



Progress Against Promises:

A Report on the Accomplishments of the
Interim and Transitional Administrations

Dr Ashraf Ghani
Minister for Finance
Government of Afghanistan

September 2002

1. Introduction

“Our vision is of a prosperous, secure Afghanistan. We are marching ahead with the objective of building a credible State with an efficient and transparent government. Our government shall be accountable to its citizens as well as to the international community.”¹

The Government is committed to transparency and accountability...

The Government of Afghanistan has committed itself to a transparent and accountable administration. This theme was articulated in President Karzai’s speech at Tokyo in January 2002 and has been maintained as a pillar of the Administration over the last nine months. Critical to a culture of accountability is reporting against targets. In this context, this paper outlines the progress in four areas against the vision outlined at Tokyo: political transition; fiscal and monetary policy; microeconomic and structural policy, including the key role of the private sector; and policies for reconstruction and development.

...this report presents an accounting of the first 9 months

Two themes become clear through this discussion. First, the success of this Administration may owe as much to what it did not do, as to what it did do. Not undertaking deficit financing is as critical for currency stability as the currency exchange process. Not rebuilding the State owned enterprise apparatus is as important in developing a model of private sector led growth as abolishing numerous restrictions on private investment through the new investment law. Second, the policy areas overlap. The process by which decisions are taken in the key economic or social policy areas define, in part, the nature of the political transition.

2. The political transition

“Our primary focus is to revive and build the State apparatus, a system of democratic governance with active participation of the citizenry.”

The main challenge is to build a State

“Representatives of the Afghan nation will meet within the next five months to select the Head of State. We will put in place a transitional government that will prepare the future Constitution of the country. The peaceful transfer of power is to become the norm rather than the exception.”

Special Commissions have been established

The over-riding challenge facing the Administration upon its inauguration was the establishment of a legitimate and effective government. This is a formidable challenge for any State, even more so for one coming out of 23 years of war and oppression. Much of what needed to be done over this period was laid out in the Bonn Agreement. The Human Rights Commission and the Civil Service Commission have both been established, as has the Special Independent Commission established to facilitate the emergency Loya Jirga.

¹ All quotations unless otherwise noted are excerpted from then-Chairman Karzai’s speech to the Reconstruction Meeting held in Tokyo, January 2002

*The Loya Jirga
was successfully
held on time*

In June 2002 the emergency Loya Jirga was convened, meeting the timeline established at Bonn. Around 1,700 delegates were selected from across Afghanistan and assembled in Kabul to discuss the future of Afghanistan. During the Loya Jirga, the delegates chose Hamid Karzai as the president of the new Transitional Administration in a contested election. This represents a watershed in Afghan political history – President Karzai is the first elected Head of State in Afghanistan. His election by the Loya Jirga provides him with far greater legitimacy than during his Chairmanship of the Interim Administration for this reason.

*President Karzai
was elected in a
secret ballot*

The Loya Jirga has also put in place a process for the preparation of the Constitution. The first phase involves a committee of experts to prepare a first draft of the Constitution. Then a larger Constitutional Commission representing a broader cross section of the community will review and revise the draft, including through extensive public consultation.

*The Cabinet meets
at least weekly
and decides on all
major policy
issues*

Elections represent the very public culmination of a political process. However, building a relationship between the State and the citizenry that is truly participatory in nature involves much more than holding an election. Central to this is the Cabinet and the Cabinet's decision-making process. The Cabinet brings together the richness and diversity of Afghanistan. Members represent a broad cross-section of the community and bring with them a wealth of experiences and interests. The Cabinet meets at least weekly to debate the major policy issues. A highlight of the recent months has been the detailed debates in Cabinet over major policy issues: three full day meetings devoted to the currency issue and three to the investment law.

*Cabinet decisions
reflect political
and economic
realities ...*

A good indicator of the ongoing success of the Cabinet process is the extent of compromise on many decisions. From an economic efficiency perspective, compromise on key decisions is anathema. Yet against a benchmark of broader participatory decision-making such compromises are the lifeblood of a functioning political system. The upcoming Cabinet deliberations on the development budget will provide a further test of the system.

*...it is a normal
Cabinet*

*Power has been
transferred
peacefully for the
first time*

Whether the peaceful transfer of power becomes the norm, rather than the exception is the clearest performance measure of the success of the political transition. The Bonn Agreement started the process and power was transferred peacefully for the first time in Afghanistan's history. The process was continued with the move from the Interim to the Transitional Administration. The process is underway for a new Constitution with the aim to have the third in a long line of peaceful transitions.

3. Monetary and Fiscal Policy

“Afghanistan is facing a monetary crisis. Trillions of Afghan currency has been printed. The administration is committed to dealing responsibly and decisively with these issues”

Banning deficit financing provides stability

A functioning monetary system underpins the operations of the economy. The calamitous impact on the economy of rampant inflation is well documented in theory and in practice. The Administration has not only acted decisively in this area, it has acted more rapidly than many felt possible. The first step to stabilising the monetary system was a blanket commitment not to resort to deficit financing to meet expenditure needs. This decision, which reversed a ten-year trend has been very difficult, but was very necessary.

Re-issuing the currency promotes further stability

The second step was the decision to introduce a new currency, which will be launched next month. This is a tangible step that will unify the country not only economically but also emotionally. Moreover, economic transactions will be facilitated with the highest note now valued at around \$US25, rather than the current \$US0.25. The security features, which are world’s best practice, will ensure that the value of the currency is maintained.

There has been close cooperation with the international community...

The Administration cooperated very closely with its key development partners in developing the technical aspects of the policy and implementation strategy. The key political challenges were debated in considerable detail in the Cabinet. Early in the year the Cabinet debate focussed on the broad structural issues: whether to dollarise, partially dollarise or to reissue the Afghani. The debate over the latter part focussed on key political challenges and constraints associated with the details of the operation.

...and with the private sector

The private sector, particularly the money exchangers were closely consulted through a number of meetings and focus groups. Several aspects of the exchange process were modified based on their concerns and their suggestions. This approach highlights the benefits of participatory decision-making, in terms of a more efficient process. It also clearly demonstrates the Administration’s strong and stated commitment to participation of non-governmental actors.

Currency reform is the first step...

The currency reform is only the first step in dealing with a monetary crisis. The Administration has indicated its commitment to an autonomous Central Bank, as recommended by international best practice. Work has commenced on a Central Bank law, and will be resumed once the currency transfer process is completed. To ensure that the community’s interests are protected, the Administration will legislate to establish the Central Bank’s autonomy once key competencies are demonstrated and benchmarks met.

...Central Bank autonomy must follow

“International experience is clear that the budget has to be the key instrument of policy-making, programming and accountability. [...] We are committed to producing a budget from March 2002 to March 2003.”

The 2002-03 budget was produced

The Administration agreed to an initial month of appropriations for the first month of the fiscal year on 20 March 2002 and subsequently agreed the budget for the entire fiscal year on 6 April 2002. The initial agreement occurred less than three months into the life of the Interim Administration and was all the more significant because budgeting under the Taliban was so poor that there was no accurate baseline to build on.

Keeping the budget as the central tool of policy-making is the challenge...

Ensuring the budget is the central tool of policy-making has been difficult in the context of the limited experience of the Cabinet and the need for rapid implementation to meet the very legitimate needs of the population for a visible change. The process to prepare the development budget has brought into stark relief the tradeoffs between the desire for quick decision-making, the benefits of national ownership, the need for a process that is legitimate and the challenges that lack of data and experience bring. Nevertheless the development budget is scheduled for presentation at the Implementation Group Meeting in two weeks time.

...Budget consultations are critical

“We invite the international community to assist us in devising transparent systems of accountability and information sharing, including a procurement board and financial monitoring systems to enable us to be accountable to our citizens and the world. We will hire a reputable international firm to audit our expenditures on a regular basis.”

International firms have been hired for:

The budget can be the central tool of policy-making and may guide resource allocation decisions between competing priorities. But this only guarantees effective service delivery in a transparent and accountable way if the procurement and financial management systems are in place.

. procurement;

The Administration now has in place internationally recognised firms for procurement, financial management and auditing. Crown Agents has been hired as the Administration’s procurement agent, KPMG Consulting are working with the Treasury in the Ministry of Finance to put in place a computerised financial management system and PKF have been hired to undertake audit and build the capacity in the Auditor General’s Office. Few countries in the region have demonstrated this level of commitment to openness and accountability.

. financial management;

audit

“For the international aid system to be of use to Afghanistan, we need to establish financing mechanisms that allow for simple and quick disbursement to the Interim Administration and its successors, for their recurrent and developmental expenditures.”

The Administration now has in place a number of mechanisms for donor countries to provide support either directly, or indirectly. A

Donors can now give directly to the budget or to Trust Funds

separate paper has been prepared on this topic. In short, modalities have been established to allow donor governments provide support directly to the Administration either for general budget support or earmarked for development projects. Alternatively, contributions can be made to any of three trust funds.

4. The Development and Reconstruction Process

“Given the agreement that Afghans need to be in the driver’s seat in envisaging our future, determining our priorities and modalities of implementation, we are launching a participatory process. This process is designed to form a consensus on a developmental vision and strategy, and a full understanding of our absorptive capacity, to produce different scenarios for our future.”

A consensus has been formed around a national vision

The process for planning and implementing the development and reconstruction agenda has been slower than some would have liked. Ensuring that Afghans were in the driver’s seat and building a consensus is something that takes time. The speed of action and ability to ensure adequate national ownership must also be seen in the historical context where authoritarian regimes have imposed their will on the citizenry, often couched around some rubric of the action being in the national interest. Against this background the Administration needed to choose whether to act quickly or to act wisely.

Ensuring ownership is critical to success...

The planning process began in earnest in January when the Minister for Reconstruction and the Director of the AACA met with all Cabinet Ministers to discuss their objectives and aspirations for the development program. The major output from these consultations was the National Development Framework (NDF) presented by President Karzai to the international community at the Implementation Group Meeting in Kabul in April 2002. Preparation of the NDF was informed by the Preliminary Needs Assessment, which was led by the World Bank, Asian Development Bank and UNDP. Extensive consultations with donors, UN agencies and NGOs were conducted to refine the National Development Framework.

...but takes time

The NDF outlines a program structure, themes in each program and cross-cutting issues

The NDF achieved three things: it provided the program architecture through which the reconstruction and development program would take shape; within each of the programs it outlined high level objectives and outcomes; and it outlined a number of overarching themes and cross-cutting issues that would underpin the architecture and each of the programs.

The first round of projects have been designed...

“The instruments for realizing our vision are programs and projects within the framework of solid institutions. Drawing on international experience, we will focus on the inter-relationship between programs at the sector-level, and design of projects that embody our commitment to the creation of effective institutions.”

As part of these consultations a first round of national programs have been designed in partnership between the Administration and the multilateral development banks: Emergency Public Administration; National Solidarity Program focussing on rural development;

Emergency Infrastructure; and Emergency Public Works. The key design criteria responded to issues brought out in consultations and reflected in the NDF: that they are truly national in scope, which is critical for equity and therefore peacebuilding; that they reinforce government capacity building; and that they follow the model of private sector led growth, that is the government is the policy maker, but that implementation is undertaken by NGOs or the private sector, with selection through competitive bidding.

...and implementation is starting...

These projects are now moving to implementation, and in some cases disbursements are taking place. In the case of the Emergency Public Works Program funds will be channelled through the Treasury in the Ministry of Finance. Provincial governments are selecting the priority works in their provinces and these projects will be put out to tender on an open and competitive basis. Procurement, monitoring and supervision of the projects will be conducted by international consulting firms in partnership with Government staff

the projects can be expanded with donor funds

These national projects establish a framework which can translate additional donor funding rapidly into projects across the country. While they have been funded initially by the World Bank, they are now ready to be funded by other donors.

“To deal effectively with the root causes of this humanitarian crisis, we need the international community to support our efforts for reconstruction and development.”

“We are looking forward to partnering with development institutions and the private sector in translating this process into a comprehensive development framework.”

Moving from a framework to a budget has involved substantial consultations

The second round of consultations have involved moving from the high level architecture of the NDF and the primarily emergency focus of the first round of projects to a more detailed development plan and budget. This process has involved extensive consultations, particularly as the move from emergency and humanitarian assistance to development and reconstruction brought additional complexities. Consultation with international development partners took place through the program groups, chaired by ministers, with the secretariat function performed by a UN or donor agency. It has accelerated over the last weeks with a half-day discussion for each NDF program attended by the relevant Government Ministries, international agencies and interested donors.

Seminars have been held on each program

Cabinet will focus closely on the issues in the lead-up to the IG meeting

The process will culminate with a Cabinet discussion in early October and the presentation of the Development Budget to the Implementation Group meeting in mid-October. Measuring the success of this process involves not only evaluating the Development Budget, but also assessing the increase in capacity and governing ability associated with key stakeholder’s involvement in the process. The return on this higher capacity will be seen when the operating and development budgets for 1382 and 1383 (SY) are prepared.

5. Private Sector Development

“We are fully committed to an open market economy and see the private sector as the engine of growth.”

We do not see government as the producer and manager of the economy, but as regulator and promoter of the entrepreneurial energies of our people.”

The Government has moved rapidly on private sector development

Creating an environment conducive to private sector growth is possibly the area where the Administration has moved the most aggressively. It is also where the international community has most poorly understood the Administration’s efforts. Major achievements include a new investment law that is more significant for what it removes than what it introduces, undertaking a telecoms tender, a major hotel development, the removal of export taxes and a number of ongoing measures taken at the request of private sector representatives.

A new investment law has been passed...

“We will work hard on attracting foreign direct investment, thus generating sufficient revenue to replace international assistance over time. This new Afghanistan would bring prosperity to its trading partners and stability to this region of the globe.”

...simplifying the process...

After extensive debate, the Cabinet has agreed on a new investment law which creates a High Commission of Investment to make policy decisions on foreign investment and creates a semi-autonomous ‘one-stop shop’ to implement the policy decisions. The new investment law replaces a number of statutes that inhibited the inflow of capital, including joint venture requirements, capital requirements, and limitations on repatriation of profits. The investment law provides a corporate income tax holiday for certain types of investments, with the duration of the tax holiday determined by the type of investment.

...and removing archaic provisions

“We are looking to the local and international private sectors to take the lead in areas such as telecommunications, mining, energy and transportation.”

The winner of the telecoms tender will be announced shortly

The Administration has taken the first steps in attracting investment in major areas. In the telecoms sector the Administration has conducted a tender process and will announce the winning firm(s) in October. In the mining/energy sector the Administration has commenced talks with the Governments of Turkmenistan and Pakistan over major pipeline projects.

Oil and gas talks continue, while hotel deals have been signed

The Administration is also in the process of signing a contract with a major and internationally renowned developer for a five star hotel in Kabul. This investment is expected to have significant flow on effects and the Administration anticipates considerable follow-up interest in the near future.

“We will build an effective and competitive private sector.”

“The elimination of corruption is one of my top priorities.”

One of the simplest ways to facilitate a better functioning private sector and to move aggressively on corruption is to work closely with those who are most negatively impacted – the private sector

The private sector is being consulted regularly and systematically

Unnecessary regulations are being repealed

Merchants want a simpler, fairer revenue system

Moving forward also means avoiding moving backwards...

...pressure to restart SOEs has been resisted

Much of what was promised has been achieved...

...but meeting the aspirations and needs of the people...

...means much more is still needed

themselves. The Administration has established a consultative forum with merchants where a broad range of issues is discussed. Not only does this reinforce the Administration's commitment to transparent and consultative government, in many cases the merchants are best placed to highlight redundant or inefficient government regulations. In discussions, the Administration's position has been that the onus is on the State to justify why the regulation should be retained. In the absence of such justification the regulations have been repealed. For example: part of the Administration required merchants to show four years of bookkeeping records in order to obtain a licence. This was impractical as many records were destroyed under the Taliban. As the requirement could not be justified the regulation was rescinded.

The merchants have made it clear that they understand the need for revenue collection to fund essential social services, necessary security or economic infrastructure projects. They have also made it clear that they are not interested in paying additional 'taxes' to fund corrupt officials. In the coming months we will be looking to make major reforms in the Customs area. I anticipate a very close dialogue with the merchants as we move forward in this crucial area.

Supporting the development of the private sector also entails resisting the pressure to undertake policy decisions that would be detrimental. In the case of State owned enterprises (SOEs) there is considerable support from some quarters to have these enterprises revitalised. This support is from people who anticipate making considerable profit out of additional investment in SOEs. It is also from people whose mental models have not been exposed to the debates around this issue over the last 23 years. Notwithstanding this pressure the Administration is standing firm and is examining options for either formally closing down the enterprises, or privatising them.

6. Conclusion

Meeting the legitimate needs and aspirations of the ordinary Afghan women and men for security, stability and relief from poverty is a monumental challenge for the Administration and its development partners. The magnitude of this challenge and the slow progress in moving forward on reform in some key sectors, such as security, makes it easy to lose sight of the substantial progress that has been made.

When the achievements outlined above are compared with the vision outlined by President Karzai it is clear that much has been achieved. When it is compared against the progress in other post-conflict countries or the reforms achieved in other countries it is clear that major strides are being taken. The Administration has no interest in resting on its laurels; rather the efforts must be redoubled. After the last 23 years the citizenry deserve nothing less.

