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## Implementation of the *Afghanistan Compact*

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### Bi-Annual JCMB Report November 2006

#### I Introduction

1. Ten months after the *Afghanistan Compact* was agreed in London and endorsed by the Security Council in February 2006 (Resolution 1659), the challenge still remains to move from *Compact* to *impact*. The country's efforts in moving the process of economic development forward have been uneven and are constrained by institutional, political and security factors. In some areas, the slow pace of development and reform is contributing to popular disaffection and ineffective implementation of the counter-narcotic strategy which in turn hampers the fight against insecurity and insurgency. In such an environment, the underlying political and economic assumptions made about the pace of development may appear to be overly optimistic. The critical challenge that the Government and the international community jointly face today is to deliver tangible results that will make a noticeable difference in the day-to-day lives of the Afghan people, especially the poor and most vulnerable. The country's transformation to an effective representative democracy with a prosperous private sector-led market economy is still at an early stage. Together the Government and the international community must ensure that the process set forth in the *Afghanistan Compact* should now begin to demonstrate to the Afghan people that it will produce more than words alone and actually improve their lives.

2. Since late 2001, Afghanistan has made remarkable progress in the long and difficult process of political, social and economic transformation, starting with the *Bonn Agreement* and substantially strengthened with the *Afghanistan Compact*. However, despite this significant progress and gains in some areas, enormous challenges remain. The overall pace of economic development has been much slower and more geographically limited than had been hoped. This is due to a number of factors, including the unfavorable security environment in the south and southeast and the enormous challenges encountered in implementing simultaneously a large number of complex donor-supported projects. While the growth rate for the economy this year is expected to be around 9%, this is still not sufficient to generate in a relatively short time the large numbers of new jobs necessary to substantially reduce poverty or overcome widespread popular disaffection. The reality is that only limited progress has been achieved in increasing availability of energy, revitalizing agriculture and the rural economy, and attracting new investment. The remaining obstacles to successfully fighting insecurity, insurgency, and illegal production and trade in narcotics, as well as accelerating economic development, will only occur when the Government – with the sustained support of the international community – is able to demonstrate tangible progress.

3. Despite the joint efforts of the Government and the international community, this year saw continued high growth in poppy production. Opium poppy cultivation increased by 59% but production of opium increased by 49% due to decreased yields in some areas; Helmand Province accounted for 42% of the national poppy cultivation. The scourge of the narcotics industry has significantly helped fuel the ongoing insurgency in the four southern provinces, undermining efforts to improve governance and reduce corruption. The large-scale diversion of resources into the narcotics industry also continues to have significant adverse consequences for the development of the economy and governance throughout the country. This difficult environment has resulted in more intense and widespread military operations and a more aggressive insurgency originating partly from outside of Afghanistan's borders and largely concentrated in four southern provinces. Insurgent and/or terrorist-related security incidents have increased from less than 300 per month by end-March 2006 to over 600 by end-September, compared with a 2005 average of approximately 130 per month. The insurgency has directly resulted in over 3,700 fatalities since January 2006, which account for 89% of all deaths (4,214) resulting from violent conflict in Afghanistan since 1 January 2006 – a rate four times greater than in 2005. Confronting increased insurgent activity in these areas has diverted much of the Government's attention and significant resources. It threatens to reverse some of the gains made in the recent past, with development activities being especially hard hit in several areas, resulting in partial or total withdrawal of international agencies in a number of the worst-affected provinces.

4. The limited progress in introducing systems for strengthened good governance has led to corruption and inefficiency at all levels of the public sector, increasing the general sense of dissatisfaction currently felt by many Afghans. The oversight role of the National Assembly and the introduction of improvements in the performance of other government functions have thus far had only limited impacts. There is a real risk that the momentum that was achieved through the I-ANDS and *Afghanistan Compact* could be lost unless there is greater consolidation and more inclusive nation-building and reform efforts, as well as sustained broad-based economic growth and development in Afghanistan. There is also some danger that a lack of significant progress in the security environment may not only undermine efforts to stabilize Afghanistan itself, but also have much broader international implications.

5. Notwithstanding this very challenging environment, in the last six months there has been substantial progress in a number of key areas. The Government has established an overall development framework that includes detailed and focused implementation and monitoring mechanisms. Within this overall framework, the Government has also established a crisis management group which is currently addressing more effectively the ongoing security concerns in the four southern provinces. These are notable achievements augmented by programs to increase local capacity to manage the social and economic development of the country. The Government jointly with the international community is taking steps to ensure that the implementation of development programs is more transparent and focused, and based increasingly on reporting requirements that incorporate quantifiable and measurable indicators. There is also a growing determination to address thorny issues of governance.

6. Insecurity in the south should not be permitted to detract from delivering sustainable economic development in the rest of the country. Even as the Government and the international community jointly develop adequate responses for dealing with the situation in the south, more effort is needed to improve the lives of

people in other regions. Economic advancement elsewhere in the country could also contribute to improving the security situation in the south.

### **Achievement of the Compact Benchmarks with Target Dates of End-1385**

7. Of the short-life benchmarks, seven key results are expected to be achieved by end-1385. The details are provided in Table 1 of this report. (The first JCMB meeting decided that the end-2006 benchmark deadlines would be interpreted as being end-1385).

**Benchmark 2.1.2:** A national appointments mechanism is in place through a Presidential Decree.

**Benchmark 2.4:** The National Assembly is being provided with technical and administrative support to fulfill effectively its constitutionally mandated roles; this will be an ongoing activity.

**Benchmark 2.7.3:** The review and reform of oversight procedures relating to corruption, lack of due process and miscarriage of justice has been initiated, but under the Compact the time line for their achievement extends to 1389 (2010).

**Benchmark 2.8:** The process of land registration in all administrative units and the registration of titles has been approached from a broader sectoral perspective to focus more on the requisite land policy and legal framework required to support a registration and dispute settlement process.

**Benchmark 3.5:** Sustainable water resources management strategies and plans covering irrigation and drinking water supply are expected to be completed by end-1385. The strategic policy framework for the water sector has been approved by the Supreme Council on Water Affairs Management, water resources management policies are under review and the institutional set-up for water resources management has been drafted.

**Benchmark 8.3.2:** New business organization laws (Partnership and Corporation Laws) will have been reviewed by the Ministries of Commerce and Industry and Justice by December and it is expected that the proposed new laws will be submitted to the National Assembly by end-1385. These laws are also part of the larger group of proposed new commercial laws being prepared for submission under benchmark 8.3.

**Benchmark 8.4:** State-owned banks that have not been re-licensed will be liquidated by end-1385.

The achievements are strictly in terms of meeting the immediate indicator or target as noted in the *Afghanistan Compact*. Benchmarks, however, are means to an end, not an end in themselves. To ensure that the benchmarks achieve the desired goals over the medium to long run, the JCMB will continue to monitor the quality of implementation for each of the benchmarks achieved.

8. Five short-life benchmarks will require re-doubled effort by all concerned if they are to be met by the target date of end-1385. In the unlikely event of their not being met, JCMB agreement and approval on new target dates will be required.

**Benchmark 2.1.3:** The review of administrative boundaries is progressing, although any final agreement will need to engage the Cabinet and National Assembly and will consequently require more time.

**Benchmark 2.2:** The process for the ratification of the UN Convention against Corruption has commenced though again this will require the approval of the National Assembly which will introduce this item into its order of work in 2007.

**Benchmark 3.4:** To establish an enabling regulatory environment for profitable extraction of Afghanistan's mineral and natural resources, the Government has put in place the Minerals and Hydrocarbons Laws. The *Compact* benchmark also requires that minerals and hydrocarbons regulations be enacted by early 2007.

**Benchmark 4.3:** The completion of a human resource study will require additional resources and capacity if the benchmark is to be completed by end-1385.

**Benchmark 8.3:** The draft Corporation, Partnership, Arbitration, and Mediation laws are in the final stages of preparation for submission to the Cabinet and the National Assembly. They are being circulated to stakeholders and are in the final stages of review for World Trade Organization compatibility. The remaining six draft commercial laws are currently being reviewed and translated into Dari. It is expected that with additional effort all 10 proposed commercial laws will be ready for submission to the Cabinet and the National Assembly by end-1385.

## II. Issues for JCMB Attention

9. Among the most critical issues affecting the implementation of the benchmarks agreed in the *Afghanistan Compact* and which require the attention of the JCMB are:

- **Security** - Increasing insecurity and insurgency in the south and southeast is diverting the Government's attention and efforts away from legislative progress and institutional reform;
- **Financial Resources** - Lack of adequate resources through the core national budget for development, limited financial management at provincial levels, and slow implementation of development projects;
- **Capacity** – Limited Government capacity in light of the challenges and ineffectiveness of international assistance, particularly in capacity building;
- **Private Sector Investment** – The limited ability of the private sector, largely due to insecurity, to generate employment and reduce poverty; and
- **Legislation** – The limited ability of the Government and the National Assembly, largely due to capacity constraints, to develop and bring into law important pieces of legislation.

10. There are a number of reasons why progress has been slow or non-existent. National and regional political factors have undermined security and led to the increased insurgency in some parts of the country. Poor governance resulting from a lack of accountability, widespread corruption and limited capacity, exacerbated by the large and growing narcotics sector, has deterred development efforts. Afghanistan lacks a comprehensive anti-corruption strategy that identifies the key areas and

sectors that need to be prioritized to address the pervasive negative impacts on governance, social and economic development. There has also been insufficient coordination of donor assistance and alignment with the priorities established in the *Afghanistan Compact*. Despite many good intentions and in some cases adequate resources, project implementation has been slowed down due to, among other factors, capacity constraints and excessively complicated procedures in the disbursement of funds from the core and external budgets including limited fungibility of funds. In particular, key investments in infrastructure, critical for making a difference in people's day-to-day lives, are not moving at a pace that can meet people's expectations.

#### Restoring Security – Responding to Increasing Insecurity and Insurgency

11. A rise in insurgent activity in the south and southeast has increased insecurity, which has had a significant negative impact on many sectors. For example, comprehensive immunization campaigns cannot be carried out, with polio in particular resurgent as a result. Although rural development activities have continued through community development councils, many programs and projects in conflict areas have been suspended or proven difficult to implement. Conditions are of course particularly difficult in the south, where 35% of schools are closed and a number have been damaged or burned. The security situation in the south and southeast has limited the ability of the Government to effectively implement many programs. Attacks on public officials have increased and as a result people are more reluctant to assume the risks associated with government employment. In short, achievement of a number of key *Afghanistan Compact* benchmarks will be questionable if the insecurity and insurgency continues on the present scale, or will be geographically limited to more secure areas rather than comprehensive in its coverage.

12. Insecurity in the south and southeast has severely limited the effectiveness of government institutions or severely hampered the Government's presence. While the security threat is being actively countered by the Afghan National Army together with NATO-led ISAF and the US-led coalition, there has as yet not been decisive progress in addressing the underlying factors driving this insurgency.

13. As recognized in the *Afghanistan Compact*, insecurity cannot be overcome by military means alone. It is essential that tangible progress in social and economic development begin to reach the people, especially vulnerable populations. But implementation of many programs is extremely difficult in conditions of acute insecurity and lack of law enforcement. This is compounded by the limited capacity of government institutions at all levels, which are often seen as corrupt, or absent in many parts of the south and southeast, creating a gap that insurgents are attempting to fill. When there is an absence in basic service delivery by the government, people inevitably look to alternative sources of supply. It has become clear that marginal changes are unlikely to have a decisive impact: people want to replace corrupt and self-serving public officials. Only by eliminating corruption can the Government diminish the freedom of operation that insurgents and drug traffickers now enjoy. Security must be significantly improved to support delivery of essential public services to citizens and establish an environment conducive to rule of law, reconstruction, development and a return to normality. Moreover, donors and agencies should recognize that such projects be implemented alongside and in coordination with security operations.

14. In response to the security challenge the Government has set up the *Policy Action Group* (PAG) – a temporary crisis management group which is currently addressing urgent insurgency-related issues in Kandahar, Helmand, Zabul and Uruzgan provinces. The PAG comprises four thematic areas: security operations, reconstruction and development, strategic communications, and intelligence fusion. It has championed measures to re-profile and make available existing humanitarian and reconstruction resources, as well as to establish the Afghan National Auxiliary Police and improve strategic communications to combat the insurgency.

15. The PAG has succeeded in increasing coordination in an area where it is critically needed. Its success will depend in part on cross-border cooperation to reduce and ultimately remove those factors that are driving the insurgency. Significant military cooperation to this end is being pursued through the tripartite commission process. But improving security at the national level will require renewed focus and heavy commitment to reform the Ministry of Interior and policing at all levels, including their financial and administrative practices. Restoring a general state of security will also depend upon the energetic implementation of the *National Drug Control Strategy*, emphasizing the arrest of high-order traffickers and promoting legal livelihoods and development in the areas most affected. It will also depend on a renewed political commitment backed up with strengthened ground-level tools for implementing the *Disbandment of Illegal Armed Groups* (DIAG). The growth of insurgent activity has also had an adverse impact on the work of the DIAG as a result of the rearming that has taken place in some areas in response to the perceptions of a growing security threat. In responding to the changing security situation, the stakeholders of the DIAG have undertaken a comprehensive review of the program, including the benchmark of the *Afghanistan Compact*.

#### Mobilizing Financial Resources – Strengthening Budget Processes and Accelerating Development Projects

16. The Government is currently on track to meet the budget target for domestic revenues of USD 520 million and may well exceed this amount by as much as USD 30 million. This represents a significant increase over actual collections of recurrent revenue of USD 467 million in 1384. Domestic revenues are expected to reach 6% of GDP in 1385. With this the Government expects to be able to meet 63% of the operating budget expenditure forecast from domestic revenues. This represents significant progress towards closing the gap between domestic revenues and operating expenditures, one of the key *Afghanistan Compact* benchmarks aimed at achieving medium term fiscal stability.

17. On the revenue side, almost 50% of projected revenues in 1385 are expected to come from customs collections. The revenues are primarily a result of improved tax collection and an increase in customs rates, which was implemented in August 2006. The Government is working cooperatively with the donors to implement an integrated *Border Management Initiative* (BMI) with a core focus on improving customs collections. The key components of this effort include improved infrastructure, computerized systems and inspection equipment at thirteen priority border crossing points. The net financial yield will inevitably depend on the performance of Customs Officials and Customs Police. Planned enhancements in training with on-the-job support by international experts should help improve customs operations but long-term improvements will require a sustained technical assistance effort.

18. Core development budget expenditures are also on track and increasing. As at the mid-year review, 28% of the core development budget had been disbursed and

40% contracted. However, it is expected that disbursements will accelerate in the second half of the financial year and actual disbursements are expected to reach over 60% by the end-1385. Last year disbursements were 44% of the core development budget, and in real terms this increase reflects a doubling of actual disbursements. It should be noted that one of the reasons for slower than projected disbursement of the development budget is its late approval by the National Assembly by more than three months.

19. Many Government ministries have identified a number of constraints in project implementation as the underlying cause for the low disbursements from the core development budget. One of the key problems is the long and complicated process associated with procurement in accordance with international competitive bidding procedures. These requirements are instituted to ensure fairness, transparency and accountability, but by their very nature, they are inevitably time consuming with lengthy planning lead times, even in the best of circumstances. Procurement capacity in Government needs to be improved substantially. Other factors contributing to slow project implementation include poor project design, inappropriate sequencing, insufficient prior feasibility or viability studies, inaccurate project assumptions, poor project costing, lack of prioritization and poor project and contract management. Finally, the Government recognizes that what matters most is not simply the rate of disbursement, but the quality of project implementation and ensuring that there are substantial impacts at the ground level.

20. The Ministry of Finance has highlighted that the proper measure for monitoring effective procurement delivery is commitments and allotted contracted amounts rather than actual disbursement. Once a project has been approved, the disbursement of funds will directly flow from the implementation schedule and invoices from contractors when contract milestones are reached. That is, there will always be a delay from the committed allotments being issued and the disbursement to contractors from the contract amounts (and this is even more difficult to estimate with multi-year contracts).

21. As called for in the *Afghanistan Compact*, the Government has reiterated the need for increased channeling of the external budget through the core budget for improved aid effectiveness. The composition, size and delivery mechanism of aid to Afghanistan is also a critical factor in the slow realization of results and their high cost through the external budget. The Government has urged donors that are permitted by their legislatures to put funds directly through the core budget to test the public sector's absorptive capacity and fiduciary responsibility through increased allocations to the core budget. Simultaneously, a key priority for donors should be focusing efforts on needed capacity building in order to remove constraints in effective disbursement of development funds from the Government's core budget and assessing the quality of project implementation.

22. In addition to improving aid effectiveness, increased core budget support will also simplify sector budget analysis and strengthen the Government's ability to prioritize development programs based on the ANDS. Virtually all ministries have called for increased resources to meet the *Afghanistan Compact* benchmarks, which strains the available fiscal envelope. In many ministries the core budgetary allocation is very low, due to the substantial funding through the external budget. For example, total Government funding for health stands at only 3% of the core operating budget and 6% of the core development budget; a large amount of development and recurrent costs are being met through the external budget. Because of this external spending, figures on percentages and absolute allocations in the core budget are not a good guide to the amounts actually being spent in a sector, the amounts of

additional resources that may be needed, and the results being achieved. Increased allocations through the core budget and the introduction of an integrated budget, which combines the core and external budgets, will address these issues. This will entail the development of prioritized, sequenced and costed strategies clearly identifying the resource gaps. These estimates are in the process of being developed as part of the sector strategies being developed by the ANDS; some of which will be integrated in the 1386 budget. It should be noted that a proposal is being developed for an *Immediate Action Plan* for budget implementation aimed at realizing quick results (e.g. aggregation of project activities under a single budget code, clarification of what constitutes 'humanitarian' and 'development' activities and to determine customs exemptions and avoid disputes and delays). The Government is also initiating program budgeting and integrating the operating and core development budgets.

23. The Government in conjunction with the international community needs to conduct an analysis of the recurrent cost implications of transferring increased external development budget spending to the core budget. Already it is recognized that in the case of road maintenance, donors will need to provide additional assistance. As other aspects of the external development budget are transferred, the questions are what is the size and how will the recurrent cost components be financed? It is essential that the recurrent cost implications are properly assessed and budgeted. Nonetheless, significant recurrent costs are currently being expended from the external development budget, and the ultimate transfer of these costs to the core budget will be necessary before fiscal sustainability can be confirmed. Currently in the Compact, by 1389 the Government is targeting a ratio of domestic revenue to total operating budget, including estimated costs in the external budget, of 58%. This implies a continued need for donor financing of the recurrent budget in the medium term. Transferring these costs from the external budget to the core budget sooner rather than later will strengthen fiscal sustainability goal setting. Additionally, if the Government can continue to show fiduciary responsibility, the costs of delivery and recurrent expenditure is likely be much lower than the current approach of donors contracting for these services.

24. External budget reporting is another critical issue that needs to be addressed through the JCMB. In the Consultative Group (CG) process, it was recognized that while the Government is reporting on its budgeted and actual expenditures, the amounts spent do not necessarily correlate closely with the achievements that are being reported, which in some cases are also due to donor expenditures from the external budget. There is an urgent need for the donors to report their expenditures on a regular basis with greater transparency and in accordance with the Government's budget lines with the related results. The Government's *Donor Assistance Database* needs to be brought up to date. Implementation of a fully effective *Donor Assistance Database* would require substantial international action and support. This is in accord with one of the principles aimed at achieving greater accountability through the presentation of information on assistance in a format consistent with integrating it into comprehensive reports to the National Assembly, as prescribed in Annex II of the *Afghanistan Compact*.

#### Building Capacity – Meeting Challenges of International Assistance

25. Lack of capacity has emerged as a major bottleneck in virtually every sector. Despite the enormous funds spent on building capacity, the results have often been disappointing. The proliferation of technical assistance at high costs, of consultants performing line government functions and the tendency to deliver assistance outside



of government structures have limited the development of adequate capacity in the public sector. At times, high cost international technical assistance is of insufficient quality for the requirements of the Afghan Government. Beyond determining a balance between buying and building capacity, there must be a rethink on where capacities can be bought on a sustainable basis, what type and how human resources will be built in the country, and how should both these aspects get funded. The Government also needs to ensure that it is able to more productively utilize the technical assistance that is being made available. A mechanism for a probationary period and review process of all international technical assistance should be established. Capacities at provincial and district levels are critically weak and pose a serious threat to national unity, peace and the reform and development process outside of Kabul.

26. Increasing the pace of sub-national government capacity building will require a more systematic approach. A suggestion is to address each province in turn, examining the full sub-national organization and focusing on building capacity. The PAG process has produced proposals for immediate enhancements to provincial capacity, and it now needs to have targeted programs to identify and fill the gaps in capability, working closely with the Civil Service Commission to ensure this is sustainable and acceptable. Each province will require different solutions, but the process for identifying and addressing them should be standard. A number of people need to be hired and trained in each province to correct the problem. To address these needs, *Provincial Development Plans* are being developed as part of the ANDS process. Specific mechanisms to support this effort need to be more clearly developed.

27. Clearly, the present piecemeal approach could be improved with a well structured strategy that adopts a more coherent approach to institutional development rather than isolated, poorly targeted and at times overlapping training activities. This will be necessary to equip the Government to use its core development budget more fully and productively. The Government has proposed meeting critical capacity requirements in line ministries where it is most needed through increased South-South cooperation. The additional capacity support would be expected to address policy and strategy development including project design, finance, and procurement.

28. Of particular concern has been the slow pace of *Public Administration Reform* (PAR), particularly at the sub-national level. The people very much want to see that their government is working effectively to meet their needs and that there is a fair and transparent process for recruitment to the civil service. Recognizing the existing limitations in capacity, there have been suggestions to focus the role of the state more narrowly on core functions in line with existing capacity and to look for alternative ways to improve service delivery in the short term.

29. The CG discussions also highlighted the general dissatisfaction within the country with regard to corruption and shortcomings in the delivery of services, often attributed to the absence of an effective and transparent bureaucracy. There are widespread concerns on the ways that appointments are being made, often through informal influences and networks (termed in some cases *Wasseta*). To address these issues, a comprehensive review is needed examining the effectiveness and fiscal sustainability of the programs of the *Civil Service Commission*, including steps that can be taken to accelerate the implementation of the *Priority Reform and Restructuring* (PRR) program.

30. The need for a national communications strategy with supporting infrastructure cannot be overstated. In spite of the considerable progress that has been made, many Afghans have a sense that progress is not taking place in their areas. Much of this is due to the Government's inability to develop appropriate public outreach activities that would enable them to disseminate information in a more timely and accurate manner. The Ministry of Information, Culture and Youth has been tasked to develop strategic messages and a dissemination system, but budget capacity remains a significant constraint. Without making this funding available, the Ministry's efforts to develop a communications strategy will remain unnecessarily dependent on the international community for ideas, manpower and infrastructure.

31. Global experience suggests that development of sustainable capacity and institution building takes time. Unfortunately, Afghanistan today does not have the luxury of time. People want the Government to make a difference to their lives now, they want to trust in their Government and they want employment opportunities to be available. If the realization of the benefits of development is too distant in time, there will be a loss of credibility in the development efforts and the political system. The challenge for the Government is two-fold: to continue to systematically strengthen core institutions and build the capacity required for long-term sustained development, and to take the steps necessary to accelerate economic growth and development so that the Afghan people are able to see tangible results without undue delay. In addition, these efforts should do more to build on the existing inherent capacity where it exists.

#### Private Investment – Mobilizing Resources for Economic Growth and Development

32. Necessary public investments that would enable private-sector-led growth are not taking place at the pace required, due in part to capacity constraints within Government. The I-ANDS envisages a central role for the private sector in economic growth, poverty alleviation and job creation. However, due in large part to the adverse security environment, as well as high levels of corruption and personal crime, including a growing incidence of kidnapping, there has not been adequate private investment to achieve the broad based economic growth desired. The earlier expectation that the Afghan Diaspora would be major investors has been thwarted due to extensive bureaucracy, corruption and security concerns. Other persistent barriers to entry for investors include the shortcomings in land titling procedures, limited access to financing, lack of reliable energy, deficiencies in public infrastructure, labour market distortions, the need for a more market-friendly legal framework, and limitations in the judicial system – all problems even in relatively secure areas.

33. There have been some notable commercial successes such as in the areas of fruit processing and horticulture, hotels, telecommunications and banking. But investment in these areas has not been of sufficient scale to have a major economic impact. In other areas, such as delivery of services through the private sector or contracting of large infrastructure projects through Government or donor funding, lack of capacity in both the Government and the workforce remains a significant constraint.

34. Given the security risk premium required by investors in Afghanistan, the Government will explore increased opportunities for public-private partnerships. Some possibilities are currently emerging in the agriculture sector, supported from the external budget, but many more opportunities need to be developed. A critical challenge for any private sector participation is availability of infrastructure, including

most importantly electricity. The Government may also wish to explore the possibility of making security risk insurance more readily available or investment guarantees being provided through donor funding to initiate private sector investment in the country. In addition, the scope for international loans is a relatively unexplored mechanism.

35. Notwithstanding some of these options, the immediate prospects for the private sector undertaking large scale investments in Afghanistan under the current security conditions do not look very promising. As a result, without substantial increases in private investment, the short-term prospects for rapid employment creation that will meet the aspirations of the people will be difficult to deliver. More aggressive and targeted strategies are needed to attract private investment to the country. The Government would like assistance in undertaking a comprehensive analysis of the potential competitiveness of Afghanistan within the region in order to identify potential sources of investment. The *Regional Economic Cooperation Conference* in New Delhi on 18-19 November 2006 will also focus on developing investment opportunities in the country. In addition, the Government and some international donors have expressed the desire to look at the scope for expanding public-private partnerships to provide the impetus for increased private sector investment.

#### Enacting Legislation – Establishing a Market Oriented Legal System

36. The introduction of new laws is critical in achieving a number of important benchmarks. The process for the development, review and approval of legislation by the Cabinet and National Assembly is being hampered by the lack of capacity in the responsible ministries and also to an extent by lack of urgency. Issues of coordination between ministries have also been identified as impediments to the process, such as in the development of proposed legislation. Improving coordination is an issue to be addressed by the *ANDS Oversight Committee*, but because the slow development of legislation affects achievement of a number of key benchmarks, it should also be systematically monitored through the CG process.

### **III Decisions and Actions**

37. Noting the discussion in the above section, the JCMB has made the decisions noted below:

#### **1. Security**

1.1 The work of the *Policy Action Group* (PAG) must be carried forward to a successful conclusion, particularly with regard to *Afghan Development Zones* (ADZs), strengthening of Afghan National Army and Afghan National Police (ANP), effective governance, strategic communications, prompt action against corrupt officials and international cooperation to deny sanctuary and end external support to insurgent networks.

1.2 Reform of the Ministry of Interior must be treated as an overriding priority and a progress report should be provided to the next JCMB meeting. This will require difficult decisions by the Government with creating an effective civil administration, senior appointments and anti-corruption, as well as additional support from the international community to ensure financial administration is strengthened.

- 1.3 The Government must renew its high-level political commitment and refine ground level tools to disband illegal armed groups. It must focus both political and law enforcement capacity at national, provincial and local levels on this issue, with strong support from the *Afghanistan New Beginnings Program*. It must also energetically implement the *National Drug Control Strategy*.
- 1.4 In the field of justice and rule of law, reform and anti-corruption measures prepared by the Government require strong international backing. In particular, the Government and the international community must together meet the challenge of enhanced training, improved administrative and increased human resource capacity of judicial institutions. The five-year reform program introduced by Chief Justice needs active endorsement and material support. The international community should report on progress by the next JCMB.
- 1.5 The JCMB notes the recommendation of the CG to add a further 11,271 locally recruited and appropriately trained Afghan National Auxiliary Police (ANAP) to the number of ANP on a temporary basis in the south and southeast. The JCMB also takes note of the *ANP Balancing Plan*, enacted by Presidential decree on 1 July 2006 providing for the temporary recruitment of an additional 2,100 police forces. Given the temporary character of both measures, it is the JCMB's clear understanding that this will not infringe the commitment of the *Afghanistan Compact* that by end-1389, Afghanistan will have in place an ANP and Afghan Border Police with a combined force of up to 62,000. The Government should present a clear plan by the next JCMB meeting for implementation including an exit strategy and should clarify the deployment of ANP and ANAP forces by province.

## 2. Financial resources

- 2.1 Immediate actions should be taken by the Government and the international community to remove the bottlenecks in the implementation of projects funded from both the core and external development budgets. Procurement and the necessary other capacities for accelerated project implementation should be put in place in the line ministries. Further support and actions by the international community to assist the Government beyond those identified in 3.2 below should be brought to their attention and reported to the JCMB. The Government will take immediate action to shift resources to build capacity in line ministries to implement required procurement processes in a more timely and efficient manner.
- 2.2 Indicators of success in improving aid-effectiveness, as called for in the *Afghanistan Compact* and the *Paris Declaration*, should be developed jointly by the Government and the international community and presented at the next JCMB meeting. These indicators should be based on the standard Organization for Economic Cooperation and Development (OECD) *Aid Effectiveness Survey* completed in August 2006 and the *Afghanistan Compact*.
- 2.3 A framework will be developed, in time for JCMB's *First Annual Report*, by the Ministry of Finance in collaboration with the World Bank, to assess the impact of expenditures on development outcomes. This framework would also establish the linkages between such outcomes and budget processes.

2.4 The Government and donors will agree by the JCMB's *First Annual Report* to establish a more effective reporting system for assistance that provides the Government with sufficient detailed information that reflects donor support in all areas related to the implementation of the *Afghanistan Compact*. In the interim, all external budget expenditures and results achieved, or expected to be achieved, should be reported by the international donors and agencies through the Ministry of Finance and the line ministries. This should be presented at the next round of CG meetings.

### 3. Capacity development

3.1 Options for increasing the effectiveness of capacity building, including the appropriate balance between buying and building capacity, should be examined. Donors will explore ways to shift resources to augment Government expenditures to build capacity. Efforts to improve capacity should be highlighted and a report submitted on proposed actions at the next *Afghan Development Forum*.

3.2 The JCMB agrees that line ministry capacity should be developed according to the following priorities: (i) procurement; (ii) policy/strategy development, including project/program design and implementation; and (iii) finance. Based on the review of options in building capacity, as outlined in *Decision and Action 3.1*, the Government will provide an update on progress at the JCMB's first annual meeting.

3.3 A review of the implementation and effectiveness of the programs of the *Civil Service Commission* should be undertaken in time for JCMB's *First Annual Report*.

### 4. Legislation

4.1 The Government should provide a prioritized annual plan for the development and presentation to the Cabinet and National Assembly, all pieces of legislation necessary for the implementation of the *Afghanistan Compact*.

4.2 The Government should identify the additional capacity needs of the Ministry of Justice by the next JCMB meeting. The capacity needs of the National Assembly to meet its legislative agenda should also be identified. The international community should, as a matter of urgency, support the capacity needs of the Ministry of Justice and National Assembly in this regard and an update should be provided by the next JCMB meeting.

### 5. Development of strategies, costs and resource gaps and implementation plans

5.1 The Government, with donor support, is developing sector strategies and *Provincial Development Plans*, including costs and resource gaps, as a matter of urgency. These strategies will reflect greater coordination of donors and stakeholders and ensure realistic outputs in line with the goals of the *Afghanistan Compact*. A number of sector strategies will be presented at the *Afghanistan Development Forum*.

5.2 The JCMB notes the Counter Narcotics Implementation Plan developed with the active participation of the line ministries under the leadership of the

Ministry of Counter Narcotics, and endorsed by the Counter Narcotics Cross-cutting Thematic Group and the cabinet sub-committee on Counter Narcotics.

The JCMB strongly endorses the Counter Narcotics Implementation Plan in order to make sure that all line ministries implement this plan with the support of the international community. Officials hampering effective implementation should be removed.

5.3 The Government and international community will jointly develop a comprehensive strategy to substantially reduce corruption in the public sector to be presented with the JCMB's *First Annual Report*.

5.4 Donors should coordinate more closely with each other and with the Government throughout the project cycle in accordance with the *Afghanistan Compact*.

6. Revision of benchmark timelines

6.1 The timelines for those benchmarks that may not be achieved by the end of 1385 should be revised with new end-dates presented at the next JCMB meeting.

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**TABLE 1: PROGRESS ON ELEVEN SHORT-LIFE BENCHMARKS**

Benchmarks	Progress
<p>2.1.2: A clear and transparent national appointments mechanism will be established within 6 months, applied within 12 months and fully implemented within 24 months for all senior level appointments to the central government and the judiciary, as well as for provincial governors, chiefs of police, district administrators and provincial heads of security.</p>	<p>The first target in the benchmark – to set up a clear and transparent national appointments mechanism – was attained within the stipulated timeframe (by 20 September 2006) through a presidential decree issued on 17 September 2006. A five-member Special Consultative Board for senior-level appointments has been established and met for the first time on 27 September 2006.</p> <p>The Presidential Decree for “Establishment of a Consultative Mechanism for Appointments of Senior-Level Government Posts” was formulated through a consultative process that involved both the government and international community. It applies to the appointment of provincial governors, deputy ministers, provincial police chiefs, provincial heads of security and members of the Independent Administrative Reform and Civil Service Commission (IARCSC).</p> <p>The Special Consultative Board comprises five members appointed for a period of five years. The decree also stipulates the creation of an ad hoc sub-committee for judicial appointments.</p> <p>Provincial deputy governors and district administrators will be appointed by the Board of Appointment of the Civil Service Commission, in accordance with Art. 14 of the Civil Service Law.</p>
<p>2.1.3: By end 1385 (20 March 2007) a review of the number of administrative units and their boundaries will be undertaken with the aim of contributing to fiscal sustainability.</p>	<p>The following has been achieved:</p> <p>The delineation of province and district boundaries, including the disputed borders in 3-4 provinces, was finalized in late September 2006. Province, district, and village codes have been assigned, including the long disputed 13 villages and their boundaries.</p> <p>The Geodesy and Cartography Department has completed approximately 85 percent of the delineation of province and district and assignment of village, district and province codes, which will be fully finalized by 1 November 2006. Administrative borders will then be presented to the ANDS Oversight Committee, and Cabinet, for approval. The department is not sure whether National Assembly ratification is required; guidance from the Ministry of Justice in this regard is sought. As a result of these ratification requirements, there is little likelihood of this short life benchmark being met.</p>

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**TABLE 1: PROGRESS ON ELEVEN SHORT-LIFE BENCHMARKS**

Benchmarks	Progress
<p>2.2: Anti-Corruption: The UN Convention against Corruption will be ratified by end 1385 (20 March 2007). National legislation adapted (according to UN Convention against Corruption) by end-1386 (20 March 2008). A monitoring mechanism to oversee implementation (of the national legislation against corruption) will be in place by end-1387 (20 March 2008).</p>	<p>The first target in achieving the benchmark is the ratification of the UNCAC by the National Assembly by the end of 2006. Progress towards this target is as follows:</p> <ul style="list-style-type: none"> <li>➤ The convention has been translated into Dari for submission to the Cabinet and the National Assembly.</li> <li>➤ Preliminary review of the UNCAC by the Ministry of Justice has been completed to ensure no major incompatibilities with national legislation.</li> <li>➤ As of October, the convention has been submitted for review by the Cabinet. However, GIAAC, in cooperation with the Office for Parliamentary Affairs, still need to provide information to members of the National Assembly on the UNCAC and actively advocate that Parliament ratify the Convention. GIAAC needs to develop its capacity to interpret and disseminate UNCAC principles, with support from international community.</li> <li>➤ An Anti-Corruption Committee, headed by the Chief Justice of the Supreme Court and reporting directly to the President, was established on August 30, 2005.</li> <li>➤ Awareness-raising amongst parliamentarians is taking place. UNDP and UNDOC have made two presentations to the members of the Anti-Corruption Committee of the Wolesi Jirga.</li> </ul> <p>To meet the deadline for this benchmark (end of 1385) will require ratification from the <i>Taqnin</i>, Cabinet and both Houses of Parliament. It is noted that the Compact deadlines are on the ratification of the Convention and the establishment of the necessary legal framework (end 2007) – the broad scope of UNCAC will require that Afghanistan develop relatively sophisticated laws (e.g. money laundering and asset recovery) as well as the development of a prioritized and sequenced plan for implementation and define institutional responsibilities and mandates. To work towards the end-2007 deadline for the establishment of the necessary legal framework, the General Administration Against Corruption (GIAAC) and the Ministry of Justice should urgently initiate a systematic review of Afghan laws vis-à-vis UNCAC. Only when the legal comparison and identification of gaps and potential incompatibilities have been finalized, can legislative priorities be drafted in line with the national anti-corruption strategy and the MoJ can incorporate defined priorities into the legislative agenda (<i>Taqnin</i>).</p>



**Afghanistan Compact**

**TABLE 1: PROGRESS ON ELEVEN SHORT-LIFE BENCHMARKS**

Benchmarks	Progress
<p>2.4: National Assembly: The National Assembly will be provided with technical and administrative support by mid-1385 (Sep/Oct 2006) to fulfill effectively its constitutionally mandated roles.</p>	<p>This benchmark has been largely met. The following programs and projects have been implemented to achieve the benchmark.</p> <ul style="list-style-type: none"> <li>➤ The UNDP SEAL project (USD 15 million, two years, began January 2005) has supported the activities of parliament, its members and staff, with training and equipment:</li> <li>➤ Parliament Support Taskforce and Working Group established to coordinate all technical support.</li> <li>➤ Intensive training for newly recruited staff.</li> <li>➤ Specialized training for the International Relations and Public Information departments, as well as on legislative processes and computers.</li> <li>➤ Study tours for staffers to UK, Canada and Estonia.</li> <li>➤ Orientation Program for members, as well as training on the parliamentary system and the budget process.</li> <li>➤ Study tours for members of parliament to Estonia, Japan, Lithuania, Dubai and Jordan.</li> </ul> <p>Under a USAID-funded project (implemented by SUNY), parliamentarians have participated in the following:</p> <ul style="list-style-type: none"> <li>➤ Orientation for all newly elected members (December 2005).</li> <li>➤ Leadership sessions (April/May 2006).</li> <li>➤ Budget training to committee and leadership (April/May 2006).</li> <li>➤ ICT training for staff (ongoing).</li> <li>➤ Management training for staff (ongoing).</li> <li>➤ Database training for ICT department (October 2006).</li> <li>➤ Workshop on the constitution for the <i>Meshrano Jirga</i> (MJ, upper house of National Assembly) (February 2005).</li> <li>➤ Legislative Drafting training provided to department and committee staff (August 2006).</li> <li>➤ Library database training (April 2006).</li> <li>➤ Shorthand/note taking training (January 2006).</li> <li>➤ Administrative support has been given by USAID to build the library/training center, the legislative research office in the <i>Wolesi Jirga</i> (WJ, lower house of National Assembly), as well as the provision of computers and other equipment.</li> </ul> <p>Various construction projects have been completed or are underway:</p> <ul style="list-style-type: none"> <li>➤ Library/training centre.</li> <li>➤ Legislative research office in the Wolesi Jirga.</li> <li>➤ Rehabilitation of Building for Administrative Affairs.</li> <li>➤ New building for parliament (supported by India).</li> </ul> <p>In addition, there are 12-15 smaller projects on various topics such as gender and IT.</p>

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**TABLE 1: PROGRESS ON ELEVEN SHORT-LIFE BENCHMARKS**

Benchmarks	Progress
<p>2.7.3: Rule of Law: A Review and reform of oversight procedures relating to corruption, lack of due process and miscarriage of justice will be initiated by end 1385 (20 March 2007) and will be fully implemented. By end 1389 (20 March 2011), reforms will strengthen the professionalism, credibility and integrity of key institutions of the justice system (the Ministry of Justice, the judiciary, the Attorney General's office, the Ministry of Interior and the National Directorate of Security).</p>	<p>The first target in this benchmark—one of four under Rule of Law—is the review and reform of oversight procedures related to corruption to be initiated by the end of 2006. The following actions have been carried out in this regard:</p> <ul style="list-style-type: none"> <li>➤ The Office of the Attorney General has drafted a code of ethics, which contains Disciplinary Procedures for Prosecutors. AGO will strengthen its capacity to investigate and take action on cases brought through internal oversight mechanisms as well as external agencies such as the Afghanistan Independent Human Rights Commission (AIHRC).</li> <li>➤ The Supreme Court is to establish a Judicial Service Advisory Board to comprehensively evaluate all aspects of judicial service, including recommendations on judicial conduct and ethics, and enforcement procedures.</li> <li>➤ The Ministry of Justice will establish a committee to review all laws and regulations and identify areas of improvement, including a code of ethics and professional standards. To combat corruption, the MoJ has made plans to strengthen its Inspection Department to bring it in line with international standards.</li> </ul>
<p>2.8: Land Registration: A process for registration of land in all administrative units and the registration of land titles will be started for all major urban areas by end 1385 (20 March 2007) and all other areas by end 1387 (20 March 2009). A fair system for settlement of land disputes will be in place by end 1386 (20 March 2008). Registration for rural land will be underway by end 1386 (20 March 2008).</p>	<p>The first target for this benchmark – starting the process of registration of land and titles in urban areas by end of 2006 – has been approached from a broader sectoral perspective to focus more on the requisite land policy and legal framework required to support a registration and dispute settlement process.</p> <p>Progress towards this benchmark is as follows:</p> <ul style="list-style-type: none"> <li>➤ A property adjudication process prior to the formalization of tenure has been piloted in two districts of Kabul (7 and 13).</li> <li>➤ The creation of a Land Information System (LIS) database with key stakeholders (the Municipality, Court, Cadastre), has been initiated in Kabul.</li> <li>➤ Simplification of the registration process with the Supreme Court.</li> <li>➤ In 15 out of 34 provinces, Makhzans (property archives) have been reorganized and staff retrained in document management and security.</li> <li>➤ Modernization of cadastral activity to define property boundaries.</li> </ul> <p>To ensure the development of land policies formulated through adequate consultative processes and approved by all relevant government authorities:</p> <ul style="list-style-type: none"> <li>➤ A draft land policy is currently being discussed and debated within the ANDS working group and feedback on the draft document has been submitted to it by relevant ministries (including Agriculture and Urban Development).</li> <li>➤ Comparative analysis of land laws is being prepared by the ANDS Working Group.</li> <li>➤ A white paper on formalization of informal property rights was prepared and approved by the Ministry of Urban Development (MoUD).</li> </ul>

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**TABLE 1: PROGRESS ON ELEVEN SHORT-LIFE BENCHMARKS**

Benchmarks	Progress
<p>3.4. Mining and Natural Resources: An enabling regulatory environment for profitable extraction of Afghanistan's mineral and natural resources will be created by end 1385 (20 March 2007), and by end 1389 (20 March 2011) the investment environment and infrastructure will be enhanced in order to attract domestic and foreign direct investment in this area.</p>	<p>An enabling regulatory environment for the profitable extraction of Afghanistan's mineral resources will be created by mid-2007 and by end 2010 the investment environment will be expected to attract domestic and foreign direct investment into the sector. Since 2003, the Ministry of Mines (MM) – in partnership with various donors – has made great strides to assess and identify priority projects and develop programs that will assist the ministry in the transition from a state owned enterprise focusing on production to a ministry which supports an enabling environment for the private sector and, furthermore, ensures regulation of that sector. Achievement against the benchmark is as follows:</p> <ul style="list-style-type: none"> <li>➤ The Minerals Law was approved by GoA in July 2005.</li> <li>➤ The Hydrocarbons Law was approved by GoA in December 2005, but contains some shortcomings that need to be addressed.</li> <li>➤ The Hydrocarbons Regulations have been drafted and reviewed by the Ministry of Justice but additional work is needed to address the above shortcomings.</li> <li>➤ Regulations on the mineral law will be completed mid-2007</li> </ul>
<p>3.5. Water Resource Management: Sustainable water resource management strategies and plans covering irrigation and drinking water supply will be developed by end 1385 (20 March 2007), and irrigation investments will result in at least 30% of water coming from large waterworks by end 1389 (20 March 2011).</p>	<p>Overall, the Ministry of Energy and Water (MoEW) considers that the first target of the water resource management (WRM) benchmark can be achieved by the deadline of end-2006. The following achievements against the benchmark have been made:</p> <ul style="list-style-type: none"> <li>➤ The Strategic Policy Framework for the water sector has been approved by the Supreme Council for Water Sector.</li> <li>➤ Draft policies have been developed by MoEW on WRM, irrigation, urban water supply and sanitation, and rural water supply and sanitation, and are currently in the process of approval by the Supreme Council.</li> <li>➤ Institutional Development Plans for Water Management have been drafted.</li> <li>➤ Stage 1 of the Institutional Development Plans for the River Basin Agency have been drafted and are in preparation for submission to the Civil Service Commission.</li> <li>➤ Ground Water Policy has been drafted.</li> </ul>
<p>4.3. Skills Development: A human resource study will be completed by end 1385 (20 March 2007). 150 000 men and women will be trained in marketable skills through public and private means by end 1389 (20 March 2011).</p>	<p>The first target in the benchmark – to complete a human resource study by end-2006 – will be met in July 2007. This is due to rigid procurement procedures – including in the recruitment of services for highly specialized assignments. Progress towards the benchmark is as follows:</p> <ul style="list-style-type: none"> <li>➤ A first bid for services was issued however due to poor and inadequate response, a second bid was required. This has been advertised in September 2006, however once again this has proven inadequate. Procurement process is on-going and it is anticipated it will be completed by November 2006.</li> <li>➤ The contract for the study is expected to commence at the earliest by 1 February 2007.</li> <li>➤ Progress towards the second target in the benchmark – to train 150,000 men and women in marketable skills – is as follows:</li> <li>➤ 1,935 trainees have successfully completed the training program in 1384. Forty-two per cent of the trainees were women and 10 per cent were persons with disabilities.</li> <li>➤ Evaluation of new proposals to be implemented in 2007 for the training of 7,000 individuals is underway.</li> </ul> <p>Fulfillment of the second target of the benchmark will be contingent on the</p> <p>Further progress towards this ambitious second target (2010) will require the accreditation and regulation of training providers to ensure training in marketable skills so will be contingent on the identification of national training goals, priorities, standards and mechanisms, the development of a national policy on training and the development of a national system for registering and accrediting training providers. Institutional development will also need to focus the establishment of a National Vocational Education and training authority in Afghanistan.</p>

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**TABLE 1: PROGRESS ON ELEVEN SHORT-LIFE BENCHMARKS**

Benchmarks	Progress
<p>8.3. Private Sector: All legislation, regulations and procedures related to investment will be simplified and harmonized by end 1385 (20 March 2007). All legislation, regulations and procedures related to investment will be implemented by end 1386 (20 March 2008). New business organization laws will be tabled in the National Assembly by end 1385 (20 March 2007). The government strategy for divestment of state-owned enterprises will be implemented by end 1388 (20 March 2010).</p>	<p>Progress has been made to simplify and harmonize all legislation, regulations and procedures related to investments. To complete the benchmark by end of 1385 will require the redoubling of efforts.</p> <ul style="list-style-type: none"> <li>➤ Draft legislation has been prepared by Ministry of Commerce and Industries (MoCI) to simplify and harmonize legislation related to investment focusing on 10 key commercial laws (including two business organization laws).</li> <li>➤ Four of the 10 laws (Arbitration, Partnership, Corporation, and Mediation) have been reviewed in detail by the MoCI and have been submitted to the Ministry of Justice (MoJ). Currently, the Contracts and Standards Laws are being reviewed by MoCI and are expected to be ready for submission to MoJ by November 2006. The remaining laws should be ready for consideration by MoJ by the end of the year.</li> <li>➤ The <i>Taqnin</i> and MoCI have been jointly reviewing the four submitted laws. This process has been completed for the Partnership Law and is about to begin for the Corporation Law, the two key business organization laws. These laws are expected to be ready for consideration by the Cabinet by the end of October.</li> <li>➤ The process of reviewing implementing regulations and procedures for the commercial laws being prepared by MoCI is underway. This process will be done in consultation with representatives from the private sector and other stakeholders. Recommendations on guidelines on relevant regulations and procedures that reflect international best practice will be prepared for consideration by the government.</li> <li>➤ Progress has also been made towards developing a government strategy for divestment of state-owned enterprises (SOEs) by end-2009:</li> <li>➤ Government has targeted 56 SOEs for divestment.</li> <li>➤ Procedures for liquidation and for corporatization have been formulated for the proposed divestment of 56 SOEs including approval mechanisms by both the SOE Evaluation Commission and the relevant Cabinet Minister.</li> <li>➤ Government has set itself a target of 15 divestments per year; the Cabinet of Ministers approved three proposals on 29 May 2006 and four other proposals were approved by Cabinet on the 2 October 2006.</li> <li>➤ Government is currently drafting the privatization policy for the divested SOE.</li> </ul>

*Afghanistan Compact*

**TABLE 1: PROGRESS ON ELEVEN SHORT-LIFE BENCHMARKS**

Benchmarks	Progress
<p>8.4. Financial Services and Markets: Internationally accepted prudential regulations will be developed for all core sectors of banking and non-bank financial institutions by end 1386 (20 March 2008). The banking supervision function of Da Afghanistan Bank will be further strengthened by end 1386 (20 March 2008). Restructuring of state-owned commercial banks will be complete by end 1386 (20 March 2008). State-owned banks that have not been re-licensed will be liquidated by end 1385 (20 March 2007).</p>	<p>The strategy and methodology for developing and implementing the menu of prudential regulations, as well as further strengthening the financial supervision function of Da Afghanistan Bank (DAB), and the effective resolution of the problems of state-owned banks, all come from one source: the 25 Basel Core Principles for Effective Banking Supervision.</p> <p>Progress towards meeting the first target in the benchmark is ahead of target. The following achievements have been made:</p> <ul style="list-style-type: none"> <li>➤ 14 internationally-accepted prudential regulations have been developed. By March 2006 (end 1385) another two should be enacted by the DAB Supreme Council.</li> <li>➤ DAB's Financial Supervision Department already meets seven out of the 25 core principles and is therefore ahead of its target that five would be met by end-1385.</li> <li>➤ To ensure the liquidation of state-owned banks that have not been re-licensed by end-2006, the following has been achieved:</li> <li>➤ Between July and August 2006, shareholder approval for liquidations was received, Liquidation Committees appointed and the committees provided with a thorough review of liquidation procedures.</li> <li>➤ On 25 September 2006, the Liquidation Committees entered and took possession of the enterprises and all their assets and records. Concurrently, liquidation and severance packages were approved by the Cabinet. To complete this task, the Committees must determine and announce the date of termination of management and staff.</li> <li>➤ Up until the end of March 2007, liquidation plans will be implemented; assets will be disposed of.</li> </ul> <p>To ensure the restructure of state-owned commercial banks is complete by end-2007:</p> <ul style="list-style-type: none"> <li>➤ On 25 September the Afghan Cabinet of Ministers approved in principle a proposal to restructure the three state-owned banks by merging them into a single institution. The restructuring plan for Bank Mille was completed by September 2006 (including appointment of a new BoD and CEO). DAB's Supervisory Department recommended the replacement of Bank Pashtany's management team; a restructuring plan was completed in September 2006. MoF has appointed a Liquidation Committee to oversee the liquidation process in the Export Promotion Bank.</li> </ul>