



**Ministry of Commerce and
Industry**

Strategic Plan

2011 – 2015

October 2011

Foreword by His Excellency Minister Ahady


Afghanistan has grown strongly since the fall of the Taliban. This growth has been driven by a number of factors, chief among them assistance from our international partners and the return of the Afghan Diaspora, which will begin to wane. If Afghanistan is to have the bright, prosperous future that we all hope for, these sources of growth need to be replaced. This Plan sets out the Ministry of Commerce and Industry's path for achieving this including initiatives to further improve the enabling environment for business, actions to set Afghanistan on the way to an export boom, a renewed focus on ensuring that markets work for all and action to ensure that consumers are protected from shoddy products and malpractice.

This Plan sets out the key direction that MOCI will take over the next four years to assist with the development of the economy. One of the key challenges for the Ministry of Commerce and Industry is to ensure that it has the capacity to deliver on this strategy. As a result, this Strategic Plan also sets out how it will go about ensuring that that is the case. Obviously, the MOCI will not succeed unless its partners in implementation – donors and the private sector – take concurrent action. I am therefore looking to the private sector to work with us to implement this plan, for companies to engage strongly with government and work towards the jointly agreed goals set out in this Strategy.

Much has been done in recent years to make Afghanistan a better place to do business, but we still have a long way to go to create a truly enabling environment for business in Afghanistan. I know that an efficient and effective court system is a must for ensuring the integrity of commercial transactions; I realise that the prevailing security situation is hurting our businesses; I am aware that inadequate power is a serious constraint on our industrial development; I find it very painful when our business community complains about illegal payments that they have to make when they transfer their goods; I realise that most businesses do not have access to normal credit facilities; I know that clear title for land is hard to obtain; and I know that skilled labour and professionals are more easily available in neighbouring countries than Afghanistan.

But this gloomy picture needs to be balanced with a look at the brighter side of doing business in Afghanistan. Afghanistan is still a land of opportunity for entrepreneurs; I still believe that even when we take into account the high level of risk, return on investment in Afghanistan is much greater than in most other parts of the world; I am confident that few countries can match the range of investment opportunities available in Afghanistan today. From gems to aviation, from marble to manufacturing fans and electric washing machines – watch out China, here we come! - from saffron to steel, from cashmere to carpets, Afghanistan is open for business. As we make progress on building our infrastructure, and as the SME sectors expand and large scale mining and hydro-carbon extraction projects come on stream the prospects will become brighter still. This Strategy sets out a path for us to realise this enormous potential. If we are to succeed, it will be because we have worked together on the basis of a shared vision.

Finally, and perhaps most significantly, this Strategy recognises that many Afghans still need to be persuaded that a market economy will deliver prosperity to all. It sets out a path for more inclusive growth and acknowledges the need to engage with ordinary Afghans and their elected representatives and explain how and why a private sector led economy is the best way for Afghanistan to develop.



Dr. Anwar Ul Haq Ahady,
Minister of Commerce and Industry

Contents

Foreword by His Excellency Minister Ahady.....	2
INTRODUCTION.....	5
Purpose.....	5
Overview of the Plan.....	5
SECTION I: DIRECTION.....	6
1.1 Context of the Government of the Islamic Republic of Afghanistan	6
1.2 Vision and Mission.....	6
1.3 Summary of Strategic Objectives	6
SECTION II: CONTEXT AND ANALYSIS.....	7
2.1 External Environment: Economic Context of Afghanistan.....	7
2.2: Internal Environment: Situational Analysis of MOCI	9
Policy.....	9
Facilitation.....	9
Regulation	9
Administration.....	10
2.3: Self Assessment: SWOT Analysis	10
2.4 Key Partners.....	12
SECTION III STRATEGIC OBJECTIVES.....	14
3.1 Objectives for Developing the Afghan Economy.....	14
Strategic Objective 1: Improve the Enabling and Regulatory Environment and Afghanistan’s DBI Ranking	14
Strategic Objective 2: Improve International Competitiveness and Trade	15
Strategic Objective 3: Industrialise Afghanistan through Increased Exports and Import Substitution	18
Strategic Objective 4: Ensure the Private Sector Operates Fairly and Equitably.....	20
Strategic Objective 5: Ensure Pro-Poor Growth	20
Strategic Objective 6: Promote the Market Economy and Increase Understanding of How it Operates.....	22
3.2 Supporting Objective.....	23
Strategic Objective 7: Ensure that MOCI has the Capacity to Deliver on its Role	23
SECTION IV: KEY PERFORMANCE INDICATORS.....	24

Acronyms

ACBR	Afghanistan Central Business Registry
ACCI	Afghanistan Chamber of Commerce and Industries
AISA	Afghanistan Investment Support Agency
ANDS	Afghanistan National Development Strategy
ANSA	Afghanistan National Standards Authority
APTTA	Afghanistan Pakistan Trade and Transit Agreement
ASI	Adam Smith International
CAREC	Central Asia Regional Economic Cooperation
CPCPD	Competition Promotion and Consumer Protection Directorate
CSO	Central Statistics Office
DBI	Doing Business Indicators
ECOTA	Economic Cooperation Organisation Trade Agreement
EGGI	Economic Growth and Governance Initiative (USAID)
EPAA	Export Promotion Agency Afghanistan
GoIRA	Government of the Islamic Republic of Afghanistan
HOO	High Office of Oversight
IARCS	Independent Administrative Reform and Civil Service Commission
IFC	International Finance Corporation
ICA	Investment Climate Assessment
MAIL	Ministry of Agriculture, Irrigation and Livestock
MCP	Management Capacity Programme
MMW4P	Making Markets Work for the Poor
MOCI	Ministry of Commerce and Industry
NPP	National Priority Programme
SAARC	South Asian Association for Regional Cooperation
SMTQ	Standards, Metrology, Testing and Quality
SOE	State Owned Enterprise
SWOT	Strengths Weaknesses Opportunities Threats
TAFA	Trade Accession and Facilitation Afghanistan (USAID)
WTO	World Trade Organisation

INTRODUCTION

Purpose

This Strategic Plan outlines the overall vision, core objectives, and strategic initiatives for the Ministry of Commerce and Industry (MOCI) over the next four years, from October 2011 to October 2015. The individual objectives and strategic initiatives outlined in this Strategy are grounded in an analysis of the recent history and likely future prospects of the Afghan economy.

The focus of the Strategic Plan is on the entire Ministry, rather than a set of goals broken down by Directorates or work units. A more detailed outline of specific activities and responsibilities by work groups is identified in MOCI's Business Plan and individual Directorate work plans which are produced on an annual basis.

Overview of the Plan

The main sections of the Strategic Plan are as follows:

- Section 1: Provides the overall direction, vision and mission for MOCI, and a summary of the Strategic Objectives
- Section 2: Outlines the factors in the external and internal environment which affect MOCI's ability to achieve its vision
- Section 3: Articulates the seven Strategic Objectives and the accompanying Strategic Initiatives
- Section 4: Sets out a monitoring and Evaluation framework to guide and monitor the implementation of the Strategic Plan

SECTION I: DIRECTION

1.1 Context of the Government of the Islamic Republic of Afghanistan

Taken together, the Constitution of Afghanistan and Afghanistan's National Development Strategy articulate a clear direction for the economy of Afghanistan:

"The state encourages and protects private capital investments and enterprises based on the market economy and guarantees their protections in accordance with the provision of law."

Article 10 Constitution of Afghanistan

"Afghanistan will be a society of hope and prosperity based on a strong, private sector-led market economy, social equity, and environmental sustainability."¹

Afghanistan's National Development Strategy

1.2 Vision and Mission

The vision and mission statements for MOCI reflect the aims of the Afghan constitution and ANDS, as follows:

Vision: *"A socially responsible market economy in Afghanistan, in which sustainable and equitable growth is private sector led and leads to increased employment, higher living standards and the reduction of poverty, in which competition operates for the benefit of all."*

Mission: *"To encourage growth through the development of appropriate policies and regulations, and the facilitation of private sector production and trade."*

1.3 Summary of Strategic Objectives

As the main thrust of the Strategic Plan, the Ministry has identified the following Strategic Objectives for developing the Afghan Economy:

1. **Improve the Enabling and Regulatory Environment for Business and Afghanistan's DBI² Ranking;**
2. Improve International Competitiveness and Trade;
3. Industrialise Afghanistan through Increased Exports and Import Substitution;
4. Ensure the Private Sector Operates Fairly and Equitably;
5. **Ensure Pro-Poor Growth; and**
6. Promote the Market Economy and Increase Understanding of How it Operates.

The Ministry has identified a seventh supporting strategic objective:

7. Ensure that MOCI has the Capacity to Deliver on its Role

¹ Afghanistan National Development Strategy, Private Sector Strategy, 2007

² Doing Business Indicators

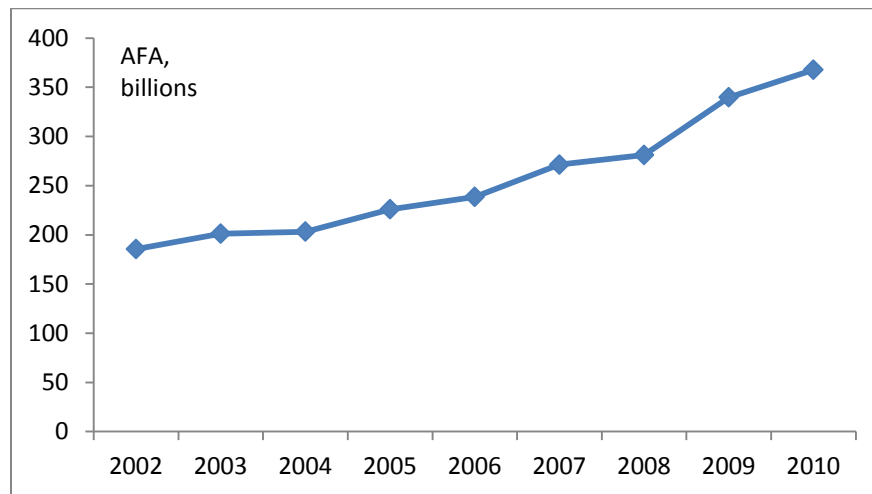
SECTION II: CONTEXT AND ANALYSIS

This section outlines the context in which MOCI operates, spanning both external and internal factors.

2.1 External Environment: Economic Context of Afghanistan

Since 2001, Afghanistan has operated as a market economy and the GoIRA has adopted a pro-private sector stance and a liberal trade regime. In this environment, the economy has been growing at approximately 10% per year³, although this dipped to just 3.6% in 2008⁴.

Figure 1: Afghanistan's GDP in local currency⁵



However much of this growth is based on aid flows, Diaspora investment, “catch-up” growth in areas like cellular phones and economic activity associated with ISAF that is unlikely to be sustained at current levels. As these flows reduce, Afghanistan’s private sector will need to expand rapidly if it is to provide the jobs and opportunities that Afghanistan needs to ensure its stability and prosperity in the long term.

Today, despite the recent resurgence in industrial activity, many Afghans continue to depend on small-scale agriculture for their livelihoods. Meanwhile, around 90% of GDP growth between 2003 and 2009 was derived from just four, predominantly urban-based sectors: transport & communications; construction; government services, and manufacturing⁶.

Outside of agriculture, the private sector is overwhelmingly composed of informal family owned micro and small enterprises, many of which are engaged in trading or basic services. There are few medium sized enterprises and only a handful of large firms. The manufacturing sector is small and most producers, with the exception of a few agri-processors, source their raw materials from abroad. Big business constitutes a very small part of Afghanistan’s private sector. Large companies exist in bottling, telecommunications, airlines, construction, importing and transport and logistics.

Meanwhile exports, while growing strongly, are starting from a tiny base.

³ Ministry of Commerce and Industry, SME Strategy

⁴ IMF World Economic Outlook Database, 2011 (real) growth rate shows the increase in value of all final goods and services produced within a nation in a given year - not taking into account purchasing power parity and taking into account inflation.

⁵ IMF World Economic Outlook Database, 2011

⁶ MoCI, SME Development Strategy, DAI, November 2009

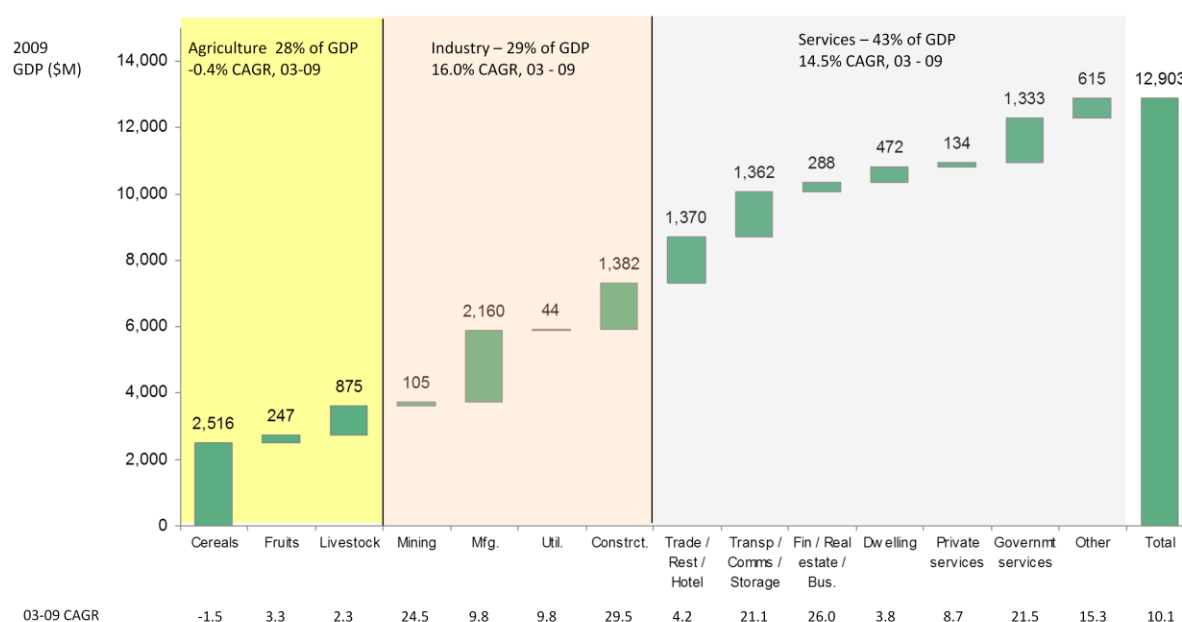
However, Afghanistan's strategic location and vast natural resources together with an enterprising population offer an enormous opportunity to turn Afghanistan into an economically vibrant and stable country. The economy is beginning to diversify and increase the value added within the country. There are several compelling stories of entrepreneurs succeeding against the odds:

- The light manufacturing sector can point to significant diversification including the assembly of both motorcycles and washing machines.
- There is substantial foreign and domestic interest in investing in the development of Afghanistan's mineral wealth, notably iron and copper
- Afghanistan has some of the highest quality marble in the world. Substantial progress has been made in introducing efficient, modern cutting and processing and exports are booming.

The promotion of private initiative, the provision of economic opportunities, the protection of investor and consumer rights along with improved economic governance are critical to the transformation of the private sector into an engine of equitable growth. This, in turn, is vital to prosperity in Afghanistan.

Overall, it is important to note that the character of the economy is changing. Afghanistan is moving away from being a predominantly agricultural economy to being an economy in which services and manufacturing generate the bulk of GDP.

Afghanistan GDP Breakdown by Sector (2009)⁷



Source: IMF Statistical Appendix, MOCI Internal Data. Excludes opium products – NEED TO CONFIRM WHERE BDS IS, WHAT IS UNDER OTHER, AND WHAT IS UNDER DWELLING
 Note: 2009 GDP is March 2008 – March 2009

Finally, it is worth mentioning the demography of Afghanistan. With 46% of the population below 15 years of age⁸ and an average fertility rate of 6.6 live births per woman between 2005 and 2010⁹, labour intensive industries will remain critical for Afghanistan's future economy in the medium to long term.

⁷ IMF's projected figure for Afghanistan's GDP in 2011 is \$18 billion. However, there is no sector breakdown available to display at this stage.

⁸ UN Statistics Division, Country Profile, 2011.

2.2: Internal Environment: Situational Analysis of MOCI

The Ministry of Commerce and Industry is facing a period of unprecedented change. The continued drive towards a market economy is having a profound effect on how the Ministry conducts business and the systems it uses to:

- determine and disseminate policy;
- realise the Government's strategic priorities; and
- communicate with various stakeholders.

Many of the current administrative processes in MOCI were designed in different economic and political circumstances. The Ministry of Commerce, as it then was, operated in a largely state owned economy in which it controlled significant parts of that economy. Its function was to ensure that rules were obeyed, not to generate ideas itself, engage in dialogue with producers and consumers, and demonstrate its worth to society, but these are precisely the things which it is now expected to deliver.

The new Ministry has to be both a producer of ideas, and an efficient supplier of services, through its core roles of policy, facilitation and regulation. However, MOCI has a long way to go in mastering these roles.

Policy

It is only recently that private sector development has been an explicit objective of Afghanistan's Government and its development strategy. As a result, the impacts that policies have on private sector development have rarely been considered and the capacity of the Ministry to design, analyse and implement policy with the involvement of the private sector and consumer groups remains weak. The need to develop and expand further these skills over the course of the next four years is therefore identified as an important dimension to this Strategy.

Facilitation

Facilitation requires MOCI to act as an intermediary between businesses and the business environment. This implies responding to existing constraints through the design and encouragement of public private partnerships, the formulation of the most suitable rules and procedures to stimulate full use of available resources, and the ability to identify and harness various kinds of international assistance to help the process of stimulating growth, among many other activities.

However, MOCI does not yet have the co-ordination mechanisms and communication structures to effectively deliver on this role. In addition, MOCI requires specific technical expertise, such as lawyers and financial specialists to be able to manage its assets better.

Regulation

Regulation is an ever more important influence on private sector development in most economies and has a major impact on what can be traded internationally.

Afghanistan has developed its negotiation skills in relation to bilateral and multilateral trade and transit agreements over the last decade. However, expanding the impact of these skills and moving to effective implementation of these agreements will remain an important focus for the Ministry over the next three years.

⁹ Ibid.

The Ministry has also only very recently started to formulate operational norms and standards for ensuring that competition is robust and consumer interests are protected. Moreover, while many line Ministries have roles to play in specific areas, MOCI must take a broad view of impacts on private sector development and it needs therefore to develop the capacity to undertake regulatory impact assessments.

Administration

The administrative functions within the Ministry have benefitted from a number of guiding documents for reform and improvement, including:

- The Pay and Grading Reform recommendations completed in March 2011
- The Information Technology Roadmap completed in June 2010
- The Financial Management Review completed in November 2010
- The Administration, Finance and Human Resources Manual completed in May 2011

However the significant challenge over the next four years will be the implementation of these reform recommendations. This requires commitment to the recommendations, with a concomitant development of capacity across finance, HR, ICT, procurement and administrative functions of the Ministry.

2.3: Self Assessment: SWOT¹⁰ Analysis

Below is a SWOT analysis of MOCI – the Ministry’s self assessment of its own internal strengths and weaknesses and the external threats and opportunities affecting MOCI’s ability to achieve its vision.

The inputs for this assessment are derived from a range of stakeholders, both from within and outside of the Ministry¹¹. This analysis therefore provides an extra layer of detail and specificity to the broader context laid out in chapters 2.1 and 2.2.

STRENGTHS	WEAKNESSES
Policy, Regulation and Facilitation	
<ul style="list-style-type: none"> • Greater appreciation of MOCI’s role as policy maker since 2001 • Reforms initiated to simplify regulatory procedures in ACBR and Business Licensing Directorate • Industrial Policy drafted with six accompanying Action Plans • Competition Law and Policy drafted • Donor support for implementation of Competition Law and Policy secured • Relevant Government-wide administrative policies in place (Civil Service Law, 	<ul style="list-style-type: none"> • Lack of clear policy relating to Industrial Parks • Lack of clear policy relating to SOEs and other Ministry owned / managed assets • No Trade Policy in place • Lack of qualified staff with skills/experience in policy design and implementation • Poor track record on implementation of policies • Industrial Parks not providing land at a reasonable price to private sector investors • CPCPD in nascent stage with limited systems for tracking fair competition and no

¹⁰ Strengths, Weaknesses, Opportunities, Threats

¹¹ Sixteen Directors, three Deputy Ministers and four external partners (USAID, DFID, GIZ and ACCI) were invited to provide inputs to the SWOT analysis. The Table printed here is the compiled inputs of those who responded.

STRENGTHS	WEAKNESSES
<p>procurement and finance)</p> <ul style="list-style-type: none"> • CPCPD established to facilitate competition and consumer protection in the marketplace • APTTA negotiated and ratified to facilitate trade 	<p>mechanism for enforcement</p> <ul style="list-style-type: none"> • Lack of information on markets and competitiveness needed to develop policy • Complicated and opaque processes for auctioning of SOEs and other MOCI assets
Co-ordination, Outreach and Communications	
<ul style="list-style-type: none"> • Management meetings and departmental meetings set up for some Directorates (e.g. HR) • EPAA meets with traders regularly • Consultation undertaken with private sector, Government partners and civil society on the Sector Action Plans • Consultation underway for Industrial Policy • Consultation planned for Competition Law • Public Relations and Information Directorate included in 1390 tashkeel 	<ul style="list-style-type: none"> • Lack of shared vision within MOCI • Poorly functioning committees e.g. National Exports Committee discontinued meetings • Confusion over high level co-ordination groups – ANDS, Ministry Clusters, NPPs, etc. • PR and Information Directorate yet to be established • Lack of communications specialists • Limited contact with the provinces • No Communications Strategy in place for the Ministry • Poor links with private sector and civil society, leading to inability to respond to the emerging needs of businesses
Skills, Structures and Processes	
<ul style="list-style-type: none"> • Pay and Grading Reform Plan approved • Extensive Technical Assistance to Ministry (ASI, TAFA, GIZ, EGGI, etc) • Seven MCP posts appointed • Capacity building courses delivered through IARCSC • Support for capacity building pledged from donor partners such as GIZ, DFID, USAID, Indian Embassy and the Turkish Embassy • HR currently undertaking staff assessments to design a tailored training plan • Donor support available for business process re-engineerings 	<ul style="list-style-type: none"> • Lack of appropriately qualified staff to perform core MOCI functions • Working environment not conducive to diligence and efficiency (TVs, staff bus departure times, etc.) • Low salaries and benefits and limited additional incentives • Perception of discrimination amongst staff • Lack of planning skills • Lack of understanding of procurement procedures amongst line Directorates • Poor use of delegation • Donor processes can conflict with MOCI ones
Finance	
<ul style="list-style-type: none"> • Running costs and salaries paid in comparatively timely fashion 	<ul style="list-style-type: none"> • Poor budget execution • Poor budget estimation • No budget for renovation/maintenance of SOEs • Lack of financial and management training • Poor co-ordination between donors and the Finance Department

OPPORTUNITIES	THREATS
Society	
<ul style="list-style-type: none"> • Afghan constitution and key social laws in place • Strong international presence in Afghanistan allows for skills transfer • Increasing urbanisation • Increasing exposure to international cultures, skills, techniques and innovation 	<ul style="list-style-type: none"> • Increasing insecurity and lawlessness • Brain drain as skilled and highly educated Afghans leave the country • Weak justice system • Weak education system • Poor relationship between Government and the public • Prevalence of corruption • Increasing urban – rural polarisation • Increasing population putting pressure on natural resources • Continuing gender inequality
Technology	
<ul style="list-style-type: none"> • Increasing penetration of mobile phones and the internet across the country • Growing access to the media 	<ul style="list-style-type: none"> • Traditional business practices persist, with limited appetite for innovation in some areas • Lack of IT skills • Data collection and analysis still weak
Economy	
<ul style="list-style-type: none"> • Sustained donor financial assistance • Continued NGO activity and support • Continuing economic growth in Afghanistan • High level of remittance payments from Afghan Diaspora • Increasing trade liberalisation • Strong sustained growth 	<ul style="list-style-type: none"> • A large informal economy with a high prevalence of smuggling • Insufficient working capital for many business people (linked to high interest rates, collateral requirements, etc.) • Rising global commodity and energy prices • Agricultural economy threatened by natural disasters (floods / droughts) • Limited access to credit • Increasing pollution and congestion
Politics	
<ul style="list-style-type: none"> • Political will for free market economy and fair competition • Improved trading relationships with key markets in the region e.g. with India • Afghanistan is a member of SAARC 	<ul style="list-style-type: none"> • Political fragmentation • Many provinces still in active conflict • Cross border security issues with Pakistan

2.4 Key Partners

It is evident that MOCI is by no means the only Ministry whose actions can shape the nature and speed of private sector development. As in most other countries, macroeconomic policy (principally the remit of the Ministry of Finance), which affects tax rates and credit conditions, is always a powerful influence on actual outcomes. Where a country is rich in mineral resources, as is the case in Afghanistan, the role of the government in the growth of the mining sector is a critical determinant of how mining impacts economic and social outcomes (here the Ministry of Mines has the lead government role). Finally, the

importance of agriculture in the economy translates into key roles for the Ministry of Agriculture Irrigation and Livestock (MAIL) and the Ministry of Rural Rehabilitation and Development (MRRD). One can add to these Ministries, the technical agencies that are vital to the realisation of MOCI's vision, such as AISA and ANSA. These institutional partners are just some of those within the Government of Afghanistan who have a role to play in this area. MOCI is looking forward to working with them to deepen the partnerships that are already being built support of private sector development in Afghanistan.

3.1 Objectives for Developing the Afghan Economy

Strategic Objective 1: Improve the Enabling and Regulatory Environment and Afghanistan's DBI Ranking

The growth of Afghanistan's private sector is hindered by well known challenges common to many land locked, lesser developed and conflict-affected countries. The overall business environment is characterised by a weak regulatory and legal regime, institutional and structural deficiencies, poor infrastructure and corruption. Such challenges are clearly reflected in Afghanistan's poor performance in the World Bank's Doing Business Indicators; currently the country ranks 167 out of 183 nations¹².

The weak enabling environment has had a wholly negative effect on the economy, leading to low levels of private investment in Afghanistan at just 9.2% of GDP in 2008-09 compared with the African average of 18%.¹³ The weak operating environment has also led to increased uncertainty and risk, shortened investment horizons, limited availability (and high cost) of financing (both external and domestic), reduced worker productivity, and, often, lower profits for businesses and limited employment opportunities. Given the importance of addressing these barriers to private sector growth, MOCI has adopted 'Improve the Enabling and Regulatory Environment and Afghanistan's DBI Ranking' as one of its strategic objectives for the next four years.

However, it is important to note that enabling environment obstacles include both those that MOCI has direct influence over, such as registering a business and licensing traders, as well as those it has limited or indirect influence over, such as security, property rights, access to electricity, taxation, and skills development¹⁴. The strategies identified for this objective therefore span reforms led directly by MOCI, and those that rely on MOCI's influence in the wider political sphere, in Cabinet, the Economic Sub-Committee, the Private Sector Development Cluster and Chair of the High Commission for Investment.

¹² Doing Business Indicators, World Bank, 2011

¹³ Da Afghanistan Bank (DAB) Report to IMF, 2011 and PRGF Review Reports, 2008-9. Afghanistan's strong average annual growth rate of 10% (IMF) cannot be seen to reflect a boost in private investment, but more an influx of international aid and remittances from the Afghan Diaspora. However, it is encouraging to note that Afghanistan's performance improved to private investment at 8.5% of GDP in 2010/11.

¹⁴ World Bank, Investment Climate Assessment, 2008

Strategic Initiatives

1. Improve the Enabling and Regulatory Environment for Business and Afghanistan's DBI Ranking

- 1.1 Simplifying and improving the transparency of business licensing processes and requirements
- 1.2 Streamlining business registration process
- 1.3 Improving access to affordable land and utilities (electricity, water, sewage) through MOCI assets
- 1.4 Improving the administration and management of MOCI assets, including Industrial Parks and SOEs
- 1.5 Developing proposals for public-private partnerships between MOCI and business partners
- 1.6 Advocating for greater access to finance
- 1.7 Advocating for strengthened property rights
- 1.8 Advocating for the building and improvement of core infrastructure such as roads, railways and cold storage

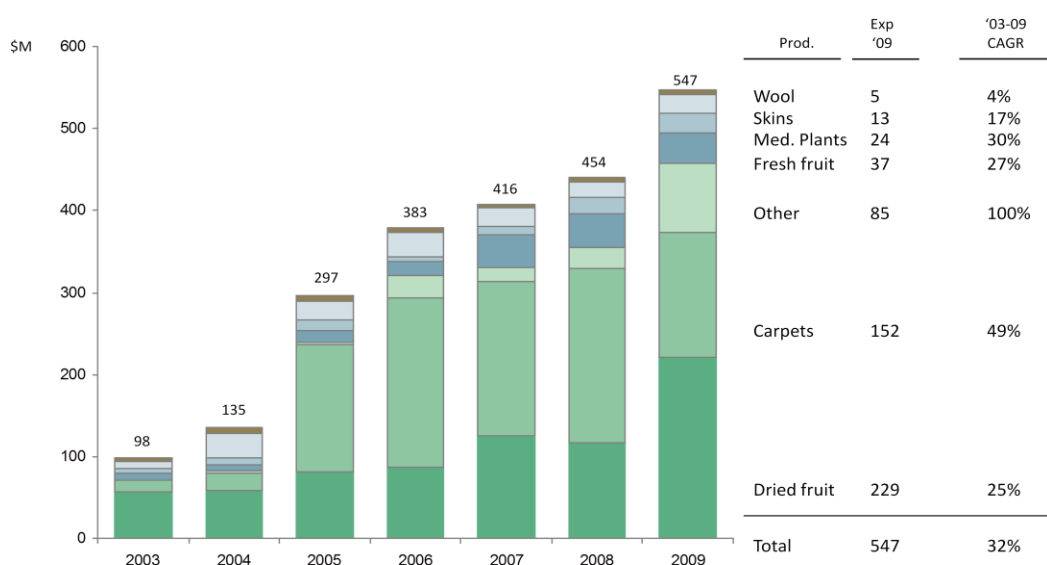
Strategic Objective 2: Improve International Competitiveness and Trade

In 2009/10 licit exports from Afghanistan reached \$489 million. Most are agricultural or based on other natural resources, such as marble and gemstones.

Exporting was central to the development strategy of many countries in the Far East which have successfully industrialised and there are good reasons for believing that it should form a major part of Afghanistan's economic development strategy:

- 1. Export growth continues to outpace growth of the overall economy with exports having grown at an average of 10.6% between 2005 and 2010, while the growth rate of the economy as a whole has averaged 10% over the same period

Afghanistan exports by sector (2003 - 2009)



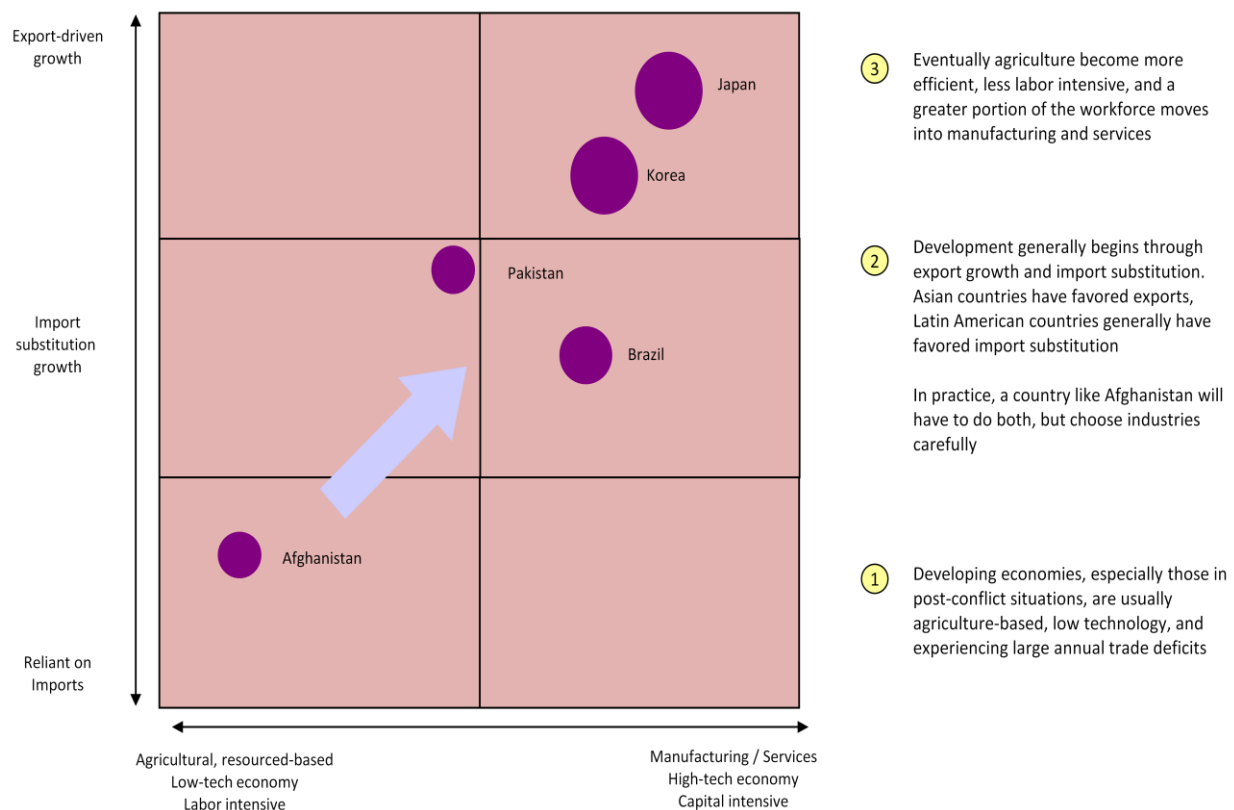
Source: IMF Statistical Appendix, MOCI Internal Data. Excludes opium products

2. Export growth could be even more rapid in the medium-term:

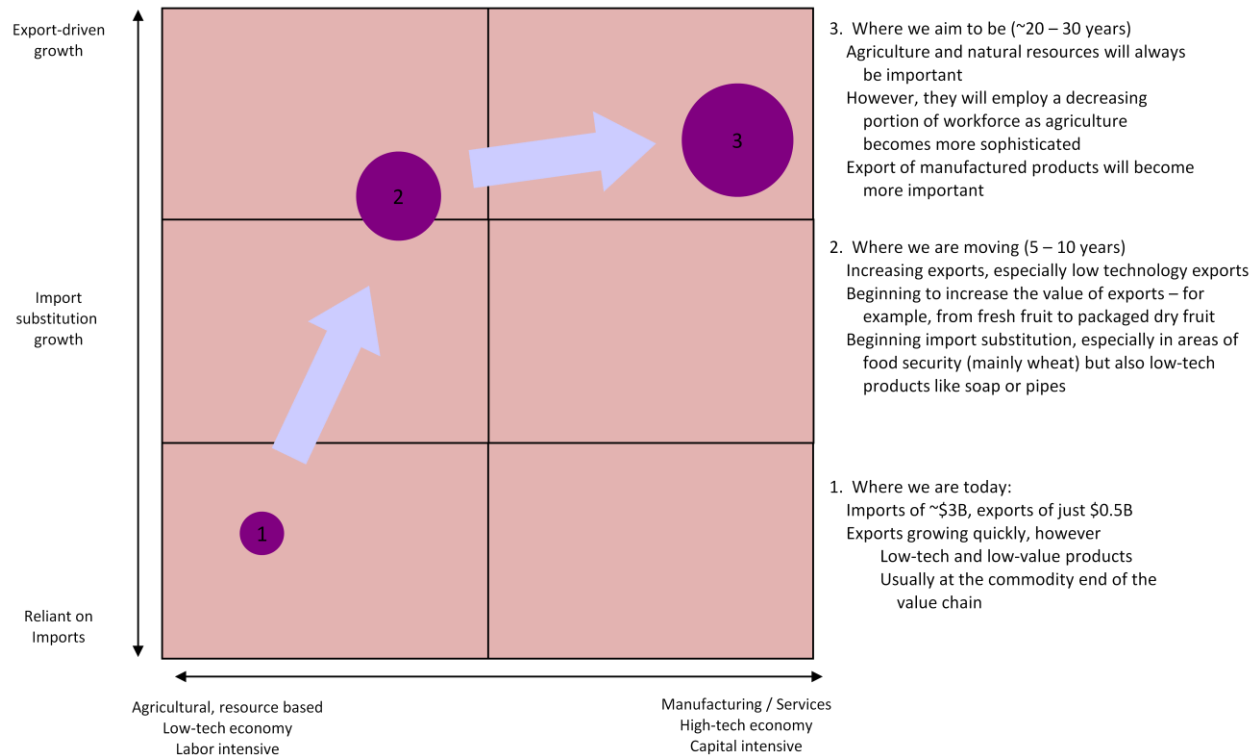
- In a number of areas, Afghanistan already has the resources and skills needed;
- Demand exists in neighboring countries, such as India (for fruits & nuts) which are growing strongly
- Quick impact is possible by linking local producers to markets (e.g. trade fairs)
- Removing existing barriers to exporting (paperwork, etc) will lead to rapid growth.

As a result, MOCI believes that exporting should be a critical part of Afghanistan's Economic Development strategy. To achieve this, Afghanistan needs to determine how to move effectively from its current largely agriculture and low-end manufacturing dominated economy to a higher value industrial economy in which it adds value to its minimally processed exports.

Path from Agriculture to Higher Value Industrial Economy: Link between economic sectors and growth



Afghanistan will go through these three phases as well: Link between economic sectors and growth



However, there are a number of barriers that affect exporters, encompassing red tape at customs, corruption at the borders, poor access to market information, and limited exposure to foreign markets¹⁵. The strategies identified to tackle these issues and achieve the objective of improved international competitiveness and trade, therefore focus on, not only negotiating and ratifying trade and transit agreements to the benefit of Afghan traders, but improving awareness of international standards and reducing the cost and time involved in exporting.

¹⁵ CIPE Afghan Business Survey, 2009-10 and interviews with ASMED, USAID, December 2010

Strategic Initiatives

2. Improve International Competitiveness and Trade

- 2.1** Finalising and implementing core multilateral trade and transit agreements (SAARC, CAREC, ECOTA)
- 2.2** Acceding to the World Trade Organisation (WTO)
- 2.3** Developing, renewing and implementing bilateral trade agreements with Afghanistan's neighbours (Pakistan through APTTA, Uzbekistan, Tajikistan, Kyrgyzstan)
- 2.4** Developing and implementing a Trade Policy for Afghanistan to improve Government and donor focus and co-ordination in this area
- 2.5** Working with ANSA to improve and certify the quality of Afghan products, including SMTQ issues relating to the environment
- 2.6** Working with Customs and Revenue to streamline and improve the transparency of customs procedures and practices
- 2.7** Working with AISA to attract Foreign Direct Investment into Afghanistan

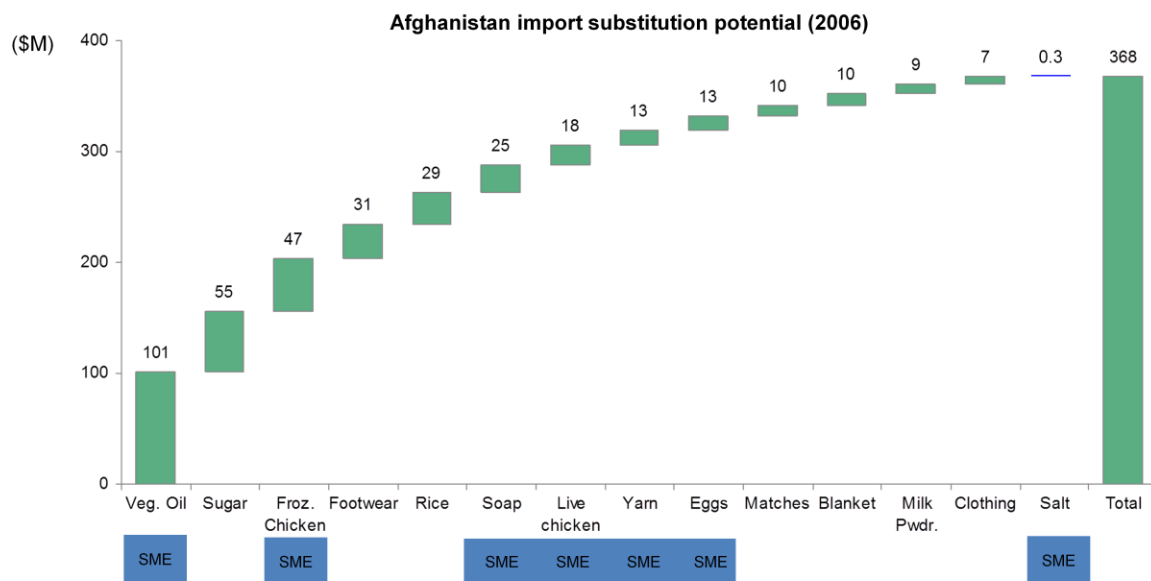
Strategic Objective 3: Industrialise Afghanistan through Increased Exports and Import Substitution

Official imports into Afghanistan in 2009/10 were around \$8.2 billion - almost seventeen times the level of exports. Imports do not count toward GDP, they deplete foreign reserves, and do not generate profits or employment in the way that indigenous industry does.

Like other late, late industrialisers Afghanistan faces the challenge of developing an industrial base in the face of substantial and in some areas overwhelming competition from those countries which have already begun this process. In short, the bottom of the development ladder is a crowded place and a number of the strategies pursued by late industrialising countries in places like East Asia are not available to Afghanistan. As a result, MOCI will look to develop its industrial base through a twin emphasis on increasing exports (reference in strategic objective number two) and on beginning to produce in areas where it currently imports products.

Roughly 40% of imports come from machinery, equipment, petroleum products and metals – which are not likely to be substituted soon.

Therefore, in pursuing import substitution MOCI will identify products where Afghanistan can be cost competitive without excessive government intervention. These will probably be low-tech products such as wheat, chicken, eggs and vegetable oil.



Other potential income substitution opportunities include grains, flour, fruit juice, and potentially some leather products such as footwear

Source: ARDEP, "A Competitive Afghanistan" 2006

MOCI will also look to support transport shielded manufacturing for the domestic market (i.e. those products, such as cement, in which transport costs are prohibitive).

There are a number of core policy areas across Government which play a role in import substitution – most notably Customs and Revenue in ensuring an appropriate tariff regime. However, the focus for MOCI's Strategy over the next year is giving guidance on which sectors present the greatest potential for successful and sustainable industrialisation and co-ordinating actions across Government on how best to support those sectors.

3. Industrialise Afghanistan through Increased Exports and Import Substitution

- 3.1** Identifying areas where import substitution is likely to be viable, through an evidence-based process
- 3.2** Developing action plans to create competitive businesses in the areas identified in 3.1 above
- 3.3** Identifying synergies between sectors that may improve viability
- 3.4** Implementing sector specific strategies for improving productivity
- 3.5** Working with Customs and Revenue to ensure an appropriate tariff regime, in line with the Industrial Policy
- 3.6** Improving information on foreign markets and how Afghan products need to adapt to them
- 3.7** Utilising better the system of commercial attaché offices to promote Afghan products
- 3.8** Increasing the presence of Afghan companies in international fairs

Strategic Objective 4: Ensure the Private Sector Operates Fairly and Equitably

The legitimacy of the free-market depends on its capacity to maximise social welfare. This only occurs if competition is free and fair and if consumers are protected from unscrupulous practices and shoddy products and services. The legal framework which would ensure effective competition and the protection of consumers does not yet exist. Consequently, local firms and consumers are vulnerable to anti-competitive practices which result in increased prices, reduced investment and fewer business start-ups. It is important that policy and laws in these areas are developed to ensure that the government can act against collusion and price fixing and other anti-competitive behaviour and also prosecute companies and individuals that compromise consumer safety. The strategic initiatives identified to reverse this situation and achieve the objective of a private sector that operates fairly, includes establishing an appropriate legal framework, creating an effective Competition Promotion and Consumer Protection Directorate that has the ability to undertake analysis and investigation of anti-competitive activities; to develop a core database and administrative systems, and to deliver relevant data and outreach materials to stakeholders.

The other important dimension to achieving a private sector that operates fairly and equitably is improving gender equality in the economy. Whilst Afghan women currently play a significant role in the major Afghan industries, such as agriculture, carpets and embroidery, they typically receive a low portion of the economic benefits. For example, a female weaver receives less than 20% of the value of a carpet.¹⁶ There is a need, therefore, to develop strategies to redress this situation including improving the environment for businesswomen in the marketplace.

Strategic Initiatives

4. Ensure that the Private Sector Operates Fairly and Equitably

- 4.1** Enacting and overseeing the implementation of the new Competition Law
- 4.2** Re-drafting, enacting and overseeing the implementation the Consumer Protection Law
- 4.3** Operationalising the Competition Promotion and Consumer Protection Directorate to ensure effective competition in the marketplace and protect consumers
- 4.4** Operationalising the Petrol Regulation Directorate to ensure fuel products are sold at an acceptable price to both traders and consumers
- 4.5** Operationalising MOCI's Gender Unit to ensure equal opportunities for economic and social advancement for women both within MOCI and throughout the Afghan economy as a whole

Strategic Objective 5: Ensure Pro-Poor Growth

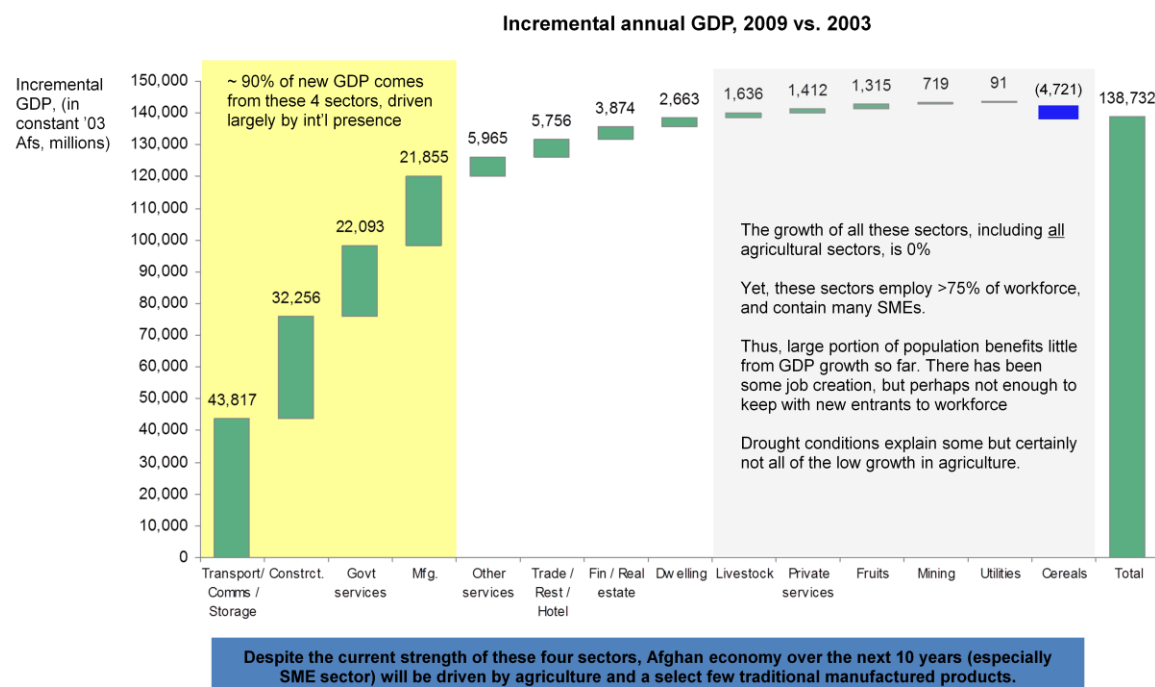
Around 85% of the Afghan population is dependent on agriculture and agriculture related activities for their livelihoods¹⁷, but only around 31% of Afghanistan's GDP is derived from this agricultural sector with the result that per capita income in rural areas is well below that in urban areas.

Furthermore, growth within the Afghan economy since 2001 has been unevenly distributed, concentrating in the urban centres. Around 90% of GDP growth between 2003 and 2009 was derived

¹⁶ Afghanistan National Development Strategy, 2008-2013, Government of the Islamic Republic of Afghanistan, 2008.

¹⁷ CSO, Afghanistan Statistical Yearbook, 2008-9

from four sectors: transport and communications; construction; government services, and manufacturing¹⁸ – none of which have a dramatic effect on the prosperity in rural communities. As a result, the bulk of the population has seen only limited improvements in their standard of living.



Source: IMF Statistical Appendix, MOCI Internal Data. Excludes opium products

There is a clear need to ensure that growth benefits all Afghans including the majority of the population that live in rural areas, as well as the urban poor. Key to this will be improving agricultural productivity, increasing the value added to agricultural products, and promoting small scale initiatives which correspond to skill sets and materials available locally¹⁹.

To achieve this objective and redress the balance in favour of enterprises that increase employment and prosperity amongst the poorer communities, one of MOCI's key strategic initiatives relates to formulating and implementing clear, directive policy and working with key Government and donor partners²⁰ to ensure sustainable economic opportunities amongst poorer, rural communities.

¹⁸ MOCI, SME Strategy, DAI, November 2009

¹⁹ Peter O'Brien, Commentary on 'Industrial Development Policy Framework for Government of Islamic Republic of Afghanistan' by Professor P.K. Chaubey, UNIDO

²⁰ Strategy 5.4 references not just the design of pro-poor projects but the guidance of existing projects towards smaller, poorer communities. A good example of this is the World Bank's New Market Development Project which currently focuses on urban centres. However, MOCI has the capacity to encourage the involvement of urban firms that pull products out from poorer rural areas (carpets, leather, cashmere, agri-processing, etc.). Moreover, MOCI has agreed to explore options for reaching those less sophisticated, smaller scale, rurally focused businesses in the event of an extension of the project in the future.

Strategic Initiatives

5. Ensure Pro-Poor Growth

- 5.1 Finalising and implementing articles in the Industrial Policy relating to pro-poor growth
- 5.2 Finalising and implementing the six SME sector Action Plans in collaboration with Ministry partners
- 5.3 Identifying further SME sectors that will benefit the poor
- 5.4 Engaging with appropriate donor and NGO partners to develop Making Markets Work for the Poor (MMW4P) initiatives

Strategic Objective 6: Promote the Market Economy and Increase Understanding of How it Operates

The ANDS vision for Afghanistan envisages ‘prosperity based on a strong, private-sector led market economy’²¹. This is a significant evolution from the environment the then Ministry of Commerce operated in prior to 2001, when it existed in a largely state owned and controlled economy.

The Ministry is conscious of the immensity of this shift, and is aware that many Afghans do not perceive the move to a market economy as positive, associating it with price volatility and high prices for many essential products rather than with greater opportunities for economic growth and prosperity. It is for this reason that objective six has been included - to continue to persuade the Afghan people of the benefits of the market economy and to identify and exploit opportunities for private sector led growth.

The strategies relating to this objective focus on expanding and improving the quality of the Ministry’s interactions with the media and with the public at large in order to build the channels through which the Ministry is able to communicate the benefits of the market economy and thus build consensus around this approach going forward.

Strategic Initiatives

6. Promote the Market Economy and Increase Understanding of How it Operates

- 6.1 Improving dialogue between the Ministry and the private sector
- 6.2 Expanding the Ministry’s advocacy through the media, attendance at conferences and other public appearances
- 6.3 Operationalising the Public Relations and Information Directorate
- 6.4 Developing and implementing a comprehensive Communications Strategy

²¹ Afghanistan National Development Strategy, Ministry of Finance, 2008-2013.

3.2 Supporting Objective

Strategic Objective 7: Ensure that MOCI has the Capacity to Deliver on its Role

In past years MOCI has been perceived as a Ministry of weak capacity by Government partners and donors alike, reflected in much technical assistance being granted to the Ministry, but limited projects being entrusted to its management. The SWOT analysis also reflects the number of operational challenges facing the Ministry such as poor execution of budget, limited delegation of powers, insufficient IT support, lack of planning, and an inability to attract employees with appropriate skills sets.

These operational inefficiencies and the associated skills gaps jeopardise the successful realisation of all objectives outlined in this Plan. This objective can therefore be considered a critical pre-requisite for the successful delivery of objectives one to six.

Another key weakness is the absence of effective co-ordination mechanisms between MOCI and its key partners in the private sector and elsewhere in Government. MOCI relies on the complementary actions of the Ministry of Finance, Ministry of Mines and the Ministry of Agriculture Irrigation and Livestock (MAIL), and the Ministry of Rural Rehabilitation and Development (MRRD) and the Ministry of Transportation and Civil Aviation (MOTCA) to name a few of the Ministry's key institutional partners. Deepening these key partnerships for the promotion of private sector development in Afghanistan is a critical part of MOCI's capacity to deliver on its role.

The other dimension to this objective relates to the lack of clarity or logic to many of the current institutional arrangements for Government support to the private sector. For example, management of Industrial Parks is currently spread across three organisations: MOCI, AISA and the Cabinet approved Industrial Parks Development Authority. Furthermore, AISA has a role in investment promotion which overlaps with responsibilities within MOCI's General Directorate for Private Sector Development. In such cases, better clarity and co-ordination is required.

The strategies for achieving this objective therefore span capacity development²² in the Ministry, improvement of Ministry structures and processes, and clarification or reform of relationships between MOCI and other Government or quasi-Governmental entities that relate to the private sector.

²² Strategic Initiative 7.2 refers to capitalising not only on existing donor programmes in this area such as the Management Capacity Programme (MCP) or the Civilian Technical Assistance Programme (CTAP), but on those that emerge in the future. For example, the World Bank is set to launch a new Capacity Building for Results Programme in late 2011; part of MOCI's strategy will therefore be to prepare itself so that it is in a position to benefit from this fund.

Strategic Initiatives

7. Ensure that MOCI has the Capacity to Deliver on its Role

- 7.1** Implementing the approved Pay and Grading reform recommendations
- 7.2** Capitalising on donor projects relating to capacity development in the civil service
- 7.3** Developing and implementing a targeted and realistic Capacity Building Plan within the Ministry, focusing on the core roles of policy, facilitation and regulation
- 7.4** Re-engineering the administrative processes in the Ministry
- 7.5** Implementing the recommendations in the Financial Management Review
- 7.6** Improving ICT policy, infrastructure and human capacity in line with USAID's recommendations in the Information Technology Roadmap
- 7.7** Updating and formally clarifying the role of AISA and ANSA and MOCI's relationship with these bodies
- 7.8** Improving SOE Performance
- 7.9** Improving co-ordination mechanisms between MOCI and partner Ministries and agencies
- 7.10** Supporting the Internal Audit Directorate, and identifying further internal and external mechanisms to tackle corruption
- 7.11** Strengthening MOCI's regional network

SECTION IV: KEY PERFORMANCE INDICATORS

4.1 KPIs for MOCI's Strategic Objectives for Developing the Afghan Economy

No.	Strategic Objective	Key Performance Indicators (KPIs)	Source	Baseline	Target (2015)
1.	Improve the enabling and regulatory environment for businesses and Afghanistan's DBI ranking	Time taken to obtain a trader's licence	IFC study as part of Harakat Licensing Reform Project	TBC (results from IFC pending)	50% reduction
		Improved ranking on 'Closing a Business' DBI	World Bank Doing Business Indicators	Ranked 183 (2011)	Ranked 150 or better
		% of Afghan businesses agreeing with the statement "Government officials' interpretations of the laws and regulations affecting this establishment are consistent and predictable."	World Bank Investment Climate Assessment	13% (2008)	25%
		Number of private investors leasing or otherwise utilising MOCI's SOEs, SOCs or Development Projects	Industries' Technical Affairs Directorate, MOCI	4 investors	8 investors
2	Improve international competitiveness and trade	Improved ranking on 'Trading across Borders' indicator	World Bank Doing Business Indicators	Ranked 183 (2011)	Ranked 150 or better
		Afghanistan acceded to WTO	International Trade Directorate, MOCI and WTO	Not acceded	Acceded
		APTTA successfully implemented	Focus groups with traders	Complaints from traders about non-compliance from Pakistani officials	No complaints from traders about non-compliance of Pakistani officials
		% of Afghan businesses with an internationally-recognised quality certification	World Bank Investment Climate Assessment	5% (2008)	7%
3	Industrialise	Set of priority sectors for import	Trade Policy, MOCI;	No agreed set of	Agreed set of

No.	Strategic Objective	Key Performance Indicators (KPIs)	Source	Baseline	Target (2015)
	Afghanistan through increased exports and Import Substitution	substitution identified in policy	World Bank	priority sectors	priority sectors
		Trade deficit reduced by 5% (\$123 million)	IMF Statistical Index	\$ 2.45 billion	\$2.33 billion
4	Ensure that the private sector operates fairly and equitably	Competition Law enacted	Taqnin, Ministry of Justice	Outdated Competition Law in force	Re-drafted Competition Law enacted
		Consumer Protection Law enacted	Taqnin, Ministry of Justice	Outdated Consumer Protection Law in force	Re-drafted law enacted
		CPCPD initiated pilot investigations into alleged anti-competitive practices	CPCPD, MOCI	0 investigations	3 pilot investigations completed
		% of women owning businesses	World Bank Investment Climate Assessment	3% (2008)	6%
5	Ensure pro-poor growth	% of GDP growth between 2011-2014 coming from agriculture or agriculture related sectors (agri-processing, cashmere, carpets, etc.)	IMF Statistical Appendix	TBC (needs calculation that includes manufacturing in food and drink category)	20%
		Afghanistan scores less than 50 on the Gini Co-efficient	Gini Co-efficient	No baseline for Afghanistan for 2011	50 or less (based on equivalent countries' scores)
6	Promote the market economy and increase understanding of how it operates	Public Relations and Information Directorate established and fully functional	No. of MOCI tashkeel positions filled in this Directorate with appropriately qualified staff	0 positions	A minimum of 10 positions
		% of MOCI employees agreeing with the statement "I can clearly explain to others	MOCI Employee Survey	77% (2010) of MOCI staff	95% of MOCI staff

No.	Strategic Objective	Key Performance Indicators (KPIs)	Source	Baseline	Target (2015)
		the direction (for example, the vision, values or mission) of my department or agency”			

4.2 KPIs for MOCI’s Supporting Strategic Objective

No.	Strategic Objective	Key Performance Indicators	Source	Baseline	Target (2015)
7.	To Ensure that MOCI has the Capacity to Deliver on its Role	Pay and Grading Reform recommendations are implemented to IARCSC’s satisfaction	IARCSC Assessment	6 Directorates undergone reform	All 23 Directorates / Departments / Units undergone reform
		MOCI qualified for and benefitting from the World Bank’s Capacity Building for Results Programme (active 2011-2012)	World Bank, Kabul Office	No positions supported by this fund	A minimum of 20 positions supported by this fund
		% of MOCI agreeing that ‘I am able to get on-the-job coaching to help me improve the way I do my work’	MOCI Employee Survey	61% of MOCI staff	80% of MOCI staff
		% of MOCI staff agreeing that ‘Essential information flows effectively from senior management to staff’	MOCI Employee Survey	59% of MOCI staff	75% of MOCI staff