. Inadequate financial infrastructure.

High logistics costs: Delays, cumbersome procedures, and lack of facilities at border posts substantially impact transport costs which seriously undermine the competitiveness of Afghan exports, increase the cost of imports, and discourage the development of transit traffic through Afghanistan. Costs of trade do not consist simply of transport charges, but of many further direct and indirect costs generally termed "trade logistics costs," and include factors such as delays, charges, and other challenges to reliable delivery.

In a well-functioning market economy with highly developed transport and distribution networks, measurable logistic costs are usually less than 10 percent of the sale price of goods. In Afghanistan, with inadequately developed trade logistic systems, costs are much higher. Indications are that for Afghanistan, trade logistics costs can be up to twenty five percent of the value of goods shipped, the costs even exceeding 50 percent of the sale price for raw materials or basic commodities such as grain or cement. Without efficient and effective trade logistics services on routes to and through Afghanistan, the costs these transactions will remain high.

Among the most serious bottlenecks to the movement of goods entering, leaving, or in transit through Afghanistan, the Ministry of Commerce and Industries has identified:

- a) poorly designed, poorly managed official border port stations
- b) long border waiting times only relieved with unofficial payments
- c) truck-to-truck border transshipment increasing handling costs, transit times, risk of cargo loss/damage

- d) no external transit role for afghan truckers (except Peshawar route) as trucking entirely by transit countries
- e) foreign truckers restricted from operating in Afghan
- f) high-rates charged by trucking cartel
- g) vehicle standards below international levels
- h) check-posts, arbitrary delays, and extensive unofficial and discriminatory charges.

Ineffective transit agreements: Afghanistan has signed a number of bilateral or multilateral transit agreements with countries of the region, Pakistan, Iran, Uzbekistan, Tajikistan, Turkey and India, to facilitate the movement of goods and commercial vehicles through neighboring countries. However, the transit system from/to Afghanistan is not operational due to:

- i) complex and uncoordinated cross border customs practices and documentation;
- j) no coordination between working days and working hours of the adjacent border ports;
- k) time consuming border controls;
- l) numerous and costly transit fees for crossing borders which do not reflect actual services;
- m) lack of standards for admittance of vehicles across borders (vehicle inspection, issuance of certificates);
- n) lack of third party insurance schemes;
- o) lack of bond/guarantee system to ensure the payment of customs duties;
- p) visa problems for drivers of another country;
- q) unofficial charges.

Inadequate financial infrastructure: Institutionalized or formal banking and insurance systems have been profoundly dislocated by conflicts. This resulted in disruption of domestic and international payments systems and virtual cessation of all lending activities in the country. Afghanistan still lacks of a fully functioning banking and insurance system to support international trade. Afghan traders have little possibility to finance their trade transactions or to get effective local insurance coverage for the transport of goods. Consequently, truckers increase their rates to cover potential loss/damage liabilities or goods are shipped at the owner's risk. This contributes to high trade transactions costs.

Similarly, there is no system providing bonds or guarantees to cover customs duties on goods in transit not cleared by the customs. Without transit bonds and customs guarantees, Afghanistan will be restricted to rudimentary transit systems such as convoys or duty deposits.

Legal and Regulatory

One area of the business enabling environment criticized by the World Bank 'Doing Business' Report is the legal support for business. The MoCI is committed to the modernization of basic business law and will create policy, legislation, regulation, and implementation mechanisms and procedures in the following areas:

- Standards
- Competition
- Consumer protection
- Mechanism for self-administration of the private sector

The MoCI intends to apply the principles of regulatory best practice to ensure that regulation is effective without imposing unnecessary compliance costs on the private sector. The MoCI will also ensure that there is adequate public education on rights and responsibilities in each area.

Ministry Capacity

The MoCI is currently implementing its plan to restructure, reform, and re-staff under the Civil Service Commission Priority Reform and Restructuring (PRR) program. It has created a new structure to address its mission and objectives and has begun building a stronger staff in more focused, collaborative directorates.

It must continue the restructuring, change processes, train and mentor staff, and set/meet objectives. In addition, it must submit and implement a PRR amendment to address the addition of the Industries function now that a Deputy Minister for the function has been named.

PROGRESS AND REQUIREMENTS

Private Sector

Economic growth in Afghanistan has been running at around 10% each year and “is expected to reach 12 percent in 2007/08 and 10 percent from 2008/09 onwards, assuming a rebound of agriculture and sustained activity in construction and services. Inflation is expected to subside further” (IMF, 2006). However, GDP/capita is still only approximately USD300 and the IMF warns that “improved conditions to facilitate private sector development (including the state disengaging from economic activity), and political resolve to tackle difficult issues are critical to continued success”.

Progress in business enabling environment reform, key to increasing formalization, has been slow. The procedures for obtaining a MoCI business license have been streamlined, and the introduction of the AISA investment license has improved the company registration experience for qualifying businesses, but little has been done to address the impact of the dysfunctionality of the commercial legislative and regulatory environment. Renewal statistics for MoCI business licenses suggest that very few are obtained for genuine business reasons, the principal motivation appearing to be that a trader’s license is a precondition to obtaining a business passport. Recently enacted commercial legislation was completed by the MoCI Legislative Working Group and the Ministry of Justice Taqin to meet the ANDS benchmark. It is primarily aimed at potential international investors. At this point, insufficient planning has been given to sequencing legislative and institutional reform. The capacity of existing state institutions to implement the laws or of the Afghan private sector to comply with the laws remains an obstacle to effective enforcement.

Progress on encouraging investment continues to be hampered by high levels of risk. Risk mitigation instruments (e.g. the MIGA created Afghanistan Investment Guarantee Facility) apply only to international investors and so have little or no impact on domestic investment. The first project signed by AIGF was for a French state owned company. Commercial insurance providers are virtually non-existent.

One of the “difficult issues” that the Government will address is the reform of sectoral licensing scope and procedures. Based on the findings in research at the MoCI including the Investor Roadmap, the MoCI will bring forward proposals for publishing information on procedures, streamlining the bureaucracy connected with registering and obtaining a license, and ultimately abolishing licenses that have no economic justification. The MoCI will also continue to lead efforts to modernize the commercial legislative framework, through the introduction of a raft of new legislation and plans for its implementation.

Some progress has been made on skills development through small scale training schemes and recently with the opening of an internationally recognized vocational qualifications training centre, but much remains to be done in terms of modernizing business education (particularly at university level). The lack of investment in modern processing and manufacturing techniques continues to undermine the ability of Afghan producers to compete on domestic or international markets.

The MoCI is committed to encouraging the formalization of the economy as a major contribution to overall economic development with a particular emphasis on micro and small and medium-sized enterprises (SMEs). The Ministry will work with all related areas of government to strengthen the institutions that impact private sector development within the formal economy to create a level playing field; improving enforcement, reducing bureaucracy, and eliminating corruption.

The MoCI has a central role as policy maker and facilitator for investment promotion. The overall objective is to attract foreign direct investment and encourage domestic investment by improving the

investment climate and promoting Afghanistan as a competitive investment location. The establishment and support of AISA, a one-stop shop for investors, represents a major step in facilitating investment by streamlining the process faced by investors. In the future, AISA will increasingly move to investment promotion. The Ministry is also targeting the creation of physical infrastructure for private sector development and investment. The objective is to create industrial parks throughout the country to provide investors with land, energy, and water and road access in a timely manner.

International Trade

Competitiveness at an enterprise level is essential to increase exports for larger markets for Afghan goods and to reduce imports. Afghanistan has traditional economic areas which can be made more competitive. But, it is equally important to encourage innovation, both within existing business and by bringing new types of commerce to Afghanistan. The Ministry is developing several initiatives in this area. Following the AISA model of a semi-autonomous agency, the Export Promotion Agency of Afghanistan (EPAA) will be the central implementing agency for export promotion policies and plans. The agency will serve as a source of market information and promote Afghan products internationally. It will work in close cooperation with private sector initiatives. The MoCI and EPCA will also encourage donor-funded and private sector initiatives to develop management skills that will increase competitiveness and innovation.

One traditional sector to pay special attention to is horticulture, especially to those products in the perennial category. This sector is a good candidate for recovering competitiveness and the lost export market share it once had. During the late 1970s nuts as well as fresh and dried fruits accounted for 41.0% of the country's total merchandise exports. In particular, dried fruits which require significant value-added through processing and packaging accounted for 18.0% of total exports. Because the production of semi-processed products such as this is labor-intensive, it could be a source of employment creation. Moreover, these products generate high income per hectare and could compete with the seasonal poppy crops. Due to the semi-processed requirement of many products in this category, horticulture could also be a base for building agro-industry. Development of this activity would require cooperation among MOCI, EPAA, and the Ministry of Agriculture.

Having received observer status, Afghanistan is following the WTO accession process. The process will require focus as well as coordination among ministries and with the private sector. Afghanistan Embassy in Geneva and UNCTAD comments on the completed Memorandum of Foreign Trade Regime (MoFTR) were incorporated then the MoFTR was distributed to relevant ministries before it is submitted to the Cabinet and President for approval. The MoCI will implement a strategy and timetable for accession as well as a plan to take advantage of the WTO capacity building resources and opportunities.

In addition, Afghanistan is currently eligible for preferential import duties under the European Union's (EU) "Everything but Arms" Initiative (EBA), the United States' Generalized System of Preferences (GSP) program as well as LDC preferences granted by Canada and Japan. Also, the Government of Afghanistan has recently concluded a "Trade and Investment Framework" (TIFA) agreement that could provide additional strengthening for trading relationships.

In capitalizing on Afghanistan's position as a land bridge between Central and South Asia, the facilitation of international trade via transit routes is of critical importance. Afghanistan has existing transit agreements or understandings with Pakistan, India, Iran and Uzbekistan and is a signatory of the TIR convention. The Ministry is also an active participant in the Central and South Asia Transport and Trade Forum's (CSATTF) Corridor Development Plan and is investigating possibilities for expanded participation through involvement in the wider CAREC initiative.

In moving forward, the priority for the Ministry is to strengthen and modernize these agreements by addressing the critical operational issues. In addition to securing access to important seaports in

Pakistan and Iran, the MoCI is also working to establish and enhance land corridors to provide further access to important markets in Europe, Central Asia, Russia and South Asia.

2.2 Analysis of Key Strategic Elements and Processes in Past Programming that Contributed to Success

This analysis is based on lessons learned, international and national best practices, and case studies. It will provide the background for MoCI strategic programming.

Private Sector Development

As highlighted above, reforms for private sector development in Afghanistan have been slow and minimally effective. By any measure (foreign and domestic investment, job creation, ease of doing business, levels of formalization), past programming aimed at structural reform has been unsuccessful in creating economic growth based on private sector development.

Two examples of reform are business registration through the creation of investment licenses granted by AISA and streamlining procedures for obtaining traders' licenses granted by the MoCI. However, the overall impact of these reforms is minimized by the failure to address other needs and constraints. To begin with, the economic justification for such licenses has not been adequately examined, the cost of such licenses remains excessive (when measured in absolute terms and as a percentage of GNI). Despite the reforms, there is still very significant informality in the economy.

Other programs that have had some impact on private sector development include:

- The industrial parks program which has overcome infrastructural constraints by providing facilities for a small number of Afghan businesses,
- Donor supported finance for bank credits and asset leasing, and
- Microfinance schemes designed to help individuals to generate personal incomes.

But again, structural business enabling environment problems undermine the impact of even these initiatives. General private sector growth is not in evidence and graduating from micro to small or medium sized business remains impossible for the vast majority of the Afghan private sector. This is evidenced, for example, by the private sector's inability to apply for and use the Counter Narcotics Trust Fund (CNTF). Donors were expecting a significant amount to be spent to set up private companies. Because of the difficulty of establishing businesses, the CNTF has managed to distribute only USD700,000 out of the USD17 million that it controls.

Institutional reform focused on the MoCI has led to the creation of a structure that is more suited to the creation and implementation of private sector development policy. The Ministry now has a Private Sector Development Directorate and a Legal and Regulatory Directorate which, with the support of intensive capacity building, together are in a position to start to address the business enabling environment constraints.

While progress has been slow in Afghanistan, there are lessons to be drawn from past programming in an international context. Programming based on these lessons will be designed to increase the competitiveness of Afghanistan.

Investment policy: Investment in a country is an accumulation of individual firm level investment decisions. Understanding the investment decision and developing policy instruments that have an impact on each element of the investment decision is the key to encouraging investment. Based on international experience, specific program initiatives identified by the MoCI include:

- Reducing regulatory compliance uncertainty, burden and costs;
- Introducing more effective investment risk mitigation instruments;
- Strengthening the human capital base; and
- Designing targeted market based incentives to create a level playing field for investment in Afghanistan.

Market and business development policy: Sustainable private sector growth aims to support the development of a competitive private sector able to compete in domestic and international markets. Achieving this goal requires the creation of functioning and functional markets, where transactions can take place easily and fairly for both buyer and seller.

The inability of the Afghan private sector to achieve its potential can be attributed to arbitrary and restrictive market rules and regulations, unfair competition in domestic and international contexts, inadequate market information, and fractured transaction networks. Creating the conditions for functioning and functional markets requires policy interventions to strengthen both the institutional market environment (the institutions, laws and regulations that govern markets) and the supporting functions (the skills, information and networks that allow markets to work). Again, based on international experience, specific program initiatives identified by the MoCI include:

- Broadening the impact of private sector development policy by understanding the specifics of provincial economies and tailoring policy initiatives to provincial needs;
- Removing institutional barriers to doing business;
- Creating incentives for the private sector provision of market support functions; and
- Creating the conditions for formalization of the economy.

Advocacy for private sector development focused policy making across government: While the above programs can be largely run out of the MoCI, international experience shows that the actions of other government agencies has a significant impact on private sector development. While the government has consistently stated that private sector led development is a central strategic goal, there is little evidence that policy making and related programming across government has taken account of the needs of the private sector. The MoCI in its private sector development leadership role intends to promote a more coordinated and private sector focused policy making approach across government, paying particular attention to physical and knowledge infrastructure development needs.

International Trade

The MOCI and other Government agencies have been constructing a non-distorted economic base for private sector expansion. This environment will provide incentives for private investment, employment creation, and development of competitive export-oriented activities. Strategic decisions and policies implemented are geared at achieving the established international trade goals of the ANDS and the Compact. One example is the objective of a trade regime without excessive protection and with the absence of distortions. This contributes to maintaining low costs. Free access to foreign exchange and a low import tariff level (approximately 5.0%) are also good examples of the pursuit of an efficient trade regime. In fact, the range of import tariff rates for certain key inputs, such as machinery and equipment (2.5% to 10.0%) as well as plastic and rubber articles (5.0%) are quite low relative to those prevailing in Central Asia as well as in many developing countries.

In working to increase the level of foreign investment in Afghanistan, the Ministry will negotiate bilateral and multilateral investment agreements. Additionally, the facilitation of bilateral tax agreements in cooperation with the Ministry of Finance will enhance the attractiveness of Afghanistan as an investment location by addressing issues in regards to double taxation of foreign investment earnings.

Transit and Trade Facilitation

In the past few years, the Ministry of Commerce and Industries has pursued transit and trade facilitation initiatives including the following:

1. Recommendations for new physical border facilities design and coordinated border control procedures based on international best practices. A paper "*Facilitating Cross-border Trade*" defines the organization and coordination of agency activities to facilitate movement of legitimate people and goods, while maintaining secure borders;

2. Simplification and standardization of documents and procedures based on international best practices/standards. The MoCI has suppressed documents that it used to issue (Transit Form to Afghanistan, “*Ilm-ul- khabar*”, Transit Permit through Afghanistan “*Ejaza namah ye transety*”). These were replaced by the ASYCUDA T1 form issued and processed by the Customs offices at the borders.
3. Establishment of the “Afghan High Trade Facilitation Committee”, called AFPRO, with the objective to address trade facilitation issues by bringing together all stakeholders in the area of transport and transit including government, private finance and insurance, and the private sector. Presidential Decree (no 3565 dated 26/10/1384 (16/01/2006) sanctioned the creation of AFPRO.
4. Reactivation of the TIR (International Road Transport) Convention (1975) ratified by Afghanistan in 1980. Afghanistan, suspended in 1982 by the International Road Union (IRU), the organization which manages the TIR Convention, was reinstated in 2006. The Ministry of Commerce and Industry, designated as the National Competent Authority by Presidential Decision, is currently monitoring the process by which the Afghan Chamber of Commerce and Industry will be authorized to issue the TIR carnet on behalf of Afghanistan.
5. Draft of a new transit agreement with Pakistan, the Afghan Pakistan Transit Agreement (APTA), to replace the Afghan Transit Trade Agreement (ATTA) dating back to 1965, to take into account changes which occurred in the economic and transport environment surrounding the transit of goods to/from Afghanistan through Pakistan.
6. Development of a well-qualified national freight forwarders industry instrumental in promoting Afghan trade by (i) establishing an International Freight Forwarder licensing system issued once predetermined criteria are fulfilled (financial position, integrity, technical abilities, proven expertise), and (ii) producing the Afghan Basic Standards training in freight forwarding under FIATA (International Federation of Freight Forwarders Association).
7. Support of the Afghanistan Association of Freight Forwarding and Transit Companies (AFCO), recognised in 2005 as the National Association of Afghanistan within FIATA, by assisting in drafting a “Code of Conduct for Members of the Association” and of “Standards Trading conditions for freight forwarders”
8. Assessment of the role of the Ministry of Commerce and Industries at the borders. Presently operating border port facilities (Hayrathan, Torghundi, Sheer Kan Bandar), the MoCI is considering promoting a Border Ports Public Private Partnership scheme under which the Ministry will provide land and existing buildings while the private sector finances the other facilities and provides experienced management.

2.3 Analysis of Constraints, Restraints and Assumptions

A. Regulatory and Governance Environment:

Legislation, regulation and procedures guiding the sector: The current business enabling environment is dominated by outdated legislation and regulation implemented through inconsistent and non-transparent procedures. The institutional capacity to implement existing and new legislation and regulation is inadequate and compliance is low. The negative impact of the existing legislative, regulatory and procedural environment on private sector development is demonstrated by the two successful sectors in the Afghan economy:

- Narcotics which, because it is illegal, by definition operates outside of legislative and regulatory control;

- Mobile telecommunications which, as a non-traditional sector, had the opportunity to create its own legislative and regulatory environment.

Government policy: The government's past private sector policy framework lacked coherence and has been shown to be ineffective to date. Decisions are taken on an ad hoc basis, driven by informal or semi-formal lobbying, without adequate regard for wider economic impact. Difficult issues remain unaddressed because of powerful pressure from groups that stand to lose from reform. Priorities are set largely by external pressure applied in specific areas, with a consequent lack of regard for broader national interests and sequencing. The negative impact of inappropriate sequencing of economic reform can be seen in the asymmetry between improvements in the trade and investment climate. Reforms have encouraged imports to meet domestic demand without addressing the need to encourage productive investment and export.

The effect of non-compliance: Low compliance with private sector legislation and regulation (by both the public and private sector) is a serious impediment to private sector development. Lack of certainty in the business environment creates confusion and doubt thereby discouraging investment. In turn, outdated legislation, regulation, and administrative procedures invite corruption and encourage informality.

Structural and policy reform process: As the lead private sector policy making agency, the MoCI is developing a coherent private sector development policy framework and will select the most appropriate policy instruments (e.g. legislative and regulatory reform, institutional strengthening and procedural reform, financial incentives, public education) to achieve its strategic objectives. The core of a business enabling environment is a system of commercial legislation and regulation complying with international standards, implemented by institutions with the capacity to apply laws and regulations fairly and transparently and committed to minimizing compliance costs.

- **Legislative reform:** The MoCI serves as the focal point for the Commercial Law Working Group Project to develop an updated and sustainable Commercial Code for Afghanistan based on its existing Commercial Code of 1955. Under this project, the MoCI has drafted the following measures for submission to the Ministry of Justice: Private Investment Law, Arbitration Law, Mediation Law, Partnership Law, Corporation Law, Contract Law, Intellectual Property Rights Laws: Copyright, Trademark, and Patent Laws, Agency Law, Standards Law. The first five have become law and the remaining six have been submitted to the Ministry of Justice for review. The Ministry will continue to take a leading role in facilitating the adoption and implementation of these measures in compliance with its policy objectives. The MoCI will also continue to provide input on all legislative matters related to the business environment including customs, mortgage, insurance, leasing legislation and accounting standards. Additionally, as the lead Ministry for WTO accession, the Ministry will work to ensure that new commercial or trade legislation is compliant with WTO regulations.

Over the past three years, the commercial legislative process has faced serious challenges including a lack of capacity in the relevant Ministries such as the Ministry of Justice, a lack of cohesive government strategies and policies, and difficulties in coordination among donors and the international community in regards to legal reform. Thus, the initiatives currently being completed at the MoCI represent only the beginning of the Ministry's work in facilitating the adoption and implementation of commercial laws. Given the importance of the commercial legislative framework to the achievement of its mission, the Ministry must continue to work as an advocate to see that these laws are prioritized, passed and implemented. The MoCI has begun to build its capacity in this area to effectively fulfill its role.

- **Institutional strengthening and procedural reform:** The MoCI is committed to leading the government's efforts to strengthen the institutions that implement private sector related legislation and regulation and to simplify associated administrative procedures. The overall

objective is to reduce the regulatory compliance costs imposed on the private sector, both in financial terms and the opportunity costs of time.

Regulatory, policy and governance gaps: As described above, significant gaps still exist in the regulatory, policy and governance environment:

- Experience from legislative reform to date suggests that more attention needs to be paid to the sequencing of policy development and law making so that laws can be designed to achieve defined policy objectives, and there should be greater regard for implementation/compliance capacity, so that laws once passed can be implemented;
- Policy has been incoherent and formulation has been frequently based on external interests or personal lobbying, there is little or no government ownership of policy making; and
- Institutions lack the capacity or will to implement laws and regulations.

Accountability mechanisms: The lack of reliable economic data and statistics means that accountability based on economic impact of inaction or reform is inadequate. Often, accountability based on meeting donor driven deadlines has taken precedence. While there are no effective mechanisms for reporting impact of reform in quantitative terms, a number of qualitative substitutes (that contain some, and international experience shows correlate broadly with, quantitative economic indicators) all point to the lack of systematic effectiveness of current policies, for example:

- World Bank Doing Business survey ranking
- World Bank Investment Climate Assessment
- World Bank Governance Indicators
- UNDP Human Development Report

International Trade Note: As mentioned previously, the Ministry of Commerce and Industries is establishing a sound legal basis to promote Afghan Freight Forwarders and to encourage the participation of the private sector in financing and operating border facilities. The Ministry of Commerce and Industries also intends to ensure a close cooperation with the Ministries of Finance, Interior, and Transport. It plans to reactivate the Inter-ministerial Committee on Cross Border Facilitation, established in 2004 as a joint initiative of the Ministry of Finance (Customs Department) and the MoCI. This committee with a focus on operational and management issues at the borders also meets with representatives from the Ministry of Transport and Transit and representatives of the private sector.

B. Capacity Analysis

The current capacity to deliver the results outlined in Section One involves not only Government Capacity, but the capacity of others e.g. donors, private sector. Capacity here is understood in the broad sense: human, financial and organizational resource constraints, capacity for effective consultation and participation as well as restrictions based on the legislative and/or the cultural environment.

MoCI Capacity

To build capacity, the institutions, the staff, and the practices offer a double challenge for the Ministry of Commerce and Industries:

- Building efficient and responsive institutions able to plan and to implement the mandates
- Building human capital, i.e., providing staff with technical skills required to perform according to best practices.

Institutions: The MoCI is implementing the Priority Restructuring and Reform (PRR) program. As part of this process, new directorates were created and some former directorates are being restructured into new directorates with structures approved by the Civil Service Commission (CSC) in April 2006. All directorates are currently under implementation. CSC processes do not

allow for responsiveness to environmental change. However, there is a need to complete a more focused organizational structure before needed changes occur.

Staffing: The staffing of all directorates is in process. Directors have been selected by the Civil Service Commission and most come from within the Ministry which means they have experience in the old ways of operating and managing but no updated experience. The dilemma for completing the staff is to find a compromise between two contradictory requirements: on one side recruiting new staff more able to perform the new tasks and, on the other, the need to reserve some new positions for staff presently working in the Ministry. It would be detrimental to MoCI effectiveness if only staff from the Ministry were to be recruited. The MoCI needs, especially for heads of department, people with past professional experience and leadership making them more fit to carry out the new mandate. However, finding motivated staff with some basic knowledge but adaptable to their new conditions of work is a challenge.

Practice: The MoCI directorates face two practice “capacity” challenges:

- Capacity to carry out its mission and strategy. Issues include governance, leadership, administration, human resources, program development, and implementation
- Capacity of its staff to acquire workplace understanding, technical skills, and professional competencies.

To meet the second challenge, the Ministry is putting in place important programs of vocation al training in key areas such as Private Sector Development and Transit and Trade Facilitation and mentoring in other areas such as Legal and Regulatory to ensure that the staff recruited be quickly able to handle their positions.

Yet, the capacity of the Ministry ultimately will depend upon the extent to which it can attract or keep goods candidates. This raises the issue of *a professional Civil Service which can guarantee*

- merit-based recruitment and career growth
- merit-based compensation that ensures a decent standard of living
- Meaningful training and career development.

MoCI and Other Organizations

The MoCI is currently restructuring, re-staffing, and reforming processes to address Ministry capacity to achieve its objectives. Rapidly moving through this plan, including implementing enabling information technology, is critical to the MoCI role in delivering these results.

However, for many of the Ministry’s objectives, other ministries and the private sector have to perform their parts well. For example, for improving trade, the Customs Department of the Ministry of Finance must be a constructive part of facilitation. At this point there is little on the ground cooperation between Customs and Transit. In addition, the domestic private sector has almost no capacity to participate in meaningful export. Investment leading to more private sector capacity will be needed to reach effective trade results that create jobs.

Outreach and communication

Evidence from developing countries and emerging economies worldwide shows that economic reforms are much more likely to succeed when they are understood and supported by the people most affected by them. The MoCI will need to interact with a wide variety of stakeholders, each of which has different needs and expectations. Getting the messages right with these audiences, and reaching them with the right communication tools are key features of effective communications.

Currently, the MOCI is neither consistent nor systematic in its communications with stakeholders. The tools it uses are limited – no forum for regular stakeholder dialogue exists, press conferences are irregular and inadequately prepared, there is no resource in place for updating the Ministry website, and except for the recently established Ministry newsletter, little if any written information is available that succinctly summarizes any portion of MOCI activities and plans. The result is a Ministry that is regarded as ineffective and irrelevant by the private sector and general public.

The MoCI recognizes the need to develop specific communications tools to reach women, who face particular disadvantages; higher rates of illiteracy and widespread exclusion from public debate.

Ongoing capacity building in the MoCI will allow it to use communications strategically to support the implementation of economic reform through active and effective stakeholder engagement.

C. Security Situation

Security or, more correctly the press reporting on it, is negatively affecting both international and domestic investment as well as trade/transit negotiations and implementation.

Transit: Even when the road infrastructure is completed by 2008, Afghanistan will have little transit potential until the security issue is resolved. Security remains a major problem on most Afghan routes. Until these routes are perceived to be secure, it is difficult to envisage the use of Afghan routes. Consequently, improving security for both persons and property throughout the country is a prerequisite for the revival of Afghanistan and the improvement of the transit system. Better security is needed to: (i) encourage foreign truckers to make direct deliveries and thus reduce transshipment; (ii) reduce costs on some routes where trucks operate under convoy conditions; and (iii) develop multimodal transport with shipping line containers transported up to inland container depots within Afghanistan with container deposits lower than presently.

It must be noted also that the level of confidence concerning Afghan traders and transport operators is very low due to historic perception that many shippers in Afghanistan are involved in smuggling or trafficking in illegal drugs. Hence reforms measures to improve the effectiveness and efficiency of procedures in detecting and deterring illegal trade should go hand to hand with the reconstruction of infrastructure and the expansion of security throughout the country.

SECTION THREE: STRATEGY

Overall Strategy for Achieving Expected Results

For achieving the MoCI goals, the Ministry has defined specific strategies which have been and will be addressed in Ministry programming. This section describes those strategies.

1. Strategies: Given the contextual analysis in Section Two, the MoCI plans to achieve the expected results through the strategies listed in this section.
2. Impact Analysis: The analyses of the strategies are included in the strategy discussions.

MoCI STRATEGIES FOR EACH GOAL

GOAL: Establish and implement a legal and regulatory framework necessary to ensure the efficient and equitable operation of a market economy

This goal is addressed in all strategic objectives of MoCI because it ensures the legal support for the other goals therefore it will be dealt with in context.

GOAL: Create conditions for a flourishing private sector.**focusing on:**

- *Investment policy*
- *Market and business development*
- *Private sector development outreach*
- *Legal and regulatory*

To achieve this goal, the Ministry has adopted the following strategies to address the four sub-goals.

Overall Impact Analysis: These strategies promote increased employment which addresses poverty reduction, anti-corruption, and counter-narcotics. They also support economic growth. The private sector development strategy is sustainable with continued international support. Investment can also be targeted to gender assistance and regional cooperation. Outreach is required to implement policies that enable other private sector or trade strategies. It will speed improvements to more quickly build employment opportunities and economic growth.

Sub-goal: Investment Policy

Strategies:

- Creating the legal, regulatory, and procedural framework to enable investment
- Removing legal, regulatory, and procedural obstacles to investment
- Reforming commercial licensing
- Establishing constructive and effective industrial policy, e.g., industrial parks, risk mitigation
- Defining the role(s) of secondary units
- Promoting foreign and domestic investment effectively.

The overall objective is to attract foreign direct investment and encourage domestic investment by improving the investment climate and promoting Afghanistan as a competitive investment location.

Review and update the investment environment:

- *Create the legal, regulatory and procedural framework to enable investment*
- *Remove legal, regulatory and procedural obstacles to investment*
- *Reform the commercial licensing system*

Creating the conditions for productive private sector investment will require significant enabling environment reform. Building on the ongoing work of legislative reform, the MoCI will create new legislation and regulation where necessary and streamline and update existing regulation and procedures related to investment. Reform of existing commercial licensing (focused on sectoral licensing) will lead to strengthening necessary licenses, abolishing unnecessary licenses, and reducing compliance costs where this is compatible with the regulatory objective. As well as leading to a general improvement in the business enabling environment, such reforms will reduce opportunities for corruption.

Establish an effective industrial policy

An industrial policy will be developed to facilitate the growth of key industries or sectors in Afghanistan's economy. The development and implementation of this policy will include any government supported market led investment incentives, facilities, regulation or law that encourages the ongoing operation of, or investment in, a particular location or industry, or creates conditions that favor the development of particular types of enterprise (e.g. SMEs).

Promote foreign and domestic investment

Promoting Afghanistan as an investment location is the role of the Afghan Investment Support Agency (AISA). The MoCI, as the line ministry responsible for oversight of AISA, will ensure that AISA focuses on its core responsibilities:

- Investment promotion
- Investment facilitation
- Investment policy advocacy

Investment licensing will remain for the time being as one of AISA's activities, but the cost and accounting for license revenues will be re-examined as an interim measure. Ultimately, AISA will be funded by budget allocations, rather than by income from licenses.

Sub-goal: Market and Business Development

Strategies:

- Elaborating market and business development policy
- Promoting the development of the formal economy
- Elaborating transitional policy for the informal economy
- Promoting inclusive market and business development
- Establishing a legal framework for the self-administration of the private sector
- Encouraging innovation and competitiveness in the private sector in:
 - Institutional environment
 - Knowledge infrastructure
 - Physical infrastructure
- Establishing effective competition policy
- Integrate central and sub-national economies
- Supporting the efficient divestment of SOEs
- Define the role of secondary units

The overarching objective of market and business development policy will be to make Afghan markets work for business and income growth from which Afghan citizens – as consumers, producers or as employees – can all benefit.

Encourage the development of formal economy and elaborate transitional policy for the informal economy

Formalization will protect investors, consumers, and employees as well as produce long-term state building advantages. The long-term formalization objective will be primarily achieved by creating a pro-business regulatory environment that creates a competitive advantage for formal economic activity combined with strengthening the capacity and transparent operation of enforcement agencies. Current best practice in reducing regulatory and administrative barriers will be followed to avoid counter-productive shock.

Promote inclusive market and business development

The MoCI's objective is to develop policies that will have an impact on all Afghan citizens and avoid uneven growth favoring specific groups. Inclusive market and business development will be promoted through four core initiatives:

- Provincial economic development
- Value Chain Analysis
- Business services development
- Competition in markets

Encourage innovation and competitiveness in the private sector focused on:

- ***Institutional environment***
- ***Knowledge infrastructure***
- ***Physical infrastructure***

In an economy largely served by small scale local produce and imported processed goods, increasing incomes requires a healthy private sector. That sector must be capable of providing competitive goods and services to the domestic market and exporting to regional and international markets. Increased exports will lead to economies of scale necessary for productivity gains. Afghanistan will develop its national competitiveness through a combination of building a business enabling institutional environment, developing management and vocational skills, and improving the country's physical infrastructure.

Integrate central and sub-national economies

The first step towards integrating central and sub-national economies will be through profiling of the provincial economic capacity and political economy in a selected number of provinces, to assess opportunities and constraints to provincial economic development. Thereafter, the objective will be to

tailor national economic development and private sector development policy to the particular needs of individual provinces to maximize the local impact.

Support the efficient divestment of SOEs and define the role of secondary units

The MoCI will seek to ensure that the divestment of SOEs contributes to wider private sector development objectives. Through a transparent process which is appropriately sequenced with other economic reforms, the MoCI will avoid the creation of inadequately regulated private monopolies or excessively concentrated ownership/control of scarce resources (e.g. commercially exploitable land). The role of the MoCI's secondary units will be examined and, where necessary, redefined to achieve alignment with the business enabling environment.

Sub-goal: Private sector development outreach and communications

- Fostering a shared stakeholder vision for private sector development
- Enabling the private sector to contribute to economic reform
- Advocating private sector development interests in national policies developed by other agencies, e.g. Energy, Infrastructure, Transport, Land, Tax and Customs, Macroeconomic issues, etc

The overarching objective of private sector development outreach and communications is to promote and undertake public private sector dialogue to support the formulation and effective implementation of policies.

Foster a shared stakeholder vision for private sector development

The shared vision refers to reaching broad consensus on the roles and responsibilities of both government and the private sector within a private sector-led market economy. Through effective communication and outreach, stakeholders will be given opportunity to engage in MOCI initiatives, and the economic reform process as a whole, to give it greater legitimacy and maximize its chances of success. The MoCI will establish and maintain effective policy dialogue forums to promote stakeholder interaction.

Enable the private sector to contribute to economic reform

The MoCI will co-operate with relevant stakeholders to develop the capacity of the private sector to effectively advocate for economic reform, including building analytical, communications, and lobbying skills. The MOCI will establish clear expectations about the quality of input that the private sector should provide.

Advocate Private Sector interests in other national policies

The MOCI will provide regular input to PSD-related initiatives from other Government Ministries and agencies (and encourage Government input to its own initiatives). This input will be based on the principles of regulatory best practice and will be designed to ensure that the development needs of the private sector are adequately considered in related government policy making. The MoCI will reinvigorate the High Commission on Investment as the entry point.

Legal and Regulatory

Strategies:

- Devising and implementing a Standards framework
- Devising appropriate consumer protection mechanisms
- Establish a legal framework for the self-administration of the private sector
- Ensuring availability of domestic private sector statistics

Establish policy and effective mechanisms for:

- ***Standards***
- ***Competition***
- ***Consumer protection***

The MoCI intends to apply the principles of regulatory best practice in each area to ensure that regulation is effective without imposing unnecessary compliance costs on the private sector. The

MoCI will also ensure that there is adequate public education on rights and responsibilities in each area.

Establish a legal framework for the self-administration of the private sector

A solid and widely understood legal foundation for the operation of Chambers of Commerce and business associations is needed as a starting point to enable the private sector to effectively contribute to economic reform as legitimate stakeholder.

GOAL: Establish a trade system that assists with the development of the Afghan economy focusing on:

- ***Transit and trade facilitation***
- ***Regional and global integration and cooperation***
- ***Elaborated national trade policy***

Overall Impact Analysis:

An effective trade system will benefit the Afghan economy and the Afghan people. Trade policy must be geared at the strengthening of the productive sector in Afghanistan first. Afghan producers need more outlets for Afghan goods and services nationally and internationally leading to more employment opportunity.

(Repeats earlier info so abbreviated to address template requirement succinctly)

Regional and global integration will provide additional markets for Afghan goods and a wider range of goods and services in the country. The former will lead to more employment that will reduce the level of poverty and the latter to opportunities for better living conditions.

Expanded exporting will ensure more opportunity for private sector growth. Reviving the “Afghanistan label” in key areas will attract additional investment and interest in the country. Both can expand employment and provide opportunities for gender empowerment. To ensure a cohesive plan for the implementation of trade strategies, a national strategy must be articulated and followed. This ensures trade strategies have the widest impact on national goals.

Sub-goal: Elaborating a National Trade Policy

Strategies:

- Elaborating a national trade policy
- Positioning import substitution
- Pursuing the development of a robust and diversified export base
- Analyzing the trade regimes of neighboring countries
- Improving the availability, quantity, and quality of trade statistics

There are a number of fundamental considerations for establishing a trade policy. The following are the main ingredients of such a strategy:

1. Development of a strong and diversified export base, robust enough to make a significant contribution to a strong and sustainable rate of economic growth.
2. Composition of exports geared at creating employment and contributing to reducing poverty.
3. Development of a strong, competitive private sector.
4. Creation of positive incentives to export-oriented and import-substituting activities to improve the country’s trade balance position.
5. A legal and the regulatory structure geared at reducing transaction costs and production costs as well as reduction in corruption with the costs it generates. This is critical to the development of competitive export-oriented firms as well as those providing inputs and supportive services to them.
6. Available measurement data for determining policy and regulatory implementation options and gaging results.
7. A high degree of consistency among all other macroeconomic policy initiatives. This is an important necessary condition for an efficient trade policy to reach its goals.

8. Good knowledge of the regional countries' promotion and protection measures to be able to react properly and to discuss the issues on a professional basis with well-established trade contracts.

Developing a robust and diversified export base.

To efficiently foster the rapid increase in exports the country must pursue an outward-looking development strategy. Orienting development toward foreign markets is important in a low-income country because the very low purchasing power of the majority of the population limits the market size. Because the local market does not enable an efficient scale of production, the absence of international trade is an obstacle to reaching good rates of growth. As a policy-maker and facilitator, MOCI is committed to:

- Fostering export promotion schemes and the development of export-oriented firms.
- Providing a legal and regulatory framework conducive to reducing transaction costs of firms and facilitating their operation.
- Strengthening Afghanistan's position in trade negotiation, reaching out for preferential tariff agreements and lowering of obstacles to trade for Afghan exports.
- Promoting policies that increase the degree of competition in markets, avoiding the abusive behavior of monopolies.
- Mitigating the negative effects of Afghanistan's landlocked geographical position by achieving agreements with neighboring countries on transit of exports and other trade facilitation issues.

Sub-goal: Regional and Global Integration

Strategies:

- Pursuing WTO accession
- Exploiting the potential of preferential market access agreements
- Exploiting the potential of multilateral/global and regional economic agreements
- Encouraging active participation of the private sector in multi-lateral/regional cooperation
- Accession to other International conventions and treaties
- Export Promotion

Sub-goal: Transit & Trade Facilitation:

Strategy category: Implementing trade/transport facilitation measures to boost exports and foreign exchange earnings

Strategies:

- Simplifying export and import procedures and regulations
 - *Standardization* and integration of information and requirements, and use of Information and Communication technologies (ICT) so as to exchange this information efficiently,
 - *Simplification* of administrative and commercial formalities, procedures and documents;
- Reducing the logistical cost of Afghanistan's international trade
 - *Harmonization* of applicable laws and regulations;
 - *Reduction* of transit fees and associated charges;
 - *Transparency*, which implies making information on border requirements and procedures available and easily accessible to all interested parties;
 - *Adoption* of the seven international conventions promoted by ESCAP which provide the framework for facilitating international transport
- Improving transport and border infrastructure

Strategy category: Establishing Afghanistan as the center of an efficient regional transit network

- Increasing the competitiveness of the transit routes through Afghanistan
- Implementing and updating transit agreements

- Encouraging a system of dry ports and logistics hubs throughout Afghanistan
 - Improving operations and efficiency of the international transit corridors crossing Afghanistan to increase their competitiveness;
 - Enhancing transit infrastructure (logistics facilities and inland container depots) particularly at border crossing points;
 - Fostering trade related value added activities and revenue generating transit services
 - Strengthening coordination with and between neighboring countries by updating and implementing transit agreements

GOAL: Enable the Ministry to execute its tasks efficiently and effectively

Improve:

- *Institutions / Establishment*
- *Staffing and human resource capabilities*
- *Work Procedures / Practices*
- *Coordination within ministry and between ministry and its stakeholders*

Impact Analysis: *These actions enable other strategies and lead to impacts described in analysis of previous strategies.*

SECTION FOUR: PROGRAMMING

This section describes programs, groupings of projects or activities; the MoCI is planning to address the strategies. Example: Legal and Regulatory Reform Program.

Instructions from template—Input required

1. *Analyze programming requirements to implement option(s) proposed in Section Three.*
 2. *Identify major programs.*
 3. *A clear explanation of how your major programs will achieve the expected result is critically important.*
- State in brief how your programming will overcome constraints and integrate lessons learned, both positive and negative.*

Make a clear case for the relevance and importance of proposed programming for results achievement. (It is critically important to ensure that in achieving results you are also meeting all relevant benchmarks and targets in the ANDS, Afghanistan Compact, MDGs and commitments to IFIs and others).

SECTION FIVE: ROLE ANALYSIS

Partners, suppliers of inputs for the MoCI, and clients receiving MoCI outputs are understood by the Ministry to be critical to achieving its goals.

The Ministry has identified the following key partners, suppliers, and clients:

- Private sector
 - Business associations and chambers of commerce
 - Private companies
 - Small, informal and rural businesses i.e. groups that are less organized or harder to reach
 - Investors

- Public sector
 - President
 - Cabinet
 - Parliament
 - Government Ministries, especially those involved with economic and international issues
 - Provincial and local authorities
 - Da Afghanistan Bank
 - AISA
 - EPAA
- Civil society and the general public
- Donors, donor-funded projects, and foreign governments
- Media

The above list recognizes that Ministry partners are multidimensional. To ensure participation of communities including poor and vulnerable groups, the Ministry will design messages and input mechanisms appropriate for each audience based on an understanding of what is of greatest interest to each group. It will then design and implement communication tools, including two-way tools, to be used as the bridge with each stakeholder group.

For example, of greatest relevance to the private sector is: (i) a legal and regulatory framework facilitating investment, jobs, and profits; (ii) government rules which impose the smallest possible compliance costs; (iii) stability and predictability in the business environment. The private sector needs to know not just what the Ministry is doing, but how those activities impact them. If it understands this, it will be more likely to behave in the ways desired by the Ministry and the Government, i.e., to formalize its operations, to follow the rules, to pay its share of taxes, and to invest in assets and people. To assist the private sector with policy and to provide useful information to it, the Ministry needs to hear from the private sector on a regular basis. The Ministry will ensure that the private sector is fully aware of its activities, and be treated as a key partner in the Ministry's reform agenda, which includes being given the opportunity to provide meaningful input to policy and legislative initiatives.

The Ministry's interaction with public sector audiences will be based on three activities:

- Regularly sharing information about programs and activities;
- Systematically providing input to policy and legislative initiatives across government;
- Strengthening the government's overall approach to policy making and implementation.

The extent of communication with other Ministries will depend on the relevance of private sector development or international trade to their respective mandates. With Ministries such as Finance, Economy and Labor, Mines, and Agriculture, interaction will be more extensive than others.

Civil society, represented in particular by organized business membership organizations, NGOs and the media, is a key partner and a link between the Ministry and poor and vulnerable groups. With a greater understanding of the principles of a market economy, entrepreneurship, gains and risks from trade, and the rights of employees and consumers, vulnerable stakeholder groups will be more able to provide input to Ministry initiatives.

The combination of communication tools to be used by the Ministry - (i) direct interaction, including site visits to key stakeholders; (ii) media; (iii) IT; and (iv) written materials – will ensure feedback mechanisms are in place to build meaningful links with all key partners. Capacity building for senior Ministry leadership as well as staff is an immediate activity designed to ready the Ministry for this expanded and more intensive stakeholder interaction.

SECTION FIVE: PRIORITIZATION OF PROJECTS FOR 1386 BUDGET**Prioritization of Projects (For 1386 Budget)**

Priority 1 Group (list projects in order of priority)	Budget	Priority 2 Group (list projects in order of priority)	Budget	Priority 3 Group (list projects in order of priority)	Budget	Priority 4 Group (list projects in order of priority)	Budget
Programme/Project 1 –							
Programme/Project 2 –		Programme/Project 2 –		Programme/Project 2 –		Programme/Project 2 –	
Programme/Project 3 –		Programme/Project 3 –		Programme/Project 3 –		Programme/Project 3 –	
Programme/Project 4 –		Programme/Project 4 –		Programme/Project 4 –		Programme/Project 4 –	
Programme/Project 5 –		Programme/Project 5 –		Programme/Project 5 –		Programme/Project 5 –	

SECTION SEVEN : MONITORING AND EVALUATION

(To be elaborated later)

1. *Use of LOG Frame as attached- Objectives, Impact, Outcome and Outputs and Indicators*
2. *Use of Monitoring Matrices Input and Output Data*

Log Frame Annex**Ministry Sector Strategy LOG Framework Analysis (LFA)**

1. This results-based framework is intended to assist Ministries in clarifying their strategic goal and expected key impact and outcomes.
2. The impact of the Ministry strategy at the program level should be listed.
3. Key indicators reflecting achievement of the impact should be listed.
4. Programme/Projects should be prioritized on the basis of the contributions each makes to the achievement of the overall Program impact.
5. A brief listing of the risks with the program and projects is to be listed and a risk management strategy prepared as an attachment

Strategic Goal -			
Objectives	Expected Results	Indicators	Risk
Program -	Impact -		
Project 1 –	Outcome 1 -		
Project 2 –	Outcome 2 -		
Project 3 –	Outcome 3 -		
Project 4 –	Outcome 4 -		

Annex: Private Sector Development Directorate Strategy

The private sector development goals can be summarized against the Private Sector Development Directorate structure in the following way:

Create the conditions for a flourishing private sector		
<i>Investment policy</i>	<i>Market and business development policy</i>	<i>PSD outreach and communication</i>
Review and update the investment environment: <ul style="list-style-type: none"> • Create the legal, regulatory and procedural framework to enable investment • Remove legal, regulatory and procedural obstacles to investment • Reform the commercial licensing system Establish a constructive and effective industrial policy	Promote the development of formal economy and elaborate transitional policy for the informal economy Promote inclusive market and business development Encourage innovation and competitiveness in the private sector focused on: <ul style="list-style-type: none"> Institutional environment Knowledge infrastructure Physical infrastructure Integration of central and sub-national economies Support the efficient divestment of SOEs and define the role of secondary units	Foster a shared stakeholder vision for Private Sector Development Enable the private sector to contribute to economic reform Advocate Private Sector Development interests in other national policies
Regulatory		
Establish policy and effective mechanisms for: <ul style="list-style-type: none"> • Standards • Competition • Consumer protection Establish a legal framework for the self-administration of the private sector		