



INTEGRATED TRADE AND SME SUPPORT FACILITY

**Private Sector Development Cluster
National Priority Program Proposal**

**Ministry of
Commerce and
Industry**

Final

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Acronyms

ANDS - Afghanistan National Development Strategy
ANSA – Afghanistan National Standards Authority
ARD - Agricultural and Rural Development
ARR - Advanced Reform and Restructuring
DFID - Department for International Development
EU - European Union
GDP - Gross Domestic Product
GNP - Gross National Product
GoIRA - Government of the Islamic Republic of Afghanistan
HRD - Human Resource Development
IDC - Infrastructure Development Cluster
ISAF - International Security Assistance Force
IT-Information Technology
ICT-Information and Communications Technology
JCMB - Joint Coordination and Monitoring Board
KIA - Kabul International Airport
MCIT-Ministry of Communications and Information Technology
MoCI - Ministry of Commerce and Industry
MoF - Ministry of Finance
MoI - Ministry of Interior
MoJ - Ministry of Justice
MoM - Ministry of Mines
MoPW - Ministry of Public Works, Afghanistan
MoTCA - Ministry of Transport and Civil Aviation
NGO - Non-Government Organization
NEPA - National Environmental Protection Agency
N-ESP - National Energy Supply Program
NEIEP - National Extractive Industry Excellence Program
NRRCI - National- Regional Resource Corridor Initiative
O&M - Operation and Maintenance
PPP - Public Private Partnership
PSD – Private Sector Development
SoD - Source of Data
TA - Technical Assistance
UP-TAF - Urban Planning Technical Assistance Facility
USD - United States Dollar
US \$m - US Dollar in millions
VfM - Value for Money
% pa - Percent Per Annum

I. EXECUTIVE SUMMARY

The Integrated Trade and SME Support Facility program (ITSSF) provides a roadmap for a strategic and sequential development of private sector in Afghanistan. Its objective is to deepen and complement the essential role of the private sector in promoting economic growth and generating income by creating jobs that contribute to sustained poverty reduction.

The obstacles to private sector development are well known. Many of them are beyond the capabilities of firms to resolve because they fall in the realm of public policy. Weak state institutions limit government's ability to create and maintain a favorable business climate and to reinforce the social benefits of private sector activity. At the same time, market failures limit the ability of private enterprises to achieve socially desirable outcomes. For its part, the public is increasingly disenchanted with macroeconomic stabilization and reforms that have not led to sustained growth, and openly questions the costs of these pro-market policies.

New policy alternatives are needed that promote the private sector as both a catalyst for sustainable growth and enhanced standards of living. The formulation of ITSSF program aims to address those challenges serving as barrier to private sector growth in Afghanistan. It is an initiative taken by MoCI to drive an integrated process for improving and harmonizing Afghanistan business climate. The ITSSF is about promoting growth, reducing poverty and helping private sector becomes the main driver of economic growth in Afghanistan. It seeks to create a fine balance between complementary functions of the state and private sector. It is about judicious refocusing of the role of the state and not about indiscriminate privatization. Furthermore, it includes development of National Quality Infrastructure for the planned period of program.

Goal and Objectives

The Integrated Trade and SME Support Facility (ITSSF) outlines a comprehensive action plan to cover four core components:

- Legal, institutional and structural reform to strengthen the enabling environment for private sector;
- Facilitating trade and increasing export opportunities;
- Developing resilient and competitive SME and Industrial Sectors including through creation of National Quality Infrastructure; and
- Reforming the public institutions charged with assisting the development of the private sector.

Expected Results

- The expected results are a dynamic and robustly growing private sector serving as the main driver for sustainable economic growth.
- Improved business environment providing an investor and business friendly conditions that offer incentives and protection for private initiatives and private capital.
- A reformed and renewed regulatory regime that promotes SME and industrial development.
- Stabilized and predictable market with increased integration with regional and international markets.
- Improved competitiveness and economic diversification by lowering market entry and exit costs allowing the private sector to find new market and products.
- A working National Quality Infrastructure to use the international system of standardization to best advance the social and economic well-being of Afghans in a global economy.

Implementing Partners

- The Ministry of Commerce and Industry (MoCI) is the leading implementing ministry for ITSSF. The program will be carried out in full partnership with institutions supporting private sector development such AISA, Harakat, ACCI and MISFA, and key donors such a USAID, World Bank, DFID, GIZ and others. ANSA will create the National Quality Infrastructure. Though not a part of private sector development cluster, the Ministry of Finance and Ministry Justice will also be closely involved in issues dealing with regulatory and licensing reform.

Budget: The ITSSF is a three year program. The estimated cost of the program is over that period is US\$ 298.10 million. US\$ 50.7 million is available (for the next three years) and the requirement, therefore, will be US\$ 247.4 million. Funding for the program will be secured within the three-year life span; however the implementation of the program could take longer.

Program Indicative Budget

Overall Budget for All Components, All Years (US\$)		321,100,000
Total Existing Funds (US\$)		50,700,000
Total Remaining Need (US\$)		270,400,000
Overall Component 1 Budget – Improving Afghanistan Business Climate		46,600,000
Component Budget for 3 Years, taken from costing table	46,600,000	
Existing Funds for 3 Years	25,000,000	

Remaining Needs – Total Requests for 3 years	21,600,000	
Overall Component 2 Budget – Facilitating economic growth through trade Expansion		57,500,000
Component Budget for 3 Years, taken from costing table	57,500,000	
Existing Funds for 3 Years	25,000,000	
Remaining Needs – Total Requests for 3 years	32,500,000	
Overall Component 3 Budget – Developing a resilient SME and Industrial Sectors including development of a National Quality Infrastructure		215,100,000
Component Budget for 3 Years, taken from costing table	215,100,000	
Existing Funds for 3 Years	600,000	
Remaining Needs – Total Requests for 3 years	214,500,000	
Overall Component 4 Budget . Reforming the Ministry for better service delivery		1,900,000
Component Budget for 3 Years, taken from costing table	1,900,000	
Existing Funds for 3 Years	100,000	
Remaining Needs – Total Requests for 3 years	1,800,000	

II. SITUATIONAL ANALYSIS

Long years of conflict destroyed most of Afghanistan's productive capacity and forced the flight of many skilled workers and managers. Sabotage of infrastructure crippled domestic and international distribution channels and cut off industry from its traditional markets. The Soviet backed government in the 1980s worsened the situation by attempting to set up a centrally planned economy. Many traditional industries, such as carpets, closed and moved to neighboring countries and others, such as horticulture products, basically shut down because of the lack of suitable inputs.

Today, the growth of Afghanistan's private sector is hindered by well known challenges. The overall business environment is characterized by a weak regulatory and legal regime, institutional and structural deficiencies, poor infrastructure and corruption. Afghanistan is at the bottom of many comparative indexes including the World Bank's Doing Business Indicator. The cost of doing business remains persistently high in many parts of the country, and the capacity of public institutions to support the private sector remains weak. High transactions costs result from unwieldy bureaucratic procedures, cumbersome and complicated licensing and registrations processes, un-necessary and opaque regulation, weak credit frameworks, and cumbersome labor laws.

The good news is that the private sector in Afghanistan accounts for more than half of employment and gross investment within the overall economy. The share of private investment in total investment has risen significantly from 51 percent in 2001-2003 to 58 percent in 2006-2008 and to nearly 70 percent over the period 2008-2010. Afghan economies, however, continue to be characterized by a dichotomous structure – a large informal sector living side-by-side with a formal sector. It is estimated that over 90 percent of the new employment opportunities in Afghanistan from 2001-2010 were generated in the informal sector, with over 75 percent of total non-agricultural employment on average, compared to 57 percent and 45 percent in Latin America and Asia, respectively. In the towns and cities, informal employment is estimated to absorb over 60 percent of the urban labor force. This persistence of widespread informality imposes real and significant costs on Afghanistan: distortion of the fiscal system; undermining of the regulatory framework; stunted development of the financial sector; chaotic and directionless long-term economic transformation; and permanent exclusion from formal trade, financial and capital markets.

In the formal sector, SMEs serve as an engine of employment creation and seedbed for innovation and entrepreneurship, contributing about 30 percent of employment and 15-20 percent of GDP. However, these enterprises are often too small to achieve an optimal division of labor and internal specialization in their business operations. The smallest enterprises face great odds and suffer a high failure rate, because they operate at the lowest rung of the cash economy, competing and surviving on the basis of low cost, low price, and low quality. The manufacturing sector is tiny, export-orientation is minimal and most producers, with the exception of a few agro-processors, source their raw materials from abroad.

Thus, despite a recent resurgence, most Afghans continue to depend on small-scale agriculture. Further, Afghanistan has an inhospitable business climate, which provides disincentives to SMEs that might wish to go formal or grow into large firms. Some of these factors include bureaucratic red tape, complex and costly business licensing procedures, high rates of taxation, inadequate capacity to effectively and fairly enforce essential business laws and regulations, including essential environmental and health standards, core labor safeguards and basic social norms, generalized socio-political uncertainty, or plain hostility to private sector operators. Afghanistan has recently made significant progress in addressing these issues but a lot remains to be done.

Afghanistan needs to introduce international standards and conformity assessment procedures and promote their adoption and implementation in order to take advantage of export opportunities in the short and medium term, and further, to become a Member of WTO in the long-term. There are many technical challenges facing Afghan exports. In the country's quest to increase export trade, specifically to markets outside the South Asian region, there is a general lack of technical capacity, skilled scientists, technicians, engineers, scientific equipment, and facilities capable of testing and certifying Afghan products in accordance with international standards. A second technical challenge is the lack of in-country testing and certification laboratories in both the private and public sectors. ANSA as well as laboratories in other government agencies are not capable or accredited to perform product testing and issue quality/safety certificates that would be recognized by potential global trading partners. The Standardization and Quality Infrastructure needs to be build on priority.

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 also a number of compelling stories of entrepreneurs succeeding against the odds. 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.

III. PROGRAM DESCRIPTION:

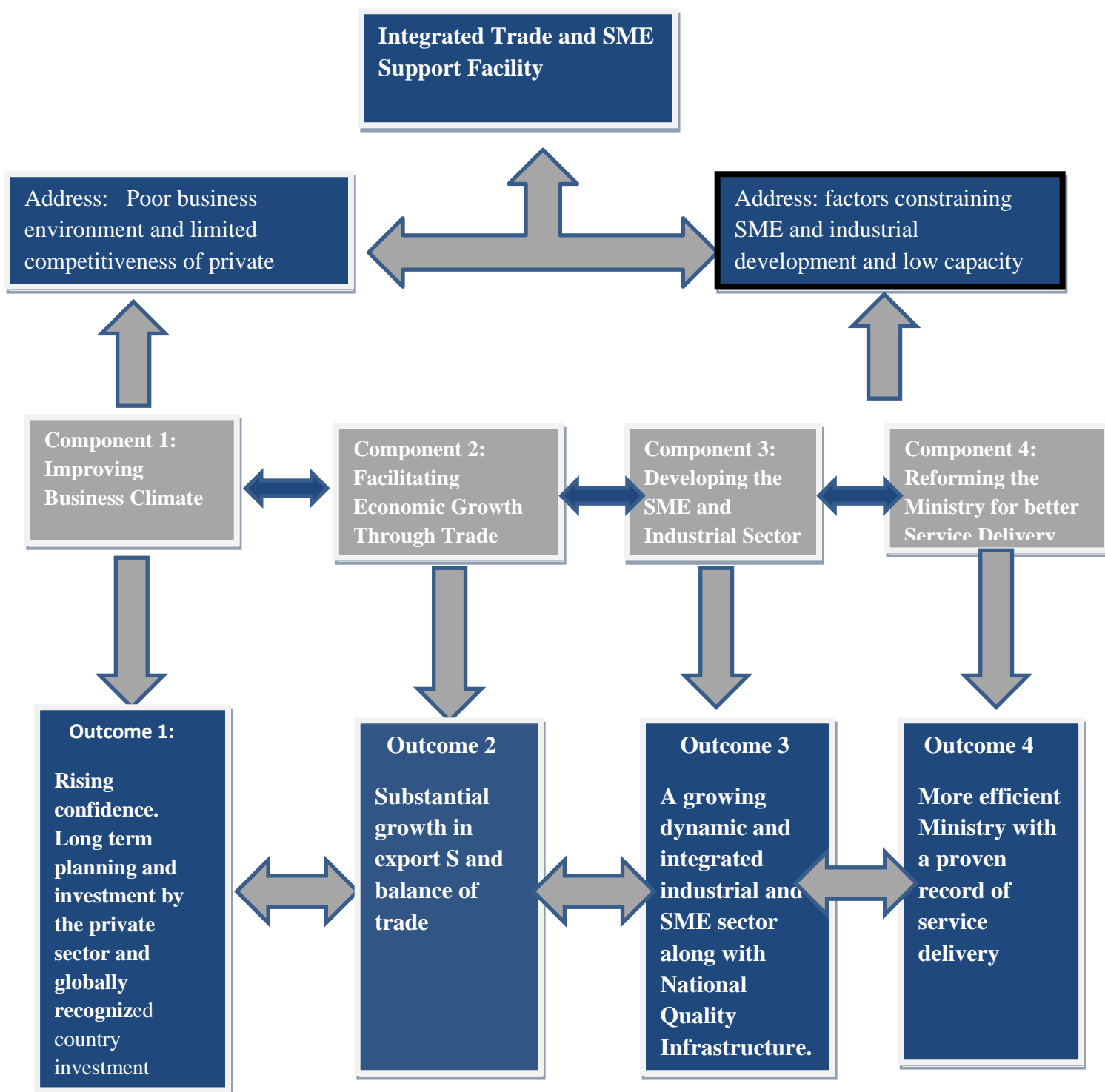
The program goal is to "create a socially responsible market economy in Afghanistan, in which sustainable and equitable growth is private sector led and leads to increased employment, higher living standards and a reduction in poverty". The Program will achieve this through four programmatic components:

1. *Strengthening the Enabling Environment* by developing a formalization strategy, supporting legal and regulatory environment and easing of Afghanistan's most serious business constraints to reduce trade barriers and increasing competition and protection for consumers. It builds on some key recent achievements including the modernization of the legal framework through 11

new Commercial Laws enacted, streamlined business licensing and registration, increased access to business registration by establishing four Afghan Central Business Registry Offices in provinces, and a New Bankruptcy Bill.

2. *Facilitating Economic Growth* through effective implementation of trade and tariff policies; securing favorable trade and transit agreements, delivering effective export promotion, and supporting emerging domestic demands. It builds on recent successes including establishing a one stop shop and streamlining of export processes, removal of export taxes, introduction of a “traders hotline” to reduce bribery and corruption, increased preferential access to world markets, signing of the Afghanistan Pakistan Trade and Transit Agreement (APTTA), reform at Border Ports including 24 hour openings, substantial progress on WTO accession and Ratification of the South Asia Free Trade Agreement (SAFTA).
3. *Developing the SME Sector* through implementing policies and cross cutting strategies with the establishment of appropriate governance arrangements within MoCI, in collaboration with private sector stakeholders, as well as restructuring and modernizing Industrial Parks. It builds on recent successes including the finalization of the Industrial Policy, development of six SME Sector Action Plans, drafting the new Competition Law, and development of a policy on managing petroleum prices. It will also include creation, operationalization and maintenance of National Quality Infrastructure.
4. *Further Reforming and Improving the Capacity of MoCI* for better service delivery by putting in place adequate institutional arrangement to enable it to function in line with its mandate as a policy maker, regulator and facilitator for private sector growth, including MoCI human resources reforms and improved infrastructure. The programs build on some key recent achievements including completing Pay and Grading reform and restructuring the Ministry around its new roles of policy development, regulation and facilitation; facilitating structural changes underpinned by revised Business and Strategic Plans, and improvement in staff capacity.

STRATEGY: EXPECTED OVERALL RESULTS



The ITSSF strategy is based on all the aforementioned interlinked elements, but it is organized along three broad lines of action: (i) policy dialogue with stakeholders for private-sector development; (ii) partnerships with the private sector to ensure effective implementation of the program and (iii) frequent review and assessments in the implementation phase to ensure the program achieves its core objectives.

The program followed guidelines outlined in the Kabul Process to define its plan. It 1) is *national in scope* not only building the institutions in Kabul responsible for policy and staffing but also focuses on laws regulations, streamlined license processes that enable development in the provinces; 2) has a *transition focus* through immediate, medium and long-term sustainability framework goals. In short, the implementation framework includes key deliverables over the next three years inclusive of efforts to ensure direct services to the population in the short to medium-term. The prioritization and sequencing of those works can easily be linked to the transitioning provinces once defined by the government; 3) places a special focus on institutional and governmental reforms necessary to support the long-term stability and development frameworks of the country.

Further to transition, the program focuses on *stabilization* by expanding the opportunities for tangible provincial impact:

- Extension of MoCI business licensing and registry service into all provincial centers along with export promotion services;
- Creation of new businesses and local enterprises through implementation of the SME strategy;
- Remodeling of the Industrial Parks into provinces on a prioritized basis, resulting into increased employment and local production at provincial level's;
- Establishment of export processing zones in four major provincial centers which will have positive impact on provincial economies providing it with standard facilities for storage processing and packaging of locally grown fruit products.

The Ministry will also establish a new Provincial Coordination Directorate (PCD) that will coordinate MOCI initiatives and services in the provinces.

The program also *builds on existing initiatives*, ensuring that the main program and projects funded by the donor community that should continue, do so -- and that the MoCI holds itself to account for the deliverables. The NPP ties these initiatives together in one package with a few new components to ensure a comprehensive picture for funding and alignment. It also ensures no duplication of effort amongst donors, creating a more efficient use of resources and effective outcomes.

Lastly, given the greater difficulty facing Afghan women in establishing businesses and securing employment, the ITSSF will put an emphasis on increasing their participation in the economy across Afghanistan. A key program in this regard is the Industrial Parks and SME Development program which

has the potential to generate increased employment opportunities for women. To ensure gender balance and equal participation within the programs, MoCI will begin plans to establish a specific department for gender in the Ministry.

IV. DELIVERABLES and ACTIVITIES

COMPONENT 1: STRENGTHEN AFGHANISTAN BUSINESS ENABLING ENVIRONMENT

To help Afghanistan achieve social development through economic growth, the MoCI recognizes the underlying importance of a model that emphasize on private sector driven by entrepreneurship and free trade. It is committed to undertake comprehensive initiatives to consolidate the enabling environment for private sector where private initiatives and enterprises contribute into the creation of new investments, jobs and revenue, while at the same time growing a class of people with a vested interest in stability and order. The objective of this component therefore is to create a business climate that is conducive to private sector development through increased investment, capital formation and productivity while encouraging enabling private business to function and expand in a socially responsible manner. Core outputs include:

- Formulate new strategies to set clear directions in supporting revival of priority sectors;
- Strengthen and rationalizing the regulatory and legal system through development of new commercial legislative frameworks and reviewing existing legal frameworks to improve consistency, applicability and overall adequacy of the newly adopted laws;
- Modernize the Afghanistan business registry and licensing system to rationalize and standardize the incorporation procedures for new business in line with international best practices;
- Ease institutional and structural constraints to remove systematic barriers inhibiting private sector growth by developing a phased and rational reform plan with a view to improve Afghanistan's ranking in the doing business survey;
- Strengthen fair trade and consumer protection standards by developing new governance arrangements to promote transparency and corporate social responsibility standards in private business conduct;
- Strengthen and promote structured Private public Dialogue on key policy and institutional development process.

Deliverable 1.1 Formalization of the Afghan Economy Strategy Completed

In view of the multidimensional nature of formalization and its scope and forms in Afghanistan, the problem should be addressed in stages through cooperation with the private sector. The MoCI will lead on a cross-government, long-term commitment to formulate and implement a country-wide formalization strategy, taking into account an understanding of the drivers of the informal economy in Afghanistan, existing institutional and regulatory resources and barriers, possible incentives and disincentives, as well as the attitudes and constraints of key stakeholders. The strategy will focus on

determination of appropriate and low cost interventions targeted to reform four main factors such as licensing and taxations systems, infrastructural and financial constraints and security related problems. The MoCI will develop the interim concept for formalization strategy which will be presented to private sector stakeholder, donors and key development partners. After securing broader agreement and consensus from business community and development partners on the concept for formalization strategy, the Ministry will proceed to draft and implement the formalization strategy in partnership with MoF, MoE and ACCI.

Deliverable 1.2 Legal and Regulatory Environments Strengthened

An important part of the ITTSFF program is to develop and implement the essential legislative frameworks which ensure that the benefits of a free market are realized both by investors and consumer. The development of the new commercial legislative frameworks, based on international standards and best practices, will be critical to the ability of Afghanistan to attract investment, promote exports and ensure the adequate level of competition necessary for the equitable operation of the market. MoCI will continue its extensive review of the existing legal and regulatory frameworks including an examination of all law adopted in the past nine years. The process will include introduction of all necessary amendments and adjustments in the laws, and regulation governing private sector operations in Afghanistan. Equal emphasis will also be placed on improving the enforcement of these laws and on addressing the administrative bottlenecks preventing their effective implementation. Public private dialogue will be used to create broader consensus in addressing contentious issues in regard to regulatory and legal reform.

Further, under the ITSSFF program the MoCI will develop and implement legislative frameworks for the following areas:

Drafting Bankruptcy law: The absence of a bankruptcy law and procedures dealing with debtors insolvencies are viewed as major deterrent for creditors in providing short-term and long-term finances to business. As result, the MoCI in partnership with the Central Bank will develop the bankruptcy law and all supporting regulations and procedures required for its effective enforcement. The objective of the law is to encourage lending to business and provide adequate protection for creditor and debtors.

Drafting Regulation for Intellectual Property (IP): For better implementation of the IP law, the MoCI will propose and enact the IP regulation for ensuring effective enforcement and compliance with the IP law. The regulation will include procedure for registration of trademarks, copyright, patents and industrial designs.

Developing Regulation for Corporation and Limited Liability Companies: For better implementation of the company law, the MoCI will propose and enact the supporting regulation for corporation and limited liability companies. The regulation will set the corporate governance, disclosures and overall operational standards to be adhered by the companies operating in Afghanistan. In addition the MoCI

will propose regulations for recently adopted commercial laws which will include creation of new regulation for contracts, agency, partnership, commercial arbitration and commercial mediation.

An amendment package for the aforementioned laws and regulations will be prepared in full consultation with private sector stakeholder and concerned ministries with an aim to reduce implementation bottlenecks and address systemic deficiencies inherent in the structure of these laws. Additionally the MoCI will collaborate with MoJ to improve the descriptive clarity for these law as it is being observed that translation inconsistencies and complex sequencing of the recently adopted laws makes their interpretation difficult and most of times contradictory.

Deliverable 1.3: Regulatory and Administrative Barriers Reduced

There is a strong, positive correlation between high-quality business regulation and strong foreign and domestic investment, trade, and enterprise growth and creation. Lower legislative, regulatory and procedural burdens for businesses promote sustainable economic development by enhancing competition and boosting efficiency, bringing down prices, and stimulating innovation. In contrast, complex procedures and heavy regulatory compliance requirements hinder private sector development: they slow enterprise growth by diverting resources away from the creation of value-added activities to non-productive ones.

Under ITSSF, a key initiative will be taken by MoCI to drive a coordinated effort with an aim to improve Afghanistan investment grading by taking corrective measures to address all serious business constraints cited in the DBI survey. The aim will be to create an investors friendly atmosphere and improve Afghanistan ranking in terms of doing business in the region by:

1. Designing policies for “Administrative Simplification” to help business operations, focusing on policies aimed at reducing regulatory burdens;
2. Improving the three main components of the business establishment process, from incorporation and registration to notification and compliance through “Cheaper and Faster Start-Up” ;
3. Streamlining and reducing excessive legislations and regulations.

A comprehensive reform program organized under Doing Better Business Initiative (DBBI) will be launched to address these issues. The DBBI initiative will draw up a multi-year implementation strategy that builds on four phases of action:

1. Inventory – compiling an electronic database of all laws and regulations affecting business;
2. Review – conducting a series of reviews to either simplify or eliminate ineffective regulation;
3. Depository – compiling an electronic register of remaining business-friendly laws and regulations;
4. RIA – enforcing cost-benefit analysis of a new fundamental or organic law that will alter the role of the state in the regulation of the business environment.

Deliverable 1.4: Business Licensing and Registration Process Reformed

A complementary priority to that of improving the business climate is providing investors a friendly and modern incorporation system that includes registration of business and provision of licenses through a streamlined and simple process. Reforming licensing procedures and modernizing the overall infrastructure related is needed more than ever to improve the business climate. Some key constraints faced by private sector include:

- Regulatory and administrative procedures are fraught with discretion and corruption, forcing the majority of entrepreneurs into informality;
- Entrepreneurs must travel to Kabul to obtain their licenses;
- The present licensing process is complex, time consuming and generates direct costs or unnecessary "opportunity costs" to start-up entrepreneurs. The whole licensing process is based on ex-ante requirements and imposes an equal amount of paperwork/procedures to all kinds of investors irrespective of the size of the investment and the particular risks associated to the business activity;
- Licensing procedures are largely undocumented with limited guidance to end-users/businesses;
- There is a disconnect between trade licenses and business registration;
- Licenses are used as tax instruments. In most cases, there are issued upon the licensee paying the required fees, not upon compliance, therefore missing to safeguard any public good element;
- There is a low awareness on the need to tackle start-up licensing reform in connection with other authorities.

To facilitate the creation of new business and attract greater level of foreign and domestic investment, the MoCI will seek to undertake a comprehensive reform initiative to modernize and streamline licensing procedures and infrastructure related with it. The licensing reform process will be implemented through an IFC and Harakat funded project with three phases of implementation spanning over three years of time. The scope of work in the project will include the following items.

- Simplifying of all licences under MoCI and AISA in line with international best practise;
- Proposal and development of clear and transparent legal and regulatory framework for licensing;
- Renewal and rationalization of the licensing procedures and preparation of manuals, user guides for licensing authorities and users;
- Design and development a one-stop-shop for licensing in Afghanistan;
- Integrating business registration and licensing into the one-stop-shop.

For a sustainable and coherent reform effort of business start-up licensing, the ministry would implement the initial 15-month reform period to be followed by another period of 15 months to allow for a broader outreach to other licensing authorities and to achieve longer term benefits for private sector. A continuous 30-month reform cycle would allow for an in-depth reform effort including the design of an integrated process between all licensing requirements, a link between licenses and business registration reforms and solutions for a wider scale automation of business start-up licenses.

During Phase I, the MoCI will conduct a diagnostic and process mapping of trade-related as well as other licensing requirements and key “candidate licenses” for reform will be identified based on the political feasibility of engaging with the relevant authorities and the potential impact of each license on investment and on private sector growth. The initiative will place particular focus on:

- Reforming the six trade licenses under MoCI with the view of reducing their costs and complexity and making them clearly documented to investors;
- Training about 25 civil servants involved in the process, primarily the Licensing Department of MoCI as well as staff from other agencies with a stake in trade licenses;
- Designing a clear and predictable legal and regulatory framework for trade licenses;
- Engaging other authorities with licensing functions in the reform of their own start-up regulatory requirements (this would require a broader diagnostic and process mapping of other major licensing requirements identified in the September 2008 ASI report);

Further, the MoCI implemented the first phase of an expansion of the Afghanistan Central Business Registry (ACBR) reform through financial and technical assistance provided by USAID. The process resulted into the establishment of a reformed and restructured ACBR system, with expanded networks in four major provinces. Following the first phase of reform in business registration, the ACBR will be further developed and expanded to include the following outputs:

- Finalization and implementation of strategic plan for ACBR expansion and the related process;
- Integrate Intellectual property and share transfer registration unit into ACBR;
- Provide the functional requirement for ACBR installation in the provinces;
- Set up the ACBR online registration and hotline services;
- Strengthen ACBR national coverage through phased expansion in all provinces of Afghanistan.

From the overall Government perspective, the ACBR expansion should facilitate the interaction between institutions and citizens by allowing the Business Registry to serve as a central repository of business’s background details information that, with proper security and authorizations, should be shared across government and certain private institutions.

Deliverable 1.5 Competition Improved and Protection for Consumers Enhanced

Keeping in view the economic development of the country, a Competition Law will be developed to prevent practices having adverse effect on competition, to promote and sustain competition in markets,

to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets, in Afghanistan. The law will address relevant issues such as restrictive trading practices, hoarding of consumer goods by cartels and monopolies and all other issues affecting fair completion in the market. The adoption of the law will be followed by creation of competition regulation and the institutional arrangement for a competition watchdog with authority for enforcing competition law.

A Consumer Protection law will also be adopted to ensure protection and promotion of the rights and interest of the consumers. It will protect the interest and safety of end-users using the products or services provided by business operators. The law will address relevant issues such as product liability, privacy rights, unfair business practices, fraud misrepresentation and other consumer /business interaction.

In a poor country, the population is exceptionally vulnerable to shortages of, and sharp price rises in, commodities which are essential to welfare. These shortages are made worse when the country is import-dependent, landlocked and has under-developed domestic markets and distribution systems. This is the situation in Afghanistan. As a result of these problems, the MOCI has developed a competition policy. The creation of the Competition Promotion and Consumer Protection Directorate (CPCPD) is a direct result of this policy. The CPCPD's primary functions include providing advice on the necessity for and impact of strategic reserves of sensitive commodities; monitoring business activities, using agreed indicators and measures, to ensure that economic transactions are carried out within the dictates set by the law, and managing private sector and consumer complaints.

The new Directorate will have to manage several responsibilities. Through liaison with Ministries such as the MAIL and the Ministry of Energy and Water and Agencies such as ANSA (Afghanistan National Standards Authority), MOCI will seek to provide advice on the necessity for, and impact of, the creation of strategic reserves of key products such as petroleum, to ensure they are available and can be used in times of grave scarcity. The Directorate also has to consider the broader issues of consumer protection and safety, which have linkages to other Ministries.

Deliverable 1.6 Public-Private Dialogue Improved

The relationship between the Private and Public Sectors has been characterized by mutual mistrust and a failure to appreciate their interdependence. The Public Sector does not view the Private Sector as the partner that provides the tax revenues that forms the core of its vitality. On the other hand, the Private Sector does not regard its Public counterpart as the facilitator of an enabling environment necessary for growth and profitability. Both sectors are, therefore, prone to misinterpreting each other's roles and responsibilities. The problem is compounded by the lack of a strong dialogue mechanism. Historically, there has been very limited, structured dialogue between the public and Private Sectors in terms of policy formulation, implementation, monitoring and evaluation. The interactions between the Government and sector-specific business associations are carried out on adhoc basis. The need to strengthen public-private dialogue and establish various dialogue mechanisms through which the public

and private sector interactions can take place on continual basis is necessary to facilitate constructive and structured dialogue between the public and private sector.

Strengthening public –private dialogue is at the heart of ITTSF objectives. Under the program the MoCI will step forward to improve public private dialogue by facilitating the establishment of Public-Private Consultative Group (PPCG). The PPCG core functions would be to create broader consensus in between private and public sector stakeholders on key policy, legal and strategic initiatives to be taken for private sector development. It would also serve a forum to improve coordination and harmonize all government initiatives with core requirement for private sector development in Afghanistan. The formation of PPCG would result into a constructive engagement between public and private sector, supporting adequately - coordinated and correlated efforts for private sector development.

COMPONENT 2: ECONOMIC GROWTH THROUGH INCREASED TRADE

Trade has the potential to play a key role in driving and sustaining growth, and in reducing poverty in Afghanistan. There has been an exponential growth of trade and trade related business in Afghanistan, however the growth has been highly import-intensive. Export contribution to GDP and national revenue remains nominal. Due to vital linkages with the rest of the economy, the Afghanistan external accounts are a reflection of the current weak state of the entire economy. Analysis of the trend in the trade balance shows that the trade deficit increased from US\$ 1,217.6 million in 2002-03 to US\$ 2,622.5 million in 2010-11. For Afghanistan to reach its potential in trade as well as investment and private sector development, the country must remain committed to pursue policies and strategies that complement free trade and regional and global reintegration of Afghanistan into multi-lateral trading system. Under ITTSF, the MoCI will be adopting a number of key policy and institutional initiatives to enable Afghanistan to realize its trade and transit potential by improving export productivity and diversification, trade facilitation and economic integration. The objective of this component is to establish a trade system for Afghanistan that measurably benefits and accelerates the efficient/productive development of Afghanistan's economy by:

1. Integrating Afghanistan into regional and global markets through strengthening and negotiating new multi-lateral and bilateral agreements on regional and international level;
2. Strengthening export promotion through instituting a comprehensive program guided by the export promotion policy.

Deliverable 2.1 International Trade Partnerships Strengthened

As the lead Ministry for WTO accession, the MoCI will continue its effort to accelerate Afghanistan accession into WTO on a fast track basic. It will embark on a government wide reform process under this program to implement the Afghanistan legislative plan for WTO conformity. Additional measures will be taken to rationalize current procedures, practices and regulations governing Afghanistan trade in conformity with WTO standards. The international legislative requirement for accession into WTO is

driven by the centrality and importance of an applicable zero tariff regime and minimal protection against offshore products. Since Afghanistan trade and tariff regime is inadequately tailored in line with WTO fundamental standards such cross border trade, trade facilitation, and trade border operation, the Afghanistan government will undertake a fundamental overhauling of its tariff and trade regime in respect to multilateral trading conventions applicable on Afghanistan as observer member of GATT (Generally Accepted and Trade and Tariff Regime). The ministry will be taking the following measures to expedite accession into WTO in the upcoming three years:

- Implement Afghanistan legislative plan for WTO conformity;
- Expand the WTO unit within the ministry and build its analytical and technical capacity to better coordinate and manage WTO accession process;
- Establish Trade Policy Analysis Unit within the ministry;
- Implement a tariff reduction program in line with WTO standards;
- Prepare initial market access offers on goods and services, and prepare documents for plurilateral agricultural negotiations;
- Complete the quantitative impact assessment of WTO membership;
- Secure Afghanistan membership into ISO (International Standard Organization);
- Continue progress made toward removing trade barriers and WTO accession including completion of the fourth Working Party meeting, first round of bilateral market access negotiations, and first round of plurilateral agricultural negotiations.

Concurrent with reforms and preparatory work for future negotiation, the ministry would intensify WTO awareness to build both political and private sector support for WTO accession. This effort would be aimed to dissipating any fears, misunderstandings and misperceptions about the WTO, and would emphasize the benefits of membership. The primary focus of this awareness building work should be on key decision and policy makers, including the Presidential Office, Economic Commissions at both houses of parliament, and key private sector leaders.

Deliverable 2.2 Regional and International Trade Agreements Improved or Adopted

To capitalize on its strategic location as a land-bridge in the Central and South Asia region, integrating Afghanistan's markets with the global and particularly regional economies is of critical importance to the achievement of the national economic goals. Linkages with global and regional markets will not only promote the competitiveness of domestic industries but also add to the attractiveness of Afghanistan for investors.

The MoCI will step forward and scale up its activities to fully implement the recently signed Afghanistan-Pakistan transit trade agreement (APTTA). It plans to create the necessary mechanisms and conditions as per the agreement requirement to ensure effective implementation. The following measures will be taken:

- Finalize and implement APTTA operationalization plan;

- Establish the APPTA coordination authority (APPTA);
- Develop the dispute settlement procedures for APPTA;
- Prepare and implement a strategy for reducing the volume of unauthorized trade;
- Develop the financial guarantee system envisaged under APPTA;
- Develop and implement the application methodologies for tracking devices and custom to custom information.

The implementation of SAFTA and trade liberalization program under the agreement will also be expedited on a fast track basis to lead Afghanistan entry into South Asian market. The MoCI will embark on tariff reduction plan and adoption of necessary legislation for preferential rules of origin under the SAFTA treaty.

Further, to actualize the expansion of Afghanistan trade relations at regional and international level, the MoCI will undertake an assessment study to identify the need for increase regional and international trade agreements. The prospects of renewing bilateral trade agreement with Iran, Tajikistan and Uzbekistan will be thoroughly analyzed in the assessment.

Deliverable 2.3 Exports Increased

In order to achieve financial dependence, Afghanistan requires increasing its exports. The promotion of Afghanistan's export can improve market access, provide alternative means for ensuring greater added value, ensure Predictability and increased export earnings, Increase intra-industry trade and help the country to integrate in the world economy. The program will target three areas as priority to achieve this objective:

1. *Five year national export promotion strategy*: The Implement Export Policy will be rolled out with a real focus on catalyzing competitive advantages that Afghanistan has in regional and global markets by increasing its exports in carpets, rugs, dried and fresh fruits. MoCI will develop a targeted five year national export promotion strategy in close coordination with ANSA, ACCI, ACPA, AISA and other private sector bodies for Afghanistan.
2. *A survey for establishment of export processing zones (Kabul, Heart, Jalalabad, Kandahar, Mazar)*: The MoCI will also undertake a comprehensive feasibility survey for setting up export processing zones (EPZ) in the four main cities of Afghanistan. The survey will have a detailed analysis regarding the methodologies for development of EPZ. Once the study is completed, the methodology and the study will be presented to cabinet and international donors, including recommendations for measures to address the issues identified in the survey.
3. *Streamlined export procedures*: One of the key objectives of MoCI's is to streamline the export procedures/process in Afghanistan and explore potential markets for Afghan products and

linking up Afghan exporters with foreign importers. A consultant will help identify procedural requirements and define recommendations for improvement.

COMPONENT 3: DEVELOPING THE SME AND INDUSTRIAL SECTORS

A strong vibrant SME sector is needed if Afghanistan is to fully realize its vision as a trade and transit nation. Accelerating SME global and regional export opportunities remains a core priority in order to deliver sustainable inclusive growth and avoidance of the boom-bust and resource curse potential from extractives and construction led growth. The SME sector will require development over the medium-to-long term in order to deliver sustainable and inclusive growth. SME servicing of extractive and large scale construction industries will provide jobs and improve prospects for short-term growth. Avoidance of the “boom and bust” and resource curse phenomena, however, requires urgent and effective implementation of SME enabling programs.

Deliverable 3.1: The SME policy Actualized and Implemented

MoCI finalized a comprehensive SME policy in December 2010. The overall objective of this policy is to foster job creation and income generation through promoting the creation of new SMEs and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Afghan economy. This policy identifies opportunities for growth on a region by region, province by province basis and sets out concrete steps to be taken to move industries in their areas up the values chain. The implementation of the policy is aimed at stimulating development and growth of SME activities through improved infrastructure, enhancing service provision and creation of conducive legal and institutional framework so as to achieve competitiveness. The policy covers the key areas considered as critical including reviewing and reconsidering public policies and regulations that discriminate against or hinder the start -up, survival, formalization and growth of SMEs; enhancing the growth of the sector; identifying and assigning clear roles of key actors; developing strategies that will facilitate provision of financial and non-financial services to SMEs; and developing and institutionalizing public-private partnerships for SME sector.

The MoCI will implement the policy by creating a SME strategy group within its structure. The group will be responsible for define the implementation plans, and deliver on results. Initially the group will reside in MoCI within the Private Sector development Directorate and then evolve into an independent authority 3-4 years. The group activities will be overseen by a board to include:

- Minister of Commerce & Industry
- Minister of Finance
- Minister of Agriculture, Irrigation and Livestock
- Minister of Rural Rehabilitation and Development
- 4 – 6 respected business leaders from around the country

The strategy will be rolled out in phases and will cover the whole nation by 2015, but within the four regions sequentially. The implementation of the strategy will be coordinated with provincial governments, community development councils, specific donors, PRTS and other agencies and organization working in each region.

Deliverable 3.2 Seven Priority Sector Strategies Implemented

Key industries were identified for rapid implementation via new strategies: dried fruits, carpets, wood and furniture, leather and leather goods, precious stones and marble. The first steps in implementing included establishing a number of pilots to move Afghanistan up the value chain:

- Marble pilot in Herat
- A pilot program promoting the wood & furniture sector in Kunar and Kabul
- Carpet pilot to remove constraints on industry growth; repatriate cut & wash & trade from Pakistan; and include more domestic wool in production
- Pilot in Kunduz on leather industry

The Private Sector Development Directorate in MoCI has begun work on these programs and a number of donors are already active in these areas. However there is a need to expedite this activity and broaden the areas in which SME development is occurring. The MoCI in partnership with other ministry and in particular with MAIL will execute the strategies for development of the sectors identified as key priority areas in the SME strategy:

Agri-business strategy includes measures to move Afghanistan up the value chain, improve the quality of Afghan agricultural products and manufactured food and drinks. The program will seek to expand trading activities in agricultural products by setting up agricultural facilitation offices both inside and outside Afghanistan.

Cashmere strategy is developed to revive production and to exploit the vast potentials inherent in the sector by removing the impediments faced by cashmere producers in Afghanistan. The program will aim to move the industry up the value chain through repatriating key parts of the value chain from neighboring countries, and increase processing of raw cashmere fibre at domestic level and reduce the cost of high quality inputs for the regional/national carpet/textiles sector.

Carpet strategy ensures measures to move the carpet industry up to the value chain. The program will support expatriating key parts of components of the value chain from neighboring countries, increasing production and export carpet and improving the safety of carpet weavers.

Construction strategy focuses on improving the quality of Afghan building materials, improving the bidding success rate of Afghan construction companies, improving the legal and regulatory framework governing the operations of construction firms and the procurement of building materials, and

exploiting opportunities for import substitution for building materials. The program will initiative action to ensure operationalization of the strategy.

Marble strategy will look to improve mine leasing and licensing processes to ensure that they provide the right incentives for investment and growth, streamline and reduce the cost of exporting marble and move Afghanistan up the value chain.

Deliverable 3.3 Legal and Regulatory Framework specific to SMEs is Improved

Despite various interventions aimed at improving the business environment in Afghanistan, the legal and regulatory framework is bureaucratic, costly and centralized. These characteristics of the legal and regulatory environment affect all sizes of businesses adversely. However, SMEs are further constrained in this environment in comparison to larger businesses due to the disproportionately heavy costs of compliance arising from their size. As a result most of informal enterprises have failed to formalize and micro enterprises have been unable to grow and graduate into Small and Medium Enterprises. The tax regime in Afghanistan is also unfavorable for SMEs development. Taxes are many, rather high and collected by various authorities. Furthermore, entrepreneurs are ignorant of tax matters and the cost of complying with tax regulations is considered high. Whereas taxation of businesses is a necessity for national economic development, the present tax regime imposes a major burden on SMEs.

In response to this, the MoCI will push forward implementation aimed at simplification and rationalization of procedures and regulations so as to encourage compliance and minimize transaction cost. IT will work with stakeholders to do the following:

1. Simplify business registration and licensing procedures (under earlier deliverable).
2. Simplify tax system and introduce tax incentives to nurse SMEs.
3. Review Government Procurement procedures to facilitate SMEs' participation
4. Establish a window within the commercial court for handling SME business disputes.
5. Train and sensitize SMEs on intellectual property rights.

Deliverable 3.4: Capacity Development services for SMEs Improved

The Program will focus on three primary means to support capacity development of SMEs:

1. *Business Development Services:* Afghanistan is endowed with a rich natural resource base. Even then, with all these resources Afghanistan is still a least developed country. The challenge lies in the ability to transform efficiently and effectively the resources into goods and services that can be availed to the market at competitive prices. One of the major limiting factors is the lack of entrepreneurs at different levels. Some of the traditions, perceptions and values have tended to create a culture that is anti-entrepreneurial. Furthermore, past policies limited individual entrepreneurship initiatives. In order to overcome this situation, the following measures will be undertaken:

- a. Inculcate through awareness, training and other programs values and attitudes that are conducive to development of entrepreneurship.
 - b. Introduce entrepreneurial programs in vocational and technical training.
 - c. Facilitate entrepreneurship development programs for selected target groups/sectors e.g. carpet weavers and dry fruit producers
 - d. Facilitate capacity building in entrepreneurship development
2. *Training:* SME operators in Afghanistan have rather low business skills and seem not to appreciate the importance of business education. On the other hand, the quality of training provided by existing business training institutions and costs involved has tended to be unattractive and unaffordable to the potential beneficiaries. In order to improve the business skills of SME operators, the following strategies will be pursued:
 - a. Embark on capacity building of business training institutions aimed at improving quality of services provided
 - b. Facilitate tailor-made business training programs for start -ups and for strengthening existing businesses
3. *Access to Finance:* The SME sector in Afghanistan has limited access to finance due to the following factors: the sector is perceived as a high risk one; inability of the SME operators to fulfill the collateral requirements; all banks do not operate an SMEs financing window; some of the banks operate in limited geographical areas; inexperience of Bank Staff in issues related to Micro-finance; lack of a guarantee scheme to back up banks financing SMEs; high cost of screening and administering small loans spread over big areas and inability of borrowers to prepare and present applications that meet bank's requirements. The current reforms have resulted in liberalization of the financial sector to a great extent. This has led to establishment of a number of banks including the Micro Finance Bank, liberalization of financial rates. In spite of all these, the SME sector is facing a major constraint in accessing finance. This limits their capacity to survive, increase capacity, and upgrade its technologies and even in many cases, expand their markets and improve management or raise productivity and eventually increase incomes.

The MoCI will work with central bank to promote financial reforms aimed at further liberalization of the financial sector and the creation of financial intermediaries to cater for SMEs by:

- Transferring lessons and good practices from traditional financing mechanisms into suitable financial products for financing SMEs
- Opening up of SME windows in financial Institutions
- Promoting innovative financial products for SMEs such as hire purchase scheme, leasing, inventory financing, venture capital SMEs and, Saving and Credit Schemes

- Promoting improved access of SMEs to bank financing through simplification of procedures
- Mobilizing resources and promoting development of new financial institutions for financing SMEs.

Deliverable 3.5 Industrial Parks Restructured with Improved Management

Afghanistan currently has ten industrial parks; AISA has responsibility for four of these, and MOCI has the responsibility for seven. The only industrial park that is fully operational is AISA's Bagrami Park, with 38 firms.

Developed Industrial Parks in Afghanistan								
N o	Name	Province	Location	Size	Date of Designation		Operatin g Firms	Land Price (Afs/Jerib)
1	Pul-e-Charkhi	Kabul	Pul-e-Charkhi	150 Hectare	1352	1974	147	\$30,000
2	Sheikh Mesri	Jalalabad	Shaikh Mesri	300 Hectare	1421	2000	0 under construct ion	N/A
3	Carpet Weaving Park	Jalalabad	Near Shaikh Mesri	200 Hectare			0	11,000 bought it from mail
4	Herat Industrial Park	Heart	West of Airport	770 Hectare	1381	2003	205	62,000
5	Mazar Industrial Park	Balkh	Dashte Shadyan	190 Hectare	1358	1980	13	30,000
6	Mazar Industrial Park	Balkh	Se Rahee Hayratan	186 Hectare	1385	2007	7	N/A
7	Helmand Industrial Park	Helmand	Bolan	300 Hectare	1421	2000	73	N/A
8	Kandahar Industrial Park	Kandahar	Shoor Andam	800 Hectare	1419	1990	95	N/A
9	Parwan Industrial Park (TUTAM Dara)	Parwan	Parwan	29 Hectare	1356	1977	4	N/A
10	Andkhai Industrial Park (carpet weaving)	Andkhai	Andkhai	200 Hectare	1388	2009	0	10,000

The reason behind the weak status of the industrial parks under MoCI is primarily due to low human and technical capacity within the Industrial Affairs Directorate and in sufficient level of funding available to the Ministry in financing the expansion and maintenance cost associated with industrial park development.

Under this program, the MoCI will be taking necessary steps to address the capacity constraints affecting industrial parks development. Primarily, the Program will seek to reform and restructure the Industrial Affairs Directorate. It will be restructured through a fundamental overhauling of the directorate functions, human resources and organizational set up through the following measures:

- Right sizing the existing work force according to directorate functions and requirement;
- Recruit adequately qualified directors, provincial managers, support staff and technical advisors;
- Streamline the internal procedure for management of industrial parks in the directorate;
- Merge the directorate into Private sector development division;
- Identify most pressing skills and training needs for the industrial parks management, based on current gaps and requirements and provide extensive capacity building program;
- Establish research and technical wing in directorate for effective design and development of industrial parks.

Regarding the financial constraint, the primary reason of a lesser amount of industrial activities is the lack of required infrastructure for these industrial parks. MoCI has not been able to provide basic infrastructure facilities like roads, water, electricity, sewage facilities and waste water treatment. For example in Pule- Charkhi industrial park, most of the units are operating there do not engage in production activity but are used as warehouses as the current provided infrastructure is not adequate enough for industrial activities. Pul-e-Charkhi Industrial Park does not have any water supply provided by the Park authorities. The plot owners draw ground water for their use. In Herat Industrial Parks, no common facility has been provided by the Park authorities except roads. This is the almost the case with all industrial parks managed by MoCI.

Despite the minimal common infrastructure provided by MoCI to industrial parks, MoCI is committed to develop the existing infrastructure of all its industrial parks to meet the increasing need for investors. MoCI plans to provide the needed infrastructure to all 10 parks and tackle all issues within its reach to attract fresh investment. The MoCI will take the services of a competent consultant to assess all existing infrastructure facilities in Industrial parks, benchmark them against the best industrial practices and for implementing the same as a self-sustaining project In order to achieve the same, a detailed study shall be conducted to achieve the following objectives:

- To conduct detailed analysis of various infrastructure facilities and gap analysis understanding the requirements of proposed projects of the Industrial Areas for a period of 10 years.
- Prepare a detailed infrastructure blue print (DPR) for aforementioned industrial parks covering all infrastructure aspects of Power, Water, Wastewater, Sewerage and Drainage, Roads and other physical & social infrastructure facilities in identified areas.
- Detailed Design, Engineering and Procurement including the preparation of the bid and contractual documents for the selection of the Contractor for implementation of each facility

Additionally, the MoCI would like to respond to demand by establishing two new Industrial Parks under this program

- Parwan industrial park's master plan is complete, land has been identified but funding would be needed to construct this industrial park.
- Herat Carpet Weaving Park's master plan is complete, land has been identified but funding would be needed to construct this industrial park.

Lastly, responsibilities for developing policy, designing, managing and regulating parks are currently spread across different Government bodies, including the Industrial Parks Directorate in MOCI, AISA, and the Industrial Parks Development Authority (IPDA), approved by Government in 2009. The Ministry will seek to clarify roles and responsibilities for Industrial Parks as a critical measure to ensure clear and efficient management in the future. This will include a role for MOCI overseeing the contracting out of development and management of new Industrial Parks and the merging of the Industrial Parks Development Authority with MOCI's Industrial Parks Directorate. There will be a need to align skills and staff numbers with the Directorate's new role.

Deliverable 3.6 National Quality Infrastructure is established and working

This deliverable will improve the quality of Afghan product and thus ensure access to more lucrative markets as well as improve competition through introducing certification and surveillance activities

For Afghanistan to compete and succeed in today's global market, traders, producers and suppliers must not only find a buyer, but they must also ensure that their products meet the importing country's quality and safety requirements, as well as the customers' expectations. While these requirements are much the same for all suppliers and create a level playing field, evidence suggests that some exporters find it extremely difficult, if not impossible to meet regional and international standards, and proof of compliance.

Metrology, standards and conformity assessment are three separate but interdependent and interlinked "pillars" of knowledge and are essential for Afghanistan to develop a quality infrastructure that enables sustainable development that can lead to full participation in international trade, and to satisfy the technical requirements of the multilateral trading system.

The activities needed for this deliverable will be:

1. Development of a strategic plan for development of National Quality Infrastructure (this activity is already completed).
2. Developing standards in compliance to regional and international standards
3. Implementation of National Metrology Program (legal and scientific).
4. Conformity Assessment activities

The details of these activities are given in the 3-year Implementation Plan

COMPONENT 4: RESTRUCTURE AND REFORMING THE MINISTRY FOR BETTER SERVICE DELIVERY

The main goal of this component is to build the capacity of MoCI to deliver its responsibilities more effectively and to serve the private sector more efficiently. This is particularly important given the changing roles and functions of MoCI as the economy moves towards a market-led economic system. Given economic reform since 2001, it has been necessary to reorient the mindset of MoCI away from market control (under the socialist era) towards market facilitation and effective economic management through appropriate policy instruments (in the liberalization era).

A rapid organizational assessment of MoCI was undertaken in the year 2010. It was found that for the Ministry of Commerce and Industry, the challenges accompanying the transition from state-led to private-sector led economic development are indeed many; a number of immediate and critical problems limit its ability to perform its functions:

- An outdated organizational structure reflecting the ministry role as a producer and controller for economic development, rather than MoCI current role as a policy maker, regulator and facilitator;
- Critical deficits in management and technical capacity;
- Insufficiently developed human resources capacity.

Deliverable 4.1 MoCI Human Resource Capacity Improved

The implementation of pay and grading system has already started in the ministry which is designed to establish an effective HR system characterized by a professional staff. The implementation of Pay and grading system will cover the MoCI central and provincial offices and the process is to be completed by XXXX. The staffing of all directorates is in process. Directors have been selected by the Civil Service Commission and most come from within the Ministry which means they have experience in the old ways of operating and managing but no updated experience. The dilemma for completing the staff is to find a compromise between two contradictory requirements: on one side recruiting new staff more able to perform the new tasks and, on the other, the need to reserve some new positions for staff presently

working in the Ministry. It would be detrimental to MoCI effectiveness if only staff from the Ministry were to be recruited. The MoCI needs, especially for heads of department, people with past professional experience and leadership making them more fit to carry out the new mandate.

The MoCI is implementing the Priority Restructuring and Reform (PRR) program. As part of this process, new directorates were created and some former directorates are being restructured into new directorates with structures approved by the Civil Service Commission. All directorates are currently under implementation. However, finding motivated staff with some basic knowledge but adaptable to their new conditions of work is a challenge.

The MoCI directorates face two practice “capacity” challenges:

- Capacity to carry out its mission and strategy. Issues include governance, leadership, administration, human resources, program development, and implementation
- Capacity of its staff to acquire workplace understanding, technical skills, and professional competencies.

The Ministry will develop a strategic human resources management plan in accordance with the ministry business plan to identify the main requirements and priorities in terms of human resources for the upcoming three years. It will work to develop and implement a performance management and reporting system providing clear performance standards and feedback on individual performance against those standards. Given the importance of training and capacity building for the ministry staff, the MoCI will undertake a training need assessment study for its staff both at center and provinces to identify capacity gaps and technical deficiencies. A comprehensive capacity building program will be initiated on the basis of the training need assessment.

Deliverable 4.2 Policies and Strategy Unit Established

The Ministry will also create a new Policy and Strategy Unit. This is central to the Ministry’s future focus on policy, facilitation and regulation. The PSU is intended to exert a powerful influence on the shape of future MOCI work, and will do so through various mechanisms. The first is interventions related to policy analysis, generation and assessment, with assessment conducted through RIA. The second is strategic action, focused on implementation of key fresh initiatives, such as the priority actions announced in January 2009. Finally, the PSU will be responsible for providing advice on policy proposals developed by other ministries which will impact significantly on the private sector. It will also undertake RIAs of all Government policies affecting private sector growth in Afghanistan. This Directorate will manage all technical assistance received by the MOCI including facilitating donor support and funding, as well as coordinating and monitoring donor projects relating to Ministry activities.

Deliverable 4.3 Infrastructure (IT) Improved

To create a transparent and fully functional administration setup, the ministry will introduce and implement an electronic management information system (MIS) to enhance proper reporting and transparency in the ministry day to day operation. With planned MIS implementation, a standard

operating procedure for procurement, financial management and performance evaluations will be developed to strengthen administrative function of MoCI.

Deliverable 4.4 Provincial Coordination Directorate (PCD) established

The Ministry will establish a new Provincial Coordination Directorate (PCD) that will coordinate MOCI initiatives and services in the provinces. A key role of the PCD will be to provide the structure and coordination for a provincial office framework aimed at delivering the MoCI mandate, ensuring easier access to improved MoCI services for provincial populations. It will monitor and report on progress in MOCI initiatives in areas such as private sector, local industry and business development. It will provide analysis of trends and report on issues relevant to the MOCI and it will serve as a conduit for provincial concerns so that these can be taken into account when policy is being developed. The PCD will also contribute to the Government's sub national development strategies and the decentralization of functions to provinces.

Deliverable 4.5 Public Relations Unit establish and Operational:

Evidence from developing countries and emerging economies worldwide shows that economic reforms are much more likely to succeed when they are understood and supported by the people most affected by them. The MoCI will need to interact with a wide variety of stakeholders, each of which has different needs and expectations. Getting the messages right with these audiences, and reaching them with the right communication tools are key features of effective communications.

Currently, the MOCI is neither consistent nor systematic in its communications with stakeholders. The tools it uses are limited – no forum for regular stakeholder dialogue exists, press conferences are irregular and inadequately prepared, there is no resource in place for updating the Ministry website, and except for the recently established Ministry newsletter, little if any written information is available that succinctly summarizes any portion of MOCI activities and plans. The result is a Ministry that is regarded as ineffective and irrelevant by the private sector and general public.

The Ministry will create a new Public Relations Directorate (PRD) responsible for managing Ministerial relationships with external stakeholders and raising the profile of MOCI initiatives and achievements. This Directorate will play an important role in ensuring the MOCI is aware of external changes that could impact on its core activities and assist the MOCI management to respond appropriately. The PRD will coordinate communications with external stakeholders. A critical function will be to build and maintain relations with Government legislators and Ministries to influence legislation and regulation. The maintaining of relationships with industry and businesses in the private sector and building national and provincial relationships will also be an important role for the Directorate. This Directorate will be the initial contact point for donors and will work with the PSU to coordinate assistance to the MOCI.

V. IMPLEMENTATION RESULTS FRAMEWORK PLAN –

A three-year implementation plan has been prepared for all the components and deliverables with timelines. The Three-Year Implementation Plan is given at Annex.

VI. TECHNICAL ASSISTANCE PLAN

Component	Technical assistance requirement
Component1: Improving Afghanistan Business Climate	<p>Formalization strategy International TA is needed To assist the Ministry in developing the conceptual framework and final blueprint for the formalization strategy. The support of the international TA will be further required to help the ministry in designing effective implementation framework for operationlising the formalization strategy.</p> <p>Strengthening legal and regulatory environment: Although the MoCI is benefitting from the support of international TA in developing the legal and regulatory frameworks. This support will be further needed to enable the Ministry develop the laws and regulation proposed under the ITSSF program.</p> <p>Reduce legal and regulatory barriers : Existing capacity for eliminating legal and regulatory barriers is weak and sustained international assistance will be required to help the ministry in developing and implementing the national administrative simplification strategy to be formulated under the DBBI program</p> <p>Reforming the Business Licensing and Registration Process: International TA is needed to assist the ministry in expanding and strengthening the ACBR (Afghanistan central business registry) into major provincial centers proposed under the ITSSF program.</p>

	<p>Increasing competition and consumer protection: The present capacity and resources within the Ministry is inadequate for strengthening and promoting fair trade standards, therefore sustained TA will be required to have the ministry put in place the requisite legal operational and institutional frameworks for CPCP.</p> <p>Improve Public Private dialogue: The ministry will require international TA assistance to establish a structured platform for public private dialogue. The initiative will require support from a range of lawyers and PSD specialists for designing the mechanism and structure for Public private consultative groups proposed under the ITSSF program.</p>
<p>Component 2: Facilitate Economic Growth through Trade expansion</p>	<p>Increased exports: International TA will be required enable the ministry develop the policy framework for export promotion as well as to undertake a feasibility study for establishment of export processing zones and cold storage facilities in five major urban centers of Afghanistan. The assistance will be required on continual for a period of three years toward setting up the appropriate policy and infrastructural frameworks needed to achieve robust growth in exports envisaged in this program.</p>
<p>Component 3: Develop the SME and Industrial sectors</p>	<p>Create a globally competitive SME Sector: To implement the SME policy and 7 sector strategies, the ministry will need international technical assistance to build the internal capacity within itself and establish an effective governance mechanism for SME development in Afghanistan. In some cases, funding is already being directed to areas consistent with the strategy (such as in carpets). However, in other areas, such as SME-credit and development of the SME group, additional funding is key.</p> <p>Modernize and restructure the industrial Parks: For development of new industrial parks and modernizing the existing industrial facilities within MoCI jurisdiction, international technical assistance in supporting the business reengineering process plan for reforming the industrial parks development directorate is needed. Assistance will be needed for capacity building and improving the infrastructural and operational setups of the directorate which are in abysmal shape at present. In addition direct funding and TA will be needed to finance the completion of the feasibility and technical survey studies to be conducted for establishment of new industrial parks proposed under this program as well as the need assessment study for upgrading the existing industrial parks.</p> <p>Compliance of Afghanistan National Quality Infrastructure with international best practices: In order to comply with WTO TBT requirements, all activities within the QI in the country should be developed in a manner to remove technical barriers to trade and enhance exchange of goods and services in the regional and global level. International technical assistance is required in formulation and setting up of the infrastructure.</p>

Component 4: Reforming the ministry
for better service delivery

Upgrade the Ministry human capacity and internal infrastructure: The capacity and available resources to support the short term and long term capacity requirements and infrastructural modernization needs of the MoCI is inadequate; therefore international technical assistance will be required to enable the ministry to implement its strategic human resources plan with making necessary improvements.

VII. PROCUREMENT PLAN

The MoCI is currently in the process of identifying existing and new resources that will support planned initiatives. It is expected that the procurement of services will be conducted through a mix of Government and donor policies. Where donors provide off-budget support, the procurement practices of the particular donor will be followed. Close coordination in the design and procurement of the services between the donor and the MoCI will be essential to avoid any overlap of assistance and maximize the return from donors' investment by ensuring MOCI ownership.

COMPONENT	GOODS	SERVICES
Component 1: Improving Afghanistan Business Climate	<ul style="list-style-type: none"> Equipment and materials. Computers, printers, and other IT equipment for new staff, and other infrastructure as required. 	<ul style="list-style-type: none"> Contracting of International Consultant Firm for developing the conceptual, design and implementation framework of formalization strategy. Contracting of International consultants (2-4) for drafting the bankruptcy law as well regulation for IP, corporation, partnership, contract and agency laws. Contracting of international consultants firms for supporting the ministry in designing and developing the administrative simplification strategy and devising appropriate policy responses for improving Afghanistan ranking in Doing Business survey. Contracting of international consultant firms for institutional development and capacity building to develop the necessary tools for improvement and scaling up of the ACBR expansion program. Additionally, to improve the structure, procedures, operations, and capacity building of staff Contracting of international consultant for designing the concept TOR and SOP for the Public and private commercial consultative group.
Component 2 : Economic Growth through trade	<ul style="list-style-type: none"> Equipment and materials. 	<ul style="list-style-type: none"> Contracting of international consultants (6-8) for drafting the

expansion	<ul style="list-style-type: none"> Computers, printers, and other IT equipment for new staff, and other infrastructure as required. 	national export policy and completing the feasibility study for establishment of cold storage facility and export processing zones proposed under the program
Component 3 : Developing the SME and Industrial sectors	<ul style="list-style-type: none"> Equipment and materials. Computers, printers, and other IT equipment for new staff, and other infrastructure as required. Workshops, training and accreditation materials. 	<ul style="list-style-type: none"> Contracting of international consultants (4-6) for providing the ministry with technical support to implement the SME policy and 7 sector strategy and institutional development for SME support facility within MoCI , Contracting of international consultant firms for institutional development and, operational activities to implement changes to structure, procedures, operations, and capacity building of staff in IPD directorate in MoCI and supporting the ministry in completing the need assessment survey for upgrading existing industrial parks facility
Component 4 :Reforming the Ministry for Better Services Delivery	<ul style="list-style-type: none"> Equipment and materials. Computers, printers, and other IT equipment for new staff, and other infrastructure as required. Workshops, training and accreditation materials 	<ul style="list-style-type: none"> Contracting of International Consultant Firm for institutional development and operational activities to implement changes to structure, procedures, operations, and capacity building of staff in the Ministry and for enabling the ministry implement its strategic human resources plan Contracting of international consultant firm for providing the technical expertise in designing an automated MIS and M & E system for the Ministry

VIII. MANAGEMENT ARRANGEMENTS:

- to be determined after first consultation discussion*

IX. MONITORING AND EVALUATION

Monitoring and evaluation (M&E) will comprise an essential component of ITSSF implementation. For effective M& E of the PSD program, the following actions will be taken.

- Preparation of a Monitoring Evaluation Tool, which would consist of the following elements:
 - Work plan for the monitoring process;
 - Identification of monitoring indicators based on the main issues of the ITSSF project;
 - Monitoring work sheets and analysis of information;
 - Guidelines for producing monitoring reports;
 - Evaluation questions and guidelines for preparation of evaluation exports;
 - Capacity building PLANS of those staff who will be involved in the actual monitoring and evaluation process.

The ITSSF project will report to donors through the national accountability system using the 100 day consultations, the JCMB and Standing Committees each quarter.

It will also conduct a mid-term and end of term evaluation through external evaluation to review progress towards overall achievements and determine the corrective actions or course-change needed.

NPP Implementation Action Plan

Cluster : Private Sector Development

Programme: Integrated Trade and SME Support Facility

Programme Objective: To facilitate private sector led inclusive growth including increasing trading and employment opportunities

Outcomes: Afghanistan a better place to do business, increased trade, Increased formalization of private sector, reduction in poverty, growth in private sector investment

Indicators: SME and manufacturing sector share of GDP, Employment growth in private sector, Proportion of population below poverty line, Doing Business Indicators overall ranking, Growth in number of registered private sector firms, Gross domestic investment by private sector (% of GDP)

SOD: MOCI, MOF, MOJ, IARCSC, IMF, WORLD BANK, USAID, Dfid / HAKARAT, IFC

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