



**USAID** | **AFGHANISTAN**  
FROM THE AMERICAN PEOPLE

# Economic Growth & Governance Initiative

Quarterly Report  
July 2010

**Prepared for:**

USAID/Afghanistan

Office of Economic Growth

Contract No. EEM-I-00-07-00005-00

**July 10, 2010**

This publication was produced for review by the United States Agency for International Development. It was prepared by the advisors supporting USAID's Economic Growth and Governance Initiative. The views expressed in this publication do not necessarily reflect the views of USAID or the United States Government.



*USAID/EGGI's vision is to support GIROA's capacity to develop and sustain a market environment that supports responsible economic management, private sector-driven growth, investment promotion, access to financial services, and job creation.*

Quick Q3 Recap	2
Objectives	4
Progress Towards Meeting Objectives	5
Spotlight	8
Additional Areas of Workplan Progress	9
Looking Ahead	15

## Quick Q3 Recap: Notable Areas of Progress

### Component 1: Economic Policy

- 1) Tax Administration:** Supported the successful implementation of the Medium Taxpayer Office in Herat.
- 2) Program Budgeting:** Commenced training to support all 51 GIROA budget units in Afghanistan.
- 3) Revenues:** Completed the Revenue Projections model, which will be used to project revenue flows for GIROA. In addition, the Revenue Reconciliation Database was implemented in seven additional provinces bringing the total number of provinces to 24 out of 34.
- 4) Insurance:** Completed the draft Insurance Law.
- 5) Policy Support:** Completed the negotiations on the IMF's new three year Extended Credit Facility Program, which will build on the reform efforts on domestic revenue mobilization and Public Financial Management.

### Component 2: Financial Sector Development

- 1) Accounting & Financial Statements:** Helped DAB successfully issue its 1388 financial statements by the statutory deadline and obtained a clean external audit report, for the first time since 2003.
- 2) National Payment Council:** Helped launch the NPC, institutionalizing significant cooperation among the commercial banks, MOF and DAB.
- 3) Afghanistan Clearinghouse:** Helped create the ACH for the clearing and settlement of inter bank checks.
- 4) DAB Legislation:** Supported the review and passage of the Financial Leasing Law.
- 5) Bank Licensing:** Designed an improved, transparent bank licensing process, which includes a new Bank License Application Form that is fully compliant with the banking laws and regulations.

### Component 3: Private Sector Development

- 1) Commercial Legislation:** Completed draft regulations for the Partnership Law and proposed amendments to the Law on Corporations and Limited Liability Companies.
- 2) Mining Sector:** Launched investment promotion support to the Ministry of Mines.
- 3) Telecom Sector:** EGGI completed a roadmap in preparing the launch of Next Generation Network services through an international tender process.
- 4) Energy Sector:** Two private energy companies signed draft operating licenses (which are awaiting MEW approval) to provide reliable, efficient and least cost power to citizens.
- 5) Business Registration:** Completed thorough operational assessment of the Afghanistan Central Business Registry (ACBR) in Kabul and in the regions with the new ACBR Director.

# Notable Areas of Progress

## Regional Overview

EGGI is operational in three target regions, with infrastructure and staffing in place in Herat, Mazar, and Jalalabad. Regional teams coordinate component based technical missions to drive central government initiatives to the regional level.

EGGI provides targeted support to provincial level GIROA bodies and directorates involved in economic governance affairs, with particular attention on the business enabling environ-

ment, financial sector expansion, and public treasury functions – all key elements to achieving sustainable economic growth.

EGGI has focused substantial effort toward uncovering the constraints to business growth and is actively seeking to overcome identified weaknesses. EGGI, in concert with public and private sector counterparts and other donor programs, has generated greater attention and stronger advocacy for Afghan led reform initia-

tives that remove obstacles to progress. Collectively, EGGI activities have established a sound foundation and provincial momentum to advance EGGI objectives centered on investment, lending and credit extension growth, revenue mobilization and budget preparation.

## Herat

**Economic Policy:** EGGI/Herat helped establish the Medium Taxpayers Office within the Herat Mustofiat, in partnership with DFID/ASI's Tax Reform Program, and conducted over 40 taxpayer education events. Results to date demonstrate higher taxpayer filing compliance and increased tax revenue collections compared to previous years.

**Financial Sector Development:** EGGI executed public awareness events on financial sector laws related to access to finance. EGGI also assisted in the implementation of the

monetary policy and statistics functions in the DAB regional office, with joint EGGI/DAB technical training missions executed in Herat.

**Private Sector Development:** EGGI/Herat performs ongoing consultations with GIROA officials, commercial banks, commercial court, and private sector businesses to document specific private sector constraints that EGGI's component-based teams are able to help address from Kabul.



## Mazar

**Financial Sector Development:** EGGI advanced the implementation of the monetary policy and statistics functions in the DAB regional office, with joint EGGI/DAB technical training missions executed in Mazar. To promote youth outreach, EGGI also engaged university students holding financial sector related lectures for Balkh and Aria universities.

**Private Sector Development:** To reduce the heavy burden, in cost and time, imposed by the current system, EGGI/Mazar produced a business licensing and registration study to document process flow and advocated for

additional procedural reforms within all concerned GIROA bodies: AISA, MOCI, MOF (TIN issuance), and commercial courts.

EGGI/Mazar also led a taskforce, consisting of the Private Sector Development Subcommittee and representatives of private sector, in the development of the private sector input into the Provincial Development Strategy.



## Jalalabad

**Economic Policy:** EGGI/Jalalabad launched a budget development and execution activity (aligned with the Program Budgeting work) within the Nangarhar Mustofiat. EGGI also supported the Nangarhar PRT and Economy Directorate to build the capacity of staff from provincial line directorates in project planning and costing.

In addition, EGGI/Jalalabad conducted a comprehensive operational assessment of the Nangarhar Mustofiat, which included an analysis of current allotment, payment, budget execution

recording and control procedures, and EGGI will assist in streamlining these processes.

**Private Sector Development:** EGGI/Jalalabad developed a Business and Investment Profile to promote investment in the East region. This activity was coordinated with ACCI, AISA, and the Nangarhar business community.



## Key Q3 Objectives in Line with Intermediate Results

USAID IR 1.2.1

### Economic Policy

**Tax Administration:** Assist the implementation of the Medium Taxpayer Office in the Herat Mustofiat with technical assistance provided in the areas of management, audit and taxpayer education.

**Revenue Reconciliation:** To continue the roll-out of the Revenue Reconciliation Database across the Mustofiat in all 34 provinces and to establish an effective reconciliation system to help the MOF gain effective control over the domestic revenue collections.

**Fiscal Policy Unit:** To a) complete a strategy on the work and structure of the FPU over the medium term and recommendations on how it can contribute to the overall functions of the MOF, b) complete the Revenue Projections model, and c) establish a GIROA Macroeconomic Working Group.

**Insurance:** Complete the draft Insurance Law and deliver trainings on the importance of a strong regulator and international standards.

**Program Budgeting:** Work with the Budget Department of the MOF to provide training and mentoring to relevant finance officials in all 51 GIROA budgetary units in order to ensure effective compliance with the program budget reform that is being implemented throughout the Government.

**Provincial Budgeting:** To support the budgeting of provincial priorities so they are better reflected in Afghanistan's national core budget, and improve the coordination of budget related activities among key provincial GIROA and donor stakeholders.

USAID IR 1.2.2

### Financial Sector Development

**Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance:** To train staff of the Financial Supervision Department (FSD), improve the on-site supervision function, assist the FSD in restructuring and staffing key management positions, build the capacity of the licensing section, and move forward with curbing abusive shareholder involvement in bank management.

**Monetary Policy, Statistics and Market Operations:** To develop the analytical capacity of the Monetary Policy Department (MPD) of DAB, and to significantly expand the coverage of the MPD's regional activities.

**Payments Systems:** Continue the upgrade and expansion of the payments systems and advance the flow of payments through the banking system.

**Legal and Regulatory Drafting and Promotion/Support to Office of General Counsel:** Work with DAB on all phases of the legislative process, including drafting, training and advocacy efforts.

**Accounting and Financial Management:** To implement the computerized Core Banking System (CBS) at regional branches; merge the database of regional branches with the Head Office database to ensure 70 percent of the Bank's transactions are captured in one database; and c) produce DAB's financial statements for fiscal year 1388 for approval by DAB's Supreme Council in a timely manner as per the requirements of the DAB Law.

USAID IR 1.2.3

### Private Sector Development

**Commercial Law:** To draft, amend or recommend implementing regulations to laws that promote investment and economic development in Afghanistan. The laws would include the Law on Corporations and Limited Liability Companies, Partnership Law, Mediation Law and the Arbitration Law, among others.

**Mining Sector:** To commence investment promotions activities, including the establishment of an Investment Promotion Department and the development of an investment strategy and plan, in support of the MOM.

**Telecom Sector:** To prepare ATRA for the issuance of the 3G and WiMAX tenders, support AfTel interconnections on the Optical Fiber Network, and draft the Afghan Telecom Business Plan to meet an IMF benchmark deadline in July 2010.

**Energy Sector:** To engage public and private stakeholders for review and comment on the Draft Electricity Services Law and make revisions accordingly.

**Business Registration:** To support the new ACBR Director to assume his new role and lead key reform efforts aimed at streamlining internal ACBR processes; and reduce reliance on donor support by providing budgetary support to the ACBR.

**Policy Support to MOCI:** To draft the Industrial Policy paper for Ministry approval and to promote the acceptance of Small and Medium Enterprises strategy within the Private Sector Development Department (PSDD).



# Progress Towards Meeting Objectives

## Component I: Economic Policy



USAID/EGGI delivers training on Program Budgeting to government employees at the Information Communications Technology Institute.

During the quarter, USAID/EGGI was closely involved in helping GIROA cement progress in the various areas of economic policy and public financial management.

On tax administration and domestic revenue mobilization, EGGI supported the ongoing strengthening of the **Medium Taxpayer Office** in Herat province with technical assistance provided in the areas of management, audit and taxpayer education. This helped deliver a **1,678% increase** in tax revenues raised between March and June 2010.

In the previous quarter, EGGI helped the MOF establish a **Fiscal Policy Unit (FPU)** medium term reform roadmap. This is aimed at strengthening the FPU's capacity to analyze and forecast fiscal performance and adapt to expenditure and revenue realities throughout the fiscal year. EGGI also helped the FPU finalize the update of the Revenue Projections model. This model will be used to project future revenue flows for GIROA for the forthcoming fiscal year. The information will also help the Budget Department establish expenditure ceilings for all the budgetary units in GIROA.

In April 2010, EGGI launched a large scale **Program Budgeting** activity, in concert with the MOF, to strengthen GIROA's ability to develop more accurate budgets in accordance with the Afghanistan National Development Strategy.

EGGI and the MOF commenced training for all of GIROA's 51 budgetary units to help them prepare their program budgets as part of the formulation process for financial year 1390 (2011/12). EGGI was also closely involved in helping the MOF complete the **Public Financial Management Reform Roadmap**, which will guide GIROA reform efforts in the areas of budget formulation, budget execution and audit over the next three years.

On **insurance reform**, EGGI completed the first draft of the new Insurance Law. This law will form the basis for establishing an independent regulator in Afghanistan. It will allow the new insurance regulator to hold hearings to discuss issues with the insurance sector and ensure that foreign brokers and companies are licensed in Afghanistan before they can undertake operations.

EGGI continues to support the MOF's provincial level revenue accounting and reporting with the implementation of the **Revenue Reconciliation Database** in the accounting departments of the provincial Mustofiat. In Q3, the database was rolled out to seven additional provinces, including Baghlan, Ghazni, Laghman, Logar, Kapisa, Wardak and Badghis, bringing the total number of provinces to **24 out of 34**. This database will enable the Government to acquire real-time information on the amount of domestic revenues collected across the country thereby helping to improve financial planning, control and management of public resources.

The MOF, with EGGI assistance, successfully completed the negotiations on the new IMF Program for Afghanistan. The new three year **Extended Credit Facility Program** is the successor to the Poverty Reduction Growth Facility (PRGF) and will run between 2010 to 2013. The program will build on the reform efforts on domestic revenue mobilization and better Public Financial Management. Improved domestic revenue mobilization will help reduce GIROA reliance on external aid, and better public financial management will help improve confidence in the national budget to allocate resources to service delivery.

## Component 2: Financial Sector Development

The *Financial Sector Development* component achieved a number of important objectives during the quarter, which include: staff training and assisting in the reorganization of the Financial Supervision Department; assisting in the regional expansion of monetary policy activities; launching the National Payments Council and opening the Afghanistan Clearinghouse; advancing the internal discourse at DAB on proposed amendments to the DAB Law and Banking Law and presenting new “access to finance” laws to key stakeholders; assisting DAB’s CFO in issuing and gaining approval for the 1388 financial statements and obtaining a clean audit report; and making progress on the disaster recovery site selection and relations with Afghan Telecom, for better connectivity into DAB’s head office and between the head office and the provincial branches.

As the quarter progressed, DAB’s initiatives, carried out with EGGI assistance, gave the Central Bank increasing prominence as a promoter of sound macroeconomic policy, financial sector stability, and an efficient payments system. As befits an institution that is viewed as increasingly professional, these accomplishments are largely accomplishments of DAB, and in many cases reflect the central bank’s own initiatives for self-improvement.

Perhaps the most significant accomplishment took place in the **Accounting and Financial Management** workstream where EGGI helped DAB secure a clean audit report (unqualified) from its external auditor, KPMG, for the 1388 Financial Statements – a first time accomplishment since the 2003 re-establishment of DAB. The DAB Supreme Council approved the financial statements, and this milestone will enable DAB management to plan for further reforms based on an accurate picture of its current financial situation.

In the **Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance** workstream, EGGI carried out an intensive training program for most of the FSD staff and assisted in gearing up DAB for a full-scale push into the regulation and promotion of Islamic banking. EGGI also worked with the Governor and the Supreme Council on a resolution aiming to curb abusive shareholder involvement in bank management



EGGI’s Glenn Tasky conducts a week-long seminar on “Financial Analysis for Bank Regulators” to DAB employees in June 2010.

The **Monetary Policy, Statistics, and Market Operations** workstream scored a win for DAB by helping to organize a conference on the Survey of Regional Economic Activity and participating in events in the zonal branches, raising the profile of DAB outside of the capital and working towards broadening the sources of economic data (both objective and anecdotal) used to formulate policy.

**Payments Systems** made substantial progress during the quarter. EGGI helped launch the National Payment Council, institutionalizing significant cooperation among the senior executives from the commercial banks, the MOF and DAB, who will work together to provide guidance and direction to the payment systems in Afghanistan.

DAB, with significant participation of the Afghanistan Banks Association and EGGI, also created the **Afghanistan Clearinghouse (ACH)** for low-value interbank payments. The ACH formalizes the clearing and settlement of checks and guarantees funds to beneficiaries, thus expanding the usage of non-cash payment options. DAB and MOF also finally signed an agreement to allow the MOF to initiate electronic transactions on its own, speeding up the process of paying government salaries into bank accounts.

In the **Legal and Regulatory Drafting and Promotion/Support to the Office of General Counsel** workstream, EGGI significantly contributed to the passage of the new Financial Leasing Law. Both houses of Parliament voted to approve the draft Financial Leasing Law following a series of lengthy consultations held with Parliamentarians, Ministry of Justice (MOJ) officials and DAB/EGGI. The Leasing Law establishes a legal framework for financing through leasing, a structure highly suited to small and medium-sized enterprises and compatible with Islamic principles. EGGI also assisted DAB in key discussions with the MOJ regarding the Banking Law and DAB Law amendments. These preliminary discussions put these crucial amendments “on the map” of the MOJ, increasing the chances of cooperation and MOJ support at that critical stage before presentation to Parliament.

Lastly, **Cross-cutting Support to the IT Department** resulted in the completion of a Disaster Recovery Site Evaluation guide, and a review of disaster recovery sites in two neighboring countries. Disaster recovery is of critical importance to DAB in a city prone to earthquakes and terrorist attacks.

## Component 3: Private Sector Development



During the third quarter, USAID/EGGI saw progress in several areas under the *Private Sector Development* component. EGGI took steps to improve the legal framework for businesses to prosper while building greater momentum to mobilize private sector growth in the areas of telecom, energy and mining.

In June 2010, EGGI delivered a revised set of “minimal” amendments (with explanation) as well as more ambitious “supplemental” amendments (with explanation) for the **Law on Corporations and Limited Liability Companies**. Although EGGI had delivered two sets of regulations and related explanations in the previous quarter, it was evident that that law needed amendments to the regulations based on further consultations with the Ministry of Commerce and Industries (MOCI). EGGI also delivered a draft “model articles of incorporation” in May 2010, hoping that if companies adopted such articles (which serve as a company’s internal “constitution”), they might circumvent some of the problems, particularly with respect to shareholder protections, found in the law. Other activities relating to the Corporations Law included consultations with MOCI on the draft regulations for the Afghanistan Central Business Registry (ACBR) and the legal standards for company names.

Throughout the quarter, EGGI and GIROA counterparts reviewed the draft implementing regulations under the **Mediation Law**, draft

amendments to the **Private Investment Law, Contract Law and Agency Law**, to determine what modifications were required.

An exhaustive analysis of the **Partnership Law** with recommended regulations was also completed in June 2010. This diffuse, repetitive, sometimes vague and contradictory law will also need amendment. The quarter also saw the initiation of work on **Bankruptcy Law**. EGGI brought two U.S. federal court bankruptcy judges to Kabul in April 2010 to hold wide-ranging discussions with relevant stakeholders. A draft law and related materials are expected to be drafted by the judges in the following quarter.

In June 2010, EGGI launched technical assistance to the **Ministry of Mines (MOM)**, with the specific scope to create an Investment Promotion Department and develop the strategic plan to promote investment in the mining sector. The Minister requested that EGGI to design an investment promotion strategy and plan to include recommendations for MOM to provide investment information sessions to private domestic and international companies.

The **Ministry of Energy and Water (MEW)** is now on track to issue three new licenses for private sector electricity service providers. Two private energy companies have already signed draft operating licenses, which are currently awaiting approval. These services will

not only promote private sector growth, but they will also provide **more reliable, efficient and least cost power to the citizens of Afghanistan**.

At the request of the **Ministry of Communications and Information Technology (MCIT)**, EGGI re-launched support to the Afghanistan Telecom Regulatory Authority (ATRA). One of the key objectives is to help launch Next Generation Network services through an international tender process. The services would include **3G (third generation mobile) and WiMAX**, which provides broadband wireless access for increased data capacity. With these services, Afghanistan will join an elite group of Next Generation services countries. EGGI worked closely with ATRA in the preparation of the tender process and licensing documents. The expectation is that revenues will increase significantly from the award of 3G and WiMAX licenses.

EGGI is also helping Afghan Telecom (AfTel) make progress in its **expansion of the Optical Fiber Cable (OFC) ring network** within and outside of Afghanistan, including interconnections with neighboring countries, i.e. Iran, Uzbekistan, Tajikistan, Pakistan. The Turkmenistan interconnect is the final, cross border interconnect for the OFC ring network, and meetings are scheduled to negotiate an agreement in July. The ring network and the direct connection with the neighboring countries will facilitate enhanced voice, data, Internet and video capabilities, while also providing additional revenues to AfTel.

Another positive development was seen in April when **MOCI named a new Director of the ACBR**, which has made it possible for EGGI to turn over management and operational responsibilities to GIROA. Within a few weeks of his appointment, the Director conducted thorough assessments of ACBR operations in Kabul and the regions with EGGI support. EGGI is now working with MOCI to develop the appropriate Tashkeel and operational budget to ensure ACBR sustainability starting the next fiscal year.

Lastly, EGGI has been working closely with the MOCI’s **Private Sector Development Directorate (PSDD)** to develop its understanding of Afghanistan’s private sector. EGGI delivered a series of training sessions on the basics of the Afghan economy, private sector development and other topics of interest to the Directorate.

# SPOTLIGHT

## On EGGI's Progress in Herat

**D**uring the third quarter, EGGI/Herat achieved substantial progress in strengthening the operations and effectiveness of the Herat **Private Sector Development Subcommittee** (PSD-SC), one of six subcommittees of the Herat Provincial Development Committee. EGGI/Herat worked collaboratively with various counterparts to establish a more disciplined, structured approach to addressing private sector issues.

Key progress included the strengthening of the PSD-SC by updating the subcommittee's terms of reference, identification of key constraints affecting Herat's private sector and action items to address the issues, and the establishment of stronger links with central GIROA ministries and institutions involved in private sector growth affairs. Beyond operational strengthening, EGGI/Herat also promoted PSD-SC action to address two key issues such as business licensing, registration, and taxpayer identification reforms and increasing access to finance.

Through consultations with private sector businesses, GIROA directorates, and other relevant stakeholders, the PSD-SC successfully lobbied for changes to **streamline the steps required to register a business and obtain a business license and Taxpayer Identification Number (TIN)**. The lobbying resulted in MOCI and AISA's endorsement to empower provincial offices to process all phases involved in registering and licensing a business. Previously, inefficient and burdensome steps, including travel from Herat to Kabul, were required to register and license a business. Discussions regarding the TIN issue

are now in progress and the PSD-SC is nearing positive outcomes in this regard as well. These reforms, not only reduce the burden and costs on businesses, but they also increase the legal compliance to operate a business and encourages businesses to enter into the formal economy.

Improving **access to finance**, in coordination with Component 2 teams and through engagement with the DAB West Region Office, represents another key PSD-SC initiative that EGGI/Herat supported over the performance period. Following the awareness campaign of the DAB/EGGI hosted **Financial Sector Laws Stakeholder Roundtables** in April 2010 (an achievement in itself), substantial follow-up was taken with commercial banks, the commercial courts, and private sector businesses to focus on addressing the identified constraints. Access to finance has been a major constraint to private sector growth for Afghan

businesses. DAB is actively leading improvements to the legal environment that reduces risks and provides alternative financing options, such as those offered by the **Leasing Law and Negotiable Instruments Law**. With considerable progress in advancing such laws, DAB will increasingly focus on additional public awareness campaigns.

Of particular importance are land titling and collateral registration issues. Research suggests that close to 90% of Herat properties bear unregistered title deeds not recognized by lenders and the commercial courts, rendering such properties as unqualified collateral for secured lending. To address these issues, EGGI/Herat assisted the PSD-SC in crafting solutions to overcome these matters. While not resolved, key issues regarding limited bank lending was uncovered, and awareness among key GIROA officials of these constraints was raised, generating a number of ideas to improve the bottlenecks.

EGGI/Herat also made progress in implementing monetary policy and statistics functions in the DAB West Region Office. The DAB recruited regional economist has taken his position and is actively preparing to conduct the **first regional economic survey** for the west region with EGGI assistance. The DAB/EGGI team also held consultations with all 14 commercial banks active in Herat province and introduced a **monthly survey tool to capture a variety of banking trends** helpful to better understand the pace and scope of banking sector development – and its economic impact – at the provincial level. Administering these surveys and other data collection activity represents the primary activities of the DAB regional economist.

Strong Pulse in Herat's Banking Sector	
26	Number of commercial bank branches covering five Herat districts.
1,600	Number of banking transactions processed daily in Herat.
2.5B	Amount of outstanding loans as of May 31, 2010 (in Afs), a 1B Afs increase since FEB 2010.
3.62%	Percentage of outstanding loans issued in Herat as % of total in Afghanistan. (February 2010 percentage was 2.46%)
11	Number of Point of Sales (POS) systems in use by merchants. There are also 4 ATMs that are operational.
Source: Da Afghanistan Bank	



Members of the Herat banking community, private sector and university students participate in roundtable discussions regarding financial sector laws and access to financial services.

# Additional Areas of Workplan Progress

## Component I: Economic Policy

### Fiscal Policy Unit

The strategy note on the Fiscal Policy Unit's role and function with the Ministry of Finance (MOF) was completed and shared with the Minister. The main conclusion was that while the Fiscal Policy Unit (FPU) has made good progress, it still has a relatively low profile within the MOF and is constrained to undertaking primarily public expenditure analysis.

Going forward, the Unit needs to be expanded to cover other core functions such as macroeconomic analysis, tax policy and debt management policy. Resources have since been made available (via a UNDP project) to increase the capacity of the unit to take forward these areas.

\*\*\*

The GIROA Macroeconomic Working Group comprised of officials from the MOF-FPU, DAB Monetary Policy Department and the Central Statistics Office was also established during the quarter. The creation of this working group is a positive step that will help improve the coordination of fiscal and monetary policy in Afghanistan. The group will regularly share information on GIROA cash injections into the economy, macroeconomic projections, and information on the four sectors of the economy (i.e. the monetary, fiscal, external and real sectors).

\*\*\*

### Program Budgeting

In April 2010, USAID/EGGI and the MOF launched the Program Budgeting initiative to strengthen the budget planning capabilities of the Afghan government.

Within the year, over 1000 employees will receive Program Budgeting training. In subsequent years, budget planning responsibilities will fall increasingly on the GIROA employees.

EGGI's support consists of training GIROA ministries and budgetary units to develop and submit their annual budgets in conformance with MOF's program budget instructions. Program objectives will be achieved once GIROA ministries "graduate," meaning a ministry will obtain a certificate after an assessment is completed and a mutual agreement is made with the MOF, USAID/EGGI, and the participating Ministry.

During the quarter, EGGI developed training materials in collaboration with the MOF for the preliminary budget exercise announced in the first budget circular. This document re-



quests budgetary units to prepare cost estimates for their baseline operating budget and specific development projects they have identified for funding consideration.

EGGI and MOF also conducted training sessions for 14 line ministries during early May 2010 at which approximately 300 government employees attended. EGGI also conducted Program Budget familiarization briefings for central and provincial officials. These sessions also included instructions on budget execution procedures for provincial officers.

In June 2010, EGGI and the MOF launched a month-long training program to target at least 1,000 GIROA employees from all 51 budgetary units in Afghanistan.

The trainings are divided into 8 modules, which include an introduction to Program Budget, its advantage over traditional budget, elements of the program budget namely developing program structure, strategic objective, program objective, outcomes, sub-program objectives and outputs. Adoption of the trainings will enable the ministries to independently and accurately develop their budgets in the future.

\*\*\*

### Provincial Budgeting

In June 2010, USAID signed a letter of agreement with the MOF stipulating the areas of technical assistance that EGGI will provide to the Ministry in provincial budgeting. Under the agreement, EGGI will assist the MOF to create regional training hubs in Jalalabad, Ma-

zar, Herat, Kandahar and Kabul staffed to implement the MOF's budget reform initiatives at the provincial level. This will create a MOF presence in the five key regions to more effectively implement budget reform. The key elements of MOF's provincial budgeting reform approach that EGGI will support include improved consultation and coordination between line ministries and their provincial directorates and intensive training and mentoring for provincial line directors and their finance staff.

\*\*\*

EGGI/Jalalabad completed an assessment of Nangarhar Mustofiat Treasury operations and working environment on June 30, 2010. The assessment reviewed current business processes and procedures for processing payments, monthly budget execution reporting, recording budget transactions and how well the Afghanistan Financial Management Information System (AFMIS) has been integrated into the current Treasury operations.

Key findings included inadequate business processes with regards to payments, booking and money transfers, inadequate equipment to facilitate office transactions, and the ineffective use of AFMIS to monitor budget execution. EGGI will develop a capacity building plan for targeted technical assistance to help the Mustofiat address current deficiencies. Similar assessments of Treasury operations are expected to be conducted in the other key economic centers of Herat and Mazar.

# Additional Areas of Workplan Progress

## Component I: Economic Policy

### Insurance Reform

The draft Insurance Law is a key factor in moving the insurance industry and the insurance regulator forward in Afghanistan since it includes many of the recommended core principles of the International Association of Insurance Supervisors which are standards that 140 countries have agreed upon. It also states that an Independent Insurance Authority will be created to make decisions on all regulatory issues.

The law will allow the Authority to conduct extensive examinations of the insurance sector including financial and market conduct. Most importantly it will allow the Authority to hold hearings to discuss issues with the insurance sector and ensure that foreign brokers and companies be licensed in Afghanistan before undertaking operations. It will address the penalties and enforcement procedures for failure to comply with the law. The law has been signed by the Deputy Minister of Finance (Administration) and is presently at the Ministry of Justice for review.

\*\*\*

A series of comprehensive insurance lectures were also delivered to outline the importance of insurance to the economy including the development of banking and a future bond market. Members from line ministries, Chamber of Commerce, Supreme Court and the insurance industry participated in the training series. These lectures assisted in educating participants in the importance of a strong regulator and insurance sector, and it also covered the key areas of the IAIS core principles. In addition, EGGI's national insurance team passed the two hour international insurance examination, and these individuals will now assist in training the insurance staff.

\*\*\*



### Revenue Reconciliation Database

The Revenue Reconciliation Database has now been installed in 24 provincial mustofiats and four ministries in Kabul. Revenue collection employees in these mustofiats and ministries have been trained in revenue reconciliation and systematic revenue report generation.

The MOF Revenue Department is now able to store revenue data reported by province, reconcile revenue data and perform analysis on revenue trends. The database is helping provincial mustofiats to automatically generate revenue reports thereby reducing the transactions costs associated with manual preparation of these reports. The database is also helping the provincial mustofiats to utilize the revenue module of the AFMIS.

# Additional Areas of Workplan Progress

## Component 2: Finance Sector Development

### Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance

EGGI trained and worked closely with the Licensing Section of DAB to develop a Bank License Application Form that is fully compliant with the banking laws and regulations. The new form also promotes and strengthens transparency in the Bank Licensing process and will help ensure strong, qualified banks enter the financial system. At the end of the third quarter, a new bank applicant submitted a license application using the new form. EGGI is working with the Licensing Section to review the application and determine if the applicant meets the new standards established in the new form.

\*\*\*

EGGI provided two one-week seminars on Financial Analysis for Bank Regulators and Asset/Liability Management and Liquidity for 34 staff of the FSD. The seminars introduced analytical concepts and on-site and off-site examination techniques for reviewing a commercial bank's asset quality, profitability, capital adequacy, asset/liability management and liquidity management functions. The seminars concluded with a one and half day case study where the participants analyzed the financial statements of a bank, using the techniques from the lessons learned, and presented their findings and conclusions to the class.

\*\*\*

EGGI also assisted in developing a DAB internal policy on Report of Examination (ROE) Timeline and ROE Signing Authority Delegation. The policy will improve the efficiency of the ROE review and approval process conducted by the FSD and ensure that the FSD recommendations are communicated to the banks in a timely manner. In addition, EGGI made recommendations on speeding up the process of issuing enforcement actions against banks that are not observing laws, regulations, and best banking practices.

\*\*\*

EGGI worked with the Governor and the Supreme Council of DAB on a resolution aiming to curb abusive shareholder involvement in bank management. Although the resolution went too far, in the advisors' opinion, in completely banning shareholders from serving on the Management Board (such a ban, if properly implemented, would require a change in the Banking Law), it did convey to the banking sector DAB's overall policy stance regarding these abuses and outlined the follow-up action that DAB will soon be taking to end these practices.

\*\*\*

### Monetary Policy, Statistics, and Market Operations

USAID/EGGI conducted the field pre-test of the Survey of Regional Economic Activity for the Kabul Zone and prepared training materials and presentations on establishing the survey in each zone. These materials will be provided to staff in the DAB zone offices and accompanied by formal training to ensure successful implementation in each zone. Leading up to the first survey, EGGI organized a conference for participants to convey the seriousness of the survey, to explain the survey questions, and to gather information about the industries being surveyed.

\*\*\*

EGGI and DAB senior managers travelled to Mazar to hold training sessions and meetings for the purpose of developing the monetary policy functions at the branch office. Specific activities included training on topics of macroeconomics and monetary policy, conducting outreach sessions with bankers, business and community leaders, introducing staff to DAB's new economic activity survey initiative, and attracting top university students to careers at DAB. EGGI conducted training and held seminars, and provided logistical support for the mission.

\*\*\*

EGGI/Herat and EGGI/Kabul commenced a three-day monetary policy training with the DAB Herat Regional Director and select branch staff to introduce two new surveys scheduled for implementation in the DAB Zone Offices – the Bank Lending Survey and the Access to Finance Household Survey. The two survey instruments are aimed at improving access to finance through more data driven analysis on demand and supply side factors. Bank lending will now factor into the conduct of DAB Monetary Policy in a move to lessen dependence on foreign currency sales (FX Auction), with regional DAB offices increasingly involved in data collection and analytics.

\*\*\*

Towards developing the analytical capacity of DAB, EGGI continued mentoring the Consumer Price Index (CPI) team on the analysis of weekly price movements, and on the preparation of inflation forecasts to be included in the weekly report to the Governor. In addition, EGGI helped DAB staff in the preparation of a report on the advantages and disadvantages of fixed and floating exchange rate regimes. Further, EGGI completed development of a new model for estimating quarterly GDP to be used in making policy decisions.

\*\*\*

### Payments Systems

During the quarter, EGGI worked with the commercial banks, the MOF and the DAB to create the National Payments Council, a significant breakthrough as senior executives from these organizations will work together to guide the future of the payment systems in Afghanistan. Other key accomplishments during the quarter include: a) signing of the agreement between MOF and DAB to eliminate physical checks for the payment of government salaries, allowing the MOF to initiate electronic transactions on their own and b) the creation of the Afghanistan Clearinghouse (ACH) for the clearing and settlement of inter bank checks.

\*\*\*

To support direct deposit services in Afghanistan, EGGI, in consultation with DAB, drafted the Direct Crediting Scheme Guidelines. The scheme is designed to provide a secure, efficient and cost effective payment mechanism. It is solely a method of making payments, and the banks are not responsible for any underlying contracts between the originator and the payee. These guidelines were originally written as a regulation, but have since been amended to a guideline to be used internally. These guidelines will eventually be tied to consumer protection regulations and give consumers information regarding their rights.

\*\*\*

### Accounting & Financial Management

With EGGI's assistance, DAB successfully reconciled six more outstanding branch balances with the amounts at the head office. These branch balances, which have been unreconciled for many years, are now fully reconciled with no differences, bringing the total of reconciled branches to 32 out of 74.

EGGI provided technical oversight to the reconciliation process. Full reconciliation of balances between the bank's head office records and its branches enables the bank to identify and correctly account for the assets, liabilities, income and expenditures relating to previous years.

Reconciliation is also necessary to enable the independent auditors to verify balances, certify the bank's financial statements and ensure that appropriate systems of risk management, financial and operational controls are in place and compliant with the law and safeguard standards. Certified Financial Statements meet the bank's five year Strategic Plan to assure the integrity of the Banks Accounting and Financial Data.

\*\*\*

# Additional Areas of Workplan Progress

## Component 2: Financial Sector Development

### Legal and Regulatory Drafting and Promotion/Support to Office of General Counsel

During the quarter, EGGI worked with DAB counterparts on issues relevant to all phases of the legislative process. With respect to previously enacted legislation, EGGI/DAB worked with EGGI/Herat to arrange a seminar in April 2010 in Herat to discuss the Law for Mortgages on Immovable Property in Banking Transactions and the Law for Secured Transactions on Movable Property in Banking Transactions, which were signed into law approximately one year ago.

DAB remains committed to promoting the development of active lending markets, and the laws provide key elements of the necessary legal framework for doing so. Discussions with the bankers, private sector business leaders, other government officials, and representatives of academia were useful in helping DAB to focus on key impediments to implementation of the laws.

Some of these matters are within the control of DAB, and some are within the control of other institutions of government and the private sector, but the continuing engagement with a wide array of stakeholders is beneficial to DAB in helping to inform the policy-making process overall.

\*\*\*

With respect to legislation currently under consideration, EGGI supported DAB advocacy efforts in Parliament regarding the Financial Leasing Law and the Banking Law amendment that would add an appendix establishing the Afghan Deposit Insurance Corporation. Progress on the latter has been delayed by the parliamentary recess, but with EGGI support, DAB did secure a commitment by the Parliament to attend a seminar to be sponsored by EGGI that would present and explain key policy issues related to deposit insurance.

With respect to the Financial Leasing Law, DAB achieved a notable success in that both houses of Parliament have now voted their approval of the legislation. The versions approved by the houses differ slightly and will have to be reconciled when Parliament returns from recess before the law can be enacted (thereby fulfilling the corresponding ANDS policy action benchmark).

EGGI was pleased to note a “spillover” institutional effect from the promotional efforts related to the secured transactions laws, in that DAB General Counsel staff have expressed an interest in communicating with members of the private sector leasing industry and educating themselves about that

business. EGGI has provided some support to facilitate those contacts.

\*\*\*

With respect to legislation currently in the drafting process, EGGI has invested significant effort with DAB to prepare the General Counsel staff to take a key role in advocating for the proposed amendments to the Banking Law and the DAB Law, encouraging General Counsel staff to confer with each department of the DAB to explain key changes in the laws and solicit feedback. This will be a vital step in ensuring institutional ownership of the proposed amendments, but it is a lengthy and time-consuming process.

EGGI has been pleased that as a result of this increasingly high degree of “ownership,” the DAB General Counsel has been better positioned to advocate for realistic timeframes for the legislative process, with both internal and external stakeholders, and has been better positioned to advocate for a coherent strategy of quality legislative development, rather than an ad hoc or externally driven process. That being said, DAB believes that it urgently needs to enhance its enforcement posture with respect to key areas of the Banking Law which are proposed for amendment, specifically on the question of abusive shareholder involvement in bank operations.

DAB has developed, with EGGI support and in collaboration with the Ministry of Justice, a strategy for seeking adoption of key amendments related to these areas by Presidential Decree during the parliamentary recess. The strategy should allow DAB to balance the key priorities of enhancing its regulatory authority to meet urgent needs

while also continuing to support a fully vetted and consultative legislative process for the bulk of proposed amendments.

\*\*\*

### DAB Information Technology

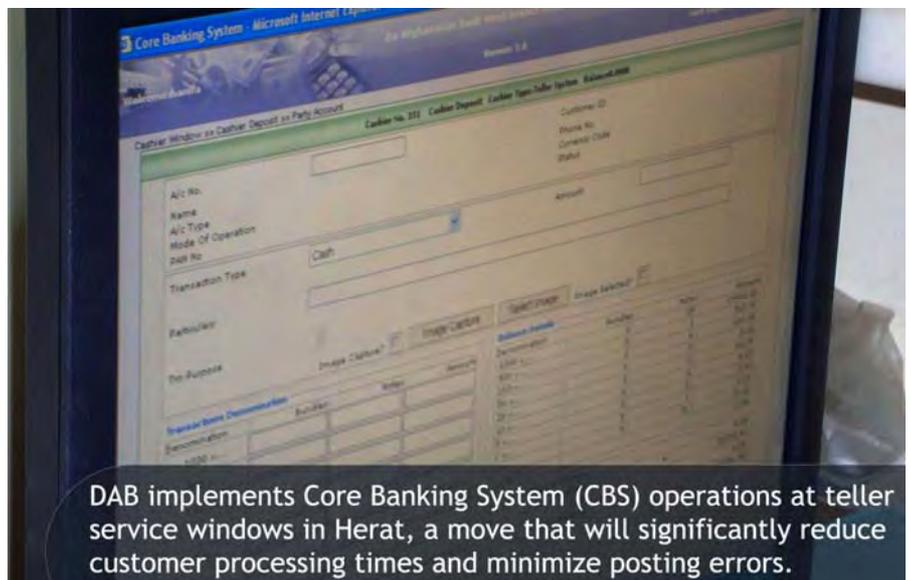
During the quarter, EGGI supported the DAB IT Directorate in the conclusion and documentation of two country evaluations as part of the workplan for the development of a Disaster Recovery strategy for the critical Information Systems at DAB. EGGI concentrated in the development of a proper methodology for the execution of the visits, proper documentation and support during the information gathering process so the time and effort invested would produce a technical and objective evaluation of the services available off shore.

\*\*\*

As part of the effort to improve the connectivity of the bank, EGGI supported the evaluation of services provided by Ministry of Communication and Information Technology (MCIT) and Afghan Telecom (AfTel). As a result, DAB evaluated the Internet connectivity services provided by AfTel using the Optical Fiber Cable (OFC) infrastructure at MCIT. Unfortunately, the test period proved that the services provided by AfTel still need to be adjusted for proper delivery. Further work will be performed with AfTel in order to identify alternatives.

\*\*\*

Finally, and as part of the inter-agency collaboration promoted by EGGI, DAB will be signing a contract with AfTel for the provision of connectivity with the regions. With this, the infrastructure supporting the Core Banking System application is expected to improve allowing employees in the branches to process financial transactions with minimal loss of connectivity and a much better bandwidth rate.



# Additional Areas of Workplan Progress

## Component 3: Private Sector Development

### Commercial Law

A comprehensive assessment of the Partnership Law has been prepared with recommended regulations and a clear indication of the need for amendment. In addition, amendments to the Corporations Law and a new, workable bankruptcy law can substantially improve Afghanistan's current last-place ranking for "closing a business" in the World Bank's "Doing Business" indicators.

\*\*\*

### Business Registration (ACBR)

USAID/EGGI accompanied the Acting Director of ACBR to his first regional trips to the ACBR offices in Jalalabad and Mazar. During those trips, the Acting Director was introduced to his staff in the provinces, and he also met with the various business registration stakeholders in the regions, including AISA, ACCI, Mustofiat, Governor's office, and DAB.

EGGI also developed and submitted to ACBR a plan for the establishment of the Kunduz ACBR. MOCI would like continued support to open this provincial location, and is seeking to open the office in the coming quarter.

\*\*\*

### Telecom/ICT Sector

A firm date to discuss the possibility of a cross border Optical Fiber Cable interconnect agreement with Turkmenistan's Ministry of Communications has been finalized. Afghanistan's MCIT was invited to meet with Turkmenistan officials in July 2010 to negotiate an agreement. The Turkmenistan interconnect is the final, cross border interconnect for Afghan Telecom's OFC Ring Network. This direct connection between the two countries with significant communities of interest will facilitate voice, data, Internet and video services. This agreement will also

provide additional revenue to Afghan Telecom creating greater value in its future privatization efforts.

\*\*\*

Optical Fiber Cable Commercial Training was completed with 21 AfTel technical staff members receiving certificates of training. Training focused on the historical, regulatory, legal and commercial aspects of fixed communications networks in the domestic and international scenarios.

\*\*\*

Attendance at the International Telecom Week Congress in Washington, DC dramatically increased the exposure to AfTel to the global carrier industry. EGGI accompanied the GIROA delegation, as this was the first time that AfTel had attended such a significant international conference in pursuit of increased business opportunities.

\*\*\*

### Energy Sector

USAID/EGGI held stakeholder consultations with Da Afghan Brishna Sherkat, Ministry of Energy and Water, Ministry of Justice, Ministry of Economy, Ministry of Finance, private sector operators, potential domestic investors, and other relevant stakeholders to receive and discuss their specific comments on the Electricity Law. In response to their requests, EGGI and MEW revised the draft law from 74-pages down to 15 pages. To achieve this, the law was revised to focus on basic principles, and to remove subjects that could be addressed through rules and regulations. These changes will also make the Parliamentary review process much easier.

\*\*\*

EGGI met with two small vertically integrated private sector power generation/distribution/supply companies operating in Afghanistan. These companies are eager to

see a finalized and transparent framework for private sector involvement in the energy sector. As such, they have signed the draft licenses in anticipation of the Interim Regulator's next steps for approval.

### Mining Sector

The Mining Investment Promotion Advisor arrived in Kabul in early June 2010 and was able to immediately provide comments to the draft Minerals law to the Ministry of Mines (MOM) review team. Comments focused on recommendations relevant to the mining tariff regime made during an earlier Mining Tax Policy mission supported by EGGI.

Additionally, during the first weeks working within MOM, the Minister requested EGGI to attend the London Investment Events Conference during June 19-27, 2010, which attracted over 200 participants and media (Financial News/BBC/Press). EGGI worked with the counterpart to assist with the Minister's presentations. As a result of EGGI's assistance at the conference, the Minister has requested EGGI to design an investment promotion strategy and plan to attract domestic and international investors into the sector.

## Component 1: Economic Policy

### Program Budgeting

The most serious challenge is ongoing attrition of EGGI's experienced program budget analysts. Under normal circumstances this would not be as serious, however, the MOF has placed a substantial burden on the team to support the implementation of program budgeting throughout the government. While EGGI has the authorization to fill vacant positions, the lack of experienced people severely places the quality of the program budget support in jeopardy. USAID may be required to manage MOF's expectations accordingly.

### Provincial Budgeting

There is a need for an accepted strategic framework on intergovernmental financing in

Afghanistan. There is need for consensus on a) the reforms to the budget authority structure and process necessary to facilitate greater resource flows to the provinces, b) how to get more equitable and transparent distribution of resources across the provinces and c) an effective fiscal framework for financing municipalities.

### Revenue Reconciliation

The main challenge in this area is the transfer of mustofiat employees trained in the database to other duties within the provincial mustofiats. Internet availability is another main challenge in some provinces. EGGI has provided CDMA cards to all provincial mustofiats where the database has been installed. Inter-

net access and mobile network coverage is extremely poor in some provinces with the consequence that the CDMA cards cannot be used to send or receive any files.

### Insurance

A strong management team is needed at the Insurance Department. The present civil service system does not pay a salary required for attracting good candidates and retaining them. USAID may want to engage the Ministry to support and expedite the development of this sector.

## Component 2: Financial Sector Development

### Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance

Inaction by Parliament on the Afghan Deposit Insurance Corporation Law hinders further development of that key element in financial sector stability.

### Monetary Policy, Statistics & Market Ops

The primary challenge is the limited availability of well-qualified staff in the respective departments. For example, of about 40 applicants for the six vacant Zone Economist positions, only 12 were called for interviews and only two of those received unqualified offers of employment. This issue will be resolved over time as the Bank encourages weaker staff to leave, strengthens its retention policies, and becomes more attractive to high quality candidates. No USAID intervention is required.

### Accounting and Financial Management

A majority of the staff possess minimal accounting qualifications. Training is necessary to upgrade staff to at least the semi-professional accounting level. EGGI is providing on-the-job, practical implementation training for specific areas of work. However, general accounting trainings are still necessary.

DAB is making efforts to fill vacant positions, but the process is moving slowly.

### Payments Systems

The major challenge has been the lack of GIROA IT support for the payment projects. Implementation of projects and the live operation of the Clearinghouse, has been delayed due to the lack of qualified IT staff. This will continue to be a problem until qualified resources are hired.

### Legal and Regulatory Drafting and Promotion/Support to Office of the GC

The lack of a permanently named General Counsel has been detrimental to the operations of that office.

\*\*\*

Ensuring lenders' ability to enforce loan agreements against defaulting borrowers is essential to promoting access to finance. In the case of the Mortgage Law, enforcement necessarily includes the ability to sell collateral property in order to recover loan proceeds from a defaulting borrower. The "power of sale" provisions of the law require submission of foreclosure notices to a court for review, but

entitle a lender to proceed with a sale in the event that the court does not rule on the matter within 20 days. The provisions were drafted to limit inappropriate delays of such proceedings. Such delay is widely perceived to be rampant in court proceedings, and to be both a reflection and a product of pervasive corruption in the court system.

DAB and MOJ agreed to meet with the Supreme Court to discuss a resolution. EGGI anticipates that the process of securing Supreme Court agreement on the Mortgage Law may be politically charged. Nevertheless, EGGI will ensure that DAB is prepared with comprehensive legal arguments on the proper interpretation of the laws in advance of the meeting, the date for which has not yet been determined.

### DAB Information Technology

Lack of resources for documenting the current Data Center infrastructure has been a challenge. A well documented Data Center infrastructure will be required to complete a Request for Proposal for the final Disaster Recovery site. EGGI will keep pressuring DAB to complete this.

## Component 3: Private Sector Development

### Commercial Law

The MOCI must be further persuaded that regulations require a clear public-interest justification, are not ends in themselves and or opportunities for rent-seeking.

### Telecom/ICT Sector

Mediation of the Turkmenistan interconnect agreement activities by EGGI can only go so far since the actual negotiation and execution of the agreement is between Afghanistan and

Turkmenistan. Turkmenistan is on its own timetable and the lack of urgency could delay the agreement.

\*\*\*

Interaction among the carrier operators at two conferences since February 2010 has generated several opportunities and higher demands on the AfTel organization to perform. AfTel does not have the capacity to successfully complete the initiatives for new

requirements and services and network extensions without partnering with operators in the short term. In the longer term, EGGI should make re-privatization of AfTel a priority with the concurrence of the Ministry.

# Looking Ahead

Comprehensive set of future activities will be included in the workplan.

## Looking Ahead: Economic Policy

### Program Budgeting

Continuing through the middle of July 2010, EGGI and MOF will conduct training of all 51 ministries and budgetary units. At the end of the training, EGGI will deploy budget analysts to all budgetary units where they will mentor and coach their respective budgetary units throughout the quarter.

### Provincial Budgeting

Key areas of focus over the next three months: a) recruit, hire and deploy nine provincial budgeting and reporting officers in five regional economic centers to work under EGGI and MOF supervision and b) provide operational support to develop operating and development budget estimates for 18 prov-

inces and all provincial line directorates as part of the 1390 budget formulation process.

### Revenue Reconciliation

EGGI will push to complete installation and training on the use of the Revenue Reconciliation database in the 10 remaining mustofiat.

### Insurance

EGGI will provide ongoing basic insurance training, and prepare Insurance staff for two examinations on the of the Intro to Property and Casualty. EGGI will also begin Intro to Underwriting training with the EGGI Insurance Team, and prepare them for an international examination (scheduled Aug 26) on the Intro to Claims. EGGI will also support the

establishment of a management team and prepare brief job descriptions for senior management for the Insurance Department.

### Fiscal Policy Unit

The main goals for the next quarter will be to support the FPU's inputs in the budget preparation process for fiscal year 1390 (2011/12) by completing the Medium Term Budgetary Framework (MTBF). The MTBF is a framework for integrating fiscal policy and budgeting over the medium-term by linking a system of aggregate fiscal forecasting to a process of maintaining detailed medium-term budget estimates by ministries. EGGI will also continue to support the operationalization of the new GIROA macroeconomic working group.

## Looking Ahead: Financial Sector Development

### Banking Sector, Financial Supervision, Risk Management, and Deposit Insurance

By September 30, the FSD, with EGGI assistance, should have completed the licensing of the World Council of Credit Unions network of Islamic Investment Finance Cooperatives as Depository Microfinance Institutions; completed new, stricter guidelines offering electronic money services; completed a CAMEL rating matrix for greater consistency in assigning on-site examination ratings; release for public comment a revised capital regulation; developed a branch application manual with a framework for analyzing requests to open new branches; and have offered a seminar on Corporate Governance to FSD staff.

### Monetary Policy, Statistics & Market Ops

EGGI will continue the expansion of its activities to the provinces by increasing the coverage of the various data collection methods and by conducting training and outreach activities with the zonal offices. Analytical development of DAB staff will continue through trainings and assistance in the development of

analyses and research commonly produced by central banks throughout the world.

### Accounting and Financial Management

EGGI is planning to implement the CBS at two more branches DAB (Daikundi and Ghazni), plus merge the records (database) of three regional hubs (Kandahar, Mazar, and Herat) with the Head Office database. EGGI will also assist in fully reconciling the records of six more branches with the records of Head Office, plus develop and review the procedures for purchases, inventory management and fixed assets.

### Legal and Regulatory Drafting and Promotion/Support to Office of the GC

The long process of preparing the proposed amendments to the Law of Banking and the Law of DAB will continue and will require substantial resources. The work will also need to be coordinated with efforts to develop a Law of Islamic Banking, which are being supported by external IMF consultants.

The Office of General Counsel has not benefited from the same level of sustained staff support and extensive training that have been provided to other departments of DAB, and plans are developing to ensure greater availability of targeted training initiatives. EGGI is working to develop a business process mapping analysis that will identify training needs and help to develop a coherent strategy for enhancing staff development.

### Payments Systems

EGGI will continue the projects that are in progress: a) operation of Afghanistan Clearinghouse; b) implementation of the upgrades to and integration of the ACSS with the CBS.

### DAB Information Technology

DAB IT Department, with EGGI assistance will complete the Disaster Recovery Strategy document. A final site evaluation document and recommendation will also be in place for evaluation by top management at DAB. A workplan detailing activities post-approval is also expected to be in place.

## Looking Ahead: Private Sector Development

### Telecom/ICT Sector

EGGI will push to for the full announcement of the 3G and WiMAX tenders. For the Turkmenistan agreement, EGGI will prepare a draft interconnect agreement to initiate the discussion between the two countries. EGGI will also facilitate meetings between interested carriers and AfTel in Kabul starting in late July 2010 after the Kabul Conference. The Minister has requested concrete proposals to consider from interested entities prior to making any partnering decisions.

### Mining Sector

EGGI will focus on: a) creating the Investment Promotion Department charter to address department responsibilities, identification of clients/stakeholders, and processes and pro-

cedures for obtaining and reporting data; b) completing the proposed Investment Promotion Department structure, identifying key products to be developed, personnel requirements and Terms of Reference; c) assessing the viability of potential investment projects in the cement, aggregates, exploration, and other sectors under MOM supervision; d) supporting the public outreach efforts at the MOM.

### Afghanistan Central Business Registry

In the following quarter, EGGI in conjunction with ACBR, will finalize the ACBR Vision, which is a short to medium-term plan for business registry improvements. The vision will include development of a comprehensive outreach plan for the ACBR. EGGI will also:

a) implement further refinements and recommendations to improve the customer experience at ACBR; b) finalize the ACBR Operations Manual; and c) open ACBR Kunduz.

### Support to MOCI

EGGI activities in the following quarter include: a) complete the Draft Small and Medium Enterprise Policy after further reviews, including obtaining Minister's approval; b) adapt the Draft Industrial policy to reflect the Minister's vision and gain acceptance for pursuing finalization and implementation; c) assist Minister Ahady to develop and articulate his vision and priorities for private sector development initiatives; d) finalize arrangements for the Doing Business Indicators workshop, currently planned for October 2010.

**USAID/EGGI**  
Kabul, Afghanistan

[www.eggi.af](http://www.eggi.af)



## *Dedicated to Economic Growth*

---

**EGGI** is a program led by the **U.S. Agency for International Development** to help Afghanistan create the favorable frameworks that promote economic growth and governance. EGGI is comprised of a diverse team of economists, bankers, commercial lawyers, development experts and sector specialists who work alongside government officials, providing technical assistance and trainings on a daily basis.