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AFGHANISTAN

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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.

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Quick Q4 Recap: Notable Areas of Progress

Component 1: Economic Policy

- 1) Tax Administration:** Supported ASI and MTO management in delivering fourteen taxpayer education seminars to approximately five hundred taxpayers.
- 2) Program Budgeting:** Commenced training on the Basics of Program Budget preparation to support all 51 GIROA budgetary units in Afghanistan.
- 3) Revenues:** Completed the implementation of Revenue Reconciliation Database in six additional provinces, bringing the total number of provinces to 32 out of 34.
- 4) Control and Audit Office:** Initiated support to the Control and Audit Office (CAO) and created the detailed Capacity Development Plan and CAO Executive Working Group.
- 5) Policy Support:** Supported the Minister of Finance to attend the Kabul Conference in July.

Component 2: Financial Sector Development

- 1) DAB Legislation:** Finalized amendments to the Decree Law of Banking and secured "fast-track" review of the package by the Ministry of Justice.
- 2) Monetary Policy, Statistics and Market Operations:** Assisted DAB in training Zone Economists and producing reports from the Survey of Regional Economic Activity (SREA) to better inform monetary policy decision making.
- 3) DAB Zone Branch Development:** Implemented the research and analytical function in 3 DAB Zone Offices and initiated the SREA in Herat.
- 4) Financial Supervision:** Supported DAB to streamline branch application process with clearer definitions and requirements.
- 4) Payments Systems:** Launched the Afghanistan Clearinghouse for the settlement of low-value checks with participation from all 17 commercial banks.

Component 3: Private Sector Development

- 1) Commercial Legislation:** Finalized a draft of a new bankruptcy law for Afghanistan and circulated to stakeholders.
- 2) Mining Sector:** Facilitated the *Afghanistan Mining Investment and Business Opportunity Conference* in New York City to stimulate investment interest in Afghanistan's mining sector.
- 3) Telecom Sector:** Furthered negotiations with international telecom operators that will result in increased access to Internet services in Afghanistan at lower costs.
- 4) Private Sector Development:** Implemented a Private Sector Development Strategic Planning process in Balkh resulting in the development of a Private Sector Development Strategic Plan.
- 5) Business Registration:** Supported improvements to the business formalization process and increased transparency in government transactions through continued enhancement of the Afghanistan Central Business Registry (ACBR).

Progress Towards Meeting Objectives

Component I: Economic Policy



Government employees meet in small groups to discuss lessons learned after a Program Budgeting seminar. During June-July, EGGI delivered training to 800 employees from all 51 budgetary units of Afghanistan.

EGGI continued to promote the strategic objective of the Economic Policy component to improve capacity within the Afghan Government to effectively formulate, implement and manage policies to support economic growth, manage public expenditures and improve domestic revenue collection in order to enhance service delivery to the Afghan population.

During the quarter, EGGI initiated support to the **Control and Audit Office (CAO)**. Effective audit of GIROA government departments by the CAO is a vital instrument to strengthen governance and accountability, and reduce corruption in the use of public funds in Afghanistan. EGGI commenced support by engaging in capacity assessment activities such as developing the **Capacity Development Plan** and requisite materials that will be used to train and improve the capacity of CAO audit staff. In order to build the CAO's ability to conduct thorough and comprehensive audits and truly build capacity, ownership of the new processes by CAO senior management is critical. To this end, EGGI created a **CAO Executive Working Group** comprised of relevant CAO senior officials to work closely with EGGI throughout the duration of capacity building efforts at the CAO.

EGGI continued to support the MOF's goal of **enhanced public treasury management** by continuing the implementation of the **Revenue Reconciliation Database (RRD)** in provincial Mustofiats throughout the country. During the quarter, EGGI successfully installed the RRD in eight additional Musto-

fiats across Afghanistan, bringing the grand total of provincial Mustofiats utilizing the system to 32 out of 34. The RRD enables 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.

Additionally, EGGI supported progress in several other public expenditure management areas over the quarter. On program budgeting, EGGI supported all 51 budgetary units in the **preparation of program budget structures and narratives** in response to the MOF issued budget circular number 2 as part of the formulation process for financial year 1390 (2011/12). EGGI's strategic objective is to implement an internationally recognized best practice framework for budgeting and accountability for GIROA budgetary units/ministries to better link their budgets with the Government's strategic objectives and policy priorities as outlined in the Afghanistan National Development Strategy (ANDS) and in individual GIROA Ministry strategies. Program budgeting is significant as it is a major component of the "Financial Roadmap," presented to the international community on at the July 2010 Kabul Conference.

Implementation of this reform involves training, mentoring and coaching so that budgetary units develop the capability and confidence to prepare their annual budgets with minimal assistance from EGGI. In this context, EGGI and the MOF Budget Implementation Reform Unit (BIRU) began the process for year 1390 in July by **training 740 government em-**

ployees in the conceptual framework of program budgeting. The training targeted 32 new budgetary units as well as the 19 budgetary units already preparing program budgets. By the end of September, 33 of the 37 budgetary units, with embedded EGGI support, completed and submitted their program budget structures to the MOF.

At the Medium Taxpayer Office (MTO) in Herat, EGGI continued to provide support to **ensure a successful tax return filing season** from March 22 to June 21, 2010, and **establish the audit section and the Taxpayer Service Center.** Taxpayer awareness is an important area for development in that taxpayers must be informed of their rights and obligations under the new tax system. Businesses have expressed strong interest in closer consultation and are anxious to provide input into what is still perceived as a complex, opaque and corrupt tax system that interferes with effective business operations.

At the Herat MTO, EGGI focused heavily on supporting **taxpayer education activities** providing training to staff and conducting outreach events. During the quarter, over 52% of the MTO's taxpayer population attended fourteen EGGI supported tax payer awareness seminars.

Furthermore, EGGI supported the MOF to convene **two key provincial budgeting events for the North and East Regions.** The purpose of the events was to launch the MOF's provincial budgeting activity intended to improve the reflection of provincial reconstruction and development priorities in the national budget. Similar events are planned for the West and South in October and November.

EGGI helped the MOF's Fiscal Policy Unit (FPU) **establish a Macroeconomic Coordination Working Group.** The group is comprised of officials from the FPU, Monetary Policy Department (DAB) and the Central Statistics Office. Creation of the working group is a positive step that will help improve coordination of fiscal and monetary policy in Afghanistan. With support from EGGI, officials started sharing 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). The group is also helping to ensure smoother coordination of the new **IMF Extended Credit Facility (ECF) program.**

Component 2: Financial Sector Development

EGGI continued to promote the Financial Sector Development component's strategic objective to support Da Afghanistan Bank (DAB) to improve monetary policy, and enhance supervision and risk management for commercial banks and other financial institutions under its regulatory authority.

During the quarter, DAB continued to make progress in improving its economic analysis and diversifying its activities at DAB Zone Offices of Kabul. In Monetary Policy, Statistics, and Market Operations, three Zone Economists were trained and the Herat Survey of Regional Economic Activity was produced. A Monthly Inflation Report template was introduced, and relevant staff were trained in its preparation. EGGI also facilitated the distribution of new banknotes to replace poor quality notes in circulation. An additional DAB branch (in Ghazni) was equipped with the Core Banking System, and all Zone Offices were reconciled with the head office database.

In the area of Financial Supervision, DAB streamlined its branch operations and took some positive steps in replacing the management of Kabul Bank with DAB officials. To help guard against abusive shareholder involvement in the commercial banking sector, DAB secured Ministry of Justice (MOJ) approval for the most important amendments in the package of necessary changes to the Decree Law of Banking.

EGGI advanced core activities under the DAB Zone Office Development workstream, most notably in **advancing implementation of core central bank functions into DAB Zone Offices**. Three DAB-sourced Zone Economists were on-boarded in July, permitting deepened efforts to establish the regional economic research and analytical function in support of DAB's macroeconomic and monetary policy operations.

On September 28, DAB's Zone Economist for in Herat **completed the first report from the Survey of Regional Economic Activity (SREA)**. The report is similar in content and structure to the Federal Reserve's Beige Book survey, and presents anecdotal evidence of economic activity in the Zone's major sectors, including agriculture, manufacturing, construction, and retail.

The report aids in monetary policy decision-making by providing a more complete picture of the reasons behind various movements of economic indicators. Thus, DAB can better



determine appropriate policy responses to events affecting the economy. EGGI developed the survey concept and facilitated its implementation in Kabul and Herat. Additionally, steps were taken to execute the SREA in Mazar and Jalalabad during the next quarter. DAB's Monetary Policy Department has demonstrated increased attention to regional economic research and data collection, leading to more active engagement with zone offices in managing this function.

EGGI also supported DAB actions to **improve the availability of quality bank notes in circulation** and remove millions of damaged Afghani notes from the market. DAB issued over 300,000,000 AFN in new notes across Zone Offices for further distribution to provincial branches. While positive, EGGI and other stakeholder observations noted that the volume distributed was insufficient to make significant impact. EGGI took action and advocated DAB management to issue additional new notes. DAB intends to distribute another 200,000,000 AFN in low-value notes across the Zones in November.

EGGI has worked extensively with DAB's General Counsel's Office (GCO) to **prepare amendments to the Decree Law of Banking** to enhance the legal framework for DAB supervision over commercial banks. To secure rapid implementation of the amendments, EGGI worked with the MOJ Department of Taqin (legislative drafting) to secure a **"fast-track" review of the package**. During the quarter MOJ completed their review and the package and package will be sent to

the Council of Ministers (COM) for further review. After ratification by the COM, the draft will go to the Lower House of Parliament for passage, unless it can first be enacted by Presidential decree in a forthcoming parliamentary recess.

Ultimately, the amendments will impose additional limits on shareholder involvement in bank management, and will give DAB the authority it currently lacks to obtain information from parent and sister companies of banks, which are key to comprehensive forensic analysis.

With the appointment of a conservator at Kabul Bank, a number of legal questions and issues arose, on which EGGI provided assistance to DAB's GCO as it worked to provide information and advice to other components of DAB. EGGI's support included assistance to the GCO as it worked to develop correspondence to establish conservatorship. EGGI also worked with DAB to develop correspondence with the Central Bank of the United Arab Emirates (CBUAE), essential to establishing cooperation with that authority with respect to the mission of DAB staff to review the operations and functioning of Kabul Bank offices in Dubai. Finally, EGGI supported a DAB team to travel to Dubai to assist in retaining a law firm that will work on transferring back to Kabul Bank certain real properties located in Dubai and purchased with Kabul Bank funds but improperly titled.

Progress Towards Meeting Objectives

Component 3: Private Sector Development



The strategic objective for the Private Sector Development component is to promote private investment to strengthen industries and businesses, and to support GIROA efforts to put in place a sound enabling environment that improves economic competitiveness, reduces unnecessary government interventions, promotes transparency and predictability and encourages private sector growth.

Activities during the quarter focused on strengthening the enabling environment framework at the provincial level, institutionalizing reforms made in previous years, and taking forward private investment in some of Afghanistan's most promising sectors for foreign and domestic investment, including Mining and Telecom.

To advance these objectives, EGGI continued its support to the Ministry of Commerce and Industries (MOCI), the Ministry of Communications and Information Technology (MCIT), the Afghan Telecom Regulatory Authority (ATRA), and the Ministry of Mines (MOM). In addition, EGGI supported GIROA institutions at the provincial level, specifically the Private Sector Development Sectoral Committees (PSD-SC) in Herat, Balkh and Nangarhar provinces. The PSD-SC comprises several key public and private sector stakeholder institutions that advance private sector development at the provincial level.

EGGI's support to the MOCI was focused on four primary objectives: 1) **improving the private-sector enabling environment**

and increasing transparency in government transactions through continued enhancement and promotion of the ACBR, 2) building the MOCI Legal Department's capacity to draft and analyze legal instruments that will positively impact the private sector enabling environment, 3) **enhancing Afghanistan's commercial law framework** by drafting specific laws and regulations that positively impact the private-sector enabling environment and 4) completing or improving key ANDS-required laws to improve Afghanistan's ratings in the **World Bank's Doing Business Indicators**. Additionally, EGGI provided support to the MOCI's Private Sector Development Directorate in Kabul and the inter-ministerial Private Sector Development-Subcommittees of the Provincial Development Councils at the regional level.

EGGI supported the ACBR to **streamline business formalization process** and enhance service delivery. Working with senior ACBR staff, EGGI helped develop and circulate the new **ACBR Operations Manual**. The document will help Kabul and provincial ACBR locations understand ACBR policies and procedures. Portions of the manual, such as the graphic process flows and associated narratives defining process steps, will be integrated into a communication plan to enhance visibility in the provincial and Kabul offices.

Additionally, EGGI assisted the ACBR to **re-design the registration certificate**, introducing an embossed seal to replace the currently used plain paper and ink stamp. The designs were approved and the Director plans to use embossed seals along with a new form

for authenticating ACBR registration certificates to reduce potential for counterfeit certificates.

Additionally, EGGI helped **streamline the business formalization process at the regional level in Herat** by integrating all ACBR processes in one location. Previously, business owners had to travel to Kabul to complete the process. Now, all actions can be executed at the local level, significantly reducing the burden on business owners going through the formalization process.

During the quarter, the commercial law workstream continued to advance efforts to on several fronts with the goal of implementing a sound commercial law framework in Afghanistan. EGGI **completed assessments of the Arbitration Law, Partnership Law and Contracts Law** for MOCI review. Moreover, EGGI continued progress with the MOCI on implementing regulations for the Mediation Law and on a new regulation governing the ACBR.

EGGI also **finalized a draft version of the new bankruptcy law** working with two federal US bankruptcy judges. In early September, a revised draft of the law was distributed for comment to stakeholders in several cities. In partnership with MOCI, EGGI planned public consultations in Mazar and Herat to discuss the law and address issues with private and public sector stakeholders. Each of the laws addressed contained substantial flaws that can impede the implementation of a rational commercial law framework in Afghanistan. Correcting and implementing the laws and amendments will help further economic development and improve Afghanistan's rankings on the World Bank's Doing Business Indicators.

In September, EGGI assisted in facilitating the Afghanistan **Mining Investment and Business Opportunity Conference** in New York City. The purpose of the event was to stimulate investment interest in Afghanistan's mining sector, assist the Ministry of Mines (MOM) to develop business relationships with mining companies, and collect information on potential investors for future minerals and hydrocarbon projects. Over 100 participants attended the event including representatives from mining companies, investment banks, business executives, government organizations, and the media.

Component 3 Private Sector Development

Continued...

EGGI's support to the MOM seeks to develop the Ministry's capacity to **engage in transparent investor promotion activities** in a manner that will increase investor confidence in GIROA and assure the Afghan public that its government is being a fair steward of the nation's natural resources.

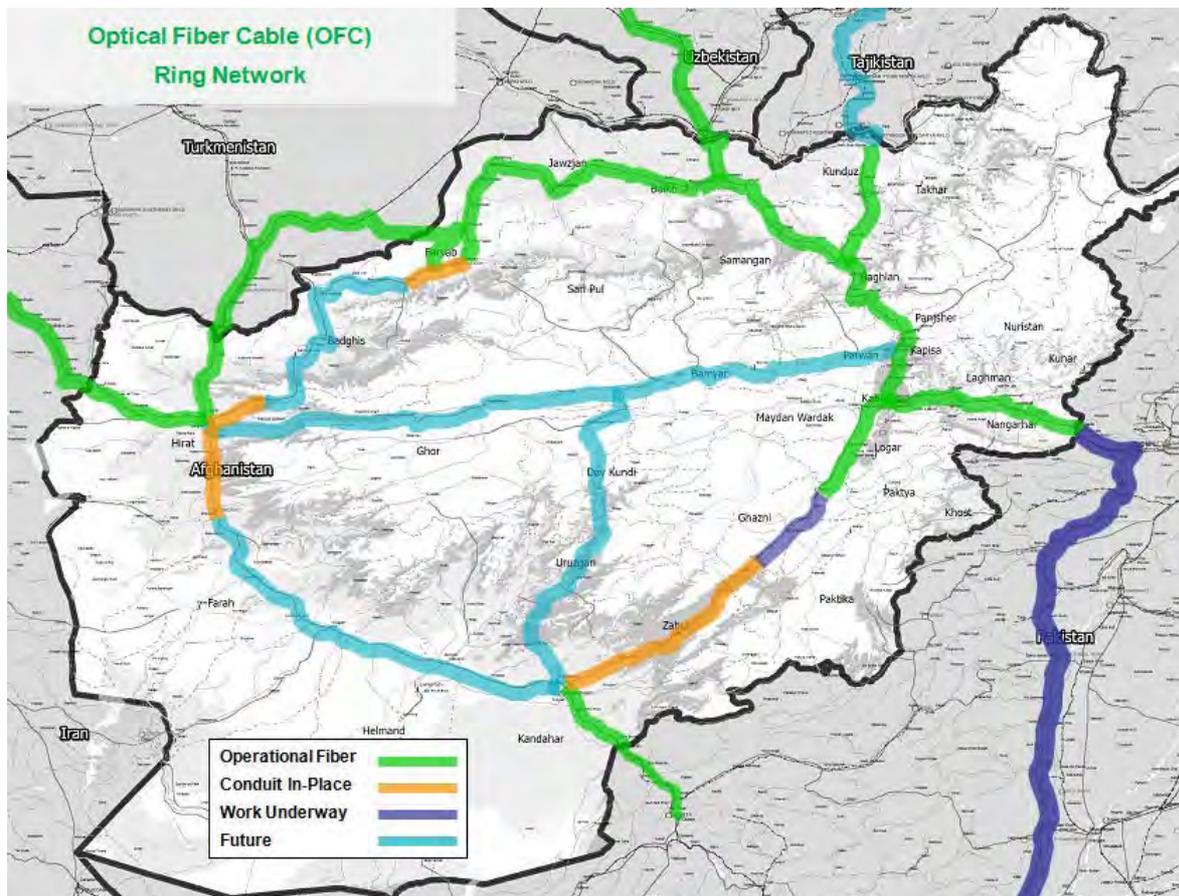
In support of this objective, EGGI assisted the MOM to **establish the Investment Promotion Department (IPD)**. EGGI provided logistical start-up support and provided training to IPD staff on a variety of topics including Investment Promotion, Economic Indicators and Financial Markets, and Minerals and Hydrocarbons Law. Additionally, EGGI provided the MOM with **communications and outreach support** by engaging MOCI to assist the MOM to redesign its website to enhance the MOM's investment promotion outreach through the Internet.

EGGI's telecom support focused on **increasing consumer access to telecom services** in for a wider portion of the Afghan population with special attention to rural communities. In support of this effort, EGGI provided guidance to MCIT and ATRA to promote **better use of the Telecom De-**

velopment Fund (TDF). EGGI assisted with the development of a tender to accelerate the TDF network expansion, with the goal of extending telecom services into un-served rural areas of Afghanistan. EGGI helped ATRA complete the tender process for enhanced telecom services, including Third Generation (3G) and Worldwide Interoperability for Microwave Access (WiMAX) services. It is expected that revenues will increase through the award of 3G and WiMAX licenses. EGGI assisted MCIT/ ATRA to investigate market demand and operator readiness for the introduction of 3G and WiMAX services, and drafted the TOR for consulting services to assist with spectrum valuation and recommend spectrum licensing fees for 3G and WiMAX implementation.

Additionally, EGGI continued to support AfTel with the implementation of the **Optical Fiber Cable (OFC) Ring Network project** by providing assistance with securing cross border interconnect agreements with Turkmenistan and alternative carriers in other bordering countries. The goal of the project is to construct an OFC Ring around Afghanistan along the National Ring Road. AfTel is the project manager, operator and marketing organization for the OFC project. As of August 2010, the project is approximately 70% complete and at least two years behind schedule.

EGGI facilitated the completion of the **final remaining trans-border interconnect agreement with Turkmenistan** through engagement with the Turkmenistan Ministry of Communications (MOC). In July, a draft interconnect MOU was sent to the MOC for review, and signing of the MOU by both ministers is anticipated to take place early during the next quarter. EGGI also coordinated a preliminary agreement with Wateen Telecom in Pakistan, diversifying international partnerships with the aim of increasing Internet access in Afghanistan at a lower cost, and securing cheaper transit and access to the Trans-World-1 Subsea Cable in the Arabian Sea. These actions will ultimately facilitate service delivery improvements and generate additional revenue for AfTel, increasing its value in future privatization efforts.



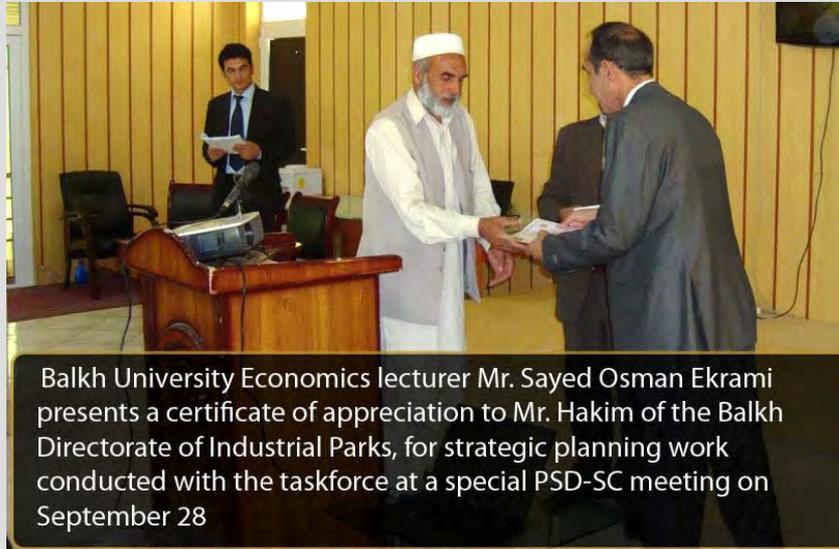
SPOTLIGHT

On Private Sector Development Strategic Planning in Balkh

In early September, EGGI/Balkh assisted the Directorate of Economy to officially release the Balkh Private Sector Development Strategic Plan, which serves as the private sector component of the overall Balkh Province Provincial Development Plan. During the quarter, EGGI was instrumental in developing and implementing a strategic planning process and "Roadmap" for private sector development in Balkh province. The release of the Private Sector Development Strategic Plan represents the culmination of these efforts.

EGGI's efforts over the past few months in implementing a strategic planning process have been extensive and concentrated on incorporating input from all major stakeholders. In July 2010, EGGI convened a strategic planning task force and facilitated a strategic planning workshop to guide strategy development with the PSD-SC. The taskforce consisted of representatives from the commercial banks, the private sector, and international donors. During the workshop participants clearly defined strategic priorities, and considered opportunities for intervention and potential solutions to growth barriers with the goal of accelerating regional economic development driven by the private sector.

These issues and recommendations ultimately directed the development of the PSD Strategic Plan. This strategic planning process was the first of its kind for private sector development, using a systematic approach to overcome obstacles inhibiting private sector expansion and local economic development



Balkh University Economics lecturer Mr. Sayed Osman Ekrami presents a certificate of appreciation to Mr. Hakim of the Balkh Directorate of Industrial Parks, for strategic planning work conducted with the taskforce at a special PSD-SC meeting on September 28

On September 28, EGGI/Balkh assisted the Directorate of Economy to conduct a Special Private Sector Development Sectoral Committee (PSD-SC) meeting to formally present the plan to key stakeholders and discuss updates to the Private Sector Development strategic planning process.

During the meeting the Balkh Economic Profile and the Balkh Business Survey Report were presented and discussed among participants. Both documents served as key inputs to the PSD Strategic Plan. The event had strong participation with over 50 attendees from all key stakeholder organizations including PSD-SC representatives (DOEC, AISA, ACCI, Customs House, Industrial Parks Authority, Mustofiat, MOCI, DAB, Carpet

Weaving Association, Labor's Association, Commercial Banks, UNAMA, USAID/ASMED, and GTZ) and local entrepreneurs who participated in the business survey. Key outcomes of the event included stronger support and buy-in from attendees to implement the PSD strategy, and knowledge sharing among stakeholders. A majority of the participants, publicly committed to implementation of the PSD Strategy, and donors and implementing partners, such as SIDA, UNAMA, GTZ and USAID/ASMED committed to implement or consider assistance on several key PSD projects.

Given the success of the strategic planning process in Balkh, plans are underway to conduct similar processes in Herat and Jalalabad. The Herat PSD-SC chairman traveled to Balkh to participate in the public consultation on the PSD draft Strategic Plan on September 28. The visit provided the opportunity to build stronger relationships between the PSD-SC's of Herat and Balkh, an action EGGI has long encouraged to promote collection action of PSD-SCs in the resolution of common constraints to private sector growth.

During the visit, the Herat PSD-SC Chairman and EGGI/Herat delegation met with the EGGI/Balkh team, the PSD-SC Balkh Chairman, and select members to discuss PSD-SC activities, achievements, joint initiatives, and collective advocacy to bring much needed reforms to the benefit of private sector. EGGI will kick-off the strategic planning process in Herat in late October.



PSD-SC Herat Chair Tamim Kakaar (middle), and EGGI's Jawad Habibi (right), discuss with Balkh PSD-SC Chairman ideas for achieving collective action on the part of PSD-SCs to address common constraints to private sector growth



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SUCCESS STORY

Herat MTO Completes Management Training

USAID/EGGI Supports enhanced service delivery at the Herat MTO



As a result of active tax payer engagement, advocated and supported by EGGI, filing compliance is measurably improving. Of the 1,154 filing forms issued over the period, 98% were returned as settled by the end of reporting cycle.

Walk in to the Herat Medium Taxpayer Office (MTO) today and you immediately enter a welcoming enclave of staff at the ready to assist with completing tax forms and provide clarification on complicated tax requirements. Eight months ago, no such service was in place; today the Herat MTO Taxpayer Service center is operating at full capacity to provide citizens with unlimited tax education and filing assistance.

Enacting taxpayer services, fighting corrupt practices and implementing accurate collecting, accounting and audit functions are among the key objectives that have driven EGGI's efforts to establish the Herat MTO since initiating support in January 2010 under a partnership with Adam Smith International (ASI).

On August 21, 2010, EGGI/ASI achieved a key milestone in support to the MTO by completing a Management Training Course for 12 new managers, including two women. The successful culmination of the training is significant in that MTO managers are better equipped with the skills to assume full responsibility of operations and provide taxpayer outreach services with less advisor oversight.

The management training program represents a key capacity building activity that complements previous technical training sessions and on-the-job support delivered to MTO by EGGI/ASI since January 2010. Nine months later, nearly all operational components of the MTO are firmly in place: the Taxpayer Service Center, case management unit, and the audit and accounting functions are all established, with specific training and procedural guides developed to ensure staff competently, professionally, and fairly conduct their work as GIROA tax officers.

To encourage maximum tax payer compliance and revenue collection, the new MTO structure and tax administration approach is built around a self-assessment system, which emphasizes taxpayer education, client outreach, competent service delivery, and fair treatment of all taxpayers. Thus, this effort is uniquely aligned with – and contributing to – improved economic governance and revenue collection at the provincial level, boosting available funds to provide enhanced public services.

EGGI support to the Herat MTO continues to generate strong results against the key indicators of taxpayer compliance and revenue generation. Include statistic – confirm with Ira. With revenues on the rise, the MTO effort makes meaningful contributions to provincial fiscal sustainability goals and demonstrates increasing strength in Afghanistan's public treasury management systems.

The successful reform program and MTO restructuring achieved in Herat will be rolled-out into other key provincial hubs in the coming months under the partnership with ASI. A USAID/EGGI sourced advisor is scheduled to deploy to Balkh province in mid-September and the tax advisor from Herat is scheduled to relocate to the to-be-established Nangahar MTO in early November.

Notable Areas of Progress

Regional Overview

EGGI continued to advance objectives across all components 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 environment, 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 initiatives 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.

EGGI/Herat Q4 Recap

Over the performance period, EGGI/Herat made steady progress pursuing seven workstream objectives across all component areas. Collectively, EGGI objectives for reform and development at the regional level align closely with US policy goals. Among these include promoting GIROA service delivery, strengthening the capacity of provincial level bodies to implement and sustain adopted reforms, and addressing issues that reduce obstacles to private sector-led economic growth.

Strengthening institutions involved in economic governance, such as the DAB West Zone Office, Mustofiat, and key line ministry directorates lead directly to improved treasury management operations, fiscal performance, and budget execution. Improving data management systems, economic research and analysis functions, and the transmission of this information in a timely, consistent manner to central authorities will improve the ability to respond to economic trends and conditions.

Importantly, GIROA and donor efforts are increasingly aligned around sector priorities, and activities advanced through the PSD-SC are showing visible evidence of progress and sustainability. In many cases, and in particular with regard to the Medium Taxpayers Office (MTO) operations and the DAB Zone Economist functions, counterparts are demonstrating increasing competence to independently sustain technical operations with diminishing advisor involvement.

Under Component 1, EGGI/Herat continued improvements to tax administration reform through support to the **Herat MTO**, an activity emphasizing strong taxpayer engagement and education, and building competent, responsible tax officers to drive up filing compliance and tax settlement. EGGI also commenced the preparations for expanded **Provincial Budgeting** support in the west region, a new workstream designed to strengthen provincial level capacity of target line directorates in budget development and



execution. Under Component 2, EGGI, in coordination with the **DAB Monetary Policy** staff, enhanced the economic research and analytical capabilities, a critical central bank function aimed at strengthening DAB's regional data collection and economic and monetary policy decision-making. Under Component 3, EGGI, through support to the PSD-SC, helped address several constraints to private sector growth, to include the streamlining of the **business formalization** process and the resolution of power pricing and land titling issues faced by Herat Industrial Park (HIP) investors.

Lastly, EGGI made strides toward achieving greater coordination between the PSD-SC and the MOCI's Private Sector Development Directorate to promote actions that address common challenges at the regional level.



DAB West Zone Director (far right), and Sayed Alavi, MPD Head Of Research (left,) exchange signatures on the DAB Zone Economist Terms of Reference. The TOR documents specific research and reporting activities of the Zone Economist and was officially presented during the delegation visit.

Notable Areas of Progress

EGGI/Mazar Q4 Recap

During Q4, EGGI/Mazar's primary areas of focus centered on addressing issues related to the development of the private sector development. The greatest area of EGGI's assistance was directed to strengthening Balkh's Private Sector Development Sectoral Committee (PSD-SC).

During the fourth quarter, EGGI, in coordination with members of the PSD-SC, completed the **Balkh Economic Profile**, a compilation of useful information about the local economy. The Economic Profile was an important element to the strategic planning process when developing the PSD Strategy and was also the basis for the development of the **Balkh Business Profile**, a package of promotional information used to attract potential investors into Balkh province. In addition, EGGI assisted in conducting a **Business Survey** that solicited the opinions of local entrepreneurs on the conditions for doing business in the region. The survey provided essential information, which was

also used in formulating the PSD Strategy. One of the most significant areas of progress during the quarter was the finalization of the **Balkh Private Sector Development Strategy**. The PSD Strategy is a roadmap for the private sector, defining interventions to address the biggest constraints inhibiting the development of the sector. The methodology used to formulate the PSD Strategy is Mazar has been acknowledged by Private Sector Department of the MOCI, and the provinces of Herat and Jalalabad have already requested assistance to replicate the planning process in their provinces.

In the area of Financial Sector Development, EGGI assisted in the preparations for the regional economic survey. EGGI already selected the respondents, and the survey is ready to be conducted once DAB hires a Zone Economist. EGGI also assisted DAB in collecting information on the private banking sector.



EGGI/Mazar also worked with the ACBR to refine its activities and seek opportunities for streamlining some of its procedures. One of the issues the ACBR faced was adequately communicating business registration procedures to local entrepreneurs, especially to those from neighborhood provinces. As such, EGGI assisted ACBR to conduct a public awareness campaign, and future educational campaigns are expected to be extended to other provinces around Balkh.

EGGI/Jalalabad Q4 Recap

During the fourth quarter, EGGI initiated the recruitment of 10 provincial budgeting and reporting officers to support the Ministry of Finance Provincial Budget Unit (PBU) to implement its provincial budgeting action plan. Under a Letter of Agreement signed with the Ministry on June 24, EGGI is tasked with hiring deploying budgeting officers to five key economic centers, i.e. Mazar, Jalalabad, Herat, Kandahar, and Helmand, to establish regional training hubs and **build the capacity of provincial officials in budgeting**. This effort will strengthen MOF's regional presence and enable it to more effectively implement provincial budgeting reforms in Afghanistan and support the parallel program budgeting effort underway in the central line ministries. As of Septem-

ber 30, EGGI hired five of ten provincial budgeting and reporting officers – two for Jalalabad and one each for Herat, Kandahar and Helmand. EGGI anticipates completing the hiring of the additional five officers by November 30.

During August and September 2010, EGGI supported the MOF in convening provincial budgeting events in northern and eastern Afghanistan to improve coordination and communication between the MOF and the provincial line directorates on program budgeting and public financial management issues. Approximately 200 representatives from various provinces and line directorates participated in the regional events. EGGI provided logistical support and assisted in preparation of materials and presentations for the events. Similar events are planned for the West and South in October/ November.

EGGI also presented the **Nangarhar Treasury assessment findings** to the Nangarhar Mustofiat. During June and July,



EGGI conducted a baseline assessment of current processes and procedures of the Nangarhar Treasury to identify critical gaps that impact the development and execution of provincial budgets. The findings also included key recommendations for improving the general administration of the Nangarhar Treasury. One common recommendation that cuts across all Treasury departments is to better equip the departments and to provide basic computer and accounting training for increased productivity. Upon feedback from the Treasury managers, EGGI will update the assessment report accordingly by mid-October.



EGGI/Nangarhar staff present findings from a recent Nangarhar Treasury Assessment to Mustofiat Directors. The purpose of the assessment was to determine ways to make treasury processes more efficient.

Additional Areas of Workplan Progress

Component I: Economic Policy

Fiscal Policy Unit

EGGI supported the ongoing **update of the revenue projections model**. The Excel based model has been updated with new baseline data for revenues collected in FY 1388. The model's assumptions on GDP growth, inflation and improvements in tax administration efficiency were revised in light of recent adjustments to the forecasts on growth and inflation which have been affected by the floods situation in Pakistan and the increase in global food prices.

EGGI also provided macroeconomic advice on several ad-hoc policy issues including:

- 1) Supporting completion of the Macroeconomic Projections for 2011/2012 for inclusion within the **Medium Term Budgetary Framework (MTBF)** for next year's budget. The MTBF sets out GIROA's budget priorities for the coming fiscal year (and two outer years) and outlines budget expenditure ceilings for the coming fiscal year. This is an essential part of the preparation process for the 1390 budget.
- 2) Helping the preparation of the **quarterly Fiscal Bulletin for the first quarter of fiscal year 1389**. This report highlights detailed assessments of recent fiscal and budgetary developments, including trends in domestic revenue and expenditure performance, and how the measured surplus/deficit is financed/saved.

EGGI also supported the FPU to prepare an article on **"Economic Implications of Afghanistan's Mining Potential."**

Program Budgeting

EGGI advanced a key cross-cutting objective during the quarter to promote women in government by training five female interns in the basics of program budgeting. The interns are now working alongside experienced program budget advisers based in various budgetary units. During the coming months, two or three interns are likely to be recruited as budget advisers, whilst the "hands-on" experience in public finance, will provide all with improved employment opportunities.

The ultimate goal of EGGI Program Budget support is for budgetary units to prepare their own budgets and "graduate" from EGGI assistance. As a result of an assessment of the 14

pilot budget units already preparing the program budgets, **six budgetary units were able to graduate** during the quarter. Graduation represents both a successful EGGI intervention and a commitment of the budgetary unit to the budget reforms endorsed by the GIROA Cabinet and presented at the Kabul conference in July.

Provincial Budgeting

During August, EGGI, with USAID's Trade and Accession Facilitation for Afghanistan (TAFE) project and the MOF, conducted a **Trade and Customs Reforms workshop** in Jalalabad. The purpose of the workshop was to share information on trade and customs reforms with the local business community and government officials, and to offer a forum for local businessmen to discuss issues that impact their ability to move goods across the Afghanistan/Pakistan border. Over 70 representatives from the Nangarhar, Kunar and Laghman business communities and provincial officials attended. TAFE customs experts and MOF Customs Tariffs officials delivered briefings on planned trade and customs reforms in Afghanistan, and answered questions from participants during open discussions.

The workshop was a follow-up to the March *Economic Growth and Investment Promotion Conference*, which generated much interest in trade and customs reforms. EGGI/Jalalabad office supported TAFE in organizing the trade and customs reforms workshop.

During September, EGGI/Jalalabad presented the **Nangarhar Treasury assessment findings** to 16 Nangarhar Mustofiat directors and staff. During June/July, EGGI/Jalalabad conducted a baseline assessment of current processes and procedures of the Nangarhar Treasury to identify gaps to improve execution of provincial line directorate's budgets. The assessment findings included key recommendations for improving the general administration of the Nangarhar Treasury, streamlining the process for payment requests, and solutions to more effectively use the control department to train provincial line directorate finance staff in key budget execution processes.

Revenue Reconciliation Database

EGGI finalized the **development of an automated system to prepare the Qatya six-month financial statement** for GIROA end of year reporting forms. The MOF revenue department currently spends

almost six months in preparing this reporting form. The Qatya will be sent to the Control and Audit Office for approval and then submitted to the Parliament. The Parliament needs to review Qatya before approving the budget for the next fiscal year. Enhancements to prepare the Qatya statement will assist provincial Mustofiat to automatically generate these reports and, will assist the Afghanistan Revenue Department (ARD) to prepare the forms more efficiently.

Provincial Tax Administration

At the Herat MTO, **total collected revenues over the quarter equaled 52.2 Million AFN**, representing over 66% of total current year collections of 79.5 Million AFN. As a result of active tax payer engagement, advocated and supported by EGGI, filing compliance is measurably improving. Of the 1,154 filing forms issued over the period, 98% were returned as settled by the end of reporting cycle.

Additionally, EGGI transitioned full control of a **Management Information System to MTO staff, developed to automate tax payer files** and track case inventory from form issuance to case conclusion. The data generated has permitted MTO managers to monitor collection performance and respond to identified problem areas. For example, July and August collection figures revealed low levels of Wage Withholding filings. EGGI worked with the MTO director to place special management through active taxpayer education and enforcement. September figures yielded the desired outcome, with wage withholding collections up 184%.

Additional Areas of Workplan Progress

Component I: Economic Policy

Continued...

Control and Audit Office

During the quarter, EGGI commenced support to the Control and Audit Office (CAO), engaging in extensive discovery efforts primarily through working-level discussions with the Deputy Auditor General and his staff. The purpose of these discovery efforts was to define the **specific objectives of the CAO with respect to its capacity development efforts** and to identify gaps in the organization's current capacity levels. EGGI conducted capacity assessments to inform the refinement of major capacity building milestones, and ultimately the **Capacity Development Plan**. The draft detailed Capacity Development Plan has been completed and is currently under review by the CAO Executive Working Group. The plan lays out the steps that the CAO will take to develop its capacity to the levels necessary to execute its mandate as the Supreme Audit Institution (SAI) of Afghanistan.

Additionally, the assessments helped inform the development of a CAO training framework targeted towards areas of greatest impact. During the quarter, EGGI began identifying high-impact technical assistance opportunities, and finalized the draft **CAO Training Program** for CAO Executive Working Group review, comment and approval. The training program is comprised of five sections and covers a wide range of skills and knowledge areas including audit concepts, leadership, specialized audit methods, and modern auditing tools and techniques. Following Working Group comment and approval, the CAO Training Program will be implemented and socialized among the CAO staff. Course materials are currently under development and instruction is targeted to commence during the next quarter.

In order for the CAO to effectively execute its mandate as the SAI of Afghanistan, the organization will require a single comprehensive manual, developed in accordance with INTOSAI standards and supported by strong policy measures. In support of this important objective, EGGI provided guidance on the **development of a comprehensive CAO Auditing Manual**. Currently, the CAO utilizes three partial auditing manuals, some of which are out-of-date and not in accordance with the generally accepted auditing standards established by the International Organization of Supreme Audit Institutions (INTOSAI).



EGGI has outlined the proposed framework and content for the new manual and delivered it to the Capacity Development Executive Working Group for review and approval. Following Working Group approval, EGGI will utilize international benchmarks, including manuals implemented by other SAIs, as well as other official auditing guidance to begin developing the content of the manual. The completed manual will provide both CAO management and staff with the tools necessary to satisfy INTOSAI standards and conduct efficient and effective audits.

Policy Support to MOF

On September 23, Finance Minister Dr. Omar Zakhilwal, Japanese Ambassador to Afghanistan Mr. Shigeyuki Hiroki, and UNDP Resident Representative Mr. Robert Watkins signed a **groundbreaking \$50 million agreement to support the Afghanistan Peace and Reintegration Program (APRP)**. The Japanese contribution is the first donor pledge to the APRP Trust Fund, which will channel financial resources to reintegration and reconciliation programs led by GIROA. EGGI provided key organizational, briefing, and messaging support to the Minister of Finance in advance of the signing ceremony.

Policy Support to the Minister of Economy

On September 8, the **first draft of the functional audit of MOEC was completed** and prepared for review by USAID

and MOEC. This is important in order to systematically assess the requirements needed to improve the MOEC's operational capacity in key areas, especially in the **preparation of priority investment programs** (necessary for sustainable reconstruction and development) and effective oversight of the Provincial Development Councils.

As a follow up to the July Kabul Conference, EGGI assisted the **Policy General Department to prepare several policy papers in response to updates on the Public Investment Program process**. This work is improving the quality and quantity of information available to the Minister, enabling him to make better informed policy decisions.

EGGI helped prepare a **concept paper on Policy Coordination** through the Afghan Public Investment System (APIS), as well as several documents on **Public Investment Projects (PIPs)**. The PIP papers outline the process from start to finish for the ministries and includes guidelines and requirements for formulating project proposals.

Additional Areas of Workplan Progress

Component 2: Financial Sector Development

Financial Supervision

During the quarter, EGGI assisted Da Afghanistan Bank (DAB) in **developing a new supervisory circular** to better define a full-service branch, a limited-service branch and single-service offices, and expedite the approval process that banks must follow to establish each type of facility. The new circular will replace two previous circulars with the goal of streamlining the approval process, while closing loopholes and maintaining DAB's control and oversight of commercial bank expansion. Once the circular has been approved and distributed, EGGI will work with the licensing section to develop online application forms and an efficient approval process.

Payments Systems

EGGI provided support to the MOF to make **upgrades to the Afghanistan Clearing and Settlement System (ACSS) for entering Government payroll** and other payment transactions. The upgrades include adding the MOF check number and comment field to the transaction which transfers the information through to DAB's core banking system (CBS). This information will be included into the transaction that automatically updates the settlement account at DAB.

EGGI helped develop the **Terms of Reference (TOR) for the National Payments Council (NPC)** ahead of the Council's next meeting on November 1. The NPC aims to support the achievement of sound and efficient payment and securities clearance and settlement systems. It also serves as a forum for cooperation to maintain orderly conditions in regional and international payment systems. The Council will work to facilitate the necessary cooperation between all market participants and regulators in the payments area, and promote common initiatives towards the implementation of the payment system infrastructure.

Monetary Policy, Statistics & Market Ops

EGGI Completed a first draft of the **DAB Annual Economic and Statistical Bulletin** for year 1388. The first round of revisions and editing was completed and the draft was submitted to MPD senior management for comments. After receiving and incorporating the comments, the final version will be prepared and sent for publication. A soft copy of the bulletin will also be uploaded on the DAB website.

Financial Supervision / Risk Management

EGGI supported DAB to review the **first application to launch a Depository Mi-**



Customers wait in line at the DAB West Branch to complete their transactions. EGGI is working to facilitate service delivery improvements to reduce transaction times

crofinance Institution (DMFI), under the new DMFI Regulation established in 2006. EGGI is working with the licensing section to review the application and provide on-the-job training on the procedures and analysis required when reviewing an application for a new depository institution. After the application has been processed, EGGI will work with the licensing section to develop a DMFI application form and procedural manual. A detailed and thorough licensing process will help ensure only sound financial institutions, with proper corporate infrastructures in place, enter the Afghan financial market.

Legal & Regulatory Reform

On August 21, EGGI met with representatives of DAB's MPD and Office of General Counsel, to discuss the **foreign currency auction proceedings**. Under the current Memorandum of Economic and Financial Policy, entered into with the IMF, DAB is committed to a structural benchmark that requires DAB to increase the minimum bid in auctions, and impose fees for cash transactions. These discussions will enable DAB to engage in an orderly and structured process for establishing the new minimum bid amount and the size of fees for cash transactions, and will ensure that DAB completes this work prior to the structural benchmark deadline of October 31.

On August 24, DAB and Afghanistan Reconstruction Development Services (ARDS) issued documents authorizing a **"sole source" bid for currency printing** from De La Rue International. After the Special Procurement Commission authorized a sole source procurement on August 7, ARDS assembled the

initial bid package for DAB review. EGGI assisted DAB to review the documents, and worked with the Office of General Counsel, the offices of the Governor and First Deputy Governor, and the Department of Currency Issuance, to revise and improve the documents. These efforts will ensure that DAB priorities are reflected in the bid documents, facilitating an improved agreement between DAB and the vendor for the next round of printing.

DAB Zone Branch Development

At the **DAB West Zone Office, the economic research and analysis function is now firmly established**, made possible by placement of a DAB zone economist onboarded in July. The EGGI/DAB monetary policy (MPD) team conducted Kabul-based training for the economists and, with EGGI/Herat support, executed the Survey of Regional Economic Activity (SREA) upon returning to post. A Participant Workshop was held on August 9, and the survey interviews commenced on August 28. With the support of an EGGI/DAB MPD technical mission in late September, the SREA was completed on September 28. EGGI will continue to provide extensive assistance to facilitate service delivery improvements, including reducing transaction times at the DAB West Zone Office.

Additional Areas of Workplan Progress

Component 3: Private Sector Development

Business Registration (ACBR)

EGGI provided **basic legal training to ACBR staff** in Kabul. The training covered the difference between Corporations, LLCs and Partnerships, and provided information on documentation needed for each type of activity. Fostering understanding among staff of these key business types, and how to identify them according to Afghanistan's laws, is vital to proper data collection on businesses registering at the ACBR.

EGGI assisted ACBR management **develop an operating budget for the 3rd and 4th quarters of year 1389** and preparation of the budget in the year 1390. At the request of ACBR management and the MOCI budget department, EGGI will assist ACBR to present both budgets to MOF officials.

EGGI staff traveled with officials from the Kabul ACBR to Kunduz to **assess the needs and requirements for opening an ACBR Kunduz office**. An ACBR in Kunduz will make it easier for entrepreneurs of the neighboring provinces of Takhar, Badakhshan, and Baghlan to register their businesses in Kunduz. The delegation made note of required upgrades and necessary procurements to begin operations. ACBR Kunduz staff traveled to Kabul in September for training and the anticipated opening of the Kunduz ACBR set for November.

Private Sector Development

As a result of previous EGGI efforts in the area of business formalization (i.e. licensing, registration, and Taxpayer Identification Number (TIN) issuance), the PSD-SC, received notification that the **Afghanistan Investment Support Agency (AISA) and the TIN office of the Mustofiat were empowered to process all stages of their respective procedures**, eliminating several days in the average timeline to complete these functions and the need for businesses to travel to Kabul to complete a related action, as they were in the past. EGGI and the PSD-SC remain committed to seek a similar outcome for the MOCI's Licensing Directorate, which processed traders licensing.

The PSD-SC reported the imminent resolution of the **land titling issues for Herat Industrial Park (HIP)** investors, a matter



Representatives from the ACBR Kabul hold a panel discussion with private sector representatives in Herat on the business registration process, ACBR improvements and steps to streamline ACBR documentation

EGGI/Herat worked extensively to resolve. The historical transactions pertaining to government acquisition of the HIP land and subsequent sale of plots to individual investors has not been recognized by the commercial courts of Herat. As such, land titles presented to the courts for formally recording ownership in land records was not accepted, eliminating the land (and buildings/facilities investors developed) as an eligible asset for secured lending. EGGI, working through the PSD-SC, commercial courts, and HIP investors organized all documentary evidence, engaged a lawyer (funded by HIP investors), and prepared a recommendation letter for issuing a presidential decree. The set of documents were processed through the Herat Governor's Office and transmitted to the Office of the President, Independent Directorate for Local Governance, and relevant court authorities in Kabul.

EGGI/Mazar facilitated the **completion of the Balkh Economic Profile, a compilation of information and statistics on the economic climate in Balkh Province**. This is one of several initiatives undertaken by provincial government institutions to facilitate local economic development. The process to develop the Profile was crafted by the PSD-SC and the Directorate of Economy with EGGI assistance. Relevant government institutions, donors and implementing partners collaborated to provide information and analysis.

The Profile will be included as an annex to the **Balkh Provincial Strategic Plan** and will serve as a basis for development of the Balkh Business Profile. Through EGGI's engagement with the PSD-SC, the Profile will be incorporated as a regular tool to inform various decisions to improve the business enabling environment for private sector development.

Mining Sector

EGGI continued to coordinate with the ASI-funded Business Plan Team on the establishment of the **Investment Promotion Department (IPD)** at MOM. EGGI provided a draft mission statement, terms of reference for each IPD position, and organizational structure recommendations to the Business Plan Team. EGGI worked with ASI to revise the draft documents and add an additional investment promotion specialist position to the IPD organizational structure.

In order to build staff capacity within the IPD, **EGGI commenced a training series for new IPD staff** on August 28. The first training session covered Gross Domestic Product (GDP) methodologies and the measurement of Afghan GDP. Minister Shahrani expressed interest in continuing the courses, and requested EGGI expand the audience for future sessions to include other MOM departments. EGGI continued to hold trainings in September on additional topics including Economic Indicators and Financial Markets, Investment Promotion, and Minerals and Hydrocarbons Law.

Additional Areas of Workplan Progress

Component 3: Private Sector Development

Continued...

Telecom/ICT Sector

On August 11, AfTel's CEO met with Wateen Telecom to move forward the **cross border interconnect agreement** between the two companies. The agreement is significant in that AfTel will achieve network diversity in Pakistan by leasing circuits on a different network at cheaper rates. Wateen Telecom is the alternative interconnect carrier to the incumbent Pakistan Telecom. The agreement with Wateen will provide an alternative fiber optic network to increase access to the Internet and reduce costs to Afghanistan consumers. Pending regulatory approval for Wateen's license, the companies will exchange license information and begin network planning. EGGI identified the Wateen opportunity, facilitated the MOU drafting and signing processes, and developed a business case to support the dark fiber purchase.

On August 7, EGGI supported the Ministry of Communications and Information Technology (MCIT), and the Afghanistan Telecom Regulatory Authority (ATRA), to conduct a **Telecom Sector briefing with 29 sector operators** to stimulate operator interest and participation in the recently announced Telecom Development Fund (TDF) Tender. The Tender objective is to expand telecom network services into the remaining 103 unserved districts in Afghanistan through a G1-ROA-subsidized contract. Lack of adequate security in many of those districts remains a major concern and barrier to potential bidders. EGGI will initiate further discussions with key participants in the anticipated ATRA Tender for 100 Tele-centers and 500 Public Calling Offices, as well as the additional Tender for voice and Internet service in schools and clinics.

EGGI provided support to the MCIT on a **proposal received from the Afghanistan Wireless Communications Company (AWCC) for a Special Temporary Authorization (STA) framework** that would authorize AWCC to be an alternate supplier of all voice and data services, to include dedicated private line Hi-capacity circuits. EGGI advised Minister Sangin on the agreement and determined that the AWCC proposal was consistent with several elements of the current ATRA/MCIT draft STA, which will grant



the STA to all licensed operators and service providers in Afghanistan. The current ATRA/MCIT draft was revised to reflect the Minister's latest guidance, which will extend the option for an alternate supply of leased private lines services to all customers when Afghanistan Telecom (AfTel) is not able to supply the customer requested leased private line services.

EGGI provided support for an MCIT/AfTel delegation visit to the Turkmenistan Ministry of Communications (MOC) in Ashgabat, for a meeting regarding the **Afghan-Turkmen cross border interconnect agreement** during the Turkmentel 2010 Conference. The Turkmenistan interconnect is the remaining cross border interconnect for AfTel's Optical Fiber Ring Network. The direct connection between these two communities of interest will facilitate voice, data, Internet and video services, and will provide additional revenue to AfTel to create more value in future privatization efforts.

As the fixed line monopoly and largest bandwidth provider, AfTel's private line rates are acknowledged to be some of the highest in the world on a per kilometer basis. EGGI developed a **strategy that would allow a 20% reduction on new circuits** on the OFC network where capacity has been expanded along the high demand segment of the OFC. Implementation of the strategy will likely generate new demand and lower costs

to end users with the net effect being higher revenue and total margin to AfTel. EGGI presented the strategy to MCIT Minister Sangin for use during the AfTel-DISA meeting in Dubai on August 16. Actual approval and timing of price reductions will be directed by the Minister following additional consultations.

On September 16, the Marketing Department of **AfTel released its first e-newsletter** to customers, correspondents, advisory groups, and potential partners. The newsletter will circulate on a monthly basis and cover key aspects of AfTel's network, services, plans and staff.

EGGI collaborated with AfTel's Marketing Department to develop content, graphics, web design and outreach strategies. In the telecom industry there is a serious lack of information on AfTel available to other operators; thus the launch of the newsletter is a significant accomplishment and will enhance AfTel's visibility and communication strategy. EGGI will continue working with AfTel's Marketing and Communications departments to maximize the distribution for this first edition and others to follow. Continued input to improve and to contribute this newsletter by the OFC Agreements staff is anticipated as well as outreach and design support from EGGI. Going forward, the newsletter will be available on the AfTel website.

Component 1: Economic Policy

Control and Audit Office

The initial Capacity and Resource Assessments conducted during the first phase of the CAO Capacity Development Plan revealed that there are major gaps in all critical areas of development. As a result, EGGI faced significant challenges during the initial phase of planning and training program development. However, EGGI accomplished or is currently executing against all of the relevant items in the workplan on-time or ahead of schedule.

EGGI recently had concerns regarding the lack of opportunities for coordination between EGGI and the other advisory teams supporting the CAO. The primary concern was that conflicting and duplicative activities could lead to confusion and unnecessary work for all of the advisors and for the CAO. For example, all three CAO advisory teams were recently tasked with developing a training plan and materials for the same training topic, each without knowledge of the others' task and approach. To remedy this situation, EGGI proposed to the Deputy Auditor General that the other two advisory teams be included, at least monthly, in the Capacity Development Executive Working Group meetings, which are currently facilitated on a weekly basis by EGGI. This will allow for improved coordination and greater potential for collaboration among the three advisory teams.

Fiscal Policy

The Fiscal Policy Unit is now receiving additional resources (from the UN Making Budgets and Aid Work project) to boost civil servant operational capacity in the areas of macroeconomic analysis and tax policy. EGGI will support this process by providing an extra expat advisor in the area of tax policy. The current head of the FPU has recently moved on to

another job as the Director of Budget Policy. Although, there is currently an acting head of the unit, he is relatively inexperienced and will need support in order to ensure that the FPU can deliver on its strategic priorities. EGGI will support this transition in order to ensure that the unit continues to stay focused on its core business of expenditure analysis.

Program Budgeting

Budgeting reform represents change, transparency and accountability, and GIROA resistance can be expected. There appears to be some reluctance on the part of the Director General of Finance in Ministry of Foreign Affairs (MOFA), and this matter has been raised with the MOF. In the opinion of EGGI, the DG remains an obstacle and USAID leverage at the ministerial level may be helpful before EGGI withdraws from the Ministry.

The EGGI Program Budget Team is adjusting to the loss of more than half of the experienced national staff. Accordingly, EGGI has been required to hire and train 21 new budget analysts over the past few months. Teams were also reorganized so that the new budget analysts were aligned to experienced national supervisors. In addition, EGGI was fortunate to supplement the team with seven interns who are providing valuable assistance to the team.

While EGGI believes that certain ministries are ready for graduation, the MOF is being cautious not to remove external assistance too quickly before the ministries are fully self-sustainable. As a result of this concern, EGGI agreed with the MOF and the ministries that advisors will be available "on call" even after a ministry graduates should any problems arise.

In this context, the Ministry of Transport and Civil Aviation and the Ministry of Public Works are not expected to encounter any problems with their budget narratives, i.e. program structure, objectives and performance indicators, but they may require some assistance with the costing of new proposals. In the case of the Ministry of Energy and Water, an EGGI advisor will be embedded full-time until the budget is prepared and then shift to a part-time basis.

Revenue Reconciliation

During the quarter, security, logistical, and travel restrictions created the greatest problems for the team. Travel difficulties were caused either by security challenges or flight cancellations. It was particularly problematic for EGGI to travel to Badghis due to the security hazards. Nuristan province is currently out of bounds due to security restrictions, and travel to Daikondi was not possible due to the reconstruction of the main airport. Another main challenge is retention or reassignment of Mustofiat employees trained in the use of the revenue reconciliation database.

The MOF Revenue Department should also encourage the Treasury department to activate the AFMIS revenue reporting module throughout all of the provincial Mustofiatso that revenue data collected by the RRD can be entered directly into the AFMIS on a daily basis. To date, only five provinces are reporting revenues into the AFMIS, and the remaining Mustofiatso are manually completing and physically delivering revenue forms and reports to the Treasury department in Kabul at the end of each month for input into the central AFMIS.

Component 2: Financial Sector Development

Monetary Policy, Statistics & Market Ops

The availability of reliable, timely data pertaining to economic growth and development is very limited. In addition, access to data sources is wrought with difficulties, particularly in securing agreement from GIROA directorates, agencies and non-government organizations to share information – there is decided resistance. Consequently, the pace of research and data collection activity by the newly installed Zone Economist is proceeding slowly. To combat these challenges, EGGI has suggested for the DAB Zone Director to host a forum on economic research and data collection to explain the tasks and function of the Zone Economist and underscore the importance of such work

in strengthening DAB's economic and monetary policy functions. In addition, EGGI will also recommend that DAB issues letters to relevant government directorates explaining the new Zone functions and request their cooperation in providing information and data.

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

The DAB licensing section is severely understaffed and cannot meet its responsibilities in a timely manner. After several years of high staff turnover and poor leadership, licensing is now led by a qualified section head. However, many old issues remain, and the section head is not supported with a team of competent staff.

EGGI has been working with the section head to resolve outstanding issues and address current responsibilities. The licensing section is expected to hire two additional staff in the near future, and until then, EGGI will continue to work with the head to review applications and complete necessary tasks.

DAB Legislation

In light of the proposed amendments to the Decree Law of Banking and to a lesser extent, the Decree Law of Da Afghanistan Bank and the potentially controversial nature of the amendments, including the "fast track" amendments that will enhance DAB's supervisory and enforcement powers, EGGI anticipates that

Component 2: Financial Sector Development

... continued

substantial effort will be required to ensure that the proposed amendments remain on track through the legislative process.

Although working level Taqin officials have been consistently helpful and cooperative with DAB's initiatives, recent changes at the MOJ have placed officials who have expressed skepticism of "internationally driven" legislative initiatives in key positions of authority over the legislative process, including the current Minister of Justice and the acting Head of Taqin.

It will be necessary to think carefully about the best political approach to addressing MOJ concerns to ensuring continuing support.

At some point in the future, the process may require additional support from representatives of the U.S. Embassy or USAID. It could be beneficial for EGGI and USAID to plan one or more meetings to discuss possible strategic options to address these political needs, and to involve senior DAB officials in those discussions at the appropriate point.

Challenges lie ahead for DAB as new problems have taken priority over regular operations. The Kabul Bank conservatorship has occupied most senior DAB officials for several weeks and will continue to occupy their full attention during the subsequent quarter. Other banks may be facing similar problems, necessitating quick and decisive action by DAB to protect depositors and the payments system.

Component 3: Private Sector Development

Commercial Law

A substantial amount of work has been done on legal and regulatory material for MOCI. The review process is slow and sometimes bogged down in discussion on insignificant items. EGGI continues to address this matter with the assigned staff with limited effect. In fact, the counterparts believe this needs to be a slow process to get it done right. But to date, no commercial law has been enacted except through Presidential Decree. It is hoped, with the Doing Business Indicators becoming a greater focus, that legal issues will be pushed through MOCI with the help of Minister Ahady. This is yet to be seen.

Afghanistan Central Business Registry

ACBR budgeting continues to be an issue. Although there were 2,000,000 AFN budgeted to ACBR in 1389 there is no indication any of this has been directed to ACBR by the ministry. There is no tracking of the expenditures, and it appears that the MOCI is using the funds in other areas as they see fit. The ACBR Director has raised the issue but none of his actions have resulted in any change to the process.

MCIT/AfTel

The weak link in the expansion of ICT development in Afghanistan is Afghan Telecom. Despite dedicated employees at AfTel, the organization is not commercially viable as a state owned enterprise. Significant dependence on the direction from MCIT and little control over GIROA hiring policies, pay schedules, and procurement processes, sometimes hinder AfTel's ability to function alongside industry peers. The Minister anticipates AfTel's privatization occurring by the end of 2011. A refocus of EGGI efforts toward privatization prepara-

tion should begin immediately with the Minister's endorsement.

The lack of transparency at MCIT and AfTel also creates a challenge. Without the insight of MCIT's strategic plans, its finances and other opportunities being considered, it is at times difficult to prioritize EGGI assistance. Better coordination and sharing of information is necessary in order to develop a plan or influence sound decision-making.

The most strategic decision currently under review by the MCIT and AfTel is the Pakistan Dark Fiber opportunity that essentially gives Afghanistan a virtual coastline for ICT development and expansion. Without support from the donor community, this opportunity that reduces network costs substantially to the public may be passed over.

MCIT/ATRA

The Afghanistan Telecom Regulatory Authority has not been able to obtain the much needed Frequency Monitoring equipment to supplement its existing monitoring vehicle. ATRA has issued two tenders, which set forth the required specifications, but it has not received any vendor responses to date. EGGI and ATRA have asked Mr. Larry Klooster, Team Leader of the new appointed ISAF Telecom Assistance Team, for possible assistance. Mr. Klooster is of the opinion that the military may be of assistance and will explore on behalf of ATRA.

Ministry of Mines Investment Promotion

A major challenge is the limited amount of available data on Mineral Hydrocarbon laws and regulations, updated geological/seismic information, including translation of Russian

mining reports/documents. The lack of updated geological information in formulating mining feasibility studies related to future tenders, continues to be a challenge at MOM.

In addition, the lack of computers and IT equipment within the Investment Promotion Department impacts the ability of IPD staff to perform tasks. USAID could help with the procurement of computers and equipment for the IPD staff.

PSD Strategy

In order to ensure the implementation of the Balkh's strategic action plan to improve conditions for private sector, there is a need, in addition to advisory body, to create an operational entity to manage local economic development (LED). It is not clear, which organization should perform this function. There are several entities, including the Directorate of Economy, which is the Secretariat for the Private Sector Development Sectoral Committee (PSD-SC), the Directorate of Commerce and Industries, which has a Department for Private Sector Development, and the Afghan Investment Support Agency (AISA), performing some of the tasks relevant to LED entity. All of these organizations report to Kabul, thus are not purely local organizations. Experience from other countries show that such a function should be positioned under the Governor's administration. Another important challenge is to ensure the Governor's buy-in for the PSD Strategy. The PSD Strategy has to be promoted to ensure institutional and public ownership and convince donors to support its initiatives.

Training Summary

EGGI Training Summary for Q4 (July-September 2010)												
Component	GIROA Counterparts	Training Topic	Kabul		Herat		Nangarhar		Total by Gender			Total # of Sessions
			M	F	M	F	M	F	M	F	Total	
Comp-1	MTO	Audit Procedures	-	-	10	2	-	-	10	2	12	1
Comp-1	MOSPA	Job Training	1	-	-	-	-	-	1	-	1	1
Comp-1	MTO	MTO Management Training	-	-	11	1	-	-	11	1	12	1
Comp-1	Office of the President/Science Academy	Program Budget Briefing	28	1	-	-	-	-	28	1	29	2
Comp-1	MOHE/Legal Training Centre	Program Budget Concept	4	-	-	-	-	-	4	-	4	2
Comp-1	Legal Training Center	Program Budget Modules	6	2	-	-	-	-	6	2	8	2
Comp-1	MOWA	Program Budget Orientation	6	9	-	-	-	-	6	9	15	1
Comp-1	DMO	Program Budget Reform	7	3	-	-	-	-	7	3	10	1
Comp-1	MOM/ IEC/ Kabul Municipality	Program Budget Seminar	46	3	-	-	-	-	46	3	49	1
Comp-1	MOHRA/ MOSPA	Program Budget Seminar	33	-	-	-	-	-	33	-	33	1
Comp-1	Supreme Court/ High Office of Oversight on	Program Budget Seminar	50	6	-	-	-	-	50	6	56	3
Comp-1	MOIC/ Science Academy/ NOC	Program Budget Seminar	41	1	-	-	-	-	41	1	42	3
Comp-1	CAO/ CSO/ ANSA	Program Budget Seminar	25	-	-	-	-	-	25	-	25	3
Comp-1	Geodesy and Cartography Office/ National Directorate of environment/ Office of	Program Budget Seminar	32	-	-	-	-	-	32	-	32	3
Comp-1	MOBTA/ Ministry of Refugees Repatriation-Directorate of Kochies	Program Budget Seminar	52	2	-	-	-	-	52	2	54	3
Comp-1	MOF/ MOEC/ MOCI	Program Budget Seminar	41	1	-	-	-	-	41	1	42	1
Comp-1	President's Office/ MOD/ MOPH	Program Budget Seminar	45	-	-	-	-	-	45	-	45	1
Comp-1	MRRD/ MAIL/ MEW	Program Budget Seminar	41	2	-	-	-	-	41	2	43	1
Comp-1	IDLG/ MOPW/ MOUD	Program Budget Seminar	45	1	-	-	-	-	45	1	46	1
Comp-1	MOE/ MOHE/ CSC	Program Budget Seminar	53	-	-	-	-	-	53	-	53	1
Comp-1	MOTCA/ MOLSA/ MCIT	Program Budget Seminar	42	13	-	-	-	-	42	13	55	1
Comp-1	MOFA-DG/PBIT/Upper House	Program Budget Training	15	3	-	-	-	-	15	3	18	2
Comp-1	Geodesy/Cartography Office	Program Budget Training	7	1	-	-	-	-	7	1	8	1
Comp-1	MOF	ACSS Access	10	-	-	-	-	-	10	-	10	1
Comp-1	Lower House	Director of Finance Updated for the work	4	-	-	-	-	-	4	-	4	1
Comp-1	Legal Training Centre/Environment/MOHE/	On the Job Training of Microsoft Word	7	2	-	-	-	-	7	2	9	4
Comp-1	MAIL/MRRD/MOT/Mustofiat/Health/Education/Women's Affairs/Public Works/	Provincial Budgeting Workshop	-	-	-	-	139	20	139	20	159	1
Comp-1	MOCI	Training for PBIT on Alignment of New MOCI Organization structure and Its Program	5	-	-	-	-	-	5	-	5	1
Comp-1	Supreme Court	Training on Program Budget for all Directors	11	1	-	-	-	-	11	1	12	1
Comp-1	MOLSA	Training to Operational and Development Budget Managers regarding BC2 progress and 1390 Tashkeel submission to the Office	5	-	-	-	-	-	5	-	5	1
Comp-2	DAB West Zone Office	DAB SREA	-	-	24	1	-	-	24	1	25	1
Comp-2	DAB	Zone Economist Orientation	8	-	-	-	-	-	8	-	8	1
Comp-2	DAB	DAB Functions and Organization	12	3	-	-	-	-	12	3	15	1
Comp-2	DAB	Monetary Policy and Economics	-	-	11	6	-	-	11	6	17	1
Comp-2	DAB	Monetary Policy Objectives & Data/	-	-	2	5	-	-	2	5	7	1
Comp-2	DAB	Survey Analysis and Interpretation	-	-	1	1	-	-	1	1	2	1
Comp-2	DAB	Technical Writing and SREA Report	-	-	2	5	-	-	2	5	7	2
Comp-2	DAB	Writing the SREA report	-	-	1	-	-	-	1	-	1	1
Comp-3	ACBR	ACBR Brand Training	8	1	-	-	-	-	8	1	9	1
Comp-3	ACBR/ACCI	Business Registration and Licensing	-	-	38	2	-	-	38	2	40	1
Comp-3	MOM	Economics Training	3	-	-	-	-	-	3	-	3	1
Comp-3	MOCI	Legal Training	27	1	-	-	-	-	27	1	28	2
Comp-3	MOCI	Legislative and Regulatory Drafting	3	-	-	-	-	-	3	-	3	1
Subtotal			723	56	100	23	139	20	962	99	1061	62

EGGI Counterpart Meetings

313 meetings with Component 1 GIROA counterparts and stakeholders.
187 meetings with Component 2 GIROA counterparts and stakeholders.
285 meetings with Component 3 GIROA counterparts and stakeholders.

To view additional meetings and training details, click [here](#) to access the data on the portal.

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