



Ministry of
Industry and Commerce
Islamic Republic of Afghanistan

AFGHANISTAN'S NATIONAL EXPORT STRATEGY 2018-2022

*Peace through Prosperity,
Prosperity through Trade*



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AFGHANISTAN

NATIONAL EXPORT STRATEGY

2018-2022

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Prosperity through Trade*



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Industry and Commerce
Islamic Republic of Afghanistan



International
Trade
Centre



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by the European Union



Afghanistan Chamber Of Commerce & Industries
اتاق تجارت و صنایع افغانستان
د افغانستان د سوداګرۍ او صنایعو اتاق

ACKNOWLEDGEMENTS

The Afghanistan's National Export Strategy (NES) was developed under the aegis of the Islamic Republic of Afghanistan, the leadership of the Ministry of Industry and Commerce (MoIC), and the Afghanistan Chamber of Commerce and Industry (ACCI), in close collaboration with the Ministry of Agriculture Irrigation and Livestock (MAIL) and the Afghanistan National Standard Authority (ANSA). The Afghanistan Women Chamber of Commerce and Industry (AWCCI) provided key contributions to ensure that gender-specific concerns were integrated into the NES. Consultations with the Ministry of Finance and the President's Senior Advisors accompanied the design phase while insights and expertise from the Afghanistan Chamber of Commerce and Mines (ACIM) and the International Chamber of Commerce (ICC) contributed to fine-tune both the analytical foundation and the strategic considerations. Finally, the NES was presented and approved at the Council of Ministers and the Executive Committee of Private Sector Development (PriSEC) where it benefited from ultimate guidance. Subsequently, the NES was presented and officially endorsed at the High Economic Council.

This strategy was elaborated thanks to the technical assistance of the International Trade Centre (ITC) and falls under the framework of the European Union funded 'Advancing Afghan Trade: EU Trade Related Assistance' project.

NOTE TO THE READER

Afghanistan's NES was developed based on a participatory approach during which over 500 Afghan industry leaders, small business owners, farmers and public sector representatives held consultations to reach consensus on key sector competitiveness issues and priority activities. **These inclusive platforms were held throughout the country, including in Mazar-e-Sharif, Herat, Kandahar and Kabul, with participation of stakeholders coming from Nangarhār province.** Women entrepreneurs and women-led business associations as well as young entrepreneurs played an important role in the consultative processes, as their success is central to the country's economic future.

Besides in-depth research and value chain analysis, these consultations were complemented by:

- **Factory visits** through which supply chain assessments were carried-out to gain further knowledge on key issues such as quality procedures, technical skills, lean management, quality of raw materials, access to market etc.
- **Interviews with domestic, regional and international buyers** to guide the NES with strategic insights and market intelligence as well as buyers' requirements in terms of quality standards, food safety, packaging, buying cycles, distribution channels, prices etc.
- **Donor coordination meetings** to identify synergies with ongoing/planned initiatives of development partners to eventually result in collaboration during implementation phase.

The principal outputs of NES Afghanistan design initiative are endorsed, coherent and comprehensive export strategy documents with a five-year detailed plan of action and implementation management framework. These documents include:

1. A main NES document, which contains Trade Support Functional strategies, offering critical support across value chains and acting as enablers for sector development;
2. Individual NES priority sector strategies packaged as separate documents, but in alignment with the main NES findings and overarching strategic objectives.

NES Afghanistan

Trade Support Functional Strategies:

- Quality management
- Trade facilitation
- Trade information and promotion
- Skills development
- Business and professional services
- Access to finance

Individual NES priority sector documents:

- Saffron
- Fresh fruits and vegetables
- Dried fruits and nuts
- Carpets
- Marble and granite
- Precious stones and jewellery

Separate strategy documents and five-year plans of action were developed for each of the above priority sectors.



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FOREWORD

H.E. ASHRAF GHANI
PRESIDENT OF THE ISLAMIC REPUBLIC
OF AFGHANISTAN

Economic growth and job creation have been two of the main goals of the National Unity Government since day one. Export growth can help create a strong and inclusive economy and improve the well-being of people across the country: trade through prosperity, prosperity through trade.

Afghanistan's potential for trade growth is clear. An array of products such as carpets and dried fruits are already attracting demand in regional and other markets. Yet the potential for trade has not yet translated into large-scale, sustained results. Afghanistan can make a better use of its strategic location by serving as a regional hub for transit and trade connecting South and Central Asia, and the Middle East. To do so, Afghanistan must create a more attractive business environment for investors both foreign and domestic, while better supporting the local private sector to produce for international markets.

For the first time, Afghanistan has a National Export Strategy. The NES is our compass to attract investments, increase export competitiveness, integrate women and youth into trade, develop and connect to value chains and improve the institutional and regulatory environment. It is the product of a year-long process of extensive and participatory consultations. Cooperation, collaboration and dialogue between public and private sector actors will be essential for its effective implementation.

I am grateful to the International Trade Centre for its technical assistance and expert guidance, which have contributed to the elaboration of Afghanistan's National Export Strategy. I am also thankful to the European Union for their financial support and political commitment to this initiative.



FOREWORD

H.E. DR. ABDULLAH ABDULLAH **CHIEF EXECUTIVE OF THE ISLAMIC REPUBLIC** **OF AFGHANISTAN**

I am pleased to launch Afghanistan's National Export Strategy, which represents a unified national vision for trade growth and competitiveness. The NES is reflective of a consensus across the public and private sectors on the potential, the priorities and the future direction of the country's export sector.

This initiative comes at an opportune time as Afghanistan seeks to boost economic growth and strengthen the productive base of its economy. Improving the country's export performance will be crucial to driving wider and more sustainable economic growth.

The NES is a detailed, comprehensive blueprint for enhancing export development in ways that contribute to broad-based growth and job creation. The NES provides practical, sector-specific measures to bolster production and international competitiveness in priority industries such as saffron, marble and granite, dried fruits and nuts, fresh fruits and vegetables, precious stones and jewellery and carpets. The strategy also outlines key actions to strengthen a range of trade support services such as quality management, trade facilitation, access to finance, skills development, business and professional services, and trade information and promotion. Not only are these services critical for businesses' trade performance, they produce spillover benefits for the rest of the economy.

The NES is our roadmap for enhanced export performance and growth for the next five years. It is my sincere hope that same spirit of partnership between the public and private sectors that marked the development of the NES will continue during its implementation. The government is committed to implement the recommendations detailed in the NES documents as an engine for job and wealth creation for Afghans.

I congratulate all of the stakeholders in this critical process and thank them for their time, insights and efforts. I would like to extend our special appreciation to the European Union for funding the Advancing Afghan Trade initiative, which supported the present National Export Strategy. My special thanks to the International Trade Centre for its technical support throughout the design of the NES. We look forward to continue this collaboration to deliver sustained growth and development in Afghanistan.



FOREWORD

MOHAMMAD HUMAYON RASAW **MINISTER OF COMMERCE AND INDUSTRIES** **OF AFGHANISTAN**

The National Unity Government of Islamic Republic of Afghanistan took office in 2014. The government initiated a series of reform measures to build a modern, developed nation step by step.

On economic reform, measures have included legislation focusing on the strengthening market-oriented economic system, promoting investment, enhance cooperation with regional and international organizations and markets, building a conducive economic environment, streamlining business regulations and procedures, infrastructure development and supporting access to capital and technology. Afghanistan's substantive contribution and collaboration in international relations, achieved alongside the reforms and the improvement of the socio-economic conditions, is evident from the assistance we have received from international organizations and development partners.

Afghanistan Ministry of Commerce and Industries in facilitating a conducive business environment and spur export in close collaboration with International Trade Center, worked on formalizing the National Export Strategy.

The National Export Strategy is an important policy tool for the government working in partnership with the private sector to enhance the performance of Afghanistan exports. By improving access to both traditional and non-traditional markets and enhancing export performance, the trade gap between imports and exports will be reduced. This will contribute to the sustainable development of the Afghanistan economy and strengthen it to meet the challenges of the global economy as well as assisting in the reduction of unemployment and poverty in Afghanistan.

Following extensive consultations with both the public and private sector stakeholders, priority has been given to the export development of established and emerging sectors such as Fresh Fruits and Vegetables, Dry Fruits and Nuts, Saffron, Marble and Granite, Carpet and Precious Stones and Jewelry.

The NES also provides a roadmap to improve export competitiveness, increase institutional support from both private and public institutions and stimulate trade through the provision of relevant and accessible trade support services.

I extend my acknowledgments and appreciation to all who have worked on the preparation of the strategy including representatives from government bodies and the private sector, the national and international experts of the International Trade Centre (ITC) and the European Union (EU) for their support and assistance in the development of the strategy.

We look forward to the implementation of the National Export Strategy in collaboration with the international community.



FOREWORD

AMBASSADOR PIERRE MAYAUDON **HEAD OF THE EU DELEGATION** **TO AFGHANISTAN**

The endorsement of the National Export Strategy (NES) by the High Economic Council marks the beginning of a new era. From a development model based on international assistance, Afghanistan is now determined to progressively embrace a new growth paradigm driven by trade and investment. The European Union is proud to be associated to this démarche and salutes the professionalism of its implementing partner, International Trade Centre, which has prepared this Strategy in close interaction with the government and business community of Afghanistan.

Echoing the NES, the new EU Strategy for Afghanistan precisely emphasises the importance of regional economic integration and encourages exports as a way towards an inclusive and sustainable economic growth. Among pivotal assets are Afghanistan's strategic location, productive agriculture, substantial mineral resources and creative human capital. This potential now needs to be unleashed and the NES offers a set of elaborated and detailed options aimed at stimulating a robust increase of Afghanistan's exports.

The NES shall lead to the gradual elimination of existing trade barriers, create an enabling business environment and strengthen the capacities of the Afghan private sector to provide the regional and international markets with competitive products. This process will also trigger job creation in a difficult economic and security context, thus contributing to stability and peace in Afghanistan.

In face of such promising outcomes, the mobilization of all Afghan actors is needed to ensure an efficient implementation of the National Export Strategy. They can count on the determined support of the European Union.



FOREWORD

ARANCHA GONZÁLEZ
EXECUTIVE DIRECTOR
ITC

With its strategic position at heart of the iconic Silk Road, Afghanistan was once a great platform for regional trade and a leading exporter in its own right. The hope is that Afghanistan can reclaim this role under the leadership of the Afghan government and its people and with the support of the international community. Trade can play an important role in spurring growth and supporting greater socio-economic opportunities, particularly for Afghanistan's women and young people. For this to become a reality, however, Afghanistan must address a number of challenges that today inhibit its exports and limit economic growth.

One important first step has been that Afghanistan's government has positioned trade at the centre of its development agenda, and has made major strides towards addressing those challenges that are within its control. The National Export Strategy (NES) embodies the commitment of Afghanistan's public and private sectors to work methodically to realize the opportunities created by the country's accession to the World Trade Organization in 2016 and to build a framework where trade can drive growth and job creation.

The NES is a blueprint designed to unleash the export potential of Afghanistan. It provides a clear market-oriented vision and identifies concrete actions and investments that the government, together with its development partners, could make to boost the international competitiveness of Afghan businesses.

The NES is a laudable achievement of the Afghan government, made possible by strong political leadership and close coordination with the country's resilient private sector. It has been an honour for the International Trade Centre (ITC) to have worked with Afghanistan in the design of the NES. I believe it is now the time to move from planning to action and from intention to impact. ITC will continue to accompany Afghanistan during the implementation phase of the strategy. The support of the international community will be vital and we hope that trade-related support can coalesce around this NES which has been led by Afghans for Afghans.

Finally, ITC wishes to thank the European Union for its support to this initiative as part of its Asia Regional Multiannual Indicative Programme 2014-2020. We highly appreciate the active engagement of the European Union's delegation to Afghanistan and the guidance they have provided throughout the NES process.

STATEMENTS FROM THE PRIVATE SECTOR



Mr. Atiqullah Nusrat,
Chief Executive Officer,
Afghan Chamber of
Commerce and Industries

'The adoption of the National Export Strategy (NES) by the government of Afghanistan in April 2018 is one of the biggest steps it has taken in the area of trade since the ratification of our WTO membership to improve the enabling environment for export and expand opportunities for the private sector. Exports are critical for the economic development and sharply improving our balance trade. The NES helps us achieve export-led development by identifying our competitiveness edge and linking it with demand for our products in global markets.

One of the strategy's unique features is that it brings the private sector and the government to work together in removing barriers to investment and doing business to diversify export products and destination markets. The private sector played a proactive role and will continue to do so in the future. The outcome will be a more vital, sustainable and diversified export sector that creates much needed jobs and revenue'.



Ms. Manizha Wafeq,
President, Afghanistan
Women's Chamber of
Commerce and Industries

'Afghanistan Women's Chamber of Commerce and Industries expresses hope for the economic development of Afghanistan through the implementation of the National Export Strategy. We believe the strategy will lead the country to economic independence and thriving lives for all Afghans. ITC, the Afghan Government's partner in the strategy, has considered all actors and issues, giving special attention to women's economic participation. This will ensure the Afghan economy is taken to the next level'.



Mr. Shirbaz Kaminzada,
Chief Executive Officer,
Afghanistan Chamber of
Industries and Mining (ACIM)

'We support the National Export Strategy as a valuable tool to enhance business opportunities in Afghanistan. The strategy aims to create a favourable business environment and offers solutions to challenges our chamber is also facing, such as providing land and electricity, creating infrastructure and supporting domestic products. Also key is the strategy's prioritization of the main Afghan industry sectors –such as marble, precious stones and carpets– and the approach taken across the supply chain to increase these sectors' competitiveness, deepen market penetration and attract investment-led growth'.



**Start-up and Emerging
Entrepreneurs Network
(SEEN), Afghanistan**

'We welcome the initiative to develop and implement the National Export Strategy for Afghanistan. The Start-up and Emerging Entrepreneurs Network (SEEN) expects this strategy to strengthen domestic value-added production and import substitution. SEEN is committed to working closely with the Government of Afghanistan to promote export-orientated entrepreneurship in the country'.



Mr. Abdul Qadir Bahman,
Secretary General,
International Chamber
of Commerce, Afghanistan

'The development of the National Export Strategy represents an ideal opportunity to encourage reforms, facilitate business and attract investment, all of which will promote trade-led growth for Afghanistan. The strategy will rally the business community in their effort towards globalization. The International Chamber of Commerce is enthusiastic in supporting this government-business driven strategy in the years to come.'

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Photo: ITC - ACE, NES Consultation, Kandahar

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ACRONYMS AND ABBREVIATIONS

ABA	Afghanistan Banks Association	EU	European Union
ABC	Agribusiness Job Charter program	FAIDA	Financial Access for Investing in the Development of Afghanistan
ACBRIP	Afghan Central Business Registry and Intellectual Property	FDI	Foreign direct investment
ACCI	Afghanistan Chamber of Commerce and Industries	GAP	Good Agricultural Practices
ACD	Afghanistan Customs Department	GDP	Gross Domestic Product
ACIM	Afghanistan Chamber of Industries and Mines	GHP	Good Hygienic Practices
AGF	Afghan Growth Finance	GMP	Good Manufacturing Practices
AMA	Afghanistan Microfinance Association	GPA	Agreement on Government Procurement
ANDS	Afghanistan National Development Strategy	HACCP	Hazard Analysis Critical Control Point
ANPDF	Afghanistan National Peace and Development Framework	HEC	High Economic Council
ANSA	Afghanistan National Standards Authority	ICC	International Chamber of Commerce
APTTA	Afghanistan–Pakistan Transit Trade Agreement	ICD	Inland Customs Depots
ASYCUDA	Automated System for Customs Data	IDP	Internally Displaced Persons
AWCCI	Afghanistan Women Chamber of Commerce and Industry	IEC	International Electrotechnical Commission
BCP	Border Crossing Points	IFC	International Finance Corporation
CAREC	Central Asia Regional Economic Cooperation	ILO	International Labour Organization
CSO	Central Statistics Office	IPM	Integrated Pest Management
DAB	Da Afghanistan Bank	ISAF	International Security Assistance Force
DFID	Department for International Development	ISPM	International Standards For Phytosanitary Measures
DMTVET	Deputy Ministry of Technical and Vocational Education and Training	IT	Information technology
EPAA	Export Promotion Agency of Afghanistan	ITC	International Trade Centre
		MAIL	Ministry of Agriculture, Irrigation and Livestock

MFI	Microfinance institution	QM	Quality Management
MISFA	Microfinance Investment Support Facility for Afghanistan	RB	Regulatory Body
MoCI	Ministry of Commerce and Industries	RECCA	Regional Economic Cooperation Conference on Afghanistan
MoE	Ministry of Education	SAARC	South Asian Association for Regional Cooperation
MoF	Ministry of Finance	SME	Small and medium-sized enterprise
MoFA	Ministry of Foreign Affairs	SPS	Sanitary and Phytosanitary
MoHE	Ministry of Higher Education	SSC	Sector Skill Councils
MoJ	Ministry of Justice	TAPI	Turkmenistan–Afghanistan–Pakistan–India Pipeline
MoLSAMD	Ministry of Labour, Social Affairs, Martyrs and Disabled	TBT	Technical Barriers to Trade
MoPH	Ministry of Public Health	TC	Technical Committee
MoU	Memorandum of Understanding	TFA	Trade Facilitation Agreement
MSME	Micro, small and medium-sized enterprise	TIR	Convention on International Transport of Goods Under Cover of TIR Carnets
NATO	North Atlantic Treaty Organization	TISI	Trade and investment support institutions
NEP	National Enquiry Point	ToT	Training of Trainers
NES	National Export Strategy	TPO	Trade promotion organizations
NGO	Non-governmental organizations	TR	Technical Regulations
NOSS	National Occupational Skills Standards	TRTA	Trade-Related Technical Assistance
NPP	National Priority Programme	TSF	Trade Support Functions
NTP	National Trade Policy	TVET	Technical and Vocational Education and Training
ODA	Official Development Assistance	UAE	United Arab Emirates
OECD	Organisation for Economic Co-operation and Development	UNDP	United Nations Development Programme
OIE	World Organization for Animal Health	USAID	United States Agency for International Development
PoA	Plan of Action	WCO	World Customs Organization
PriSEC	Executive Committee on Private Sector Development	WTO	World Trade Organization



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EXECUTIVE SUMMARY

Trade is rapidly becoming a necessary conduit of growth for Afghanistan, rather than simply an option.

Trade and private sector development are now an integral part of the country's development agenda, and increasingly, both the Government and economic actors are seeking to position export competitiveness as a mean of fostering overall growth.

There are high expectations stemming from encouraging prospects for trade-led-growth in Afghanistan, but the trajectory remains uncertain, as the potential has not yet translated into reality amid the myriad challenges facing current export development ambitions and initiatives.

To spur export-oriented development while also reducing dependence on imports, Afghanistan needs a coherent and comprehensive NES that will bring about policy convergence, institutional alignment and strategic private sector support. The NES must design strategic paths to activities that achieve faster economic results and build confidence, with special emphasis on small and medium-sized enterprise (SME) development, productivity gains, market demand and social dividends. Similarly, the NES aims to turn the national budget and international assistance into instruments that boost economic activity, reinforce trust and stimulate the engine of reforms.

Such an initiative will require drastic prioritization, as efforts cannot be dissipated when resources are limited. The NES is an opportunity for Afghans to set their own priorities for economic development rather than be at the mercy of the sometimes conflicting agendas of foreign countries. In other words, think creatively and organically.

UNITED BEHIND A COMMON VISION AND STRATEGIC OBJECTIVES

The Afghan public and private sector are both united by the following vision, which serves as a beacon and a rallying call as the nation proceeds on the road to trade led growth, development, and ultimately peace.

“Peace through Prosperity,
Prosperity through Trade”

In order to fulfil this ambitious vision, the following pillars were identified as cardinal for the NES. These strategic objectives provide a framework for developing solutions over the next five years timeframe:

1. Nurture the emergence of a productive, resilient private sector known for quality and innovative products

Afghan enterprises currently encounter a number of challenges while trying to develop and sustain export relationships overtime, leading to increased volatility, limited participation to global value chain and damaged reputation. This strategic objective addresses the pressing need to strengthen the capacity of firms to comply with regional and international market requirements while also supporting local supply to meet domestic demand. The aim is to strengthen traditional sectors' productive capacity while reducing the dependence on imports and gradually diversifying towards a products basket with increased value-addition.

In order to achieve this, the strategy will work towards improvements in the following areas –fostering skills development and improving business processes, facilitating access to quality inputs, technology and lands, increasing awareness and ability to comply with international standards, and improving coordination throughout sector value chains. Additional vital components of export success such as quality management, packaging and branding will be implanted to help enterprises position, differentiate and sell their products.

2. Foster the development of a conducive business and investment climate

A conducive policy and regulatory environment, sustained by robust and efficient institutional support is a critical requisite for both trade and investment, as part of the confidence building efforts prominently required in Afghanistan. In-depth analysis of the trade barriers reveals that Afghan exporters are at a significant disadvantage when compared to regional counterparts due to the high cost and time of cross-border trade as well as unfavorable regulations.

Improvements in capacities of institutional development will be core considerations for the NES exemplified by the specific intended focus on building capacity of agencies on Trade Policy, Trade Facilitation, Quality Management and in the SPS area as well as Access to Finance. Likewise, ensuring institutional coordination will become increasingly important, as the New Development Planning system requires strong inter-ministerial and agency linkages.

This objective will contribute to turn Afghanistan into a regional leader on trade facilitation sustained by an efficient trade support network of institutions that stimulates private sector development, regional integration and investment attraction.

3. Enhance in-market support and strengthen enterprise capabilities to harness information and market intelligence

Afghan enterprises have in theory preferential access to most international markets. Yet, they currently fail to connect and compete as they –among other things– lack market information, have insufficient knowledge of trends and buyer expectations, and encounter intense competition from international players. NES' interventions will devote significant attention to improve business and trade promotion decision-making through accurate, timely and targeted intelligence, ultimately improving access to foreign markets.

In-market networking and business development options such as B2B matchmaking sessions and brokerage workshops to facilitate relationships between prospective partners will be pursued strategically. Recommendations for improving access –particularly through Trade Attachés– to competitive intelligence, emerging trends in target markets, and networking opportunities will be prioritized. Focus will also be on building enterprise level capabilities for translating trade information into concrete business decisions.

Parallel matchmaking and marketplace development initiatives will aim at turning local procurement ambitions to fruition, especially for sectors with import substitution potential such as Dairy, Livestock, and Cereal.

4. Support state– and peace-building through inclusive and equitable economic growth

In its march towards economic and social prosperity, there is an important need for the export sectors to generate benefits for a large number of citizens of different social groups, ethnic origins and geographical areas.

Activities will focus on facilitating integration of youth in economic activities through entrepreneurship and demand-driven skills alignment. Similarly, inclusive growth will be made possible through the meaningful involvement of women in productive economic activities and the integration of returnees' skills and competences.

Afghanistan is an important regional hub for Asia, and its private sector and traders are the arteries, carrying immense potential for regional integration, and cross-border movement of goods, services and people. Strong linkages with neighbors will go a long way in contributing to peacebuilding within Afghanistan, by association.

PRIORITY SECTORS AND TRADE SUPPORT SERVICES

The NES priority sectors' selection exercise demanded focus on a number of quantitative and qualitative analytical parameters. It also required attention to the specific political, developmental and diplomatic contexts at the country as well as regional level.

1. Dried Fruits and Nuts: “A taste of Afghanistan shared around the world”

Afghanistan produces a wide array of dried fruits and nuts (with many different varieties of raisins and almonds alone), with unique tastes that have attracted buyers throughout the world. At present, Afghan exports of dried fruits and nuts are concentrated in a few regional markets, namely India and Pakistan, with clear value leakage (e.g. pine nut). This leaves the sector with promising opportunities to expand its export reach in both the East and the West, but this can only be accomplished with a concerted effort to develop a premium brand and address quality control and food safety issues while securing supply consistency.

2. Fresh Fruits and Vegetables: “Afghan fresh fruits and vegetables: harvesting success in regional and global markets”

A long tradition in horticulture and production of exclusive indigenous varieties of fruits and vegetables are among the main competitive advantages of Afghanistan in this sector. While Afghanistan fresh fruits and vegetables present great export potential, the domestic market also offers a near and significant customer base that has ample space for utilization and growth. Likewise, this sector constitutes a reservoir for value added opportunities through processing.

3. Saffron: “Spicing up Afghan exports”

The Afghan adage, *‘drop by drop a river is made’* holds especially true for the saffron sector. Although labor-intensive to produce, with a long wait between planting and harvesting, saffron offers ample rewards for those who invest in its production. The highest valued spice in the world is produced in Afghanistan, where owed to the well-suited climatic conditions, hence the significant potential for the country to become a high-quality global producer and exporter. In fact, saffron from Afghanistan has already been recognized and certified as one of the best in the world; remains then to professionalize and scale-up production and processing capacities while preserving social dividends.

4. Carpets: “A competitive sector blooming with looms”

Afghan carpets are symbolic of the country's rich heritage, reflecting both the struggles experienced in contemporary times as well as optimism for the future. It is a storied and resilient sector, with industrial potential and a compelling brand proposition. Its positioning as one of the country's largest export sectors and an employer of 1 million + Afghans, of which the majority are women, is emblematic. Yet, the limited pre and post-weaving processing capacity currently hinders gains. Foreign suppliers are frequently relied on for the provision of critical inputs whereas semi-finished Afghan carpets are sent to Pakistan for the final stages of production while losing their brand identity in the process. With a sufficient injection of resources and exposure, the sector –already established as the second biggest export sector in Afghanistan– can make significant gains through exports.

5. Marble and Granite: “The cornerstones of the Afghan economy”

Afghanistan's marble and granite sector possesses significant potential to stimulate national-level development. With rich deposits of exquisitely colored stone scattered throughout the country, the sector has access to a natural resource that is highly prized (and highly priced) around the world. A number of recently established factories and companies involved with marble and granite have contributed to first steps towards growing the sector. These pioneers also create various jobs in mines and factories, and brought light into an untapped area of production and export potential, which undeniably needs to improve productive capacity and quality management to ensure adequate volume and supply consistency.

6. Precious stones and Jewellery: “Revealing Afghan beauty to international markets”

As a gem shines brighter the more it is polished, with care and investment the Afghan precious stones and jewellery sector offers ample rewards for Afghanistan's handicraft industry. At present, the sector's export potential is constrained by supply-side challenges present in Afghanistan's business environment, as well as difficulties in entering new markets. To overcome these hurdles, improvements across the value chain are required, in areas ranging from mining techniques to design and processing methods.

Domestic market-oriented sectors (Cereal, Dairy and Livestock): Self-reliance and reduction of the trade deficit are two important considerations for policy makers, and focus on the domestic market for certain sectors is essential. Afghanistan's production of cereal, dairy and livestock currently does not meet domestic demand, and consumers are instead dependent on imports from geographically close countries such as Pakistan, Iran and India. With

predictions that cereal, dairy and livestock production will steadily increase in the future, these sectors offer high potential for domestic market led growth. The NES proposes initial selective incentives such as supporting and favoring local suppliers for government procurement, fiscal incentives for domestic suppliers etc., as part of an effective export-driven master plan.

In addition to the priority sectors, six trade support functions were identified as determinant for enabling export development in Afghanistan. These crosscutting functions offer critical support across the value chain and are essential for the development of any sectors. These functional strategies will also ensure that the NES spillover effect takes place beyond just the priority sectors.

- **Quality management:** Afghanistan has some serious challenges within its quality and SPS domain that have so far hindered the ability of its exporters to fully capitalize on new opportunities and enhance their competitiveness. Addressing these challenges through the NES will not only allow Afghanistan's enterprises to form stronger export relationships and introduce goods to new, more demanding markets, but also to improve their competitiveness in local markets.
- **Trade facilitation:** NES' Afghanistan aims to simplify the regulatory business and investment framework so that exporters benefit from modern and efficient procedures that reduce waiting times and delays as well as favor effective and collaborative arrangements with neighboring countries.
- **Trade Information and In-market support:** Inclusion of this functional area into the NES ensures that current and potential exporters receive adequate support in their efforts to understand, penetrate, maintain and expand a foothold in international markets.
- **Skills development (technical and vocational education and training):** The NES placed impetus on identifying the skills-development based challenges of each sector, and proposing solutions to build overall capacity within this thematic area –while realistically considering the absorptive power of enterprises and the capabilities of national institutions.
- **Business and professional services:** this TSF aims to contribute and accompany the professionalization of the Afghan economy, as well as to support the implementation of the Government's reform agenda, including those activities emanating from the NES. A set of high-potential sub-sectors has been prioritized based on the needs identified by individual NES sector strategies on organizational and human performance in areas such as general management, human capital organization, business processes, among others.
- **Access to finance:** The NES seeks to assess and leverage financial services to allow enterprises to increase investment, enhance productivity, respond to new trends and market requirements, efficiently fill orders and adhere to new and advanced quality and product standards.

In other words, improved access to finance is essential to enable Afghan enterprises to invest in the future and ultimately grow their export business.

IN SPIRIT, AND IN ACTION

The NES must serve as a central instrument to architect a home-grown blueprint for unleashing the true potential of the country. It will result in the strengthening of Afghanistan's competitive export sector through the definition of clear priorities, detailed 5-year plan of actions, and an integrated implementation management framework.

In spirit, and in action, the NES is aligned to the policy priorities and national goals established by the Cabinet

and the High Economic Council in areas related to socio-economic growth, private sector development, regional integration, investment, youth and women economic empowerment. Similarly, particular attention has been placed in aligning the NES with the NPP on private sector development, Afghanistan National Trade Policy and post-WTO accession strategy.

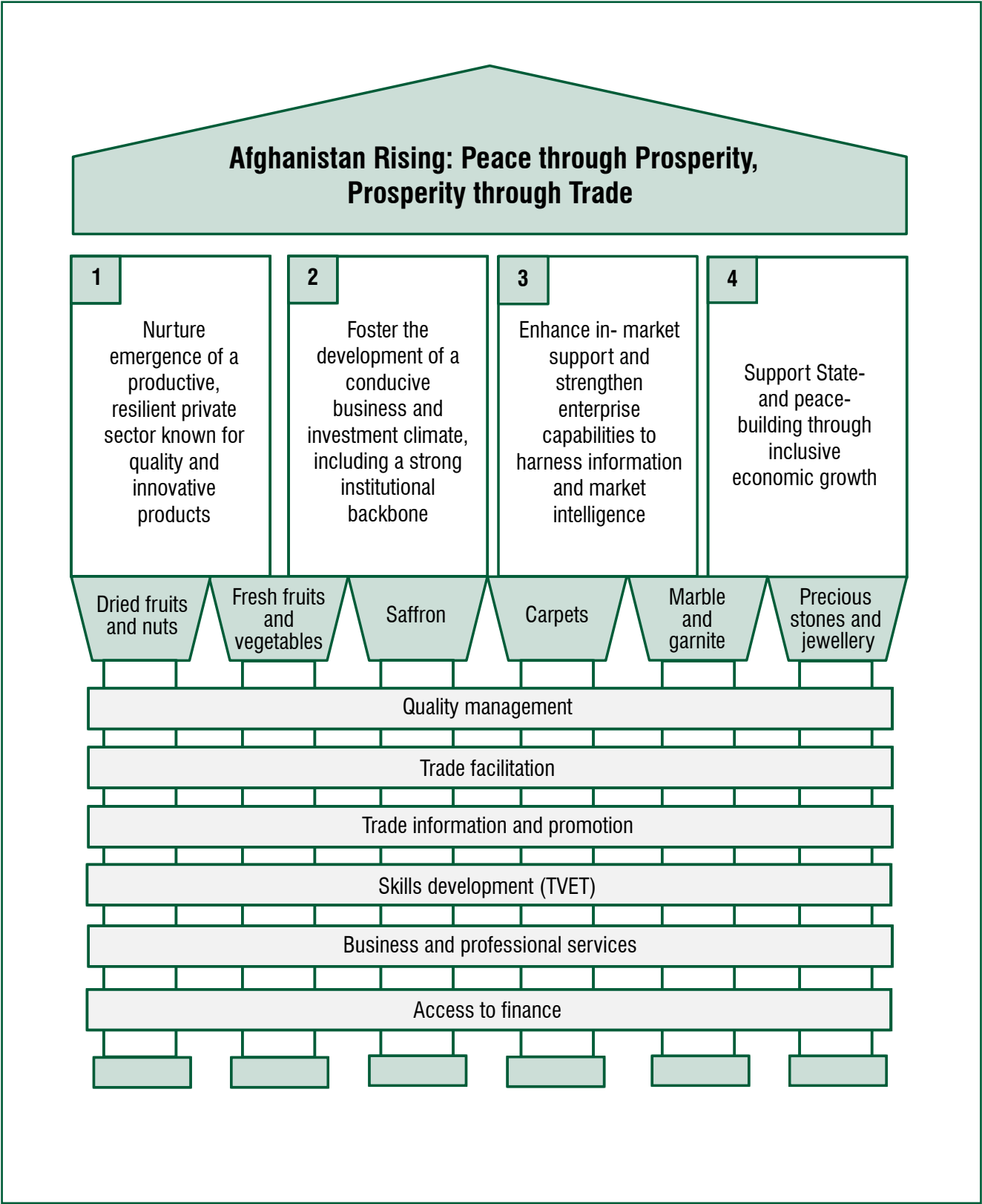
Equally important, the NES initiative already accommodates budgeting for supporting implementation of critical pilot activities that have been identified and developed through the design process. This will ensure that impact and momentum are generated from early on, and success stories can be used for further resource mobilization and confidence building all around.



Photo: ITC, Turquoise-Mountain-Artisan-Rohina-Sadozai.

The following schematic captures the **NES STRATEGIC FRAMEWORK**:

Figure 1: NES Strategic framework





Source: creative commons

TRADE-LED GROWTH IS A VIABLE PROPOSITION FOR AFGHANISTAN

TRADE CAN BE A CONDUIT FOR GROWTH

Trade is rapidly becoming a necessary conduit of growth for Afghanistan rather than simply an option. Trade and private sector development are now considered an integral part of the country's development agenda, and increasingly, both the public and private sectors are seeking to develop export competitiveness as a means of fostering overall growth.

1. Afghanistan is strategically positioned to derive a competitive advantage through trade.

Among other ambitions, the Government seeks to position the country as a strategic land bridge and transit-transfer hub that connects Central and South Asia (and regions beyond). Towards this end, the country has partnered and co-invested in regional infrastructure development projects such as the Lapis Lazuli Corridor, the Central Asia–South Asia power project CASA-1000, the Turkmenistan–Afghanistan–Pakistan–India Pipeline (TAPI) and Chabahar port. It is also an active partner in mechanisms ranging from Central Asia Regional Economic Cooperation (CAREC) to the South Asian Association for Regional Cooperation (SAARC), the Regional Economic Cooperation Conference on Afghanistan (RECCA), Economic Cooperation Organization, and the economic confidence-building measures of the Heart of Asia–Istanbul Process.

Additional strides in the trade sphere have included the signing of Free Trade Agreements and increased activity of Afghanistan in regional trade organizations. The recent WTO accession and Trade Facilitation Agreement (TFA) ratification are also important milestones. These developments pave the way for greater integration of Afghanistan into the international trading system and leverage the country's strategic location.

2. As regional economies grow and diversify, Afghanistan must formalize and strengthen links within regional value chains.

Afghanistan's export basket contains a number of products with high international demand, particularly in the region. These include traditional sectors such as fresh/dry fruits and vegetables, saffron, marble or carpets that have a revealed

comparative advantage. With the right injection of investment capital, know-how and exposure, this 'reservoir' can be further developed.

Private sector growth in Afghanistan will not necessarily be organic but rather based on market-led solutions, and the neighbourhood offers many options. The strategic advantage derived by Afghanistan based on geography is heightened by the fact that several economies in the region are growing at relatively rapid rates. These include the Uzbekistan, the Islamic Republic of Iran, India, China, and others. Regional value chains have lower barriers to enter than global ones as they tend to be less consolidated and demand less rigorous certification. This should be leveraged as these regional economies offer more complementarities than competition, given that they are actively seeking suppliers and links for sourcing.

Afghanistan theoretically has access to many markets including traditional ones (primarily in the neighbourhood), those of the Organisation for Economic Co-operation and Development (OECD) and emerging ones. While it is clear that there is a need to build on existing trade corridors in neighbouring markets such as Pakistan, Uzbekistan, Tajikistan, the Islamic Republic of Iran and Turkmenistan, serving the growing Indian and Chinese middle class must be part of Afghanistan's growth trajectory. If current political and trade policy challenges with Pakistan – the leading destination for Afghan exports – are resolved, a significant trade route will be reopened. Similarly, Afghanistan can be well-positioned to develop connections to Gulf food markets while also leveraging the access offered by OECD countries. The domestic market also will be a critical part of the growth equation with supply capacities strengthened to shift local demand towards Afghan products.

The above does not mean that Afghanistan can compete head-on with peers. Rather, Afghan exporters must – through a process of deliberation and experience – find their position in the regional value chain, and then exploit synergies and build links. As regional markets grow, there will be tremendous hunger to build supplier bases for these economies.

3. Afghanistan's local market offers significant opportunities to shift demand towards domestic supply. For other sectors, a parallel track for exports development is required.

For certain sectors including dairy, livestock, wheat, fruits and vegetables and other consumable products, the domestic market can be the ramp that facilitates lift for the private sector. The private sector is not currently well-positioned to satisfy the domestic market –almost 90% of consumption goods are imported rather than being supplied through domestic companies. The domestic market typically affords an important medium of growth for firms to gain experience, revenue and overall capabilities and is a necessity for Afghan businesses.

These sectors are also where a significant percentage of the employed Afghans make their living so the socio-economic benefits can be significant if these sectors thrive. There is political will demonstrated by Government in the form of 25% of procurement of necessary goods and services to be sourced from the domestic sector (particularly by the Ministries of Interior, Defense and Education), if prerequisite conditions allow.

For other sectors such as saffron, carpets and marble, conditions in the domestic market –ranging from purchasing power of consumers to inadequate market demand/size – are impediments which negate the opportunity to position the domestic market as a stepping stone. For these sectors, international markets are a necessary growth medium to be pursued right from the start.

4. Trade is an important medium to attract and absorb productive investments in Afghanistan.

What is good for trade is good for investments (and vice versa). Trade and investment are increasingly intertwined and development efforts for one will benefit the other. Inward investments facilitate access to efficient infrastructure services, global supply chains, and knowledge and technology; and complementarily, the reforms needed to develop a conducive trading climate, such as tax and public administration reforms, benefit investments as well. Investments can bring in much-needed productive capital, technology and accompanying technical know-how, and efforts to develop trade competitiveness may also benefit investments.

Trade competitiveness also helps build confidence in the economy as well as for companies and investors, which will in turn be a prerequisite for improving investment promotion efforts. This virtuous cycle feeds off itself.

5. Development aid will be consumed by rising security and civilian needs, exerting further pressure to generate budgetary fiscal space through other means (including trade).

Afghanistan is a country bolstered by development aid, with national accounts and aid being inextricably linked since 2001. Approximately 70% of the national budget has been

funded by international donors since 2001, as well as 40% of the trade deficit.¹ This aid support, however, can be seasonal and highly contested –both factors rendering reliance on this mechanism over the long term unsustainable.

There is recognition that additional avenues of growth for Afghanistan's economy are needed because baseline and best-case scenarios do not point to high growth rates (based on modelling done until 2030). Given that high security costs, expected costs due to high population growth rates and uncertainty of aid remain consistent factors, new avenues for growth need to be found, with exports possibly serving as one channel.

According to the World Bank, the annual financing gap –the external resources that Afghanistan will require to finance all on- and off-budget civilian and security expenditures– will average 34.5% of gross domestic product (GDP) until 2030 under a baseline scenario of projected 3.8% growth. Security commitments alone will absorb more than half of the Government's revenue over 2017–2020. Remaining domestic revenues will be insufficient to meet the basic operational costs of Government.

In this scenario, the Government will need to generate fiscal space to address both civilian and security costs to address the expected deficit. Enhanced trade competitiveness –with its spillover effects on tax collection, formalization of businesses, transactions etc.– can contribute to solid revenue generation.

6. Afghanistan must embrace trade in order to reap its nascent peacebuilding effects.

Reciprocity and dependence are intertwined in the relationship of trading economies. Despite disagreements and positioning, and as long as the trading relation is not too skewed or complicated by political or security factors, the broader goal between governments (and the private sector) is to facilitate trade relationships as much as possible and to maintain *stability* in these relationships. The case of Afghanistan–Pakistan is illustrative –despite political challenges that have now spilled over to the trade arena, the private sector on both sides is vociferous in their support for reopening borders and swiftly resolving Afghanistan–Pakistan Transit Trade Agreement (APTTA) challenges, among others. In the medium-to-long term, this continued dialogue may result in stability. Within the country, the socio-economic impact of improved trade will also have a definite effect on peacebuilding measures.

1.– World Bank (2016). Navigating Risk and Uncertainty in Afghanistan. Presentation at the Brussels Conference on Afghanistan, 4–5 October, 2016.

7. Demographic pressures are expected to compound Afghanistan's job challenges, requiring meaningful involvement of women, youth and returning migrants in productive economic growth.

Employment has a strategic importance in the country through its obvious socioeconomic benefits but also due to the need to provide sustainable livelihoods, especially for youth. Over the last 20 years, the Afghan population has grown steadily with a relatively high growth rate of 2.5% annually. Unemployment has also grown steadily and remains especially high for women.

- As long as job creation remains a central tenet of the Government's development agenda, including as part of trade promotion efforts, it will have a probable positive impact on internal security in addition to providing reasonable livelihoods to the population.
- A focus on gender inclusiveness and advancement is needed, given typically high rates of female unemployment. Indeed, a new National Priority Programme (NPP) (Women's Economic Empowerment) has been launched, with component areas focusing on financial literacy and inclusion, market agriculture, legal reform, gender statistics and SME access.

- With nearly half of Afghanistan's population under the age of 18, youth will play a critical role in the country's future. This segment of the population must be catered to in terms of skills development, employment creation and entrepreneurship opportunities. Apart from the economic consequences, high unemployment for youth will continue to breed discontent and ultimately affect security and peacebuilding efforts. In the absence of a strong and expanding domestic market, the question remains: where will jobs come from? One potential route is private sector growth expansion through exports.
- Another aspect to consider is that of returning refugees and Internally Displaced Persons (IDPs). As part of the Brussels Conference negotiations, the Afghan Government agreed to resettle some 80,000 Afghan migrants currently living within the EU. This pales in comparison to the 1.3 million registered refugees in Pakistan (who may soon have to return) and does not include the 600,000 (both registered and undocumented) refugees who were repatriated in 2016. Even in Afghanistan, there are about 1.2 million IDPs struggling with livelihoods.

For returning refugees and IDPs, there is an urgent need for careful economic and social planning given the already difficult situation in the country. In the medium-to-long term, if enhanced exports allow the private sector to grow, this may facilitate job opportunities.

With consideration to the above, the Government of the Islamic Republic of Afghanistan (GoIRoA) has firmly integrated Trade and Private Sector Development as a central pillar in its growth strategy and the NDPS.

In the transformation decade (2015–2024), trade is firmly positioned as a policy focus and priority area, and there is evidence at the policy level of strengthened reflection by the Government and donors alike on incorporating trade in the national development agenda with the hope that trade-led growth can lead to socioeconomic gains in addition to purely economic ones.

This is reflected in the ANPDF and the latest NPP on Private Sector Development launched recently. This ambition is also reflected in emerging themes on trade and private sector development within the strategic plans of line minis-

tries such as MoCI, the Ministry of Agriculture, Irrigation and Livestock (MAIL), the Ministry of Finance (MoF), the Ministry of Foreign Affairs (MoFA) and relevant technical agencies including ANSA. The increased focus on self-reliance is also prominent, as evidenced through reform agendas such as 'Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership' put forward by the Government. This agenda recognizes 'bolstering private sector confidence and creating jobs' as one of the key pillars, to be realized in part through regional integration, trade and private sector growth.

While trade-led-growth is a viable proposition, the path towards making this a reality will be challenging at times. A number of complex considerations face Afghan policymakers as they attempt to solidify the prospects of trade as a growth medium for the country, discussed below.

THE CAVEAT: TRADE IS NOT A PANACEA AND THERE ARE COMPLEX CONSIDERATIONS

In order for trade competitiveness to genuinely and sustainably result in economic and socioeconomic growth for the country, careful assessments of internal (the structure and fundamentals of the economy) and external forces (regional competition and political considerations) must be made. These include, and are not limited to, the following factors:

1. The economy is currently stagnating and vulnerable to external shocks, particularly due to overall economic slowdown and dependence on a select few products and markets.

The economy is experiencing sluggish growth with stagnating growth rates averaging 1.5%, and the short-term forecast remains relatively bleak, with the International Monetary Fund estimating best-case scenarios not to exceed 3.6% by 2018. All three economic segments (services, agriculture and industries) have been affected. Services have led the retreat, owing to drawdown and departure of the North Atlantic Treaty Organization (NATO)/International Security Assistance Force (ISAF), leading to a slowdown in spending and investments. Low levels of industrial and manufacturing activity coupled with the sluggish (and sometimes negative) pace of agriculture have adversely affected value addition, innovation and livelihoods.

The exports portfolio is small and precariously perched – the exports basket reflects modest growth for traditional commodity sectors (carpets, fruits and vegetables, etc.) that nevertheless reflect growing global demand – but the dependency on limited products and associated value addition also exposes these sectors to external shocks.

This also holds true for markets: exporters have managed to increase market penetration to some extent; however, overall market and product diversification remain limited to traditional markets (primarily Pakistan, India and UAE).

2. Economic distortion and an anticipated cash flow shortage in the medium term serve as alarm signals.

A major economic distortion occurred due to NATO functioning as the largest economic actor between 2001 and 2014, and this is especially reflected in the construction and transportation sectors. With the withdrawal of forces, there is an anticipated cash flow problem with looming long-term structural deficit, especially as official development assistance (ODA) and Government revenues come under increasing strain due to future security and civilian expenditure needs.

3. Afghanistan's strategic positioning as a transit trade point will remain untapped until important challenges can be overcome.

Before this potential can be realized, a range of problems will need to be addressed. These include trade policy challenges with the implementation of APTTA, security challenges at the Afghanistan–Pakistan border (which have affected trade) and delays in much-heralded infrastructure projects including CASA-1000 and TAPI. Afghanistan will need to work with regional partners to facilitate transport connectivity, visa regimes, etc.

4. The business and investment climate is in dire need of improvement, exemplified by low domestic investment rates, which betray structural weaknesses in business confidence.

The trajectory of the deteriorating business and investment climate does not bode well for the private sector, which is already reeling under a wide variety of challenges. Afghanistan now ranks 183 of 190 economies assessed by the *Doing Business* reports, and a wide variety of enterprise surveys (ACCI's Business Tendency report, World Bank Enterprise Surveys, etc.) all note that the business environment is declining.

Investment-led support for job creation and improved livelihoods, SME development, technology and knowledge absorption, and increased value addition of developed products are key but they are not happening. The number of new investment activities, already at a low base, declined by 50% between 2012 and 2015. Foreign direct investment (FDI) amounts to 0.7% of GDP, less than US\$ 150 million. Due to limited access to new technologies (as a consequence of weak investment levels), combined with weak human capital development, no gradual shift towards higher value products is emerging, and the overall result is weak integration in global supply chains.

The informal economy employs nine of 10 employed Afghans and accounts for a large percentage of unreported trade, as well as loss of Government revenue in the form of taxes and levies. There is very little incentive for the private sector to become organized.

5. All development efforts have to account for the ever-present scourge of corruption and security challenges.

These are both long-term challenges with the potential to significantly undermine development efforts. While efforts to spur trade development will not address these directly, they must account for them and design mitigation measures

as much as possible. Lack of transparency continues to be a significant challenge that has depreciated trust in official institutions. This is reflected in Transparency International's 2015 Corruption Perceptions Index rankings, in which Afghanistan is ranked 166 out of 168 countries. This is also borne out in the World Bank 2014 Enterprise Survey, in which corruption emerged as the #2 obstacle for firms.

The reach of public institutions and capacity to support the private sector in provinces remains weak due to continuing insecurity. Additionally, the State's weak capacity has a ripple effect on the universal enforcement of institutions in the provinces.

6. Fairly uncoordinated and complex trade support network provides ad hoc private sector support.

Institutional capacities, especially in the public sector, are weak, resulting in even greater reduction of the private sector's ability to manage risks. TISIs – responsible for supporting the private sector in a wide range of areas including policy, finance and skills development – have been severely weakened by decades of ongoing conflict and relative neglect in the post-2000 aid landscape. The lack of a common export vision has also contributed to the weak institutional focus on trade.

Both individual capacities and institutional coordination within the trade support network are weak. The role of institutions is especially important in the post-WTO accession implementation phase. Despite the number of bilateral and multilateral trade agreements that have been signed by Afghanistan and partners, the operational understanding of technical staff within relevant public sector institutions and of the private sector (in terms of commitments and requirements) is weak. Part of the reason is that trade is a relatively new focus area for the public sector and this capacity needs to be built and integrated into the national development agenda.

The overall impact is weak implementation of the national development agenda and inadequate support to the private sector across value chains, creating a detrimental impact on the business and investment climate, and lack of trust on the part of the development partner community.

7. Cash gains are primarily sourced from ODA and remittances rather than productivity.

There is a need to review the desire, commitment and capabilities of the private sector for productivity gains. Almost 90% of imports are consumption goods (rather than imports of inputs for value added activities) and this highlights both the scale of stagnation afflicting Afghanistan's private sector engine as well as the opportunity to be exploited.

8. Weak enablers and competitiveness drivers in areas including access to finance, QM and trade facilitation/transit trade.

At both the institutional and enterprise levels throughout the value chain, essential cross-cutting supporting functions are weak. These include the following.

- **The quality infrastructure** in the country needs upgrading and alignment with international standards. Inaction in this area has led to wide-ranging weaknesses within the QM infrastructure, especially related to SPS technical infrastructures.
- **Lack of access to credit and insurance finance** prevents businesses from scaling up productive capacities and trading. This situation has the ultimate consequence of reducing the competitiveness of Afghan businesses compared with their competitors. The lack of a fully functioning banking and insurance system inhibits supports for international trade and prevents Afghan businesses from expanding operations, making necessary investments and extending favourable/flexible credit terms to their customers. Most businesses function under the informal *hawala* system, which has served well to enable transactions in an environment largely devoid of solutions but is not a viable option for large-scale trading, especially with advanced economies.
- **Skills development** is a prominent challenge. The technical skills needed to operate in SMEs in Afghanistan are often passed on informally rather than through institutions. There are few TVET providers outside the capital and there are significant gaps in institutional abilities.
- **Competitive market intelligence**, in-market support and branding are weak areas of support for Afghan companies. There are opportunity costs for companies wanting to engage with international target markets because support is lacking in these areas.
- **Trade facilitation and transit trade** are both areas of competitive advantage for Afghanistan given its strategic location but both are currently inhibitors for physical goods movement due to political and technical challenges.

9. Alongside the high access facilitated through WTO accession and Free Trade Agreements, a market-guided approach will be required to further understand markets' dynamics, buyers' requirements and the implications of compliance (e.g. quality and SPS requirements).

While focus on traditional markets must continue, product and market diversification is essential over the medium-to-long term to reduce vulnerabilities. This requires a strong analytical, structured, forward-thinking approach among policymakers and enterprises as well as supporting actors, including development partners.

110. For most sectors, the domestic market is an important stepping stone. For certain sectors, this domestic market is a critical lifeline.

Trade competitiveness will take time to develop. Until then, enterprises will depend on a stable domestic market, at least for particular sectors. The high trade deficit and skewed imports of consumption goods are indicative of weak private sector abilities to satisfy domestic demand.

For certain sectors such as dairy, livestock, cereals and others, the domestic market serves as a critical avenue for economic activity considering the skewed import/local supply ratio (in favour of imports) for consumable goods. These sectors can adopt an import substitution strategy and compete with imported goods on the basis of short distance to market, fresher produce and direct interface with customers, as well as quality and other critical requirements, through capabilities developed over the short-to-medium term.

11. Misalignment between donors' and Government's agendas must be corrected.

Driven by concerns about absorptive capacity and spending transparency, donors have traditionally opted for off-budget development activities rather than on-budget through the Government and line ministries. This preference has persisted over the years, and apart from the natural funding challenges, line ministries and technical agencies have been unable to cultivate the virtuous cycle of 'learning and applying'. In many ways, institutions remain weak.



Photo: cc flickr - Todd Huffman

As the above analysis indicates, expectations of realizing the potential for trade-led growth in Afghanistan are high. Despite the potential, however, the trajectory for trade-related export growth in Afghanistan remains uncertain as indicated by the caveats. The overall potential for trade has not yet translated into reality amid the dense and myriad challenges facing both the Government and the private sector.

On balance though, the consensus among policymakers, businesses and international partners remains that if properly nurtured, trade competitiveness will drive economic and socioeconomic growth for the country. However, the above considerations will serve as essential guardrails on Afghanistan's development path, guiding and helping mitigate challenges along the way.

A methodological and structured approach was needed to map this growth path. As discussed below, the NES serves as the ideal instrument to accomplish this.

FROM ASPIRATIONS TO ACTION: THE NEED FOR A NATIONAL EXPORT STRATEGY

The business case and overall vision of trade competitiveness is clear; however, the execution of vision into reality remains uncertain. **The NES will be a powerful tool for realizing this vision, provided that the following guiding principles are respected.**

1. Hard choices and frequently drastic prioritizations have been necessary given the intensely competitive (external), and resource-constrained (internal) operating climate.

A realistic assessment for trade development against the backdrop of competing priorities and multidimensional constraints is crucial. Sectors and products with the greatest potential for export diversification were identified. Some sectors have been prioritized over others based on their current performance, assessed future potential, current stage of maturity and other factors. This was a hard but a necessary step to develop winners (sectors) in a resource-constrained environment.

Based on this assessment, appropriate sequencing of strategic actions involving investments, sector value chain development, institutional support mechanisms and regulatory climate, among others, took place.

Efforts cannot be dissipated when resources are limited (and when there is a state of economic emergency). Instead there is a need to shift funding and assistance towards activities that achieve faster economic results and build confidence (productivity gains, labour intensity, social benefits, return on investment, etc.). Likewise, the budget needs to become an instrument that boosts economic activity, reinforces trust and stimulates the engine of reforms.



The NES design process has examined value chains for specific products and sectors as well as to identify their potential fit at regional and international levels.

Sectors have been comprehensively examined through various lenses including the value chain, 3C and SME Competitiveness Outlook analytical frameworks. Based on this assessment, national stakeholders reached consensus on the top priority sectors to focus on for the next five years (the effective duration of this NES).

2. Political unity and a joint public–private sector vision will be paramount.

As important as the content of the NES is the process by which it is reached. The key to this process is ownership. Those responsible for managing and monitoring the NES, those who implement it and those who stand to benefit from it were involved in its formulation. If not, commitment and interest would have been limited.

The NES is not the strategy of any specific institution: rather, it is the strategy of Afghanistan and to ensure its success concerted efforts were made to create the right environment and framework to enable its design and implementation.



This collective effort has been galvanized through strong high-level political leadership to ensure that the Government responds in a unified manner throughout the NES design and implementation phases. The umbrella of stewardship provided through the HEC and Core Team enables this unified approach.

3. A ‘magnet’ was needed to galvanize national (and international) action towards a unified vision of trade competitiveness.

Consensus-building and unification of perspectives has previously been weak – among and between donors and Government institutions as well as the private sector. Dialogue and alignment between development partners and the public sector is only now emerging, although the pace is slow. Consensus among the private sector is also gradually emerging through associations such as ACCI and the Afghanistan Women Chamber of Commerce and Industry (AWCCI), the Afghanistan Chamber of Industries and Mines (ACIM), the International Chamber of Commerce in Afghanistan (ICC Afghanistan), and sector associations, and through the efforts of lead firms.

In order to develop a common direction where efforts can be directed and concentrated, a ‘magnet’ was required to help to secure alignment from organizational perspectives to a national vision as well as align the personal motivations of individual actors involved in the export value chain towards collective mobilization. The NES plays this role.



A coherent and comprehensive NES brings about policy convergence, institutional alignment and strategic private sector support. Alignment with the New Development Planning System delineated in the ANPDF is a priority. This includes structural alignment within the system as well as positioning vis-à-vis NPPs.

Beyond the technical aspects of the NES design, the initiative contributes to the resolution of a long-standing challenge in Afghanistan – that of misalignment between Government and donor initiatives involved in trade-related technical assistance (TRTA). The NES contributes to the development of a virtuous cycle of applying lessons learned to the development process by helping to formalize donor – Government as well as donor – donor relations in the TRTA sphere. The NES attempts to shift and further align donor country policies with the national development agenda, which calls for alignment of off-budget TRTA while supporting a progressive on-budget increase.

The NES is aligned with existing development efforts in order to capitalize on the momentum generated and to ensure that there is no duplication of efforts but rather the plugging of gaps in the overall development agenda and donor activities. In the context of limited resources for implementation of development plans, this focus on alignment rather than duplication is especially relevant.

4. A conventional approach to stimulating and developing the confidence of the private sector will not be sufficient.

In conventional cases, improving certain fundamental drivers of competitiveness – such as institutional strengthening, fostering labour-intensive growth, export promotion, improved access to finance, etc. – is sufficient to drive trade competitiveness. However, due to the severe constraints facing Afghanistan, this approach needed to be complemented with careful prioritization accompanied by creative solutions development. The solutions are tightly tailored to the country context, keeping in mind what can work given the challenging capacity and resource gaps, while employing the best practices developed for fragile and conflict-afflicted states across the world.



The NES enables this through the structured, consultative problem-solving approach as well as leveraging innovative mechanisms such as diaspora/patriotic bonds, remittances and others where relevant. The NES approach used in other post-conflict and fragile states will provide a tailored and flexible approach that will be employed in Afghanistan.

The process also takes into account national characteristics, initial conditions and special circumstances while avoiding a 'one size fits all' approach.

5. Without addressing institutional capacity and coordination gaps, trade competitiveness will be delayed, or worse, regress.

With the Government expected to take a larger role managing the national development agenda during the transformation decade, capacities of public institutions (line ministries and technical agencies) need to be strengthened to manage agenda implementation. However, there is an unfortunate dichotomy – the capacity and absorptive power of national institutions to implement the national development agenda is currently weak and further weakened by the preference among development partners for the off-budget approach. This is motivated by ensuring efficiency levels; however, it has also stymied the long-term capacity development of ministries and technical institutions. The challenge in terms of the absorptive capacity of Government line ministries and agencies is real but excessive bypassing in favour of off-budget projects has exacerbated the capacity gap.



Institutional capacity-building through public-private dialogue and a comprehensive assessment of the national trade support network is an essential pillar of the NES considering the strong need to ensure clarity of mandate and robust execution within Afghan institutions. This will be especially important given that NES implementation will rest on the shoulders of key public institutions such as line ministries and technical agencies.

6. When implementing development plans, a focus on strong monitoring and evaluation will be essential in tracking, assessing progress levels and taking corrective action where needed.

A recurrent critique of development strategies in Afghanistan has been the weak monitoring and evaluation of implementation. The root causes are diverse and include problems of funding, technical capacities, coordination and competing

priorities. In order to drive results and action, this trend must be broken and best practices for monitoring and evaluation must be employed to ensure that a constant feedback loop is operational. The Government has indicated the importance of deploying monitoring and evaluation systems –critical in fragile states– and has called for considerable reflection in their design and deployment.



The global boating industry is recovering after the post-crisis drop, with increasing demand for recreational boating in the United States and in EU markets. Asia-Pacific, South American, Gulf and Middle East countries represent growing demand for different types of boats.

7. Early and robust implementation of NES action plans is essential.

Inordinate delays in the implementation of development plans can lead to the strategies becoming outdated or irrelevant. Finalization of the NES will be insufficient to create sustainable trade development: implementation will need to be coordinated and initiated early to retain momentum and ensure the quality of implementation.



In this regard, the design and implementation of the NES proceeds in lockstep. A budget for implementation, tailored capacity-building and advisory support is available, and specialized tools for implementation management will be deployed.

8. Syncing sectors and TSF requirements.

A NES by its nature involves many sectors and TSFs (such as access to finance, skills development). A NES with its deep vertical (sectoral) as well as horizontal (TSFs) alignment ensures that individual sector value chains develop in lock-step and with tight links to each other, and essential TSFs improve in a balanced way relative to the priority sectors.



The development of sector and TSF strategies in tandem ensures that cross-cutting issues will include not only the specific requirements of each priority sector but also provide spillover benefits for other sectors.

9. For trade competitiveness to develop, markets –domestic, regional and international– lead the identification of opportunities to be leveraged and constraints to be necessarily overcome.

However, this is a challenging and highly analytical task that must consider a variety of parameters –including buyer requirements, associated non-tariff measures, trade policy and facilitating aspects, ease of transportation and establishing distribution channels, etc.– with the added complexity of dealing with multiple sectors. This requires the rigour that is brought about by the NES design process involving sector stakeholders, investors, buyers and policymakers. Initiatives aimed at building exporter capacities and trade facilitation infrastructure, among other themes involved in the NES, allow Afghan businesses to better utilize available market access.

In line with the objective of facilitating market access and market development, the NES supports and reinforces current initiatives of Afghanistan in regional market integration through the Afghanistan-India Air Corridor. The corridor allows exporters to reach one of Afghanistan's most important export destinations, and overcome challenges related land route transportation through Pakistan. According to ACCI and the Presidential Economic Advisory Office, the 35th flight exporting fresh and dry fruits departed in mid-November 2017. Afghanistan also expanded its air cargo transportation from Kandahar to the UAE by exporting two tons of pomegranates in the same month. Herewith, Afghanistan aims to establish air cargo flights three times a week exporting fresh and dry fruits to the UAE. Improved connectivity aims to allow Afghan exporters to benefit from economic growth in Indian and Middle Eastern markets by expanding the country's trade networks.

In tandem with market development, The NES attempts to steer greater value addition within Afghanistan for important product sectors, which have traditionally fed regional markets with raw/unprocessed (and therefore cheaper) products. This capacity diversification will occur over time and allow Afghan companies to command better prices and eventually move up the value chain ladder.



Regional integration is a key factor and the NES aims to create opportunities for companies to link to regional value chains in a market-led approach aligned with Afghanistan's WTO and TFA commitments. The NES focuses on ensuring rapid supply consistency for sectors that have currently embark into the Air Cargo initiative championed by the Presidential Economic Advisory Office.

10. An inclusive approach in economic growth will have a positive impact on peace-building and State-building efforts

Throughout the design of the NES, three population cohorts –youth, women and returnees– were identified as particularly vulnerable and requiring targeted support. Afghanistan holds a sizeable youth population, of which 400,000 to 500,000 enter the labor market every year. Economic growth will not suffice to reach this youth. Tailored interventions are required, including appropriate investments into human capital and skills development, so this youth can turn into a demographic dividend, and collectively support the efforts of increasing economic growth, trade and prosperity in the country.

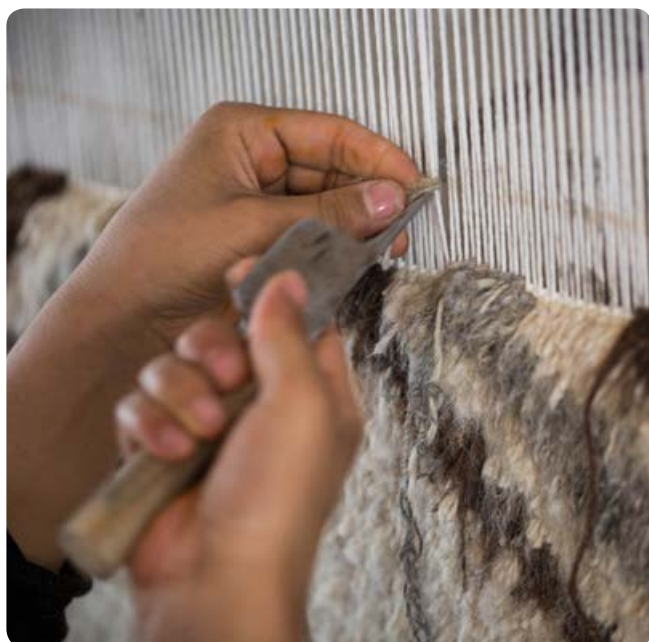


Photo: ITC

Likewise, Afghanistan's surge in returning refugees from Pakistan, Iran and Europe, will likely pose pressure on already high unemployment levels and low wages. Nonetheless, returnees also create opportunities, as they can bring new skills and techniques acquired abroad (brain gain).

On the other hand, while the economic participation of women in traditional sectors, such as agriculture, is significant, Afghan women remain among the most marginalized. Their limited access to support services, such as training and access to credit, hinders their potential to contribute to economic growth and trade development.

In recognition of the above, the NES acknowledges both the constraints and opportunities of working with these vulnerable cohorts, and seeks to facilitate their productive integration into trade development through an integrated response.



The focus on assisting businesses belonging to disadvantaged and at-risk segments such as women, youth and returnees remains steadfast. Considerations to vulnerable groups are mainstreamed throughout TSF and priority sectors strategy documents and plans of action. Moreover, the NES holds inclusive and equitable economic growth as one of its pillars, through its fourth Strategic Objective.

In spirit, and in action, the NES is aligned to the policy priorities and national goals established by the Cabinet and HEC in areas related to socioeconomic growth, private sector development, investment promotion, investor protection, economic diversification and others. The methodology, specifically customized to the requirements of Afghanistan, ensures that this overarching and incontrovertible principle is followed throughout the NES design and implementation process.

In practice, the NES strictly adheres with the principles and instruments of the NDPS that has been established by the Government under the aegis of the ANPDF. This includes structural alignment within the system as well as positioning vis-à-vis the NPPs and PriSEC. The NES contributes in real and significant terms to the Private Sector Development NPP that is being shepherded by HEC.

This has the potential to not only reduce the design time for the overall NPP (resulting in an early start to implementation) but also ensures robust depth and quality of the multi-year NPP.

Equally important, the NES initiative already accommodates budgeting to support implementation of critical pilot activities identified during the design process. This will ensure that impact and momentum are generated from early on, and support further resource mobilization and confidence building.

Ultimately, the NES represents a home-grown blueprint for unleashing the true potential of the country and strengthening its competitive export sector (encouraging greater value addition) through the definition of clear priorities, detailed five-year PoAs and an integrated implementation management framework.

THE STRATEGY IN DETAIL

The development of the NES Afghanistan entailed a comprehensive diagnostic of the country's macroeconomic and export performance, which allowed for an accurate understanding of the present situation. This analysis is available in *Annex 1*.

ARTICULATING THE VISION FOR AFGHAN TRADE

The Afghan public and private sectors are united by the following vision, which serves as a beacon and a rallying call as the nation proceeds on the road to trade-led growth, development and ultimately peace.

“Peace through Prosperity,
Prosperity through Trade”

This vision:

- ... **represents** a unified, united voice capturing the long-sought goal of peace that Afghans from all walks of life share.
- ... **constitutes** a beacon that will serve to guide national and international efforts to spur Afghanistan's trade competitiveness.
- ... **is deliberately emotional**, serving to remind policy-makers and beneficiaries of the NES alike that behind the economic benefits of trade lie two equally important goals – prosperity and socioeconomic benefits for all Afghans, and the overarching goal of peace.
- ... **serves as a reminder** that economic development and peacebuilding goals are intertwined and complementary.
- ... **assures** the international development community of the renewed focus and unity of the Afghan National Unity Government towards mainstreaming trade development in the national development agenda in this transformation decade.
- ... **humbly acknowledges** that trade is only one of the several development areas which strive to contribute to peace. It is an important element but not the only one by far.

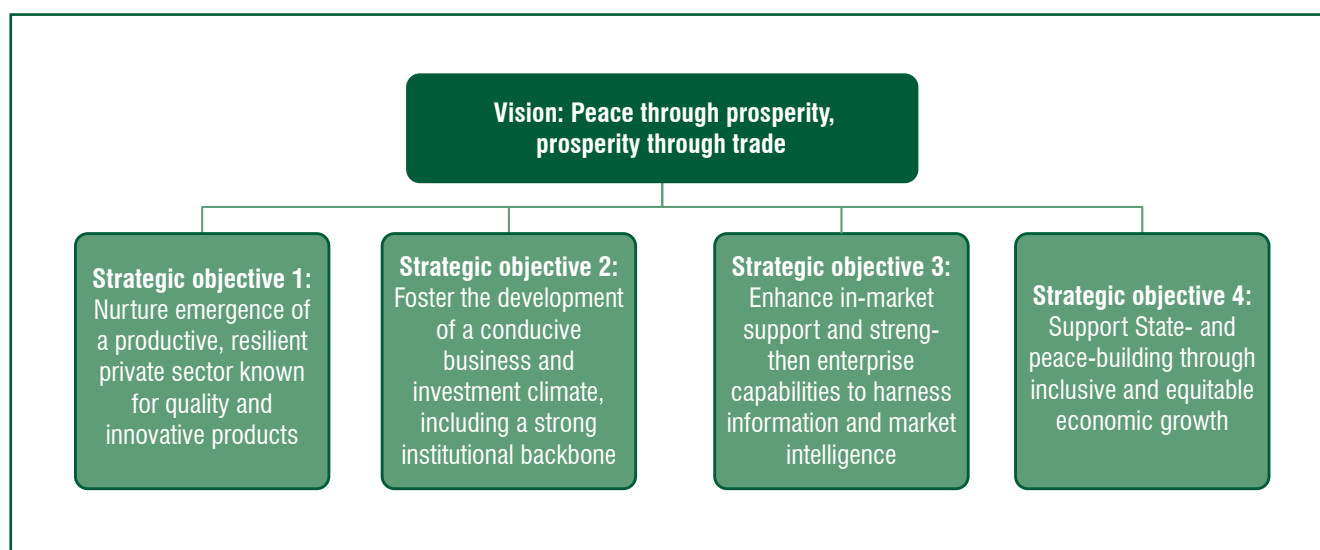
STRATEGIC OBJECTIVES

The vision serves as a 'lighthouse' for the NES, providing a beam of light that sets the overall direction of the Strategy. This vision is supported by strategic objectives, which are guiding waypoints for the NES over the five-year time frame. These strategic objectives are the framing pillars on which the NES documents are built, and their fulfilment will represent the overall achievement of the vision and the success of the strategy.

For Afghanistan's NES, four strategic objectives have been defined as indicated in the following schematic.



Photo: ITC



The above strategic objectives are not islands but interconnected with each other, with the sector and TSF strategies of the NES, and with the National Trade Policy (NTP). The consistent alignment

of the NES design process with existing development initiatives in-country has also aligned the NES strategic objectives with the activities of other development initiatives.

STRATEGIC OBJECTIVE 1: NURTURE EMERGENCE OF A PRODUCTIVE, RESILIENT PRIVATE SECTOR KNOWN FOR QUALITY AND INNOVATIVE PRODUCTS

The NES aims to strengthen traditional sectors while reducing dependence on imports and gradually diversifying towards a products basket with increased value addition. In order to achieve this, the strategy will work towards improvements in four areas – fostering skills development, enabling productivity gains, increasing compliance with international standards, and improving coordination and organization levels in the private sector.

In the future, the Afghan private sector will produce products in high demand in regional and international markets. Sourcing of inputs, equipment, technology and human capital will be strengthened, and knowledge in terms of technical know-how and standard industry best practices will be upgraded. Supply-side performance will be boosted in areas including the ability to maintain quality standards based on Afghan and international benchmarks. Coordination between sector stakeholders will improve and sector associations will be strengthened to better advocate for the needs of their constituents as well as provide value added services.

Through these improvements, companies will be able to sustain on-time delivery of customer orders, quality levels and reliability, and gradually develop abilities to expand scale and value addition. Enterprise capacities to identify appropriate links within regional and international value chains based on their abilities will ultimately be expanded.

Box 1: How will strategic objective 1 be achieved?

Strategic objective 1 focuses on developing the overall enterprise capabilities of the Afghan private sector. Towards this goal, successful implementation of individual sector strategies as well as

the cumulative impact of the implementation of the TSF strategies (elaborated later in this document) will contribute to this strategic objective.

STRATEGIC OBJECTIVE 2: FOSTER THE DEVELOPMENT OF A CONDUCTIVE BUSINESS AND INVESTMENT CLIMATE, INCLUDING A STRONG INSTITUTIONAL BACKBONE

An enabling policy and regulatory environment accompanied by robust and efficient institutional support is a critical precursor for trade and is much needed in Afghanistan. The NES contributes to resolving some of the key protracted business and investment environment challenges, based on a concrete understanding of the problems faced by sector enterprises.

The NES will drive reforms in access to finance to support the private sector. Financial sector reforms are overall an important priority for Afghanistan and efforts so far have mainly focused on helping the Central Bank strengthen banking regulation and supervision. In addition, banking ties between Afghanistan and neighbouring countries (such as the Islamic Republic of Iran) need to be developed/restored. Access to credit and insurance finance – tailored to the needs of MSMEs, sectors and women-owned enterprises, among other specific cases – must be improved in depth and breadth to help businesses scale up productive capacities and trading activity. Additionally, the implementation of recent reforms in the areas of tax and banking will need to be sustained.

Strengthening institutional support to exporters is another area of concern. Comprehensive analysis of coordination issues between line ministries and technical agencies has been undertaken. Coordination will become especially important as the NDPS requires strong interministerial and inter-agency links. Capacities at most technical and managerial levels are weak, and ways to expand the network reach of TISIs outside of Kabul need to be identified. The capacity gaps are especially critical given that ministries including MoCI have to plan for WTO post-accession and TFA implementation.

Special attention has been paid to ensuring that the merger between MoCI, the Afghanistan Investment Support Agency and the Export Promotion Agency of Afghanistan (EPAA) continues smoothly given the relevance of these institutions to trade. Improvements in capacities of institutional development are core considerations for the NES,



Photo: ITC

exemplified by the specific intended focus on building capacity of institutions on QM and in SPS, trade policy and trade facilitation as well as NES implementation management. The NES recommends solutions aimed at bridging capacities gaps of select Afghan TISIs including line ministries [such as MoCI, the Ministry of Agriculture, Irrigation and Livestock (MAIL)] and technical agencies (such as ANSA) involved in trade and private sector development.

In support of trade facilitation, the NES focuses on improving enterprise-level preparedness for understanding and meeting the documentation requirements of Customs and other agencies involved in the exporting process. Investments also are a broad area of focus, involving institutional support for investment-related activities, identifying critical investment needs to boost productivity (facilitating a much-needed injection of resources and technology in key sectors), as well as promoting development of robust post-investment care/support packages for investors.

In consideration of the endemic challenge of corruption in the public sector, the NES assists by illuminating specific problems faced at the sector level and bringing these to the notice of decision makers in the Government.

Box 2: How will strategic objective 2 be achieved?

Strategic objective 2 focuses on improving the overall business environment as well as the institutional support provided by the ecosystem of TISIs in Afghanistan. In this context, the trade

information and promotion, trade facilitation and quality management TSF strategies will have an important bearing on the achievement of the stated objective.

STRATEGIC OBJECTIVE 3: ENHANCE IN-MARKET SUPPORT AND STRENGTHEN ENTERPRISE CAPABILITIES TO HARNESS INFORMATION AND MARKET INTELLIGENCE

Markets will continue to dictate and shape key sectors, and with this in mind, NES interventions devote significant attention to promoting Afghan products internationally and providing adequate levels of in-market support for exports. The focus is on three areas of concentration: Availability of and access to up-to-date market intelligence to comprehensively understand market dynamics and buyer requirements; enterprise capabilities to adjust product lines through appropriate use of labelling, packaging and marketing; and in-market support.

In-market networking and business development options such as B2B missions will be actively pursued and the performance of trade attachés will be improved. Recommendations for improving access to trade information –including competitive market intelligence, emerging trends in target markets, and networking opportunities– are prioritized. Focus is also placed on building enterprise-level abilities to access and use trade/market intelligence, as well as conduct business development.

A focus on the domestic markets is developed, especially for sectors with high import substitution potential such as fruits and vegetables. The increased market access in conjunction with TRTA initiatives aimed at building exporter capacities and trade facilitation infrastructure will allow Afghan businesses to use the increased market access that accompanies WTO accession and the ratification of the TFA. Ultimately, the Afghan brand will be established and will be known for its impressive value proposition and resiliency.

Box 3: How will strategic objective 3 be achieved?

Strategic objective 3 focuses on providing timely and relevant access to trade information and market intelligence, and facilitating close handholding support in international target markets for

Afghan exporters. The activities included in the 'trade information and promotion' TSF strategy contribute fully and in direct alignment with the fulfilment of this objective.

STRATEGIC OBJECTIVE 4: SUPPORT STATE- AND PEACEBUILDING THROUGH INCLUSIVE AND EQUITABLE ECONOMIC GROWTH

Equity and economic growth will need to be complementary principles in the transformation decade as the people of Afghanistan seek to make a collective march towards prosperity and peace. The NES seeks to facilitate integration of youth in economic activities through entrepreneurship and demand-driven skills alignment of the labour market. Inclusive growth will be made possible through the meaningful involvement of women in productive economic activities. Growth will also be equitable –meaning that no particular segment of society is left out of the overall trade development agenda of the country and this will include marginal groups, including returning migrants/refugees and disparate ethnic communities.

The job creation and entrepreneurial thrust will undoubtedly have a positive impact on peacebuilding and State-building efforts as well, given that economic disparity and financial challenges at the individual level are contributing drivers of conflict. Afghanistan's growth and development agenda must represent and involve corresponding growth for all Afghans. In the absence of this goal, growth will remain incomplete. Three groups –youth, women and IDPs/returnees– are especially recognized by the NES as vulnerable and requiring support.

This is also endorsed and enshrined in the country's stated development agenda. As well as providing meaningful job growth for youth and women, the improvement of human capital across the trade value chain is an important theme. Recognizing that the sustainability of the economic growth strategy depends on availability of adequate human capital, the ANPDF notes the intention of planners to 'invest in vocational education, engineering, managerial skills, the service industry, and on reforms to make Afghan labour more flexible and responsive'.² The ANPDF also calls for integration of IDPs and returning migrants (a distinct possibility after the Brussels Conference) into the workforce.

2.– ANPDF, p. 25.

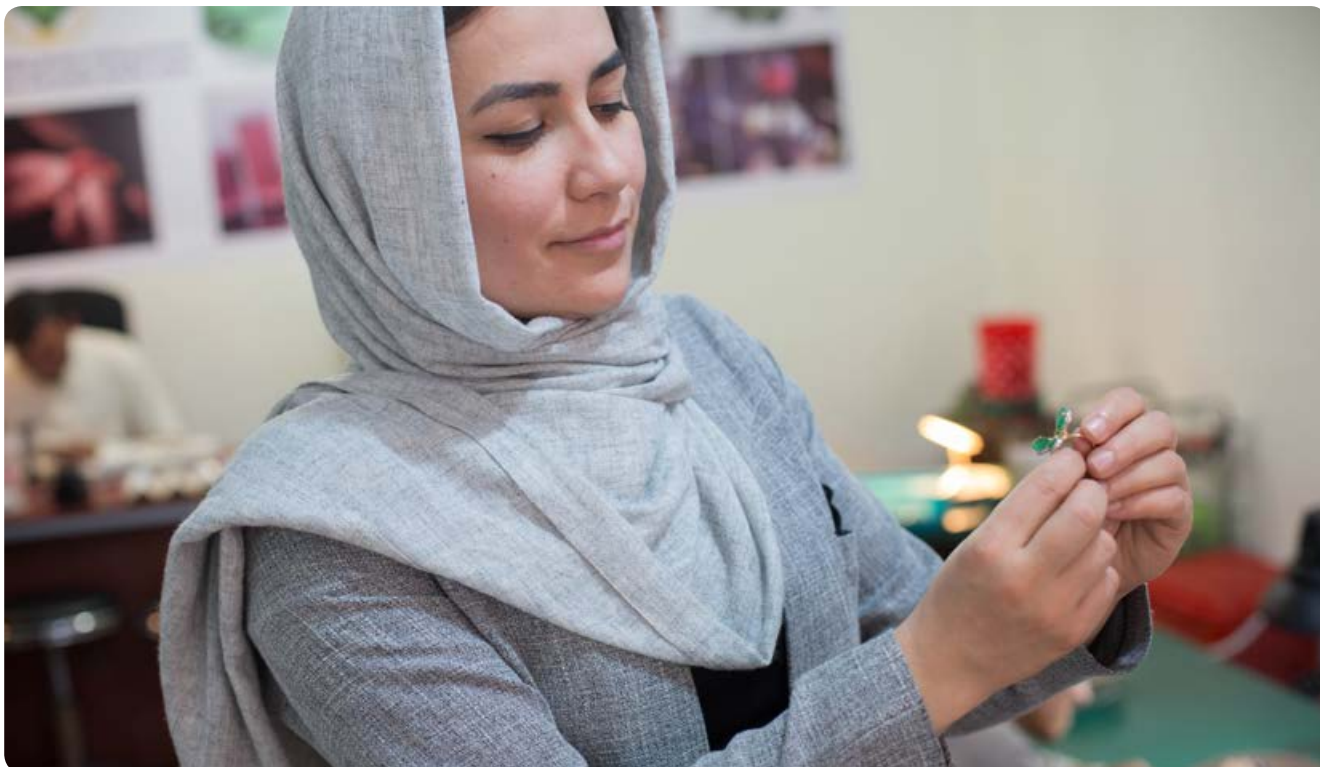


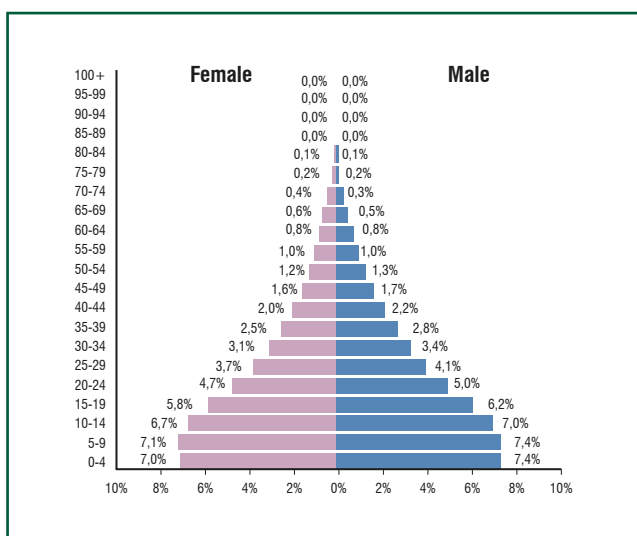
Photo: ITC

Inclusion of Youth

Afghanistan especially needs to take care of its youth, 400,000 of whom enter the labour market each year. Because of increased economic emigration by predominantly younger citizens, Afghanistan needs labour-intensive growth to create incentives for youth to remain. The population pyramid of Afghanistan, illustrating the age and gender structure of a country's population, provides insights into the future development of the active part of the labour force. Out of 34 million Afghans, around 40% belonged to the age

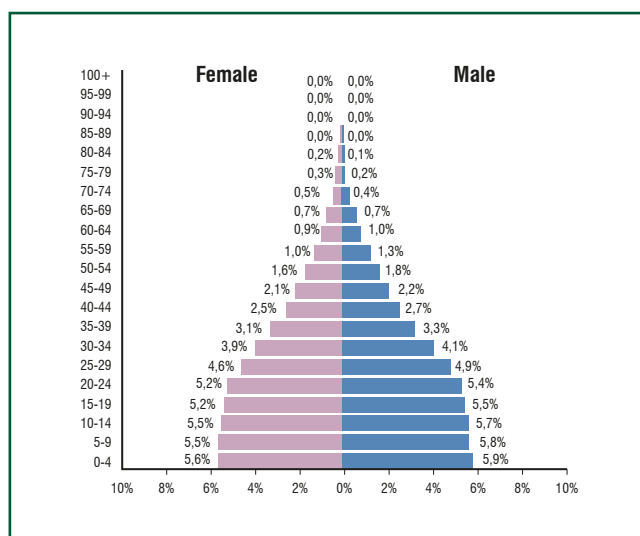
group 0–14 years old in 2017, serving as a promising future labour reserve. Accordingly, estimates for 2030 reveal that the workforce share of Afghanistan's population, which is growing to reach 44 million, will significantly increase. When transitioning to a trade-led economy and aiming to significantly enhance the country's economic productivity, Afghanistan will experience a high demand for labour, which would already exist in a very young economy. With adequate economic policies, Afghanistan's demographics may offer great opportunities for job creation and economic inclusion to reduce poverty.

Figure 2: Population Pyramid Afghanistan 2017



Source: Populationpyramid.net (2017).

Figure 3: Population Pyramid Afghanistan 2030



Source: Populationpyramid.net (2017).

Box 4: Driving Afghan youth entrepreneurship: Key recommendations and activities

The inclusion of youth has been mainstreamed throughout the NES documents. Specific activities focused on driving youth entrepreneurship that will be addressed through the NES are included below.

1. **Young Entrepreneurs Business Association:** Establish a dedicated business association for young entrepreneurs that will involve the following activities:
 - » Assess existing frameworks and identify an appropriate formal structure for the youth business association.
 - » Develop a multi-year strategy and operational plan.
 - » Create a set of tools and services for young entrepreneurs including a directory.
 - » Develop a mechanism to voice young entrepreneurs' needs to public authorities
 - » Set up and launch the youth business association.
 - » Promote the association among potential members and funders for its financial sustainability.
 - » Develop sub regional and international partnerships.
2. **Promote entrepreneurship:** Design and deploy entrepreneurship promotion initiatives for young entrepreneurs that will focus on:
 - » Awareness-raising on entrepreneurship and building a good foundation among Afghan youth about generating a business idea and starting their own business through:
 - » Business idea competitions and workshops to encourage entrepreneurial activities.
 - » Exhibitions and fairs to promote existing young entrepreneurs
3. **Support incubators:** Provide support to strengthen and improve the service portfolio of existing incubators through:
 - » Institutional benchmarking and identification of areas for improvement.
 - » Providing training of trainers programmes (ToT) on entrepreneurship and business modules.
 - » Enriching the content provided to their members
- » Establishing small business development centres and start-up support service centres as focal points with expertise in SME support and information provision.
- » Improve outreach of information and support schemes through online portals, e-mails; and offline through workshops, courses and seminars.
- » Develop incentive mechanisms for firms in the business and professional services sector aimed at increasing the absorption of professional advice and training tailored to SMEs and new businesses (e.g. 'Growth Vouchers' schemes)
4. **Virtual entrepreneurship ecosystem:** Create a virtual entrepreneurship ecosystem to foster advice, information and encouragement.
 - » Develop and launch the online platform for entrepreneurship support in Afghanistan.
 - » Call for partners to join the platform: incubators, accelerators, resource providers, mentors, diaspora.
 - » Promote the platform among young entrepreneurs, particularly through the new youth business chamber.
 - » Provide young entrepreneurs with access to eLearning and market intelligence resources.
 - » Ensure spillover effects towards existing incubators in terms of positioning and service offering, ensuring complementarities rather than overlaps.
5. **Foster the start-up environment in Afghanistan***
 - » Develop the Kabul Polytechnic University entrepreneurial space – an open space for entrepreneurs to work on their projects – modelled on Harvard's Innovation Lab. Develop a MoU between Kabul Polytechnic University and the start-up community
 - » Develop a brief position paper to advocate for a tax exemption for a maximum of two years, for businesses that have an annual turnover of less than AFN 3 million and that meet additional criteria.
 - » Create a new licence category for start-ups with a lower fee. The Afghanistan Telecom Regulatory Authority could reduce the number and types of telecom licences required.

* These activities are adapted from the draft start-ups policy paper developed by an informal group of Afghan entrepreneurs.

Inclusion of women

Between 1990 and 2015, Afghan life expectancy at birth increased by 10.8 years, mean years of schooling by 2.1 years and expected years of schooling by 7.5 years, while gender inequality remained unchanged. Considering that 8.8% of adult women earned at least a secondary level of education compared with 35.4% of male counterparts, Afghanistan ranks as one of the lowest in the Gender Inequality Index, which is a sub-indicator of the Human Development Index. Data from ILO, the United Nations Children's Fund and the World Bank reveals that 50% of children aged 7–14 in

Afghanistan were in employment, study or work in 2011. That significantly more girls (40% of female children aged 7–14) than boys (14% of male children aged 7–14) performed some kind of family work, supports the observation of high gender inequality at even a young age. Adult women face additional inequalities when accessing education, financing or health services.

Afghan planners are aware of the need to work on gender advancement. A new NPP (Women's Economic Empowerment Programme) has been launched, with component areas focusing on financial literacy and inclusion, market agriculture, legal reform, gender statistics and SME access.

Box 5: Fostering women's integration into trade: Key recommendations and activities

Specific activities aimed at facilitating the integration and positioning of women into trade-related activities are included across sector and TSF strategies. Additionally, specific recommendations are outlined below

1. Strengthening Women's Voice

- » Conduct roundtables and pre-budget workshops with women business associations and chambers, policy-makers and development partners, to address specific programmatic areas, which can be made more effective to promote women entrepreneurship
- » Coordinate the AWCCI Membership to ICC Afghanistan/WCF, which can assist them to connect with world business and access to UN and other global policy makers

2. Improve understanding of how trade affects inequality, marginalization and poverty

- » Identify a series of indicators informing the relevant institutions of the participation of women and other relevant cohorts of the society in export activities
- » Update those indicators on a regular basis, and take corrective action to ensure a proactive and inclusive NES.

3. Support the trade promotion activities of women-focused business associations

- » Analyse the role, activities and reach of Afghan associations designed to enhance the role of women in business, such as AWCCI.

- » Accordingly, develop a series of activities aimed at improving their visibility and capacity to fulfill their mandate. Components to include:

- Training at various staff grades
- Resource mobilization

4. Nurture and support women entrepreneurs' initiatives

- » In close collaboration with ACIM and AWCCI, develop and operate a women's industrial park at a safe location within Kabul that allows female SME entrepreneurs to interact, learn from each other and grow their businesses.
- » Develop a plan for public procurement policies that facilitate the sourcing of more goods and services from women entrepreneurs. Include activities to increase women's access to information, understanding of procedures and ability to meet requirements.

5. Enable women to tap into market opportunities

- » Develop specific export-ready capacity-building activities in those sectors and areas where women predominate
- » Allocate a number of seats to women in trade-related programmes and promote their participation and awareness through the different business associations
- » Through matchmaking events, support women-owned SMEs to establish business linkages with potential buyers in regional and international markets

Inclusion of IDPs/returnees

Economic and social resettlement for returning migrants will be essential in the post-Brussels era. As part of the Brussels Conference negotiations, the Afghan Government agreed to resettle some 80,000 Afghan migrants currently living within the EU. Additionally, there are more than 1.3 million registered Afghan refugees in Pakistan, of which several hundred thousand have returned/are returning. Their return requires careful planning in economic and social terms given the already difficult situation in the country.

Returnees pose opportunities as well as challenges for sectors such as carpets. Their return results in increased pressures on the social welfare system as well as the national labour market, while on the positive side they bring in new experiences and techniques learned from their time outside the country. The NES attempts to utilize these pluses and integrates them in the PoAs, while trying to find innovative ways to reduce the pressure on the national welfare system through employment generation and spurring entrepreneurship. Regardless of the sector, returnees will require significant support in the short-to-medium term to rebuild their lives and this reality must be accepted and planned for by Afghan policymakers.

Box 6: Enabling the productive economic integration of returnees: Key recommendations and activities

Specific activities towards the productive integration of returnees are included across sector and TSF strategies. Additionally, specific recommendations are outlined below:

1. Enhance information collection and dissemination for more effective policy-making

- » Support the Afghan Returnee Information System being developed in collaboration with International Organization for Migration. Strengthen monitoring systems to identify gaps for the sustainable reintegration of returnees.
- » Develop and launch a communication campaign to explain the issues linked to migration, with the aim of making returnees and IDP aware of existing employment and business opportunities in their home country and of the reality of migrant's life.
- » Provide information on reintegration services to migrants about to return to Afghanistan to enable smooth return.

2. Promote entrepreneurship among returnees

- » Develop targeted investment incentives, in particular collaboration with networks of EU/US returnees. Provide counselling and advisory services for investment to returnees
- » Establish a financial scheme (e.g. micro-grants, credit programs) to cater to the needs of returnees entrepreneurs in collaboration with financial institutions
- » Link returnees' networks to other business associations, chambers of commerce and trade-related associations. Establish and promote networks among returnees

entrepreneurs for sharing knowledge and foster partnerships and investment opportunities

- » Establish procedures with relevant authorities in Countries of Residence, to identify potential entrepreneurs to be supported upon arrival
- » Develop an initiative to provide business training to returnees, covering topics such as the business environment in the country, developing bankable business plans, accounting, business management and exporting from Afghanistan

3. Increase employment and self-employment opportunities for returnees and IDPs in priority sectors

- » Support sectors with a high potential in terms of employment creation for returnees and IDP (e.g. saffron, dried fruits and nuts)
- » Based on sector selection, create social enterprises in key geographical areas and build their competence and entrepreneurship capacities. Social enterprises (SE) to manage production and trade hubs for returnees and IDPs, to increase their participation in international trade
- » Set up a network of local artisanal hubs (small production and community development centres) linked to the social enterprise
- » Build production and managerial capacities of social enterprises and of local artisanal hubs and micro-producers
- » Provide a process for clear and objective monitoring and management of activities with an emphasis on social compliance and environmental responsibility, direct and indirect impact and traceability.



Photo: ITC

Box 7: How will strategic objective 4 be achieved?

Strategic objective 4 is an all-encompassing goal of achieving peace and stability for all Afghans irrespective of gender, ethnicity, or social or economic class. Given this broad cross-cutting goal, this strategic objective derives contributions from all sector and TSF strategies, which have been sensitized to duly reflect these important considerations.

The above four strategic objectives provide the orientation of the Afghanistan's National Export Strategy. To achieve these strategic objectives, the NES pivots around six priority sectors and six cross-cutting TSF.

Priority sectors for export development. In the medium-term, opportunities for export expansion come primarily from existing sectors. The economic benefits accrue when some of the existing sectors are reinforced and consolidated. The NES priority sector selection exercise demanded focus on a number of quantitative and qualitative analytical parameters. These included the current export performance, the domestic supply conditions, world market trends and the socio-economic development impact in the sector. It also required attention to the specific political, developmental and diplomatic contexts at the country as well as the region. A detailed methodological note is available on Annex 1.



**AFGHAN
DRIED FRUITS**



NES PRIORITY SECTORS

The sectors identified as NES priority sectors are:

1. Dried Fruits and Nuts
2. Fresh Fruits and Vegetables
3. Saffron
4. Marble and Granite
5. Carpets
6. Precious Stones and Jewellery

DRIED FRUITS AND NUTS

The dried fruits and nuts sector has historically been one of Afghanistan's leading categories for exports. Afghan raisins, in particular, once held a dominant position in world markets prior to Afghanistan being subsumed by warfare in the 1980s.

Afghanistan produces a wide array of dried fruits and nuts (with many different varieties of raisins and almonds alone), with unique tastes that have attracted buyers throughout the region. During the post-2001 reconstruction period, this sector has played a critical role filling out Afghanistan's export basket and setting the foundation for strong export growth in the future.

Afghanistan's weather and soil conditions are well-suited for the production of fruits and nuts, with local producers possessing a wealth of expertise on traditional processing methods for fruit drying and nut roasting and shelling. While these traditional methods have kept the sector producing and exporting through very difficult times, they have also constrained the sector's future potential. Traditional methods have kept output volumes low, thereby limiting economies of scale and keeping prices relatively high (especially compared to industrial-level dried fruits and nuts operations in the US). More alarmingly, traditional methods have led to quality and food safety concerns for buyers (and governments) in Western markets. This has severely limited the diversity of Afghanistan's export destinations and cut off access to buyers in developed markets willing to pay premium prices for premium products.

At present, Afghan exports of dried fruits and nuts are concentrated in a few regional markets, namely India and Pakistan. This leaves the sector with exciting opportunities to expand its export reach in both the East and the West, but this can only be accomplished with a concerted effort to develop a premium brand and address quality-control and food safety issues.



Photo: ITC

Unlocking the full potential of Afghanistan's dried fruits and nuts sector will require improvements throughout the cultivating, harvesting, and processing stages of production. Following targeted interventions along the value chain, the gains achieved in terms of volume and quality of production outputs has implications beyond boosting export figures. Work producing dried fruits and nuts is highly labour intensive, with entire households and communities contributing to different activities along the value chain. During the harvesting and processing stages, women often play a significant role, thereby elevating their status as contributors to household incomes. A thriving dried fruits and nuts sector will inevitably lead to notable improvements in the quality of life of the communities connected to the sector.

Recognizing these opportunities and challenges, public and private sector stakeholders have joined forces to develop the Dried Fruits & Nuts Sector Strategy. Such strategy is driven by the following overall vision:

“ Afghan dried fruits and nuts:
a taste of Afghanistan shared
around the world ”

To achieve this vision, the strategy focuses on three objectives:

Strategic Objective 1: Increase volumes of production through better sector coordination, intensification of market-driven production and reduced spoilage of products

This strategic objective has the overall goal of improving quality consistency and volume of production. The strategy aims to improve the availability of high-quality agricultural inputs and true-to-type seedlings (e.g. for almond orchards) to achieve consistent yields and product quality. As one element of the strategy, farmers will be encouraged to specialize in crops that sell at premium prices in international markets. Opportunities to increase production levels (e.g. by expanding land under irrigation and consolidating existing plots) will be pursued, with the concurrent goal of lowering costs by achieving economies of scale.

Supporting the formation and operations of producers' associations, along with improving access to working capital for both producers and traders, are critical elements under this strategic objective. Finally, conducting research documenting the wide array of fruits and nuts produced in the Afghanistan, to include analysis on each type's export prospects, will allow for more advanced strategy development to take place in the future.

Strategic Objective 2: Enhance food safety and quality assurance by fostering the adoption of enhanced processing methods

This strategic objective is focused on improving the sector's access to international markets by increasing food safety compliance and providing better quality assurance. This must take place across the value chain, through the various stages of cultivation, harvesting, and processing. It also requires enhancing the capacity of Afghan Government agencies to identify and halt sub-standard or contaminated shipments of dried fruits and nuts.

One means to achieve this end is through the establishment of farmers' fields schools that will demonstrate improved agricultural techniques through practical training. To improve practices during the processing stage, it is critical to train and certify both male and female agricultural extension service providers who can provide insights on processing methods that are best able to prepare products for international sale. In both cases, the goal of the interventions would be to boost production *volume* and improve *quality-control*.

Furthermore, steps must be taken to increase awareness among sector enterprises on the sanitary and phytosanitary (SPS) measures that must be taken for their products to satisfy food safety requirements in target markets. While one step necessary to overcome this challenge is voluntary compliance amount producers, a second requirement to achieve success is improving the quality certification process and



Photo: ITC

upgrading the Afghan Government's ability to enforce quality standards.

In order to fund necessary upgrades in cultivation and processing capacity, options should be explored to improve access to finance for both farmers and processing enterprises. Such financing could take the form of increased microfinance lending, larger-scale commercial loans to pay for processing machinery, and equity investments in the sector to build new processing facilities and upgrade existing ones.

Strategic Objective 3: Reclaim prominent global reputation through improved packaging and sound market insertion strategies

To improve the position of Afghan dried fruits and nuts in the global market, it is vital to build the sector's capacity to market and package their products. This involves tangible upgrades in packaging capacity, as well as building soft skills in marketing and market analysis.

As part of the short-term strategy for the sector, opportunities to increase sales in existing markets through more attractive packaging will be pursued. The development and dissemination of market intelligence is another component of this strategic objective, with capacity building for sector enterprises on how to use available market research to identify priority markets and time the sale of products to obtain optimal prices.

Another focus will be activities that improve in-market support services, to include assistance to sector enterprises in participating in international trade fairs and exhibitions. Finally, targeted marketing efforts will be undertaken in selected regional and international markets to improve the positioning of Afghan brand for dried fruits and nuts.

FRESH FRUITS AND VEGETABLES

Afghanistan holds rich potential for fruits and vegetables production and exports. For centuries, most Afghan farmers have been involved in horticulture production and thus, this sector plays a crucial role in the population's livelihood and food security at the household and national levels. Moreover, as certain crops offer high economic returns per unit of land, the fresh fruits and vegetables sector has the potential to contribute even further on improving the economic conditions of producers, particularly smallholder farmers. Afghanistan's agriculture sector is expected to absorb a large share of the 400,000 to 500,000 youth entering into the labour force each year. As fruits and vegetable's production is characterized by being labour intensive, the sector can also play a major role on absorbing this young people by providing employment opportunities and hence contribute further to poverty alleviation.

Afghanistan possesses ideal climatic and geographical conditions for the production of a wide array of varieties of fruits and vegetables, including grapes, pomegranates and melons, having a comparative advantage over regional partners in countries with hot and humid climate conditions in South Asia and extreme cold temperatures in Central Asia. Hence, the growth in demand for fresh produce in markets in proximity, such as India, represents significant opportunities for the Afghan fresh fruits and vegetables sector.

Traditionally, the sector has represented a significant share in Afghanistan's exports and notably, it has direct linkages with other important sectors for the country, such as dried fruits and nuts. In spite of Afghanistan's comparative advantages and the positive regional context for fresh fruits and vegetables trade, the sector has been unable to penetrate this growing market. The analysis of the sector's competitive constraints highlights productivity and cost-related disadvantages at the production level vis-à-vis regional competitors, weak capacities to meet quality and phytosanitary standards, as well as the difficult connectivity of this landlocked country, which is aggravated by a weak national cold chain infrastructure and lack of refrigerated trucks. As a consequence, Afghan exports of fresh fruits and vegetables remain overly dependent on neighbour Pakistan's market.

Recognizing these opportunities and challenges, public and private sector stakeholders have joined forces to develop the Fresh Fruits and Vegetables Sector Strategy. Such strategy is driven by the following overall vision:

“ Afghan fresh fruits and vegetables:
harvesting success in regional
and global markets ”

To achieve this vision, the Strategy focuses on four strategic objectives:

Strategic objective 1: Increase volumes of production and price-competitiveness by enhancing sector coordination, facilitating availability of critical inputs, improving farming practices and supporting commercial farming

This strategic objective has the goal of increasing volumes of production and the capacity of Afghan exporters to compete at the regional level by decreasing costs of factors of production.

On the inputs side, the strategy will seek to improve availability of domestically produced fertilizers and pesticides, as their imports render higher production costs and hence less price-competitiveness of Afghan products, particularly vis-à-vis regional competitors. Moreover, measures to strengthen sector horizontal and vertical coordination will be critical to aggregate and increase volumes of production.

Specific measures regarding commercial farming – orchards – and smallholder farmers are considered. In this regard, activities to support the expansion of commercial orchards will be implemented in parallel to measures seeking to increase the productivity of smallholder farmers, through training on best farming practices in Farmers Field Schools across the country, as well as the facilitation of working capital to producers.

Lastly, activities seeking to encourage R&D investment in several areas such as improvement of crop varieties and methods to extend season production, and the dissemination of results through trials and pilot initiatives are also important components under this objective.

Strategic objective 2: Reduce post-harvest losses across the value chain by addressing technical and non-technical issues

This strategic objective has the goal of reducing post-harvest losses across the value chain by addressing technical and non-technical issues.

Paired with challenges related to low productivity and low volumes of production, the sector is significantly constrained by severe post-harvest losses. At the technical level, the strategy will seek to improve the knowledge and implementation of best practices at the different stages of the value chain to ensure maximum quality and minimum spoilage of fresh produce at the current cold chain infrastructure levels. At the non-technical level, activities will be geared towards encouraging investment in cold chain infrastructure in the country, as well as on refrigerated trucks.



Photo: ITC

Strategic objective 3: Add value by improving post-harvest practices and processing capacities

This strategic objective seeks to add value by improving post-harvest practices, such as packaging, and processing capacities of products.

This strategic objective is comprised by measures seeking to improve national capacities to add value at different fronts. The first area will be to improve quality and food safety assurance for sector products. Furthermore, another critical area will be to increase the domestic capacity to provide high-quality packaging products and services, as packaging material is mainly imported, increasing the costs for sector companies.

Moreover, this strategic objective will seek to increase domestic capacities to add value through processing activities, predominantly to substitute minimally processed fruits and vegetables, such as juices and tomato paste currently imported from neighbouring countries. Activities seeking to generate a pool of workers with knowledge of agro-processing in the country are an important element under this component.

Strategic objective 4: Increase the sector's capacity to enter and sustain relationships in domestic and international markets

This strategic objective seeks to create and establish new linkages with international markets to diminish the dependency on the Pakistani market and hence reduce vulnerability of Afghan exporters.

To achieve this strategic objective, capacitating government officials in international trade is a pre-requirement. Further, this strategic objective also encompasses measures aimed at improving the provision of marketing intelligence services, and in market support in order to create linkages with international buyers. Supporting the establishment of warehouse facilities in target markets, such as India and UAE will also be addressed under this objective.

To build a national brand of Afghan fruits and vegetables in regional and international markets, marketing activities will be pursued, to overcome the lack of visibility of Afghan products in regional and global markets.

SAFFRON

The Afghan adage, ‘*drop by drop a river is made*’ holds especially true for the saffron sector. Although labor-intensive to produce, with a long wait between planting and harvesting, saffron offers ample rewards for those who invest in its production; kilo for kilo, saffron is the highest valued spice in the world.

While saffron production in Afghanistan dates back to more than 100 years, Afghanistan’s saffron cultivation remained marginal until after a few decades ago. Saffron is experiencing a revival in the country owing to a number of factors. First, the high value that this spice commands in the international market bolsters its attractiveness due to its high value-to-volume ratio, making it easier and profitable to export. Second, agronomic and climatic conditions render Afghanistan an ideal location for growing high-quality saffron. The distinct attractiveness of Afghan saffron has been validated on numerous occasions. Most recently in 2016 at the International Taste and Quality Institute of Brussels, Afghan saffron was ranked first out of 30 competing regions.

From the perspective of socio-economic development, the high labor requirements of the saffron industry offer employment opportunities in both peak and off-peak seasons (especially for women workers). Additionally, the high profitability of saffron provides incentives for farmers to transition to saffron away from opium cultivation. As a result of these factors, there exists wide consensus among leaders in the Afghan public and private sectors, as well as the international development community, that there are consequential economic and social benefits from increased saffron production in Afghanistan.

At present, the saffron sector’s export potential is constrained by supply-side challenges present in Afghanistan’s business environment, as well as difficulties in penetrating new markets. To overcome these hurdles, improvements across the value chain are required, in areas ranging from planting techniques to harvesting methods to packaging.

Accordingly, the strategy aims to achieve the following impact with the overarching goal of strengthening Afghan saffron’s value proposition to international buyers:

- *Increase* saffron exports in terms of volume and value
- *Gradual migration* to the production of high-quality saffron from medium/low-quality saffron
- *Increase* income and socio-economic benefits to actors across the value chain
- *Position* Afghan saffron as a highly prized product commanding a lasting Brand in the international markets.

This strategy is driven by the following overall vision:

“ Saffron: spicing up Afghan exports ”

To achieve this vision, the strategy focuses on three strategic objectives:

Strategic Objective 1: Increase production and productivity through improved supply-side conditions

This strategic objective consists in progressively professionalizing and standardizing both farming and processing practices in order to achieve larger-scale production while being rigorous and systematic in managing quality-related issues. It is also about encouraging structural change by facilitating the purchase of additional inputs (land, buildings), allowing for adjustment and economies of scale

Strategic Objective 2: Strengthen the organization of the sector’s eco-system through greater collaboration and efficiency

This strategic objective will focus on how coordination and institutional support can be enhanced between the various actors involved in the value chain, including farmers, intermediaries, exporters, researchers, and other actors. Success in this area will be achieved through improved sector governance, institutional strengthening and empowered sector associations, with particular focus on women-led organization.

Strategic Objective 3: Spur market penetration and development through integrated quality management, packaging and branding operations

The aim of this objective is to build on historical but fragile achievements of Afghan saffron to cement its premium reputation in international markets. This can be attained by supporting an integrated approach through which quality procedures, packaging equipment and branding strategies are bundled together to best promote and commercialize Afghanistan’s unique offering. Quality-testing institutions as the last line of defense in protecting the reputation of the Afghan saffron brand will have to be supported adequately.

Finally, this component of the strategy will focus on building capacity of select enterprises to modernize their brand and thereby appeal to a larger pool of potential buyers, in addition to developing the analytical ability to identify and adapt to dynamic global trends.

MARBLE AND GRANITE

Afghanistan's marble and granite sector possesses significant potential to stimulate national-level development. With rich deposits of exquisitely coloured stone scattered throughout the country, the sector has access to a natural resource that is highly prized (and highly priced) around the world. With this in mind, the National Export Strategy (NES) has designated the marble and granite sector as a priority sector.

Afghanistan is a provider of high quality stones, but the country blessed with vast reserves of natural stones only quarries marble and granite from few traditional mines. Many other quarries remain untouched and even undetected. Production is small-scale and scattered throughout the country. Many quarries have limited access to processing facilities for value addition. To date, a lack of investment and minimal Afghan Government support has kept the sector in an underdeveloped state. The majority of high-quality crude marble and granite is sold without any value addition. For the sector to achieve its full potential, there must be a concerted effort to upgrade Afghanistan's stone processing capacity and diversify the sector's product basket. Besides the sale of unprocessed stone, the sector should also endeavour to meet demand for semi-processed stone, fully-processed retail-ready tiles and slabs, home décor products (e.g. vases, mosaics, and carved decorative items), and marble and granite powder.

Recognizing the existing opportunities and challenges, public and private sector stakeholders in Afghanistan's marble and granite sector have joined forces to develop this sector strategy. The strategy lays out a highly localized and practical roadmap to revitalize the marble and granite sector, spur SME competitiveness, and raise the standard of living in the communities engaged in the sector's value chain.

This strategy is driven by the following overall vision:

“Marble and granite: The cornerstones of the Afghan economy”

To achieve this vision, the Marble Sector Strategy will pursue measures to reduce binding constraints on trade competitiveness, along with capitalizing on unrealized opportunities for sector enterprises. In the short-to-medium term, the strategy will assist Afghan exporters to boost export volumes by penetrating promising new markets. In terms of long-term capacity building, structural reforms and technology upgrades will be investigated and implemented that will increase benefits to sector enterprises and to the nation as a whole.

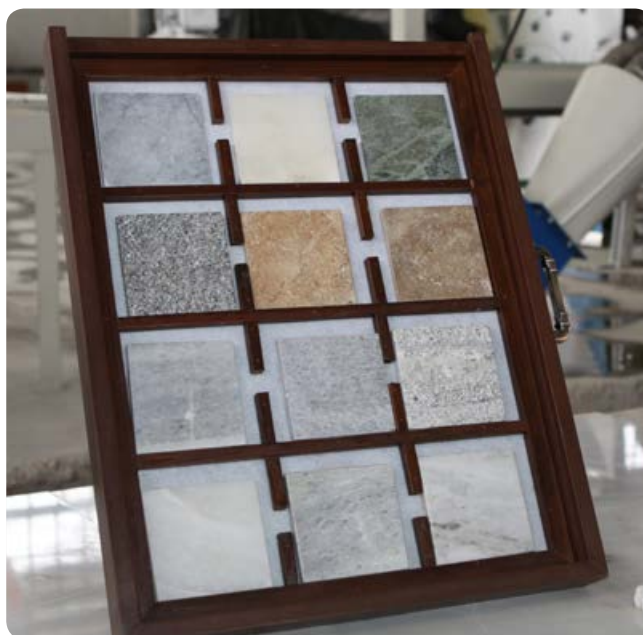


Photo: Marble and granite, By USAID Afghanistan (100525 Hirat Marble Conference 133) [Public domain], via Wikimedia Commons

The marble and granite sector Plan of Action revolves around the three below-listed strategic objectives. To achieve each objective, clusters of activities have been developed to address both the challenges and opportunities facing Afghanistan's marble and granite sector:

Strategic Objective 1: Improve supply-side capacity and quality management to ensure adequate volume and supply consistency

Increasing the available supply of high-quality marble and granite is a critical step towards boosting the sector's export performance. To achieve this end, productivity must be improved on the supply-side by adequately training human resources in modern mining methods. Steps must also be taken to upgrade facilities and machinery used in the sector, in order to put Afghan enterprises on par with their international competitors. Improvements in technology and human capital in the quarrying and processing stages will directly translate to increased supply of natural stone.

Strategic Objective 2: Improve the business environment by streamlining production and export procedures

The Afghan marble and granite sector currently faces significant regulatory and administrative hurdles when it comes to opening and operating quarries and processing facilities. These impediments can be addressed with the launch of an Afghan Government-operated one-stop-shop, dedicated to providing administrative and regulatory compliancy support for marble and granite enterprises.

Once productivity is increased, there remains the challenge of delivering Afghan marble and granite to international buyers. This can be addressed, in part, by reviewing export procedures on the Afghan-side and simplifying them.

With increased transparency provided by the one-stop-shop, and with convoluted export procedures streamlined, the sector as a whole will become more appealing to investors. This is critical for the sector's development, as the relatively small number of enterprises has resulted in oligopoly-like market conditions that keep prices high and deter further growth.

Strategic Objective 3: Improve firm's ability to access markets through trade intelligence

While Afghanistan's marble and granite enterprises have already established market linkages with regional buyers, there yet remains significant potential to increase export volumes to these established markets. There must also be a concerted effort to penetrate untapped markets, with the goal of diversifying marble and granite export destinations. To succeed in this area, exporters must improve their ability to navigate regional and international markets and connect to potential buyers. Enhancing the capacity of industry associations will allow them to better respond to the needs of marble and granite enterprises and produce/disseminate actionable market intelligence.

CARPETS

Afghan carpets are symbolic of the country's rich heritage, reflecting both the struggles experienced in contemporary times as well as optimism for the future. It is a storied and resilient sector, with industrial potential and a compelling brand proposition. Its positioning as one of the country's largest export sectors and an employer of 1 million + Afghans, of which the majority are women, is emblematic.

Indigenous Afghan designs based on traditional weaving methods hold a comparative advantage when sold to international markets. Yet, the limited pre and post-weaving processing capacity currently hinders gains. Foreign suppliers are frequently relied on for the provision of critical inputs whereas semi-finished Afghan carpets are sent to Pakistan for the final stages of production (particularly, washing and cutting) while losing their brand identity in the process.

The sector must capitalize on its unique offering and distinctive reputation to leverage established trade relationships with certain European countries and American buyers while exploiting existing ties in the Gulf and Asian markets. Besides strengthening market linkages, this will require enabling appropriate skills-upgrading and productivity enhancement in order to scale-up production capacity and retain value options domestically.

The Carpet Sector Strategy is driven by the following overall vision:

“A competitive sector blooming with looms”

To achieve this vision, the strategy focuses on four strategic objectives:



Photo: ITC

Strategic objective 1: Preserve/capture increased value at the inputs and the processing stages of the value chain

This strategic objective has the goal of repatriating value currently leaking outside the country (specifically to Pakistan) through the inputs and processing stages of the value chain.

The strategy aims, initially at increasing the production of Afghan wool in the medium to long term, as well as the domestic supply of good quality scoured/spun/dyed yarn to traders and weavers. For achieving the goals of value retention and building a strong Afghan brand, supporting

the upgrade of existing and development of new cut/wash/dry facilities will be crucial. Moreover, the strategy will also support the government's ongoing efforts to establish industrial parks for the sector. This includes the revision and rectification of infrastructural and technical challenges faced in current initiatives.

Strategic objective 2: Enable productivity enhancement of sector operations through increased coordination and appropriate skills-upgrading

This strategic objective is focused on further improving the sector's capability through upgrading market-demanded skills and technology enhancement of sector operations.

Sound linkages between the private sector and education and training institutions will facilitate innovation and growth in the industry. The sector will benefit from increase cooperation among key stakeholders to foster skills upgrade across the value chain. While the traditional weaving techniques will be preserved, the adoption of technology will be spur to improve sector competitiveness. Promotion of investment in the sector will be key measure to achieve technology enhancement of sector operations.

Strategic objective 3: Improve the regulatory and institutional support landscape for the sector

This strategic objective aims to improve the socioeconomic conditions of the weaving community, mitigate scope for child labor in the sector, and provide crucial institutional

support in the areas of quality management and land access, among other aspects.

To gradually counter child-labor, the strategy employs an approach of bring weaving communities out of isolation into weaving workshops/centers, with better working conditions. Efforts will also be made to increase the presence of "child labor free" certifications in the country.

Upgrading the national quality infrastructure is a prerequisite for the recognition and appreciation of the Afghan carpet brand in international markets. Easing burdensome land regulations and streamlining property ownership/leasing will be another focus area addressed by the strategy. Moreover, increasing the access to a more comprehensive range of financial services will also be emphasized to support the improvement of current production processes and the expansion of the carpet industry.

Strategic objective 4: Strengthen market linkages and enterprise capabilities to forge/sustain buyer relationships

To improve the carpet sector's capacity to position in the global market, it is of utmost importance to strengthen market linkages and enterprise capabilities to forge and maintain commercial relations.

The strategy aims at expanding export opportunities of Afghan carpet enterprises by improving in-market support services and the dissemination of market intelligence. In addition, strengthening the brand of the Afghan carpet sector will also play an essential role in this Strategy. The sector will also benefit from the streamlining of export clearance and ameliorating communication and cooperation with custom authorities of neighboring countries.

PRECIOUS STONES AND JEWELLERY

The Afghan precious stones and jewellery sector offers ample rewards for Afghanistan's shiny future of the country's handicraft industry. Involving many stages to produce, the precious the stones and jewellery sector holds opportunities to generate inclusive employment for women, youth and people in rural areas at different value chain steps.

Precious stones and jewellery production is deeply rooted in the Afghan culture maintained and polished in Afghan households and workshops. In recent years, greater utilization of e-commerce has facilitated access to Afghan hidden gems. This way, unique Afghan pieces have been re-discovered on international markets. Increasing visibility of Afghan jewellery paired with international demand for unique, handmade products contribute to a brilliant outlook for the sector. Unlocking this potential will unveil Afghan art and tradition to world markets.

At present, the sector's export potential is constrained by supply-side and business environment challenges, as well as difficulties to enter into new markets. To overcome these hurdles, improvements across the value chain are required, in areas ranging from mining techniques to processing methods and introduction of modern technology to the sector.

Accordingly, the strategy aims to achieve the following impacts with the overarching goal of strengthening the Afghan precious stones and jewellery sector's value proposition to international buyers:

- Increase precious stones and jewellery production in terms of volume and value
- Diversify product variety and target markets

- Establish Afghan precious stones and jewellery as a unique, handmade product commanding a lasting brand in international market
- Increase inclusiveness of women, youth and people in rural areas and socio-economic benefits to actors across the value chain

The strategy is driven by the following overall vision:

“ Precious stones and jewellery: revealing Afghan beauty to international markets ”

To achieve this vision, the strategy focuses on three strategic objectives:

Strategic objective 1: Increase supply capacity through upgrade in production, diversification and entrepreneurship capabilities

This strategic objective consists in professionalizing and standardizing both mining and processing practices in order to achieve larger-scales of production by encouraging entrepreneurship and polishing management skills while being rigorous and systematic in managing quality-related issues. It also seeks to facilitate access to finance aiming to foster the upgrade of technology, machinery and tools in the sector.

Strategic objective 2: Improve institutional regulatory and infrastructural support

This strategic objective will focus on improving coordination and institutional support among the various actors involved in the value chain, including miners, intermediaries, exporters, processors, researchers and other participants. Success in this area will be achieved through improved sector governance, institutional strengthening and empowered sector associations, with a particular focus on women-led organization.

Strategic objective 3: Create Afghan precious stones and jewellery brand, promote it and improve access to markets

The aim of this objective is to build on newly spurring but still fragile achievements of Afghan precious stones and jewellery to cement the sector's high reputation for its fine, handmade precocity in international markets. This will be attained by supporting an integrated approach to best promote and commercialize Afghanistan's unique offering. Quality-testing institutions and certificates are the last line of defence in protecting the reputation of the Afghan precious stones and jewellery brand, and will be supported adequately.

Finally, this component of the strategy will focus on the building capacity of select enterprises to modernize their brand and thereby appeal to a larger pool of potential buyers, in addition to developing the analytical ability to identify and adapt to dynamic global trends.

In addition to a sector-based focus, essential TSFs must be considered as well. TSFs are cross-cutting support functions that the private sector depends on throughout the value chain. This includes robust institutional support for setting policies and providing technical support for aspects related to access to finance, quality management, trade information, export promotion and others.

The efficiency of TSFs in responding to the needs of enterprises is normally equated with a conducive business environment. For all sectors, support services need to be functioning efficiently to ensure stable development and growth. In the NES context, efficient TSFs benefit all the export sectors of the economy, not just the priority sectors of the NES.



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TRADE SUPPORT FUNCTIONS

The priority TSFs identified for the Afghanistan NES are:

- Quality Management
- Trade Facilitation
- Trade Information and Promotion
- Skills Development (TVET)
- Business and Professional services
- Access to Finance

QUALITY MANAGEMENT

Quality is an intrinsic element of competitiveness in international trade. Achieving quality and meeting technical standards encompasses a holistic approach comprising actions at enterprise, institutional and policy levels. On one hand enterprises should have the capacity to comply with standards, technical regulations and SPS measures imposed by the market. On the other, a conducive technical environment needs to exist to support enterprises to improve quality and demonstrate compliance. In particular, policies concerning standardization, quality and SPS have to be in place and the support institutions providing technical services such as standardization, testing, inspection, certification and metrology must be competent and internationally recognized.

Afghanistan has some serious challenges within its quality and SPS domain that have so far hindered the ability of its exporters to fully capitalize on new opportunities and enhance their competitiveness. Furthermore, production capability has progressively declined and the embryonic manufacturing industry seems to be unable to compete with the flood of imports in the absence of efficient quality control on commodities.

Addressing these challenges will not only allow Afghanistan's enterprises to form stronger export relationships and introduce goods to new, more demanding markets, but also to improve their competitiveness in local markets. It is therefore essential to develop a sound and well-designed quality infrastructure, including SPS-related capacities based on internationally accepted standards and best practices.

The Export Quality Management TSF Strategy is intended to help Afghan goods and associated services meet regulatory, market and buyers' technical requirements and be more competitive in local, regional and global markets. The strategy lays the foundation for developing a quality culture in the country and addresses institutional capacity gaps



Photo: creative commons

to support enterprises in a sustainable manner. Successful implementation of this strategy along with its PoA will ensure that Afghanistan has the capacity to consistently deliver products of internationally recognized quality to targeted export markets. Through the implementation of this strategy, Afghanistan will also honour its commitments under the WTO TBT and SPS Agreements, for which full implementation is due by 1 January 2018 and 1 January 2020 respectively, and derive benefits from the opportunities in their application. Through their vision, Afghanistan's stakeholders are unified to apply 'quality' as a means to bring about positive changes, build confidence in Afghan products and boost prosperity.

GENERAL OVERVIEW OF THE FUNCTION

GolRoA recognizes that the development of a vibrant private sector is crucial to the reconstruction of an economy ravaged by decades of conflict. The Government has stated a commitment in principle to fostering private-sector-led economic development and increasing domestic and foreign investment. However, the Government's efforts to build an enabling environment for a competitive private sector, expand the scope of private investment by developing natural resources and infrastructure and promote investment from domestic sources, the Afghan diaspora, and foreign investors will necessitate structured reforms.

As part of its commitments to the WTO, Afghanistan has been modifying existing legislation and developing new laws and regulations to bring its trade policy framework into accordance with WTO requirements.

Current state of the quality and SPS framework in Afghanistan

Afghanistan's top export markets are Pakistan, India, the Russian Federation, UAE, China and to some extent the EU and United States. Afghanistan's history and location give it the potential to develop into a vital trade and transit hub for the region. However, Afghan enterprises have been unable to capitalize on the relatively high access to international target markets available to them. The regional and bilateral trade agreements signed, and the high degree of political support – especially in South Asia and China – indicate significant potential on paper but this has not yet translated into tangible export growth. Among the host of contributing factors, the inefficient and inadequate quality and SPS management framework in Afghanistan is one of the most important. A reliable national quality and SPS infrastructure would play a key role in: trade facilitation; access to more lucrative markets for Afghan goods and services; and securing the trust of consumers and credibility in the market. It would further allow the private sector to maintain long-term export relationships based on products that consistently meet buyer expectations and international standards. Effective implementation of international standards can help enterprises identify problems before goods reach the market, thereby reducing both the cost and the impact on reputation of potential deficiencies.

At all three levels – policy, institutional and enterprise – the quality and SPS framework currently suffers from a variety of weaknesses that constrain exporting enterprises (and potential exporters) from bringing quality and safe products to markets. There is thus an urgent need to develop a national strategy for revamping the framework so as to align it with international best practice in quality and SPS management.

The efforts so far to establish the key elements of the quality and SPS infrastructure, including standardization, metrology and conformity assessment (testing, inspection,



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certification and accreditation), have not received strategically oriented and adequate support from the Government, the donor community and the private sector in terms of human and financial resources and, most importantly, political will and support.

The establishment of ANSA was a cornerstone for development of a sound quality infrastructure but a unified solid quality technical infrastructure is by and large still to be developed. The same applies to the functions related to food safety and plant health within MAIL and MoPH, where efforts and political will have to be invested to streamline roles and responsibilities, in particular with regard to inspection, market surveillance and testing. Initial steps have been taken to address WTO commitments with the adoption of legislation; efforts are now required to implement these through appropriate procedures.

Some specific areas in the quality and SPS framework fare slightly better, such as: development of national standards with the adoption of 580 national standards; participation in regional standardization efforts (e.g. membership of the South Asian Regional Standardization Organization and Metrology Institute of Islamic Countries); strengthening of testing capacity such as at the Animal Health Department of MAIL; and establishment of petroleum products testing laboratories and construction laboratories by the private sector. Deficiencies in Afghanistan's national quality and SPS infrastructure are especially noticeable in the fields of metrology, certification, accredited testing services, inspection and accreditation as a result of inadequate human resources, technical skills, equipment and financial resources.

Further, coordination and collaboration among the major players and stakeholders of quality and SPS management in Afghanistan remains a challenge, as its current weak status significantly reduces the potential synergy that the different institutions could bring to improving export competitiveness, trade facilitation and consumer protection.

Figure 4: Afghanistan's national quality infrastructure



The situation concerning the different components of the Afghan quality infrastructure is given below.

Standardization

Standardization is the main function of ANSA, which has established Technical Committees (TCs) in 12 sectors that are composed of representatives from Government entities, academia and the private sector. The adoption of standards is organized by a TC Operation Manual and is consensus-based. However, ANSA adopted the Code of Good Practice for Preparation, Adoption and Implementation of Standards (annex 3 of the TBT Agreement) in 2016. The majority of national standards adopted by ANSA are identical to international standards from the International Organization for Standardization (ISO), International Electrotechnical Commission (IEC), Codex Alimentarius, and ASTM International. Only in a few cases have there been minor adaptations to ensure the practicality of the standards for the country.

ANSA provides standards free of charge. Participation in TC meetings requires physical presence so only experts or industry representatives in Kabul are able to attend regular meetings of TCs. ACCI generally represents the private sector and there are few industry representatives as permanent members of TCs. ANSA has developed 580 National Standards and the first package of Afghanistan Building Codes. National standards are only provided in hard copy form. In terms of standardization law, compliance with national standards is voluntary. There are no major standards

promotion efforts and awareness of the role and importance of standards remains critically low. According to a survey conducted by the United Nations Industrial Development Organization in 2013 among some 350 companies in production, services, trade and construction sectors, an average of 52.2% of respondents were not aware of the existence of national standards and the figure was as high as 60.4% for the production sector.

During consultations for the NES design process, several stakeholders stated that they were not aware of national standards; for instance, those applicable to saffron or carpets. ANSA does not operate a functional electronic standard information system and its customers have to rely mostly on printed materials. The ANSA website is not up-to-date; the standardization workplan and catalogue of national standards are not accessible online. ANSA publishes a quarterly magazine. There were some awareness-raising workshops in the past but it seems that ANSA will not be able to have any such programme in 2017 except for half-day workshops on the subject conducted with ITC support under the Advance Afghan Trade Project.

ANSA is responsible for the TBT National Enquiry Point (NEP) but there is no documented procedure or adequate coordination with relevant entities. There are no value added sensitization services provided by the NEP for the private sector. There is no documented procedure to collate comments on notified technical regulations and submit to the WTO Secretariat and members. ANSA has not attended the TBT Committee at WTO so far. The priority areas for standardization identified by ANSA are shown below.

National priority areas for development and harmonization of standards

- | | | |
|----------------------------------|-------------------------|--------------------------|
| • Food and agricultural products | • Plastic and chemicals | • Environment |
| • Construction materials | • Management systems | • Electrotechnical |
| • Petroleum products | • Cosmetics | • Information technology |
| • Textiles and leather | • Pharmaceuticals | |

Metrology

An effective national measurement system is essential to ensure fair trade and quality assurance. At present, there is no establishment in the country to maintain national measurement standards and ensure traceability of measurements in the country. In terms of standardization law, ANSA is mandated to develop the country's metrology system, which will include both scientific and legal metrology. The Metrology Department at ANSA is in the early stages of establishing the legal metrology function. The metrology lab of ANSA, which covers five major areas (mass, length, volume, pressure and electricity), is ready to start operation. However, the technicians have not yet received any training in the use of the equipment.

Conformity assessment

In terms of standardization law, provision of conformity assessment services is open to both public and private sectors; however, there is no policy in place to foster accredited/recognized conformity assessment services in the country.

Certification

The purpose of certification is to attest conformity with relevant national, regional and international standards. In the public sector, ANSA is mandated to establish a certification unit in order to provide management system and product certification services that should be accredited against ISO/IEC 17021 for management system certification and ISO/IEC 17065 for product certification. However, ANSA lacks a pool of trained lead auditors for management system certification and its laboratories have limited scope for testing services, which are moreover not accredited to effectively support product certification. Accredited certification by foreign certification bodies is barely accessible. Some certification services are provided by foreign certification bodies, mostly for ISO 9001, ISO 22000, Hazard Analysis and Critical Control Points (HACCP) and ISO 14001. According to an ISO survey on certification, 166 organizations were certified to ISO 9001 and one to ISO 22000 in 2016. However, a glance at the practices regarding certification reveals many fake certifications. There is no financial support provided by the Government for SMEs to obtain conformity assessment services but there are some projects, such as a USAID project for businesses led by women, which provide such financial assistance.

There is no local private certification body in the country. The above-mentioned certification systems are provided by multinationals or their representatives. There are some private consulting companies active in the field of management system certification and they also provide audit services for certification bodies, which may lead to conflict of interest.

An example of overlaps or duplications of roles that require streamlining is the voluntary certification of saffron which is planned by MAIL, while ANSA is mandated to provide voluntary product certification to its standards. There is also a lack of knowledge to distinguish between 'mandatory' (safety requirements) and 'voluntary' (quality requirements) certificates, e.g. the certificate for dried fruits issued by the Raisin, Fresh Fruit and Dry Fruit Association within MoCI was made mandatory but it was mostly an administrative task without any systematic assessment of conformity to the standard. The Association is presently considering whether this certification should be made voluntary.

Afghan companies still lag behind their competitors in terms of certification to international standards. Fake certification has added to the problem, with the risk that investment in such services will not be recognized by trading partners or trust in the scope of the certification, whether it is safety or capacity to meet the buyer's requirements.

Inspection

Inspection refers to examination of a product design, product, process or installation and determination of its conformity with specific requirements or, on the basis of professional judgement, with general requirements. The import/export inspection system in Afghanistan is at a basic stage. In terms of the existing standardization law, ANSA is responsible for developing and implementing the import inspection system except for food and pharmaceuticals, which are the responsibility of MoPH and MAIL. Currently ANSA has a regulatory arm and the future depends on the decision of the Government. There is some confusion and duplication of inspection roles between MoPH and MAIL inspectors, such as at airports. The lack of adequate training, competence, qualification and integrity of inspectors has negatively affected recognition of the inspection reports or certificates issued by the responsible ministries. Inspectors mostly rely on the documents presented by the trader and sometimes on visual inspection. Inspection facilities need to be properly equipped and upgraded.

Testing

There are no accredited testing laboratories in the priority areas in Afghanistan. Using the testing services of competent regional and international labs is not cost-effective nor reasonably accessible. ANSA has established a central laboratory complex in Kabul with a good physical infrastructure and equipment for a petroleum lab, construction and geotechnical lab, food lab, electrical lab and metrology lab, but the organization is facing critical challenges in hiring and retaining technicians and chemists. The food lab of ANSA was assessed by an international expert assisted by USAID/Afghanistan Trade and Revenue Project, who provided a three-year plan for operationalization of the food lab. The construction lab could be used for testing of marble.

The MoPH lab in Kabul also has a food branch which can do basic tests for physical-chemical parameters and bacteriology but it only has a dozen pharmacists, who are not well-trained even for the existing equipment. Language seems to be a critical problem for them to receive comprehensive training. MAIL has some testing capabilities, mainly developed for animal products. Kabul University (Agriculture and Veterinary Sciences faculties) conducts some physical, chemical and microbiological tests. MoCI conducts some physical, chemical and microbiological test for dried fruits

but lacks trained staff and proper equipment. In view of establishing a network of labs by different regulatory entities, the physical infrastructures of different existing labs, if adequate, would be considered for synergies. There are no private labs for priority areas such as fresh and dried fruit and carpets. Budget is generally allocated for purchasing of equipment but not for maintenance, calibration, reagents and update training.

Lack of efficient coordination has resulted in duplication, overlap and in some cases parallel planning and investment. For instance, both MoPH and MAIL are planning to purchase food lab equipment and establish laboratories. Considering the scarcity of technical human resources in the country and the associated operational costs, these labs may face serious sustainability challenges. On the other hand, while purchasing new equipment is planned for the current fiscal year (2017), there is no arrangement for revision of the organizational structures. A new National Policy for Laboratories has been introduced and there is a need to develop specific procurement procedures for laboratory reagents, equipment and standard reference materials considering the new policy.

The box below lists the different laboratories, their scope of services and their limitations.

Laboratory	Remarks
ANSA Labs	<ul style="list-style-type: none"> • Excellent infrastructure • Residue, nutrition, microbiological, moisture content • Three-year development plan/Afghanistan Trade and Revenue Project • Only two technical staff, untrained • Not operationalized yet • Very modern construction lab could be used for marble • Textile lab to be established and used for carpets
MoPH Food Lab	<ul style="list-style-type: none"> • Moved to new premises which are better than before • Physical, chemical and bacteriologic tests • 13 technical staff, mostly pharmacists • Language a challenge for training
MAIL Food Lab	<ul style="list-style-type: none"> • Chemical, bacteriologic, immunologic test • 18 staff and many have received trainings • Veterinary lab for physical, chemical and microbiological tests • 17 staff and some have received trainings • Saffron lab in Herat but not operationalized
MoCI	<ul style="list-style-type: none"> • Five staff, untrained
Raisin and Dry Fruit Enterprise Lab	<ul style="list-style-type: none"> • Physical and chemical tests
Kabul University	<ul style="list-style-type: none"> • Agriculture and Veterinary Sciences faculties • Physical, chemical and microbiological tests

Accreditation

There is no accreditation body in Afghanistan. The Government has not even assigned any ministry to develop the accreditation system in the country. ANSA has signed an

MoU with the Turkish accreditation body to seek technical assistance for accreditation of its laboratories and to act as a focal point for accreditation activities in the country but the agreement has not been operationalized so far.

Box 8: International certifications relevant to Afghan enterprises in the NES priority sectors

ISO 9001 or QM international standards

ISO 9001 standards are issued by ISO. ISO 9001 QM requirements can be applied by any organization regardless of its size and nature of operations or products / services. It can be applied in hospitals, banks, telecommunications companies, SMEs, large companies and multinational companies.

Implementing ISO 9001 will ensure that a company has an internal integrated management system with minimum quality requirements, and that the company has the methodology for improving its quality in terms of processes and products, since ISO 9001 includes documentation requirements. ISO 9001 certification includes clear identification of responsibilities and authorities through the internal system and job descriptions

HACCP

In the more than 30 years since its conception, the HACCP system has grown to become the universally recognized and accepted method for food safety assurance. The recent and growing concerns about food safety from public health authorities, the food industry and consumers worldwide has been the major impetus in the application of the HACCP system, so the World Health Organization has recognized the importance of the HACCP system for prevention of food-borne diseases for over 20 years and has played an important role in its development and promotion. HACCP is a system in which food safety is addressed through the analysis and control of biological, chemical and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product.

ISO 22000:2005 Food Safety Management System

ISO 22000 is a standard developed by ISO for the food safety supply chain. It defines the requirements of the Food Safety Management System, which is the system covering all organizations working in the food chain 'from farm to fork'. The standard combines generally recognized key elements to ensure food safety along the food chain, including interactive communication, systems management, control of food safety hazards through prerequisite programmes and HACCP plans, and continual improvement and updating of the food safety management system.

Good Manufacturing Practices (GMP)

GMP is defined as 'that part of quality assurance which ensures that products are consistently produced and controlled to the quality standards appropriate to their intended use'. The principles and guidelines for GMP are stated in two European directives: Directive/94/EC for medicinal products and investigational medicinal products for human use, and Directive/412/EEC concerning veterinary medicinal products. Compliance with these principles and guidelines is mandatory within the European Economic Area.

Detailed guidelines in the form of GMPs provide interpretation of the principles and guidelines, and these in turn are supplemented by a series of Appendices which modify or augment the detailed guidelines for certain types of product, or provide more specific guidance on a particular topic. GMPs are guidelines that provide a system of processes, procedures and documentation to assure a product has the identity, strength, composition, quality and purity that it is represented to possess.

Quality promotion (information, education and training)

Awareness-raising: A major obstacle to the implementation of standards is lack of awareness about the importance of standards and the necessity for QM procedures. The majority of Afghan SMEs are unaware about the procedures of standardization and conformity assessment. The demand of the Afghan population for quality products is increasing but still nascent. This demand needs to be stimulated to embed the implementation of standards into a sustainable business logic of profit. This means that an effort needs to be made to raise awareness at both ends of the supply chain: producers and consumers.

Education and training: There are no organized education and training efforts to enhance knowledge of QM and standardization among producers. Although the importance of quality and safety are realized to some extent by enterprises, it seems very challenging for them to meet market requirements. Afghanistan needs a pool of trainers

in different fields such as QM, SPS measures, testing, inspection, certification and prerequisite programmes (such as Good Agricultural Practices (GAPs), Good Hygienic Practices (GHPs) and GMPs).

SPS capacity

Many countries, in particular developing ones, face market access challenges related to significant gaps in their food safety, and plant and animal health systems, which comprise the SPS capacity of a country. In particular this applies to the capacity to establish and maintain effective control systems for agricultural and food products intended for export and to ensure compliance with importing regulations from the supply side.

Afghanistan exports face challenges complying with SPS measures, which are mainly based on Codex, OIE and International Plant Protection Convention standards and are getting more stringent due to the need of importing countries to ensure that food and food products, plants and livestock



Photo: ITC, NES Consultation, Kandahar.

products are safe for human consumption, do not constitute a risk for animals and plants, and preserve natural resources. Agriculture and food products are among the most regulated sectors at international, regional and national levels.

Major causes of rejections are the presence of mycotoxins such as ochratoxins or aflatoxins, pesticide residues, heavy metals and hygiene hazards that also affect the priority agro export products from Afghanistan. At a glance, from 2010 to 2017 Afghanistan experienced 26 border rejections due to the presence of ochratoxins and aflatoxins in raisins and pistachios, respectively, or infestation with moulds above limits. This figure could increase if the traded volume increases and hazards are not addressed at the source.

In the area of food safety, to address these challenges, GoRoA has adopted the Food Safety Law with a food control system that uses multiple agencies, principally MAIL and MoPH, and also agencies such as ANSA and MoCI (which issues export certificates) and possibly also other agencies in the provinces. By law, MAIL has the responsibility for the control of quality and safety of raw and fresh agricultural, plant and animal products and those that are partially processed, and MoPH for processed foods. For food safety controls to be effective, it is important to have such controls maintained across the food chain with both ministries handling their respective responsibilities for food control management and ensuring efficient coordination, which is yet to be established. Both ministries are working to establish their own food control authority. This could again lead to overlap of roles and responsibilities, already flagged by stakeholders, and inefficient use of already scarce resources. However, there has been some good progress recently with both ministries signing an MoU to elaborate their roles and responsibilities and a separate MoU to establish a National Codex Committee, and drafting a shared policy for laboratories.

MAIL and MoPH, as ministries responsible for food safety, in collaboration with other relevant entities, need to establish national regulatory standards as per the WTO SPS Agreement. This will include requirements for residues and contaminants, microbiological criteria and, in certain cases, even quality criteria. In addition, it is also critical to introduce standards for good practices such as GAP, GHP and Codex-based food safety systems (HACCP).

In addition to the limited availability of qualified experts in the Codex Committee, a number of challenges affect the country's food safety control system. They range from the lack of procedures to adequate laboratory facilities, no food safety technical training conducted for many years and lack of budget for transport of inspectors. A number of technical assistance projects have been implemented and are ongoing to address food safety challenges; in particular, the Food and Agriculture Organization of the United Nations plays an important role in assisting the food safety area.

Technical regulatory framework, including SPS-related legislation

The Standardization Law is the main legislation that provides legal bases and provision for the establishment of a national quality infrastructure in Afghanistan. The law was revised in the process of accession to the WTO. However, the related regulations and procedures have not been developed so far. Major missing laws for quality infrastructure are legal metrology and accreditation laws. A more complete set of legislation has been developed for SPS compared with quality. Most of the laws have been either developed or reviewed/revised for the WTO accession process. However, in many cases the complementary regulations and procedures are missing. The legislation regulating the quality and SPS framework is given below.

Box 9: Afghan legislation regulating the quality and SPS framework

Legislation	Objectives	Key features / issues
Standardization Law (28 July 2016)	<ul style="list-style-type: none"> To establish and develop a national quality infrastructure To improve the quality of trade commodities (import and export), manufactured goods and services To determine consumption norms to ensure efficient use of financial and economic resources To ensure health and safety of consumers and protect the environment To encourage and facilitate private sector investment in standardization, metrology and conformity assessment services 	<ul style="list-style-type: none"> Government procurement, education, accounting and legal standards are excluded Principles for development and enforcement of Technical Regulations (TRs) included No specific regulation for conformity assessment
Metrology Law (Draft)	<ul style="list-style-type: none"> Establishment of a legal metrology system 	<ul style="list-style-type: none"> Not enacted
Consumer Protection Law (15 November 2016)	<ul style="list-style-type: none"> To protect consumers against deceptive and misleading measures as well as false information provided by producers or suppliers of goods and services To ensure awareness of consumers about goods and services To assure consumers of the quality of goods and services 	<ul style="list-style-type: none"> Relevant procedures to be developed Overlap with market surveillance There is no court procedure specific to consumer protection
Environmental Law (2 January 2007)	<ul style="list-style-type: none"> To protect the health of humans, plants and animals and improve their livelihoods To ensure ecologic performance and growth To protect natural and cultural inheritance 	<ul style="list-style-type: none"> A number of regulations have already been adopted
Labour Law (25 November 2008)	<ul style="list-style-type: none"> To establish, organize and strengthen the working relations of labour To ensure equal access to jobs To determine the responsibilities of the employer and provisions for health and safety and capacity development 	<ul style="list-style-type: none"> The regulations related to health and safety of labour have not been updated
Food Safety Law (28 July 2016)	<ul style="list-style-type: none"> To protect the lives and health of humans To improve the livelihoods of citizens and safety of foodstuffs To ensure the safety of imported, exported and locally produced food To ensure a quality and safe food supply 	<ul style="list-style-type: none"> Unclear roles of the responsible institutions No provision for establishment of a food control authority Regulations have not been adopted
Pesticide Law (22 August 2016)	<ul style="list-style-type: none"> To control the production, import, transport, storage, distribution and use of pesticides To prevent damage to the health of humans, animals and plants from the use of pesticides To protect plants and the environment from negative impacts of pesticides To prevent waste of agricultural products 	<ul style="list-style-type: none"> Illegal import and supply of pesticides and chemicals seems to be a challenge
Plant Protection and Quarantine Law (8 October 2016)	<ul style="list-style-type: none"> To prevent damage within the territory of the country by the entry, establishment and spread of pests To identify, diagnose, limit and destroy pests and weeds and prevent their spread To supervise the implementation of quarantine measures during the production, transport, storage, processing and supply of agricultural products. 	<ul style="list-style-type: none"> Quarantine Service regulation has been adopted
Veterinary Law (20 July 2016)	<ul style="list-style-type: none"> To protect animal health To prevent and control animal diseases including zoonotic diseases To organize veterinary diagnostic laboratory services To organize import and export of animals, animal products and drugs To ensure the quality and safety of animal products To protect the life of animals 	<ul style="list-style-type: none"> A clear reference to OIE, Codex and SPS

INSTITUTIONAL ASSESSMENT

ANSA

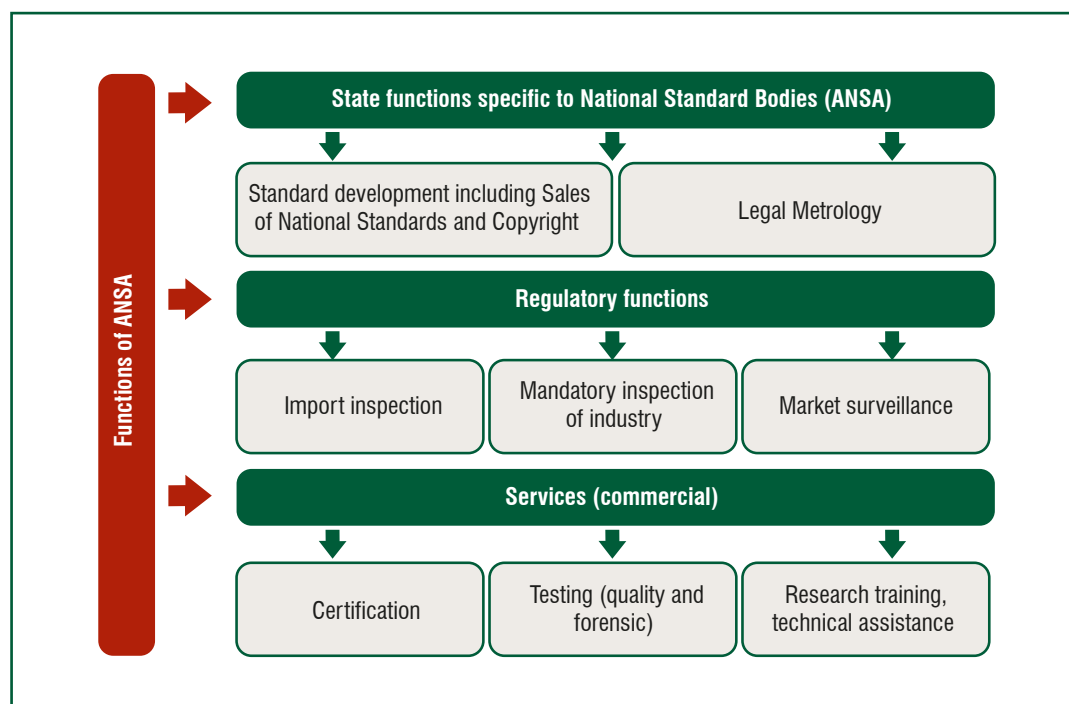
ANSA is the sole standardization body in Afghanistan. ANSA is a Government entity and gets its line budget from the Government. Its organizational structure is based on the Civil Service Law and all its revenues flow to the Treasury. The establishment of ANSA in 2004 was a very promising step for the establishment of a national quality infrastructure. ANSA was declared independent in 2007. This was followed by an important effort at capacity-building within ANSA supported by different donors. A National Standards Law was drafted and enacted in 2010. It served as the basis of the progressive development of national standards in Afghanistan. A number of national standards were officially approved by the Supreme Council of Standards, established in December 2010. These were encouraging achievements but the task of building a complete and efficient quality infrastructure is immense and requires time, commitment and political support. The ANSA 2011–2015 strategy exposed some of these main steps. ANSA has four major mandated functions: standardization, metrology (weights and measures), conformity assessment services and regulatory function as indicated the figure below.

The Supreme Council of Standards, chaired by the 2nd Vice-President, is the highest body to approve national standards and conformity assessment procedures and is ANSA's regulatory arm related to safety inspections of imports except food and pharmaceuticals. ANSA, with eight provincial branches, mainly close to Customs points, has a total of 300 staff on its payroll. Being a Government entity, ANSA has secure financing; however, it needs to provide adequate evidence of its efficiency to the Government in order to receive the required budget and structure. ANSA has obtained:

- Full membership of ISO
- Affiliate plus status with IEC
- Membership of the South Asian Regional Standardization Organization
- Membership of the Standard and the Metrology Institute of Islamic Countries
- Membership of the Regional Institute for Standardization, Conformity Assessment and Metrology, which is going to be functioning under the Economic Cooperation Organization.

Though ANSA attends regular events held by these organizations, it is still unable to actively participate in the standardization work of regional and international organizations because it lacks adequate technical expertise. The main challenge will be to streamline functions and services, considering both available resources and those that can be self-generated.

Figure 5: Mandated functions of ANSA



MAIL

Agriculture is the driving force and the backbone of the Afghan economy. MAIL is endeavouring to address structural and capacity demands; enable farmers to generate increased income; and provide greater food, nutritional security and self-sufficiency for families and the country.

Production in virtually all areas of agriculture has increased. Efforts are under way for MAIL to move from an institutional focus to a 'farmer-centric' focus, where the views and needs of farmers are carefully considered to ensure that appropriate investments are planned and that MAIL acts as an enabler for farmers to realize greater value for their products. MAIL plays an important role as a facilitator on behalf of farmers with other institutions of Government and the private sector. For the next five years, MAIL proposes to address the following seven priorities: irrigation, wheat, the horticulture value chain, livestock, climate-sensitive natural resources management, food and nutrition security, and institutional reform and capacity-building.

Plant health: The Plant Protection and Quarantine Directorate is a major function of MAIL concerned with protecting the agricultural resources of Afghanistan from dangerous plant pests and diseases, issuance of import and export phytosanitary certificates for plant material and horticultural crops, and registration and control of the use of pesticides and other agrochemicals. The Directorate is also responsible for enforcing laws and regulations on registration and the use of pesticides and other agrochemicals. The Directorate has a presence in 34 provinces of Afghanistan with 58 technical staff in Kabul and 366 staff in provinces.

Lack of fumigation houses and cold and hot treatment, inadequate technical and human capacities, limited inspection capabilities, lack of accredited testing facilities and limited recognition of the phytosanitary certificates issued are the major challenges. A number of technical assistance projects are strengthening the Directorate, such as the Afghanistan Agriculture Input Project; the National Horticulture and Livestock Project funded by World Bank to construct and equip quarantine stations or a laboratory complex with 13 labs; implementation of International Standards For Phytosanitary Measures (ISPM) standards; implementation of farmer field schools; and implementation of Integrated Pest Management (IPM).

Animal health: Animal health is another major function of MAIL that includes disease prevention and control, and food safety and security by providing a range of veterinary and veterinary public health and quarantine facilities; certification of imported and exported animal products and live animals aligned with OIE and Codex regulations; regulatory and awareness-raising activities; provision and distribution of frozen semen to farmers; distribution of improved breeds of animals and fish; and animal feed and product testing and analyses. Veterinary services were evaluated in April 2017

by OIE using the Performance of Veterinary Services evaluation tool to assess strengths and gaps in compliance with the OIE Terrestrial Animal Health Code; many improvements were noted since the last evaluation in 2010, with increases in 12 out of 47 critical competences and no decreases. This progress reflects dedication by veterinary services with the support of donor investment and the work of international agencies and NGOs.

The preliminary findings, confirmed during the NES design consultation with stakeholders, include the following major challenges: insufficient qualified veterinarians in the public veterinary service, and in particular the lack of technical staff at provincial level, especially in remote provinces; illegal import and export of animals and animal products at borders; and a shortage of technical capacities in quarantine units. The lack of food safety inspectors trained in meat inspection and HACCP-based food safety systems needs to be addressed to support the rapid growth in commercial poultry production and poultry processing facilities. There is no formal licensing system with registration of service providers. Testing capacities, however, have been well-developed during the past couple of years and there is an ambitious plan to upgrade laboratory capacity in Kabul and major provinces.

The new Animal Health (Veterinary) Act is a major advance, providing authority for the core functions of a modern state veterinary service. The development of regulations and programmes to implement this Act is now urged.

Extension services: The main objective of MAIL for extension function is to increase productivity and production through quality extension services to farmers and thereby improve the knowledge of farmers and herders about current agricultural practices. At national level there are three directorates and five sections/departments functioning under the General Directorate of Extension and Agriculture Development. They are responsible for implementation of projects as well as provision of extension services but the tasks are not allocated to departments in a manner that supports demand-driven extension services at field level. The services are fragmented and limited in their geographic coverage. According to National Risk and Vulnerability Assessment surveys, it is estimated that only 5% of farmers have access to extension services. The absence of links to universities and research centres has broken the continuum of research–extension–education.

A national agriculture extension policy focused on demand-driven support at field level has been developed but its implementation is yet to be realized. GoIRoA is encouraging a change from a supply-driven system to a system of demand-driven services and aims to increase coverage to 80% of districts and at least 25% of farmers by 2020.

Food safety: As indicated above under SPS capacity, MAIL has food safety responsibilities. There is confusion and duplication of roles in inspection between MAIL and MoPH,

and the lack of inspection facilities and skills at airports affects controls.

SPS NEP: MAIL and MoPH are responsible for implementation of the SPS Agreement. The General Directorate of Planning and Programme Coordination of MAIL is responsible for coordinating and implementing WTO SPS commitments and is the designated SPS NEP. The official designated as focal point has been communicated to WTO. The recently established Policy and Legal Unit reviews, edits, processes and ensures endorsement of all regulatory, policy and legal documents, and it covers any regulatory documents that relate to WTO commitments.

However, the function of the NEP can hardly be carried out due lack of technical knowledge and appropriate procedures for operating such a service, lack of coordination and communication with stakeholders, and high turnover and shifting of SPS-trained staff to other departments.

MoPH

MoPH's vision is that all citizens reach their full potential in health, contributing to peace, stability and sustainable development in Afghanistan.

The following 10 strategic directions have been identified and reached consensus:

- Improve the nutritional status of the Afghan population.
- Strengthen human resource management and development.
- Increase equitable access to quality health services.
- Strengthen the stewardship role of MoPH and governance in the health sector.
- Improve health financing.
- Enhance evidence-based decision-making by establishing a culture that uses data for improvement.
- Support regulation and standardization of the private sector to provide quality health services.
- Support health promotion and community empowerment.
- Advocate for and promote healthy environments.
- Create an enabling environment for the production and availability of quality pharmaceuticals.

The Environmental Health Department of MoPH is responsible for safety inspections of food imported into Afghanistan as well as inspection and surveillance of locally produced food. The Department has a presence at almost at all Customs points but it lacks technical capacities for effective inspection. MoPH's main lab in Kabul –the Drug and Food Quality Control Laboratory– has developed some capacities in the fields of physical-chemical, microbiological and toxicological testing which support the regulatory authority in safeguarding public health and ensuring that food products and drinking water available in Afghanistan meet the appropriate standards of quality and safety. In 2016, 382 samples of drinking water and 451 food samples were analysed by

the Laboratory. The Global Alliance for Improved Nutrition currently supports the MoPH lab in testing of micronutrients (fortified flour, edible oil and iodized salt) and laboratory management systems.

A limited number of technical staff, lack of structured training and capacity-building programmes, and limited availability of chemicals and reagents are the major challenges in this area. Complex administrative procedures and transparency issues have also hampered implementation of efficient food safety controls, with most imported food entering the country without being inspected for safety.

MoCI

The vision statement of MoCI is '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'. The mission of MoCI is 'to encourage growth through the development of appropriate policies and regulations, and the facilitation of private sector production and trade.'

As the main thrust of its strategic plan, the Ministry has identified the following strategic objectives to develop the Afghan economy:

- Improve the enabling and regulatory environment for business and Afghanistan's Doing Business Index ranking.
- Improve international competitiveness and trade.
- Industrialize Afghanistan through increased exports and import substitution.
- Ensure the private sector operates fairly and equitably.
- Ensure pro-poor growth.
- Promote the market economy and increase understanding of how it operates.

MoCI is the leading agency for formulation and implementation of foreign trade policy. It led the WTO accession process through an interministerial committee. In the post-accession era it now plays a key role in coordinating implementation of WTO agreements, including TBT and SPS, acting as the National Notification Authority and designing the export regime of Afghanistan. The WTO desk that was recently upgraded to WTO Directorate is expected to provide expert assistance to ministries and agencies involved in and responsible for implementation of different agreements. The Afghan Ambassador to WTO will play a key role in connecting these Afghan entities with relevant committees and structures at WTO, and facilitating the active participation of Afghanistan in SPS and TBT matters. MoCI is also planning to establish a WTO institute to develop a pool of expertise on different aspects of WTO agreements and procedures, and synergies would be built related to TBT and SPS. MoCI, MoPH and MAIL have signed an MoU for the coordination of the National Notification Authority and TBT and SPS NEPs

as a first step but the operationalization of the MoU is not yet effective.

The Consumer Protection Department of MoCI has very limited capacity and even the procedures required to enforce the Consumer Protection Law have not been developed. A number of other ministries and institutions play an important role as regulatory bodies or supporting institutions in the quality frameworks, such as the Ministry of Energy and Water, National Environmental Protection Agency, Ministry of Rural Rehabilitation and Development, MoLSAMD, MoHE, ACD, chambers of commerce (ACCI, EPAA, AWCCI) and sector associations.

PERFORMANCE AND KEY COMPETITIVENESS CONSTRAINTS

The following challenges hamper the quality and SPS functions and capacity of SMEs to take advantage of available trading opportunities and development.

Policy challenges

- Absence of a national quality and SPS policy.
- Lack of a collaborative strategic plan for development of the national quality and SPS infrastructure.
- Lack of a national metrology system.
- Lack of a national accreditation system.
- Inadequacy of the technical regulatory system to align with accepted best practices.
- Non-existent capacity to elaborate and implement equivalence mechanisms and achieve Mutual Recognition Agreements/Arrangements.

Institutional challenges

- Lack of effective coordination among TISIs and the existence of duplication, overlap of functions and competition for authority.
- Inadequate participation in regional and international standardization efforts.
- Limited technical expertise, e.g. trained inspectors, consultants, auditors and technicians in priority fields such as GAP, GHP, GMP, quality and environmental management systems (i.e. ISO 9001, 14001), food safety systems (i.e. HACCP/ISO 22000), phytosanitary and health inspection and certification, quality testing and product certification.
- Limited laboratory capacities and testing services.
- Inefficient inspection system to ensure quality and safety of imports and exports.
- Inadequate promotion, extension and awareness-raising activities.

Enterprise challenges

- Inadequate knowledge of mandatory and voluntary quality-related requirements on the part of farmers, primary producers, processors and traders.
- Limited access to market intelligence.
- Inability of exporters to comply with targeted export markets' regulatory and quality requirements.
- Lack of investment incentives for the private sector to contribute to the quality infrastructure (e.g. laboratories, certification, inspection and consulting).
- Lack of a quality culture embedded in the industry and across the sectors.

THE ROADMAP

The analyses conducted as part of the strategy design process of the QM TSF indicate that Afghanistan has yet to fully develop its capacities in this area, despite the positive steps that have been taken. Elements of the national quality infrastructure – i.e. standardization, metrology, conformity assessment and accreditation, and SPS – are in different stages of development from a relatively well-established standards development system to a complete absence of accredited conformity assessment services.

Greater QM capacities would have far-reaching positive impacts on the Afghanistan export value chain. In addition to facilitating stronger, long-term export relationships and helping enterprises introduce their products to new, more demanding markets, the strategic options set forth here should ultimately lead to a more stable socioeconomic environment in the future.

With the above in mind and considering the list of identified issues, stakeholders have established the following vision for the QM TSF strategy:

“Quality brings changes
and boosts prosperity.

Afghan products meet the regulatory
and buyers' requirements of target
markets, supported by an adequate physical
and institutional quality infrastructure”

The vision and the key features of the TSF strategy will be achieved through the implementation of the strategy's PoA. The PoA revolves around the following five strategic objectives, each spelling out specific set of activities intended to address the challenges faced by the quality and SPS function in Afghanistan.

1. Improve awareness and knowledge of enterprises about standards, TRs and SPS measures and promote a quality culture.
2. Improve the ability of enterprises and producers to comply with technical market requirements.
3. Strengthen the national standardization, quality, accreditation and metrology infrastructure to be recognized/accepted by trade partners globally.
4. Strengthen the national SPS capacity.
5. Improve consultation and coordination among public and private institutions to enable competitiveness.

The strategic objectives and the PoA have been developed with the participation of different public and private stakeholders in order to ensure commitment, support and targeted efforts of key financial and technical partners, donors and businesspeople. Several institutions are designated to play a leading role in the implementation of the PoA.

The functional and institutional analysis and the strategy presented in this document form an integral part of the NES of Afghanistan. The existence of an efficient, effective and internationally recognized quality and SPS (including food safety, plant health and animal health) infrastructure will not only grant Afghanistan exports entry to more lucrative international markets but will also play a key role in improving the competitiveness and export performance of priority sectors of the NES.

The strategic objectives are structured around operational objectives and a set of activities that are intended to address the wide range of issues confronting the quality and SPS function in Afghanistan. Independent, yet mutually supporting, activities will bolster specific areas of weakness. The coordinated resolution of such weaknesses will serve as the foundation for value added interaction between functional areas. This, in turn, will lead to the realization of the strategic objectives and, ultimately, make the vision a reality.

Each strategic objective relies on a set of operational objectives. The operational objectives are intermediate achievements that must be reached in order for the strategic objective to be met. At the most basic level, the operational objectives are realized through the implementation of various concrete activities, each of which serves to support a specific priority area within the competency of the relevant operational objective. Ideally, each activity will be translated into a project of its own.

Addressing quality and SPS issues requires a holistic approach involving policymakers, institutions (public and private) and enterprises. This approach can be referred to as the '5C' approach and denotes:

1. **Commitment** of policymakers and other local stakeholders through a clear national quality and SPS policy and appropriate strategies, and adequate administrative and financial provisions to deploy the policy and strategies. The national quality policy and the national SPS strategy



Photo: /ITC

mentioned in the PoA illustrate an overall institutional framework for development of an efficient quality and SPS infrastructure with clear roles and responsibilities for each stakeholder and the Government commitment needed to provide required resources through specific NPPs addressing priority needs.

To give effect to the policies, there will be a need to:

- » Review and update existing laws and regulations and develop new laws, regulations and procedures to support the establishment and effective operation of the quality and SPS functions. Procedures to harmonize standards and conformity assessment activities will also be prioritized to ensure a strong legal foundation for QM and SPS functions and efficient integration with regional and international quality efforts.
- » Establish an import/export inspection system based on a commodity inspection regulation to be administered by the relevant authority. The regulation will elaborate the authorities for import/export inspection, their roles and responsibilities, the principles of inspection, the commodity list, and the inspection and verification procedures. An efficient import/export inspection system will not only ensure the quality and safety of products and services marketed in Afghanistan and exported, but also support import substitution and thus improve the business environment for revamping Afghan industries.
- » Establish an efficient and risk-based market surveillance system to ensure safety, quality and quantity of products, and prevention of counterfeit acts, as well as protect the health and safety of consumers.



Photo: <http://www.afghanzariza.com/2015/02/28/afghan-exports-will-now-have-iso-certification-to-ensure-quality-and-safety>

2. **Capacity-building** of quality and SPS-related support institutions (NEPs, national standards bodies, conformity assessment bodies, metrology institutions, national plant protection offices, veterinary services, etc.) and enterprises to build their capacity to comply with technical requirements and achieve the certification needed. Awareness-raising and improving access to or understanding of market technical requirements is considered the first step to capacity-building in this model.
 3. **Competence recognition** of testing laboratories, certification or inspection bodies through their accreditation and the establishment of mutual recognition agreements for conformity assessment procedures with trading partners.
 4. **Enhancement of consultation** between policymakers and the private sector to avoid unnecessary procedural obstacles to transactions through:
 - » Setting up a mechanism for consultation on TRs and SPS measures;
 - » Implementing the transparency provisions of the WTO Agreements on TBT and SPS;
 - » Implementing good regulatory practices, including impact assessment, consultation and market surveillance.
 5. **Coordination and collaboration** among support institutions to create synergy in the effort to support enterprise competitiveness and compliance with standards, TRs and SPS measures. This should build on the recent adoption by GoI RoA of the Public Private Partnership Act as an effort to create a more reliable and confident environment for partnership with the private sector.
- Furthermore, the QM TSF strategy will ensure adequate coordination and synergy is established with other TSF strategies such as trade facilitation and access to finance, as well as with sector-specific strategies of the NES.

QUALITY MANAGEMENT: PLAN OF ACTION

Strategic objective 2: Improve the ability of enterprises and producers to comply with technical market requirements.										Indicative budget: US\$ 2 million / year
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets¹	Leading implementing partner and supporting partners	
			2017	2018	2019	2020	2021			2022
1.1.1. Raise awareness of stakeholders (policymakers, public and private sectors and the general public) on the importance of standards and quality.	1.1.1. Plan and carry out an awareness-raising campaign for policymakers, the public and private sectors and the general public on standards, quality, TRs and SPS measures. <ul style="list-style-type: none">• Establish a communication committee on technical content and means of broadcasting.• Develop awareness-raising materials for different types of stakeholders.• Build a pool of facilitators to conduct awareness-raising.• Conduct sensitization and awareness-raising sessions for policymakers, institutions, producers, processors, traders, consumers and the general public using the materials developed.• Celebrate different events such as World Standards Day, Quality Week, Metrology Day, etc. 1.1.2. Develop, introduce and conduct standards and quality-related education / training modules in relevant academic and vocational training courses. <ul style="list-style-type: none">• Assess existing courses / programmes at academic and vocational training centres and develop and incorporate suitable quality-related modules in their curricula.• Conduct an inventory of existing research projects on standardization and quality at national and regional / international levels and consolidate and disseminate the information on a publicly accessible platform.• Organize quality-related lectures by subject matters experts for students in relevant faculties and vocational centres. 1.1.3. Facilitate exchange of information on quality and buyers' requirements between Afghan traders / businesspeople with counterparts in the region and globally, and promote Afghan quality products in foreign markets through participation in B2B meetings, regional and international fairs / forums and study tours.	1						<ul style="list-style-type: none">• At least 10% of the population sensitized• At least 30 facilitators trained• At least 500 staff of policy institutions sensitized• At least 1,000 enterprises and institutions sensitized• One radio / television programme per month	ANSA, MoCI, MoPH, MAIL EPAA, MAIL, MoPH, MoCI, Consumer Protection Departments, Community Councils, Ministry of Information and Culture, MoF	
		3							<ul style="list-style-type: none">• At least 10 lectures conducted annually• Standard and quality subjects incorporated into the curriculum of three institutions	ANSA MoHE MAIL, MoPH
1.2. Improve access to information on regulatory market requirements	1.2.1. Strengthen TBT and SPS NEPs and the National Notification Authority. 1.2.2. Develop and maintain an online quality platform with information and guidance concerning: <ul style="list-style-type: none">• Mandatory requirements (SPS and TBT legislation);• Standards and other market technical requirements for priority product-market combinations;• A directory of technical services in Afghanistan; and• Links to tools, experts and service providers.	2						<ul style="list-style-type: none">• At least two study tours organized for farmers and producers• At least three B2B meetings organized annually	MoCI-EPAA, ACCI, AWCCI, Afghanistan Chamber of Industries and Mines (ACIM), International Chamber of Commerce (ICC Afghanistan) ANSA, MAIL, MoPH, MoCI	
		1							<ul style="list-style-type: none">• NEPs and National Notification Authority equipped and operational• At least two courses organized for NEPs and National Notification Authority staff• Quality portal launched and maintained	MAIL, ANSA, MoCI Ministry of Communications and Information Technology
		2							<ul style="list-style-type: none">• Quality portal launched and maintained	ANSA, MoCI MAIL, MoPH Ministry of Communications and Information Technology

1. Targets are indicative only and will be the subject of further refinement at beginning of the Implementation Management stage. Similarly, the lead and supporting implementers column remains indicative as the implementation will require collective efforts, for which additional institutions may be added.

2. Activities already initiated in 2017 under the Advance Afghan Trade – EU-funded project implemented by ITC as priorities in the area of quality.

Strategic objective 2: Improve the ability of enterprises and producers to comply with technical market requirements.									
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets ¹	Indicative budget: US\$ 2 million / year
			2017 ²	2018	2019	2020	2021	2022	
2.1. Build the capacity of farmers / primary producers to comply with international requirements.	2.1.1. Develop and implement training and coaching programmes (theoretical and practical) for farmers on GAP, GHP, IPM and best practices for harvest and postharvest according to specific international and regional standards.	1						<ul style="list-style-type: none"> At least 1,000 farmers are trained 	MAIL MoCI, Ministry of Women Affairs, Extension services, private consulting bodies
	2.1.2. Develop and implement dedicated training and coaching programmes for lead female farmers and businesswomen on quality-related subjects as well as product development to access new markets.	1						<ul style="list-style-type: none"> At least 1,000 female farmers are trained 	MAIL, ANSA
2.2. Build the capacity of processors to comply with international requirements.	2.2.1. Develop and implement training / coaching programmes (theoretical and practical) on quality-related subjects, including basic quality tools (e.g. 5S, seven basics), QM and improvement, prerequisite programmes (such as GHP GMP), management systems topics related to quality, food safety, environmental and energy managements systems (such as ISO 9001, 22000, 14001, 51000, 26000, etc.), HACCP and relevant private sustainability standards.	1						<ul style="list-style-type: none"> At least 100 processors trained annually At least 10 processors comply with international standards At least 20 trainers / advisers trained 	ACCI, MAIL, MoPH, MoCI AWCCI, ACIM, ICC ANSA (only for training)
	2.2.2. Improve infrastructure, technology, access to know-how, expertise and certification services through financial support / matching grants.	2						<ul style="list-style-type: none"> At least 10 processing companies supported 	MoCI, ANSA ACCI, AWCCI, ACIM, ICC, MAIL, MoPH
	2.2.3. Improve packaging and labelling for priority products.	1						<ul style="list-style-type: none"> At least 20 enterprises trained annually on packaging and labelling Manuals available 	MoCI, MAIL, MoPH ANSA, ACCI
	2.2.4. Establish partnerships with existing and new packaging providers to identify solutions on packaging.	3						<ul style="list-style-type: none"> One pilot partnership facilitated 	MoCI, ANSA
	2.2.5. Organize study tours and participate in international packaging fairs to build packaging competencies and identify solutions, and build on previous experience.	3						<ul style="list-style-type: none"> At least one event facilitated annually and 10 people participated 	MoCI, ANSA
	2.2.6. Refurbish existing packaging facilities / establish new packaging centres if required.	1						<ul style="list-style-type: none"> Upgrading of existing facilities and at least one centre established 	MoCI, MoF MAIL, ANSA
	2.2.7. Establish and operationalize a traceability system (i.e. bar codes), including training on traceability in pilot sectors. Conduct research on the most appropriate, locally applicable technology such as radio-frequency identification tags for ease of use.	1						<ul style="list-style-type: none"> National bar code system established At least 30% of exports have a national bar code 	MAIL MoCI, MoFA

Strategic objective 3: Strengthen the national standardization, quality, accreditation and metrology infrastructure to be recognized / accepted by trade partners globally.									
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Indicative budget: US\$ 7 million / year
			2017	2018	2019	2020	2021		
3.1. Develop / review and revise policies, laws and regulations supporting the quality infrastructure	3.1.1. Develop a national quality policy to ensure harmonization of efforts, obtain political support and reduce duplication and overlap. <ul style="list-style-type: none"> Develop and adopt the policy with a road map for implementation. Conduct a series of sensitization workshops to widely disseminate the policy. 	1						<ul style="list-style-type: none"> National quality policy approved Four workshops with at least 200 stakeholders conducted 	ANSA, MAIL, MoPH MoF, MoCI
	3.1.2. Review the draft law on metrology and develop regulations to establish and enforce standards of legal metrology and regulate trade with regard to weights and measures, and enforce the legislation.	2						<ul style="list-style-type: none"> Legal metrology law enacted Three regulations developed Market surveillance in Kabul covers 20% of retailers 	ANSA MoCI, municipalities, Customs, Independent Directorate of Local Governance
	3.1.3. Develop accreditation legislation to facilitate access of conformity assessment bodies in Afghanistan to recognized accreditation services, and promote accreditation.	3						<ul style="list-style-type: none"> Accreditation law enacted Access to at least 20 conformity assessment bodies accredited 	ANSA, MoCI, ACCI
3.2. Improve standards development and promotion.	3.1.4. Update the Strategic Plan and Operational Plan of ANSA for standardization activities, metrology and conformity assessment services with resource allocation and key performance indicators.	1						<ul style="list-style-type: none"> Strategic plan approved and implemented 	ANSA
	3.2.1. Strengthen the standardization services of ANSA. <ul style="list-style-type: none"> Review, update and adopt standards development procedures of ANSA, including standards promotion activities, to comply with a code of good practice, and train ANSA staff and TC members. Provide support to ANSA to develop its annual standardization programmes more effectively. Provide guidance and capacity-building to TCs on elaboration of standards for priority export / import sectors with participation of key stakeholders (including the private sector). Develop a procedure for participation of ANSA in ISO TCs and establishment of national mirror committees, and train ANSA staff and TC members. Support ANSA to participate in regional and international standardization work (national mirror committees). Review the business model for standardization. Set up information system for standards (i.e. e-library for standards, guides, etc.). 	2						<ul style="list-style-type: none"> Procedures adopted Fifty TC chairs / members and secretaries trained ANSA participates in at least five regional / international standardization workshops 	ANSA MoCI, Member institutions for TCs
	3.2.2. Establish and maintain an ANSA training and information centre.	3						<ul style="list-style-type: none"> ANSA training and information centre operational and five training courses conducted 	ANSA
	3.2.3. Introduce ANSA annual quality award for SMEs and women-owned SMEs. <ul style="list-style-type: none"> Develop a mechanism and scheme for the quality awards. Organize yearly quality awards. 	3						<ul style="list-style-type: none"> Top 10 SMEs receive a quality award 	ANSA Supreme Council of Standards, MoCI, ACCI, AWCCI, ACIM, ICC

Strategic objective 3: Strengthen the national standardization, quality, accreditation and metrology infrastructure to be recognized / accepted by trade partners globally.										
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets	Indicative budget: US\$ 7 million / year	
			2017	2018	2019	2020	2021			2022
3.3. Ensure efficient technical regulatory mechanisms.	3.3.1. Develop and adopt a procedure for preparation and enforcement of TRs.	1							<ul style="list-style-type: none">New procedure on TRs developed and adopted	MoCI, regulatory bodies (RBs), ANSA Committee to be established on TRs
	3.3.2. Develop / adopt and enforce necessary TRs based on accepted procedures. <ul style="list-style-type: none">Train RBs on procedures for development and effective enforcement of TRs.Train RBs on risk assessment.Assist in the development and adoption of TRs based on international standards and risk assessment.	1						<ul style="list-style-type: none">Between five and 10 TRs developed and enforced	MoCI, RBs ANSA	
	3.3.3. Develop an efficient import and export inspection system (including list of commodities) and establish a coordination mechanism among RBs for better synergy, reducing barriers to trade as well as costs, time and corruption opportunities.	1							<ul style="list-style-type: none">At least 40% of imports/exports covered by new system	MoCI, MoF ANSA, RBs, private bodies
	3.3.4. Develop the procedures / mechanisms and build the capacity of RBs in establishing equivalence of TRs and Mutual Recognition Agreements / Arrangements on conformity assessment procedures in order to facilitate trade.	1							<ul style="list-style-type: none">At least one Mutual Recognition Agreement / Arrangement achieved	RBs
	3.3.5. Build the capacity of consumer protection agencies to reduce lead time to resolve consumer complaints and bring in efficient coordination with market surveillance activities. <ul style="list-style-type: none">Capacity-building of the Consumer Protection Department at MoCI and arranging orientation / study tours for consumer protection staff and activists.Develop means of hearing and registration of consumer complaints as well as consumer access to information (e.g. call centre, website, database, etc.).	2							<ul style="list-style-type: none">At least 10 Consumer Protection Department staff trainedCases registered and addressed	MoCI ANSA, MAIL, MoPH, municipalities, law enforcement agencies
3.4. Support the development of a national metrology system.	3.4.1. Develop a road map for, and assist in establishing and maintaining, a national metrology institute, including developing human and technical capacities.	1							<ul style="list-style-type: none">Measurement standards adopted in five priority areas	ANSA, MoCI
	3.4.2. Operationalize ANSA's first metrology lab in the country, i.e. training and capacity-building of technicians, elaboration of standard operating procedures, coordination with relevant institutions.	1							<ul style="list-style-type: none">At least 10 ANSA technicians trained and labs operationalized in five areas (i.e. mass, length, volume, temperature, pressure)	ANSA MoCI, municipalities, Independent Directorate of Local Governance
	3.4.3. Establish a metrological control mechanism (legal metrology), including developing regulations (weights and measures, pre-packaging, etc.) and training of officers / inspectors.	2							<ul style="list-style-type: none">At least 50 inspectors from ANSA and municipalities trainedAt least 20% of Kabul Market covered	ANSA MoCI, municipalities, Independent Directorate of Local Governance
	3.4.4. Affiliate the Metrology Department to metrology institutions in the region (e.g. India) and the PTB project in the SAARC region.	2							<ul style="list-style-type: none">At least 10 ANSA staff receive practical training	ANSA MoFA

Strategic objective 3: Strengthen the national standardization, quality, accreditation and metrology infrastructure to be recognized / accepted by trade partners globally.									
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Indicative budget: US\$ 7 million / year
			2017	2018	2019	2020	2021		
3.5. Provide access to value added certification services.	3.5.1. Assist ANSA to set up and operate a management system and product certification services, including reviewing and updating the certification procedures, developing schemes and capacity-building of staff.	1						<ul style="list-style-type: none"> At least 20 management system certificates and 10 product certificates issued 	ANSA
	<ul style="list-style-type: none"> Conduct a survey to assess the demand for and the offer of voluntary certificates issued in Afghanistan by different service providers and determine the veracity of certifications being issued. Develop a scheme for system certification and product certification. Train lead auditors for priority management system standards (ISO 9001, ISO 22000, ISO 14000, HACCP and ISO 19011). Train staff to implement ISO 17065 for product certification and ISO 17021 for system certification, and assist ANSA to prepare for accreditation of its certification schemes. 								
	3.5.2. Develop a database of certificates (management system and product certification) issued in Afghanistan to facilitate access to information for consumers.	2						<ul style="list-style-type: none"> One database with all certification accreditation bodies and certificates registered 	ANSA MoCI, ACCI, AWCCI, ACIM, ICC
	3.5.3. Develop and implement a procedure / regulation to assess the capacity and practice of certification accreditation bodies to prevent fake certification.	1						<ul style="list-style-type: none"> Number of fake certificates identified 	MoCI ACCI
3.6. Improve testing capabilities.	3.5.4. Promote / publicize the National Conformity Mark (Standard Mark) of Afghanistan, including incentive programmes, to improve the trust of local and foreign customers / consumers in Afghan products.	1						<ul style="list-style-type: none"> At least 20% of Afghan products bear the national conformity mark 	MoCI, ANSA, ACCI
	3.6.1. Identify gaps and develop a capacity-building / upgrading plan for laboratory capacities at ANSA, MAIL, MoPH and other public institutions based on a comprehensive assessment.	1						<ul style="list-style-type: none"> At least 10 labs studied 	ANSA, MAIL, MoPH ACCI, AWCCI, ACIM, ICC, MoCI
	3.6.2. Review the National Laboratory Policy and expand its scope to non-food labs.	2						<ul style="list-style-type: none"> All Government labs covered by the policy 	MAIL, MoPH, ANSA, MoCI
	3.6.3. Implement the lab capacity-building / upgrading plan to support compliance with mandatory and buyers' requirements in target markets.	1						<ul style="list-style-type: none"> At least 50 technical staff are trained Five labs upgraded to provide at least 80% of tests required for priority export products 	ANSA, MAIL, MoPH MoCI, ACCI, AWCCI, ACIM, ICC
3.7. Facilitate access of conformity assessment bodies to accreditation.	<ul style="list-style-type: none"> Allocate required resources to strengthen the laboratories and develop a sustainability plan for maintenance and upgrading after reviewing the procurement process to ensure transparency. Train laboratory personnel on the Lab Management System and ISO 17025. Set up incentives and encourage a public-private partnership / outsourcing for establishment, operation and maintenance of labs. Develop technical and management guides for lab establishment and operation. 								
	3.6.4. Support the establishment of a national laboratory network to promote inter-laboratory cooperation.	1						<ul style="list-style-type: none"> Most labs (70%) covered by the network 	ANSA MoCI, MoPH, MAIL
	3.7.1. Establish a focal point for accreditation services to facilitate access of conformity assessment bodies to accreditation by regional and international accreditation bodies.	2						<ul style="list-style-type: none"> Focal point established 	MoCI ANSA, MoF, HEC
	3.7.2. Conduct a feasibility study for the establishment of a national accreditation bureau with the necessary road map.	2						<ul style="list-style-type: none"> Road map adopted and implemented 	MoCI ANSA, MoF, HEC

Strategic objective 4: Strengthen the national SPS capacity.										Indicative budget: US\$ 2 million / year
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Leading implementing partner and supporting partners	
			2017	2018	2019	2020	2021			2022
4.1. Develop and implement SPS capacity – cross functions	4.1.1. Develop and validate a national SPS policy to ensure harmonization of efforts, obtain political support and reduce duplication and overlap.	1							• National SPS policy developed and validated	MoPH and MAIL ANSA, MoCI, municipalities
	4.1.2. Feasibility study of declaring pest and diseases free zones and its establishment if needed for plant health and animal health areas	3							• Feasibility study for declaring Pest and diseases free zone conducted with resources needed and roadmap for implementation	MAIL MoCI
	4.1.3. Assessment of the need for setting up a mechanism for equivalence and its establishment if needed	2							• Equivalence mechanism assessed and established if needed	MoPH and MAIL ANSA, MoCI
4.2 Develop and implement SPS capacity in the food safety area	4.2.1. Review the policies, competence, skills, and procedures in food safety, develop and implement a roadmap for capacity building and upgrading	1							• Food safety policies, competence, skills, procedures upgraded • Road map for capacity building endorsed • At least 10 actions of the road map implemented	MAIL and MoPH ANSA, MoCI
	4.2.2. Review / update the Food Safety Law to provide for establishment of a single food control authority and prevent duplication / overlap in enforcing food safety measures, including market surveillance.	1							• Law updated	MAIL, MoPH ANSA, MoF, MoCI
	4.2.3 Support the establishment of a single food safety control authority. • Review the ongoing efforts of both MAIL and MoPH for the establishment of a food safety control authority and coordinate with different donors interested / involved in this activity. • Develop a business sustainability model for the authority with consensus of all stakeholders. • Set up standard protocols and procedures for the operation of the authority. • Equip and build the capacity of the authority with resources, skilled officers and equipment.	1							• The food safety control authority regulates at least 50% of food supplied to the market	MAIL, MoPH ANSA, MoCI, MoF
	4.2.4 Strengthen the National Codex Committee. • Review the existing food and agriculture TC at ANSA and consider transforming it into a National Codex Committee. • Build the capacity of the National Codex Committee, including the national Codex focal point. • Develop a procedure for establishment and operation of the National Codex Committee to identify the roles and responsibilities of MoPH, MAIL and ANSA in adoption and implementation of Codex standards. • Facilitate the participation of Afghanistan in the Codex Alimentarius.	1							• At least 50 Codex standards adopted	MAIL, MoPH, ANSA MoCI, ACCI, AWCCI, ACIM, ICC, academia
	4.2.5 Review / update / establish an efficient food safety regulatory system based on risk assessment. • Procedure for development and enforcement of SPS measures, including coordination mechanism among responsible organizations. • Build the capacity of technical staff. • Establish and pilot a surveillance mechanism. • Establish protocols and procedures for a range of risk management activities (risk-based inspection) and an enforcement / monitoring system.	1							• At least 200 staff trained • Market surveillance covers at least 30% of food supplied to the market	MAIL, MoPH MoCI, ACCI
4.3 Develop and implement SPS capacity in the plant health area.	4.3.1. Review the policies, competencies, skills and procedures of the National Plant Protection Organization / MAIL and develop and implement a road map for capacity-building and upgrading.	1							• Road map developed	MAIL
	4.3.2. Train National Plant Protection Organization and quarantine / phytosanitary inspectors and build risk assessment capacity (e.g. pest risks).	1							• At least 50 inspectors trained	MAIL
	4.3.3. Adopt and apply ISPMs. • Adopt critical ISPMs for exports. • Equip to adopt / certify ISPM 15.	2							• At least 10 priority ISPM standards adopted and certification for at least two standards developed	MAIL
	4.3.4. Capacity-building of MAIL on pest risk analyses and phytosanitary certification (ISPM 12) to improve the reliability and validity of phytosanitary certificates (review and update procedures).	1								MAIL
	4.3.5. Set up well-equipped and organized inspection facilities and testing capacities, including at border control / Customs points.	1							• At least 15 inspection and quarantine offices equipped	MAIL MoCI, MoF / Customs, ACCI

Strategic objective 4: Strengthen the national SPS capacity.										Indicative budget: US\$ 2 million / year
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets	Leading implementing partner and supporting partners	
			2017	2018	2019	2020	2021			2022
4.3 Develop and implement SPS capacity in the plant health area.	4.3.6. Establish fumigation houses and cold and hot treatment in quarantine stations.	2							• At least 15 inspection and quarantine offices equipped	MAIL MoCI, MoF / Customs
	4.3.7. Adopt national IPM programmes and inspection procedures.	1							• At least 200 staff trained	MAIL
	<ul style="list-style-type: none">Establish an operational structure and functional mechanism for coordination and management of national IPM activities at regional level and in selected provinces.Build capacity and equip staff on IPM (subject matter specialists, master trainers, facilitators within the Plant Protection and Quarantine Directorate) to run and manage an effective national IPM programme.Pilot the mechanism in selected provinces to groups of farmers.Develop a set of approaches for Farmer Field Schools / IPM and customize the approach to Afghan conditions by drawing on lessons and learning from other countries, and establish Farmer Field Schools in targeted communities to develop skills and capacity in crop production and pest management.									
4.4 Develop and implement SPS capacity in the animal health area.	4.4.1. Review the findings of the OIE Performance of Veterinary Services assessment to comply with OIE international standards identified in the 2017 report and gap analysis. Select further priorities and strategic initiatives that enable Afghanistan to comply with WTO SPS commitments and have an impact on import substitution.	2							• Priorities identified and road map implemented	MAIL Directorate of Livestock Production and Animal Health
	4.4.2. Support the development and updating of international animal health standards.	3							• At least 20 technical staff trained	MAIL
	<ul style="list-style-type: none">Build technical capacity of the Department and experts to contribute to and participate actively in international standard-setting activities.Disseminate information and regularly update veterinary services about standards.Conduct risk assessment training courses for technical staff.Support the development and adoption of national standards based on international ones.									
4.5 Strengthen extension services.	4.4.3. Strengthen and equip the OIE focal point related to OIE obligations.	3							• OIE focal point enabled	MAIL, MoCI (Animal and Plant products Industrial Commercial Association), Faculty of Agriculture of Kabul University
	<ul style="list-style-type: none">Review the role and responsibilities (assignment) of the animal health focal point for OIE.Facilitate participation in OIE meetings and related events.									
	4.4.4. Strengthen capacity to improve animal health and food safety of animal products.	3							• Five major quarantine control units equipped and capacity of 100 staff built	MAIL
	<ul style="list-style-type: none">Review the current status of operations and capacity of Quarantine Centres (Control Units), make a plan for establishment and equipment, and support their establishment in international airports (Kabul, Kandahar, Herat and Balkh) and land BCPs.Build capacity of technical staff according to veterinary public health structure requirements (extension services and pool of veterinarians at central and provincial level) to improve animal health.Equip and activate target key veterinary public health laboratories in the centre and provinces.Build the capacity of veterinary extension services to improve and ensure safety of food products of animal origin.Review import-export certification.Upgrade slaughterhouses to comply with international standards.	2							• Procedures enforced	MAIL
	4.4.5. Enhance registration procedures with the Animal Health Directorate for traders, producers, associations and companies working with the animal health sector, and enforce regulations.								• At least 100 operators registered	
	4.5.1. Build the capacity of extension services for farmers (GHP, GAP, control of pests, IPM, harvesting, storage, animal health, etc.).	2								• At least 1,000 farmers reached
	4.5.2. Review and promote Afghan GAP and introduce a certification scheme for GAP.	1							• Certification scheme introduced	MAIL ANSA

* Activities already initiated in 2017 under the Advance Afghan Trade – EU-funded project implemented by ITC as priorities in the area of quality.

Strategic objective 5: Improve consultation and coordination among public and private institutions to enable competitiveness.										
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets¹	Indicative budget: US\$ 2 million / year Leading implementing partner and supporting partners	
			2017*	2018	2019	2020	2021			2022
5.1. Establish effective consultation and collaboration mechanisms in quality and SPS management	5.1.1. Establish a coordination mechanism between MAIL, MoPH, MoCI and ANSA to cover policies, strategies, activities, targets, roles and responsibilities with clear accountability.	1							• Coordination mechanism operational	MAIL, MoPH, MoCI ANSA
	5.1.2. Establish and operationalize a national committee(s) for TBT and SPS comprising representatives of both public and private sectors, with a view to improving the business technical environment and prioritization of development initiatives and reform requirements in agencies providing services.	1							• Two national committees established and operationalized • Fifty members trained	ANSA, MAIL, MoPH, MoCI Customs (MoF)
	• Develop terms of reference based on lessons from others national committees, and establish memberships and modus operandi. • Build capacity of members to actively participate. • Facilitate meetings and follow up on actions. • Synergize with the Trade Facilitation Committee when applicable.									
	5.1.3. Strengthen the national network of TISs, including the national laboratory network, and link it to relevant regional and global networks.	2							• At least two meetings / joint events of each network annually • At least two regional / global links established	MoCI, ANSA, MAIL, MoPH MoFA, RBs, ACCI, AWCCI, ACIM, ICC

* Activities already initiated in 2017 under the Advance Afghan Trade – EU-funded project implemented by ITC as priorities in the area of quality.

TRADE FACILITATION

Afghanistan is engaged in numerous development efforts, including strengthening the private-sector-led market economy. This entails cutting the high costs to trade for Afghan traders and simplifying the regulatory business and investment framework. Trade facilitation reforms have become a priority in recent years and significant achievements have been realized with the support of the international community, namely in the area of Customs modernization. The WTO TFA can be used as a tool to identify remaining gaps and to determine practical interventions to address challenges.

GENERAL OVERVIEW OF THE FUNCTION

Trade facilitation performance is typically described on the basis of the tangible effects of procedures and formalities, i.e. processing times and delays, or organizational aspects such as staffing, mandates, equipment and the legal framework. For Afghanistan, various projects and studies describe these aspects of trade facilitation in a qualitative and quantitative way.

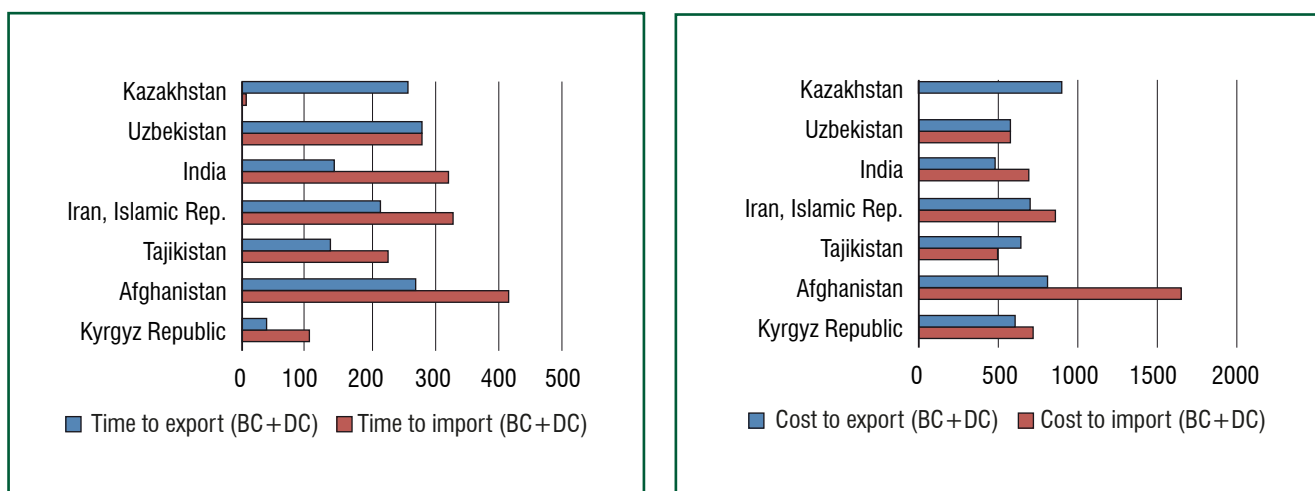
Trade facilitation performance

Table 1: Trading Across Borders ranking 2018

Economy	Trading Across Borders distance to frontier score	Trading Across Borders rank
Kyrgyz Republic	73.34	84
Kazakhstan	63.19	123
Tajikistan	57.17	149
Uzbekistan	44.31	168
Islamic Republic of Iran	46.11	166
Pakistan	41.94	171
Afghanistan	30.63	175

Source: Doing Business Trading Across Borders Indicators 2017.

Figure 6: Trading across borders time and costs to trade



Source: Doing Business Trading Across Borders Indicators 2017.

Afghanistan also has the highest reported trade costs and times, two attributes measured by the Trading Across Borders index (see figure 31). Traders need between five and seven times more time to export and import goods in Afghanistan compared to the Kyrgyz Republic, and traders would spend half the amount or less than Afghans for importing in all neighbouring countries except Pakistan.

In recent years, Afghanistan increased its performance in the Logistics Performance Index³ that measures the efficiency of the clearance process, trade and transport infrastructure, and logistics competence and performance. However, the

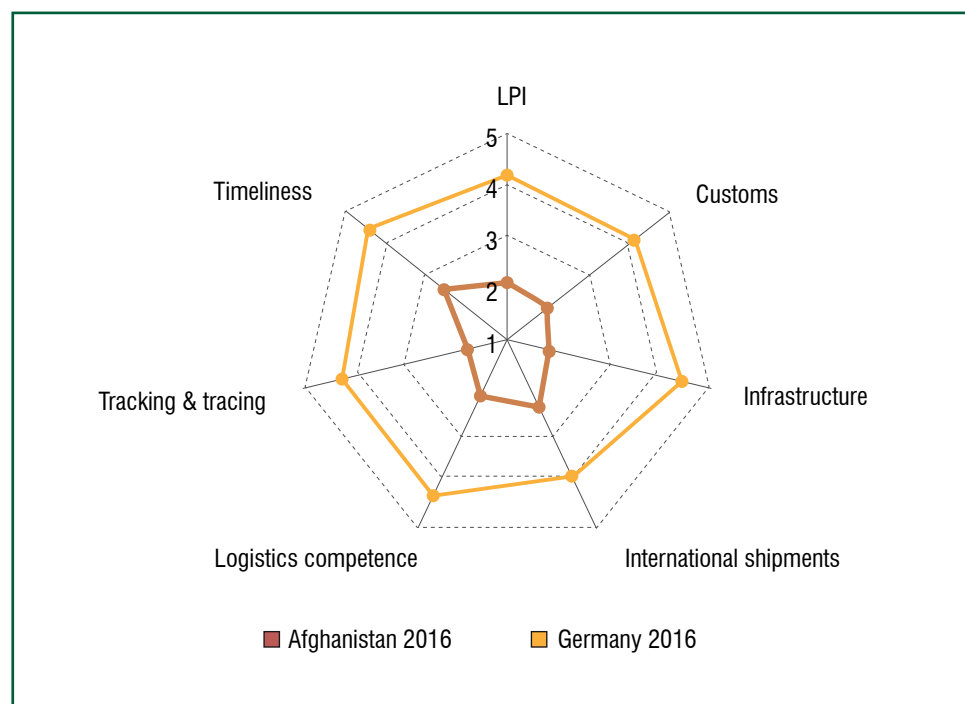
3.– World Bank (2016). LPI Dataset Sections. Available from <https://lpi.worldbank.org>. The first rankings were published in 2007.

improvements are not sufficient to achieve an overall better ranking. In 2016 Afghanistan was ranked 150 out of 160 countries with a score of 2.14.⁴ Over the past 10 years the performance with regards to logistics competence, timeliness, international shipments⁵ and Customs has improved, and infrastructure, tracking and tracing are currently the worst performing areas (see figure 32).

4.– Germany, the best performer in 2016, has a score of 4.23.

5.– Timeliness = timeliness of shipments in reaching destination within the scheduled or expected delivery time; logistics competence= Competence and quality of logistics services (e.g., transport operators, Customs brokers); international shipments= Ease of arranging competitively priced shipments; Customs= Efficiency of the clearance process (i.e., speed, simplicity and predictability of formalities) by border control agencies, including Customs.

Figure 7: Logistics Performance Index performance of Afghanistan and Germany (best performing country), 2016



Source: World Bank (2016). Country Score Card: Afghanistan 2016.

Available from <https://lpi.worldbank.org/international/scorecard/radar/254/C/AFG/2016/C/DEU/2016>.

WTO TRADE FACILITATION COMPLIANCE

There are various international trade facilitation instruments, from legally binding agreements to guidelines and recommended best practices. These instruments are negotiated, adopted and developed within the framework of specialized international governmental organizations such as the World Customs Organization (WCO), WTO, the International Plant Protection Convention, the Codex Alimentarius, the International Maritime Organization, the International Civil Aviation Organization, the World Organization for Animal Health (OIE), United Nations bodies (Economic Commission

for Europe, Centre for Trade Facilitation and Electronic Business, Conference on Trade and Development, Economic and Social Commission for Asia and the Pacific). They help to advance reforms because they create clarity, act as a benchmark for change and provide technical advice and assistance for implementation.⁶

6.– Ireland, Robert and Matsudaira, Tadatsugu (2011). Reform Instruments, Tools, and Best Practice Approaches. In *Border Management Modernization*, Gerard McLinden, Enrique Fanta, David Widdowson, Tom Doyle, eds. Washington D.C.: World Bank. A list of available instruments can be found in the above pp. 183–192, or at: United Nations Economic Commission for Europe (2017). Trade facilitation implementation guide. Available from <http://tfig.unece.org/>.

The WTO TFA as a benchmark for change

The WTO TFA is the latest legally binding trade facilitation instrument with global membership. It addresses trade facilitation as a general administrative and not sector-specific issue, meaning it is not focused on one branch of government, i.e. Customs or transport. In a broad sense, the WTO TFA covers all regulatory measures, i.e. procedures and formalities that affect the cross-border flow of imports, exports and transit of goods. Compliance with these rules can therefore be taken as an adequate measurement of trade facilitation.



Photo: ITC

Box 10: The WTO Trade Facilitation Agreement*

The WTO TFA was the ultimate achievement of the 9th WTO Ministerial Conference in Bali in 2013. This Agreement contains provisions for faster and more efficient Customs procedures through effective cooperation between Customs and other appropriate authorities on trade facilitation and Customs compliance issues. It also contains provisions for technical assistance and capacity-building in this area.

The agreement has three sections. Section I contains the substantive provisions of the agreement. It covers transparency, fees and formalities, transit and Customs cooperation; and clarifies and improves Articles V, VIII and X of the 1994 General Agreement on Tariffs and Trade. The trade facilitation provisions (or measures) to be implemented are specified under 12 different articles:

1. Publication and availability of information
2. Opportunity to comment, information before entry into force, and consultation
3. Advance rulings
4. Procedures for appeal or review
5. Other measures to enhance impartiality, non-discrimination and transparency
6. Fees and charges
7. Release and clearance of goods
8. Border agency cooperation
9. Movements of goods intended for import under Customs control
10. Formalities connected with importation, exportation and transit
11. Freedom of transit
12. Customs cooperation.

Section II contains Special and Differential Treatment provisions that allow preferential treatment for developing and least developed countries.

Section III contains Institutional Arrangements and Final Provisions that establish a permanent committee on trade facilitation at the WTO, and require Members to have a national committee to facilitate domestic coordination and implementation of the provisions of the Agreement (Article 23.2). To benefit from Special and Differential Treatment, a Member State must categorize and notify each provision of the Agreement as either:

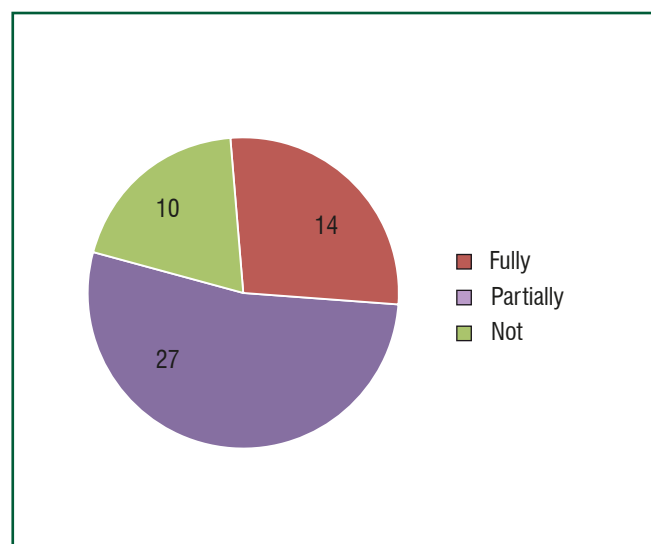
- **Category A:** implementation upon entry into force of the Agreement, or within one year for least developed countries;
- **Category B:** implementation after a transitional period following the entry into force; or
- **Category C:** implementation on a date after a transitional period following the entry into force and requiring the acquisition of assistance and support for capacity-building.

Compliance assessment

A WTO compliance or conformity assessment is an assessment of the current operations, laws and practices relating to the import, export and transit of goods to determine whether it meets the relevant requirements and obligations of the WTO rules. Different entities have conducted such compliance assessments in recent years for the Afghan Government and the findings were used by the WTO Interministerial Committee to determine the list of notifications to be submitted under Section II (Article 15.2 and 16.2) of the WTO TFA.⁷

For a complete assessment it is important to assess laws and regulations as well as operations and practices. Discrepancy between the legal framework and practices on the ground may happen because: i) a legal provision is not implemented in daily operations; ii) the operational practice differs substantially from the legal provisions; or iii) an applied practice has no legal foundation. In 2017 the situation is fully or substantially compliant in law and in practice with 26% of the Section I rules (14 out of 53) and not compliant in law and in practice with 19% (10 out of 53). Partial compliance is achieved for 50.9% of the Agreement.⁸

Figure 8: Compliance assessment findings 2017



7.– USAID undertook an in-country compliance assessment in 2014 and updated the findings in July 2017. The WCO also organized a diagnostic workshop to assess compliance with the Customs aspects of the Agreement. ACD has itself conducted an internal compliance analysis as part of its strategy development process in 2017. The WTO Inter-Ministerial Technical Committee and Committee discussed the TFA notification of Commitments under Article 15.2 and Article 16.2 in two meetings in July 2017. The following integrates these different sources, with the exception of the WCO findings, which are confidential but have been used by ACD in their own assessment.

8.– Two rules are not assessed as they are not applicable yet. These are Article 5.1 and Article 1.4.

This compliance result reflects a mixed trade facilitation situation in Afghanistan: basic trade facilitation requirements are currently met but more advanced reforms are still outstanding. Basic requirements are those that reflect long-established practices and do not require major modernization, upgrading or infrastructure investment and are generally met. This includes requirements such as informing owners of goods when goods are upheld for inspection (Article 5.2), movement of goods under Customs control (Article 9), no technical barriers to trade (TBT) controls for goods in transit (article 11.8) and the use of a transit guarantee (Article 11.11).

Other requirements can be met because of recent reforms and changes. The Afghanistan Customs Department (ACD) implemented Advance Rulings on Origin as part of implementing the WTO Agreement on Rules of Origin when joining the WTO. With a view to WTO TFA Article 3 requirements, ACD has now extended the scope to also include goods classification and valuation.

Soft requirements such as using international standards where appropriate (Article 10.3), trying to establish a single window (Article 10.4) or striving to cooperate with neighbouring countries regarding opening hours (article 8.2) also do not create issues. On the other hand, more advanced trade facilitation requirements are currently not or only partially met. For example, ACD is still in the process of implementing pre-arrival processing (Article 7.1), risk management (article 7.4) and post-clearance audits (Article 7.5).

Major capacity gaps still exist regarding transparency or rather the publication requirements (Article 1, Article 11.14 and Article 6) and coordination and cooperation across Government agencies and consultation between Government entities and traders. It also appears that some practices are not formalized or legalized yet or are not systematic and regular. These include transparency, opportunities and time period to invite traders to comment on proposed introduction of amendment of laws and regulations (Article 2.1); perishable goods (Article 7.9); rejected goods (Article 10.8); appeal (Article 4); and formalities and document requirements (Article 10.1).

Outlook

The compliance assessment results show that it is still necessary to build organizational capacities and improve investment in technology and infrastructure in order to improve trade facilitation in Afghanistan. Crucial to the success of trade facilitation will be the ability to think strategically across Government bodies and to link trade facilitation with the drive to improve regulatory effectiveness and enforcement.

In general, awareness of trade facilitation is high among Afghan Government officials. They are familiar with the term and, in rhetoric and theory, strive to improve the operating environment for the private sector. In cooperation with international partners, GolRoA has launched numerous

trade and administrative reforms, including Customs modernization. Now Afghanistan is a Member of the WTO and WCO and has joined numerous international conventions such as the International Plant Protection Convention, the WCO Arusha Convention and the TIR Convention,⁹ and has signalled its intention to accede to the Revised Kyoto Convention. This shows a commitment to follow international standards and best practices.

Revenue collection has been improved through reforms in the ACD. Customs automation was introduced in 2010 and since 2016 all BCPs and ICDs are equipped with ASYCUDA World. This allows for faster clearance and more ease for traders, and increased revenue collection. Strengthening human resource management in ACD was another aspect of the reforms and a centralized Customs Academy was set up. The current reform priorities for ACD are risk management and corruption eradication, and changes to the risk management policy were introduced in 2017. ACD has also begun work on a single window for trade that will become a cross-government platform.

Nevertheless, GoIRoA encounters challenges in delivering change in some areas: a joint border management model was adopted several times but never implemented on the ground due to political and institutional resistance. Achieving tangible impact of the risk management approach in ACD is difficult given the administrative weakness on the ground. One issue that has not been addressed yet is the unwillingness of local Customs officials to report minor offences, and to settle them outside official channels instead.

In general, it appears that changes and reforms occur through random incrementalism pushed by donors, rather than as a result of a conscious, strategic and systematic approach. In addition, modernization and improvements follow an agency-specific approach and the central Customs administration was prioritized. For example, ACD has improved on the Customs risk management strategy but without consideration of other agency needs and other risks that can be managed at the border.

9.– Membership of the TIR convention was reactivated.

PERFORMANCE AND KEY COMPETITIVENESS CONSTRAINTS

Studies of the Afghan trade environment highlight the following challenges: delays at border crossings, repetitive controls of means of transport and goods en route inside Afghanistan, lengthy clearance procedures and governance issues. Government officials and traders also point out the lack of effective control measures.

Situation at border crossings

There are 12 official Border Crossing Points (BCPs) where all goods can enter and exit the Afghan Customs Territory: two with Turkmenistan (Aqina and Torghundi); three each with the Islamic Republic of Iran (Islam Qala, Zaranj, Abu Naser Farahi), Tajikistan (Sher Khan Bandar, Ishkhashim, Ai Khanoum), and Pakistan (Torkham, Spin Boldak (Chaman) and Ghulam Khan); and one with Uzbekistan (Hairatan). Goods are not cleared at these BCPs but in one of the 17 Inland Customs Depots (ICDs).

Import, export and transit of goods are currently affected by long delays at Afghan borders (see box 7) which are caused by long waiting lines and cumbersome sequential interventions by multiple Government agencies.

The Asian Development Bank's annual CAREC Corridor Performance Measurement and Monitoring data for 2016 point out that the border crossing times for trucks in transit at the Afghan borders, Spin Boldak, Sher Khan Bandar–Nizhny Panj and Peshawar–Torkham, are longer than times spent on other CAREC corridors (see table 2). Waiting times and Government formalities take longer than elsewhere in the region. Customs formalities alone do not cause these long border crossing times: Customs border clearance formalities take on average 45 minutes according to a recent World Bank report.¹⁰

10.– Reported in the project appraisal document for the Second Customs Reform and Trade Facilitation Project of the World Bank.

Table 2: Border crossing times

BCP	Waiting times	Customs7 formalities	Total time
Spin Boldak	22 hrs	35 hrs	57 hrs
Sher Khan Bandar	14 hrs	27 hrs	41 hrs
Torkham	11 hrs	24 hrs	35 hrs

Source: Asian Development Bank, CAREC Corridor Performance Measurement and Monitoring 2016, not yet published data.

Trade flows and border crossing times are also affected by frequent unilateral closure of the so-called Durand Line and all border crossings by Pakistan, which disrupts trade.¹¹

Controls en route

Entry and exit and clearance formalities take place at different locations. Goods are moved between the ICD and BCP without escorts but the transporters face multiple stops en route between ICD and BCP. Transporters lose time because of these stops and frequently pay a fee, either an official penalty for an offence or a non-official fee, to continue the journey. Transporters report that payments can total US\$ 100 on the trip from Kabul to Torkham, and that they lose 1–2 hours on a journey of 5–6 hours¹² because of the stops. Different Government bodies are present at these checkpoints, most frequently local branches of the Ministry of Transport and Civil Aviation and the Ministry of Public Works. A United States Agency for International Development (USAID) report on transit trade reported that there are at least 18 transit checkpoints between Kabul and the Wagah border, besides the main BCP.¹³

Clearance procedures

In recent years, Customs performance has improved through the automation of Customs procedures, mainly with the second phase of introducing the Automated System for Customs Data (ASYCUDA World). All BCPs and ICDs are now equipped with ASYCUDA World, making processing faster. The World Bank recorded average Customs clearance times at ICDs of 148 minutes.¹⁴ The aim is to bring it down to 105 minutes through the effective application of risk-based inspections.

Overall, however, formalities and procedures are still perceived as complex, mainly as a result of little coordination between the numerous Government agencies intervening in the process. Overall waiting and processing times increase when Customs formalities, SPS control measures and other control and inspection formalities are applied independently and sequentially.

Access to information and communication between traders and Government agencies also affects clearance procedures. Changes to procedures and laws are not always communicated in time and through an established communication channel. In general, traders have limited knowledge

of the applicable procedures and formalities and rely on other traders as the main source of information (see box 7).

Administrative environment

Afghanistan is facing a unique governance situation that affects the trading environment. With the fall of the Taliban regime and the creation of the transition Government in 2001, all state institutions and the legal framework had to be recreated. GolRoA and external partners invested in developing the regulatory framework, institutions and organizational capabilities. However, governance and security issues continue to limit the administration's effectiveness to exercise political and judicial authority.

Building administrative capacity at the local and federal level remains a challenge, in particular regarding the recruitment and training of officials. In an unstable security context, the rule of law¹⁵ is weak and GolRoA has limited enforcement authority, affecting the trust in the administration and civil and criminal justice procedures.

The newly created Government authorities have a strong professional identity and are not yet used to cooperating even in areas of overlapping or shared responsibility. Food safety, for example, is one of the areas where responsibilities are not clearly defined in the laws and are interpreted differently by the respective bodies, de facto limiting cooperation between MAIL and the Ministry of Public Health (MoPH) in this matter. As a result, food products may be inspected by MAIL, MoPH, local municipalities and MoCI.¹⁶ The potential of synergies, information and resources sharing to create more effectiveness and better trade facilitation are also overlooked in the transit area, where different entities share responsibilities.

Enforcement and control measures

The reported high number of physical interventions on imported and exported goods by Government authorities stands in contrast to the limited control ability of the same agencies. SPS and food control measures commonly consist of visual checks as the relevant authorities have only limited abilities for taking samples and conducting chemical and microbiological testing because there is no equipment or infrastructure yet, as labs and testing facilities are still

11.– For example, a report from March 2017: Tolo News (2017). Smuggling from Pakistan to Afghanistan tripled, 14 March. Available from <http://www.tolonews.com/business/smuggling-pakistan-afghanistan-tripled>.

12.– For example, for the journey Kabul-to Torkham. USAID (2013). Benefits and Challenges of the Potential Afghanistan-Pakistan-Tajikistan-India Trade And Transit Agreement (APTITTA).

13.– USAID (2013). Benefits and Challenges of the Potential Afghanistan-Pakistan-Tajikistan-India Trade And Transit Agreement (APTITTA), p. 17.

14.– World Bank (2015), Project paper on a proposed additional grant in the amount of SDR 15.3 million (US\$ 21.5 million equivalent) to GolRoA for a second Customs reform and trade facilitation project, May 28, 2015.

15.– There are many different definitions of the rule of law. The World Justice project defines it by four principles : i) The Government and its officials and agents as well as individuals and private entities are accountable under the law; ii) The laws are clear, publicized, stable and just, are applied evenly, and protect fundamental rights, including the security of persons and property; iii) The process by which the laws are enacted, administered and enforced is accessible, fair and efficient; iv) Justice is delivered [in a] timely [manner] by competent, ethical, and independent representatives and neutrals who are of sufficient number, have adequate resources, and reflect the makeup of the communities they serve.

16.– Khalid, Sayed Mohammad Naim (2016). Food safety and quality management regulatory systems in Afghanistan: policy gaps, governance and barriers to success. *Food Control*, vol. 68 (October), pp. 192–199.

being built. Authorities also do not yet conduct inspections using a risk-based and science-based approach.

Customs services also face particular challenges detecting and combating smuggling and lack adequate equipment and facilities. Goods entering Afghanistan through BCPs may not be reported at an ICD, or goods that are cleared for transit and export never leave the territory but are leaked into the market. Informal trade between Afghanistan

and Pakistan remains high for agricultural products from small farmers but also encompasses opiates, cigarettes, vehicles and vehicle parts, as well as fruits, medicines and sugar. Some sources estimate that approximately 70% of the goods exported from Pakistan to Afghanistan were smuggled back into Pakistan, leading the Federal Revenue Board of Pakistan to report that in 2016 more than PKR 100 billion was lost due to smuggling of goods from Afghanistan.

Box 11: Private sector concerns

Traders consider the border crossing procedures at BCPs to be the most cumbersome of all import and export formalities, followed by the movement from BCPs to ICDs for the export of goods. The application process for licences and certificates and the release procedures at ICDs were considered less cumbersome. Delays and time spent, lack of transparency, frequent changes in practices and the multitude of actors intervening in the process make crossing the border cumbersome and challenging.

Customs documentation (declaration and supporting documents) are mostly submitted in paper form or in both digital and paper format, and most traders use so-called Customs terminals or brokers' facilities to submit digital documents. Overall, more than half of the traders always or often use an external Customs broker.

Traders also feel that they are not at all or only slightly informed about changes to laws, regulations, procedures and executive orders. They rated their knowledge of clearance and border crossing procedures as below average or poor. Major shortcomings were revealed in the communication of administrative decisions. They are seldom communicated in writing and reasons for the decision are not explained. More than half of the interviewed traders said that they were not aware of the possibility of asking for a review of a decision and only four said that they had made use of it.

It is common for traders and Government officials to settle divergent opinions, conflicts and/or minor offences through individual arrangements that benefit both of them. Despite these advantages, half of the traders were willing to opt for lawful settlements instead even if they include penalties, and even taking cases to courts.

Source: Author's own compilation of a survey conducted in July 2017 with the support of USAID and ACCI, to which 17 traders responded.

THE ROADMAP

The trade facilitation strategic framework is structured to design a trade facilitation strategy that responds to the challenges and weaknesses observed in the compliance assessment. The framework consists of strategic principles, strategic vision, strategic goals and directions, and related action lines for implementation.

These are the principles that govern the trade facilitation strategy:

- **Strategic** – trade facilitation is a strategic priority that is tied to the national development strategy of improving economic stability through private sector development and trade competitiveness.
- **Whole of Government** – trade facilitation cuts across the responsibilities of multiple Government entities and reforms need to be designed according to whole of Government goals and needs and not functional and institutional boundaries of Government authorities.
- **Partnerships** – procedures, formalities, services and solutions are developed with a view to creating a partnership between Government authorities and the trading community.
- **Collaborative** – solutions should extend to and engage the private sector and support Government authorities working together, integrating their services and sharing resources, where possible with support from the private sector

The long-term vision is aligned with the expected impact for the trading community and the Afghan Government by implementing trade facilitation reforms. It is:

“ A modern trade facilitation environment through simple and effective procedures and services delivered by well-equipped and trained Government authorities and a proactively compliant trading sector ”

The midterm vision is related to expected changes during the next five years and their impact on Government authorities and the trading community. It is:

“ Within five years traders will benefit from modern and efficient procedures that reduce waiting times and delays, will be equipped and be offered opportunities to engage in a partnership with Government authorities; and Government interventions will be more effective and collaborative and rely on stable arrangements with neighbouring countries. ”

The vision and the key features for the TSF will be achieved through the implementation of the strategy's PoA. The PoA revolves around the following six operational objectives, each spelling out specific set of activities intended to address the challenges faced by the Trade Facilitation function in Afghanistan.

Intervention areas

More or less all areas covered by the WTO TFA still require strategic attention to improve trade facilitation in Afghanistan. To achieve the midterm vision, the following six strategic goals and directions are prioritized.

Agency cooperation

Trade facilitation puts special emphasis on leadership and coordination. Commonly, reforms are sector-specific (i.e. agency-specific) as each organization aims to improve its efficiency and effectiveness but this approach cannot effectively tackle trade facilitation problems. An example of failure to address the complexity needed for trade facilitation are reforms that only target Customs clearance processes in ports but fail to reduce dwell time. Modern and joined up processes are needed to substantially reduce the number of contact points and requirements and improve overall

processing times and the customer's experience. Trade facilitation is a complex environment that calls for exploring opportunities for optimization through cooperation.

Coordination and cooperation require a new framework and structures as well as new technical, operational and institutional solutions. From the strategy level down to organization-specific interventions, trade facilitation needs to be thought of as a shared objective. Inter-agency (vertical) and intra-agency (horizontal) coordination and cooperation can cover technical, operational, legislative and institutional aspects and sharing of responsibilities, notably through delegation of authority, joined processes, and sharing resources and data.

Regulatory compliance

Enforcement of and compliance with rules and regulations is crucial to deliver public policy objectives and safeguard society and citizens. Compliance¹⁷ is also closely linked to trade facilitation. It is the basis for trust and partnerships between the trading community and Government authorities enforcing regulations. There are different ways to strengthen regulatory compliance. Legal punishment and sanctioning is one line of intervention but may lead to high costs for both sides. Instead, the optimal strategy will combine broad compliance promotion efforts with well-targeted controls, along with the availability of deterrent sanctions for serious violations.¹⁸

A targeted approach to inspections through risk-based approaches, creation of incentives for compliant behaviour through simplified procedures and a multi-tier scale of penalties, along with proactive information dissemination and channels for impartial and fast conflict resolution, are all components of a good regulatory compliance strategy. In tandem, the private sector must also rise to the challenge and actively manage its compliance and adhere to legal standards and requirements.

Border crossing procedures and formalities

Entry and exit points to the territory are where many procedures and formalities come together. In most countries, the majority of trade policy measures are enforced at the point of entry or exit. This leads to a high number of Government authorities either being physically present or exercising their authority at these locations. The way border formalities are organized affects delays and time spent at border crossings. Responsibilities often overlap, contact points are multiplied, controls are frequently paper-based, and physical infrastructure is often inadequate to accommodate the activities of all these agencies and growing trade volumes.

17.– Compliance refers to the respect of organizations to laws, regulations, guidelines and specifications relevant to its business.

18.– OECD (2013). *Public Consultation on Best Practice Principles for Improving Regulatory Enforcement and Inspections*.



Photo: ITC

Improving the border crossing process and experience entails reviewing the procedures that apply to persons and objects crossing the border, the way agencies cooperate and, ideally, integrating them into a unified approach and concepts, and designing optimal infrastructure.

Public information and participation

Cross-border trade is a heavily regulated area. Goods, means of transport, persons, information and payments have to comply with national, regional and international rules and standards. Accessible and usable information is therefore a necessity for traders to operate in this environment and supports compliance. Creating this condition is the result of deliberately placing the customer first and engaging with the trading community to understand its needs. Government authorities and the trading community do not have the same interests but policies, laws and regulations, and operational guidelines and requirements that are designed solely to respond to agencies' needs and interests may increase burdens and costs, fail in implementation due to resistance, and miss the potential of solutions that address both Government and traders' interests. Opening up the political process through transparent and impartial opportunities for engagement and participation increases the effectiveness of policy and administration.

Effectiveness of government interventions

State authorities enforce national laws and regulations and administer measures to ensure that regulatory requirements

are met. The design of these measures must be both effective –to allow the enforcement and protection of the policy goals, i.e. preventing the spread of pests and diseases among plant and animals and protecting the safety of consumers– and not unnecessarily cumbersome and time-consuming. Trade facilitation needs to be integrated into efforts to improve the effectiveness of interventions. This can be achieved by using regional and international standards, revision of procedures and data requirements, training of officials, cooperation across agencies, and a risk-based approach. The latter in particular allows a targeted approach with a higher detection rate and effective allocation of Government resources to the inspection process. At the same time it facilitates legitimate trade with low risks.

Cross-border cooperation

Cross-border cooperation can take many different forms. It is necessary because trade is by its nature a cross-border activity. The regulatory framework and practices of a neighbouring country therefore determine the ability to trade of the other. This is particular the case for landlocked countries. At the political level, cross-border cooperation entails the negotiation and signature of bilateral or regional cooperation agreements. The scope of such agreements includes tariff and non-tariff measures, transit and transport agreements, and Customs cooperation agreements. At the operational level, the scope of cooperation can range from data exchange to harmonization of procedures and formalities, synchronization of working hours, joint activities and inspection, and shared facilities.

STRATEGIC OBJECTIVES AND GOALS

A strategic goal and corresponding long-term performance indicators are identified for each of the above-mentioned area of intervention. They are as follows.

Area 1: Agency cooperation

Goal 1: Improved interaction of Government authorities through sharing of responsibilities, resources, infrastructure and equipment.

- 1.a) Decision-making and administration:
Intra-agency consultation meetings, shared projects and policies, clarified roles and responsibilities.
- 1.b) User and functionality centrality:
Value creation for traders, satisfaction.

Target indicators Value creation for traders, satisfaction.

Area 2: Border crossing procedures and formalities

Goal 2: Cutting time and inefficient deployment of resources by access to modern and efficient services.

- 2.a) Service provision:
Waiting times, physical contact points, frequency of interventions on goods, satisfaction of traders, number of process steps, less paper.
- 2.b) Collaboration:
Data requirements, joint strategy for the border station, number of consequential processes, number of contact points from different agencies.

Target indicators Data requirements, joint strategy for the border station, number of consequential processes, number of contact points from different agencies.

Area 3: Regulatory compliance

Goal 3: Improved trader compliance through impartial services that encourage and reward traders for compliant behaviour.

- 3.a) Private sector involvement:
Contacts to help desks, information meetings, training sessions.
- 3.b) Sanctioning activity:
Reports of offences (quantity and type), penalties report, training of staff, decisions and rationale (reason) in writing.
- 3.c) Trust:
Objections/complaints submission to Government, tracking of response.

Target indicators Objections/complaints submission to Government, tracking of response.

Area 4: Public information and participation

Goal 4: User-friendly provision of access to relevant information

- 4.a) Quality:
Customer feedback, customer satisfaction, reliability and relevance of information.
- 4.b) Access:
Availability of procedures, rules and forms on websites, user friendliness of websites, accessibility across central, regional and local levels.
- 4.c) Participation:
Public consultation meetings, open door events, drafted policies and statutory documents made available online, outputs from consultation meetings online.

Target indicators Public consultation meetings, open door events, drafted policies and statutory documents made available online, outputs from consultation meetings online.

Area 5: Effectiveness of Government interventions

Goal 5: Targeted and effective interventions that reduce times and delays for legitimate trade

- 5.a) Effectiveness:
Detection rate, number of inspections.
- 5.b) Facilitation:
Percentage of inspections.

Target indicators Percentage of inspections.

Area 6: Cross-border cooperation

Goal 6: Simpler access and transit through neighbouring countries through practical and stable cross-border arrangements

- 6.a) Commitment:
Bilateral agreements.
- 6.b) Practical arrangements:
Working hours, data sharing, information requests.

Target indicators Working hours, data sharing, information requests.

TRADE FACILITATION: PLAN OF ACTION

Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets*	Lead and supporting implementers	
			2017	2018	2019	2020	2021			2022
1.1.1. Create the strategic framework and structure for cooperation	<p>1.1.1. Draft and adopt a midterm cooperation strategy for relevant Government agencies at national and regional level addressing institutional, legal and procedural issues. This includes:</p> <ul style="list-style-type: none">• Mapping of institutional and legal responsibilities and organizational abilities.• Mapping of all relevant legal and operational procedures with current performance indicators and targets.• Discussion of different cooperation mechanism options. <p>Mode of intervention: field study, technical expert advice</p> <p>Resources required: three local consultants, nine months, two International consultants for six months in total, training budget</p> <p>Links and dependencies:</p> <ul style="list-style-type: none">• Ongoing World Bank-funded single window project led by ACD that rests on a whole of Government strategy.• Also relevant are the ongoing discussions on the creation of a single authority responsible for food law and related measures.	1							<ul style="list-style-type: none">• Five strategy meetings with at least 80% of relevant border agencies being present• Strategy document formally adopted by HEC and signed by the President	President's Office ACD MAIL MoCI MoPH Afghan National Police and Afghan Border Police Ministry of Counter Narcotics ACCI
1.2. Streamline procedures and improve collaboration at technical and procedural level at BCP and ICD.	<p>1.2.1. Deliver the border agency coordination strategy at the technical and procedural level through a new operating model.</p> <ul style="list-style-type: none">• Remove double inspections and formalities in areas of overlapping powers of different agencies.• Delegation of routine inspection tasks to one agency where the purpose is non-technical and it can be justified in risk terms.• Introduce dedicated lanes and front-of-line system for perishable goods.• Introduce transit lanes at BCP with high transit traffic.• Introduce performance measurement at BCPs to identify bottlenecks and deploy resources to have the greatest impact.• Share data and information technology among agencies to remove multiple presentation and checks of documents. <p>Mode of intervention: Technical advice, field study, technical training (inspection, and performance management)</p> <p>Resources required: Two International consultants for 24 months in total, nine local consultants for 36 months in total, budget for in-country travel and training</p> <p>Links and dependencies: Operational objective 5: Introduction of a risk-based approach to controls at BCP / ICD level</p>	2							<ul style="list-style-type: none">• Two pilot BCPs identified for the new operating model• Performance measurement methodology adopted, 15 representatives from Government and private sector trained in the methodology, annual performance measurement undertaken in at least four border crossings• Conduct user satisfaction survey per year at selected pilot BCPs	President's Office ACD MAIL MoCI MoPH Afghan National Police and Afghan Border Police Ministry of Counter Narcotics ACCI All other agencies present at BCPs and ICDs
1.3. Develop a private sector involvement strategy as a pillar of Government-business partnership and covering dialogue and availability of information.	<p>1.3.1. Set up a formal regular consultation mechanism to improve transparency, quality and accountability of consumer-to-business contacts (consultation on introduction of new legislation, regulations and practical matters, quality advice on forthcoming changes in practices and legislation, advice on applicable laws and regulations).</p> <p>1.3.2. Increase knowledge of the private sector about applicable rules:</p> <ul style="list-style-type: none">• Develop information materials for the private sector on laws and regulations and trade facilitation opportunities.• Make available efficient and quality contact points for the private sector (trade liaison officer). <p>1.3.3. Strengthen traders' behaviour by training them in proactive trade compliance at company level.</p> <p>1.3.4. Strengthen the efficiency of regulatory sanctions by broadening sanctioning options, introducing risk- and impact-based scales of penalties, and training staff in the use of the sanctioning system.</p> <p>Mode of delivery: Legal and technical expert advice, training</p> <p>Resources required: Three International consultants for 18 months in total, four local consultants for 48 months in total, budget for in-country travel and training.</p> <p>Links and dependencies: Introduction of simplified procedures for compliant traders (for exporters and importers, transit operators, that offer simplification such as clearance at traders' premises, less physical inspection)</p>	1							<ul style="list-style-type: none">• Three consultation meetings per year in Kabul and two in other regions conducted per year• At least one trade liaison officer named at all ACD regional offices and regional MAIL and MoPH entities• Six specialized trainings for the trade liaison officers conducted in one year• Five information brochures published in Pashto and Dari languages• Three specialized trainings on trade compliance for companies conducted per year in three regions• Training of three trainers on trade compliance in ACCI• At least 50% of officers in the regional directorates of ACD complete training on the new sanctioning regime• One background document on the penalty systems and opportunities for improvement	ACD MoPH and MAIL in the aspects related to the import and export of goods under their control ACCI, MoCI

Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets*	Lead and supporting implementers
			2017	2018	2019	2020	2021		
1.4. Provide access to information on legal and operational aspects of trading across borders.	1.4.1. Increase the ability of key Government agencies to systematically prepare and make available relevant information. <ul style="list-style-type: none">Develop a checklist of minimum information to be published by agencies.Develop and introduce usability standards.Review the existing information offer and draft and revise new and missing information.Train officers as information officers. Mode of delivery: Technical expert advice, training. Resources required: One international consultant for six months in total, two local consultants for six months, training budget Links and dependencies: Operational activity 2 is ideally initiated prior to this activity	2							<ul style="list-style-type: none">Conduct at least one user satisfaction survey per year per agencyTwo specialized trainings to benefit the designated information officers in each agency President's Office ACCI ACD MAIL MoPH MoCI ANSA
	1.5. Improve the operational effectiveness of Government interventions.	1.5.1. Deliver the new risk management policy at regional and local level: <ul style="list-style-type: none">Review examining instructions and train staff accordinglyReview clearance practices at local level. 1.5.2. Migrate towards integrated risk management whereby risks to animal, plant and human health, as well as environmental risks, are taken into consideration, and allowing for a targeted, selective intervention on shipments. 1.5.3. Apply risk analysis as early as possible in the clearance process, encouraging traders to submit clearance information as early as possible. 1.5.4. Develop standards for privately owned storage facilities and warehouses to be approved as clearing facilities for perishable goods. Mode of delivery: Technical expert advice, training Resources required: One International consultants for 24 months in total, one local consultant for 36 months Links and dependencies: Streamline procedures and improve collaboration at technical and procedural level at BCPs and ICDs.	1						<ul style="list-style-type: none">At least 50% of staff in regional offices trained in inspection techniquesAll examination instructions in ASYCUDA filled outRequirements for private warehouses defined and clearance procedures for private warehouses draftedFeasibility study for pre-arrival information prepared ACD MoPH MAIL
1.6. Develop practical and stable cross-border arrangements.	1.6.1. Expand the ability of ACD to negotiate and draft cooperation instruments with Customs administrations of neighbouring countries: <ul style="list-style-type: none">Train ACD staff on legal aspects of Customs cooperationConduct training on best practices in Customs cooperation and information exchange.Conduct specialized training on information technology system support for data exchange. 1.6.2. Agree on new and improve upon existing data sharing with neighbouring Customs administrations to cover static and non-static information and to be used for enforcement (investigation) and risk management purposes. Mode of delivery: Legal and technical expert advice, training, participation in international meetings (TIR context) Resources required: One International consultant for six months in total, one local consultant for six months, training budget	3						<ul style="list-style-type: none">At least three officers in ACD trained in legal aspects of Customs to Customs cooperationThree specialized trainings for ACD staff on cross-border data sharing systems and requirementsThree specialized training for ACD staff on cross-border Customs cooperationParticipation of ACD officials in TIR working party meetings and/or other relevant meetings on Customs to Customs data exchange ACD AFNP and Afghan Border Police MoCI Ministry of Transport and Civil Aviation	

TRADE INFORMATION AND PROMOTION

The over goal of the Trade information and promotion strategy is to ensure a return on investment for improvements made in Afghan's firms by finding and motivating buyers to purchase their goods and services i.e. identifying trade opportunities and translating them into business transactions.

GENERAL OVERVIEW OF THE FUNCTION

Figure 9: The three pillars of the trade information and promotion TSF



TRADE INFORMATION AND MARKET INTELLIGENCE

It is a well-known fact that Afghanistan has products with untapped export potential along its sector value chains. Yet, lack of knowledge about markets, difficulties to comply with entry requirements or simply mismatches between the offering of Afghan firms and the expectations of buyers prevent these potentials from materializing.

Afghan firms need effective trade information services to identify commercial opportunities, confirm standards requirements and keep up-to-date with market and technological trends that constantly shape regional and global value chains. As such, trade information is required for both current and aspiring exporters but as well as for other important players in the national component of the value chain (e.g. input suppliers, traders, service providers such as transport or packaging firms, and research and development organizations). Information and communication technologies, especially the Internet, are greatly facilitating access to this type of information. Yet, in the case of complex environments such as Afghanistan, although progress was made, collecting, analysing and using this information can prove especially challenging.



Photo: ITC

Box 12: Importance of trade information for building export competitiveness

The following is a partial list of trade information services that are useful for current and emerging exporters:

- Publication of standards and regulations of target markets
- Dissemination of import and export requirements
- Publication of, and information about, trade-related laws and international agreements
- Provision of databases on domestic products and sectors, as well as on those of destination countries
- Provision of databases on market developments and trends
- Counselling of potential exporters and importers
- Conducting research and publication of studies about markets and the trade environment.

Trade information is important for the following aspects of market development:

- Consolidate and expand on current markets
- Identify, analyse, select and conquer new markets
- Obtain information about market developments and tendencies
- Discover and explore market niches, identify market segments
- Design strategies for commercial promotion and post-sales
- Structure distribution channels
- Identify current and future competitors.

BRANDING

Branding strategies has to go hand in hand with production and quality capability to yield real results. Branding strategies are essential to gain export competitiveness in international markets by creating value and developing customer loyalty. Moreover, branding holds significant potential to support the creation and re-establishment of lost links with international buyers. At the same time, it can also be an effective response to current practices of misbranding of Afghan products labelled as originating in foreign countries.

Professional Branding in Afghanistan has been largely limited to a few companies and no national or sector brand were established with significant success. While dedicating efforts and resources to a national brand may appear premature, there is a need to presents a coherent branding outline for each priority sector that links it to well-identified offerings, value propositions, slogans, logos and clear messages. These sector branding outlines will have to supported by well-identified and adapted promotion and marketing tools and resources (such as promotion campaigns, trade fairs, exhibitions) to be deployed by the trade support institutions in the sector.

TRADE PROMOTION, INCLUDING IN-MARKET SUPPORT

Trade promotion and in-market support are also crucial to enable market entry and to establish an international reputation for Afghan products. Although these services are important, it is also vital that sufficient processes are in place to harness the value of such export promotion activities, so as to ensure that the market intelligence information and business contacts gained are relayed back and efficiently used to promote the export sector.

Assisting exporters before, during and after their participation in key fairs and exhibitions demands a wide array of activities, including capacity-building support, particularly in selling skills, visa facilitation, and marketing advisory services, among others. Additionally, support and access to information by commercial attachés must be enhanced, as well as their capacity to ensure that the relevant information is collected and disseminated and that networking with the relevant institutions is undertaken.

The related service of trade promotion can also enrich the trade information landscape. Trade promotion involves leveraging a country's resources in order to connect with international counterparts. It assists enterprises in visiting and participating in international trade fairs and exhibitions, where firms can learn of market requirements and enrich their knowledge of the competitive landscape. Networks with foreign TISIs also facilitate the diffusion of international know-how and best practices within the domestic market.

INSTITUTIONAL SUPPORT

National level

A number of national and sector TISIs provide services on export promotion and in-market support to Afghan firms. MoCI is responsible for trade promotion and also provides in-market support through its Directorate of Exhibitions, which assists Afghan exporters to exhibit their products at trade fairs and exhibitions in international markets. EPAA supports traders through the provision of training and trade fair notification services. Moreover, EPAA houses and manages the Customs Department one-stop shop. The one-stop shop was established as a joint partnership between EPAA, ACCI and Kabul Customs Department in 2010. The name 'one-stop shop' is a misnomer because the one-stop shop cannot

actually provide all Customs clearance documents. However, it provides support to exporters such as guidance on export procedures. Its operational expenses are paid by the Kabul Customs Department. Further, the Customs Department holds a key role in this TSF, as it is responsible for providing information and assisting exporters on Customs procedures. CSO plays an important role as well, as it is responsible for the collection and dissemination of trade information.

Other key TISIs are ACCI, which provides a number of services including Certificates of Origin and trade information, among others, as well as AWCCI. The latter is focused on empowering Afghan businesswomen and women exporters through advocacy efforts and training. The Afghanistan

Chamber of Industries and Mines (ACIM) is providing advocacy support to the local industry to support them to supply domestic and international markets. The International Chamber of Commerce in Afghanistan (ICC Afghanistan) assists exporters to improve their knowledge of international trade through workshops and online-certified trainings. It also provides international dispute resolution services to all businesses, and exporters in particular. In the future, ICC Afghanistan aims to facilitate the provision of electronic certificates of origin. Lastly, the Afghanistan Exporters Club provides several trade-related services including market intelligence and advisory services, as well as training.

Box 13: Key Afghan trade information and promotion bodies

	Institution	Services available
Policy support	MoCI	<ul style="list-style-type: none"> Trade promotion The Directorate of Exhibitions: This Directorate is responsible for supporting traders in displaying their goods at trade fairs and exhibitions abroad.
Business support	EPAA	<ul style="list-style-type: none"> Trade fair notification service: EPAA operates a fee-based exhibition notification scheme, in which traders pay an annual fee to receive e-mails about upcoming sales exhibitions. Training: EPAA conducts regular training for traders on export-related soft skills. There is no published schedule available online and traders must contact EPAA officials to obtain details about training programmes.
	ACCI	<ul style="list-style-type: none"> Packing list: ACCI will prepare a packing list for traders, free of cost. Invoice: Preparing a standardized invoice to accompany shipment. Certificate of Origin: Preparing standardized Certificate of Origin. Customs broker introductions: ACCI officials can, upon request, provide contact information for Customs brokers to assist in the export process. Shipping company introductions: ACCI officials can, upon request, provide contact information for licensed shipping companies for the transport of an exporter's goods.
	Afghanistan Chamber of Industries and Mines (ACIM)	<ul style="list-style-type: none"> ACIM was established in August (2017). ACIM will focus on developing industries, attracting investment in the mining sector and preventing illegal mineral extraction
	Customs Department one-stop shop	<ul style="list-style-type: none"> ACCI support services: The one-stop-shop has a dedicated desk for an official from ACCI to perform such duties as prepare the packing list, invoice and Certificate of Origin. Transit forms: Issuing transit forms for shipments that must transit through one or more countries before arriving at their final destination.
	Customs Department	<ul style="list-style-type: none"> Customs clearance documents: ACD headquarters issues exporters a Customs clearance document as the final step in processing the paperwork for a shipment abroad. Registration in the ASYCUDA system: ACD manages the registration of traders in the ASYCUDA system, which tracks exports internationally. Customs brokers: There are approximately 80 licensed Customs brokers in Afghanistan who have been trained to assist traders in the Customs clearance process. Many of these brokers share an office space in the main Customs Department building in Kabul.
	CSO	<ul style="list-style-type: none"> Trade information: Collection and dissemination of export / import statistics..
	International Chamber of Commerce in Afghanistan (ICC Afghanistan)	<ul style="list-style-type: none"> Policy Advocacy: ICC Afghanistan provides policy advocacy through specialized commissions in many sectors such as Arbitration and ADR, Banking, Trade and Investment policy, Trade Facilitation, among others. The ICC Policy commission is a platform for Public-Private Dialogue and serves to advocate for the interests of the Afghan business community at the United Nations, WTO and other international and intergovernmental organizations. Dispute resolution services Trainings and workshops: Including short term Certified Professional Courses (with ICC Academy in Singapore) and tools for e-business, local training programs and international training programs on several topics, including INCOTERMS and drafting and negotiation of contracts Others include: networking/conferences, including the World Chambers Congress, and research and business studies
	AWCCI	<ul style="list-style-type: none"> Training: AWCCI provides business consultancy and training services targeting women-led enterprises. Advocacy: The organization also advocates on businesswomen's concerns. In-market support: AWCCI supports women exporters to participate in fairs and exhibitions (e.g. handicrafts).
	Afghanistan Exporters Club	<ul style="list-style-type: none"> Trade-related services: Market intelligence services, advisory services (counselling on product / service segmentation, positioning and building competitive advantage). Training: On topics such as business intelligence, production planning, managerial performance, supply chain management, branding and negotiation skills



Photo: ITC

The potential of export promotion and in-market support services depends directly on the quality and effectiveness of Government policies and trade support services. Institutional support in Afghanistan must improve service delivery on trade information and promotion. There are serious challenges regarding the reliability of export / import information available, which limits the soundness of trade-related policymaking and initiatives. Institutional capacity requires urgent reinforcement in order to enable TISIs to conduct deep market research on foreign markets and provide Afghan exporters with relevant market intelligence. Additionally, services related to branding of Afghan key products at the national level are severely underdeveloped. Branding is essential for gaining export competitiveness in sectors with high marketing potential, such as the carpet sector. Lastly, although institutional support exists for Afghan exporters in terms of trade promotion services, further coordination is required with other relevant ministries, such as MoFA for visa facilitation. The presence and capacity of commercial representatives abroad also needs to be strengthened in order to improve visibility and in-market support services for Afghan exporters.

Coordination between Government organizations, chambers of commerce, business associations and enterprises needs to be strengthened. Increased communication and feedback is necessary in order to better assess the needs and interests of Afghan exporters. TISI capacity also needs to be strengthened through the provision of technical assistance on institutional development and capacity-building.

Sector level

At the sector level, export promotion and in-market support presents variations in terms of efficiency and relevance, depending on sectors and institutions analysed. Specific challenges are detailed under the corresponding sector-level strategy documents.

Nonetheless, there are some examples to be highlighted, such as MoCI's leadership on the Dried Fruits and Nuts, and Fresh Fruits and Vegetables sectors through the Raisin, Fruits and Vegetables Export Promotion Administration (also known as the 'Kishmish Directorate'). The Kishmish Directorate provides quality certification services to traders in these priority sectors. Similarly, the Afghan Carpet Exporters Guild provides quality certifications to carpet exporters. Key TISIs categorized by prioritized sectors are listed below.

- **Carpets:** Afghan Carpet Exporters Guild, Association of Kabul Carpet Producers, Federation of Afghanistan Craftsmen and Traders.
- **Saffron:** National Saffron Committee, Afghan Women's Saffron Association.
- **Dried fruits and nuts:** Raisin, Fruits and Vegetables Export Promotion Administration (MoC), Afghanistan Dry Fruit Exporters Association, Afghanistan Almond Industry Development Organization.
- **Fresh fruits and vegetables:** Raisin, Fruits and Vegetables Export Promotion Administration (MoC), Afghanistan National Horticulture Development Organization, Afghanistan National Nursery Growers' Organization.
- **Marble and granite:** Afghanistan Marble and Granite Producers Association, Afghan Marble Industrialists Association.
- **Precious stones and jewellery:** Federation of Afghanistan Craftsmen and Traders.

PERFORMANCE AND KEY COMPETITIVENESS CONSTRAINTS

DEMAND-SIDE CHALLENGES (ENTERPRISE SIDE)

Enterprise ability to absorb and use trade information is limited

Afghan SMEs have weak abilities to identify, collect, absorb and use good quality trade information. Part of the reason is that the typical Afghan SME is a family-owned, community-based structure which depends on traditional information sharing. Use of the Internet and dependence on TISIs for timely and relevant trade information has not readily emerged. The other reason is the typically weak links with international markets, due to which SMEs have not proactively researched global trends and specific target market requirements.

Skills gaps related to trade information increase the dependency of enterprises on second-hand sources, decreasing reliability. These gaps extend to the ability to analyse prices and tendencies of foreign markets or conduct basic research.

Another critical need relates to information on trade agreements that grant preferential access to markets in countries that are signatory to such agreements with Afghanistan. On one hand, enterprises in the priority sectors are generally unaware of the existence of these agreements, and on the other, they do not understand how to effectively leverage this preferential access. Awareness of the opportunities that firms can benefit from needs to be raised. This is especially important in the context of the recent WTO accession, where Afghan firms will definitely benefit from a level playing field but which will also result in increased pressure on firms due to international competition in the domestic market

Weak English language proficiencies constrain enterprises in terms of leveraging external data sources on trade intelligence as well as forging international relationships

Strong language proficiencies, particularly in English, are a significant competitive advantage in the business world and they are especially weak in Afghanistan. This is a long-term challenge that will need to be addressed directly at the primary school level in order to improve the ability of firms to use trade information properly and to develop business relationships in international markets.

Limited participation of Afghan firms in international markets prevents firms receiving exposure and forging new relationships

Cost considerations hinder participation of exporters in trade fairs (especially those held in international locations). Additionally, institutional support for granting access to international events, such as grants, hand-holding and other aspects, is quite weak and needs to be strengthened. Without financial and hand-holding support, the majority of aspiring and current exporters will not have the confidence to attend these events. Awareness of firms regarding events such as B2B meetings, exhibitions, etc. must be improved through enhanced availability of trade information so that they are able to explore the possibility of attending.

Weak knowledge of cultural nuances and business etiquettes in international markets is a competitive disadvantage for Afghan firms

The soft skills of international business are important for success in international markets, and Afghan SMEs lack exposure and knowledge in this area. This includes understanding of cultural nuances and business etiquette in specific countries and negotiation techniques, among other aspects. These are essential for sustaining international business relationships.

A general lack of networking and cross-pollination of information between enterprises adds to the trade information deficit

The low levels of networking channels among Afghan firms contributes to the paucity of trade information. For instance, chambers of commerce and sector associations facilitate sharing of information by organizing networking events. However, despite active advocacy efforts by ACCI and select sector associations, trust development and information sharing at the enterprise level has been slow to materialize. Part of the root cause is that in the challenging economic climate, firms struggle for survival and cannot be expected to always see the loftier goal of sector development front and centre, and this will emerge over time. Enterprises are hesitant to share their business leads as well as trade information sources.

Trade information needs to be integrated into the decision-making framework of Afghan enterprises that are seeking to develop export competitiveness

Afghan firms have traditionally catered to the domestic market and consequently have not relied on trade information as a means of generating competitiveness. Until now, enterprises have been largely unaware of the benefits of having reliable trade information and therefore have not proactively sought out sources. Even enterprises that seek this information are frequently unaware of the sources available. To a large extent, most firms lack even basic knowledge of target markets. With sluggish domestic demand and increasing competition from international suppliers, the focus towards international markets is inevitable, and use of relevant/timely trade information will be an important driver of success

SUPPLY-SIDE CHALLENGES (INSTITUTIONS)

Availability of trade information is asymmetric

Afghan SMEs regularly struggle to find reliable information that is required for their operations, including the minimal quality and food safety requirements (regulations, private standards, etc.) in international markets. Available information is usually too general – i.e. not specific to a particular sector or market – or hard to access. Exporters do not readily find the information to decide on target markets and subsequently the channels serving them. Information on consumption trends, end users and product applications is also not readily available. Enterprises face difficulties keeping up-to-date on price fluctuations and market trends, resulting in uncertainty in their ability to set prices and assess whether buyers are offering market-acceptable prices.

Coordination/collaboration among trade information providers must be improved

In recent years, there has been an increase in the number of trade information providers, in line with increased Government attention on trade competitiveness matters. As with other TISIs, the weak coordination and collaboration between these trade information providers means an increase in redundant, or worse, misaligned information. It is necessary to harmonize the trade information sources in the national TISIs and to ensure that the institutions coordinate well with each other.

Specific institutional coordination is required in the following areas:

- Information on which national institutions to contact in order to get specific information on preferential trade agreements and the various stipulations that accompany them. This includes information about tariffs of those countries with which Afghanistan cooperates under the framework of various bilateral and regional agreements,
- Unified information resource –including a network map– about the bodies that support export and their policies in the field of export promotion,
- Information services about the features of supply and demand in the target market, distribution channels available in target markets.
- Information about non-tariff barriers (quotas, technical standards, sanitary and phytosanitary measures, technical regulations and standards in target markets,
- Unified resource on the services of logistics companies, warehouses, consulting firms, insurance, finance companies, etc. that contribute to organizing export operations,
- Information about receipt of documents for carrying out foreign trade operations: export license, certificate of origin, certificate of conformity, an etc.
- Information on trade fairs, exhibitions and other events being held inside and outside Afghanistan, so as to facilitate and improve participation levels of existing and aspiring Afghan exporters.
- Adequate financial resources dedicated to export promotion activities

There is no one-stop shop to provide exporters with publicly available information on emerging / current market trends, market entry requirements, opportunities, etc.

Publicly available information remains a challenge for the Afghan private sector and exporters. There is an urgent need to develop a one-stop shop that is a comprehensive source of reliable trade services. This resource, which would collect and organize all relevant services in one location, would become the focal point for such trade services. Such a solution would provide easy and quick access to data on trade information (market trends, access, preferences, regulations, logistics, import/export procedures, consumer trends in target markets, market opportunities, etc.) as well as trade services such as packaging, shipping, etc.

Given that the Afghan economy is primarily comprised of MSMEs (many of them family-owned) with small budgets on average, the relevance and importance of publicly available trade information is high, since these enterprises are largely unable to afford on-demand trade information. When information is available publicly it is often unreliable and outdated, which leads to further confusion for enterprises.

There is an urgent need to develop EPAA's capabilities

The agency mandated with trade promotion organization responsibilities in Afghanistan –EPAA– has recently been restructured and reactivated after a hiatus in terms of leadership and operations in the last several years. The agency, operating as part of MoCI, requires a significant injection of technical and organizational support because its capabilities are still quite limited vis-à-vis increasing responsibilities. Strategic planning for the next several years' needs is required, and competence in the different areas of trade promotion organization support needs to be built, including a team of strong middle-tier grade officers. The trade promotion services currently provided are largely inadequate to assist exporters and the agency is not in a position to provide accurate information regarding documents, procedures and regulations for export and market access.

The network of Afghan consulates and trade attachés need to be strengthened to provide meaningful support to exporters.

The role of Afghan consulates and the network of trade attachés is critical to the exporter base but it is currently very weak. Trade attachés were recalled to Afghanistan in early 2017 owing to recognized challenges of efficiency and effectiveness, and it unclear when new attachés will be deployed. In the meantime, this constitutes an important support gap for exporters.

Officers at consulates and trade representations will need adequate training on the kind of information that will be required, the sources to tap into and the frequency at which to feed this information back to public institutions and sector associations. This feedback loop is essential and must be institutionalized. A comprehensive training programme, backed by a constantly updated curricula, needs to be established so that trade attachés are well versed on the types of sector-specific trade information that exporters need.

There is a need to further support trade promotion activities of women-focused business associations.

There are still a very limited number of Afghan associations designed to enhance the role of women in the country's economic life. There is not any specific mechanism to ensure women's participation in export-ready programmes. It remains primordial to support activities aiming to enhance the visibility of these organizations, especially those in the field of trade (e.g. AWCCI) and to develop specific export-ready capacity-building activities in those areas where women are a majority.

Visa restrictions/turnaround times make it difficult to organize trade events in Afghanistan, as well as travel to other countries.

International trade fairs and business matchmaking events provide significant value in terms of facilitating marketplace exchanges and deal-making, and ease of movement across borders is an important prerequisite. One of the key challenges facing Afghan firms is the logistical challenge of applying for and receiving visas. Given the uncertain security climate, many countries do not have consular representations in Afghanistan, necessitating visa seekers to travel to nearby countries such as Dubai or India. This results in increased cost and time burdens. Even when consular access is present, visas for the United States and the EU can prove especially challenging because of enhanced security checks, resulting in frequent rejections.

On the other hand, international visitors also face challenges in applying for and receiving Afghan visas. The turnaround time is high due to the multiple steps involved in vetting and applying for an Afghan visa, and receiving multiple entry visas is especially difficult. This is an important impediment for investors.

Brand Afghanistan based on good quality products has yet to emerge

Afghan firms have not actively participated in international markets, and while sectors such as saffron and carpets have developed distinctive brands based on unique characteristics, other sectors have been slow to develop a positive brand image in international markets. The prevailing political insecurity in the country is also to blame – Afghanistan and Afghan products are more associated with conflict than high-quality products. For the most part, brand development and promotion will remain synonymous and aligned with the country's security situation, as well as the ability of enterprises to meet and maintain quality and volume requirements and develop a broad range of competencies. When both aspects improve, the brand will automatically improve. Until then, brand development will remain constricted apart from case stories of individual firms.

Risk of overdependence on donor-led assistance related to trade promotion

Donors have recently started supporting sectors such as carpets but much more needs to be done for other priority export sectors as well. There is also the risk of overdependence on donors to support such activities, and the Government must take on increasing responsibility in maintaining a balance. This will not prove easy in the context of competing demands on the Government's agenda that require support but must be gradually prioritized.

There is a need to improve the e-commerce infrastructure in the country

E-commerce infrastructure is quite weak in Afghanistan. There are a range of challenges, from e-commerce infrastructure to information and communications technology skills-based enterprise issues to institutional coordination regarding e-trade, to information and communications technology and payments infrastructure. Given Afghanistan's

landlocked status and dependence on neighbours for transiting goods, the reliance on e-commerce is especially important. If this ability is developed, goods such as carpets can be pre-stored in warehouses in strategic markets and shipped when orders are received, ensuring on-time delivery to clients. The development of air-corridor routes with India and the United States also offers significant potential for e-trade development.

THE ROADMAP

The export promotion TSF strategy will serve as a guide towards harnessing and, subsequently, unleashing Afghanistan's trade potential leading to the improved competitiveness of SMEs on international markets.

This TSF strategy is driven by the following overall vision:

“Trade intelligence translates Afghanistan's commercial opportunities into business transactions”

The strategy initiative will pursue four strategic objectives in order to increase the health of the export promotion TSF in Afghanistan. The following section describes the strategic objectives and operational objectives set for the TSF function.

STRATEGIC OBJECTIVE 1: SUPPORT AFGHAN TRADE SUPPORT INSTITUTIONS (TSIs) TO MANAGE AND DELIVER EFFICIENT TRADE INFORMATION SERVICES

The first strategic objective has the goal of reinforcing the capacities of TSIs so as to improve the efficiency and access of strategic trade intelligence and in-market support for SMEs and to ensure the sustainability of the TSF strategic activities. One of the main priorities under this objective will be to enable TSIs to manage and deliver efficient trade information services leading to improved competitiveness of Afghan SMEs in regional and international markets. The strategy will seek the establishment of mechanisms to collect and provide information on foreign countries' trade procedures, including the development of e-solutions such as multimedia delivery platforms. Additional activities include training of TSI staff, including Foreign Trade Representatives,

to build their capacities on data collection, research and analysis and improve the quality of trade information services provided for exporters.

To achieve this goal, another main activity will be to establish a cooperation framework among Government agencies, TSIs, media, academia, research organizations and the private sector. The objective of this platform will be to improve the dissemination of trade information on key markets' trade procedures, characteristics and requirements. The strategy will also establish mechanisms to support the development of independent business advisory firms providing in-market development and market intelligence services.

STRATEGIC OBJECTIVE 2: ENABLE ENTERPRISES TO BUILD LINKAGES TO MARKETS THROUGH IMPROVED BRANDING, PROMOTION AND SALES FUNCTIONS

The second objective aims to ensure that firms are equipped with the skills to understand and use trade information, so as to align their operations and production to key markets' requirements. To achieve this objective, a number of activities will be implemented to enable enterprises to make informed decisions in order to expand market access. The main priority will be to support Afghan enterprises to collect, analyse and use trade information through a wide array of activities including communication and awareness-raising workshops, trainings, coaching and mentoring programmes involving the diaspora, and business clinic services. Furthermore, a key activity will be to enhance Afghan enterprises' export capacities through building their knowledge of and abilities in e-commerce channels and opportunities.

Firms will also be supported to increase their export capabilities through export readiness programmes, including export readiness assessments and trainings. Particular focus is proposed on strengthening women-focused business associations and privileging female participation in these activities.



Photo: saffron, (CC BY-NC-ND 2.0) World Bank Photo Collection @flickr.

Finally, the second strategic objective will also aim to improve the brand of Afghan products into the international arena to counter the current image deficit. The intention is to build a recognizable and well-reputed Afghan brand for key sectors so as to expand and maintain the market access of domestic firms in the international markets while gaining international exposure. Activities under this objective can also be a powerful tool to attract investment capital to the country.

The function of branding will be focused on priority sectors with high marketing potential, leveraging their elevated quality and uniqueness, such as the carpet, saffron, dried fruits and nuts or handicraft sectors. Government, business associations and other relevant TSIs need to increase their coordination in order to present an agreed-upon and uniform image to the world. TSIs can support this function by further upgrading the quality and delivery of key services such as packaging and marketing-related services, including awareness creation, advisory and training of SMEs.

STRATEGIC OBJECTIVE 3: PURSUE POLICY ADVOCACY EFFORTS TOWARDS TRADE-LED GROWTH AND EXPORT PROMOTION.

The third strategic objective aims to enhance the Government and economic actors' capacity to effectively conduct policy changes towards trade-led growth and export promotion. A main focus under this strategic objective

is to improve Government officials' capacities for trade policy formulation and implementation. In view of the recent accession to the WTO, measures to build the capacity of TSI staff on WTO regulations and obligations, particularly in matters crucial to Afghanistan such as the provisions under the SPS Agreement, will be a priority under this strategic objective. The WTO accession entails not only obligations but also opportunities for Afghanistan, and thus activities providing technical assistance to Government officials will also seek to support the country to take full advantage of the multilateral trading system. These activities include but are not limited to workshops, lectures, meetings with experts and attending WTO meetings.

Afghanistan has also begun a process of international insertion through bilateral trade agreements and is a beneficiary of preferential tariff treatment by the EU and United States. Similar to WTO rights and obligations, relevant Government officials will be the main target group of training programmes to build their knowledge and capacities to ensure the good functioning and implementation of these bilateral trade agreements with partner countries. Activities are geared to ensure Government officials are capable of understanding the set of measures – such as laws, regulations, and policies – which are necessary to implement obligations and commitments arising from these bilateral/multilateral agreements. Additionally, activities to enable Government intervention to boost opportunities or reduce vulnerabilities emerging from these bilateral/multilateral trade agreements will also be carried out through capacity-building programmes, including courses and exchange forums with international experts, among others.

TRADE INFORMATION AND PROMOTION: PLAN OF ACTION

Strategic objective 1: Support Afghan Trade Support Institutions (TSIs) to manage and deliver efficient trade information services, leading to the improved competitiveness of SMEs on international markets									
Operational Objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Target*	Lead and Supporting Implementers
			2017	2018	2019	2020	2021	2022	
1.1. Improve coordination/collaboration among providers of trade information	1.1.1. Carry-out a detailed diagnosis of the institutional coverage of trade information and promotion to understand: <ul style="list-style-type: none"> How it should be improved in terms of service quality? How institutions' capacity to formulate and convey trade information and promotion related policies should be reinforced? Which is the most consistent way for the trade support network to be structured to improve performance and efficiency? 	1						<ul style="list-style-type: none"> Completion of the diagnosis including insights on the strengths and needs of TSIs, duplication of effort and gaps in service delivery. 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM
	1.1.2. As an addendum to the trade information diagnosis, establish an interim public-private committee on trade information composed of key trade information institutions and sector associations to define the operational structure of an efficient trade information network in Afghanistan. Identify gaps where Afghan sectors (starting with the NES priority sectors) do not have any TSI support for collecting timely and relevant trade information. Propose and implement recommendations aimed at: 1) identifying institutions that should provide these services; and 2) developing abilities in terms of providing this function within the relevant institutions.	1						<ul style="list-style-type: none"> The interim committee is formed and produces recommendations for an efficient trade support network 	MOCI-EPAA, ACCI, MOFA, AWCCI, ICC, ACIM
	1.1.3. Based on the outputs obtained through 1.1.2, formalize and operationalize a private-public trade information network with dedicated resources pooled from the various public-private trade information institutions. <ul style="list-style-type: none"> Develop a feedback loop / protocol between consulates / trade attaches and national trade information providers Put in place a cooperation framework to promote the exchange and dissemination of trade information among government agencies, TSIs, media, academia, research organizations and the private sector. 	1						<ul style="list-style-type: none"> Formal cooperation framework is established, including protocols of collaboration with Trade Attaché Improved collaboration is confirmed through enterprise satisfaction survey 	MOCI-EPAA, ACCI, MOFA, AWCCI, ICC, ACIM
1.2. Enhance the capacity of TSIs to operate efficient trade information services	1.2.1. Deploy a comprehensive capacity-building and performance enhancement plan for EPAA to undertake its essential mandate as Afghanistan's trade promotion organization. Provide other key national TSIs with specific advisory and training on: <ul style="list-style-type: none"> Operating a trade information service Selecting relevant trade information sources Selling business information and related services Performance measurement for trade information services Guidelines for the operation of WTO reference centers 	1						<ul style="list-style-type: none"> Performance Improvement Roadmap (PIRM) which outlines a phased programme for implementation to address identified weaknesses in institution's managerial and operational performance 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM
	1.2.2. Provide technical assistance and support ICC Afghanistan to offer trade-related services: <ul style="list-style-type: none"> Activate the Electronic Certificate of Origin (E-CO) system Advocate for the inclusion of Afghanistan in the Global Chain of Certificate of Origin. Activate the (Admission Temporaire/Temporary Admission or ATA) Carnet system. 	2						<ul style="list-style-type: none"> Electronic Certificate of Origin system in place ATA Carnet system operational 	MoCI, ICC
	1.2.3. Provide key national TSIs with technical advice, training programs, market information resources and web-based solutions for effective trade intelligence gathering and dissemination <ul style="list-style-type: none"> Raise awareness to SMEs about existing training courses, e.g. ICC Afghanistan inoeterns and negotiating contracts courses. 	2						<ul style="list-style-type: none"> Key TSIs provide more relevant and effective services for improved SME competitiveness (Survey) 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM

Strategic objective 1: Support Afghan Trade Support Institutions (TSIs) to manage and deliver efficient trade information services, leading to the improved competitiveness of SMEs on international markets											
Operational Objectives	Activities	Priority	Implementation period					Target*	Lead and Supporting Implementers		
			2017	2018	2019	2020	2021			2022	
1.2. Enhance the capacity of TSIs to operate efficient trade information services	1.2.4. In collaboration with national TSI, support Afghan sector associations to provide targeted information services. Technical assistance should cover the following areas:	1							<ul style="list-style-type: none"> All sector associations of NES priority sectors increased abilities and competences to deliver sector-specific trade information 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM sector associations	
	<ul style="list-style-type: none"> Formulation of operational plans to set up or upgrade their trade information services Diagnosis of their sector's trade information needs, and assessment of existing information service capacities to meet such needs Development of technical and operational infrastructures, including website and trade information design and production Implementation of effective information processing, management, monitoring and delivery processes Selection and acquisition of relevant trade intelligence material 										
	1.2.5. Improve the websites of selected TSIs and sector associations through web-based solutions for effective trade intelligence gathering and dissemination, and insure a constant supply of timely market intelligence.	2							<ul style="list-style-type: none"> Websites of main TSIs and sector associations improved. Increased traffic and usage. 		MOCI-EPAA, ACCI, AWCCI, ICC, sector associations
	1.2.6. Develop and implement a feedback mechanism from current and potential exporters, and undertake periodic re-engineering of business processes of trade information to improve the quality of services provided. Monitoring mechanisms could be for instance through enterprise surveys complemented with control groups, or independent impact evaluations.	3							<ul style="list-style-type: none"> Feedback mechanism in place and operative 		
1.3. Reinforce national TSIs and sector associations' abilities to produce and disseminate pragmatic, usable market intelligence (on products of strategic importance)	1.3.1. Scale up and institutionalize current training programmes to strengthen the capacities of TSIs to collect, analyze and produce market research/report and to provide high quality advisory services to Afghan exporters. Key areas:	1							<ul style="list-style-type: none"> Curricula, teaching material and courses for key areas are developed Training programmes are imparted on twice a year 	MOCI-EPAA, ACCI, AWCCI, ICC	
	<ul style="list-style-type: none"> Trade information Market analysis (including preferential trade agreements) Business environment Export value-chain optimization Export promotion Gender mainstreaming 										
	1.3.2. Train TSIs in developing in-depth market feasibility studies (often referred to as "Market Profile") that examine the steps exporters of a selected product must take in order to effectively enter target markets. Vital components covered in a Market Profile include:	2							<ul style="list-style-type: none"> Detailed Market profiles developed and disseminated for each priority sectors and target markets 		MOCI-EPAA, ACCI, AWCCI, ICC, sector associations
	1. Product specific requirements and Rules of Origin: how an exporter can prosper in a value chain world by using preferential trade agreements. We will scrutinize the non-tariff measures in a target market and the detailed RoO provisions to maximize the chance the exporter can actually benefit from existing agreements. 2. Buyer and product segmentation: what an exporter needs to consider when crafting their final product in order to ensure good take up rate in target market. 3. Labelling and packaging: absorb the crucial elements that affect customs procedures, transporting and even branding. 4. Voluntary standards: understand if this is necessary for your product, the cost and the process. 5. Product placement or distribution channel: capture and explain the market structure in the target country. 6. Promotion: how to foster and maintain commercial relationships with buyers, sales teams and distributor. We also discuss how to attend trade fairs and conferences to realize sales										
	1.3.3. Strengthen the Afghan's Foreign Trade Representation (FTR) network: Roll-out a capacity-building programme aimed at trade representatives, diplomats, and managers of overseas trade offices able to provide better advice to SMEs and to prepare a report on opportunities and feasibility of exporting a selected product to a target market	1							<ul style="list-style-type: none"> Trade attachés in main target markets trained and enabled to contribute to trade information and promotion services 	MOCI-EPAA, MoFA	

Strategic objective 1: Support Afghan Trade Support Institutions (TSIs) to manage and deliver efficient trade information services, leading to the improved competitiveness of SMEs on international markets									
Operational Objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Target*	Lead and Supporting Implementers
			2017	2018	2019	2020	2021	2022	
1.3. Reinforce national TSIs and sector associations' abilities to produce and disseminate pragmatic, usable market intelligence (on products of strategic importance)	1.3.4. In collaboration with business and professional services sector associations, conduct Training of Trainers sessions aimed at consultants interested in learning the fundamentals of trade information services. Assist these firms to develop and market robust service offerings that can benefit potential clients. The overall goal will be to develop expertise among the consulting segment so that these specialists can provide value added services to goods-based sectors	2							<ul style="list-style-type: none"> At least two Training of Trainers conducted per year MOI-EPAA, ACCI, AWCCI, ICC, Entrepreneurs group
	1.3.5. Institutionalize the use of ICT's distance learning support services within TSIs on market analysis (include training platform with free video guides to navigating market analysis tools, tutorials explaining trade related indicators and interactive courses building skills in methodologies to identify export potential) as part of the induction process of new staff.	1							<ul style="list-style-type: none"> ICT's distance learning support services regularly used by most TSIs to train staff MOI-EPAA, ACCI, AWCCI, ICC, ACIM

* Targets are indicative only and will be the subject of further refinement at beginning of the Implementation Management stage.

Similarly, the lead and supporting implementers column remains indicative as the implementation will require collective efforts, for which additional institutions may be added.

Strategic objective 2: Enable enterprises to build linkages to markets through branding, promotion and sales									
Operational Objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Indicative Target	Lead and Supporting Implementers
			2017	2018	2019	2020	2021		
2.1. Raise firms' awareness and ability to implement international marketing and sales activities	2.1.1. Conduct workshop to enhance awareness among firms of the existence and benefits of Afghanistan's regional and international preferential market access conditions	1						<ul style="list-style-type: none"> Awareness raised among a panel of representative firms per priority sectors 	MOCI-EPAA, ACCI, AWCCI, ICC
	2.1.2. Sensitize firms on the need to have a market prospecting function to best develop their offering and generate new business. Subsequently support selected firms to establish market prospecting departments / responsible officers within firms.	1						<ul style="list-style-type: none"> Targets to be set in consultation 	MOCI-EPAA, ACCI, AWCCI, ICC
	2.1.3. Train firms to sustain existing buyer-seller relationships / mutual trust and provide training on marketing and after-sales services / digital marketing and online promotion / promotional materials, etc.	1						<ul style="list-style-type: none"> Targets to be set in consultation 	MOCI-EPAA, ACCI, AWCCI, ICC
	2.1.4. Train select advanced firms on how to enhance customer focus through value added services such as vendor-managed inventory, ICT capacity (IT-enabled teaching), drop shipment.	2						<ul style="list-style-type: none"> Targets to be set in consultation 	MOCI-EPAA, ACCI, AWCCI, ICC
2.2. Improve the reputation and presentation of Afghan products in order to become compelling to international customers	2.2.1. Organize brand awareness workshops: How international reputation of a company or sector can be improved. Learn best practices on brand strategy, design and implementation, adapt to the sector and market.	2						<ul style="list-style-type: none"> At least 2 brand awareness workshops organized each year in main provinces 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM, sector associations
	2.2.2. Coordinate services offered by Afghan TSIs and private sector providers to establish a joint national programme on branding, promotion, marketing, labelling of products. The objective is to raise awareness of firms, provide complete information about available services, advice and support and to increase visibility and improve the visual aspect of Afghan products. Universities and consulting firms should be associated.	1						<ul style="list-style-type: none"> Mapping Service provider identified; Effective use of branding by operators, Joint national program on branding established 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM, sector associations, Entrepreneurs group
	2.2.3. Provide training and capacity building organized around different modules (corporate branding, collective brand management, labelling, packaging, quality management, traceability, etc.). Modules can be developed on an incremental basis with new ones being added over time depending on demand.	1						<ul style="list-style-type: none"> At least two training workshops organized each year in main provinces 	MOCI-EPAA, ACCI, AWCCI, ACIM, ICC
	2.2.4. Provide specific advisory services to sector associations and selected small and medium enterprise clusters in priority sectors <ul style="list-style-type: none"> Assess firms' brand communications and strength of their value proposition to its customers Test the demand for products with real customers and professional buyers Design packaging that corresponds to market requirements and shows the product to its advantage Brand Awareness: Learn best practice on brand strategy, design and implementation, adapted to the sector and market. Brand plan: Structure a plan that is used to develop designs, communications and product development. Brand kit: Design and produce the marketing collateral associated with the brand design 	1						<ul style="list-style-type: none"> Enterprise clusters in all priority sectors received specific advisory services 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM, sector associations
	2.2.5. Develop a set of self-learning courses and materials that companies can use to educate themselves on the importance of branding and how to effectively brand their offerings, especially in international markets.	2						<ul style="list-style-type: none"> Self-learning courses and materials developed and used 	MOCI-EPAA, ACCI, AWCCI, ACIM, ICC
	2.2.6. At priority sectors level, support the development of collective brands to enhance visibility and image of the sector and firms in international markets and in the eyes of potential buyers, business partners and investors. Sector-specific collective brands should be used based on the following principles: <ul style="list-style-type: none"> Convey one single coherent and intelligible transmission vector with a defined logo and other visual elements. Draw up eligibility criteria for use of the collective brand by firms for their products and services. Officially, publish or disseminate the list of enterprises, products or services bearing the collective brand.	1						<ul style="list-style-type: none"> Three collective brands created or adapted by end 2019 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM, sector associations

Strategic objective 2: Enable enterprises to build linkages to markets through branding, promotion and sales									
Operational Objectives	Activities	Priority 1=high 2=med 3=low	Implementation period					Indicative Target	Lead and Supporting Implementers
			2017	2018	2019	2020	2021		
2.2. Improve the reputation and presentation of Afghan products in order to become compelling to international customers	2.2.7. Foster the use of collective brands in conjunction with quality assurance initiatives based on systematic application of the following elements: <ul style="list-style-type: none"> • Distinctive collective brand logo or label, • Product or service-specific quality terms of reference/production methods and quality assurance procedures 	1						<ul style="list-style-type: none"> • No. of operators using the collective brand; Better perception of collective brands abroad 	MOCI-EPAA, ACCI, AWCCI, ICC, ANSA
	2.2.8. Offer enterprises specific training about the use of, compliance with and benefits of collective brands to ensure coherence and use of those brands for promotion purposes. Conduct training on development of company level brands to be linked with the sector brand.	2						<ul style="list-style-type: none"> • A training programme per collective brand established; • No. of operators trained 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM, sector associations
	2.2.9. Establish an annual brand award for Afghan firms to reward and promote excellence, innovation or good reputation of Afghanistan in-country and in particular overseas, to be articulated as follows: <ul style="list-style-type: none"> • Establish categories or areas to be rewarded (best product, best firm, best innovation, best artist, etc.); • Establish a selection procedure for the award (eligibility, submission, qualification, nomination and award); Organize an annual public event to award the Afghan brand to eligible parties and to garner and focus public and media attention	1						<ul style="list-style-type: none"> • Brand award established; Effective; • Better in-country perception of sector and corporate brand 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM, sector associations
2.3. Enable enterprises to take part in international trade, including through online market places	2.3.1. Provide adequate coaching prior to trade promotion activities through Business Generation programmes (how to translate business meetings into actual transactions): <ul style="list-style-type: none"> • Select firms whose products comply (or are close to comply) with the norms and standards of the target markets • Prepare enterprises to meet with potential buyers: equipping participants with the right materials and commercial arguments • Sales and Negotiation: Advisory and training on preparing for meetings, negotiating with potential customers and managing the relations • Get efficient feedback from international customers on pricing, design of products or communications • Confirm interest, initiate business and maintain/develop commercial relationships 	1						<ul style="list-style-type: none"> • Target to be set in consultation. No. of operators trained 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM
	2.3.2. Ensure greater participation in international trade fairs to enable exporters to meet international buyers and strengthen the visibility of Afghan companies. <ul style="list-style-type: none"> • Organize trade meets that will be leveraged to promote Afghan exports. • Promote local products through international trade fairs. • Organize bilateral trade facilitation forums to develop market linkages. 	1						<ul style="list-style-type: none"> • Increased number of international trade fairs attended • Increased number of participating companies 	MOCI-EPAA, ACCI, AWCCI, ICC, for associations
	2.3.3. Promote and organize B2B events such as B2B trade shows to: <ul style="list-style-type: none"> • Initiate contact with potential international buyers; • Generate interest among prospective foreign investors; • Provide support to exporters visiting the market. In collaboration with overseas Afghan trade missions (embassies) arranges buyer-seller meetings to facilitate interaction between Afghan exporters and foreign buyers in target markets. . Improve links between diaspora groups, the Afghan trade attaché network, and Afghan exporters with the goal of integrating diaspora members in terms of investing as well as forging commercial links with Afghan firms.	1						<ul style="list-style-type: none"> • Target to be set in consultation 	MOCI-EPAA, ACCI, AWCCI, ICC, for associations, diaspora associations

Strategic objective 2: Enable enterprises to build linkages to markets through branding, promotion and sales									
Operational Objectives	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Indicative Target	Lead and Supporting Implementers
			2017	2018	2019	2020	2021		
2.3. Enable enterprises to take part in international trade, including through online market places	2.3.4. Use trade intelligence as an effective vehicle for regional economic integration: Design and implement sector-specific in-market support programmes, with focus on regional markets in order to benefit from preferential market access to those markets. The four steps are: <ul style="list-style-type: none">Trade flow analyses that identify import, export and related investment opportunities across groups of countries.Supply and demand surveys that document market characteristics in order to identify opportunities and potential clients through field research on a product and country basisBuyers/sellers meetings which serve as platforms for companies to conduct business transactions and take advantage of the identified opportunities.Follow-up actions at enterprise, institutional and government level aims at sustaining south-south business links	1							MOCI-EPAA, ACCI, AWCCI, ICC, sector associations <ul style="list-style-type: none">In-market support programmes developed for each priority sectors
	2.3.5. Support the trade promotion activities of women-focused business associations <ul style="list-style-type: none">Analyse the role, activities and reach of the Afghan associations designed to enhance the role of women in the country's economic life.On the basis of the above activity, develop a series of activities aiming to enhance the visibility of these organizations, especially those in the field of trade.Through the different associations, develop specific export-ready capacity-building activities in those areas where women are a majorityEnsure women's participation in export-ready programmes by allocating a number of seats to women and promoting their participation through the different business associations and by developing an awareness-raising campaign.	1							<ul style="list-style-type: none">Capacity-building activities developedAt least 75 women trained over the five-year periodAt least 25% of the seats available for oversee trade promotion programme are reserved for women MOCI-EPAA, AWCCI, ACCI, ICC
	2.3.6. Develop export-financing schemes to facilitate the trade promotion activities of Afghan firms. E.g. Develop a grants matching scheme for export promotion, informed by a public-private approach where the public sector shares with the private sector the costs of developing export action plans and technical assistance, including B2B events and business delegations to target markets.	1							<ul style="list-style-type: none">Target to be set in consultation Da Afghanistan Bank, MOCI-EPAA, ACCI, AWCCI, ICC
	2.3.7. Develop the e-trade infrastructure and enterprise capabilities to integrate e-commerce into their operations: Conduct e-trade assessment at the national (as well as for specific NES priority sectors including saffron and carpets). The assessment will review institutional and enterprise abilities to use e-commerce as a viable distribution channel. Assessment will focus on the following components: <ul style="list-style-type: none">Regulations and policiesEnterprise skills assessment related to e-trade / e-commerce.Payment systemsE-commerce infrastructure Sector-specific considerations (saffron: high value, low weight; carpets: high e-visibility requirements) will be inputs to the assessments. The assessment will result in a series of tangible, prioritized activities that will need to be implemented in a phased manner	2						<ul style="list-style-type: none">e-trade infrastructure and enterprise capabilities to integrate e-commerce developed MOCI-EPAA, ACCI, AWCCI, ICC, sector associations, Ministry of Telecommunication and Information	

Strategic objective 3: Pursue policy advocacy efforts towards trade-led growth and export promotion.									
Operational Objectives	Activities	Priority 1=high 2=med 3=low	Implementation period					Target	Lead and Supporting Implementers
			2017	2018	2019	2020	2021		
3.1. Bridge gaps related to trade and export promotion in the national policy agenda	3.1.1. Apprise high-level governmental level bodies including HEC, Public-Private Development Partnership, etc. on developments as well as requirements related to trade information and in-market support. This can be achieved through physical representations in meetings as well as position papers jointly presented by the public and private sector.	1						<ul style="list-style-type: none"> Number of trade-related policy reforms and positioning papers presented at HEC 	MOCI-EPAA, ACCI, AWCCI, ICC, ACIM
	3.1.2. Organize training seminars on export promotion policy to senior ministry officials and agencies involved in the formation of foreign trade policy. <ul style="list-style-type: none"> Capacity development will involve skills development for the negotiation of trade and transit agreements, including the opening of new bilateral and regional agreements through training and coaching / secondment programmes. 	1						<ul style="list-style-type: none"> At least two training organized per year 	MOCI-EPAA, MoFA
	3.1.3. Ensure full implementation of the Convention on International Transport of Goods Under Cover of TIR Carnets (TIR). This will require adoption of the TIR regulation (currently in draft form) and capacity-building of Customs staff as well as all players in transit logistics. <ul style="list-style-type: none"> In parallel, support the development of private sector transit services by improving the legal and regulatory framework for licensing freight forwarders and international carriers. 	1						<ul style="list-style-type: none"> Target to be set at later stage 	MOCTA, MOCI, MoFA, ACCI, Customs department
	3.1.4. Expedite the implementation of all bilateral, regional and multilateral transit agreements in order to reduce transit costs. MoCI will commence processes for facilitating business with China and India, including a transit agreement, and initiate negotiations for opening up transit routes with Turkmenistan and beyond, in order to access the potential for increased trade with European markets via the most direct transit route.	2						<ul style="list-style-type: none"> Target to be set at later stage 	MOCI, MOCTA, MoFA
	3.1.5. The following policy measures will be prioritized and be the subject of advocacy efforts to reduce the administrative burden on exporters: <ol style="list-style-type: none"> MoCI will seek to eliminate all unnecessary export authorization requirements in both the public and the private sectors. MoCI will ensure full removal of the requirement to obtain a Certificate of Origin. Preferential Certificates of Origin will be available on a voluntary basis to exporters wishing to benefit from preferences granted by the importing country or if a Certificate is required by the importing country. MoCI will remove the requirement for all exporters to obtain an ACCI invoice, which violates General Agreement on Tariffs and Trade Article VIII and is inconsistent with international legal requirements. MoCI will eliminate the requirement to obtain a quality certificate, which is required for the export of fresh and dried fruits and vegetables. These certificates are currently issued by the Afghan Raisin, Fruits and Vegetables Promotion Association, but are not accredited or recognized in other countries. Similarly, the requirement to obtain a quality permit for the export of all non-processed agricultural food products (except live animals and plants) will be removed. The requirement to obtain veterinary and phytosanitary certificates for exports of animals and animal products and the export of plants and plant products, respectively, will be made voluntary. They will be issued at the request of the exporter to meet specific requirements of importing countries. Similarly, veterinary and phytosanitary permits for the export of animal products and seeds will be eliminated. MoCI will take the lead in harmonizing the roles of different agencies and local authorities in areas that are normally the domain of trade (e.g. MoCI for oil imports, the Ministry of Transportation and Civil Aviation for road fees and weight certificates, and MoFA for transit permits). Review all trade and transit fees and charges to ensure they properly reflect the cost of the services provided, and reduce fees and charges where appropriate. Document border requirements and procedures and make them readily available to all interested parties. Undertake an ongoing awareness-raising programme and prepare an import / export guide which provides traders with succinct information about what they must do to complete formalities.	1						<ul style="list-style-type: none"> Target to be set at later stage 	MOCI, MoFA, ACCI, AWCCI, ICC, ACIM, MoTCA, MAIL, ANSA, sector associations
	3.1.6. In collaboration with ITC, facilitate the development of a trade obstacle alert platform that allows trade operators to alert relevant authorities about the obstacles they face and enable policymakers to resolve them. The mechanism will coordinate with a wider institutional network (e.g. trade facilitation committee / national export council) and will enable companies and trade service providers to post requests for assistance / problems encountered regarding trade impediments they face (e.g. delays in receiving a Certificate of Origin; lack of availability of information on a market requirement or regulation etc.).	2						<ul style="list-style-type: none"> trade obstacle alert platform developed and operational 	MOCI-EPAA, ACCI, AWCCI, ICC
	3.1.7. Conduct a non-tariff measures data-collection exercise aimed at compiling a full inventory of the non-tariff measures applied by Afghanistan and make the results publicly available	2						<ul style="list-style-type: none"> NTM are collected and disseminated annually 	MOCI-EPAA, ACCI, AWCCI, ICC

SKILLS DEVELOPMENT (TVET)

Recognizing and addressing the role of skills development in trade is vital to reap the benefits from global trade and facilitate a positive integration of Afghanistan into global markets. Trade growth is connected with the adoption of new technologies, restructuring of work organization and improvements in productivity. Thus skills development –and human capital in general– play a critical role in enabling trade and economic diversification and facilitating adjustments towards more open trade. On the other hand, adequate responses to changes in demand (in terms of skills) can improve the social impact of globalization by reducing impacts on wage distribution and adjustment costs. This has been acknowledged at the national level, by the Office of the Economic Advisor. Specific actions to upgrade the infrastructure and equipment of TVET institutions have been outlined by the Executive Committee on Private Sector Development (PriSEC), Working Group 2: Agriculture, Trade and SMEs (Private Sector Reform Priority #8). The Skills development TSF Strategy is aligned and supportive of these efforts.

Policies aimed at enhancing and developing new skills are thus crucial in trade-related strategies, by providing a broad emphasis to ensure skills-related systems strengthen the country's participation in overall trade and/or through targeted skills development measures seeking to develop comparative advantages in priority sectors and activities.



Photo: ITC

AFGHANISTAN AT WORK: CURRENT STATUS OF SUPPLY AND DEMAND FOR SKILLS

Despite recent progress, Afghanistan must still recover from decades of a collapsed education system, where several generations of Afghans missed out on education and were left illiterate. Afghanistan has one of the lowest literacy rates in the world (38%), which means that less than half of the population over the age of 15 can read and write, according to the World Bank (2015). Women hold the lowest literacy levels within the Afghan working-age population.

Notably, out of the above-mentioned 9 million graduates from general education, only a small share enter higher education, whether to universities or TVET, as estimates indicate only a 9% enrolment in tertiary education. This is partly explained by the limited absorptive capacity of tertiary education, which causes a large number of students to fail to enter universities.

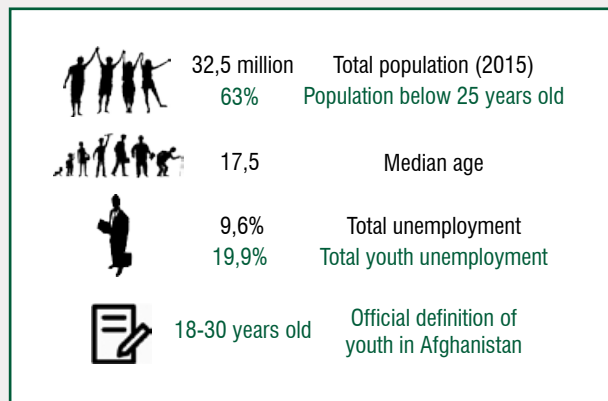
The Afghan labour force is characterized by a young workforce supply, which will continue growing over the next 5–10 years. Unemployment is particularly high among young people, which is partially caused by youth lacking the technical skills which are necessary to support reconstruction efforts and economic development. In some cases, the large proportion of labour-market entrants are rather illiterate or have low literacy and technical skills. In consequence, in many cases, foreign labour must be hired due to the shortage of skilled workers for certain skilled jobs.

GENERAL OVERVIEW OF THE FUNCTION

Afghanistan has made remarkable progress in education, particularly in primary and secondary education, in the last couple of decades. Student enrolment has significantly increased from less than 1 million students in 2011 to roughly 9 million¹⁹ students enrolled in general education (primary, secondary and high school education levels) in 2016. This expansion has included girls, who were close to absent in schools before 2011. Estimates indicate that roughly 39% of students at general schools are female. This translates to the largest number of girls attending schools in Afghanistan in all its history. Moreover, the number of general schools has dramatically increased from over 6,000 (2002) to above 14,000 (2016). Considering the majority of TVET high schools and TVET institutes were outside Kabul by 2011, major developments have also taken place in the enrolment, establishment and decentralization of TVET institutions.

19.– The number of enrolled students is the sum of present and absent students in general education, up to three years.

Box 14: Youth in Afghanistan: current state and implications



This sizeable youth population can turn into a demographic dividend if a tailored policy framework is put in place and investments are allocated to human capital and skills development of young cohorts, as well as new technologies and infrastructure. A large qualified working-age population with few dependents would

collectively support the efforts of increasing productivity, trade and prosperity in the country.

Conversely, if young workers are not productively employed, the increasing number of new entrants in the labour market – estimated at 400,000 to 500,000 annually in Afghanistan but expected to continue expanding up to 750,000 in five years – may contribute to social instability and tensions, particularly in fragile states. Currently, Afghan youth is bound to be employed in casual and precarious employment as apprentices and trainees. It is noteworthy that education levels are improving in particular for younger cohorts, evidenced by higher literacy rates for young people, especially in urban areas.

Recognizing the particular needs and diversity of groups within the youth population – e.g. rural youth, marginalized youth, young women – and empowering them through the enhancement of their skills while connecting them to employment openings are among the priorities to be considered in youth-centred policy formulation in Afghanistan.

Source: UNDP Population trends (2016), UNFPA (2015).

On the demand side, employment is predominantly informal, while formal employment is mostly available in the public sector, the latter being mostly present in Kabul. Moreover, informal networks prevail as employment channels, constituting barriers to entry into the labour market.

Agriculture is the largest provider of employment, followed by retail, trade and petty trade, as well as shopkeeping activities, services and construction. In this regard, the agriculture, construction and residual service sectors are characterized by a significant prevalence of low-skilled jobs, where workers with no education or primary education prevail. Further, low-skilled jobs are also prevalent in casual employment in mining and quarrying sectors. There is a lot of labour migration as an alternative to acquiring marketable skills not present in the Afghanistan labour market. Conversely, skilled labour is needed in the health care, educational and communications infrastructure sectors.

Furthermore, the Afghan labour market faces increasing demand for skilled and semi-skilled workers to cope with the reconstruction of the country. This demand tends to vary across provinces. There is significant demand for professionals to support the reconstruction of damaged and inadequate potable water, irrigation and flood control systems.

STRUCTURE OF THE NATIONAL EDUCATION SYSTEM

Skills development and education in general are recognized as crucial for the overall development of Afghanistan, being entrenched in the Constitution of Afghanistan, the National Education Law and the Afghanistan National Development Strategy (ANDS). Through ANDS, the Afghan Government has committed to developing the skills of the national labour force in order to prepare the workforce of tomorrow to be more productive and better equipped with improved skills.

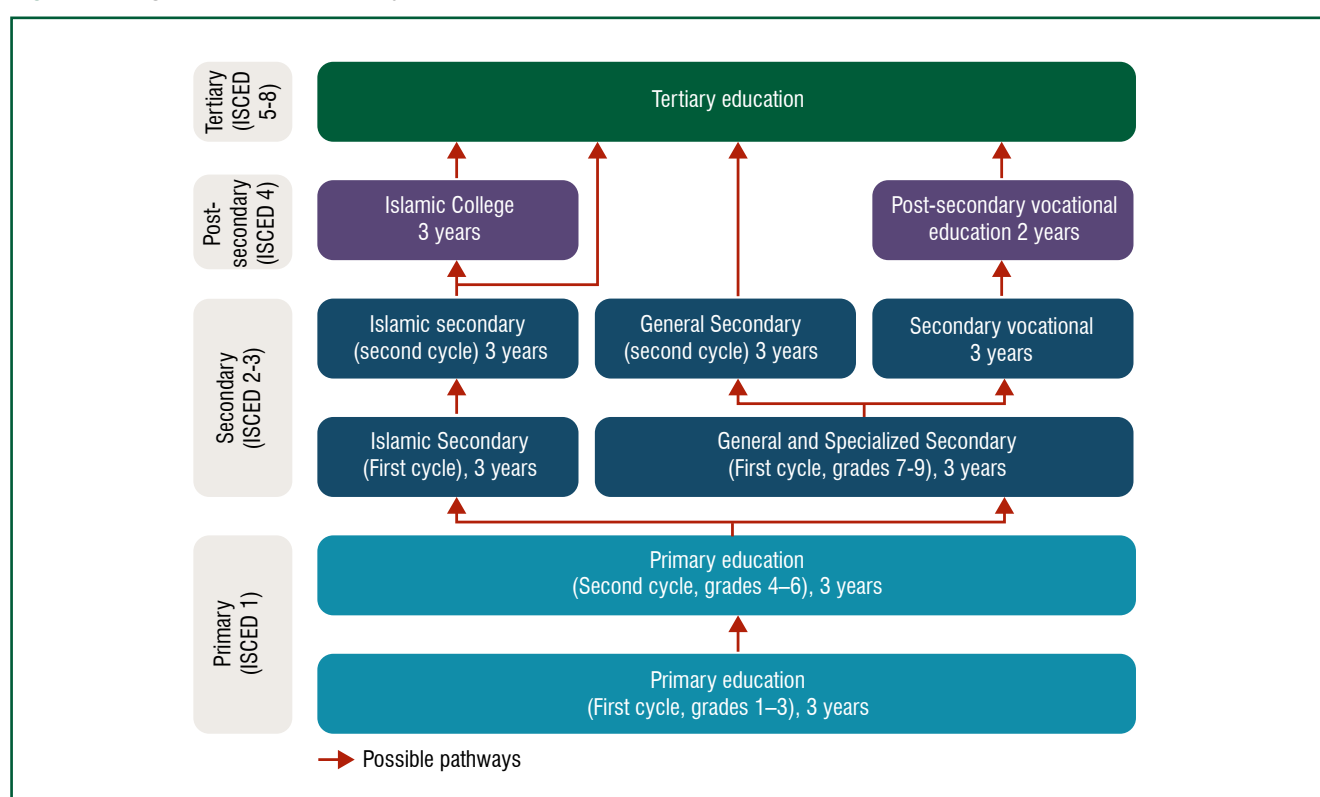
The Afghan skills development sector falls under the purview of MoE, which is responsible for the administration of primary education, secondary education, vocational education and religious education. MoE also administers funding, policy development, curriculum design, evaluation and basic teacher education. The Ministry of Higher Education (MoHE) oversees tertiary education such as universities and drafts legislation for assuring the quality of higher education. The Ministry of Labour, Social Affairs, Martyrs and Disabled (MoLSAMD), along with the Ministries of Hajj and Religious Affairs, Women's Affairs and Rural Rehabilitation and Development provide support to education services in the country.

MoE priorities are guided by the National Education Strategic Plan (2017–2021). The Strategic Plan outlines three main objectives, which are improving quality and relevance of education, increasing equitable and inclusive access to learning opportunities, and increasing efficiency and transparency of management of education services at the national and subnational levels. Moreover, the MoE operates according to the following vision: ‘To develop human capital based on Islamic principles and respect for human rights by providing equitable access to quality education

for all to enable them to actively participate in sustainable development, economic growth, stability and security of Afghanistan.’

The structure of the national education system comprises primary education, secondary education, higher education, vocational education, teacher training and religious education. Compulsory education includes primary education and lower secondary education. Education is a right for all Afghan citizens and thus is free of charge in state institutions, including up to college level.

Figure 10: Afghanistan education system



Source: UNESCO-UNEVOC

Primary and secondary education

The admission to primary education is at age 7. Primary education is divided into two three-year cycles, equivalent to grades 1–6. The first cycle of primary education comprises subjects such as arts, theology, Dari or Pashtu, mathematics and calligraphy. Topics such as sciences are added at later stages. In less safe regions community-based education is provided, commonly in mosques, where the focus is on religious subjects. After examination, pupils are admitted to lower secondary education.

Lower secondary education (also called intermediate) has a duration of three years, equivalent to grades 7–9. Subjects such as mathematics, sciences, biology, physics, chemistry and foreign languages, e.g. English, German, French and Russian, are part of the curriculum for lower secondary education. Upon completion of this stage, pupils are examined to be granted admission to higher secondary education, which will prepare them for university or vocational education. Higher secondary education comprises grades 10–12 and includes two streams: natural sciences and social studies. Pupils are aged between 14 and 17 years old. Students may opt to pursue technical and secondary vocational education instead of higher secondary education.

Tertiary education

MoHE oversees the administration of higher education, which includes funding, policy development, institution establishment, quality assurance and advanced teacher education. Higher education in Afghanistan includes both universities and higher education institutes. According to CSO, enrolment in public universities increased from 7,800 in 2001 to 174,425 in 2015, and there were 36 higher education institutions in the country in 2016, almost double the number of institutions (19) established in 2002. There is not a precise number of private institutions operating in the higher education sector. Nevertheless, it is estimated that there are between 70 and 100 private tertiary institutions, which operate mostly in Kabul but also in Khost, Kunduz and Balkh.

Tertiary institutions commonly specialize in programmes such as medicine, finance, management, information and communications technology, and marketing. Universities typically offer Bachelor's and Master's degree programmes and there are plans to develop PhD programmes in the future. At the bachelor level, only a few programmes incorporate work placements in their study programmes. Bachelor degree programmes take four years, except for engineering, pharmacy and veterinary science, which last five years, and medicine, which lasts seven years including a one-year internship. Masters programmes are predominantly offered by private higher education institutions.

TVET

This section will describe and assess the current TVET system in order to identify the adjustments necessary for it to provide the skills that are most needed by the private sector.

The governance of the TVET system

TVET education is provided by a wide array of establishments and different types of providers. MoE is responsible for TVET education through its Deputy Ministry of TVET (DMTVET). However, MoE does not oversee the entirety of TVET providers, which includes private suppliers and NGOs. MoLSAMD is responsible for the non-formal TVETs in the country. The responsible body under MoLSAMD is the General Directorate of Skills Development. Other ministries, in addition to private sector providers and international and domestic NGOs, also provide TVET education but no Government institution oversees or monitors private and NGO TVET providers. It is estimated that these entities govern more than 873 different institutes/educational centers in the country²⁰

Human Resource Development Board. In 2008, an Education Development Board with representatives from the Ministry of Women's Affairs, MoLSAMD and MoHE was established and then renamed the Human Resource Development Board. The Board seeks to ensure coordination and support harmonization between MoE, relevant ministries, donors and MoF. In this regard, the Board has to ensure coordination of donor aid in the education sector with the objective of aligning support. It is also responsible for providing leadership and oversight of human resource programming in Afghanistan.

Currently, private TVETs, NGO TVETs and informal apprenticeships lack a formal accreditation system and their curricula are not unified, as they do not fall under the mandate of any ministry. Non-formal TVET also lacks a standard entry requirement for apprenticeships or TVET enrolment. The wide range of TVET services available in Afghanistan is summarized in the following table.

20.– Office of the Economic Advisor (2017): Technical and Vocational Education in Afghanistan.

Box 15: Ongoing reforms: Afghanistan's National TVET Strategy

MoE and MoLSAMD jointly developed Afghanistan's National TVET Strategy (2013-2018). The TVET Strategy seeks to increase coordination of national stakeholders in TVET, including MoHE, MoE, MoLSAMD, the Ministry of Women's Affairs, NGOs and private sector training providers.

The Afghanistan National Qualifications Authority will be the Government body to oversee formal and informal TVET providers through a National Board of TVET, which will be developed by the Committee on Education and Skills Policy, which falls under the office of the First Vice-President. The Committee also has the mandate to elaborate a mechanism for the recognition and certification of formal and informal training.

Table 3: TVET services available in Afghanistan

TVET	Length	Qualification	Governance
Public TVET high schools (grades 10–12)	3 years	Professional or Technical Baccalaureate	MoE
Public TVET institutes (grades 13–14)	2 years	Associate Level Diploma	MoE
Public TVET (grades 10–14)	5 year	Associate Level Diploma and Professional or Technical Baccalaureate	MoE
Public TVET training centres	< 1 year	Non-formal	MoLSAMD
Public TVET training through other ministries	< 1 year	Non-formal	Not recognized by MoHE or MoE
Private TVETs	Variable	No accreditation or certification system	Not under the mandate of any Ministry
NGO TVETs	3–18 months	No accreditation or certification system	Not under the mandate of any Ministry
On-the-job training in private sector	Variable	No Accreditation or certification system	Not under the mandate of any Ministry

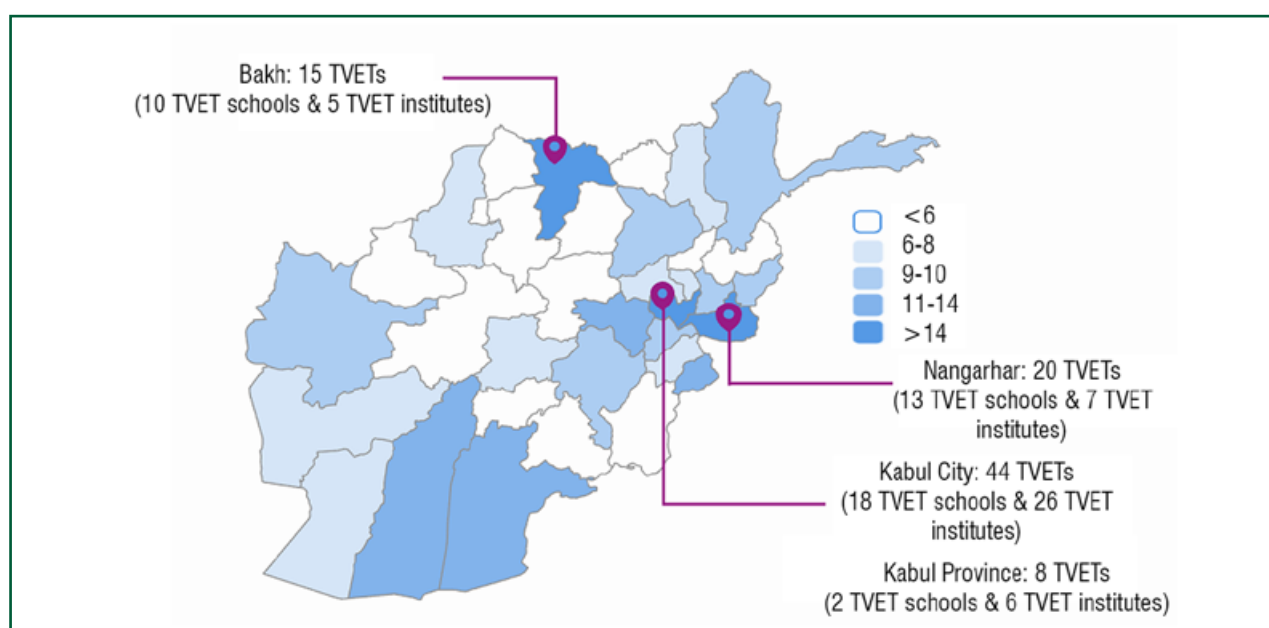
TVET MAPPING

Formal TVET

MoE is the responsible body for formal TVET in Afghanistan, through DMTVET. TVET schools and institutions under MoE provide education which follows a unified formal curriculum approved by MoE. Formal TVET institutions are categorized as TVET schools, which provide a three-year training programme (grades 10–12), and TVET institutes, which offer a two-year programme (grades 13–14). Additionally, DMTVET offers a five-year integrated programme covering grades

10–14. Further, graduates are enrolled in TVET institutions at grades 9 and 12.

MoE administers 204 TVET schools and 118 TVET institutes (2016), the majority of which are located in major cities across the country, with very few operating in districts. Concentration of TVET institutions varies by province, as Kabul City and Province hold the largest number of TVET institutions (44 and eight, respectively), followed by Nangarhar Province with 20 TVET institutions (13 TVET schools and seven TVET institutes) and Balkh Province with 15 TVET institutions (10 TVET schools and five TVET institutes).

Figure 11: Map of formal TVETs in Afghanistan

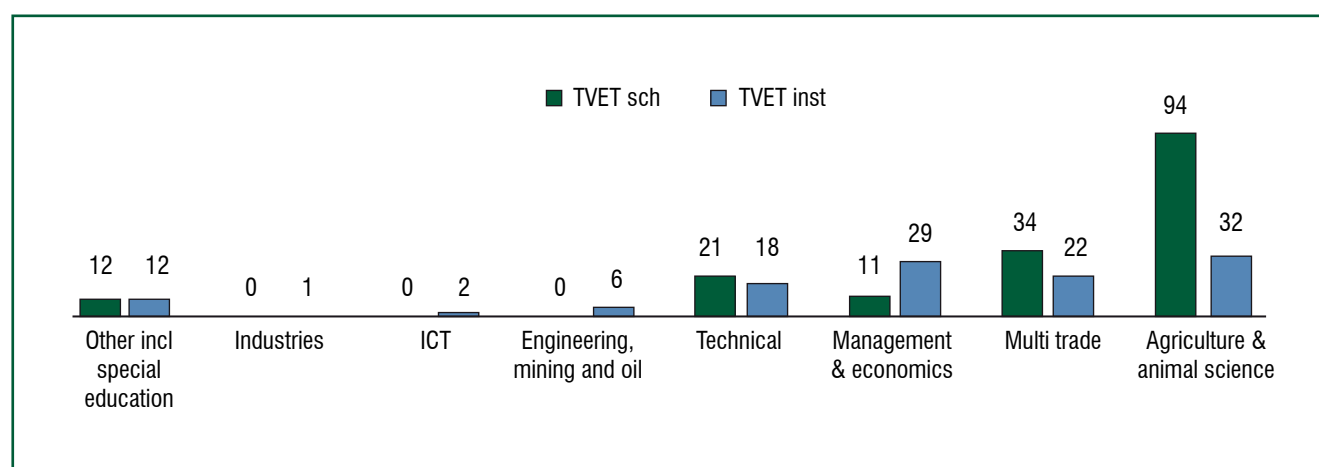
Source: ITC authority, based on MoE

According to MoE, a total of 3,489 students graduated in 2015 from TVET schools, of which 161 were females (4.6%). Herat is the province with the largest number of female graduates, representing around one-third of total graduates in this location. The largest number of graduates from TVET schools was recorded in Nangarhar Province (404), followed by Herat (218) and Takhar (216). Moreover, MoE estimates a total of 9,668 students graduated in 2015 from TVET institutes, of which 1,604 were females (16.5%). Regarding TVET institutes, the largest number of graduates was recorded in Balkh Province (1,540), of which 26% (408) were female.

The second-largest number of graduates (1,134) of TVET institutes was recorded in Jawzjan Province, which had a significant share of female graduates (37%).

Typically, TVET education covers agriculture, business education, construction and engineering, and special and inclusive education sectors. Figure 36 shows the number of public TVET institutions, whether TVET schools or TVET institutes, by sector of study. As the figure indicates, a large share of public TVET institutions have agriculture and animal science as a sector of study.

Figure 12: Number of public TVET institutions by sector of study (2015)



Source: DMTVET (2016).

Disaggregated data on formal TVET enrolment indicates that the majority of female students enrol in management and economic courses (57%), followed by female enrolment in agriculture and animal science (19%), and literature and arts courses (9%). This is due to both demand and supply issues, as some courses are only offered to students of a particular gender. Male students present a higher enrolment in agriculture and animal science (35%), followed by economics and management (26%), technical studies (18%), and engineering, oil and gas (14%).

A major share of TVET is funded by development partners through the Afghanistan Reconstruction Trust Fund, as well as by the World Bank and other bilateral donor agencies. GoIRoA has yet to establish a functioning system for public TVET funding.

Non-formal TVET

MoLSAMD operates a network of public TVET training centres through its General Directorate of TVET. MoLSAMD provides short-term vocational training courses which usually last less than a year. MoLSAMD designs and implements programme curricula, prepares guidelines for training and assessments, and provides certificates. MoLSAMD is also

responsible for coordinating and registering NGOs working in the informal sector in order to identify capacity-building needs. A network of roughly 44 public vocational training centres is under the responsibility of MoLSAMD. However, not all are operational, and it is estimated that 22 are functioning and are located in urban areas. MoLSAMD also contracts NGOs and private training providers through a competitive bidding process.

Training provided by MoLSAMD is targeted mainly at vulnerable populations such as unemployed youth and illiterate adults, martyrs and disabled people who are between the ages of 15 and 45. These courses cover a range of disciplines such as carpet weaving, agriculture, embroidery, advanced computer skills, etc.

The Ministries of Communications and Information Technology, Public Works, Transportation and Civil Aviation and Interior Affairs, along with MoF, MAIL and MoPH, operate sector-based public training institutions which operate under each Ministry's budget and staff. Enrolment in these institutions is estimated to represent 44% of total students in TVET (without considering the portion in higher education, which could be regarded as TVET). Notably, training acquired through these ministries is not currently recognized by MoE or MoHE.

Box 16: National Skills Development Programme

The National Skills Development Programme falls under MoLSAMD. The Programme has introduced a competitive bidding process for training in the country, in which NGOs and private training institutions participate actively. Under the umbrella of the Programme, National Occupational Skills Standards (NOSS) have been developed through its Curriculum Development Unit. According to the Agency Coordinating Body for Afghan Relief and Development, the number of NOSS which have been developed by MoLSAMD for each sector, is:

- » Business/commerce – 44 standards
- » Building construction – 43 standards
- » Services – 36 standards
- » Agriculture – 23 standards
- » Industry – 12 standards
- » Mining – eight standards
- » Railway – eight standards
- » Social work – four standards.

The National Skills Development Programme has the mandate to provide training for training providers on curricula development based on these NOSS. Nevertheless, the integration of these NOSS into curricula remains pending, and thus they have yet to be integrated in teaching materials.

Informal TVET

Private sector TVET provision includes 40 licensed private TVET institutions and 120 additional centres in the process of obtaining a license from DMTVET. It is estimated that private TVET institutions offer their services to approximately 150,000 students, which makes the private sector the largest TVET provider in Afghanistan. TVET training provided by the private sector is mainly focused on information and communications technology, management, accounting and languages, predominantly English. The position of female learners seems to be more favourable in private TVET providers vis-à-vis public TVET institutions, as female enrolment in private TVET is estimated to represent 24% of total students, while in public TVET is roughly 17% (DMTVET, 2015).

In terms of TVET provision by NGOs, their enrolment capacity is approximately 30,000 trainees annually, spread across roughly 100 national and international NGOs. Training is mainly in basic vocational skills. As in the case of the private sector, there is no framework for accreditation of training provided by NGOs. Thus, the courses are not validated and certificates are arbitrary. In both cases, graduates are affected by being uncertified for continuing their education to gain higher-level skills.

In spite of the growing base of formal TVET institutes and schools, the majority of Afghan people gain technical skills through the non-formal system. Informal apprenticeships, often individual and offered through small and micro enterprises, play a critical role as the largest provider of technical skills. Estimates indicate that between 600,000 and 1 million apprentices work in small and informal companies and thus this mode of training has the biggest capacity to transmit skills. It is estimated that the age of apprentices ranges between 10 and 25. Time to complete an apprenticeship varies between trades.



Photo: <https://www.flickr.com/photos/worldbank/34936724820/in/album-72157631845993115/>



Photo: <https://www.flickr.com/photos/usaidafghanistan/26359948313/in/photostream/>

Figure 13: TVET education and the apprenticeship system in Afghanistan

Criteria	TVET Education	Apprenticeship
Students	75K	600K
Provider(s)	Different formal and informal organizations	Companies/enterprises
Type	Training and Practical work	Work, Training, Training Allowance, free Lunch and transportation Allowance (if applicable)
Salary	Unpaid	Paid
Job Opportunities	Less job opportunities	Already has a job
Duration	6months-5 Years (Depends on the type of provider)	Duration: 3-10 years (depends on occupation and location)


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graph LR
    A((600K-1.06 Million Apprentices)) --> B[Working in about 500K companies]
    B --> C[982 Guilds/Senfs]
    C --> D((125 different occupations))
  
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Source: Office of the Economic Advisor (2017)

Most apprentices are family members or introduced by a family member to a potential master tradesman, and social networks thus play a crucial role in securing apprenticeship placements. Home-based training is particularly relevant for specific NES prioritized sectors such as the carpet sector, where carpet-weaving training is traditionally taught from one generation to the other. This mode of skills acquisition is more relevant for self-employment, whether individual or in small communities.

As microenterprises and subsistence agriculture constitute a large share of Afghanistan's economy, some development partners have shifted their focus to apprenticeship training rather than vocational training. Among the most popular trainings provided are weaving, dyeing and embroidery, which are highly relevant for the carpet and handicraft sectors.

PERFORMANCE AND KEY COMPETITIVENESS CONSTRAINTS

Constraints affecting the skills development function in Afghanistan are organized according to their level of occurrence. National-level constraints affecting the entire export sector in Afghanistan were organized under three categories Policy and regulatory issues, Supply-side issues, and Demand-side issues. In addition to broad national-level constraints, the NES also identified constraints related to TSFs

occurring specifically in each of the NES priority sectors. Those specific constraints will be further explained as well.

Policy and regulatory issues

The TVET system is fragmented and provision of services is uncoordinated

The responsibility for TVET provision is spread across ministries – MoE and MoLSAMD – and there are several platforms and programmes with the objective of supporting co-ordination within the sector but a formal central body is yet to be established. Consequently, the sector lacks a coherent and coordinated administration. Each service provider role is not clearly defined, which can lead to duplications and significant inconsistencies in terms of content. Further, a large number of TVET service providers are unregistered, providing training which in turn will lead to unrecognized qualifications.

The lack of coordination within the TVET sector has been largely addressed in reports and surveys by the Government and international organizations. There is consensus on the severity of the fragmentation in the sector. Focus must thus shift to an action-oriented approach. As mentioned in previous sections, the recently launched TVET strategy aims to address these coordination issues, and Afghanistan has made some progress on its TVET policy framework. Nonetheless, structural reforms are occurring slowly in areas such as the overall governance of the system and the

establishment of an overarching Government body, e.g. a national board for TVET. At the moment, links and coordination among all TVET service providers, including MoLSAMD, NGOs and private TVET institutions, appear to remain non-existent or fragmented. Development partners have contributed to this fragmentation by continually starting initiatives which lack measures to ensure their sustainability, so that they conclude when the funding ends. In this manner, opportunities to invest in local institutions and strengthen them while building local capacities have been bypassed.

The lack of accreditation and recognition of qualifications of non-formal and informal TVET graduates and apprentices hampers their employability and further specialization

Informal training predominates in Afghanistan's TVET system. No mechanisms are in place to recognize informal occupational learning or skills acquired through informal TVET programmes. This fosters underestimation of the capacities of informal apprentices. Participants of training and livelihood programmes have been found to hold substantial skills through prior work experience. Nevertheless, they remain unaware of their own capacities, and thus these skills are unrecognized, even by future trainers.

The lack of a central system to certify and accredit TVET education severely harms TVET graduates' ability to acquire higher-level skills and obtain decent employment. The underlying issue is once more the absence of central coordination in the TVET policy framework, with the capacity to oversee and facilitate communication and coordination among all the TSF actors, including not only TVET providers but also employers' representatives. Unless such a central body is established, the quality and relevance of skills supply in relation to the needs of the labour market will be limited.

Weak implementation and enforcement of quality standards is a barrier in the skills development system

The wide array of actors who are involved in TVET provision is also a challenge in coordinating and establishing common standards. Although progress has been made on the framework for quality assurance of skills through the development of NOSS, concerns remain in terms of capacity to ensure the quality of TVET training. The establishment of NOSS has so far not fully translated into the teaching reality. This is mainly due to the slow uptake and weak process to train teachers in NOSS and the lack of a subsequent certification and skills assessment system. For the NOSS to be relevant, quality assurance must be addressed in close collaboration with the private sector.

Weak availability of local TVET experts is a challenge.

The pool of local TVET experts with adequate knowledge and technical capacity that is available to key ministries and public institutions is small. This in turn creates high dependence on external consultants to design and implement interventions in the sector. To address this issue, it will be necessary to train relevant staff already employed in TVET institutions.

Limited information and research to identify the needs for skills from the perspective of the private sector.

Systematic gathering and analysis of labour-market information, such as disaggregated employment current and forecast statistics, is absent or unreliable, which creates challenges for the design of employment generation and demand-driven skills programmes, policies and interventions. Moreover, gender-disaggregated employment data is needed to further identify areas of marketable skills in occupations and sectors that are culturally appropriate for women, in order to improve their employability.

One of the main root causes behind this issue is the levels of informality predominating in the private sector. Another main root cause is the weakness of coordination channels between sector actors. Although MoLSAMD and CSO collect information relevant to the labour market, there are no models or institutional arrangements in place to monitor and analyse labour-market indicators or skills demand and supply statistics which can feed the tertiary education system.

Insufficient data is collected and analysed on the effects of returning highly-skilled migrants to Afghanistan.

Return migration in Afghanistan takes several forms, depending on the reasons for initial migration, duration of time abroad, and conditions and reasons for return. Limited information is gathered on the prevalence of highly skilled returnees to Afghanistan. This information can help orient and provide job placement services to skilled returnees in occupations and sectors where they can apply their gained skills, facilitating their sustainable reintegration into the national economy.

There have been programmes aimed at encouraging the temporary return of qualified Afghans, supported by the International Organization for Migration and UNDP. These initiatives seek qualified Afghans abroad to return to their home country with the aim of capacitating the national labour force and filling skills gaps. These initiatives offer a number of incentives, including additional payments to top up the local salary in Afghanistan and covering travel and transport expenses. However, there is not enough gathering of data and analysis to measure the effects of this type of temporary return in order to enhance the design of such projects and replicate or adapt best practices in relevant sectors.

Supply-side issues

Insufficient TVET teachers at the national level, particularly female trainers

MoE's target is to have a ratio of 25 pupils per teacher. However, there are significant differences in the teacher to pupil ratios among provinces and institutions, which causes marked geographical disparities in the reach and quality of TVET provision. For example, in Uruzgan, the ratio is close to 40, while in Kandahar it is approximately 15. In conjunction with security challenges hindering the expansion of training, the main reasons behind this are that teaching

positions are not distributed based on need and that there is a limited number of TVET teachers, particularly female trainers, especially in rural areas. This is understandable as the demand for education has increased dramatically since 2011, exceeding the system's capacity.

The low number of female trainers is present in all types of TVET delivery in Afghanistan. For instance, in public TVETs there were only 344 female teachers, out of a total of 1,635 teachers at the national level (2014–2015). In the formal TVET sector, there is a lack of centres to train women as TVET trainers, e.g. women-only centres for TVET. This hinders the potential to utilize skilled women in vocational education, particularly returnees from Pakistan and the Islamic Republic of Iran who may have the relevant work experience but lack pedagogic skills. As is observed for both genders, female TVET trainers are also concentrated in certain provinces. Moreover, opportunities for female trainers are often in locations different from their home areas, which poses a barrier given the limited mobility of women in the country. Although there are theoretically measures to compensate those who teach away from their homes, in reality these compensations are not provided.

Teacher training and recognition need to be strengthened to improve the quality of TVET provision

Teacher training is another area that needs to be reinforced. Both the quality and the coverage of topics being taught must be improved. Among the latter, it is necessary to strengthen teachers' training in English language skills and, for selected staff, training should also cover leadership, management and administrative competencies. Also, many TVET teachers use outdated teaching methods so training of teachers should also emphasize pedagogic methods which foster teaching through practical experience rather than theory.

The social, economic and technical recognition of teachers is low. There are no adequate incentives in place to recruit and retain qualified teachers who have significant technical or industrial experience. Salaries are very low and are thus unlikely to facilitate the retention of good teachers. To address this issue, other non-financial incentives can be implemented to compensate for low salaries.

Young people find universities more attractive than TVET.

Students in TVET schools and institutes often express their willingness to continue their studies in universities. They also prefer to complete their general education studies in order to enter into higher education. However, there are not enough university places to meet demand and formal employment opportunities are also limited, which, combined, generate frustration among students and graduates. Thus, Afghan students are somewhat forced to opt for the TVET path instead of consciously choosing this type of education.

As in other parts of the world, for many Afghans, TVETs are regarded as 'second-class education'. The negative image of TVET is exacerbated by the weak infrastructure

conditions, e.g. lack of electric power and water paired with shortages of equipment and the non-practical teaching methods which predominate in TVET institutions. This, combined with teachers with no industrial experience, creates the image of TVETs as not imparting practical skills.

Higher education needs to be expanded.

The lack of locally available skilled workers has led to the recruitment of foreign labour for certain skilled jobs across sectors. Higher education enrolment in Afghanistan is one of the lowest worldwide as a result of the conflict, which affected all levels of education attainment, including higher education. This also especially affected the educational attainment of women, whose enrolment rate is disproportionately low vis-à-vis male students. This is partly due to the lack of facilities for young women to attend universities, such as transport services and residential facilities.

The strong and increasing demand from secondary school graduates for higher education (i.e. universities) exceeds the supply available in the country, thus calling for an expansion of both public and private tertiary education institutions. In this context, the needs of female students should be given special consideration. Facilities should be provided in tertiary education institutions that serve the needs of female students. These measures could encourage female enrolment in universities, which remains a priority in the higher education sector.

The TVET system needs to respond better to labour-market needs and demands.

The weak supply of employees with adequate specified trainings and skills has been identified as a main obstacle by SMEs across different sectors in Afghanistan. A significant share of SMEs has reported having difficulties finding employees with the necessary skills.

The existing curricula offered in TVET institutions are mainly supply-driven, and thus more efforts are needed to respond better to labour-market needs. The majority of providers involved in the TVET sector are not incorporating the requirements of the labour market into curricular programmes and training activities. This is explained by a weak relationship with labour-market representatives, which translates into outdated and heavily theoretical curricula, resulting in non-practical training with limited input from industry. The efficacy of delivered TVET training needs to be further examined, as there is currently little available information or tracking of TVET graduates.

Limited role of TVET in imparting trade and entrepreneurial skills.

Considering that Afghanistan's private sector is characterized by the predominance of small-scale companies, self-employment is a crucial route to economic participation for a large share of the population. The TVET system can support self-employment as a career path by imparting knowledge of business management skills and encouraging entrepreneurship among students, besides providing

training at the technical level. More attention needs to be paid to entrepreneurial skills development in the curricula of TVETs managed by all relevant institutions.

Demand-side issues

A virtual absence of career counselling services contributes to skills mismatches.

Linked to the lack of reliable data on the Afghan labour market, there is poor dissemination of information regarding employment opportunities and the skills needed by the private sector, as well as poor student management in educational institutions. Career counselling and employment information services are almost absent in and out of school settings. This suggests there is little concern regarding the employability of graduates and the market relevance of the skills being imparted. Information gaps on training available from public, private or NGO providers, potential career pathways and available job opportunities limit the economic integration of young people and further exacerbate skills mismatches. This is particularly evident for the mining sector in general, which causes students in mining-related fields to seek employment outside their sector.

A significant proportion of skilled Afghans are leaving the country to continue their careers abroad.

There are several push factors leading to the emigration of young Afghans. Weak educational, employment and economic opportunities in general, paired with security concerns, are among the main reasons for Afghans to leave their home country. This is particularly relevant for Afghans in professions which are considerably less well remunerated in their home country, such as physicians, teachers and university professors. This further contributes to the brain drain, as many Afghan emigrants fail to return.

The formal private sector has low motivation to invest in training programmes.

As a result of the wide and free access to programmes in the vocational education sector and given the past experiences of SMEs, there are hardly any incentives for the private sector to invest in training programmes. The private sector thus seems dependent on these free training offerings, which in the long run creates sustainability issues for a workforce and skills development national objective, and in particular for the TVET sector. Moreover, there is a need to create awareness among private sector stakeholders about the importance of sustaining the training of the workforce, including a realization among SMEs that they are direct beneficiaries of TVET-based skills development.

Informal apprenticeship needs should also be addressed, as this is the main channel for transfer of skills in the country.

As previously stated, informal businesses predominate in the Afghan economy and most skills are transferred through informal apprenticeships. Policies seeking to address skills

development in the country should therefore include measures which touch upon the needs and opportunities in the informal apprenticeship sector.

Despite good knowledge of their trade, masters need more professional training and teaching skills to transfer knowledge and skills to their apprentices. Masters themselves need training on entrepreneurial skills, including simple bookkeeping, business plan development and marketing. Because most apprentices will become masters eventually, improving masters' knowledge and skills on these issues will have a positive effect on preventing the perpetuation of inefficient business practices and informality.

Learning the tricks of the trade: priority TSF and sector-specific constraints

Increased support is needed to improve the knowledge of Afghan officials about trade-related issues in order to boost the exporting sector.

In order to provide effective trade-related services to Afghan companies, there is a need to build capacity on trade-related issues in Afghan officials. This includes the training of MoCI staff as well as Afghan trade attachés in key markets, where critical deficits of technical capacities have been identified. Capacity-building on technical aspects of trade should be accompanied by training to improve the English competencies of staff.

Quality assurance in the country is limited by the scarcity of technical resources.

A strong national quality system is a prerequisite for expansion of trade into international markets, particularly in developed countries. The export performance of key priority sectors thus relies on Afghanistan's ability to foster an adequate system of quality assurance. The national quality system is currently constrained by a scarcity of technical human resources such as technicians and chemists. There is a serious lack of technical knowledge among relevant actors to, for example, distinguish between mandatory (safety) and voluntary (quality) international requirements. Among others, language seems to be a critical problem for technicians to receive comprehensive training on these issues. Specifically, the MoPH laboratory (physics, chemistry and bacteriology) in Kabul is limited by the scarcity of pharmacists adequately trained for its equipment. ANSA certification units also need further training of their auditors for management system certification and accreditation of labs for product certification.

Skills are needed to carve out a niche in the marble and granite sector

It is estimated that over 50,000 employees are working in more than 70 companies in the Afghan marble sector. In the long term, there is substantial potential for large-scale employment programmes in this sector, which is relatively beginning to surface.

The reputation of TVET institutions is low among both Afghan youth and the private sector.

TVET is regarded by young people as leading to economically and socially poor occupations, and therefore they tend to have a negative disposition towards it. On the other hand, mining companies have concerns about TVET's predominant focus on theoretical training, which does not adequately prepare students for the labour market. TVET education thus does not appear to incorporate the needs of the market.

Inability of the private sector to establish internship programmes in cooperation with the academic sector.

As large-scale mining operations are not predominant in Afghanistan, there is little capacity in the private sector to establish large-scale internship programmes. Moreover, social networks frequently play a greater role than skills in obtaining employment, whether regular employment or internships, in the mining sector. There is in general a lack of intermediaries between potential employers and graduates. Partnerships between the private sector and the mining-related training and education sector should be encouraged, as well as increasing the practical skills of current employees in the marble and granite sector through targeted workshops.

Weak entrepreneurial skills restrain the potential of marble producers and exporters.

Marble producers and exporters, including those in large firms, possess weak entrepreneurial skills, and there seems to be little intention to build these types of skills within enterprises, despite their crucial importance for the success and survival of a business. Some of the main entrepreneurial skills relevant for marble producers and exporters to tap into opportunities in domestic and international markets are management skills, strategic decision-making and planning, financial literacy, market research, knowledge of business plan development, marketing techniques, and awareness of national and international laws and regulations, among others.

Challenges to cultivate adequate skills in horticulture-based sectors such as fresh fruits and vegetables and dried fruits and nuts.

Agriculture is the largest provider of employment (approximately 60% of total employment), and horticulture in particular is regarded as holding great potential for employment, particularly of low-skilled workers, because it is highly labour-intensive. However, young people are less attracted to agricultural work as a career path, which is reflected in the high rates of rural migration to urban centres by young people seeking employment in the city, which often does not materialize.

Skills development in the sector is constrained by limited resources in terms of qualified staff, equipment and facilities, as many agricultural TVET schools suffer from severe

deficiencies, particularly outside Kabul. This is particularly severe for female students, as the low number of female trainers and teachers remains a barrier to their enrolment in TVET courses. Moreover, the teaching methods in TVET institutions follow an outdated and textbook-based approach. Entrepreneurial skills should accompany efforts to improve the technical competencies of students, as a large share of graduates will likely choose self-employment. Sector exporters have weak management skills, which hinders their capacities to expand their business into international markets.

There is a pressing need to strengthen the abilities and reach of extension agents.

Strengthening extension services is necessary to upgrade cultivation methods and productivity of fruits and nuts, and vegetables production. Many extension agents are not adequately trained in modern farming techniques; in addition, they have weak communication skills to capacitate farmers' groups. One of the main reasons is that MAIL's training system is too weak to improve and update the skills of extension agents, who are mostly graduates from TVET education. As mentioned previously, these training centres are often ill-equipped and follow non-practical learning methods, hence forming poorly trained extension agents. At the same time, alternative methods for delivery of extension services ought to be identified so as to increase the reach of these services in rural areas. Extension agents would have to be adequately trained in the use of alternative methods, such as radio and mobile phones.

Insufficient number of female extension agents hinders the productivity of fruits and vegetables production.

In small-scale farming, which is predominant in Afghanistan, women are responsible for many aspects of horticulture production, including watering, weeding, pruning, harvesting and postharvest processing (e.g. fruit drying). However, women have less access to extension services, which undermines the strength of the sector and related industries, including exporting sectors. Extension services support is mainly targeted at men, as landowners, under the assumption of an ensuing transfer of knowledge from trained men to women, but this knowledge transfer rarely takes place owing to the limited interaction between men and women. Moreover, female-to-female extension services support is hindered by the low availability of female extension workers.

The quality and value of dried fruits and nuts is compromised because postharvest activities are conducted by unskilled labour.

Some TVET qualifications for agriculture are overly focused on the production stages while skilled workers are needed at all stages of the value chain. For instance, for the dried fruits and nuts sector, low-skilled trained labour is crucial to ensure the quality and safety of products at the processing stage. Current postharvest handling of fruits

and nuts is performed by unskilled labour, which severely affects the quality and value of the final product. Indeed, food processing and packaging are among the skills in most demand by SMEs in agribusiness. Business skills such as management and administration, and marketing and sales, are also in high demand by agribusinesses.

Processing higher-quality levels of saffron depends heavily on manual techniques and thus on proper knowledge and training of saffron producers and processors.

As in the case of the fresh fruits and vegetables and the dried fruits and nuts sectors, harvest and postharvest handling of saffron is conducted at village level with manual techniques, as new technologies are not widespread among saffron processors. These stages of the value chain are highly labour-intensive, since activities must be carried out in a time-sensitive manner. The method of drying saffron is crucial to determine the quality of the final product. Moreover, some buyers (wholesalers and retailers) have specific requirements on the presentation of saffron stigmas, e.g. styles being kept or left out of the product. Saffron drying also needs to be performed in the right manner: otherwise, the final product may be infected with fungus, causing toxic aflatoxins. Hence, properly trained labour is needed to ensure food safety and high quality in dried saffron.

In Afghanistan, weak access to specific training on processing this spice, e.g. separating the stigmas from the styles and drying, has undermined the quality of exported Afghan saffron. Women are largely employed in harvest and postharvest activities as wage labourers, so women-to-women training should be provided in these areas to effectively support upgrading current saffron processing methods.

There are not enough extension workers with specific training in saffron production.

To advance the saffron sector, current substandard cultivation methods must be improved with appropriate production techniques to increase both volume and quality of production. Specific training on bed preparation, row spacing, timing of irrigation and application of fertilizers is necessary. In this regard, it is vital to train extension agents to specialize in saffron production to improve training of producers. Such specialization is currently lacking and it requires the introduction of this crop as a study area at Afghan higher education institutions with agricultural faculties. ToTs and the development of a curricula and tailored courses at relevant institutions are also necessary.

Challenges remain to weave traditional and modern techniques and designs into a high-quality carpet sector.

Carpet production is a traditional sector in Afghanistan. Characterized as a cottage industry, the carpet sector employs weavers who predominantly learn their trade through home-based training. SMEs in the sector largely rely on personal contacts to hire their employees, while a minor share uses employment services centres.

SMEs in the carpet sector, which face challenges finding and recruiting sufficiently capable workers, identify inadequate vocational training, lack of practical experience and lack of soft skills, i.e. lack of professionalism, as the main obstacles when recruiting new employees. Practical training of weavers already employed in the sector would support improving the skills of the labour force. Practical training entails several aspects of carpet weaving, such as learning the different types of carpets, knots, densities of materials, patterns, the use of tools, spinning and dyeing, as well as marketing skills. Design skills are also becoming increasingly important to improve production and enhance differentiation of Afghan carpets. To achieve this, there need to be stronger links and cooperation channels between the private sector and educational institutions so as to meet industry needs and evolving market demands.

Retention of skilled carpet weavers is a challenge in the sector, as a result of the low salaries producers receive in this industry. Additionally, more efforts are needed to promote the integration of skilled weavers who are returnees into the carpet sector.

Introducing sector-specific training in the formal education system is necessary for the sustainability and standardization of carpet production in Afghanistan.

As previously mentioned, teaching and training of weavers is traditionally home-based, usually from one generation to the other. The lack of formalization of training through the introduction of carpet production into formal TVETs creates concerns in terms of the sustainability for the sector, as there are risks of losing skills and traditional knowledge about carpet weaving. The industry is also restrained from achieving higher standardization and hence scalability of carpet production, besides being limited in innovating and adopting new technologies. Considering the cottage nature of the industry, entrepreneurial training should accompany technical training in relevant educational institutions.

Lack of advanced training in jewellery-making techniques hinders the handicraft sector from creating world-class quality products.

Training in advanced jewellery and precious stone cutting techniques –which is necessary if the sector is to reach higher qualities of production and appeal to the high-end segment in international markets– is scarce in Afghanistan. These techniques require years of practice to achieve mastery. For this reason, several countries have introduced apprenticeship programmes where a trainee is engaged with a single master jeweller for years before he or she is considered qualified. However, in Afghanistan, many donor-supported vocational training initiatives are limited to only two or three weeks. The main techniques and training relevant for the handicraft sector include stone cutting, use of machines for carving, and marketing skills, among others.

THE ROADMAP

VISION

This TSF strategy is driven by the following overall vision:

“Enhancing Afghan skills to achieve a higher grade in export competitiveness”

STRATEGIC OBJECTIVES

The skills development vision will be supported by three strategic objectives. These objectives provide a framework for addressing constraints and they highlight key areas where action is required over the next five years.

STRATEGIC OBJECTIVE 1: IMPROVE THE RELEVANCE OF EDUCATION AND TRAINING TO BETTER SERVE PRIORITIZED SECTORS.

Afghanistan's higher education system needs to reorient its approach to meet the evolving economic and labour-market needs in the country. The first strategic objective seeks to improve the relevance of education and training to better respond to the needs of the private sector, particularly in NES prioritized sectors.

To achieve this goal, the strategy will aim to establish coordination channels between the private sector and education providers. The first step will be to sensitize private sector representatives on the benefits of and the need for their engagement in training and education policies for their respective sectors. To improve the educational system's responsiveness to labour-market needs, communication and coordination platforms (i.e. sector skills councils (SSCs)) will be established between the private sector and educational institutions. SSCs will be empowered to present proposals to relevant ministries for the development of new courses to meet their needs for a skilled labour force. To overcome the lack of data on the labour market, a structured sector-specific labour-market information system will be established



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to support and guide the planning and delivery of industry-related training and skills development. Efforts to gather disaggregated gender data will be made so that curricula and employment services targeting women have a sound basis which can support the employability of female graduates.

Further links will be established between educational institutions and enterprises through the development of on-the-job training programmes which consider the need to sensitize, incentivize and engage the private sector into providing workplace training. Paired with these programmes, the organization of field visits for teachers and trainers will enhance a practical and experience-based approach.

The pressing need to support informed career choices among secondary school graduates will be addressed by a roll-out of roadshows and campaigns at the provincial level with the purpose of showcasing employment matchmaking opportunities for recent graduates and promoting TVET career paths among secondary-level graduates and parents, as well as entrepreneurship initiatives. Building the capacities of career advisers and counsellors to enable them to provide better advice to students is another key activity under this strategic objective.

STRATEGIC OBJECTIVE 2: ENHANCE THE QUALITY OF EDUCATION AND TRAINING PROVISION TO INCREASE PRODUCTION AND QUALITY OF GOODS AND BETTER POSITION AFGHAN EXPORTS IN INTERNATIONAL MARKETS.

As Afghanistan's private sector matures, a labour force with specific skills is critical to support the development of comparative advantages in priority sectors and activities. This translates to a need to enhance the quality of education and training provision with a market-led perspective in order to increase the production and quality of goods to better position Afghan exports in international markets.

In this regard, the development of NOSS for occupations which are relevant for NES priority sectors will be fundamental. To meet private sector needs, mechanisms to incorporate the inputs and endorsement of relevant industry stakeholders will be established. Activities will be carried out to deliver training for TVET and university teachers and instructors with the objective of formalizing the alignment of curricula and teaching materials of relevant programmes in compliance with their respective NOSS.

The strategy will also seek to upgrade pedagogic methods in educational institutions, for both TVET institutions and universities through capacity-building on new ways of training delivery, such as project-based learning. This will entail the delivery of ToTs targeting teachers and instructors with the support of the relevant SSC to ensure their technical skills are updated and that there is an understanding of the evolving requirements of the industry. Enhancing the quality of education will also be pursued through partnerships with regional and international educational institutions to elevate the capacities of national counterparts. In parallel, efforts will be made to support the further professional and academic development of university professors by facilitating their access to master's and PhD programmes both nationally and internationally, introducing exchange programmes and organizing seminars and workshops, including videoconferences, with recognized regional and international institutions in academia and research. Development of research with practical relevance for the private sector will be promoted, with the aim of contributing to solving specific challenges faced by domestic sectors by promoting the identification of practical solutions through pilot initiatives.

As the informal apprenticeship sector plays a critical role in the formation of the future labour force, the strategy will seek to improve the delivery and quality of training in NES priority sectors, such as the carpets and handicrafts (precious stones and jewellery) sectors. In this regard, there will be a masters' training targeting master craftspeople identified by the corresponding SSC. Through this masters' training, short-term courses will be provided to build the

capacity of masters in pedagogic skills, updated techniques and business skills. Trainees in informal apprenticeships will also be targeted, particularly in the handicrafts and carpet sectors, to enhance their technical and entrepreneurial skills, among others.

Additionally, an initiative aimed at upgrading the skills of employees in priority sectors will be implemented through a competitive grant application process. Specific trainings aimed at enhancing skills and on-the-job training services in priority sectors will also be carried out.

STRATEGIC OBJECTIVE 3: ADVANCE SKILLS TO PROVIDE AN ENABLING FRAMEWORK FOR TRADE DEVELOPMENT.

The third strategic objective aims to ensure the national skills framework supports the domestic economy and strengthens the participation of Afghanistan in overall trade. The strategy will seek to build the local capacities of TVET experts with the objective of reducing dependence on external consultants by rolling out courses on TVET planning and management, including topics such as market-driven training, gender mainstreaming and curriculum development, among others. In parallel, partnerships with international government bodies will be sought to enable collaboration in areas such as capacity development of Afghan officials responsible for skills development policies, sharing technical expertise and best practices, and joint activities on teacher training.

At the national level, more efforts are needed to improve recruitment and retention of TVET teachers and trainers, particularly female instructors. Activities such as campaigns to identify and recruit female teachers at provincial level are among the measures to be implemented. Encouraging entrepreneurship and reinforcing business skills training through TVETs is crucial considering that self-employment is a traditional career path in the country. Entrepreneurship training will be reinforced through several measures, including piloting modules adapted to the Afghan socioeconomic context in selected TVETs; organizing fairs showcasing local 'champion' entrepreneurs, especially in priority sectors, to promote self-employment as a career path; and piloting an initiative to provide mentoring and coaching services in universities and TVET institutions.

Lastly, improving QM services is a vital prerequisite to enhance the insertion of Afghan goods into global markets. ToTs will be conducted targeting export QM service providers, to enable them to improve their services and support to SMEs in export QM on a long-term basis.

SKILLS DEVELOPMENT (TVET): PLAN OF ACTION

Strategic objective 1: Improve the relevance of education and training to better serve prioritized sectors.										
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets*	Lead and Supporting implementers	
			2017	2018	2019	2020	2021			2022
1.1. Establish coordination channels between the private sector and education providers	1.1.1. Conduct awareness-raising and sensitization workshops targeting private sector representatives to emphasize the benefits of skills development and the need for their engagement in training and education policies for their sector.	2							• Quarterly workshops conducted	MoE, Human Resource Development Board
	1.1.2. Establish SSCs to be under the responsibility of the MoE. SSCs are to be formed for main sectors of the Afghan economy. SSCs will have the following industry / sector subdivisions, which are relevant for NES priority sectors: <ul style="list-style-type: none">• Agriculture: horticulture, agro-processing• Mining: marble and granite• Manufacture: jewellery, carpets SSCs are to be composed of private sector representatives, such as presidents of associations, relevant universities and TVETs, as well as ministries in related sectors and the Ministry of Women's Affairs.	1						• SSCs established	MoE Human Resource Development Board, MoLSAMD, MoHE, sector associations, Ministry of Women's affairs	
	1.1.3. For each sector group, identify: <ul style="list-style-type: none">• A private sector interlocutor at each sector level to be responsible for communication with academia; for example, from a sector association or a sector representative with influence and support from private sector stakeholders• All relevant education institutions, e.g. universities, formal and non-formal TVETs should be part of SSCs subdivisions. MoE to facilitate discussions in all meetings.	1						• Focal point (interlocutor) identified for each SSC	MoE, Human Resource Development Board, MoLSAMD, MoHE, sector associations	
1.2. Set up mechanisms for the revision of curricula.	1.1.4. Schedule meetings once a year to review curricula for each SSC subdivision and discuss the revision / development of NOSS, which correspond and are relevant for each subdivision. The scope of the sectors covered under the SSCs will gradually be expanded to other economic sectors.	1							• SSCs meetings held once a year	MoE MoLSAMD, MoHE, Committee on Education and Skills Policy
	1.2.1. In alignment with created NOSS, SSCs to review curricula yearly, as well as all sector-relevant courses: <ul style="list-style-type: none">• Minor adjustments to existing curricula to be made on a yearly basis.• SSCs to present proposals for development of new courses to be agreed by MoE, MoLSAMD and MoHE. Establish monitoring measures to determine the success of the adjusted / new courses and revision mechanisms to continue adapting them as the sectors evolve.	1						• Annual proposals presented by SSCs to relevant education ministries	MoE, Human Resource Development Board, sector associations	
1.3. Establish a labour-market information system to inform skills development policies.	1.3.1. Under each SSC, establish a structured sector-specific labour-market information system to support and guide the planning and delivery of industry-related training and skills development. Following the experience with ILO of the specific Labour module developed under the Afghanistan Living Conditions Survey 2013–2014, implement regular labour-market surveys for each SSC. Labour-market information system to consist of the following components: <ul style="list-style-type: none">• Collection and compilation of data and information;• Repository of information;• Disaggregated gender data to be gathered and included in reports in order to provide employment information services and to guide TVET and university provision of studies, which can enhance the employability of women. Disseminate the information among relevant stakeholders such as CSO, TVETs, universities, private sector stakeholders and development partners through newsletters.	3						• Labour market surveys conducted for each priority sector	MoE, Human Resource Development Board, MoLSAMD, MoHE, sector associations	
	1.3.2. Conduct capacity building workshops to develop the institutional capacity of MoE, MoHE and MoLSAMD to analyse data and disseminate labour-market information.	2							• Workshops conducted twice a year	MoE, MoLSAMD, MoHE,
	1.3.3. Support the Afghan Returnee Information System being formulated with the International Organization for Migration. In collaboration with private sector stakeholders in NES prioritized sectors, organize provincial job fairs for returnee migrants to facilitate their economic integration.	3							• Job fairs conducted twice a year, in at least 5 main provinces including Kabul and Nangarhar	MOLSAMD, MOE, Sector associations

Strategic objective 1: Improve the relevance of education and training to better serve prioritized sectors.							
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period				
			2017	2018	2019	2020	2021
1.3. Establish a labour-market information system to inform skills development policies.	1.3.4. Integrate measures specifically targeting returnee migrants for the recognition of prior learning scheme being developed under the Afghanistan National Qualifications Framework, such as refresher trainings provided to returnee migrants before issuing of skills certificates. Explore the possibility to enter into Mutual skills recognition bilateral agreements/minimum skills requirements with the destinations	3					
	1.4. Enhance practical training and workplace learning of TVET students	2					
1.5. Support informed career choices	<ul style="list-style-type: none"> 1.4.1. Strengthen links and collaboration mechanisms between educational institutions and enterprises through: <ul style="list-style-type: none"> Development of a list of incentives for enterprises to provide workplace training, such as a rebate from taxes or levies (prioritize sectors such as handicrafts, marble and granite); Formulation of on-the-job training programmes between private sector and TVET institutions / universities. SSCs to assist and programme these initiatives. Sending teachers and trainers to visits to factories to provide them with hands-on learning experiences and build links with the industry. 1.5.1. SSCs to organize annual roadshows at the end of the year at the provincial level to provide information regarding: <ul style="list-style-type: none"> Potential academic, career and vocational career choices for school graduates, particularly for career paths through TVET; Employment matchmaking opportunities for TVET / university students and recent graduates; Promotion of innovative and entrepreneurial initiatives. 	3					
	Organize workshops on communication and behaviour during job interviews, among other topics, to increase youth employability.						
	1.5.2. Conduct trainings to build the capacities of counsellors, career advisers and relevant officers from Government bodies on topics, such as: <ul style="list-style-type: none"> Labour-market overview and trends; How to better guide students in selecting a career, including considering entrepreneurship as a career choice. 	3					
	1.5.3. Roll out provincial campaigns to encourage and publicize TVET's benefits to parents through publicity and parents' evenings, while displaying student and industry champions' achievements.	3					

* Targets are indicative only and will be the subject of further refinement at beginning of the Implementation Management stage.

Similarly, the lead and supporting implementers column remains indicative as the implementation will require collective efforts, for which additional institutions may be added.

Strategic objective 2: Enhance the quality of education and training provision to increase production and quality of goods and better position Afghan exports in international markets.									
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets	Lead and Supporting implementers
			2017	2018	2019	2020	2021		
2.1. Enhance the establishment and enforcement of occupational standards relevant to priority sectors	2.1.1. Develop NOSS relevant for carpet weaving, handicraft making and occupations relevant for NES priority sectors, as required, with the advice of the respective SSCs and master trainers in the sector and other relevant stakeholders:	1							• NOSS developed for each priority sector, as required
	<ul style="list-style-type: none"> Develop an occupational map to identify occupations relevant for the sector and specializations. Carry out a functional analysis (e.g. delineate work roles, technical skills and tasks, among others), to serve as an input for the development of NOSS. Consider revision of formats of courses to integrate new ways of delivery and learning. Draft NOSS to be reviewed by the corresponding SSC. Endorse and register developed NOSS. 								
2.2. Upgrade education methods in formal education institutions	2.1.2. Prioritize ToTs according to developed NOSS, and their integration into curricula and teaching materials:	1							• ToT and integration of curricula and teaching materials
	<ul style="list-style-type: none"> Plan and execute ToTs. Deliver training for TVET and university staff to align curricula of relevant programmes with NOSS compliance (e.g. enhance, add or create courses, accordingly). Implement monitoring (and appeal) systems to supervise the implementation of NOSS in curricula through mechanisms such as self-assessment and surprise visits, among others. 								MoE Human Resource Development Board, MoLSAMD, MoHE, sector associations
2.3. Enhance the quality of tertiary education institutions.	2.2.1. Deliver ToT to teachers in universities and TVETs on:	1							• ToT in at least 5 universities and 30 TVETs delivered
	<ul style="list-style-type: none"> Pedagogical training, new educational techniques, e.g. project-based learning. English skills. Update on technical skills. 								MoE Human Resource Development Board, MoLSAMD, MoHE, sector associations
2.4. Promote research with practical relevance for the private sector.	Private sector members of SSCs to support ToT to ensure technical skills, and understanding of the evolving requirements of companies.								
	2.2.2. Through the revision of curricula at universities and TVETs, adjust formats of courses to integrate new ways of delivery and training, such as:	2							• Curricula at universities and TVETs incorporate alternative ways of delivery
2.5. Enhance the quality of tertiary education institutions.	<ul style="list-style-type: none"> Project-based learning Learning through applied research projects Seminars, workshops Factory visits. 								MoE Human Resource Development Board, MoLSAMD, MoHE, sector associations
	2.2.3. Equip 30 TVET institutions and 7 regional TOT Centers with the essential infrastructure and equipment (Private Sector Reform Priority #8 of the <i>PriSEC, Working Group 2: Agriculture, Trade and SMEs</i>)	1							• 30 TVET institutions and 7 TOT Centers fully equipped
2.6. Enhance the quality of tertiary education institutions.	2.3.1. Identify and engage with regional and international educational institutions with the purpose of developing partnerships on:	3							• At least 3 MoUs signed with educational institutions abroad
	<ul style="list-style-type: none"> ToT. Creation of international mobility and recognition of credits. Assistance in upgrading the quality of universities and TVETs. Research focused on areas relevant to priority sectors such as mining and food processing, among others 								MoE Human Resource Development Board, MoHE
2.7. Enhance the quality of tertiary education institutions.	2.3.2. Develop a programme to enhance the professional and academic development of university professors, including:	2							• Programme developed and implemented
	<ul style="list-style-type: none"> The provision of full and partial scholarships for masters / PhD programmes. Exchange programmes in regional and international universities. Seminars and workshops with international institutions (research, academia, think tanks) 								MoHE
2.8. Enhance the quality of tertiary education institutions.	2.3.3. Develop an inventory of equipment, material and other resources need to improve the quality of education in university institutions. Develop a plan to finance equipment needs which includes greater participation of the private sector in the reconstruction of educational infrastructure.	2							• Financial plan is developed and submitted to MoF, development partners and other relevant institutions
	2.4.1. Identify international leading teachers and scholars in NES priority sectors to present their research and findings in Afghanistan in their corresponding fields of specialization.	3							• At least one seminar (virtual or physical) is organized per year for this purpose
									MoE MoLSAMD, MoHE, sector associations

Strategic objective 2: Enhance the quality of education and training provision to increase production and quality of goods and better position Afghan exports in international markets.									
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets	Lead and Supporting Implementers
			2017	2018	2019	2020	2021		
2.4. Promote research with practical relevance for the private sector.	2.4.2. Selected universities to initiate research studies covering specific challenges faced by the industry, to generate thought leadership and identify practical solutions to be implemented by the private sector. Disseminate results through networks, universities, and industry meetings. Relevant universities and industry leaders to partner to obtain funding for the implementation of identified solutions through pilot initiatives.	3						<ul style="list-style-type: none"> 4 studies are carried out per sector 	MOHE, sector associations
2.5. Upgrade informal apprenticeship training.	2.5.1. Conduct a masters training to improve informal apprenticeship training: <ul style="list-style-type: none"> Through the SSCs, identify master craftspeople in the handicrafts (jewellery-making) and carpet sectors. Develop a curricula for masters training Provide short-term courses (with flexible schedules not to interfere with masters business operations) for capacity-building of selected masters on: <ul style="list-style-type: none"> Pedagogic skills Update on technical skills Occupational safety and health Business skills <p>Considerations should be given to the level of education of masters.</p> 2.5.2. Develop a pilot programme targeting trainees in informal apprenticeships in the handicrafts (jewellery-making) and carpet sectors to provide short courses including: <ul style="list-style-type: none"> Before training: occupational safety and health, basic technical skills. During training: reinforce technical skills. End of training: introduction to entrepreneurship skills, how to obtain financial credit to establish their own business and guidance on finding employment. 	2						<ul style="list-style-type: none"> Master training is implemented benefiting 200 master craftspeople in priority sectors 	MOE, sector associations
2.6. Improve the skills of current employees in priority sectors	2.6.1. Develop a scheme aimed at upgrading the skills of employees in priority sectors. Through a competitive process, create a grant to support short-term skills training for workers in formal enterprises. <ul style="list-style-type: none"> Training must be based on companies' training needs assessment. Training must be delivered by eligible third party training providers. 	1						<ul style="list-style-type: none"> At least 10 SMEs in priority sectors benefit from grant 	MoE MoLSAMD, MoHE, sector associations
2.7. Enhance skills in priority NES sectors* (*these activities are integrated in each standalone sector strategy)	2.7.1. Carpets: Apprenticeship schemes in carpet design and weaving. Create a program of masters weavers for skill and traditional knowledge transfer on carpet weaving <ul style="list-style-type: none"> Creation of a short-term paid apprenticeship programme with master crafts persons to: Deliver hands-on skills training in carpet design and weaving and ensure formal knowledge transfer Provide certification for the knowledge gained 2.7.2. Carpets: Design a practical training initiative targeted at improving the design capabilities of Afghan carpet firms. The initiative will aim to upgrade sector technology through the utilization of computerized design: <ul style="list-style-type: none"> CSC to be responsible of training initiative on design. Organize training and exploring missions to neighboring countries, e.g. Iran and India, to identify best-suited IT and software services for computerized designing to be provided to weaving companies Develop the curriculum for short courses on the use of computerized designs to carpet producers and associations <p>Hire designers on contract basis to develop designs for selected markets</p> 2.7.3. Carpets: As part of the training initiative on carpet design, strengthen linkages with international foreign design institutes through: <ul style="list-style-type: none"> The development an exchange programme between Afghan students and students of foreign design institutes, e.g. India The development and rollout of a scheme to award scholarships to trainees <p>The development an exchange program for professors of foreign design institutions to teach and Afghan institutions</p>	2						<ul style="list-style-type: none"> Master weavers programme created and operational in five TVETs schools/institutions 	MoE MoLSAMD, carpet associations, ACEG
		2						<ul style="list-style-type: none"> Practical training initiative launched and operational, including: <ul style="list-style-type: none"> two training and exploring missions organized per year; two short courses on computerized designs per year 	Ministry of Education, Ministry of Higher Education, MoCI (ACEG), Kabul University
		2						<ul style="list-style-type: none"> At least 2 MoUs signed with foreign design institutes to implement an exchange programme; one scheme to award scholarships developed; at least 2 MoUs signed with foreign design institutions targeting exchange programmes for professors 	Ministry of Education, Ministry of Higher Education, MoCI (ACEG), Kabul University

Strategic objective 2: Enhance the quality of education and training provision to increase production and quality of goods and better position Afghan exports in international markets.										
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Lead and Supporting implementers	
			2017	2018	2019	2020	2021			2022
2.7. Enhance skills in priority NES sectors* <i>(*these activities are integrated in each standalone sector strategy)</i>	2.7.4. Carpets: Organize a competitive bid process to facilitate and disseminate the access of computerized design to carpet producers and associations. Design a mechanism (e.g. partial grants) to facilitate access at the minimum cost	2							• Software developed and accessed by 50 SMEs/carpet associations	Ministry of Education, Ministry of Higher Education, MoCI (ACEG), Kabul University
	2.7.5. Precious stones and jewellery: Conduct an independent assessment of existing TVETs of precious stones and jewellery and a needs assessment of TVETs Develop partnerships with removed precious stones and jewellery schools and other TVET institutions India and Europe for exchange of students and teachers, transfer of knowledge and technology, improvement of technology and teaching standards and qualifications	2							• Assessment of sector schools • Upgrade training programmes and skills of trainers	Ministry of Education
	2.7.6. Precious stones and jewellery: Establish an institution focused on training on cutting stones, and jewellery design. Establishment based on a PPP with one of the existing institutions is a possible solution. • Help this institute to establish standard courses or each value chain step • Provide these courses as training opportunities for designers, cutters, polishers and jewellery makers of the sector on regular basis	1							• 1 institution fully functional	Ministry of Labor, Martyrs and Disabled and Social Affairs AWCCI, FACT and Precious Stones Union
	2.7.7. Agricultural sectors. Reinforce the implementation and enforcement of the Strategic Framework of MAIL on extension services • Define roles and responsibilities of institutions in extension services provision and formalize them through MoUs • Harmonize extension services by developing minimum service standards and suggest steps to improve coordination between public sector, private sector and development agencies	2							• Strategic Framework of MAIL on extension services revised • Minimum service standards developed	MAIL, MOLSAMD, MOE, MOHE, Ministry of Communication and Information Technology
	2.7.8. Request advice on best practices and minimum service standards of extension services from India									
	2.7.9. Agricultural sectors. Create a scheme to increase the retention of qualified management and technical staff in extension services • Develop a career structure for public sector extension personnel as part of a scheme to improve rewards and incentives • Provide continuous training to extension personnel as part of their career development	2							• Scheme for the retention of qualified management and technical staff in extension services, developed	MAIL, MOLSAMD, Ministry of Higher Education, Ministry of Education
	2.7.10. Provide training in technical and managerial skills to extension personnel to enable them to occupy higher positions									
	2.7.11. Agricultural sectors. Develop a programme to certify female extension service providers • Provide a programme to train women extension service providers to enable women-to-women service delivery at every stage of the value chain, with particular emphasis on early stages of the value chain (e.g. harvesting, sorting, drying fruits, and roasting nuts) where there is a strong female presence	2							• At least 50 female extension service providers are recruited and trained	MOWA, MAIL, MOLSAMD, Ministry of Higher Education, MOE
	2.7.12. Agricultural sectors. Identify solutions for remote delivery of extension services. • Launch an Agriculture coaching television programme and develop radio spots to reach farmers in rural areas to overcome limited mobility • Develop a programme to introduce a free "farmer helpline" through MAIL using mobile phones in partnership with mobile service providers to function on a daily basis. Features would include registration of farmers for the helpline service and the establishment of a central office, operated by agricultural experts. This service would be suited to providing information to illiterate people in rural areas. The farmer helpline will also assist identify common problems and trends faced by sector farmers	2							• Television programme and farmer helpline launched	MAIL, Ministry of Labour, Ministry of Communication and Information Technology
	2.7.13. Agricultural sectors (saffron). Assess options for supporting the development of specialized courses (short-term) as well as Masters and PhD courses in Afghan universities focusing on saffron studies. As a short term option, introduce saffron education in the curricula of vocational schools focusing on agriculture		3							• Module developed and integrated at 10 vocational schools/ institutes

Strategic objective 3: Advance skills to provide an enabling framework for trade development										
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period	Targets	Lead Supporting implementers					
			2017	2018	2019	2020	2021	2022		
3.1. Build local capacities of TVET experts.	3.1.1. Support the development of a local cadre of TVET experts to reduce dependence on external consultants by: <ul style="list-style-type: none">Developing a course on TVET planning and management to be rolled out twice a year. Consider training on: <ul style="list-style-type: none">TVET planning and research for priority sectorsMarket-driven trainingGender mainstreamingCurriculum developmentQM based on NOSSAmong others.	1							30 TVET experts receive training	MoE, Ministry of Women's Affairs
	3.1.2. Identify and engage with regional and international government bodies with the purpose of developing partnerships and creating collaboration in the following areas: <ul style="list-style-type: none">Developing capacity of Afghan officials responsible for skills development.Sharing technical expertise and best practices in policies on skills development, teacher retention models, occupational standards, employment services models.Joint activities on teacher training.	3							At least 2 MoU signed	MoE, MoFA, MoLSAMD, MoHE
3.2. Improve the recruitment and retention of TVET teachers and trainers.	3.2.1. Develop and implement a programme aimed at improving the retention of TVET teachers: <ul style="list-style-type: none">Create a list of incentives (monetary and non-monetary) for the retention of TVET teachers, e.g.:<ul style="list-style-type: none">Pre-service and in-service trainingDaily snacks, clothing, etc.	2							List of incentives developed and implemented	MOE, MoLSAMD
	3.2.2. Roll out a campaign at provincial level to identify potential female TVET trainers among migrant returnees with work and technical experience and/or female entrepreneurs in relevant fields. Identification to be supported by local NGOs, and private sector stakeholders, among others. Recruit and provide identified female instructors with pedagogic and technical skills, according to established curricula. Develop a tailored initiative to increase the recruitment of female TVET trainers: <ul style="list-style-type: none">Improve the offering of benefits for female TVET teachers, in addition to the above-mentioned, such as: provision of childcare, transport and female dormitories, among others.	1							At least 50 TVET female trainers recruited	Ministry of Women's Affairs, MOE, AWCCI
3.3. Reinforce entrepreneurship training in TVETs.	3.3.1. Implement a pilot programme in formal and non-formal TVET courses to reinforce entrepreneurship education, e.g. Know About Business (ILO, ITC). <ul style="list-style-type: none">Develop an entrepreneurship education module adapted to the Afghan socioeconomic context, including topics such as bookkeeping, development of business plans, regulations and financial skills.Capacitate national facilitators (selected teachers) on the developed curriculum.Pilot test the curriculum over the course of one or two years, prioritizing its introduction into studies related to the marble, handicraft, carpet and horticulture sectors. Adapt teaching tools to the needs of each sector.Implement monitoring systems to follow up on graduates of the course.Adapt and replicate the course in other TVET institutions.	3							Pilot programme developed and implemented	MOE, MOHE, MoLSAMD, Sector associations, ACCI, AWCCI
	3.3.2. Organize information and career fairs, and summits on business opportunities in priority sectors. <ul style="list-style-type: none">Identify local 'champion' (including a female 'champion') entrepreneurs for each priority sector.Organize summits where local champions can present their goods and experiences as entrepreneurs to young students in TVETs and universities.	2							Annual career fair for all priority sectors	MOE, MOHE, MoLSAMD, Sector associations, ACCI, AWCCI

Strategic objective 3: Advance skills to provide an enabling framework for trade development									
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets	Lead Supporting implementers
			2017	2018	2019	2020	2021	2022	
3.3. Reinforce entrepreneurship training in TVEs.	3.3.3. Pilot an initiative to provide mentoring and coaching services at university and TVET level in sectors such as saffron and fresh fruits and vegetables. <ul style="list-style-type: none"> Identify professionals that could serve as mentors or consultants from private sector organizations. Train mentors, including female entrepreneurs, to provide one-to-one coaching services. Create a system of standards that participants must meet to participate in mentoring and coaching services. Implement a mentoring programme for a short period of time (3–6 months) to target start-up entrepreneurs enrolled in education. Services to include evaluation of business ideas, networking facilitation and mentoring after the start-up phase. Create a platform of alumni — e.g. on social media — to exchange experiences and sustain links. Communicate impact and success stories through the websites and social media of relevant associations, public institutions, universities and TVEs. 	1							<ul style="list-style-type: none"> Pilot developed and established MOHE, MOE, Sector associations, ACCI, AWCCI
	3.4. Upgrade the technical competencies of QM service providers.	1							<ul style="list-style-type: none"> To T programme rolled out MOCI, ANSA
	3.4.1. Enhance the ability of local export QM service providers through a ToT, to enable them to offer services and support to SMEs in export QM on a long-term basis: <ul style="list-style-type: none"> Identify host institutions to offer training and advisory services in QM. Identify and select core teams of trainers and advisers. Develop diagnostic tools for technical capacities of service providers on QM. Prepare and implement technical workshops on QM. Prepare and implement workshops on training and advisory skills. Pilot course delivery by local trainers with feedback. Provide guidance and support to local service providers to develop and manage their services. 								

BUSINESS AND PROFESSIONAL SERVICES

Professional services are occupations in the tertiary sector of the economy requiring special training in the arts or sciences, such as lawyers, notaries and accountants.²¹ These professionals are an integral part of any economy. Certain professional services involve providing specialist support to businesses of all sizes and in all sectors and are often embodied in the value of the final output of firms. Such 'embodied' services are said to be carried by the goods, which are afterwards exported across borders.²²

Indeed, value chains in agriculture, mining and manufacturing are increasingly characterized by the presence of embodied services²³ at every stage of the chain, as illustrated in figure 14. This subgroup of the services sector, therefore, has an impact on the competitiveness of other sectors.

The Business and Professional Services TSF will gain more importance over time in the Afghan economy, in line with trade and economic growth, and the implementation of the Government's reform agenda, including those activities emanating from the NES.

In order for the NES and priority sectors to achieve their vision and strategic objectives, enterprise-level abilities must be addressed across a wide range of functions, ranging from generalist to technical areas such as human capital management, financial and operational management, strategic planning, information technology (IT), legal, accounting and marketing/business development services. As the Afghan economy improves, a broad range of support services will be required across the board, especially in the agricultural and industrial sectors, where the pool of experienced specialists is limited. Demand for these professionals will continue to increase along with growth in individual sectors. Agro-specialists, quality management specialists and



Photo: ITC, NES Consultation, Kabul.

process improvement consultants will also experience increased demand for their skills. This is an established channel for absorbing internationally standardized best practices, especially in a developing economy such as Afghanistan.

Additionally, the Government has embarked on an ambitious reform agenda that includes spurring efficiency levels within ministries and official technical agencies. Reforms must involve large-scale process mapping and improvements as well as support in a broad range of function areas. Given current capacity gaps at line ministries and governmental agencies, external support will be essential – creating fertile ground for Afghan consultants.

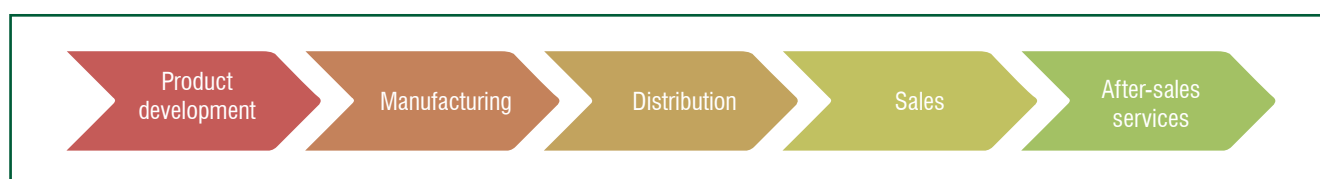
NES implementation is expected to start immediately after the finalization/launch of the Strategy. Implementation across a broad swathe of technical areas will require consultants that can offer specific technical services across a wide variety of projects that will be launched across multiple sectors and TSFs. As a critical support service, the business and professional services sector will benefit from NES implementation towards the development of the sector in itself, and will be able to expand its reach from the domestic market to seize opportunities internationally.

21.– European Commission (2012) Competition: Professional services overview. Available from http://ec.europa.eu/competition/sectors/professional_services/overview_en.html.

22.– Asia-Pacific Economic Cooperation (2016) *APEC Services Competitiveness Roadmap Implementation Plan (2016–2025)*. Available from http://mddb.apec.org/Documents/2016/MM/AMM/16_amm_012.pdf.

23.– Embodied services are those services that are used to produce goods such as communications, transport, energy, research and development, insurance, etc.

Figure 14: Examples of supply chain services linked to phases of production



Source: Based on WTO (2014).

GENERAL OVERVIEW OF THE FUNCTION

The business and professional services TSF encompasses a broad range of activities conducted by companies or individual professionals. Together they provide services to either other firms or the public sector, or both. In the case of Afghanistan, the scope of this Strategy has been narrowed down to subsectors. These have been selected based on the following criteria:

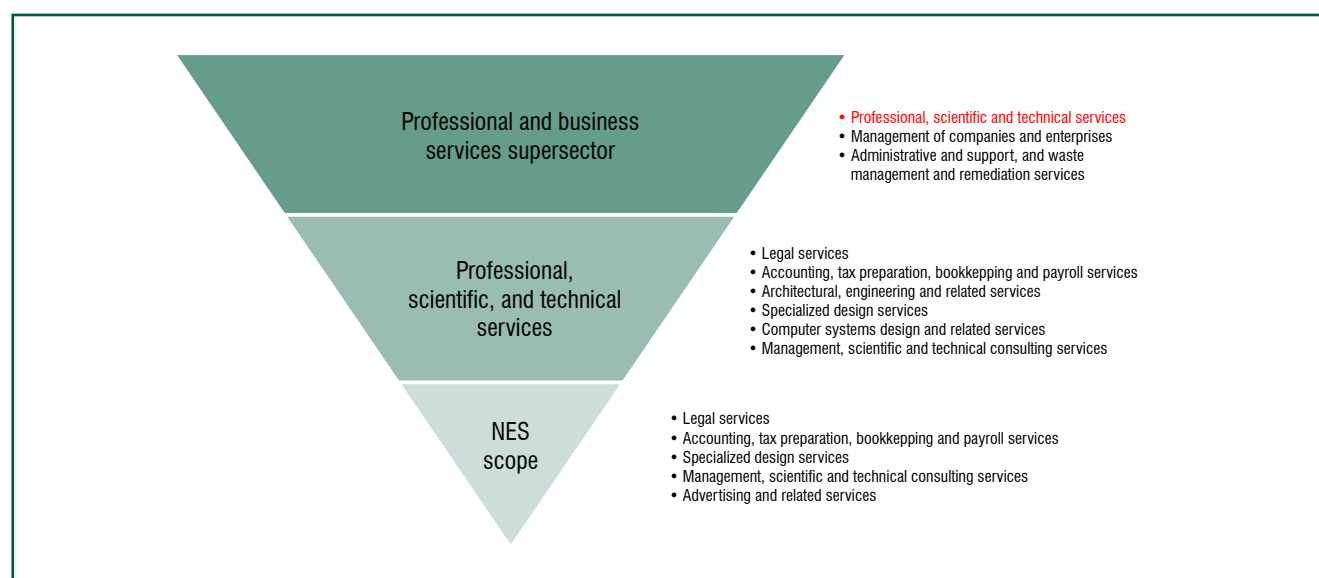
- Subsectors that can benefit from existing demand and that can serve as feeder services to other segments of the Afghan economy, particularly prioritized sectors of the NES, as well as to the Government, thereby constituting a stable market.
- Subsectors that are reasonably mature and can be effectively and efficiently supported over the five-year time frame.

Accordingly, this TSF Strategy focuses on the following subsectors:

1. Legal services
2. Accounting, tax preparation, bookkeeping and payroll services
3. Specialized design services
4. Management, scientific and technical consulting services
5. Advertising and related services.

All of these are subsectors with high potential and with a minimum threshold level of maturity that can benefit from targeted actions of the NES over the next five years. Additionally, they are relevant to the needs identified by individual NES sector strategies on organizational and human performance in areas including general management, human capital management, business process improvement and business development services, among others.

Figure 15: The Afghan Business and Professional Services Strategy scope



Source: ITC, based on the North American Industry Classification System codes 2012 version.

CHARACTERISTICS OF THE AFGHAN BUSINESS AND PROFESSIONAL SERVICES SECTOR

By some accounts, the professional and business services sector is assessed to be the third-largest in Afghanistan, after the agriculture and construction sectors. The profile of professionals in the sector includes retired public sector employees and young Afghans relatively newly out of university, as well as professionals specializing in a particular subsector, usually with a strategic long-term orientation.

Short-term, freelance contracts are prevalent in the country, which is a common occurrence in both developing and developed economies. In the case of Afghanistan, demand is driven by the flexibility that this type of contract offers to companies in the unpredictable business environment. Clients, especially SMEs that are already struggling to operate and grow, favour short-term, time-bound and needs-based contractors rather than permanent workers, in order to keep costs and overheads at manageable levels. This also offers employers the ability to select the best specialists for their immediate requirements.



Photo: ITC, NES Consultation, Kabul.

For contractors, these types of jobs are easier to find and offer a good conduit for gaining experience, apart from the financial benefits. Freelance contracts are popular among youth, and given Afghanistan's youthful demographic composition, this adds to the popularity of this model. This trend is boosted by Afghanistan's culture of entrepreneurship, borne out by centuries of cross-border trading. In an economy where permanent jobs are in short supply, professionals have turned to short-term (and in some cases informal) contracts to make a living.

CURRENT PERFORMANCE AND FUTURE PERSPECTIVES

Afghan business and professional services firms provide solutions to domestic and international clients.

Domestic clients: business and professional services embodied in exporting sectors

Current performance

Business and professional services are intrinsically used by domestic firms in the value chain of goods aimed at national and/or international markets. At the national level, the absorptive capacity of domestic clients for professional and business services is weak at present, and willingness among the domestic market base – comprised mainly of family-owned businesses – to open their books and operations to outside scrutiny and/or outsourcing of select tasks is low. Nevertheless, professional services such as IT, accounting, auditing, legal and marketing are essential for the operation of formalized companies, and in particular for attracting FDI.

Future perspective

The domestic private sector is a key target market for Afghan business and professional services in the medium-to-long term. In line with growing maturity and a business climate where Afghan SMEs across a broad range of sectors face a variety of challenges related to expertise, sector firms will diversify markets to some extent to serve these companies. This is especially the case for management, scientific and technical consulting services (comprised of consulting and advisory firms) and firms providing translation/interpretation services.

The accounting, tax preparation, bookkeeping and payroll services subsector will be especially relevant for domestic firms seeking to professionalize their administrative processes. Design services and advertising firms will also find potential in the domestic market for similar reasons. The market research and opinion-polling segment will experience significant growth if investment in the country improves.

International outlook: Afghan cross-border trade of business and professional services

Current performance

Current service delivery to international clients can best be explained by segmenting activities along the four General Agreement on Trade in Services modes of supply. Afghan firms in the sector serve international clients based in-country as well as abroad.

Box 18: The four modes of services supply

The General Agreement on Trade in Services modes of supply are defined based on the location of the supplier and the consumer when a service is supplied, taking into account their nationality or origin. These modes are generally referred to as:

Cross-border supply (Mode 1), where both the supplier and the consumer remain in their respective territories (which corresponds to the traditional notion of trade and covers, for example, services supplied by telephone or the Internet).

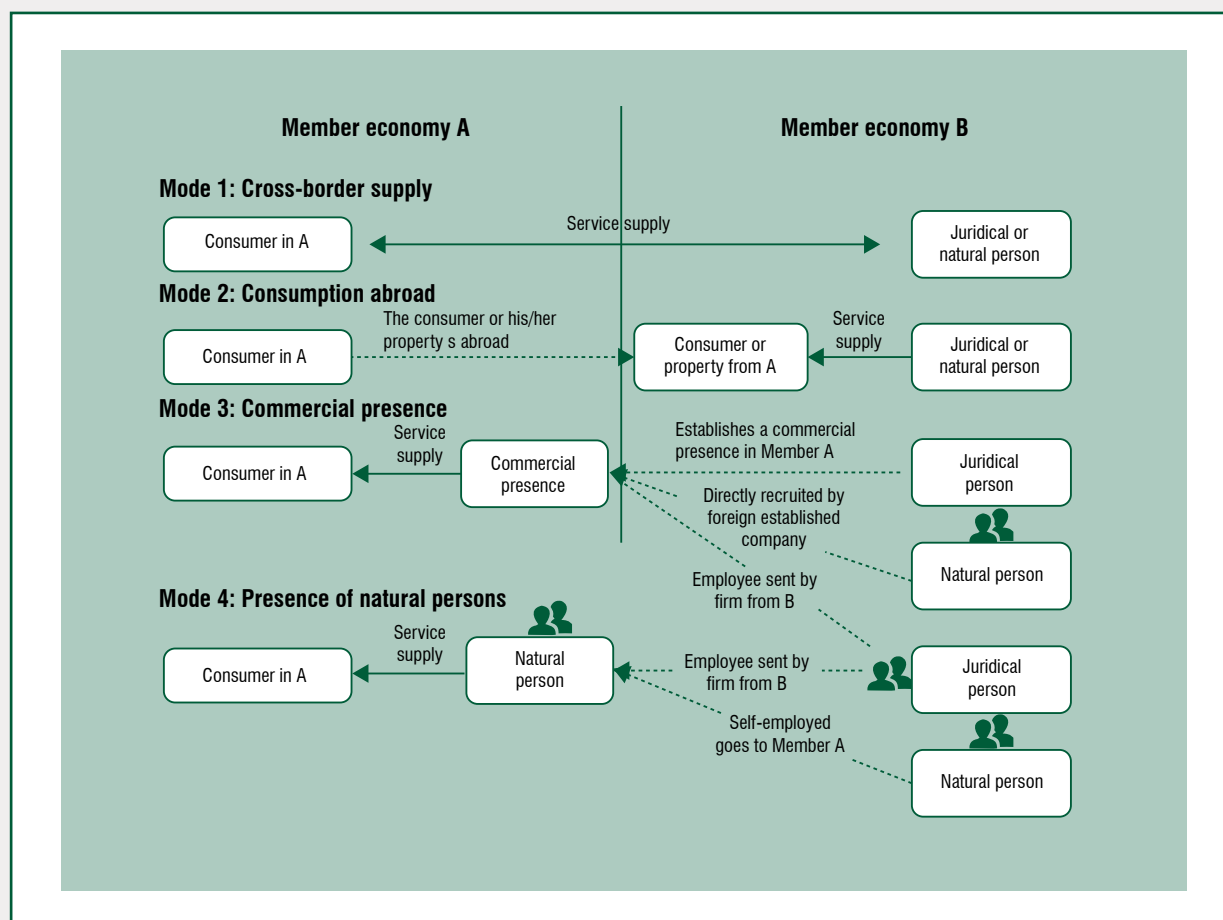
Consumption abroad (Mode 2), where the consumer uses the service outside his or her home territory (as is the case, typically, for international tourist activities and amusement parks abroad).

Commercial presence (Mode 3), where service suppliers establish (or acquire) an affiliate, branch or representative office in another territory through which they provide their services (for example, when a foreign bank investing in a host economy creates a subsidiary in order to supply banking services).

Presence of natural persons (Mode 4), where an individual (either the service supplier himself if he or she is self-employed or his or her employee) is present abroad in order to supply a service (for example, when an independent architect oversees a construction project abroad or a computer specialist is sent abroad by his employer to supply an IT service).

Figure 16 indicates the four modes of supply of services across borders.

Figure 16: Modes of supply of services across borders



Source: United Nations Department of Economic and Social Affairs (2011). Manual on Statistics of International Trade in Services 2010 (MSITS 2010). New York, p.15.

Accordingly, trade in Afghan professional and business services has been categorized following the definition of modes of supply of services across borders under the General Agreement on Trade in Services.

Mode 1

Export activity through the Mode 1 mechanism –through which only the services, rather than the client or the service provider, cross the borders– has proven to be moderately successful in segments such as translation services. Owing to reasonably good quality Internet and telephone infrastructure / bandwidth, service providers are able to satisfactorily cater to client demand for remote work. This is a segment that will see high growth potential as the global IT/business process outsourcing market offers significant opportunities, and barriers to export are minimal due to the nature of cross-border export supplied over the Internet.

Mode 2

Mode 2 activity refers to services rendered to international clients that are present in the country of the service provider. This is by far the most widely used mechanism for Afghan business and professional services firms. Services in demand through this mode primarily involve generalist consulting work –which may range from data collection/entry work to complex project management and analytical technical work. Typical project activity/demand for service providers is centred around the following themes, among others:

- Generalist and sector-specific technical analysis
- Simultaneous translation and interpretation
- Project management and data analysis
- Staffing services
- Market research
- Media and graphic design.

Clients are presently limited to international agencies active in Afghanistan. The precarious security situation has limited international private sector activity in the country and the domestic sector has not yet provided a stable base for professional services firms, due to its lack of absorptive capacity as well as ability to afford such services.

As the Afghan economy improves and inflow of FDI increases, demand from foreign invested companies for professional service providers in the local market will increase, and this will provide opportunities to diversify the client group and services offered, including expanding into architecture, construction, transport and logistics.

Mode 3

Mode 3 refers to the establishment of a subsidiary of the service provider in a foreign country where the client resides. Due to the evolving/weak maturity levels of professional services firms, and also the costs involved in setting up such a venture, this mode has been effectively unused by Afghan firms. Any venture constituting Mode 3 activity is typically



Photo: ITC

long-term and involves higher costs due to administrative overheads, business development costs and investments in office space.

Mode 4

Mode 4 is the mirror image of Mode 2, and involves movement of the service provider across borders to the client's location. Pakistan and India are two target markets where Afghan firms have conducted business with moderate success. The key challenge has been the difficulty that Afghan professional service providers face in securing visas to client countries. As discussed in the 'competitiveness constraints' section, individuals routinely face both increased scrutiny (especially when travelling to the EU and the United States) and logistical challenges in applying for visas.

Future perspective

For international (as well as domestic) investors, Afghanistan is a greenfield market and any investment or business decision requires significant due diligence and research. Gulf markets provide another opportunity, as many Afghan firms may already possess business and personal connections. Outreach into regional markets such as India and Central Asian countries would similarly provide valuable opportunities. Some lead firms may also penetrate the EU and United States markets.

As services become increasingly tradable through the Internet, IT outsourcing and business process outsourcing could provide significant opportunities for export of professional services. Realistically, though, capacity challenges and a forecast sluggish economic growth trajectory will make it challenging for sector firms to expand significantly through this route. The next five years will mainly be focused on consolidating existing connections and developing others, primarily within the domestic market. With time and experience/capacity gains, the sector will be in a stronger position to look further afield.

Box 19: The trade policy perspective

There is recognition that, for developing countries, the temporary movement of people, in particular semiskilled and low-skilled workers, is the basis of their comparative advantage in trade in services, especially pertinent for Mode 4 operations. As the Afghan professional and business services sector matures, inter-country negotiations on movement of professionals back and forth to client locations in other countries will become critical. This is especially the case given the time required to develop the absorptive capacity needed for such services in the Afghan domestic market.

Key developments to consider:

- Afghanistan's negotiations in both the multilateral and bilateral arenas have not included a heavy focus on services in general and, by association, the professional and business services sector. The focus on movement of persons and specific tenets on trade related to this sector remains weak.
- While WTO agreements do not cover clauses for labour mobility, the scope of the General Agreement on Trade in Services does cover the temporary movement of individuals as service suppliers (Mode 4). However, the flexibility offered in theory has not really translated into practice across the board, primarily due to the hesitancy of recipient countries to make commitments that may be legally binding and potentially disrupt their domestic markets. Afghanistan's commitments as part of the WTO accession process have been noted as 'unbound', indicating that the country does not take any commitment for this specific matter.
- Progress at the bilateral level is slow. Most of the bilateral trade agreements do not cover services explicitly and, unlike goods, a liberalized trade regime for services has been slow to emerge. A trade in services agreement is currently being negotiated with SAARC partners.

Afghanistan's trade policy does not include specific provisions for services-related trade, although there is recognition of the importance of services-based trade for the country.

PERFORMANCE AND KEY COMPETITIVENESS CONSTRAINTS

The future is promising for business and professional sector firms but there are a number of challenges to be overcome. Chief among them is a systemic lack of policies, regulations and technical support (principally access to affordable access to finance, trade information and in-market support) affecting services sectors in general. Deprived of this support, sector firms have worked diligently to reach current growth levels but improved institutional support is now critical. On the demand side, the absorptive capacity of domestic clients for such services is currently weak.

Business and professional services firms face enterprise-level issues as well. Most firms have been unable to develop points of differentiation. Since firms are mostly involved in similar functions within a limited market, incentives to collaborate have been weak and only lead firms meet regularly in informal forums to discuss their common goals, challenges and aspirations. Recruitment and retention of talented professionals is a challenge for Afghan firms given the high level of competition, as well as a critical degree of migration of professionals.

These challenges are not insurmountable but action is required now to capitalize on existing momentum in the sector. National-level constraints affecting the entire export sector in Afghanistan have been organized under three categories: policy and regulatory issues, supply-side issues and demand-side issues, and are further developed in the following subsection.

Policy and regulatory issues

The regulatory and legal framework needs to respond better to the needs of the services sector

A gap analysis needs to be conducted on the regulatory and legal framework related to this sector (and for services in general). An underlying root cause is the lack of solid data and technical analyses regarding the sector, which poses a significant challenge that inhibits policymaking and other technical interventions to support the sector.

Additionally, cumbersome administrative procedures and red tape that affect other sectors also impact professional services firms, even more so due to the emerging nature of the sector and because regulations are not yet attuned to sector needs. Overall, the quality of both public

(Customs, MoCI, Central Bank, EPAA, finance and revenue) and private (ACCI) TISIs needs strengthening.

There is insufficient institutional support at the policy and technical levels

Institutional support –policy and technical– for firms in the sector has largely remained absent due to competing priorities for the Government, and also because the sector has mainly exhibited organic growth. No official policies or strategies related to services in general (including incentive mechanisms and business-level agreements exist. The sector will be hard pressed to scale up operations without official support in the form of both policies and technical support.

Difficulties acquiring visas hinders the competitiveness of firms in international markets

Challenges in acquiring visas stymies the competitiveness as well as connectivity of sector firms vis-à-vis target markets. Due to the political insecurity in the country, foreign embassies limit their presence in Afghanistan, and existing embassies subject visa applications to rigorous scrutiny. In some cases, applicants must travel to a third country such as Pakistan to apply for a visa, resulting in increased burden and cost for applicants.

Further support is needed to spur innovation among services providers

A necessary prerequisite for innovation is adequate firm investment in research and development, development of new products and registration of patents, among other aspects. Such capacity diversification requires investment capital, which is challenging for sector firms. Ongoing discussions at the policy level on intellectual protection must include the business and professional services sector as well. This is essential in the medium-to-long term to spur innovation and collaboration between sector firms.

Institutional support to promote innovation through incubators and accelerators is weak, although in recent years there has been some movement in this regard. Such institutional mechanisms –whether public or private– must be actively supported. There is in particular a need to attract youth to this sector and support them in entrepreneurship activities.

Supply-side issues

Collaboration among operators is nearly absent

There is a broad lack of collaboration between operators in the sector. Given the high degree of competition among operators mostly involved in similar work and with limited differentiation points, trust levels are gradually emerging but

are still quite weak. Service providers are hesitant to collaborate with other companies whom they may perceive to be competitors in a small and increasingly saturated domestic market. Collaboration ranging from basic networking to active partnerships on projects barely exists. Given that very limited innovation is taking place, the combined net result of the innovation and collaboration gap is inhibited overall growth in the sector. The overall challenge is that unless sector firms work together through consortium-based models, they will be unable to tap into large contracts. Collaboration is thus very important.

Absence of a specialized association or representative body limits policy advocacy

There is no specialized sector association/representative body to serve as a platform for advocacy/ development in the business and professional services sector. An informal body of consulting firms exists and may need to be formalized to increase influence and gain credibility –both important prerequisites for sector development.

Weak business management abilities among firms providing professional services

Sector professionals/individuals possess weak business management abilities in areas such as recording profit and loss/balance sheets, operational and strategic planning, and tax filings, which increases their risks and reduces competitiveness over the long term. These administrative areas are fundamental building blocks for firms and are currently neglected because of capacity gaps.

There is a lack of differentiation among service providers

There is a lack of differentiation and clarity among service providers about their services. As a consequence, there are many generalist consultants performing similar work and points of differentiation/unique selling propositions for individual firms have been slow to emerge.

Domestic firms face challenges recruiting and retaining talent

Recruitment and retention of talented professionals is a challenge for Afghan firms, owing to intense domestic competition as well as a high degree of migration of professionals to locations such as India, the United States and Europe. Language barriers –namely limited proficiency in English– among applicants is also a constant challenge that managers face when expanding operations. This is a long-term challenge and indicative of the structural weaknesses of the country's academic infrastructure.



Photo: ITC

Lack of affordable access to working and investment capital limits firms' competitiveness

Another factor limiting competitiveness of sector firms is the lack of affordable access to finance (both working and investment capital), a pervasive constraint faced by other sectors as well. Services are particularly affected due to a mix of factors; chiefly the fact that consultants and firms are frequently unable to show physical collateral and banks find it difficult to assess the creditworthiness of firms without it. The due diligence mechanisms of banks do not factor in intellectual property as acceptable collateral, and in any case, Afghan firms need more time to develop such intellectual property in the first place.

Services firms have limited abilities for new business development

New business development is a challenge for advisory firms seeking to enter new markets, an expected condition found in any sector that is in the early stages of evolution.

Branding, promotion and marketing are all weak areas for sector firms, although this may rapidly change if firms gain access to financial resources to make relevant investments. In terms of in-market support, the focus is weak and official/developmental support is directed more towards high-potential product sectors such as carpets, and dried fruits and nuts.

Referrals, existing business with international development partners and diaspora-based connections are the

main source of new business for sector firms. Outside of these routes, firms have limited experience of and know-how about business development.

Financial considerations prevent firms from allocating resources to conduct customized market research related to target markets. Companies do not invest in developing and incorporating export strategies (at their firm level) as part of their corporate planning lifecycle.

Access to up-to-date trade information (industry state, trends, events) and the ability to act on this trade information to upgrade/adapt offered services are essential to success in the business and professional services sector. For Afghan firms, access to this information, either through their own efforts or through TISIs such as EPAA, is weak.

Demand-side issues

Firms face difficulties accessing the domestic market

Firms have found it more difficult to access the domestic market. The main reasons for this are:

Clients are not aware or convinced of the benefits of hiring consultants. The value proposition of services rendered by business and professional services providers is unclear to potential clients – a challenge that is experienced by other potential buyer segments as well. This reflects the lack of differentiation and clarity among service providers vis-à-vis their services.

The absorptive capacity of the domestic client base is quite weak. Efficient and value-driven delivery of business services requires a minimum level of absorptive capacity on the part of clients. This is because, unlike physical goods, the value addition of services such as management consulting can only be tangibly generated when they are 'co-produced' in collaboration with clients. This is currently not the case with a weak client base.

A significant percentage of the Afghan private sector is comprised of family-based enterprises that follow a traditional approach in terms of operations. These firms are typically reticent to contract external partners or outsource any part of their operations because this is unfamiliar territory and because firms prefer to manage their operations in-house. The domestic market requires significant change management before potential clients exhibit broader willingness to contract service providers.

At the international level, operators face stiff competition from regional markets

Stiff competition from regional markets – involving firms in India and Pakistan – also poses a strong challenge. Coping challenges have included subcontracting/partnering models that have proved successful in the IT sector, but the business and professional services sector has not experienced much success in this regard.

THE ROADMAP

This Strategy is driven by the following overall vision:

**“ Business and professional services:
Afghanistan’s solution for business
confidence and economic growth ”**

To achieve this vision, the Strategy proposes a multipronged approach that will fill the policy and institutional gap for the TSF, stimulate the domestic market, handhold firms to enter international markets, and develop enterprise-level abilities in parallel. The following section describes the strategic objectives and operational objectives set for the TSF function.

STRATEGIC OBJECTIVE 1: ENHANCE POLICY AND REGULATORY SUPPORT FOR THE SECTOR.

The policy and regulatory gap in the sector will be bridged to enable formalization of the sector within the development framework of the country. The first step is a thorough gap analysis of regulatory issues involving licensing, business registration and tax obligations, and proposing realistic recommendations. At the policy level, better understanding of the implications of WTO accession for the sector is needed. The scope to negotiate bilateral instruments to ease movement of professionals across borders (through business-level agreements) is also necessary.

Intellectual property rights issues are also relevant and necessary for promoting innovation in the sector. A careful assessment of the scope and requirements under international agreements for intellectual property protection will be carried out.

STRATEGIC OBJECTIVE 2: FACILITATE BROAD CAPACITY DEVELOPMENT AT THE ENTERPRISE LEVEL.

This Strategy proposes a dual approach towards building enterprise-level capacities – strengthening TISI services for the sector, and in parallel building the abilities of individual firms.

The Strategy supports the establishment of a business and professional services association to launch advocacy, dialogue and sector development over the medium-to-long term. To reduce the skills mismatch prevalent in the sector,



Photo: MOCI

a comprehensive review of the TVET and higher education infrastructure is proposed.

Support will be provided to establish new and support existing incubators and accelerators – essential to attract young Afghans towards the sector. Indeed, the sustainability of the sector depends on how well it is able to harness the human capital of young Afghans. A variety of actions are proposed to develop avenues for upgrading enterprise-level expertise. These include short training courses or ‘sprints’ to coach professionals/firms on fundamental aspects of planning, operational/financial management, marketing/sales development and more.

STRATEGIC OBJECTIVE 3: STRENGTHEN LINKS WITH DOMESTIC FIRMS AND ENHANCE MARKET DEVELOPMENT.

The aim of this objective is to build on the development of Afghan business and professional services to spur services-driven economic growth. Further, this strategic objective seeks to better connect and serve exporting firms and to tap into international markets. This component of the Strategy will focus on building the capacity of selected enterprises to modernize and upgrade offered services. Thereby, the sector aims to appeal to a larger pool of potential domestic and international clients, in addition to developing the analytical abilities to identify and adapt to dynamic global trends. This can be attained by strengthening certification procedures, providing sector information and showcasing successful case studies to support domestic and market development. Table 4 indicates identified target markets where the sector is deemed to have high potential.



Photo: ITC, NES Consultation, Kabul.



Photo: ITC, NES Consultation, Kabul.

Table 4: Identified high-potential target markets for the Afghan professional and business services sector

Subsector	Target markets		Business case / opportunities
	Markets	Segments	
Management, scientific and technical consulting services (Modes 2 and 4)	• Domestic market	• NES priority sector firms + others sectors	<ul style="list-style-type: none"> • Forecast rise in need for business and professional services in line with economic growth • Increased FDI and growing links with the global market
Accounting, tax preparation, bookkeeping, and payroll services (domestic market)	• Domestic market	• Family-owned businesses + other segments in the private sector	<ul style="list-style-type: none"> • Heavy existing demand for bookkeeping and accountancy services globally which Afghan enterprises could target
Specialized design services (Modes 1 and 2)	<ul style="list-style-type: none"> • Domestic market • Gulf region • International firms in Afghanistan 	• Family-owned businesses + other segments in the private sector	<ul style="list-style-type: none"> • Growing global market for Internet-based freelance work
Marketing and advertising services / event management (Modes 1 and 2)	<ul style="list-style-type: none"> • Domestic market • Gulf region 	• Private sector	<ul style="list-style-type: none"> • Afghan companies already export their services to different companies and organizations abroad • International firms have used such services in Afghanistan (mainly branding and promotional campaigns for their products)
Legal services (Modes 2 and 4)	<ul style="list-style-type: none"> • Domestic market • International corporations operating in Afghanistan • Afghan businesses in the Gulf region 	<ul style="list-style-type: none"> • Private sector • International companies interested in investing in the Afghan market 	<ul style="list-style-type: none"> • Some local Afghan law firms have gained experience of working with major international law firms • Rise in need for legal services over the last decade • Increasing need to serve foreign investment and potential foreign investors
Translation and Interpretation services (Modes 1 and 2)	• Investors in Afghanistan	• Private sector	<ul style="list-style-type: none"> • Afghan companies are providing translation services (English-Dari-Pashto) to different clients
Market research and public opinion polling (Modes 1 and 2)	• Worldwide	• International companies interested in investing in the Afghan market	<ul style="list-style-type: none"> • Investors are interested in conducting due diligence related to the potential market base

Box 20: Case study: State of Palestine – exporting business and professional services

The Palestinian business and professional services sector is a shining example of a sector that has succeeded in spite of significant odds. The sector contributes 70% of the country's GDP and has to some extent acted as a bulwark against challenges to the goods-based sectors resulting from movement / border restrictions.

Depending on the prevailing situation in the region, the State of Palestine can be classified as a conflict-afflicted, post-conflict or fragile state. It is also frequently referred to as a country under occupation. There is no case study that comes close to resembling the Palestinian context; however, the precarious political and security situation is common to both the State of Palestine and Afghanistan. This is not the only common thread. Both economies are marked by a highly entrepreneurial culture. Movement restrictions / challenges are also pervasive, albeit based on unique local conditions. Development partners have a significant presence in both economies, with economic development as a common focus. Youth constitute a significant proportion of the population, and both Afghanistan and the State of Palestine share an urgent need to develop economic opportunities for their younger citizens.

What the State of Palestine has got right...

Institution development: The focus on institution-building has been prominent, and resources have been invested to develop both policymaking institutions such as ministries and technical agencies—for example, the Palestinian Central Bureau of Statistics and other statistical agencies—as well as the Palestinian trade promotion organization (PalTrade). This focus is grounded in pragmatism and recognizes the fact that challenges external to the sector such as political insecurity and terrorism are not expected to be alleviated in the near term, and in this operating environment, the role of national institutions becomes all the more important. These institutions also include sector associations for the services sectors such as the Palestinian Information Technology Association of Companies (for IT) and others that have played an important advocacy role with the public sector.

Educational infrastructure: Palestinian skills-development institutions are relatively well-regarded in the region. Although issues of skills mismatch and resource gaps persist, the overall

infrastructure caters reasonably well in terms of training young professionals in areas ranging from IT to business management to marketing to graphic design. The literacy rate and proficiency in English are both good, especially in the West Bank, boding well for business and professional services firms.

Agile business development: The potential of Mode 1 and Mode 2 services exports has been demonstrated by the high levels of activity of business and management consultants that provide services to international organizations and development partners located in hubs such as Ramallah. Consultants have been quick to recognize the high potential of this market base. Enterprises have also been quick to tap into the diaspora community in markets such as the EU and United States. Service firms are also making inroads into yet uncharted territories such as call centres, and despite competition from Jordan, Palestinian firms have done reasonably well. Cross-sectoral links have also been well exploited—for example, professionals with experience in the call sector routinely find jobs in the retail sector thanks to transferrable client relations / communication skills.

Support to entrepreneurs: The Government has supported the entrepreneur base through various schemes as well as improving access to working and investment capital finance. In recognition of the potential for business and professional services in the State of Palestine, an export strategy for the sector was commissioned to explore the potential and develop tangible recommendations.

Bottom line: lessons from the State of Palestine for the Afghan business and professional sector

Both Afghanistan and the State of Palestine face a multitude of challenges, many of which are external to their sphere of control. Despite the challenges, there is much that can be done to alleviate internal supply-side and business environment conditions, and efforts can be made to improve market access for exporting businesses. The business and professional services sector can exhibit rapid growth and maturity if properly mentored and supported. The essential requirement is to prioritize key policy and enterprise-level actions that will lead to incremental improvements, in line with overall NES implementation.

BUSINESS AND PROFESSIONAL SERVICES: PLAN OF ACTION

Strategic objective 1: Enhance policy and regulatory support for the sector.									
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets*	Lead and supporting implementers
			2017	2018	2019	2020	2021	2022	
1.1. Bridge the regulatory gap in the TSF	1.1.1. Designate a ministry / lead agency to take charge of the mandate relating to development and export of professional and business services, as an essential first step for sector strengthening from a policy point of view.	1							<ul style="list-style-type: none"> Government institution designated MoCI, ACCI, AWCCI
	1.1.2. Conduct a gap analysis of the regulatory and legal framework affecting the business and professional services sector. Particular emphasis to be placed on: <ul style="list-style-type: none"> Aligning regulatory practices with international standards. Aligning with the World Bank Doing Business indicators, already the focus of GoRoA's attention. Registration, licensing and tax requirements for firms and individual professionals. Laws and regulations that need to be updated or enacted in favour of the sector, particularly regarding the business receipts tax and corporation taxes. Incorporating WTO accession obligations in existing regulations related to the sector. Introduction of online tax payment services to avoid unnecessary paperwork and delays. Provision of movement of people treaties and business-level agreements The possibility of introducing a corporation tax / business receipts tax exemption scheme for start-ups. 	1							<ul style="list-style-type: none"> Gap analysis of regulatory and legal framework conducted. Corrective measures are integrated MoCI, ACBRIP, ACCI, AWCCI, MoF
	1.1.3. Facilitate a focused and open discussion on the impact of the tax policies imposed by the International Monetary Fund in 2015 on the private sector, especially exporters. Discussions to include the impact of measures such as the doubling of the business receipts tax on bottom lines.	1							<ul style="list-style-type: none"> A seminar is organized involving relevant public and private sector institutions A paper is developed capturing discussions, including recommendations to address the most pressing issues MoF, MoCI, ACCI, AWCCI
	1.1.4. Conduct a feasibility study for assessing the potential and scope for signing bilateral labour agreements (business-level agreements) with key target markets identified as having high potential for the business / professional services sector as well as other NES priority sectors. Specifically, the following aspects will be considered: <ul style="list-style-type: none"> Consultations to include public and private sectors in / outside Afghanistan. Assess the feasibility of bilateral labour agreements in the context of mobility / visa restrictions in Afghanistan. Assess the potential impact of outbound and inbound migration on the development of the domestic Afghan market. Maintaining and updating mutual occupational shortage lists for which visa and other mobility restrictions will be eased in the case of qualified professionals. A monitoring framework for coordinating with partners, managing demand / supply trends and ensuring compliance with provisions of bilateral labour agreements, including aspects such as mutual recognition of educational credentials, including formal and non-formal education. Based on the recommendations of the feasibility study, launch pilot programmes – over a limited time – with select partners to test the provisions of proposed bilateral labour agreements. 	2							<ul style="list-style-type: none"> Feasibility study is conducted Three pilot programmes are launched MoCI, ACCI, MoLSAMD, AWCCI
	1.1.5. Commission a brief needs assessment study on intellectual property rights protection considerations (including copyright, trademarks, patents and industrial design rights, among others) in the business / professional services sector. The study will: <ul style="list-style-type: none"> Identify the implications of WTO accession. Assess the quality of existing (if any) intellectual property rights protection mechanisms in Afghanistan specifically pertaining to the sector, including monitoring and enforcement measures. Quantify the impact of infringements of intellectual property rights in the business / professional services sector. Provide recommendations at the policy (regulations), institutional (monitoring, enforcement, grievance redress) and enterprise (awareness-building on rights and responsibilities) levels. 	3							<ul style="list-style-type: none"> Needs assessment study is conducted and recommendations are integrated at the policy, institutional and enterprise level Two awareness-building workshops conducted to sector firms MoCI, ACBRIP, ACCI, AWCCI
1.2. Improve provisions for the sector in national trade policy and negotiated trade agreements.	1.2.1. Conduct an assessment related to the services gaps in bilateral and multilateral trade agreements (SAARC Agreement on Trade in Services, SAARC, WTO and other key agreements) to which Afghanistan is a signatory. Assessment to especially focus on: <ul style="list-style-type: none"> The benefits / loss of competitiveness associated with having an 'unbound' status on the WTO commitments related to movement of people provisions. Implications from a lack of services focus in negotiated bilateral agreements. 	2							<ul style="list-style-type: none"> Assessment conducted and corrective measures are identified and implemented, accordingly MoCI, MoFA, ACCI, AWCCI
	1.2.2. Ensure that trade policy covers adequate focus on services, relevant to the professional and business services sector.	1							<ul style="list-style-type: none"> Periodic policy adjustment mechanism involving the private sector established MoCI

* Targets are indicative only and will be the subject of further refinement at the beginning of the implementation management stage. Similarly, the lead and supporting implementers column remains indicative because the implementation will require collective efforts, for which additional institutions may be added.

Strategic objective 2: Facilitate broad capacity development at the enterprise level.									
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Lead and supporting implementers
			2017	2018	2019	2020	2021	2022	
2.1. Improve collaboration within the sector and promote links with other sectors.	2.1.1. Formalize the establishment of a 'business and professional services' association that functions as an advocacy, networking and skills-development platform for sector professionals. The association will provide a combination of paid / free services including: <ul style="list-style-type: none"> Organizing formal networking events in Kabul and other major hubs. Conducting (and making available) market research on key markets covering current industry trends, upcoming opportunities and information on international networking events. Active promotion and marketing for the sector in key target markets through strategic advertising. Provision of free / fee-based learning events for members. 	1						<ul style="list-style-type: none"> Business and professional services association established with clear roles, responsibilities and services Two networking events organized annually (in Kabul and other major hubs) One comprehensive market research study per year Marketing plan developed 	MoCI, entrepreneurs' group, business association(s), ACCI
	2.1.2. Develop a position paper put forward by leading Afghan business and professional services firms to clarify the joint position / aspirations of the sector and guide policymakers.	1						<ul style="list-style-type: none"> Position paper developed 	Entrepreneurs' group, business association(s)
	2.1.3. Facilitate partnership opportunities with Indian (and other) firms as a means of opening markets as well as bringing in expertise and best practices. Organize business-to-business missions to India and other relevant locations to provide networking opportunities for sector firms.	2						<ul style="list-style-type: none"> At least three business-to-business missions organized per year (including one to India) 	MoCI, ACCI, AWCCI
	2.1.4. Develop an anchoring model through which the sector will be able to leverage existing opportunities that are currently unexploited. Specific details involving the model include: <ul style="list-style-type: none"> Multi-tiered model with the lead firms (anchors) on top and smaller firms on the lower tiers. All firms in the chain would need to be formally registered as a mandatory requirement. Anchor firms would bid for projects and then use the tiered model to satisfy the order, with anchor firms subcontracting to suitable member firms in the lower tiers. Work would be allocated based on the abilities of individual firms. 	2						<ul style="list-style-type: none"> Anchoring model developed, including a multi-tiered model 	MoCI, MoF, AWCCI, ACCI
	2.1.5. To spur collaboration and to develop new / home existing services offerings, hold intersectoral workshops to assess opportunities for collaboration between different sectors.	3						<ul style="list-style-type: none"> Two intersectoral workshops per year 	MoCI, MoF, AWCCI, ACCI, business association(s), entrepreneurs' group
2.2. Improve institutional support available to the sector.	2.1.6. Develop high-intensity 'sprints' / workshops to provide individual consultants and MSME firms in the sector with the tools for strategic and operational planning, as well as the fundamentals of markets and sales for their businesses.	1						<ul style="list-style-type: none"> Two sprint workshops per year 	MoCI, ACCI, business association(s), entrepreneurs' group
	2.1.7. For select segments in the professional and business services sector, explore the feasibility of introducing certifications guaranteeing that the certification holder meets the threshold of knowledge, experience and legal status that results in an overall increase in confidence for the client.	1						<ul style="list-style-type: none"> Feasibility study conducted 	Business association(s), entrepreneurs' group
	2.2.1. Develop an incubation facility in Kabul (initially as a pilot, to be scaled up to other areas based on proven success) that will provide multidimensional incubation support to business / professional services firms selected through an application programme. <ul style="list-style-type: none"> Programme to be developed in collaboration / mentorship with successful peer programmes outside Afghanistan. Application-based programme will involve existing / potential entrants in the sector with a staff of 1–5 people. Each cohort to host 50–75 firms. One-year intensive programme with graduation and roll-out at the end of the period to facilitate new entrants. Key benefits: ideas exchange; costs pooling; access to supporting infrastructure; mentorship and exposure to market trends, methodologies; networking; and opportunities to pitch businesses to equity investors. Programme to include alumni participation in the form of mentoring the next class. 	1						<ul style="list-style-type: none"> One incubation facility established in Kabul as a pilot, hosting 50–75 firms 	Business association(s), incubation centres, entrepreneurs' group

Strategic objective 2: Facilitate broad capacity development at the enterprise level.									
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Lead and supporting implementers
			2017	2018	2019	2020	2021	2022	
2.2. Improve institutional support available to the sector.	2.2.2. Conduct a comprehensive gap analysis between the national TVET infrastructure and industry demand for business and professional services. The initial focus will be on NES priority sectors and involve the following: <ul style="list-style-type: none">Assessment of a feedback loop between industry and academia, and the extent to which a skills mismatch is present.Capacity requirements for TVET training institutes, as well as universities.Quality of placement services, and formal / informal network development between industry and academia.	2							<ul style="list-style-type: none">Gap analysis conducted MoE (DMITVET) , MoCI, business association(s), entrepreneurs' group
	2.2.3. Organize a round table of lending Institutions with sector stakeholders to develop a common understanding of challenges and initiate development of solutions. Concrete results from the round tables will include: <ul style="list-style-type: none">Improved understanding by banks of the needs and constraints faced by sector operators in meeting minimum requirements. Provisions for alternate collateral requirements (versus physical collateral).Improved understanding by firms of how to improve creditworthiness and meet the minimum requirements of lending institutions.Specific training and awareness-related requirements for bank officers on how to better approach the needs of sector MSMEs.Possible innovation in the development of new lending products.	1							<ul style="list-style-type: none">Two round tables organized per yearAt least five documents produced to convey common positioning (declarations, white papers, etc.) ABA , ACCI, AWCCI, business association(s), entrepreneurs' group
	2.2.4. Use the newly established round table (from activity 2.2.3) to discuss and advocate important development issues related to the sector, and solicit development partner support for the sector. Explore the feasibility of launching pilot projects to kick-start momentum in the sector.	2							<ul style="list-style-type: none">Four pilot projects kick-started ABA , ACCI, AWCCI, business association(s), entrepreneurs' group

Strategic objective 3: Strengthen links with domestic firms and enhance market development.									
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Lead and supporting implementers
			2017	2018	2019	2020	2021	2022	
3.1. Improve access to trade information and market intelligence for sector firms.	3.1.1. Conduct a series of workshops with lead / emerging firms in the sector to sensitize them on finding, absorbing and taking action on global trends / market intelligence in their areas of specialization. Focus will be on using existing and economical information sources available on the Internet (both national and international sources) to conduct essential research based on trade information.	1							<ul style="list-style-type: none"> Five workshops organized MoCI, business association(s) / entrepreneurs' group, ACCI, AWCCI
	3.1.2. To bridge the pervasive information gap in the sector, involve policymaking institutions, CSO, EPAA, sector firms and other partners in developing a robust information collection mechanism with regard to production levels, export figures, percentage of domestic consumption and other targeted areas as a means to develop initial baselines and regular updates of the data.	2							<ul style="list-style-type: none"> Information collection system established, including measures for regular updating of information MoCI, CSO, ACCI
	3.1.3. Leverage consulates and Afghan commercial representations in regional and international markets to gather intelligence on business opportunities, sales leads, information on exhibitions and more for sector operators. Information to be as practical and relevant as possible, and to be updated regularly.	2							<ul style="list-style-type: none"> A mechanism is established to gather intelligence from consulates on a regular basis MoCI, MoFA, ACCI
	3.2.1. Cultivate intermediaries – professional consultants – who can help companies overcome technology and language barriers, and forge relationships with buyers in NES prioritized sectors. <ul style="list-style-type: none"> Create a short course tailored for the Afghan context on marketing, sales and client relationships, including curriculum and training materials. Deliver the short course to staff of consulting companies and independent consultants (e.g. on business advisory services) in Afghanistan. 	2							<ul style="list-style-type: none"> Two short courses are conducted per year MoCI, ACCI, associations
3.2. Improve the ability of sector firms to support NES prioritized sectors and the implementation of NES activities.	3.2.2. In line with commencement of NES implementation activities, identify projects for business / professional development services that are aligned with individual NES sector / TSF projects transitioning from project planning to the implementation phase. <ul style="list-style-type: none"> Project planning for prioritized NES activities to include specific business / professional services requirements that will be required. Identified services requirements to be channelled through a transparent and impartial procurement system to be set up as part of the NES implementation framework. 	1							<ul style="list-style-type: none"> A position paper including recommendations is developed MoCI, ACCI, business association(s)
	3.3.1. Launch a broad procurement programme aimed at contracting Afghan business and professional services at key ministries and public sector institutions. The initiative will serve the dual purpose of providing exposure and a potentially valuable market for local service providers, as well as assisting institutions to undertake necessary work. <ul style="list-style-type: none"> Conduct a comprehensive needs assessment at ministries and public sector institutions related to process improvements, staffing requirements, accounting and bookkeeping, and other subsectors associated with the business and professional services sector. Assess e-government initiatives in the country aimed at streamlining, linking and providing online presence to Government–citizen interactions such as form filings, requests, tax filings and more. Launch a procurement initiative, with requisite transparency and fair play mechanisms integrated, to procure services from Afghan services providers.	2							<ul style="list-style-type: none"> Procurement programme operational National Procurement Authority, MoCI, ACCI, AWCCI,
3.3. Boost exposure of sector firms to potential clients in-country.	3.3.2. Commission a 'growth vouchers' scheme funded through Government and donor support and aimed at spurring growth in the professional and business services sector while also facilitating entry to the domestic market for business / professional services firms. The programme will consist of: <ul style="list-style-type: none"> Vouchers provided to client firms seeking to test and contract business / professional services for their core operations. Vouchers will be used to pay service providers, to be cashed in at designated offices. Specific service focus areas to include: market development, agribusiness advisory, operational and financial management, leadership and organizational development. Matching programme to connect service providers with potential clients. Matching mechanisms will include an online platform as well as an in-person guidance facility that will be available to both service providers and consumers. A rigorous monitoring and evaluation mechanism will be implemented in parallel to gauge the scalability of such programmes and to assess priority services with high potential in the domestic market.	3							<ul style="list-style-type: none"> Growth vouchers scheme is designed and implemented Vouchers benefit at least 10 firms MoCI, ACCI, AWCCI

Strategic objective 3: Strengthen links with domestic firms and enhance market development.									
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Lead and supporting implementers
			2017	2018	2019	2020	2021	2022	
3.4. Spur business development efforts in international markets.	3.4.1. Develop and showcase studies of successful initiatives and lead firms in the sector that other entrants can benefit from and possibly emulate. Case studies will be promoted through online and offline media.	1							<ul style="list-style-type: none"> At least five case studies are developed and disseminated MoCI , business associations(s), ACCI, AWCCI
	3-4-2- Establish a system of named contacts (prominent members of the diaspora / business community) located in specific target markets (or travelling from Afghanistan regularly to specific markets) willing to represent the sector's interests in target markets. Specific responsibilities to include: <ul style="list-style-type: none"> Liaising with Afghan consulates / representations on issues related to market development. Leading / hosting sector business delegations in target markets. Assist Afghan policymakers in developing a negotiation position related to business-level agreements and other market access instruments. Remaining available to answer market-related queries from sector enterprises. 	1							<ul style="list-style-type: none"> Network system established in at least five target markets MoCI , MoFA, ACCI, AWCCI

ACCESS TO FINANCE

The access to finance strategy presented in this document is an integral part of the NES of Afghanistan. The availability of and easy access to a wide variety of financial instruments for enterprises will determine, to a large extent, the performance of the key priority sectors of the NES. The ability to leverage financial services will allow enterprises to increase investment, enhance productivity, respond to new trends and market requirements, efficiently fill orders and adhere to new and advanced quality and product standards. In other words, improved access to finance is essential to enable Afghan enterprises to invest in the future and ultimately grow their export business.

Despite positive strides made by the financial sector over recent years, access to credit remains a major challenge which adversely affects the competitiveness of export sectors. Only 3.4% of firms in Afghanistan held a bank loan or a line of credit in 2008, compared with 30% in South Asia on average, and only 1.4% of Afghan firms use banks to finance their investments, compared with a South Asian

average 15%.²⁴ Without a clear, result-oriented and measurable set of activities it will be difficult for Afghanistan to realize the holistic transformation needed to stimulate a dynamic and modern financial sector that is supportive of exporting enterprises.

This TSF strategy presents the expectations and strategic objectives of the private and public sectors for the improvement of access to finance in Afghanistan. Without concentrated efforts to address critical issues, export sectors will remain constricted. There is significant scope and potential to alleviate current challenges through wide-ranging interventions at the institutional and enterprise levels. The strategy refers to debt and equity finance provided by a financial institution whose business is to provide such finance. Commercial finance may be traditional or sharia-compliant.

24.— World Bank Group (2008). Enterprise Surveys.

Box 21: Importance of the access to finance function to trade finance

Modern firms rely on access to a flexible portfolio of financial services in order to both guarantee the smooth functioning of daily operations and capitalize on opportunities for new growth. At its core, trade finance refers to the leveraging of financial products for the purpose of engaging in trade, and the ability to access capital is a key factor in determining the success of commercial ventures. When enterprises are able to respond to market conditions with flexibility by funding investments in new products, machinery and processes, they are better positioned to gain competitive advantage and exploit new opportunities.

A healthy credit environment can stimulate productivity improvement through technology upgrades, quality standards through certification, and market diversification through the design and modification of products to meet new market requirements. Of particular importance, then, is the way in which access to finance facilitates industrial improvement and growth.

The financial sector also provides key services that directly allow firms to engage in international trade. Specifically, trade finance helps facilitate transactions through payment facilitation, risk mitigation, financing and the provision of information regarding payment and shipment status. More than 90% of transactions involve the use of trade finance tools including letters of credit, import bills for collection, import financing, shipping guarantees, letter of credit confirmation, document audits, pre-shipment export financing, invoice financing and receivables purchase.

Through these tools financial intermediaries act on behalf of often relatively unknown trade partners, thereby allowing both buyers and sellers to mitigate the risks associated with information asymmetry in order to guarantee payment and delivery of goods. A healthy trade finance function allows buyers to be sure that they will get what they pay for and sellers to be confident that they will be paid for their products.

GENERAL OVERVIEW OF THE FUNCTION

Until 1978 seven state-owned banks were operating in the country: Agriculture Development Bank, Export Promotion Bank, Industrial Development Bank, Mortgage and Construction Bank, Milli Bank, Pashtany Bank and Da

Afghanistan Bank (DAB), the central bank established in 1939. None of these were operational at the end of 2001 when the latest conflict began. Since then, the Central Bank has re-established its operations in Kabul and the provinces. Export Promotion Bank, Milli Bank, and Pashtany Bank have been relicensed provisionally but are not operational yet.

In 2003 the Government of Afghanistan ratified a banking law with the intent of strengthening the financial sector through a comprehensive long-term strategic plan for its development. The plan aimed at promoting greater stability, depth and diversity of the entire financial system. Soon after the ratification of the new law, eight new commercial banks established branches; among them, four international banks established one branch each in Kabul: Habib Bank, National Bank of Pakistan, Punjab National Bank and Standard Chartered Bank. These banks concentrated mostly on international donors, NGOs and international company businesses as well as the official business of their respective governments. They do not provide financing for local businesses or deposit services for the Afghan public, and while they might eventually open branches in other cities, it appears that they are satisfied for the time being with their Kabul operations.

In addition, four Afghan banks started their operations:

- **First MicroFinance Bank Afghanistan** – primarily owned by the Aga Khan Development Network with some International Finance Corporation (IFC) investment;
- **Kabul Bank** – owned by Afghan businesspeople based in the Gulf. It concentrates on commercial business;
- **Afghanistan International Bank** – primarily owned by Afghan-American investors and also had investment from the Asia Development Bank;
- **Arian Bank** – jointly owned by Melli Bank and Saderat Bank from the Islamic Republic of Iran.

The last banking law was ratified in 2015 to build a robust and stable financial system in the country. The new law operationalizes a centralized sharia board to determine whether products obey Islamic principles.

BANKING SECTOR

The banking sector is still dealing with the aftermath of the Kabul Bank crisis, which was the result of fraud and money-laundering activities as the bank's shareholders and top management manipulated the bank's loan books. The crisis threatened the overall stability of the banking sector (as the bank held about one-third of the system's assets of US\$ 4 billion) and has raised concerns regarding the capacity of the Central Bank to supervise the banking sector.

The Government had to shoulder a bill of US\$ 825 million for the cost of the lender-of-last-resort facility loans that covered the deposit guarantee (about 5% of GDP). Kabul Bank was subsequently put into receivership, revoking shareholders' rights altogether. Kabul Bank has been split up into a good bank and a bad bank. The bank's deposits and good assets were transferred to a bridge bank, New Kabul Bank (owned by the Government of Afghanistan).

In 2015, the asset base of the banking sector grew at a slower pace than the previous year, with 10.56% growth compared with a 12.18% increase in the 2016 financial year.²⁵ The gross loan portfolio of the banking sector declined by 9.14% against 5.03% growth in 2015. The decrease in the loan portfolio was attributed to repossession of assets, settlement of loans and less customer use of overdraft facilities. In the same year, deposits, the main funding source of the banking sector, increased 7.57% from the previous year – 63% of them are US\$ denominated.

The capital base of the sector remained strong and increased by 37.43% with a capital adequacy ratio of 27.68% versus the national minimum threshold of 12% and the Basel benchmark for capital to risk weighted at 8%. Return on equity for the sector was 15.38% in 2016 against 1.69% in 2015. The increase in profitability was due to a significant increase in non-interest income and a decrease in credit provision.

In 2016, the Afghan banking sector comprised 15 institutions, including three state-owned banks, nine commercial banks and three branches of foreign banks. State-owned banks represent 27% of total assets of the sector and private banks 63%. Private banks' share of the total gross loans portfolio is 92%. Banks lend most funds to the following industries: petroleum and lubricants (11%), construction (8%), food items (8%), manufacturing (7%) and telecommunication (6%) – agriculture accounts for only 3.08%. Non-performing loans represents 12.67% of total gross loans with a decreasing trend.²⁶

Many improvements have been made in regulation and the setting up of frameworks to attract international investors. In June 2017 the Financial Action Task Force – an inter-governmental body with the objectives of setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money-laundering, terrorist financing and other related threats to the integrity of the international financial system – welcomed Afghanistan's significant progress in improving its anti-money-laundering/combating the financing of terrorism regime and noted that Afghanistan has established the legal and regulatory framework to meet its commitments. Afghanistan is therefore no longer subject to the Financial Action Task Force's monitoring process under its ongoing global anti-money-laundering/combating the financing of terrorism compliance process.

25.– DAB (2016). *Economic and Statistical Bulletin*, FY 1395.

26.– DAB (2016). *Economic and Statistical Bulletin*, FY 1395.

Table 5: Banks operating in Afghanistan

State-owned banks (169 branches)	Private banks (284)	Branches of foreign banks (8)
• Bank-e-Millie Afghan (36)	• Afghan United Bank (15)	• Bank Alfalah Ltd (2)
• New Kabul Bank (111)	• Afghanistan Commercial Bank (6)	• Habib Bank Ltd (2)
• Pashtany Bank (22)	• Afghanistan International Bank (32)	• National Bank of Pakistan (4)
	• Arian Bank (2)	
	• Azizi Bank (75)	
	• Bakhtar Bank (62)	
	• Ghazanfar Bank (9)	
	• Maiwand Bank (38)	
	• The First MicroFinance Bank (45)	

Source: DAB, 2017.

INFORMAL SECTOR

The World Bank estimates that between 80% and 90% (2005) of the economic activity in Afghanistan occurs in the informal sector and almost all credit and other financial transactions are still carried out in the informal sector. The largest informal sector financial service provision system is the *hawala* system and it plays an important role in the economic life of the country and the opium economy, more so in the absence of a developed formal sector.

DAB has established legislation to supervise the *hawala* system and other providers of money services, though supervision will need to take a pragmatic approach, accounting for the importance of the informal sector and the significant amount of time it will take for the formal sector to make access available to most people.

MICROFINANCE

At the end of 2001, formal finance was virtually non-operational, with insolvent public financial institutions and no private banks. Hence, dependence on informal sources of finance increased. Microfinance programmes had limited outreach (approximately 10,000 clients at the end of 2001) and weak institutional structures. Savings services were limited to a few informal schemes and in-kind saving such as opium in poppy-growing areas. In 2002, there were estimated to be about 500 NGOs working in Afghanistan, of which 20–25 were providing some kind of credit services, though half of those had small programmes that were not designed to be sustainable. These achieved limited outreach and low sustainability due to a handout approach, hyperinflation and interest rate caps imposed for religious reasons.

The World Bank and prominent members of the new Afghan Government joined forces to establish a mechanism for channelling what was hoped would be major investments in a new, rapid-growth microfinance industry. The Microfinance Investment Support Facility for

Afghanistan (MISFA) was established as an apex institution in 2003 and was funded via the World Bank's Afghanistan Reconstruction Trust Fund. The Consultative Group to Assist the Poor was brought on board to provide microfinance technical expertise. The mechanism has helped to coordinate donor financing, encouraged international and local NGOs to enter the microfinance sector, and helped meet growing demand in the sector. MISFA was recently transformed from an entity within a Government programme to an Afghan company with limited liability.

Now MISFA is a non-shareholding company owned by MoF and governed by an independent board of directors. This provides MISFA with more autonomy to attract new donors and retain those that continue to provide funding directly to Government in order to keep stimulating the expansion of the microfinance sector. While most microfinance donor agencies channel their funds through MISFA, there are some –like USAID– who provide direct funding to some microfinance institutions (MFIs). However, the volume of direct financing to MFIs is small. MISFA is the main source of financing for the microfinance sector. The number of MFIs supported by MISFA grew from only three in 2003 to 15 at the end of 2015, then decreased to six in June 2016. MISFA's partners include 13 NGOs, one credit union and a microfinance bank. While most MFIs were originally set up by experienced international NGOs, they are in the process of becoming companies under Afghan law.

MISFA's partner institutions disbursed a combined total of nearly 125,967 loans worth around AFN 9.4 billion for the year ending 31 March 2016 with coverage in 14 provinces and 83 districts, and with women representing 30% of total clients and 33% of total borrowers.

The Afghanistan Microfinance Association (AMA) is the national network for development finance institutions in the country. Realizing the need for and relevance of a national network in the sector, MISFA and its partner MFIs jointly decided to start AMA in 2005. AMA was registered with the Ministry of Justice (MoJ) in 2007. Currently, AMA has 14 members including MFIs, community-based savings

promotion institutions and other financing institutions. It has been operating as a coordinating body among all key stakeholders in the sector. As an institution, AMA has a few distinctive elements, such as being an independent legal entity, strong membership of development finance institutions, positive relationships with key national stakeholders, potential regional and global exchanges, and continued assistance from MISFA and institutional support from USAID/Financial Access for Investing in the Development of Afghanistan (FAIDA), which was operational from 2011 to 2016. At present no MFI is licensed by DAB to collect savings.

OTHER FINANCIAL INSTITUTIONS

Apart from commercial banks and MFIs, there are other financial institutions in Afghanistan which provide large, long-term loans with more flexible conditions.

- **IFC:** IFC is a member of the World Bank Group that aims to promote the private sector in developing countries. IFC provides long-term financing to private companies under different forms of investment such as loans, profit participating loans, equity finance and trade finance. Loans provided by IFC are usually targeted at SMEs and/or at specific sectors. The amount of loans ranges between 25% and 50% of the project cost –generally between US\$ 1 million and US\$ 100 million. The loans typically have maturities of 7–12 years. Grace periods and repayment schedules are determined on a case-by-case basis in accordance with the borrower's cash flow needs. If warranted by the project, IFC provides longer-term loans and longer grace periods. IFC offers loans in local currency as well, in order to help local companies manage currency risk. IFC may also provide loans to private enterprises in the form of profit participation. It provides the capital, and instead of receiving fixed amounts of loan repayments it engages in a contract with the enterprise for a specified percentage of profit allocation. IFC also makes equity investments with private companies and financial institutions. It generally subscribes between 5% and 20% of a project's equity and maintains its investment for a period of 8–15 years.
- **Afghan Growth Finance (AGF):** AGF was established by the United States-based institution Small Enterprise Assistance Funds, with the objective of providing long-term capital to SMEs in Afghanistan. AGF focuses on the agribusiness and agro-processing, manufacturing, transport, energy and services sectors. It invests with private companies in various forms, such as providing long-term credit, Islamic finance, project finance, equipment finance and working capital loans. Credits provided by AGF are based on more flexible terms and conditions than those of commercial banks. Profit participation and equity investment may be alternatives to fixed interest repayments for a loan. The maturity on loans offered by AGF is also flexible and the borrower may be offered grace periods

based on the company's performance. AGF also provides pre-credit and post-credit services to its clients and works closely with companies on better management of projects. The size of the loan provided by AGF ranges between US\$ 100,000 and US\$ 12 million.

- **Afghanistan Finance Company:** This company provides lease financing, working capital financing and venture capital to firms operating mainly in the agriculture sector. Products offered are tailored to those farmers and agricultural companies who need machinery, equipment and vehicles but do not have the ability to purchase them. Leasing financing is a good solution for such small companies.
- **InFrontier Ltd:** This is a London-based private equity firm authorized and regulated by the Financial Conduct Authority and focused on frontier markets. InFrontier is the first international private equity group to have a full-time team and active investments in Afghanistan. InFrontier's aim is to generate commercial returns to investors while supporting socioeconomic development in the world's most challenging markets.

DIASPORA FINANCE

The Afghan diaspora is estimated at between 4 million and 6 million people, most of them residing in Pakistan and the Islamic Republic of Iran. Pakistan hosts 2.9 million Afghans, particularly refugees and irregular migrants. The United States and UAE host 450,000 migrants. In 2011, net remittances amounted to US\$ 325 million, although this figure is most likely well below actual figures, as informal transfers (*hawala*) are not captured in cross-border payments. According to the International Fund for Agricultural Development (2006), remittances counted for US\$ 2.5 billion, or around 30% of the country's GDP.

Significant growth in the remittance market over the last decade was due to investments in the formal financial infrastructure. While the number of players participating in the remittance market has grown, the participation of each player varies considerably. Evidence suggests that remittances can play an essential role in supporting recipient households through periods of economic turbulence.

DONOR FUNDING

In addition to private financial institutions, there are numerous projects by donor institutions such as USAID, the United Kingdom Department for International Development (DFID) and others which provide grants, funds and credit to business projects managed by the private sector. These funding projects concentrate on specific sectors and seek business projects with specific objectives and outcomes. The Agricultural Development Fund, Afghanistan Rural Finance Centre, Afghanistan Business Innovation Fund, and Harakat are examples of such fund projects and organizations.



Photo: ITC

Table 6: Existing projects for enhancing access to finance in Afghanistan

Focus of project	Project	Principal project activities
Business enabling environment	World Bank Financial Sector Strengthening	Collateral registry
	Agriculture Credit Enhancement / Agriculture Development Fund	Development of Islamic finance products
	USAID Development Credit Authority and German Investment Corporation (DEG)	Partial credit guarantees
Supply side	DFID Harakat	Capacity-building for banks

Source: UKAID (2016).

PERFORMANCE AND KEY COMPETITIVENESS CONSTRAINTS

Informal finance

- Most businesses rely on informal funds transfer systems (*hawala*) to make payments and transfer funds. More than 10% of domestic customers and over 14% of foreign customers usually pay through money exchange dealers. *Hawala* transfers for foreign trade appear to be more efficient than, or at least as efficient as, bank transfers

High collateral requirements, terms, interest rates and time-consuming procedures by banks affect the ability of enterprises to apply for loans.

- Lending institutions reduce the risk of default on loans by asking for high collateral. There are a number of reasons for the perceived high risk of default. First, the existing political risk in Afghanistan adds to the perception among lenders of potential default. The political risk translates into business inefficiencies which, in turn, adversely affect important aspects of export relationships such as delivery times.

- The perception of risk at banks is also high due to inefficiencies within the judicial system. The turnaround time for a liquidation process initiated because of loan default is very long and adds to transaction costs for banks. This increases the overall cost to banks of providing loans. A related critical gap is the absence of specialized courts that can deal with business-related challenges swiftly and efficiently.
- Time-consuming, costly and burdensome administrative procedures which require excessive paperwork.

The framework does not allow movable assets to be used as collateral.

- Although there is a legal framework for the use of movable collateral for bank loans, banks do not accept it because of a perception of high risk of devaluation. A registry for movable collateral and published guidelines for assessing value would allow enterprises to leverage these assets to raise funding. This type of collateral would particularly benefit female entrepreneurs.

There are human capital challenges in the financial sector which affect its ability to cater to the needs of SMEs.

- There is a dearth of skilled lending officers trained to respond to the specific needs or queries of SMEs seeking loans. Also, financial institutions do not offer financial advice to enterprises, as is best practice in other countries. Advisory services can help firms practice good financial management and maintain the minimum documentation required by lending institutions.

There is a dearth of specialized financial products for SMEs.

- The Afghan lending sector does not currently have specialized financial products for the small-scale sector, with the exception of MFIs, which provide for very small and relatively high-cost and short-term loans. The banking sector has identified that it needs to supplement its traditional focus on corporate and retail banking with specific products for SMEs. Products and services, including providing counselling services and technical assistance, and specialized packages to cater to the needs of SMEs, have been identified by both the banking sector and the potential beneficiaries as requirements to help SMEs aiming to export their products to access the required finance to do so.
- Access to finance is still limited for women, with only 4% of women having access to accounts in formal institutions.

The low level of equity investments in the SME sector has hindered the flow of investments.

- Equity financing has not yet gained a foothold in the Afghan financial sector, partly because most enterprises are small. Equity funds typically require large investments in order to be profitable, and the small average size of enterprises has hindered this so far. The aforementioned value chain funds are working on providing value chain funding to SMEs, but the requirements are high and can only be achieved by a small percentage of companies.
- **There is a lack of export credit schemes.**
- There is currently a lack of export credit schemes in Afghanistan. Most SMEs need financial solutions, particularly to cover the cost of fulfilling orders to help them export.

There are a number of obstacles that prevent enterprises from demonstrating good creditworthiness to lending institutions, including the following.

- Improved strategic planning is needed, reflected in documentation such as business plans. Among the documentation required by banks in order to issue loans, evidence of solid strategic, financial and operational planning is

greatly desired. Technical assistance and training is required to improve skills within enterprises related to management and planning. This extends to marketing and business development plans for new markets and through new technologies including e-commerce. There is a specific need to support women entrepreneurs through dedicated courses.

- There is a need to raise SME awareness of available financial instruments and rules of trade such as letters of credit, Islamic finance, etc.
- Links between academia and businesses need to be strengthened to develop a steady talent pipeline of professionals who can provide this expertise. Formalized internship programmes will allow current staff to get more first-hand experience.

Most SMEs are unable to provide documentation affecting loan granting decisions.

- Well-run firms are able to provide documentation and paperwork that exhibit their ability to repay loans. Afghan SMEs are unable to demonstrate creditworthiness in the form of documentation to banks. There is a need to develop and run a credit scoring system that could be issued by the Central Bank to financial institutions.

THE ROADMAP

Afghan enterprises have low levels of operational and investment capital available. The lending sector has an important role in supporting the growth of the exports sector. The analyses conducted as part of the access to finance TSF strategy development reveal that the trade finance function is constrained by uncertainty and risks of inability on the one hand, and by significant institutional and enterprise-level challenges on the other. Improvements are urgently required.

This TSF strategy is driven by the following overall vision:

“Financial institutions and SMEs team up to fuel business development”

The following strategic objectives will be key to shaping future function. These elements are addressed through the TSF's strategic PoA:

- Create an enabling environment to reduce risk and improve predictability for the development of trade finance.
- Increase access to finance by bridging the gap between financial institutions and SMEs.
- Strengthen the capacity of SMEs to access financial mechanisms for trade development.

ACCESS TO FINANCE: PLAN OF ACTION

Strategic objective 1: Create an enabling environment to reduce risk and improve predictability for the development of trade finance in Afghanistan									
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets*	Lead and supporting implementers
			2017	2018	2019	2020	2021	2022	
1.1. Enhance the capabilities of commercial and other types of specialized courts to resolve disputes in an expeditious and impartial manner	1.1.1. Create and digitize specialized commercial / financial courts to expedite the process of dispute resolution through specialized venues. Set time standards for key court events to promote modern protection of borrowers and greater predictability with MoJ and the commercial courts.	1							<ul style="list-style-type: none"> Legal framework created, adopted and in force, and judges and arbitrators trained Supreme Court, MoJ, DAB, Afghanistan Banks Association (ABA), ICC, Afghan Deposit Insurance Corporation
	1.1.2. Adopt alternative dispute resolution mechanisms for international trade disputes, to be implemented by MoJ and the Arbitration and Mediation Centre.	3							<ul style="list-style-type: none"> Update arbitration laws and regulation standards, including implementation of arbitration awards by Afghan courts ACCI, ICC-ABA, DAB, MoJ
	1.1.3. Raise awareness about ICC-Afghanistan's trade finance dispute resolution services through targeted informative workshops, brochures and other communication material.	2							<ul style="list-style-type: none"> One workshop conducted on an annual basis ICC, DAB, ABA, MOJ
	1.1.4. Increase the coverage of the Credit Registry	1							<ul style="list-style-type: none"> Increase the adult population coverage by the credit registry up to minimum 5% or more DAB, ACCI, World Bank
	1.1.5. Develop a curriculum and training package to strengthen the capacity of judges to better undertake cases related to banking and finance.	2							<ul style="list-style-type: none"> One national curriculum is developed and training of judges is conducted Supreme Court, MoJ, DAB, ABA, ICC, Afghan Deposit Insurance Corporation
1.2. Develop risk insurance schemes to protect the investments of Afghan exporters.	1.1.6. Introduce consumer protection in financial services within consumer protection law, which would include transparency provisions, risk provisions, information provisions and consumer education programmes. The amendments must be introduced following a public-private dialogue in which the issues are discussed by the two parties and then presented to the legislature for adoption.	2							<ul style="list-style-type: none"> Consumer protection law and regulations amended DAB, ABA, ACCI, ICC Afghan Deposit Insurance Corporation, MoCI
	1.1.7. Reduction by the regulator of the cooling off period imposed on financial institutions to increase predictability of their business.	2							<ul style="list-style-type: none"> Create amendments to the current regulatory framework and adopt DAB, MoJ, ABA, ACCI, ICC, Afghan Deposit Insurance Corporation
	1.1.8. Review and adopt a modern company registration law which would include mergers and acquisitions, share distribution, venture capital provisions, and the types of companies needed to enhance responsibility and access to finance. These additions to the Companies Law would facilitate access to finance such as venture capital and equity financing by modernizing the structure and mandates of companies.	1							<ul style="list-style-type: none"> Create amendments to the Companies Law based on international standards, adopt and enforce MoCI, DAB, ABA, ACCI, ICC
	1.2.1. Create investment insurance schemes that will provide insurance on delays in delivery resulting from political and war risks such as closures, curfews, delays at checkpoints, etc. This type of insurance will be available to Afghan exporters and will protect them from these types of risks, which affect delivery times.	3							<ul style="list-style-type: none"> Discuss and reach agreement on the creation of political risk insurance through international development finance institutions including the Multilateral Investment Guarantee Agency, in partnership with donor agencies Afghan National Insurance Company, other private insurance companies
	1.2.2. Develop a regulatory framework / guidelines for the establishment of rating agencies in Afghanistan to help banks and investors better price the risk of lending to SMEs.	1							<ul style="list-style-type: none"> Legal framework, created, adopted and in force DAB, ICC
1.3. Support setting up of export and trade finance schemes and improve FDI attractiveness.	1.3.1. Develop a strategy to increase access to trade finance and insurance, including the potential establishment of an export-import bank to enable Afghan exporters to compete internationally more effectively. Trade-related insurance and credit services would also be made available to transport companies to improve their commercial viability. As a first step, a study will be undertaken to determine the supply of, and demand for, export finance, and analyse the export finance situation and make recommendations for the structuring of a trade finance scheme.	2							<ul style="list-style-type: none"> Study conducted and published MoCI, DAB, ABA, ICC
	1.3.2. Develop, as an interim measure, an export finance scheme for carpet producers to allow them to extend credit to importers and better compete with Pakistani traders.	1							<ul style="list-style-type: none"> Export finance scheme in place MoCI, DAB, ABA

Strategic objective 2: Increase access to finance by bridging the gap between financial institutions and SMEs in Afghanistan.										
Operational objective	Activities	Priority 1 = high 2 = med 3 = low	Implementation period					Targets	Lead and supporting implementers	
			2017	2018	2019	2020	2021			2022
2.1. Streamline and reduce collateral requirements for SMEs.	2.1.1. Enact a movable assets law and create a movable assets registry to ensure the possibility of using movable assets as collateral. Support acceptance of wider types of collateral.	1							<ul style="list-style-type: none"> Create a registry 	MoCI, DAB, ABA
	2.1.2. Streamline land registration procedures by creating a free digital database for land registration in order to facilitate the use of real estate as collateral for access to finance. This will reduce costs for SMEs to apply for a loan and will improve timing of loan approvals by banks.	1							<ul style="list-style-type: none"> Create a database and digitize current paper documents and titles 	Municipality and Land Directorate, Ministry of Interior Affairs, MoCI
	2.1.3. Set up of an independent public agency to appraise the fair value of collateral owned by banks.	1							<ul style="list-style-type: none"> Agency or alternative scheme is set up 	DAB & ABA
	2.1.4. Develop guidelines on how to assess the value of collateral to standardize the measurement system. These should be developed and published by an independent regulatory body / public institution.	1							<ul style="list-style-type: none"> Guidelines are developed, adopted and enforced by the regulatory body 	DAB & ABA
2.2. Establish an export credit scheme which would include provisions for funding ranging from production to the export process.	2.2.1. Create export credit schemes through banks or credit institutions which would include a buyer credit facility backed by export contracts and payment instruments; and supplier credit financing facilities and loans, also based on export contracts and payment instruments. The scheme would also include project financing if the project was aimed for export; the provision of export insurance policies, bond insurance policies and overseas investment insurance; a letter of credit guarantee scheme; and a foreign exchange credit support scheme. Include the setting up of or facilitate access to guarantee schemes provided by development finance institutions. These services are important because they involve providing credit for all aspects of the export process. The scheme will also offer specific sharia-compliant products.	2							<ul style="list-style-type: none"> Create export credit programmes / schemes in cooperation with banks and international export credit programmes such as development finance institutions and export–import banks 	ABA, Credit Standing Committee of ABA, DAB, ICC
	2.3.1. Train credit officers in both MFIs and commercial banks on how to deal with the needs of SMEs, including providing information on products and solutions available in the market and coaching, particularly targeting youth entrepreneurs. <ul style="list-style-type: none"> Train women credit officers in both MFIs and commercial banks to better support the needs of women-owned businesses. 	1							<ul style="list-style-type: none"> Hold training of bank officers on how to deal with the specific needs of SMEs 	DAB, ABA, ICC, and Afghanistan Institute of Banking and Finance
2.3. Increase the responsiveness of financial institutions to the needs of SMEs through training, incentives and development of new financial products suited to the needs of enterprises in the export sector.	2.3.2. Provide information and training to MFIs on rules of trade and how to trade internationally, etc.	1							<ul style="list-style-type: none"> Provide training to SMEs on international trade rules and contracts 	DAB, ABA, AMA, Afghanistan Institute of Banking and Finance, MoCI & ACCI, ICC
	2.3.3. Create new bank and MFI financial products to meet the needs to SMEs, particularly women-owned enterprises. Promote best-practice sharing about Islamic finance with institutions from Saudi Arabia, the United Kingdom, Malaysia, UAE etc. through trainings, exchanges and missions.	1							<ul style="list-style-type: none"> Provide incentives to banks to provide new services to SMEs 	DAB, ABA, Islamic Banking Standing Committee of ABA
	2.3.4. Provide incentives to lending and financial institutions to better support SMEs, such as tax reduction incentives, training programmes and reduction in cash reserve requirements.	1							<ul style="list-style-type: none"> Provide incentives to banks to cater to SME needs 	DAB, ABA, MoF
	2.3.5. Provide trainings to financial institutions on lending to SMEs and credit scoring systems.	2							<ul style="list-style-type: none"> Hold training of bank officers on SME finance and credit scoring systems 	DAB, ABA and Afghanistan Institute of Banking and Finance
	2.3.6. Establish legal and regulatory framework for microfinance	1							<ul style="list-style-type: none"> Legal framework, created, adopted and in force 	DAB, ACCI
	2.4.1. Set up a grant / patient capital fund to help start-ups access equity capital with the intent to catalyse additional funding from either local financial institutions, investors or diaspora. The fund should be connected to the activities of established incubators.	1							<ul style="list-style-type: none"> Fund is launched with donor or development finance institutions' contribution and managed by local incubators / accelerators / asset managers 	ACCI, ACIM, incubators, accelerators, MoCI
2.4. Adapt equity finance and venture capital funds to meet small clients' needs.	2.4.2. Create specialized equity finance packages by creating an investment portfolio for SMEs with potential for export, which would deal with small return values and provide for technical upgrading of the SMEs. These mechanisms will particularly support start-up companies and companies with less than two years of operating history.	3							<ul style="list-style-type: none"> Provide incentives to equity and venture capital funds to deal with SME financing needs. 	DAB, ABA, Credit Committee of ABA, ACCI, MoCI
	2.4.3. Incentivize residency for financial sector specialists through: <ul style="list-style-type: none"> Allowing permanent residency visas for foreign citizens Facilitating returning citizens with experience and expertise in banking in order to build up the sector (tax breaks, etc.). 	3						<ul style="list-style-type: none"> Legal framework, created, adopted and in force 	From the banking sector: DAB, ABA, Ministry of Interior Affairs	

Strategic objective 3: Strengthen the capacity of SMEs to access financial mechanisms for trade development.									
Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Targets	Lead and supporting implementers
			2017	2018	2019	2020	2021		
3.1. Provide ongoing information and technical assistance to SMEs on trade finance.	3.1.1. Survey financial instruments (regular, micro, insurance, etc.) available to SMEs and exporters in order to write an 'Afghan guide to export finance' (pre-shipment and post-shipment). This guide will be available online through trade information websites.	2						<ul style="list-style-type: none"> Conduct a survey and publish a guide 	ACCI, ABA, EPAA
	3.1.2. Using the 'Afghan guide to export finance', conduct a targeted information campaign to SMEs on available trade finance instruments.	3						<ul style="list-style-type: none"> Conduct an information campaign 	ACCI, ABA, EPAA
	3.1.3. Develop an online platform to share information with SMEs about the current financial products available from MFIs and banks in specific geographical areas and sectors. This platform should be constantly updated to help SMEs compare the offers and terms available. This could be hosted by the Central Bank or ABA.	1						<ul style="list-style-type: none"> Develop, publish, and update an online platform 	DAB & ABA – ABA can be a good platform, DAB should delegate this authority to ABA
	3.1.4. Provide training to build the capacity of SMEs to produce business plans, financial plans, and sales and marketing plans in order to demonstrate their creditworthiness. Achieve this objective through providing MFIs with training materials as well as ToT programmes. The same is applicable for banks with SME departments.	1						<ul style="list-style-type: none"> Provide training to SMEs on financial planning, sales and marketing 	DAB, ABA, MoCI, ICC, ACCI
	3.1.5. Provide ongoing technical assistance to SMEs in preparing due diligence for getting loans and business / financial management through training specialized financial management counsellors / business development service providers on how to do one-on-one training for each applicant. The counsellors will be associated in a professional association such as the Chartered Accountant Bar, that will regulate the minimum requirements, tariffs, continuing learning, etc.	1						<ul style="list-style-type: none"> Provide technical assistance to SMEs on how to prepare for banking due diligence through financial counsellors 	ABA, ACCI and DAB
3.2. Enhance knowledge levels within enterprises on exporting and trade finance and management.	3.2.1. Create links between academic institutions and the private sector in order to introduce into the curriculum the issue of access to finance, and to produce qualified financial cadres and auditors for financial services institutions and SMEs.	2						<ul style="list-style-type: none"> Create a dialogue between the private sector and academia to introduce access to finance issues 	DAB, ABA, ACCI
	3.2.2. Develop a guide on 'Islamic finance for SMEs'. This guide will be available online through trade information websites.	2						<ul style="list-style-type: none"> Develop and publish a guide 	ABA, Islamic Standing Committee of ABA
	3.2.3. Provide for internships and training for fresh graduates in the area of export, in order to provide them with the necessary information and knowledge on export financing procedures so that they can enhance this knowledge when they are employed by SMEs and other companies.	3						<ul style="list-style-type: none"> Prepare a training programme for fresh graduates 	Universities, professional schools, ICC
	3.2.4. Provide financial literacy trainings to entrepreneurs, particularly women, in relation to collateral management and how to access funding in partnership with ACCI.	1						<ul style="list-style-type: none"> Prepare a training programme and deliver it to SMEs 	ABA, universities, ACCI, AWCCI
	3.2.5. Promote investment / business plan competitions for Afghan start-up enterprises outside Afghanistan (UAE in particular) to attract foreign investors and promote the country.	1						<ul style="list-style-type: none"> Prepare or promote the participation of Afghan start-ups in international business plan competitions 	Incubators, accelerators, ACCI, MoCI

NES POSITIONING WITHIN THE AFGHAN DEVELOPMENT ECOSYSTEM

The on-going national development plans provide a broad framework for economic and social policy, within which trade policy must fit. In order to achieve its vision and strategic objectives, the NES builds on existing development

plans and national trade policy orientations. This section summarizes the main linkages and complementarities between the NES and relevant policy objectives and initiatives.

ROLE OF THE NES IN DOMESTIC MARKET DEVELOPMENT

The NES proposes an approach involving capacity development and domestic market development, supported by a combination of temporary selective protectionist incentives (such as favouring local suppliers for Government procurement), innovation, governmental support and human capital development among other factors – all this as part of an effective export-driven master plan. The focus is on bridging the distance between the consumer and the supplier through a combination of incentives, awareness-raising/advocacy and capacity development. Market development, rather than import substitution, is the answer.

Demand-side conditions indicate that the domestic market can serve as a stepping-stone for certain exports sectors.

For certain sectors – including dairy, livestock, wheat, fruits and vegetables and other consumable products – the domestic market can be the ramp that facilitates lift for the private sector. The private sector is currently poorly positioned to satisfy the domestic market – almost 90% of consumption goods are imported rather than being supplied through domestic companies.

The domestic market typically affords an important medium of growth for firms to gain experience, revenue and overall capabilities and is a necessity for Afghan businesses. These sectors are also where a significant percentage of employed Afghans make their living. The socioeconomic benefits can be significant if these sectors thrive. An example of stimulating this type of growth is the political will

demonstrated by Government in the form of 25% of procurement of necessary goods and services to be sourced from the domestic sector (particularly by the ministries of Interior, Defense and Education), if prerequisite conditions allow.

For certain other sectors, the domestic market is not a prerequisite. Domestic markets offer excellent platforms for testing new products and gaining overall experience before targeting the more challenging international markets. However, for sectors such as saffron, carpets and marble, conditions in the domestic market – ranging from purchasing power of consumers to inadequate market demand size – are impediments which negate positioning the domestic market as a stepping stone. For these sectors, international markets are a necessary growth medium to be pursued right from the start.

The bottom line is that exporters and companies focusing on the domestic market are both essential actors for long-term economic growth. Afghanistan's local market offers significant opportunities to shift demand towards domestic supply. For other sectors, a parallel track for export development is required.

Both the export and domestic markets are essential for the Afghan private sector to grow sustainably and in a healthy manner over the long term. Export markets are appealing due to the overall higher market size and potential to sell products at a higher price than the domestic market. For export-ready enterprises, this is definitely the preferred option. However, the majority of Afghan firms are not yet at the stage where their capabilities are sufficiently developed for exports.

Supply-side conditions point to a private sector weakly positioned to cope with domestic demand.

The Afghan private sector is largely unable to satisfy domestic market demand, even with recent contractions in the market. Overall, the consensus is that the high dependency on imports is driven in part by the poor capacity of the private sector to meet domestic demand. As a result, more than 90% of consumer goods are imported from regional countries and beyond, and the bulk of these imports are consumption goods rather than imports of inputs for value added activities. Indeed, Afghanistan imports almost three times in

dollar value what it exports. Increased competition expected post-WTO accession, along with a potential slowdown in exports, might result in an even higher deficit in the future.

The domestic market

- Government as the market
- Domestic private sector
- End consumers/Private citizens
- International organizations

THE GOVERNMENT AS A MARKET

The case for relocation of Government spending towards local suppliers

To alleviate the pressures on domestic demand stemming from Afghanistan's fiscal and resource-constrained environment, the Government has limited options. The typical possibilities include either increasing domestic demand through an increase in public expenditure/transfers or reducing taxes. Both of these options are not feasible due to their immediate adverse impact on fiscal sustainability –extra spending is untenable due to the existing limited fiscal spending potential and reducing taxes would lead to further fiscal strain.

An alternative option is more appealing –and involves a thorough examination of public expenditure and identifying areas for cost saving and efficiencies. Instead of increasing Government expenditure or engaging in stimulus measures such as tax reductions, the Government could identify areas in its own procurement process where domestic suppliers could replace imports.

This 'relocation of funding' –shifting part the Government's supply base towards domestic suppliers– would retain the revenues in Afghanistan and they could then be used for further procurement/spending by suppliers (in part referred to by the World Bank as a fiscal multiplier). According to analysis conducted by the World Bank, the fiscal multiplier for the economic affairs category is negative considering that the bulk of infrastructure sourcing is driven by imports. Sectors such as social protection and defence have a positive fiscal multiplier effect due to the reinvestment impact of cash transfer programmes (for the former) and the use of domestic suppliers (for the latter).

Borrowing from this concept, the NES attaches importance to the potential for Afghan public sector institutions to source more of their procurement through local suppliers. This does not mean to imply an about-face from suppliers internationally; rather, it is a temporary measure to help domestic suppliers make efforts to develop supply and quality consistency, and benefit from a stable market. The domestic market will be a critical part of the growth equation, with supply capacities strengthened to shift local demand towards Afghan products.

Box 22: Domestic procurement by public sector entities

According to recent news reports, the Afghan Industrial Association has been directed by President Ghani to draw up a priority list of domestic products which will be part of an initiative to source locally. Through such allocation, a market is created which will also enable local SMEs to participate actively in the sector.

Participating institutions will include the Ministries of Defence, Interior, Higher Education and Education, which are expected to source at least 25% of their requirements locally, provided standard quality and supply consistency requirements are met. The initiative is currently in the early stages of conceptualization; however, the private sector has cited challenges including ministry officials using loopholes to disqualify local vendors.

Afghanistan's public procurement reform efforts

The National Procurement Authority, developed through the merger of various state entities responsible for procurement, has won praise from both the national and international community monitoring levels of efficiency and transparency in public procurement. The goal of restructuring was to address challenges of coordination, redundancy in terms of mandate/responsibility, and thinly spread functions addressed by a number of agencies. Afghanistan's efforts to increase transparency in public procurement have also included an agreement on implementing open contracting data standards.

These efforts have not gone unnoticed by the international community. Afghanistan has improved its standing in Transparency International's Corruption Perceptions Index and the restructuring has received laudatory reviews from the likes of the Special Inspector General for Afghanistan Reconstruction.

What makes the consolidation of procurement machinery into the National Procurement Authority even more impressive is that public procurement is one of the most challenging and politically sensitive issues facing Afghanistan, entrenched in multiple layers of bureaucracy and under the shadow of corruption. The structural adjustment has been addressed and there is now a need for process improvements. This impressive achievement needs a successful



Photo: ITC

track record spanning multiple rounds of public procurement to iron out procedural deficiencies that may exist.

Box 23: Case study – the public procurement system in Tunisia

Tunisia's public procurement relations and procedures have encouraged SMEs to participate in public tendering process. Since 2002, Tunisian legislation terminated the possibility of dividing public procurement contracts into lots, and determined to dedicate 20% of public procurement to SMEs. By unbundling contracts, the public procurement process can increase participation of SMEs. In case the purchaser is unable to allocate 20% of the market to smaller firms, either for technical reasons or due to the absence of small businesses capable of executing of such contract, it must provide a justification in a report addressed to the procurement committee. Such initiatives motivate inclusion of SMEs in public procurement.

The Tunisian public procurement regulation provides transparent and clearly defined provision on late payments by public authorities and imposes strict deadlines as well as penalties for non-compliance. Such efforts ensure fair conditions and enhancement of transparency for all participants.

Tunisia publishes information on public procurement as well as the possibility to apply online. In 2013, a fully electronic, online platform was launched to harmonize formal procedures and simplify the application process. Greater access to information ensures that announcements about public procurement tenders are more accessible to enterprises. However, the country still lacks an interactive portal that provides SME-specific information. Tunisia offers information for SMEs on various Government websites such as the Agency for Industrial Promotion and Innovation and the National Statistics Institute. Twenty-four regional offices of the Industrial Promotion Agency, 24 business centres and the Ministry of Commerce all provide start-up support.

The National Observatory of Public Procurements is responsible for the gathering, treatment and analysis of data related to the procurement system. The Observatory is hence in charge of improving and assisting the environment for enterprises participating in public procurement by collecting and handling analysis and dissemination of information for SMEs.

Source: OECD (2014): Implementation of the Small Business Act for Europe in the Mediterranean Middle East and North Africa.

Box 24: Case study – the public procurement system in Algeria

Algeria issued a decree regulating public markets which specifically encourages reserving 20% of public contracts for microenterprises. This law ensures allocation of public contracts to SMEs. The same act stipulates the mandatory publication of information on public procurement in official bulletins and in at least two national newspapers. With this regulation, the country puts effort into its tenders reaching as many enterprises as possible. Nevertheless, e-procurement solutions still lag behind and only a limited amount of electronic information is available.

Algeria has introduced a guarantee scheme for public procurement to deal with late payments for public contracts. Algeria established a law to ensure that payments are made on time, as delayed payment by the public administration is proportionally more disruptive for SMEs, which face higher obstacles in securing bridge financing. The scheme covers the Government bill in case

of late payment, and delivered 2,800 guarantees valued at DZD 81 million (approximately US\$ 744,000) in 2012. A total of 647 private SMEs benefited from this service in the same year.

The country has introduced domestic industry protection measures which discriminate against foreign-based companies competing for public tenders. The Algerian Public Market Code of 2010 stipulates that international investors are required to partner with an Algerian enterprise, which has to own the majority of the capital, i.e. at least 51%. Additionally, the Algerian Government has the right to publish tenders only for Algerian enterprises and apply a preferential margin of 25% for Algerian applicants. Such measures limit the participation of foreign firms in the local economy. Thus, positive discrimination favouring local firms over foreign ones has increased the participation of local SMEs.

Source: OECD (2014): Implementation of the Small Business Act for Europe in the Mediterranean Middle East and North Africa.

Box 25: The WTO Agreement on Government Procurement (GPA): Advocating openness in government procurement, with limited uptake from developing countries

There are no binding requirements for WTO members to prevent application of preferential treatment related to domestic procurement. Government procurement is explicitly exempted from both the General Agreement on Tariffs and Trade¹³ and the General Agreement on Trade in Services,¹⁴ although there is ongoing work along plurilateral lines within the WTO framework to reach agreement on liberalizing Government procurement.

Typically, the central goal of public procurement is to ensure value for money, i.e. the goods and services should be provided at a reasonable cost with the best possible quality and on-time delivery, among other buyer requirements. In least developed countries and countries with complex conditions (such as post-conflict, disaster recovery situations), public procurement often serves as a policy tool for spurring domestic private sector activity and encouraging targeted sectoral growth, and often also to bring about development for specific social groups. These contradictory goals are pertinent for almost every country undergoing post-conflict reconstruction, including Afghanistan.

Among the efforts within the WTO to liberalize government procurement is the GPA, which aims to open the government procurement market between acceding members. Acceded members mainly include developed countries / groups such as the United States and the EU, while the bulk of developing countries are mainly observers.

The vast majority of countries that may be considered as undergoing complex environments are not affiliated to the GPA even as an observer. This is not surprising given that these economies are experiencing heavy strain in developing the private sector, maintaining social cohesiveness and at the same time catering to international commitments brought about by agreements including WTO accession. This is especially true in the case of Afghanistan, where the private sector has struggled to operate in a contracting, import-dependent domestic market, and where economic, social and security pressures exist side by side. In this environment, public procurement as a means for spurring the domestic private sector will remain an important priority, at least until the medium term.

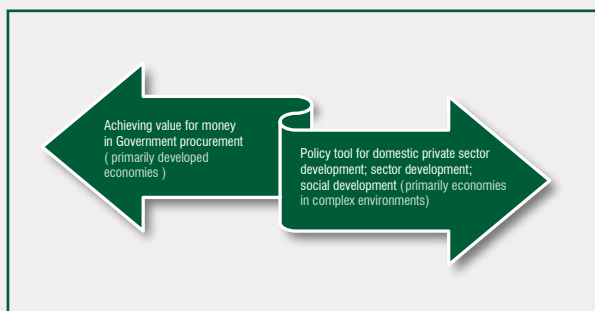


Table 9 indicates, whether and how public procurement of different countries targets SME and local entity inclusion. Selected developed, emerging and developing countries are evaluated based on determined criteria for local inclusion through public procurement.

Developed economies such as Canada and the EU are signatories of the WTO GPA. As such, they work towards mutually disclosing government procurement markets and ensuring open, fair and transparent conditions of competition. Emerging economies such as China and India are observers of the GPA and may work towards GPA goals but are not committed to implement them in their country's procurement law. Developing countries such as the Philippines are neither signatories nor observers of the GPA and follow the framework of their countries' individual procurement law.

Regardless of its status in the WTO GPA, each selected economy has a government procurement law. Nevertheless, only more sophisticated economies have strategies for implementation. Canada and the EU have detailed plans and strategies for how to implement goals set in the public procurement regulation. So does China, which aims at strong economic development through gradually opening its economy. In contrast, India and the Philippines still lack an implementation strategy. Countries with a strategy more likely have an independent regulatory and monitoring body to observe correct application of the procurement law. India only recently implemented a government procurement law and still has not allocated responsibility for monitoring.

In order to target SMEs and local entities, all selected countries except the Philippines have a classification between bidding companies (local, SME, international entity), which they clarify in vision statements of the government. To foster inclusiveness, these countries also provide some kind of support mechanism for SMEs and local firms to increase participation in bids. Some countries in the EU, as well as China and India, have quotas for SMEs to incorporate them as suppliers for Government procurement more actively. The EU and China offer financial support and employment / training support for SMEs and local entities. Canada and the EU help SMEs and local firms by reducing administrative burden when applying for bids.

Table 7: Examples of public procurement processes and policies in selected countries Criteria

Criteria	Description	Canada	EU	China	India	Philippines
Signatory of WTO GPA / observer	The GPA is a plurilateral agreement within the framework of the WTO	Signatory	Signatory	Observer, process of acceding	Observer	- / -
Existence of Procurement Law	Public procurement regulated as law instead of recommendation or planning	Yes	Yes	Yes	Yes	Yes
Existence of strategy for implementation	Specific strategy and programmes to implement public procurement policies and apply related laws as well as regulations	Buy and Sell Canada	Public Procurement Strategy	Made in China 2025 Strategy	- / -	- / -
Independent regulatory or monitoring body	Name of monitoring body in order to observe correct application of the procurement law to hinder unfair action / corruption	Fairness monitors	Remedies directives	State Council	- / -	Bids and Awards Committee
Classification for bidding companies	Classification between SMEs, local, and international entities when opening bids	Yes	Yes	Yes	Yes	- / -
Reduction of administrative burden for SMEs	Support scheme for SMEs in case of application, or different requirement / threshold	Yes	Yes	- / -	Planned	- / -
Financial support scheme	Financial support for SMEs and local entities providing goods or services	- / -	Yes	Yes	- / -	- / -
Employment / training support scheme	Employment or training support for SMEs and local entities providing goods or services	- / -	Yes	Yes	Yes	- / -
Quota system, reserved contracts, positive discrimination	In order to include SMEs and local entities, countries can favour them by using quotas, reserved contracts and positive discrimination	- / -	Depends on EU Member State and bid announcement to respect GPA	30% purchase from SMEs	Minimum 20%	- / -
Vision for local inclusiveness	Explicit statement about targeting SMEs and local entities when opening a bid	Yes	Yes	Yes	Yes	- / -

* *General Agreement on Tariffs and Trade 8 (a)* : The provisions of this Article shall not apply to laws, regulations or requirements governing the procurement by Governmental agencies of products purchased for Governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale.

** *General Agreement on Trade in Services XIII I* : Articles II, XVI and XVII shall not apply to laws, regulations or requirements governing the procurement by Governmental agencies of services purchased for Governmental purposes and not with a view to commercial resale or with a view to use in the supply of services for commercial sale.

Development partners as a market

Afghanistan is one of the most densely populated countries in terms of international development aid actors. These include international humanitarian agencies including the United Nations, international NGOs and consulates/missions. These entities have complex procurement needs

which are typically sourced through established suppliers outside the country. The supply chain is primarily import-driven because in complex environments such as Afghanistan, reliability of both essential (e.g. water, food) and non-essential (e.g. notebooks) supplies is important for the mission staff to be able to concentrate on their work.

Box 26: Case study: Peace Dividend Trust/Building Markets in Afghanistan

Valuable lessons can be learned from the experience of Building Markets (formerly a not-for-profit NGO called Peace Dividend Trust) in Afghanistan. Drawing on financial and leadership support from DFID, USAID, the Canadian International Development Agency and ACCI, Building Markets has undertaken a highly successful initiative in Afghanistan aimed at improving the local economic impact of aid moneys and spurring local procurement by international partners in the country including aid agencies, embassies and even the military.

Spending the development dollar twice

Central to the initiative is the concept of 'spending the development dollar twice', which postulates that increasing procurement of goods and services from Afghan businesses will not only result in the provision of essential services, but 'the international community can simultaneously create jobs, revenue and develop the Afghan marketplace'.¹⁵ The spillover impact is that once the international community leaves the country, a relatively capable supply side (for providing goods and services) exists that can cater to demand-side requirements ranging from plumbing to fruits and vegetables supply to consulting and transportation.

In order to convince the international community to try local suppliers of commodities, the Peace Dividend Trust had to overcome important barriers. These included the challenges of quality – how to ensure that suppliers would deliver products of high quality consistently. The issue of quality was closely tied to volume consistency and on-time delivery of the goods or services. Through a closely monitored programme, the Trust undertook the role of a middle tier to ensure these critical 'buyer requirements' were met, through a series of continuous trainings and system of inspections. The initiative also developed an online marketplace where buyers and their requirements are matched through a vetted 'yellow book' online system. The organization, now evolved as a for-profit enterprise, also provides matchmaking reports for buyers with complex sourcing needs.

Over time, trust and recognition of the mutual benefits became evident. For buyers, this resulted in reduced costs as well as a chance to meaningfully contribute to a 'feel-good' success story. For suppliers, apart from the obvious financial benefits, the gains in experience and client management are invaluable and typically difficult to identify in a fragile / complex environment. Many of the suppliers were found to re-invest their profits.¹⁶

The results of this initiative are impressive. Between 2004 and 2014:

- A total of 680 Afghan businesses won 1,300 contracts valued at \$1 billion+, sustaining 65,000 jobs.
- Some 8,302 local businesses, including 272 that are female-owned, have been registered through verification surveys.
- Over 1,500 entrepreneurs received training on procurement processes and standards, thereby improving their ability to successfully compete for, win and execute tenders. 17

The model, originally piloted in Timor Leste, has now been successfully implemented in other fragile states such as Mozambique, Liberia and Myanmar with relatively successful results.

Lessons for the NES

There are three key success factors for the model described above that are applicable to the NES:

1. The international community in Afghanistan is forecast to maintain a high presence for the next two decades. In this context, it constitutes a large market that should not be neglected.
2. The keyword is not import substitution but diversion by the client from external to local suppliers on perceived (and genuine) advantages in terms of quality and / or cost, among other factors.
3. Confidence-building with the client base is key, given that international clients are not familiar with local suppliers and are hesitant to experiment too much in terms of sourcing. In this regard 'hand-holding' suppliers throughout the procurement process and after winning the contract is essential to ensure on-time delivery and quality levels.



Photo: © World Bank, Alghochack Chips

The domestic private sector and private citizens as the market

Across a number of segments, production supply currently does not meet domestic demand, and consumers are instead dependent on imports from geographically close countries such as Pakistan, the Islamic Republic of Iran and India. This demand is driven by a necessity for private consumption (in the case of private individuals and families) or to keep operations running (in the case of companies).

There is scope to facilitate a reduction of dependence on imports through expansion of competitive local production. Seventeen sectors with high potential have been identified by MoCI, including:

- Cement
- Production of rebar, steel beams and profile steel
- Eggs and live chickens
- Light manufacturing
- Edible oils
- Sugar

- Dairy
- Plastic piping and simple plastic products
- Packaging
- Fruit juices.²⁷

With predictions that domestic supply from segments such as cereal, dairy and livestock production will steadily increase in the future, products from these sectors offer high potential for capturing a share of the domestic market, with the right policy and value chain support.

In a nutshell, the NES aims to shift demand towards domestic supply (to spur export-oriented development while also reducing dependence on imports) through matchmaking and marketplace development as well as increased local procurement, while developing and strengthening domestic performance (via incubators/accelerators/consortium mechanisms) in terms of productivity, quality and compliance.

The following activities are geared towards the development of the domestic market.

²⁷– Noted in NTP, 2017.

Box 27: Develop the domestic market, including through international development partners operating in the country – Key recommendations and activities

International level

Develop proposals in line with GPA Special and Differential Treatment provisions (Afghanistan has committed to starting GPA accession negotiations within one year from WTO accession)

National level

Introduce policy measures favouring domestic contractors in infant industries on a short-term basis until the industry is mature enough to compete against foreign bidders.

- Require local representation or local registration certificate.
- Impose a national subcontracting clause on foreign bidders that allocates the maximum number of lots of the tender to local suppliers, assuming that they are able to meet the corresponding requirements of offers.
- Grant priorities to domestic contractors if their bid does not exceed the lowest foreign bid by a specific amount / percentage (margin price advantage for locally manufactured products).

Set requirement for foreign investors to partner with Afghan firms as a local content requirement clause.

Advocate with the National Procurement Authority to include in the national procurement law a provision for mandating 25% minimum procurement from eligible domestic suppliers.

In collaboration with development partners, translate tenders into local languages and distribute widely. In parallel, hold coaching workshops for development partners to explain the process for potential suppliers to get registered in their individual procurement systems as well as applying for opportunities. Allow suppliers to bid in their preferred / local languages in order to increase the chances of spurring local participation.

Launch a pilot initiative involving select public agencies to procure from local suppliers:

- Ministries and public agencies to develop a list of procurement requirements to include in the initiative.
- Suppliers to be registered with MoCI and other relevant agencies to ensure that they are formalized.
- Eligibility for suppliers to form consortiums for bidding and order fulfilment purposes.
- For selected suppliers, organize trainings and coaching on a regular basis to ensure aspects of quality, on-time service delivery and proper client management.

Conduct advocacy efforts with international partners active in Afghanistan to pilot procurement initiatives for sourcing non-essential services/goods from local suppliers. Complement existing projects (e.g. Online Marketplace by Building Markets)

- For each participating partner, compile a list of procurement requirements that can be part of a pilot project
- Identify potential suppliers who are 'ready' with base minimum capabilities. Complement the initiative with robust monitoring and evaluation of supplier performance. Expand pilot based on level of success.

Cut tenders into lots because the large size of average public contracts generally burdens SMEs accessing public procurement. Public administrations are usually keen to bundle contracts together to reduce administrative costs but as a result, SMEs are excluded from tendering unless they make a joint bid with other companies.

Related to this, provide guidance to companies on how to develop a consortium of sector firms who can join forces and fulfil orders where normally they would not be able to meet the quality or volume requirements alone.

Simplify procedures that have to be carried out to qualify for the tender and highly selective pre-qualification requirements. Limited information and lack of clarity on how tender documents are written can be obstacles that disproportionately affect SMEs' access to public procurement.

- Define and explain the bidding system used for tender to make sure local and small-scale enterprises can understand it.
- Formulate call for bids in clear and adequate language that everyone can understand.
- Prepare bidding documents that must be used without modification to ensure fair conditions and transparency for all participants.

NES AS A MEANS TO FOSTER MEANINGFUL REGIONAL INTEGRATION

Trade serves as a key channel for growth and prosperity in Afghanistan, driven by market access and regional integration in goods and services. Multilateral trade and transit agreements with countries from Central Asia, the Islamic Republic of Iran and Pakistan served as first steps towards unrestricted transit for goods with Treaty members. WTO accession in December 2015 demonstrated Afghanistan's intention to strengthen its trade profile. Afghanistan thereby took first steps towards a more open, trade-led economy, which is believed to promote economic growth.

The reform agenda has included improving connectivity between Afghanistan and the broader region through better transit trade, energy and investments, and use of mechanisms such as:

CAREC, SAARC, RECCA, the Economic Cooperation Organization and the Shanghai Cooperation Organization, and projects like CASA-1000, TAPI, and the Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan electricity project, the economic confidence-building measures of the 'Heart of Asia' Istanbul Process, and the development of the Lapis Lazuli Corridor and Chabahar port.²⁸

In the past decade, Afghanistan has undertaken policy measures and actions to expand its trading relations, including the ratification of: (i) the South Asian Free Trade Agreement; and (ii) APTTA, which will serve as a bridge with South Asia and Central Asia. In addition, Afghanistan signed a trilateral transit arrangement on cross-border transport of



Photo: ITC

persons, vehicles and goods with Tajikistan and Kyrgyzstan, within the framework of CAREC. The implementation of APTTA, which was signed in 2011, has proven challenging for political and technical reasons. Afghanistan is negotiating a bilateral trade agreement with Georgia that will be signed in the near future and is in the initial stages of talks with Saudi Arabia, Qatar, Turkmenistan and Uzbekistan to start negotiations on trade and transit agreements. Afghanistan is also actively discussing expanding existing transit agreements between members to improve efficiencies.

28.— Text from <http://policymof.gov.af/london-conference-2014/>.

Box 28: Regional Economic Cooperation Conference on Afghanistan

RECCA is a forum aiming to promote Afghanistan's economic stability through increased and meaningful integration in the region's value chains. It recognizes that economic and political stability in Afghanistan has a bearing on the stability of the region, and much work can be done by regional neighbours to assist Afghanistan in the sphere of economic development.

The first conference was hosted by Afghanistan in 2005, followed by a succession of annual conferences in member country capitals such as Dushanbe, Istanbul and New Delhi. The conference and related events such as the RECCA Business Forum aim to connect businesses from across the region, facilitate investments

in Afghanistan, find solutions for economic growth, increase Government revenues and enable Afghan SME growth, among other goals. Typical areas of discussions have included regional connectivity, energy, natural resources, private sector development and investment matters in general.

Select projects that have topped the agenda of the RECCA conferences include : CASA-1000, TAPI, the Lapis Lazuli Transit Corridor, Chabahar Port in the Islamic Republic of Iran, and establishing Afghanistan-China-Kyrgyzstan-Tajikistan-Islamic Republic of Iran and Afghanistan-Tajikistan-Turkmenistan railroads, among others.

REGIONAL MARKETS AND TRADITIONAL TRADE CORRIDORS

Afghanistan has strong links with Central Asia due to common history and ethnic, cultural and linguistic proximity. Afghanistan shares a common border with Turkmenistan, Uzbekistan and Tajikistan. In addition, Afghanistan demonstrates a number of similarities with its Central Asian neighbours: the challenges related to landlocked geographic position, low economic diversification, remoteness from major economic centres, relatively small market sizes, underdeveloped infrastructure and variable but overall relatively low levels of political and security stability.²⁹

Afghanistan's trade with Central Asia has grown since 2004, although in a volatile manner. The trade balance is however still strongly negative, energy being the main import. Considering this, there is still scope for further export development and diversification. The similar economic structure of Afghanistan and its Central Asian neighbours represents an opportunity but also a limitation. Although buyers' requirements are similar to those of the domestic market, Afghan products compete with similar domestic products in each of those markets. This requires both product diversification and work on value addition and specialization of existing Afghan products (agro-based products or manufacture). In addition to this, the landlocked nature

of these countries and complicated border crossings make trade slower and more cumbersome.

TRANSIT AS A CATALYSER OF REGIONAL TRADE

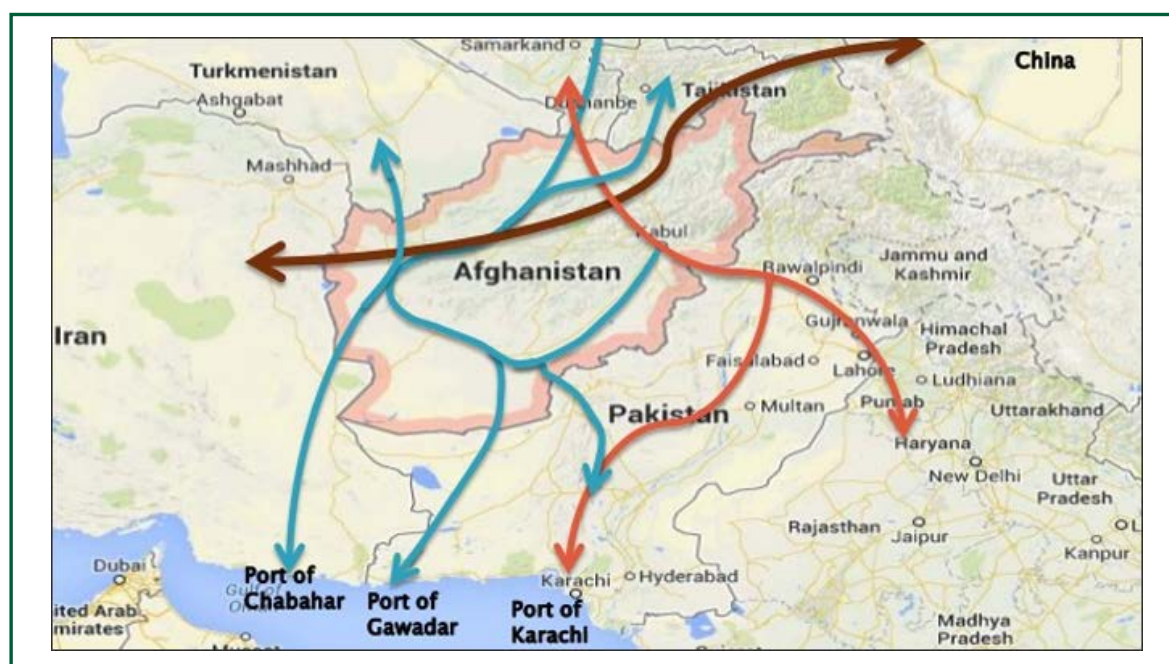
Afghanistan is at the heart of four major regions which have complementary characteristics: Central Asia, the Middle East, South Asia and East Asia. Trade links between the four regions criss-cross Afghanistan, demonstrating the strength of its geographical location. Particularly, Afghanistan offers two routes to seaports for landlocked Central Asian republics.

Its other advantage is political. Afghanistan is the only country that has formal membership in both Central and South Asian associations. In Central Asia, Afghanistan is a member of the Asian Development Bank's CAREC. In South Asia, Afghanistan is a member of SAARC. These platforms can be leveraged to negotiate with other member countries.

The One Belt-One Road initiative is also a major development that will impact regional integration. In fact, this is not only a road and belt. It consists of many transit corridors that link economies in Eurasia. This concept was first articulated in Astana in September 2013, and has since then gained worldwide attention. What is relevant to Afghanistan is to capitalize on opportunities that arise in the Silk Road Economic Belt, which covers Central and South Asia to Europe. There will be massive financing to build transit corridors.

29.— MoCI, Asian Development Bank and USAID. *Transit Afghanistan: an Assessment of the Current Situation and Recommendations to Become a Transit Hub*, p. 4.

Figure 17: Transit routes through Afghanistan



BEYOND THE CENTRAL ASIAN REGION

While not currently among Afghanistan's top five trading partners, the Russian Federation is also an important partner. In 2013, the Russian Federation imported only \$14.3 million from Afghanistan, over \$13 million of which were fruits and vegetables. In contrast, Afghanistan imported \$418 million from the Russian Federation. Over \$300 million of imports were for mineral fuels; other categories of significance were wood articles (\$55 million) and animal and vegetable fats (\$20 million). In addition to this formal trade, some Russian consumer products also enter Afghanistan via informal re-exports from Central Asia. As transport

linkages across Central Asia help connect Afghanistan with markets in the Russian Federation, the prospects for further trade will improve. If Kyrgyzstan joins Kazakhstan in the Eurasian Customs Union then this could potentially further improve Afghanistan's access to the markets of the Russian Federation via Central Asia.

Regional integration will top the economic agenda of Afghan policymakers for the foreseeable future. The opportunity for Afghanistan to profit from its strategic location is significant, and if harnessed properly, will enable companies to link to regional value chains in a market-led approach and aligned with Afghanistan's WTO and TFA commitments.

Box 29: The importance of regional integration to Afghanistan: a trade policy perspective

Regional integration is crucial to successful transition in Afghanistan; it promotes increased trade and connectivity within the region, creates links across the region to external markets and also enables broader integration with large regional markets and the global economy. In other words, bilateral and regional trade agreements are important to Afghan producers not only because they provide preferential access to new markets but also because Afghanistan, as a landlocked country, is dependent on transit routes through neighbouring countries. MoCI has been active in this regard by negotiating and implementing bilateral and regional trade agreements. Among the former, agreements have been signed with India (2003), the Islamic Republic of Iran (2005), Pakistan (2010), the Russian Federation (2011), Kazakhstan (2011) and Tajikistan (2011). Additional trade agreements are currently being explored and the scope has been shifting from bilateral to regional agreements. Afghanistan is already a member of SAARC and its Free Trade Area, CAREC, and the Economic Cooperation Organization Free Trade Agreement.

At present, India and Pakistan account for more than 60% of Afghanistan's exports. These two countries have relatively high average tariffs (although Afghanistan benefits from preferential access to India under the Duty Free Tariff Preference Scheme) and practice seasonal changes in tariffs which hinder Afghan exports of products in which it is very competitive. In terms of quick impacts on trade, it is here that gains could be made. If markets abroad were more open, Afghan producers and traders would be well-placed to supply them through increased exports.

Although progress has been made, regional trade is still affected by numerous tariff barriers (e.g. for sensitive goods under the South Asian Free Trade Agreement) as well as a wide range of non-tariff barriers, including infrastructure constraints, SPS

requirements, rules of origin, delays in border procedures and goods clearance, visa issues and general differences in legal systems. In order for Afghan exports to succeed in regional markets, such barriers need to be addressed by the NTP. Likewise, trade in services is generally not covered by the agreements, although a SAARC agreement on trade in services is currently being negotiated.

The Logistics Performance Index of 2016 ranks Afghanistan 150 out of 160 countries, which confirms the relatively poor performance of the country's logistics compared with regional economies. For each of the six dimensions, Afghanistan has lower scores than almost all included economies in the region. Weak overall logistics performance is likely to translate into relatively high trade costs and delays, creating a significant obstacle to Afghanistan realizing its economic potential.

Finally, transit trade arrangements are very important. Problems with some neighbouring countries – driven by protectionist threats or sometimes political conflicts – such as the erratic closing of borders, are major obstacles to Afghanistan's trade. These ad hoc policies go against the goal of open, predictable and rule-based trade in the region. Significant progress has been made in recent years, such as the signing in 2010 of APTTA, as well as the ongoing further development of the Agreement; the conclusion of the Chabahar Agreement in 2016 with India and the Islamic Republic of Iran, which opens an alternative trade route for Kabul; and the very recent conclusion of the Lapis Lazuli Transit and Transport Route Agreement with Azerbaijan, Georgia, Turkey and Turkmenistan, which will provide better access for Afghan products to the Black Sea and European markets. Nevertheless, further work in this area is required, not least due to problems with some of the existing agreements, such as APTTA.

Source: NTP 2017, World Bank, ITC.

NES AND NTP: PIONEERING EFFORTS IN AFGHAN TRADE MATTERS

COMPLEMENTARY IN SCOPE AND DESIGN

Afghanistan's NES and the NTP are inextricably linked as complementary instruments pulling together towards the common goal of enhanced trade competitiveness for the country. Both reflect the pro-trade policy orientation of GolRoA and seek to bring coherence to trade dialogue and activity in the country, an especially critical goal in the post-WTO accession landscape. The NES and NTP together aim to stimulate the competitiveness of the Afghan private sector vis-à-vis external and internal markets, with the overall goal of stabilizing the balance of trade/payments equation in the medium-to-long term. This is the first time that the country will have either a NES or an NTP, and both thus reflect a pioneering effort in Afghan trade matters.

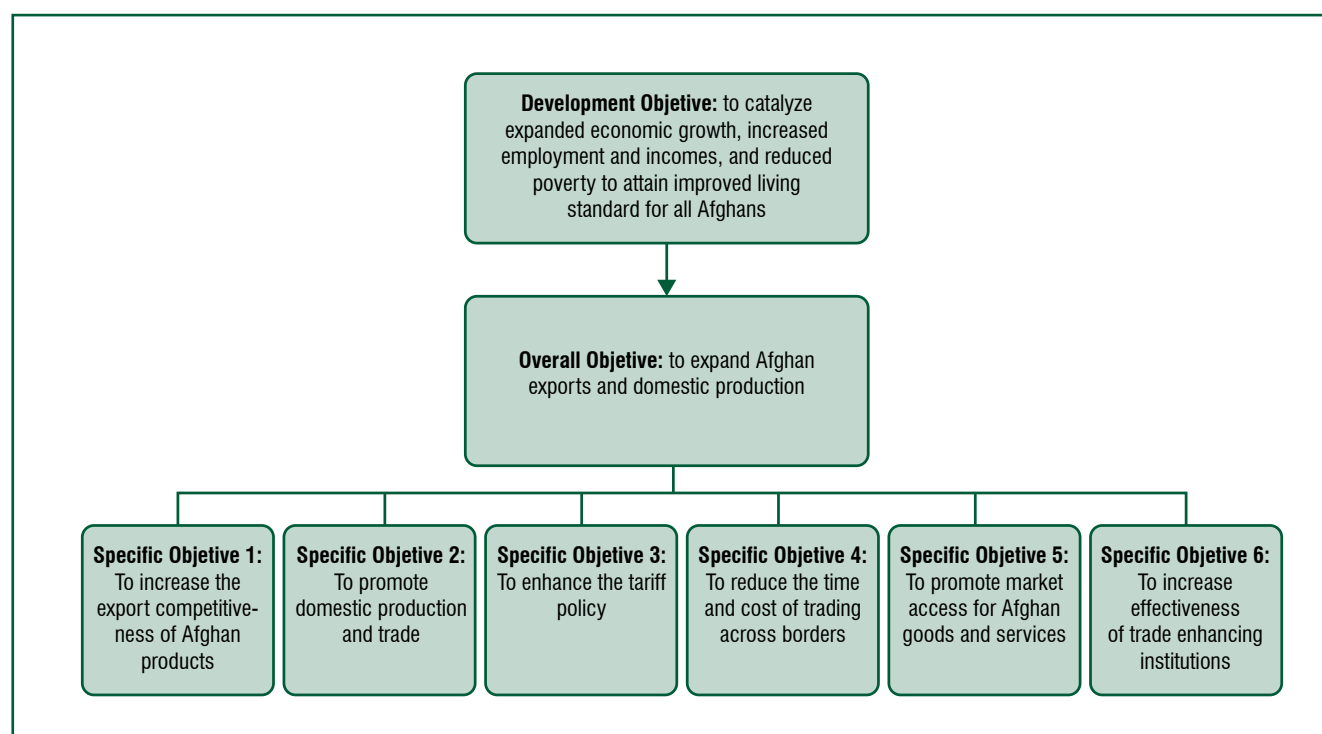
There are important themes on which both instruments are firmly aligned. These include promotion of policy coherence and consistency (including alignment with international development partners in the case of the NES); promotion of gender equality; and good governance and transparency of policy and measures. Both the NES and the NTP seek

to bring coherence to the policy and institutional support available to the private sector in general, and to the exporter base specifically. Investment promotion and facilitation is a priority for both instruments, as is the focus on resolving critical supply-side, business environment and market-side challenges.

MAIN TENETS OF THE NTP FRAMEWORK

As in the case for the NES, Afghanistan's NTP follows a bottom-up approach to identifying barriers to trade and opportunities to explore. This was accomplished through participatory and representative consultations, as well as a multitude of bilateral and round-table interviews. Based on this critical mass of information, the NTP proposes a comprehensive framework (and policy measures responding to the key findings) that is enshrined in six strategic objectives as indicated in figure 17. At the heart of the NTP are policy measures aggregated under policy areas that are aligned one-to-one with the six specific objectives.

Figure 18: NTP objective tree



Specific objectives/policy areas #1–4 and #6 can be implemented unilaterally, while #5 requires negotiations or joint action with regional or international partners. Each policy area is further divided into relevant sub-areas.

- For policy area 1 (*Promoting Export Competitiveness*), the NTP aims to address problems related to the trade and quality infrastructure, the business environment and the investment climate for export purposes (including through special economic zones), export promotion, trade finance and sector-specific issues.³⁰ The broad spectrum of fundamental areas covered through this policy area are necessary given the relatively low maturity of and abilities in the private sector as well as critical TSFs such as Access to Finance, Export Promotion, etc.
- The second policy area (*Promoting Domestic Production and Trade*) is aimed at developing the domestic market and building enterprise competitiveness to a level where the private sector can cater to the needs of the domestic market. While refraining from protectionism, the NTP proposes measures to improve intellectual property rights protection for Afghan businesses as well as protecting domestic businesses from unfair import competition.
- The third policy area (*Enhancing the Tariff Regime*) aims to develop Afghanistan's tariff regime, guiding it to a balance between collecting import duties and development of an environment that stimulates investment, import for productive activities and tariff exemptions, among other aspects. The main goal is to rationalize the tariff regime by 'limiting the extent of, and streamlining the procedures for, duty and border tax exemptions'.³¹
- The fourth policy area (*Increasing the Efficiency of Import and Export Administration, Customs and Border Control Measures*) is focused on trade facilitation. This includes streamlining rules and mandatory requirements involved in goods exports, and improving the abilities/efficiency levels of Customs and border controls. This policy area also aims to help implement the TFA ratified by Afghanistan.
- The fifth policy area (*Promoting Market Access for Afghan Goods and Services*) focuses on market access, including promotion of regional integration and reduction of both tariffs and non-tariff barriers. There is specific focus on preserving and widening access to key markets for Afghanistan, which are primarily in the region, but also facilitating access to global markets in the medium-to-long term. The NTP employs a three-pronged strategy: 'regionally, by engaging in further and deeper negotiations on trade and transit issues; in relation to other markets,

by a proactive use of preferential trade agreements and preference schemes; and globally, through Afghanistan's active participation in the WTO and reaping the benefits which it provides'.³²

- The sixth policy area (*Making Trade Enhancing Institutions More Effective*) focuses on institution-building. Institutional development is a critical area of need for Afghanistan, given that the burden of implementation of several policy instruments, including the NTP and the NES, falls on the shoulders of key ministries and technical agencies such as MoCI, MAIL, ANSA and EPAA, among others. There is special focus on MoCI given its important role in coordinating and ensuring smooth implementation of the country's post-accession commitments. The NTP aims to institutionalize public-private dialogue related to trade matters, including trade negotiations, and strengthen the capacity of both public and private institutions that are active in trade forums.

NES ALIGNMENT

The NTP and NES are essential for Afghanistan. Both offer rational, evidence-based articulations of the public and private sector's desire for the country's trade direction. The two are complementary: one does not subsume the other, and neither do they offer contradictory proposals. Owing to its policy focus, the NTP primarily operates at the macro level, while the NES focuses on the meso and micro levels of the Afghan private sector development ecosystem. The NTP provides the policy basis for NES interventions in a specific area. In turn, many of the measures noted in the NTP will be achieved through the aggregated implementation of the NES and its constituent sector strategies.

NES activities will directly contribute to five of the specific objectives of the NTP (#1, 2, 4, 5, 6), as well as contributing indirectly to specific objective 3. Through its strategic PoAs, the NES aims to address comprehensive issues/constraints involving the supply side (capacity development, product diversification, human capital development), business environment (trade facilitation, institutional support, costs of doing business), market entry (market access, branding and in-market support), and development side (gender equity and youth integration in economic affairs, preservation of the environment, regional integration). NES activities falling under these comprehensive scope areas mirror the NTP policy focus areas either partially or fully.

Basically, the NES will diagnose all kind of issues (including policy-related), some sector-specific, which impede the export competitiveness of Afghanistan. It will then suggest a number of recommendations to address these issues.

While policy-related measures will not be addressed in specifics in the NES, the NTP will respond to the NES by

30. – NTP, 2017.

31. – *Ibid.*

32. – *Ibid.*

focusing on the policy dimension of the diagnostic. It specifically identifies the policy-related measures/instruments which need to be designed and implemented to address the overarching constraints identified by the NES. The NTP brings coherence because it simultaneously screens policy instruments/measures which need to be implemented at the border, beyond the border and behind the border to ensure export competitiveness.

Bottom line

The NTO and NTP are aligned in design and will operate in lockstep during implementation. After successful endorsement, the latter becomes a critical requirement: In order to maximize the benefits to the private sector/exporter base, the implementation of the NTP and the NES respectively will need focused attention by Afghan planners over the short, medium and long terms to ensure sustainability of the initiatives and maximize gains.

NES' POSITIONING WITHIN THE TRANSFORMATION PHASE

Afghanistan's national development and reform agenda (2001–present) can be broadly classified into three phases: the initial Stabilization Phase (2001–2010), the Transition Phase (2010–2015), and the ongoing Transformation Phase (2015–2024). The NES design has taken into detailed account the themes and current developments at the national level that are aimed at spurring trade in this Transformation Phase, and is firmly aligned with progress made.

Afghanistan's national development and reform agenda (2001–present) can be broadly classified into three phases: the initial Stabilization Phase (2001–2010), the Transition Phase (2010–2015), and the ongoing Transformation Phase (2015–2024). The NES design has taken into detailed account the themes and current developments at the national level that are aimed at spurring trade in this Transformation Phase, and is firmly aligned with progress made.

Transformation Phase (2015–2024)

The current focus of the national development agenda is on job-creating growth, private sector investment and trade competitiveness to gradually replace reliance on foreign aid. The December 2014 conference in London marked the onset of the Transformation Decade (2015–2024), during which Afghanistan is expected to own and lead the development agenda of the country, with self-reliance as the byword. The backdrop was the withdrawal from the country and handover to Afghan authorities by most international security forces, and although the Government hopes to achieve increased self-reliance in areas including governance and economic development, it is expected that the country will continue to



Photo: cc flickr - Todd Huffman

require and depend on significant aid in the next decade as well.

The 2016 Brussels Conference on Afghanistan, co-hosted by Afghanistan and the EU, brought together 75 countries and 26 international organizations in support of Afghanistan's ambitious reform agenda for the Transformation Phase. Commitments for the next four years amounted to US\$ 15.2 billion. A set of SMART indicators that will serve as a barometer for the Government's progress were also released. The ANPDF was launched during the conference and serves as a five-year strategic plan to reach self-reliance. The plan is aligned with the Sustainable Development Goals and notes exports diversification and penetration of regional and international markets as a clear goal.

New NPPs were announced during the conference, including a Private Sector Development Programme focusing on increased 'foreign investment, growth in SMEs and export production, public–private partnerships and financial sector privatization'.³³ A side event was also organized on regional integration, an increasingly important component of the Government's reform agenda.

33.– Islamic Republic of Afghanistan (2017). Afghanistan National Peace and Development Framework.

Box 30: The New Development Planning System (excerpt from the ANPDF)

The ANPDF places impetus and stress on achieving self-reliance and welfare for the Afghan people. It continues the development trajectory initiated by its predecessors, including the ANDS in the traditional areas of rule of law, social welfare and gender empowerment, and further adds ambitions for robust private sector development and trade. The framework lays out the Government's agenda for transforming the economy from one marked by high imports / exports imbalance to one where a robust private sector caters to domestic consumers as well as regional and international markets. To enable this, the ANPDF delineates support areas including infrastructure, human capital development, quality service delivery and access to finance.

The framework articulates the Government's development priorities defined for the next five years and outlines the areas of reforms and investments that will lead these priorities to fruition. Regarding private sector development and trade, the ANPDF identifies the key goals¹⁸ as:

- Building efficient and competitive markets;
- Enabling SMEs, particularly export-focused Afghan-owned firms; and
- Encouraging domestic and international investment.

The ANPDF is an ambitious framework that will need to be cemented through action planning and resource allocation. A development planning system is also outlined, which defines the logical flow of hierarchy and accountability from the office of the President, Chief Executive and the Cabinet to interministerial Councils to line ministries that will act in concert to implement the NPPs.

Aligning the Cabinet, policy priorities and the budget is at the heart of our national development strategy. This will overcome fragmentation by using a holistic approach to turning policies into expenditures. The machinery for achieving this has been approved by the leadership of the National Unity Government.

Political leaders set national goals. The President, Chief Executive and Cabinet set the country's overall development objectives through a consultative Cabinet process.

Interministerial Councils will set development priorities, oversee policymaking, eliminate fragmentation of mandates, monitor progress and facilitate measures for development in their respective sectors. They will be responsible for overseeing NPPs. The Councils formulate and manage development policy and programming and negotiate competing budget proposals. HEC serves as the umbrella forum for making final decisions on economic policy and budgetary allocations. Interministerial committees will make policy recommendations and monitor their implementation.

NPPs are outcome-focused thematic programmes that guide ministries towards collective problem-solving. Most involve more than one ministry. Interministerial working groups will synchronize timetables, budgets and shared resources. Investments proposed under an NPP umbrella should be national in scope and pay careful attention to ensuring geographic and ethnic balance. All NPPs should articulate their approach to reducing poverty and supporting policies on gender. NPPs should be technically sound and follow rules on incorporating accurate forward cost estimates. Funding allocations will be negotiated in respective Councils before a final review by HEC, after which they can be entered into the development budget.

The national budget process will allocate resources to NPPs and review their performance annually.

Ministries execute activities. Each minister is responsible for implementing policies, programmes and projects related to his/her ministry. When necessary, a minister will coordinate with other ministries and organizations to implement programmes. Each minister will periodically review progress on implementation and report to the relevant Council and the Cabinet.

Source: ANPDF.

NES ALIGNMENT

Focus on trade during the Transformation Phase and alignment with the NES: Trade is now considered an integral part of the country's development agenda, as reflected in the ANPDF. One of the major achievements during this period involves Afghanistan's accession to the WTO almost 12 years after submitting the application to join. The country also ratified the TFA. These developments pave the way for

greater integration of Afghanistan in the international trading system and leverage the country's strategic location as a transit hub between East, South, Central and West Asia. The increased market access in conjunction with TRTA initiatives aimed at building exporter capacities and trade facilitation infrastructure will allow Afghan businesses to use the increased market access that accompanies WTO accession and ratification of the TFA.



Photo: cc flickr - Asian Development Bank

Afghanistan is also in the process of developing an NTP and NES, indicating the recent enhanced impetus on trade. There is a strengthened commitment among GoI/RA and donors alike on incorporating trade in the national development agenda. An Afghan reform programme titled 'Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership' includes 'bolstering private sector confidence and creating jobs' as one of the key pillars. The reform agenda includes improving connectivity between Afghanistan and the broader region through better transit trade, energy and investments, and use of mechanisms such as:

CAREC, SAARC, RECCA, the Economic Cooperation Organization, the Shanghai Cooperation Organization and projects like CASA-1000, TAPI and the Turkmenistan-Uzbekistan-Tajikistan-Afghanistan-Pakistan electricity project, the economic confidence-building measures of the 'Heart of Asia' Istanbul Process, and the development of the Lapis Lazuli Corridor and Chabahar port.³⁴

Recognizing the importance of rejuvenating the private sector based on well-defined priorities, the Executive Committee on Private Sector Development was established in early 2017 with the aim of supporting and coordinating the private sector reform priorities identified by the World Bank through the *Doing Business* indicators, as well as through the priorities that emerged from the London Conference.

The NES initiative builds on and aligns itself with existing development efforts, including the Executive Committee on Priorities of the Private Sector, in order to capitalize on the momentum generated and to ensure that there is no duplication of efforts but rather the plugging of gaps in the overall development agenda where applicable. In the context of limited resources for implementation of development plans, this focus on alignment rather than duplication is especially relevant. Alignment with the NDPS delineated in the ANPDF will be a priority, as will be structural alignment within the system as well as positioning vis-à-vis NPPs.

34.– Text from <http://policymof.gov.af/london-conference-2014/>.

Box 31: Stabilization and Transformation Phases

Stabilization Phase (2001–2010)

During the Stabilization Phase, immediate priorities involved restoration of governance structures and provision of emergency aid and public services for the Afghan population, in addition to the overall goal of improving security. The 2001 Bonn agreement paved the way for a transition Government to take the reins of the country with the aim of stabilizing the security and institutional apparatus during an interim period, that eventually led to the adoption of an Afghan Constitution in 2004 as well as leading to parliamentary (including provincial) and presidential elections and the deployment of ISAF. The Constitution established legal protections for private property ownership and for the development of a market economy and has also provided the legal basis for future private sector and economic development.

In 2008, ANDS 2008–2013 was launched during the Paris Conference. Intended as a living document,¹⁹ ANDS enshrines the country's overarching development agenda and is organized under three pillars: security; governance, rule of law and human rights; and economic and social development. The third pillar is focused on three areas:

- Promoting openness in the trade policy arena and establishment of Afghanistan as a trading hub linking Central and East Asia with the Middle East and South Asia.
- Promoting an investor-friendly regulatory framework, and,
- Encouraging concert between Government and donors for private sector investment.

Focus on trade during the Stabilization Phase: This initial period of reconstruction and stabilization saw significant resources devoted to re-establishing essential state functions and social assistance to citizens. Economic development and reform, although recognized as important, were surpassed by other necessary national priorities. One positive development involved the application of the country to join the WTO in 2004.

Transition Phase (2010–2015)

The focus on private sector development and trade matters evolved steadily between 2010 and 2015, although much of the development agenda still focused on continuing the stabilization work from the previous decade and developing capacity to cope with the 2015 drawdown of ISAF and handover of security matters to national authorities. Three important conferences for Afghanistan were held during this phase, all of which focused on firming up the national reform agenda with international support.

Security and improved governance were the main themes of the **2010 London Conference**, with the goals of developing schedules for a phased increase in Government control and management in the provinces. The theme of the **2010 Kabul Conference** was transition, with an eye towards the security handover from ISAF to Afghan authorities in 2015 and transitioning to increased Government ownership, accountability and management of development initiatives. This event marked the inception of 22 interlinked NPPs derived from ANDS, with three-year implementation plans focused on bringing about policy reforms, institutional development and service delivery in six interlinked clusters. One of these clusters is Private Sector Development, which includes trade facilitation and SMEs along with e-government (e-Afghanistan) initiatives. The NPPs serve as blueprints to realize the vision of ANDS.

The **2012 Tokyo Conference** focused on the twin goals of long-term economic growth and fiscal self-reliance for Afghanistan. Regional connectivity and economic integration were highlighted as important drivers of peace and economic growth for the country. A strategy titled Towards Self-Reliance was released, highlighting GoRoA's priorities and mutual commitments made with the donor community during the 2011 Bonn Conference. The Tokyo Mutual Accountability Framework was established to guide upholding of mutual commitments (aid delivery and use) made between GoRoA and donors during the transition to the transformation decade starting in 2015.

Focus on trade during the Transition Phase: The importance of regional integration was indicated through the proceedings of the Tokyo Conference. Negotiations related to WTO accession continued throughout this phase, ramping up in 2014–2015. Additionally, a diagnostic trade integration study was conducted by the World Bank to identify the key constraints and areas of opportunity related to developing trade competitiveness in Afghanistan. This study serves as an important benchmark and reference document for planning aid-for-trade activities by the Government and development partners alike.

NES AND ITS ROLE IN INSTITUTIONAL DEVELOPMENT

Economic growth thrives or suffers on the back of a country's institutions, and their importance to the long-term development of the private sector cannot be overstated. Afghanistan's institutions lead the implementation of the country's strategies and development plans, and the scale and quality of their individual capacities and coordination with other institutions is critical. They provide valuable support services to the private sector (including current and potential exporters) along the policy and trade services dimensions. Buyers and investors regularly review the breadth and depth of the institutional landscape as part of their due diligence process before making investments.

IMPORTANT CHALLENGES FACING AFGHAN TISIS

Afghan institutions have lost significant abilities over the past two decades, as detailed in the competitiveness constraints section.³⁵ These include MoCI, EPAA, MAIL, ANSA and others. The main root causes are evident and include a natural decline in capacity owing to the conflict, a high degree of pervasive corruption and opaque conduct within the public sector, weak absorptive capacity for managing technical and financial support, and a high degree of migration of skilled professionals from the public sector who leave the country or transition to donor-funded projects.

All of these have collectively led to a decline in efficiency and ability to fulfil mandates. This has in turn led to mistrust not only within the private sector but also the donor community, which has pursued a loosely aligned but mainly parallel development agenda, spurning the on-budget support route (apart from a few critical areas which have hitherto not included trade and commerce). Without donor support (stemming from stretched priorities of development partners and misgivings regarding the public sector), Afghanistan's TISIs have languished further, reducing their abilities to execute important projects. Both individual capacities and coordination between institutions has suffered. This cycle continues and needs to be broken.

These challenges are borne out by the results of the recent TISI survey conducted as part of the NES design process. The survey, which involved more than 40 key Afghan institutions which have a bearing on trade-related matters, confirmed that the above key root causes continue to constrain institutions.

35.– Please see this section for detailed Institutional constraints identified through consultations, surveys and bilateral discussions conducted as part of the NES design process.

THE PATH AHEAD

In the transformation decade, the Government and the institutions that it commands are expected to take ownership of and responsibility for leading the implementation of the national development agenda. For this to happen, capacities of institutions have to be strengthened, not only to respond to the needs of the private sector but also to absorb aid efficiently. Coordination within the trade and investment support network needs to be improved as well.

The NES recognizes the complexity of addressing the challenges facing Afghan TISIs and applies focus to the following areas.

- **At the sector level, institutions will remain fundamental to success.** Sectors that are better organized through unions, cooperatives and other forms of organization stand a better chance of absorbing the benefits of NES interventions. The presence of such organized representations also typically serves as evidence/proxy for debates, discussions and consensus-building activity taking place in the sector. The NES will therefore focus on supporting these institutions at the sectoral level through provision of technical advice, trainings and exposure, among other provisions.
- **Capacities of MoCI as the key trade institution will be improved.** Export/import data collection and analysis needs to be improved so that the analysis can be used for decision-making as well as for national consumption. MoCI staff involved in trade-related activities need training in trade statistics, trade remedies, dispute settlement, understanding WTO, consumer protection, trade negotiations, research and analysis, among other aspects.
- **Additionally, capacity-building is required for key ministries** including MoF, the Ministry of Mines and Petroleum, MAIL, the Ministry of Rural Rehabilitation and Development and the Ministry of Transportation and Civil Aviation, to enable them to execute their mandates related to the trade agenda effectively and contribute to macroeconomic stability in the long run.
- The NES will support existing Government efforts to improve transparency in the public procurement system. The National Procurement Authority, developed through the merger of various state entities responsible for procurement, has won praise from both the national and international community monitoring efficiency and transparency in public procurement. The intent of the Government to stem corruption has been signalled, and



Photo: cc flickr - Todd Huffman

now the need of the day is ensuring that the National Procurement Authority continues to receive support and remains independent in the execution of its mandate. The NES will actively support this.

- The reach of Afghan institutions outside Kabul and the provincial capitals is weak owing to the precarious security situation outside the capitals. While security is external to the scope and control of the NES, the strategy can still assist institutions' plans for the future when peace and stability return to the provinces. In this regard, the strategy proposes activities aimed at planning for expanding the reach of important services including extension services, trade promotion, trade information, etc.
- To encourage retention of talented professionals in the sector, The NES will advocate for adherence to recruitment guidelines and the salary scale laid down by the donor community in the National Technical Assistance Salary Scale and Implementation Guidelines. While the scale was developed for the public sector, the development community can help stem the current brain drain by aligning their own salary and consultant scales with the updated public sector scale.
- The NES will also help increase the capacity of public institutions to absorb aid in an efficient, transparent manner, with the goal of inspiring confidence among the donor community that their support is being properly utilized. This is a prerequisite for increasing on-budget support. Increasing this absorptive capacity will be the

aggregate result of interventions in various areas such as installing forecasting and strategic planning mechanisms, along with efficient monitoring, staff professional development, improving financial management and procurement practices for increased transparency, and backing this up with proper reporting. Where required, external expertise will be provided on a short-to-medium term basis to bring in good practices and increase the bandwidth of the staff.

Along with this capacity development, the NES will use the momentum of its outreach with the donor community (through the donor round-table, among other forums) to advocate for increased on-budget support programmes.

- Capacity-building efforts for the recently reinstated EPAA will be deployed. EPAA functions as Afghanistan's trade promotion organization, and its activities and support to exporters have decreased notably over the last few years. It has been recently reinstated and the new leadership will require support in multiple areas. The NES proposes detailed support ranging from strategic planning for EPAA to professional development for staff and development of new services.
- The NES will advocate for the endorsement and deployment of the European Investment Fund Tier 1 proposal for Afghanistan, which involves significant support for capacity-building in TISIs including MoCI, MoCI-EPAA, MAIL, MoFA etc. This timely initiative is well-placed to improve the capacities and coordination mechanisms of such institutions.

AID-FOR-TRADE: A REINVIGORATED PARTNERSHIP DRIVEN BY THE NES

Afghanistan is one of the largest global recipients of development aid, and aid-for-trade has emerged as an important priority in the last decade, especially as the country progressed towards the goal of WTO accession. ODA in 2013 amounted to US\$ 5.2 billion, representing an increase of 43% over the 2006–2008 figure. Of this, US\$ 1.2 billion was aid-for-trade,³⁶ accounting for an increase of 29% over 2006–2008 figures. Trade policy and regional integration have emerged as two of the top three³⁷ aid-for-trade priorities in Afghanistan in recent years.

In terms of thematic focus, the bulk of aid-for-trade development assistance has been provided to improve transportation infrastructure, energy and agriculture. Assistance for business services, trade policy/regulations and trade facilitation has been relatively minor in comparison, although it are expected to rise as the focus on TFA and WTO post-accession implementation begins. This bears out through donors' (such as the EU) increased focus on trade facilitation.

The United States has been the largest provider of aid-for-trade disbursements over the last decade and this support continues. Other prominent donors in this thematic area include the United Kingdom, Germany, Japan and the EU as an emerging donor.

The following are the key trends.

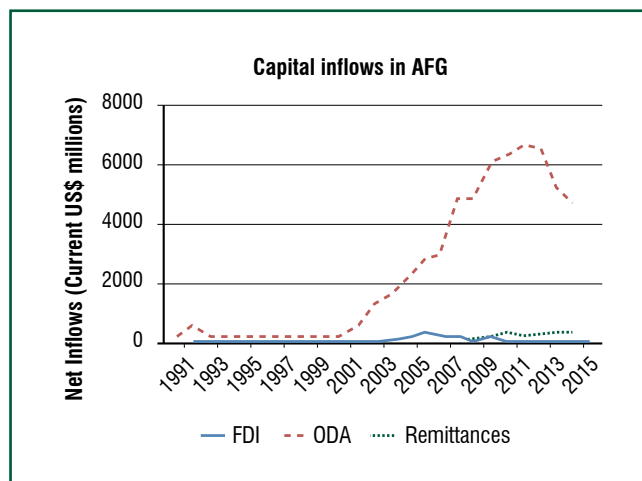
1. Highly competitive aid landscape

The aid landscape in Afghanistan will become even more contested in the coming decades with the implication that funds for trade-related activities will remain limited, and there is a need to spend the available funds efficiently across the board, including those related to aid-for-trade.

36.— Because trade is a broad and complex activity, aid-for-trade is broad and not easily defined. It includes technical assistance –helping countries to develop trade strategies, negotiate more effectively, and implement outcomes. Infrastructure –building the roads, ports and telecommunications that link domestic and global markets. Productive capacity –investing in industries and sectors so countries can diversify exports and build on comparative advantages –and adjustment assistance – helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade. (WTO (2017). Aid for trade factsheet. Available from https://www.wto.org/english/tratop_e/devel_e/a4t_e/a4t_factsheet_e.htm).

37.— Source: OECD / WTO Partner Questionnaire. The third priority is network Infrastructure (power, water and telecoms).

Figure 19: FDI and ODA trends, 1991–2015



Source: World Bank Data (2017).

2. ODA – a mainstay of the economy – is projected to decline/be allocated away from productive sectors of the economy, lending urgency to investment-led growth.

The above figure highlights the declining trend of ODA since 2012. As indicated, the ODA levels register a rather sharp decrease while FDI levels are close to negligible and flat.

Following the Brussels Conference, donor commitments may materialize and other sources of funding may bolster ODA levels. Over the medium term, though, it is projected that increasing security costs and recurrent/increasing civilian aid (owing in part to increasing population levels) will require an increasing share of the available aid. This means that the aid available for economic development activity such as value chain development may be adversely affected. In this context, investment-led growth could address this fiscal gap.

3. Increased on-budget aid (and capacity-building assistance to ministries for improving their absorptive capacities) will be required to meet the Government's commitments.

The importance of on-budget aid for Afghanistan will only increase in the future, in line with continuing security costs, projected low growth rates and growing civilian costs with rising population levels.

Additionally, given the typical preference of donors towards off-budget project activities, capacity gaps are widely prevalent in line ministries and agencies and there is doubt whether the ministries will be able to develop the absorptive capacities to use increased on-budget support efficiently. This is borne out by recent criticism aimed at ministries for not being able to adequately plan for and spend development aid allocated to them. Capacity-building at MoCI, MoF, MAIL and other line ministries is therefore essential.

4. Focus on TFA and WTO post-accession.

Afghanistan will certainly require assistance in these two areas given the recent WTO accession and ratification of the TFA, and also keeping in line with the trade and private sector development direction set forth for the transformation decade. Line ministries do not have sufficient capacity to take these initiatives to completion, and therefore this has been cited as an important requirement for development assistance. It is expected that these areas will receive considerable attention through development projects.

5. Dichotomy between security and development goals.

International aid to Afghanistan has totalled more than US\$ 100 billion since 2001 when security costs are included. Led by the United States and a coalition of international partners, massive reconstruction aid has poured into the country for both security and non-security purposes, although the former has understandably absorbed more than 70% of the allocated aid. Even within the latter bucket there are competing interests between trade and other development priorities. For instance, given that fact that development and security remain inextricably linked, projects that focus on short-term provision of services and employment in unstable areas tend to get priority over longer-term TRTA projects.

6. Lessons on sustainability from previous development initiatives must be applied, especially in the case of institution-building initiatives.

A number of high-visibility donor-supported projects in Afghanistan have suffered setbacks related to sustainability. These include the establishment of the Afghanistan Investment Climate Organization Facility (Harakat) with support from DFID's initial grant of GBP 30 million, which funds various projects related to easing barriers to the country's business environment and promotion investment. Harakat's promising work has run into challenges with a decline in funding.



Photo: ITC

Similarly, EPAA, which was established and resourced with support from the German Society for International Cooperation, has also run into challenges and currently remains operational with limited staff and capacities. The central lesson to be absorbed is the need for development partners and national authorities to plan for multi-year funding implications beyond short-term donor assistance. Human capital is another factor – a strong cadre of officers across the ranks of institutions must be developed as a means of strengthening the backbone of the institution.

NES ALIGNMENT

The NES is firmly aligned with existing aid-for-trade and TRTA initiatives ongoing in the country. This alignment includes the establishment of a donors' round-table that has started meeting regularly to discuss synergies in their trade-related initiatives. Donors have noted that within the trade area, a wide range of activities are ongoing but prioritization and donor coordination has been limited. In this regard, agreement has been secured to formalize the donors group and hold regular meetings during the NES design phase and beyond.

The NES initiative will build on the growing understanding among donors that there is an urgent need to improve the relevance (needs-based) and efficiency of aid-for-trade development programmes. Where required, pilot programmes will examine the business case for making further investments in a particular area. Donor-donor coordination and donor-Government coordination will remain important areas. Regarding the latter, increased on-budget support will essentially be the goal; however, this hinges on significant institutional capacity development in the public sector, which will only happen in the medium-to-long term. In the interim, incremental progress demonstrated by the Government and individual line ministries and technical agencies will go a long way in bridging the trust gap.



Source: ITC

BEYOND STRATEGY DESIGN: SECURING NES ENDORSEMENT AND IMPLEMENTATION

The comprehensive National Export Strategy of Afghanistan endeavours to generate the conditions for a favourable expansion of the country's export sector and its employment creation as to contribute to overall socio-economic development.

However, having finalized this strategy is not enough to create sustainable export development. There is a definite need to elaborate and coordinate the various actions required to achieve the targets of the NES. The execution and impact of these actions on export development is significantly based on the ability of stakeholders to plan these actions as to generate a multiplying effect in the country. In other words, apparently separate actions need to be synchronized as to reinforce each other and create sustainable positive effects for export development and increase the effectiveness of the NES plan of action.

Indeed, the NES is not the strategy of any specific institution rather it is the strategy of Afghanistan and to ensure its success, it is necessary to create the adequate environment and framework to enable its implementation. The following section presents some of the key success conditions considered primordial for the strategy to be effectively implemented and achieve self-sustainability and long lasting benefits for Afghanistan.



Photo: ITC

HIGH-LEVEL ENDORSEMENT OF THE NES BY THE HIGH ECONOMIC COUNCIL (HEC)

Endorsement by HEC is the most important step towards implementation of the NES. In the absence of such official endorsement, the NES will not be able to mobilize the national and international support required to effectively structure and enable export development.

SET UP OF NES GOVERNANCE STRUCTURES: ESTABLISH AND OPERATIONALIZE A HIGH-LEVEL PUBLIC AND PRIVATE NATIONAL COORDINATING BODY AND ITS SUBSIDIARY ORGAN TO MANAGE NES IMPLEMENTATION

A key success criterion for success of Afghanistan's NES is the country's ability to coordinate activities, monitor progress and mobilize resources for the implementation of the NES. It is recommended that the country establishes a specific high-level and public-private committee, that acts in an advisory and endorsement capacity to the government over issues related to the Afghanistan's National Export Strategy or affecting export competitiveness overall.

Considering the current institutional capacity and to avoid the multiplication of committees, stakeholders underlined the imperative for the High Economic Council to play the role of the NES high-level coordinating body during a preliminary phase. This will ensure smooth transition between the design and the implementation of the NES before decision and actions are taken towards the establishment of a National Export Council.

The main functions of the future NES high-level Council are the following:

- i. Coordinate and monitor the implementation of the national export strategy by the government, its agencies and private sector organizations;
- ii. Identify and recommends allocation of resources necessary for the implementation of the national export strategy;
- iii. Assess the effectiveness and the impact of the national export strategy.

The NES high-level Council should be supported by a NES Executive Secretariat to complete the daily operational work related to implementation management of the NES. The core responsibilities of the Executive Secretariat should be to:

- Formulate projects proposals including budgets for implementation of activities of the NES;
- Prepare communication plans and material to promote the NES;
- Develop annual and bi-annual work plan for approval by the Council;
- Collect information from project implementation and prepare regular monitoring reports to be submitted to the "council";
- Planning the "council" and specialized sub-councils NES monitoring and evaluation meetings
- Execute the secretariat work of the "council";
- Ensure implementation of the "council" resolutions;

- Collect, centralize and preserve all archives and documentation of the Council and the NES;
- Advocate in favour of the NES to public and private partners;
- Execute any other tasks given required by the "council".

MOCI-EPAA has been acting at the NES Secretariat during the design phase of the National Export Strategy. With adequate institutional strengthening, it is proposed that MOCI-EPAA undertakes the role of the NES Executive Secretariat.

SUCCESSFUL IMPLEMENTATION MANAGEMENT: SUCCESS FACTORS AND PITFALLS TO AVOID

The following pillars should be seen as key operative conditions to undertake efficient management of the implementation of the NES:

a. Monitoring implementation for effective resource allocation

A key role of the high-level Council and its Executive Secretariat is to monitor the implementation of the NES. Effective exploitation of reports and data will ensure that progress is evaluated in line with the expected results and allocated resources. Monitoring will permit effective allocations and reallocation based on expected and achieved results. This critical work will facilitate effective implementation of the activities and enable the NES to achieve its strategic objectives, contributing to its overall success.

b. Sensitization of implementing institutions to build ownership

The key implementing institutions detailed in the various plans of actions (PoAs) of the sector and cross-sector strategies need to be informed of the content of the strategies and the implications for their future programming. This sensitization is essential to build further ownership, and it provides institutions with the opportunity to review the PoAs in order to confirm the activities they can implement immediately, in the medium and long term. Such a programming

approach will permit better resources allocation within the responsible agencies. This allocation can be formalized by integrating the activity of the NES in the programme planning of the institution. While the financial dimension is often required, the human resource element is no less important.

c. Private sector support and participation

The private sector should normally benefit from the NES implementation through improved productive capacities, reduced costs of doing business, facilitated administrative procedures, enhanced access to finance, etc. However, the private sector clearly expressed, during the strategy design process, its willingness to contribute, directly or in partnership with public institutions, to the implementation of the NES. Their implementation efforts can range from providing business intelligence to institutions, contributing to development projects, establishing processing and transformation units, advocacy, etc. In brief, the private sector practical knowledge of business operations is essential to ensure that the activities of the NES are effectively implemented and targeted.

d. Financial resource mobilization for implementation

While resource mobilization is only part of the solution, it plays a crucial and indispensable role in supporting the strategy implementation. An integrated resource mobilization plan should be elaborated as soon as the strategy is adopted. Resources mobilization involves planning the sequencing of communications with donors, project design, project proposals/application and resources collection and management. This should facilitate, leverage and strengthen the impact of diverse sources of finance to support sustainable and inclusive implementation, including national resources, development aid and private investment.

- **National resources** through direct budget support: Government will need to validate a defined minimum budget support toward the implementation of the NES. The direct project support for activities of the NES will demonstrate the Government's commitment to the initiatives.
- **Alignment of donors' support and interventions** with the NES: The majority of international development partners already acknowledged that the NES provides them with the proper implementation plan and framework as well as favourable conditions for operation (i.e. political endorsement, private sector buy-in and improved collaboration with national institutions and IOs). Next step consists in capitalizing on the significant momentum gained as part of the NES design process and leveraging it for a smooth and efficient implementation.

The NES' plan of action should serve the NES coordinating council as well as the national institutions to improve communication and facilitate the negotiation, planning, coordination and evaluation of commitments made in the context of development aid, in particular through the development of programmes and project proposals aligned with the priorities of the strategy.

- **National and foreign investment:** Investment flow could serve as a valuable drive for export development. However, it requires to be targeted at specific prospects in order to benefit to the priority sectors' development. Export-related opportunities (based on the competitiveness and potential growth of key sector value-chain segments) should be the subject of investment targeting and promotion initiatives.

e. Communication plan

Targeted communication is required to inform and mobilize partners from the public and private sectors. Hence, the current communication plan needs to be extended in order to continue promoting the NES and preserve the momentum and support for its implementation. Informing the national public and implementing agencies serves to build confidence and thrust in support of the NES.

STRENGTHENING IMPLEMENTATION MANAGEMENT CAPACITIES OF MOCI-EPA

In the absence of an enabled and capacitated management framework, strategy implementation can often be fragmented, thereby limiting the capacity of countries to effectively execute the strategy and achieve trade development targets. Simply put, successful implementation can make the difference between a strategy that gathers dust and one that drives tangible development impact on the ground.

The ability and competence of the NES Executive Secretariat need to be sufficient to ensure effective management of the NES implementation. The Executive Secretariat should have knowledge of monitoring frameworks, resources mobilization and programming, communication, advocacy, etc. Without such skills the council will not be in a strong position to assume the responsibility of ensuring the implementation of the NES. In this situation, the above described key success factors would have only limited effects toward the implementation of the NES.

It is thereafter, important to provide the Executive Secretariat with the appropriate tools and capacities to manage the NES efficiently. The European Union, who supported the NES initiative during its development phase, decided to further commit to its implementation by supporting the operationalization of the Executive Secretariat

through institutional strengthening and capacity building. Subsequently, the European Union mandated ITC (provided that the NES is endorsed by HEC) to reinforce the ability of the Executive Secretariat to coordinate activities, monitor progress and mobilize resources for the implementation of the NES.

ITC's intervention will aim to capacitate the Executive Secretariat so as to guarantee that initiatives implemented are aligned to the priorities of the stakeholders as defined in the strategy. This should ensure that the implementation plans are used, and seen as the reference road maps by industry operators, institutions and industry support organizations, development partners and funding providers. Executive Secretariat staff will be trained to examine, among other things, interdependences and reduce fragmentation of activities to enable beneficiaries to make full use of any sector development and trade related assistance.

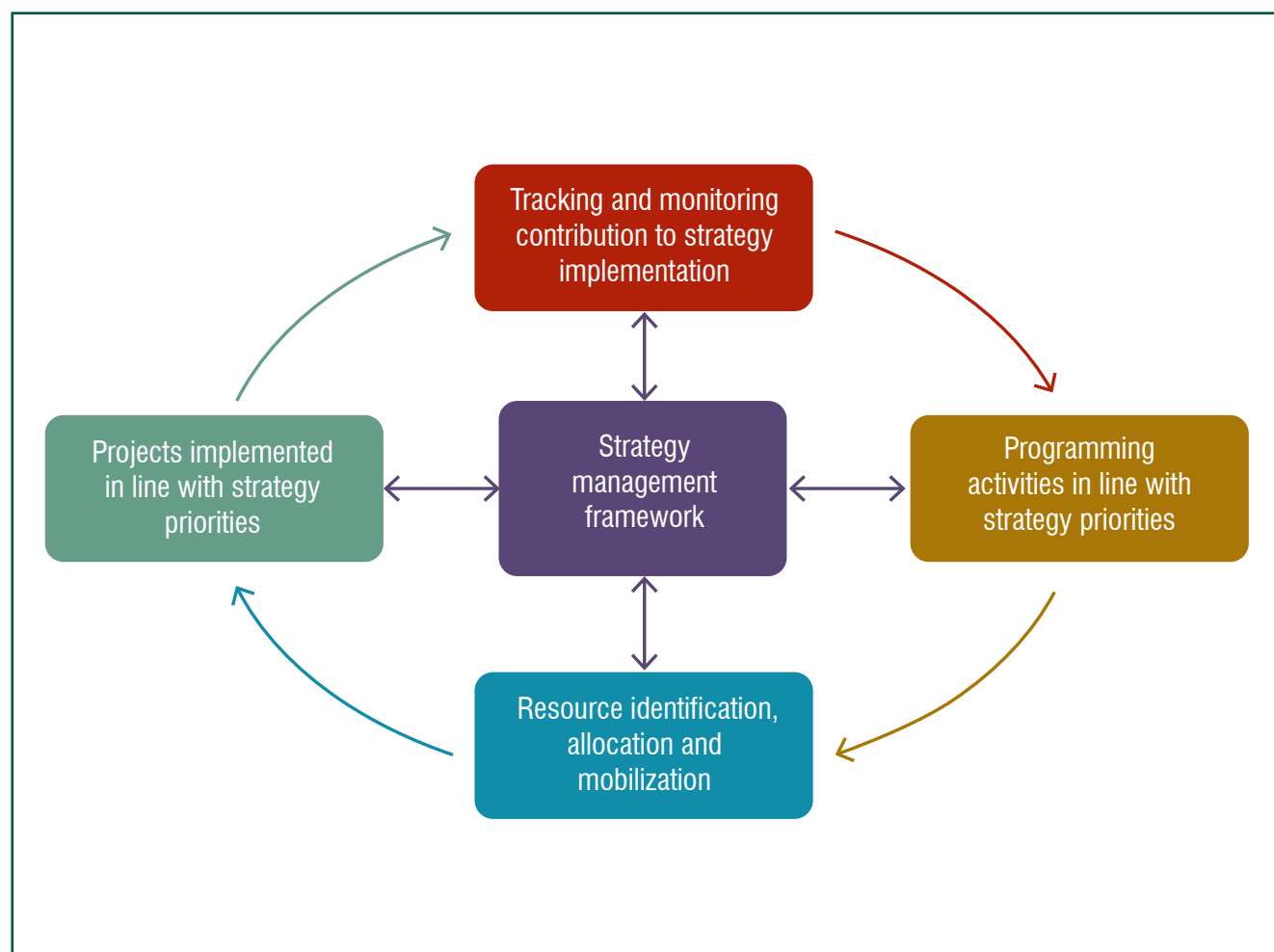
Additionally, ITC will provide technical support in implementation progress monitoring and review to ensure that the action plans are reviewed evaluated and audited according to schedule and that lessons, experiences and best practices are capitalized upon and duly promoted. This will aim

at maintaining the coherence between institutional and private operators and favour the joint identification of priorities in terms of available resources. This will also help to keep on promoting the NES to the authorities in order to encourage them to honour the commitments made in respect of the NES implementation.

Finally, ITC will provide technical support to build the capacity of the Executive Secretariat to properly plan resource requirements, develop, maintain and update an integrated resource mobilization plan.

KICK-STARTING IMPLEMENTATION TO PRESERVE MOMENTUM

The NES initiative already accommodates budgeting for supporting implementation of critical pilot activities that have been identified and developed through the design process. This will ensure that impact and momentum are generated from early on, and success stories can be used for further resource mobilization and confidence building all around.



CONCLUSION

It is tempting to dismiss Afghanistan's potential to use trade as a lever of growth. The unrelenting security issues and rising civilian welfare and infrastructural demands are exerting significant fiscal pressure on the Government's budget, and this is in the context of stagnating economic growth across the board, apart from certain segments.

Yet the comprehensive research and analysis undertaken by the Government and ITC has determined that there are sectors with high potential that can become beacons of flourishing growth and contribute to economic and socioeconomic progress, the latter contributing to ongoing peacebuilding in the country. The net prognosis is positive, despite the challenges.

This will not be easy but with the concerted and coherent effort expended through NES design and implementation, such growth is feasible. The first step – NES design – is now complete, and focus must quickly turn towards implementation and implementation management and tracking. In this, planners must be able to count on political leadership and private sector buy-in. Clear ownership and leadership will be a major encouraging factor in progress.

Likewise, the implementation phase has to be supported by a fully articulated and institutionally embedded approach, with strong and aligned support from development partners. The road ahead will be fraught with competing priorities and a multitude of challenges; however, with unwavering political and technical leadership, Afghanistan can yet become a beacon of peace and prosperity led by trade.



Photo: ITC



Source: ITC

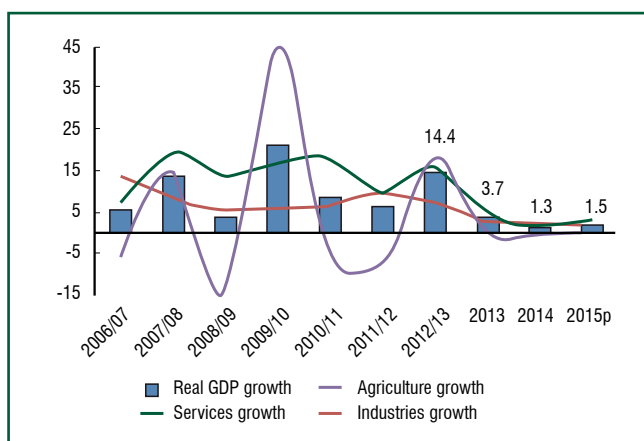
ANNEX

THE STARTING POINT: CURRENT AFGHAN MACROECONOMIC AND EXPORT PERFORMANCE

DOWNWARD TRENDING MACROECONOMIC INDICATORS AND A STRAINED TRADING PORTFOLIO POINT TO AN ECONOMY UNDER SIEGE

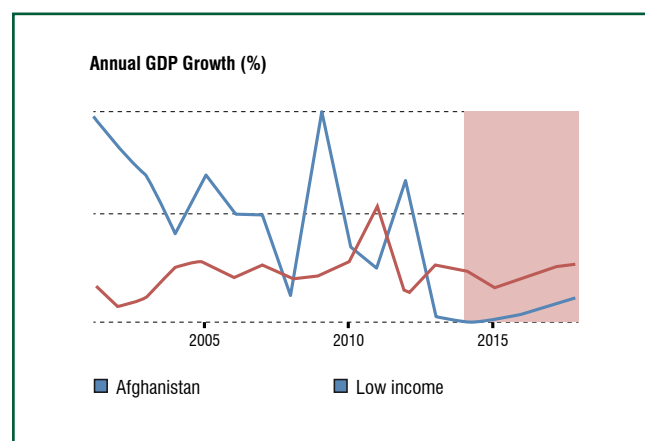
Afghanistan's economy surfed a relatively strong growth wave between 2010 and 2014, averaging growth rates of 6.8% per annum. Since then, a marked slowdown has affected the economy, with recent annual growth rates averaging 1.5%. The short-term forecast remains bleak and below 2010–2014 levels, with the International Monetary Fund conservatively estimating that the growth rate by 2018 will not exceed 3.6%, even in best-case scenarios. All three economic segments – services, industries and agriculture – are experiencing the slump.

Figure 20: GDP and economic segment growth in Afghanistan, 2006/07 to 2015



Source: World Bank Data (2017).

Figure 21: Annual GDP growth in Afghanistan (%), 2005–2015



Source: World Bank Data (2017).

1. The services bubble has burst.

The services segment, typically accounting for more than 50% of GDP, has been severely impacted by the drawdown and departure of NATO/ISAF forces, leading to a slowdown in spending and investments. Although the drawdown occurred in late 2014, construction-based investment activity began stalling in the early part of the 2010–2015 transition period.

The economic impact of the war economy on Afghanistan cannot be underestimated. According to a report, 11.5 million people lived within a 5 km radius of at least one military base or facility that provided economic support to the local population.³⁸ Among the sectors that Afghanistan's military economy depended on are construction; food, fuel and other supplies; logistics; security; and transportation and trucking.³⁹ FDI numbers were boosted

38.– Lynne O'Donnell (2014). The Afghan War Economy Collapses, 9 June. Available from <http://foreignpolicy.com/2014/06/09/the-afghan-war-economy-collapses/>.

39.– Lynne O'Donnell (2014). The Afghan War Economy Collapses, 9 June. Available from <http://foreignpolicy.com/2014/06/09/the-afghan-war-economy-collapses/>.

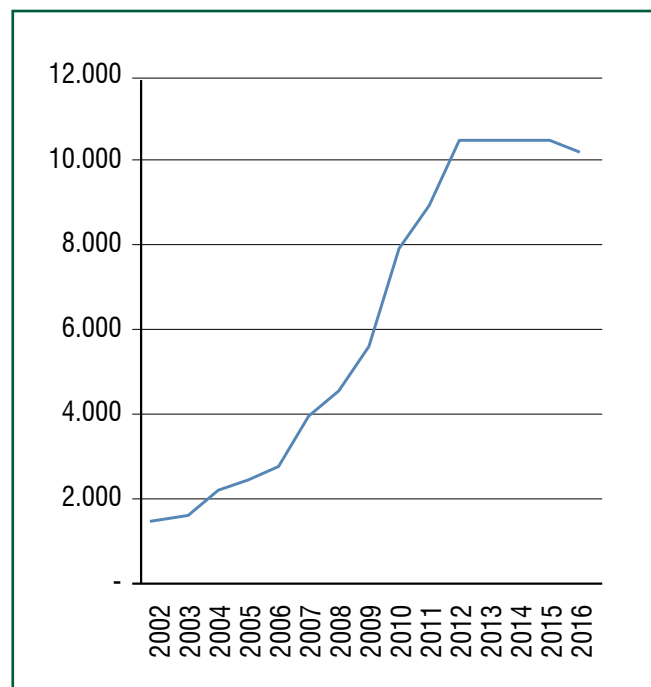
by the presence and involvement of international forces in construction and related areas. More than 500 bases/military complexes have been commissioned and built since 2001, employing more than 10,000 construction firms.⁴⁰ Relative to trade in goods, services have exhibited a significantly higher balance-of-payments percentage over net earnings. This economic distortion owing to NATO procurement in services has balanced out.

2. Low levels of Industrial and manufacturing activity are a cause for concern.

Industries, typically accounting for 20% of GDP, are stagnating. The negligible growth of the manufacturing sector, contraction in the domestic market, and security and business environment challenges coupled with insignificant investment levels has undermined the confidence of manufacturers and industrial houses.

The manufacturing sector serves as a bellwether of value addition, technology and innovation levels within the country, and there is evidence that in several sectors, including carpets, marble, and horticulture, the bulk of value addition and therefore revenue generation is taking place in regional markets such as Pakistan to which Afghanistan supplies unfinished products.

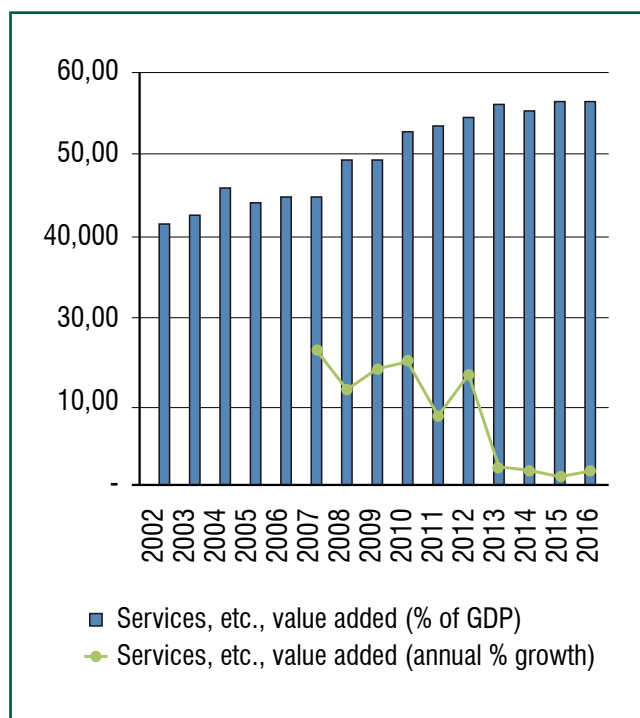
Figure 22: Services, value added (current US\$ millions), 2002–2016



Source: World Bank Data (2017).

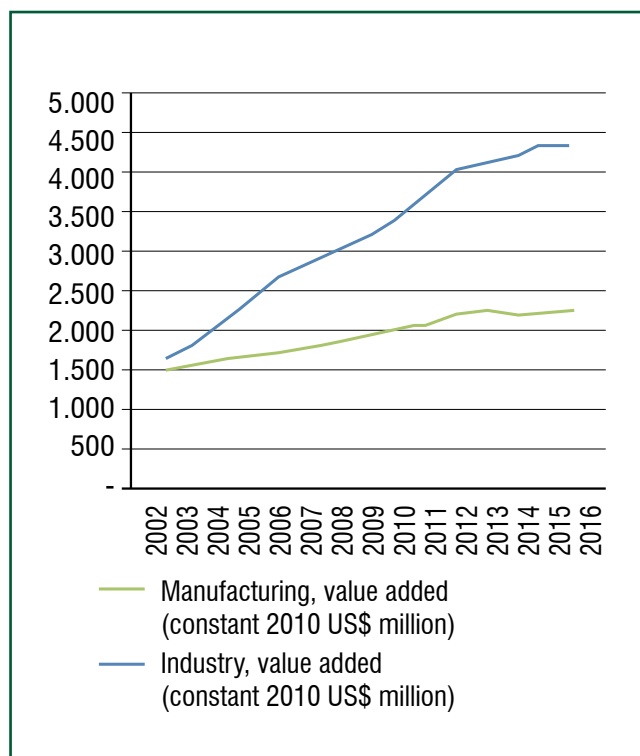
40.– The extent of the distortion can be assessed by the fact that of these 10,000 firms, only 3,000 remained in business in 2012, after the pullout was announced. New York Times (2012). As NATO nears exit, construction dries up, 4 November. Available from <http://www.nytimes.com/2012/11/05/world/asia/as-nato-nears-exit-afghan-construction-dries-up.html>.

Figure 23: Afghan services performance, 2002–2016



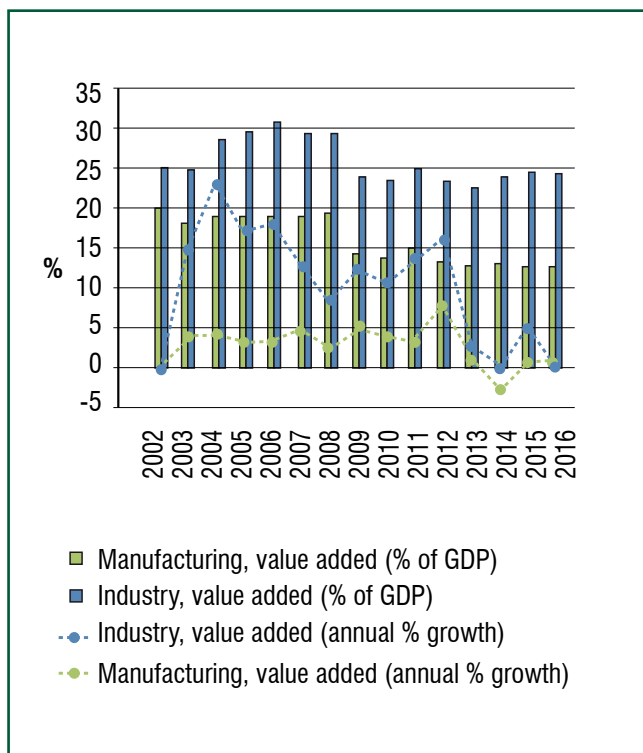
Source: World Bank Data (2017).

Figure 24: Manufacturing and industry, value added (constant 2010 US\$ millions), 2002–2016



Source: World Bank Data (2017).

Figure 25: Afghan manufacturing and industry performance, 2002–2016



Source: World Bank Data (2017).

3. The sluggish pace of agriculture has adversely affected economic growth and livelihoods.

Agriculture, usually accounting for 30% of GDP value addition, has been a highly cyclic sector due to periodically unfavourable weather rotations as well as structural challenges in the value chain (among other factors). The cereal subsegment has been especially impacted over the last decade –growth rates have slowed significantly and even drifted into negative territory in recent years. The horticulture segment has been less vulnerable and has grown despite the challenges.

The sluggishness of the agriculture sector poses challenges not only for the economy but also in terms of employment and food security. Roughly 85%–90% of the Afghan population lives in rural areas, and almost three-quarters of that population is engaged in agricultural activities. Any downward pressure on the sector directly affects this highly vulnerable population in terms of food security and employment in addition to revenue losses.

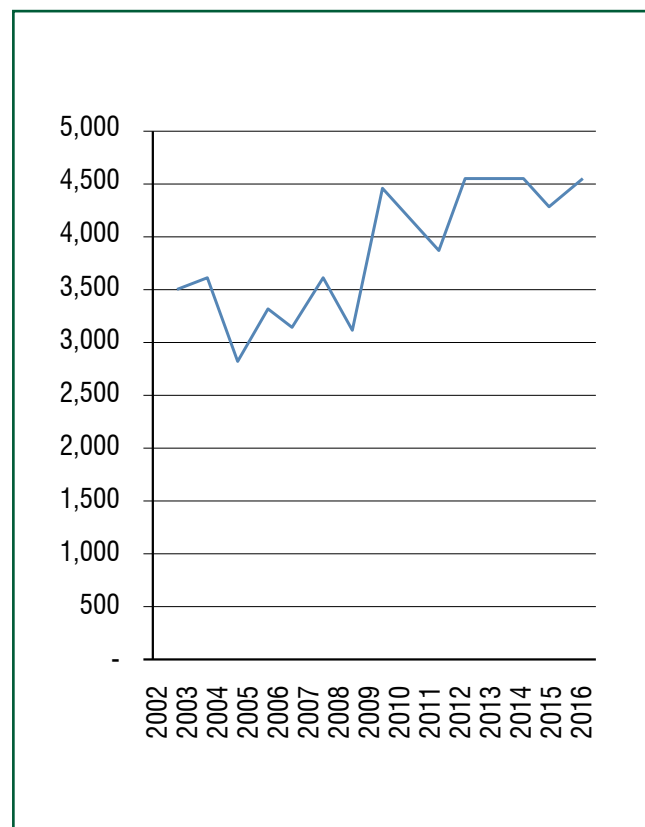
While all economic segments are impacted by security challenges, agriculture is especially so due to the weak control of the Government in many of the agricultural nodes of the country. Revitalizing agriculture is central to poverty mitigation and economic growth. The sector also has tight



Photo: ITC

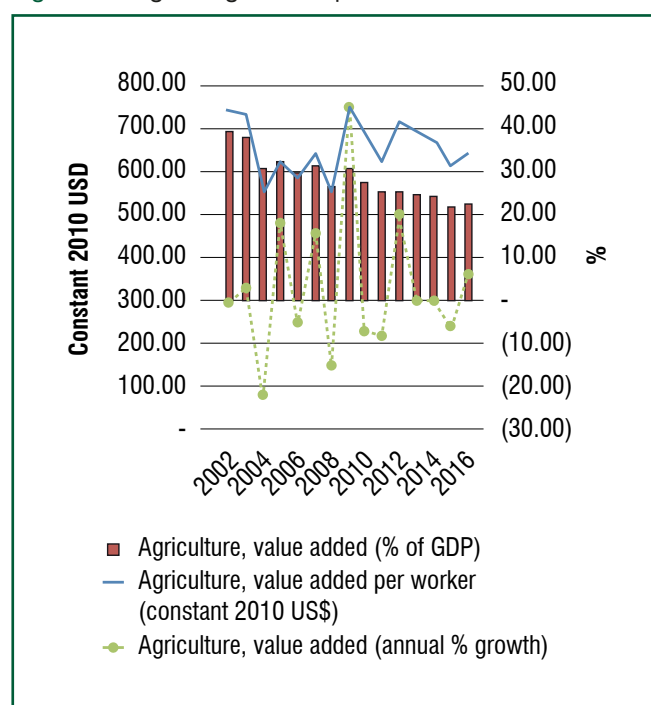
links to other parts of the economy such as manufacturing of food and beverages as well as transportation and retail services. Given that 40% of the agricultural workforce is women, the sector also provides an opportunity to improve female labour market participation.

Figure 26: Agriculture, value added (constant 2010 US\$), 2002–2016



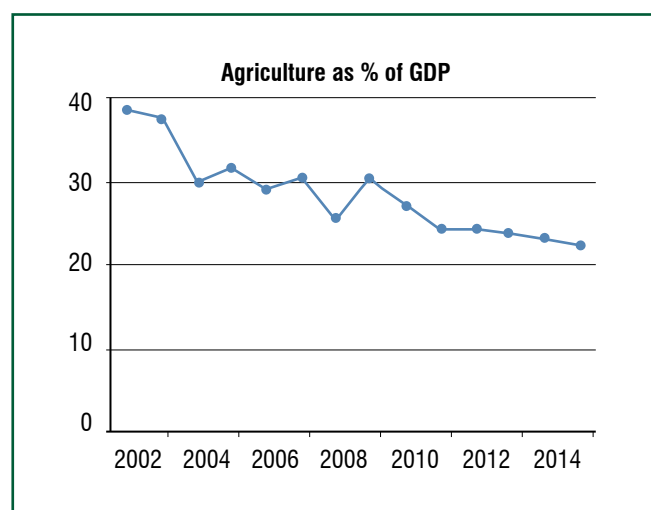
Source: World Bank Data (2017).

Figure 27: Afghan agriculture performance



Source: World Bank Data (2017).

Figure 28: Agriculture as % of GDP



Source: AfghanEconAdvisor (2017).

4. FDI inflows in the past decade have suffered a decline, reflecting the declining confidence of investors.

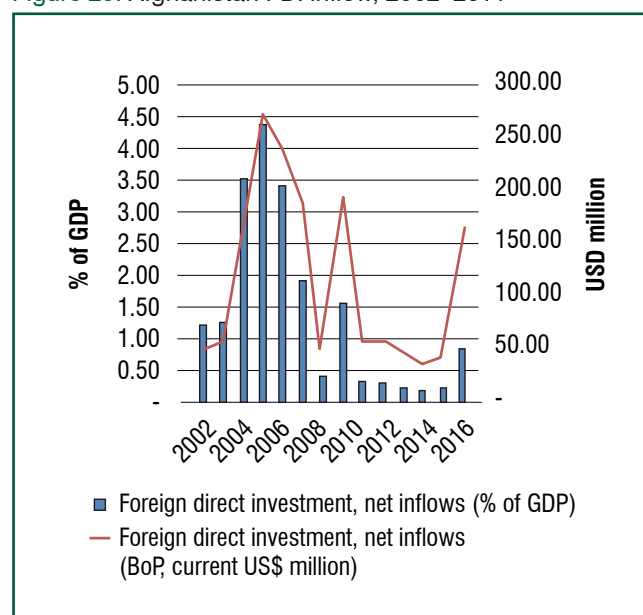
Direct investment equity flows declined together with recessive international aid. The majority of FDI was targeted at the reconstruction of the country or aimed to support foreign troops in Afghanistan. Although development projects planned after the NATO/ISAF withdrawal led to a temporary



Photo: ITC

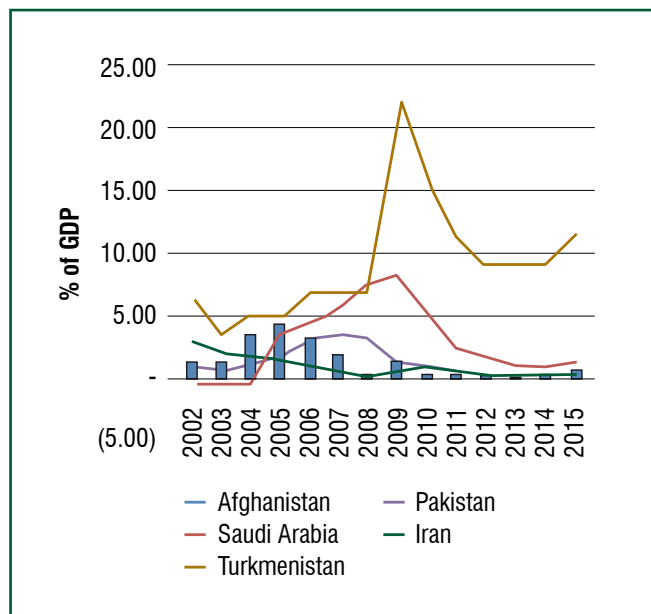
increase in FDI inflow from 0.2% to 0.8% (US\$ 163 million) of GDP in 2015, investments in the second half of the reported period have been significantly lower (less than 0.5% of GDP) than the first few years (up to 4.3% in 2005). Afghanistan still lacks reform of its business environment aimed at attracting FDI, despite having an economy that has been heavily dependent on foreign intervention. Initiatives to attract investors were introduced with new policies aimed at supporting investment in different sectors to compensate for aid money. The data reveal that Government incentives have not yet yielded the expected results due to security concerns, weak rule of law and tax disputes, among other causes. Afghanistan is the worst performer in a regional comparison of FDI, which reflects this absence of a strategy or reform to attract investors. One lesson drawn from this analysis is that Afghanistan needs a development plan to enhance the business environment, which should also be considered in the NES.

Figure 29: Afghanistan FDI inflow, 2002–2014



Source: World Bank Data (2017).

Figure 30: FDI net inflow, regional comparison, 2002–2015



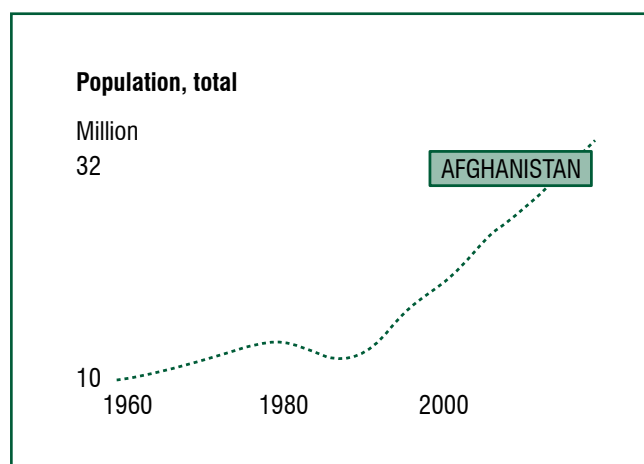
Source: World Bank Data (2017).

5. High unemployment levels undermine socioeconomic stability.

Unemployment levels in Afghanistan provide a good gauge of economic headwinds. Based on the available date, migration flows seem to have resulted in lower than expected unemployment figures. According to International Labour Organization (ILO) estimates, male relative unemployment has stagnated at around 12% and female relative unemployment at around 8% of each gender's labour force since 2003. Significant population growth over the past 20 years, however, has resulted in an increase in male unemployment levels and notable levels of female unemployment. This has exerted significant pressure on the Government's public welfare spending.

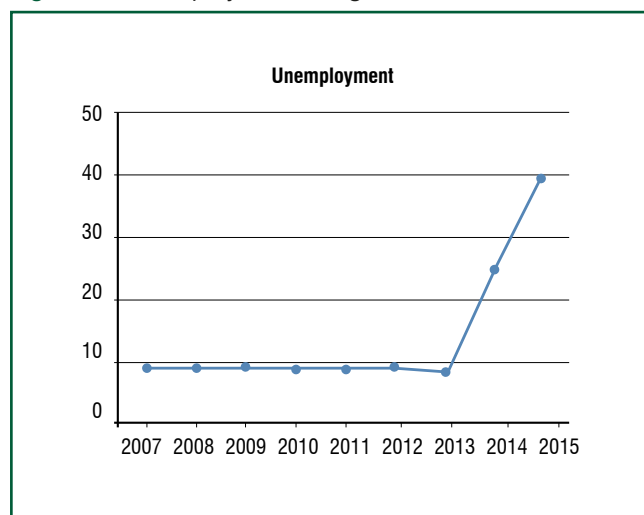
As discussed earlier, high unemployment levels have a broad impact on socioeconomic factors (purchasing power, poverty levels, female empowerment) as well as security concerns (disenchanted youth being recruited by non-state actors for illegal activity). Therefore, job creation has emerged front and centre in the Government's agenda.

Figure 31: Total population, Afghanistan, 1960 onwards (millions)



Source: World Bank Data (2017).

Figure 32: Unemployment in Afghanistan, 2007–2015

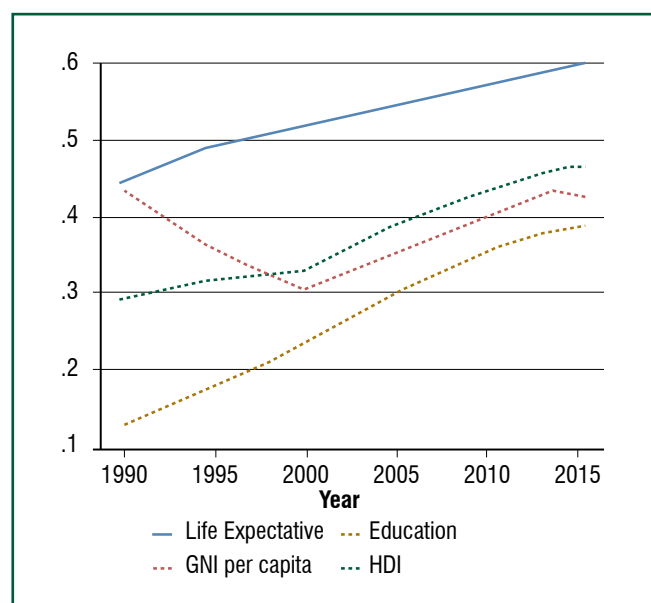


Source: AfghanEconAdvisor – Trading Economics (2017).

6. Weak human development indicators relative to global and regional averages point to a critical need to support health, education and socioeconomic growth.

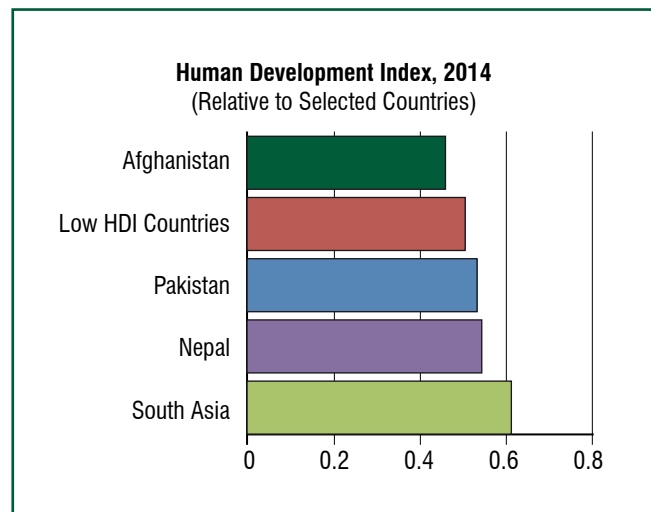
The most recent (2015) human development indicator value of 0.479 places Afghanistan in the low human development category and positions the country at 169 out of 188 countries and territories. The Afghan human development indicator is even below the average of 0.497 for countries in the low human development group and below the average of 0.621 for countries in South Asia. Until 2010, Afghanistan experienced an improvement in human development indicator values, mainly led by increasing life expectancy and expected years of schooling.

Figure 33: Human development indicators for Afghanistan, 1990–2015



Source: United Nations Development Programme (2015): Human Development Report.

Figure 34: Human Development Index, 2014



Source: AfghanEconAdvisor – UNDP (2014).

The most recent survey data for the United Nations Development Programme (UNDP) Multidimensional Poverty Index in 2010/11 considered 58.8% of the Afghan population as multidimensionally poor and an additional 18% as living near multidimensional poverty.⁴¹ Compared with neighbouring Pakistan's score of 0.237, Afghanistan's

41.– United Nations Development Programme (2016). *Human Development Report 2016* (United Nations publication, Sales no. E.16.III.B.1), p. 6.



Photo: ITC

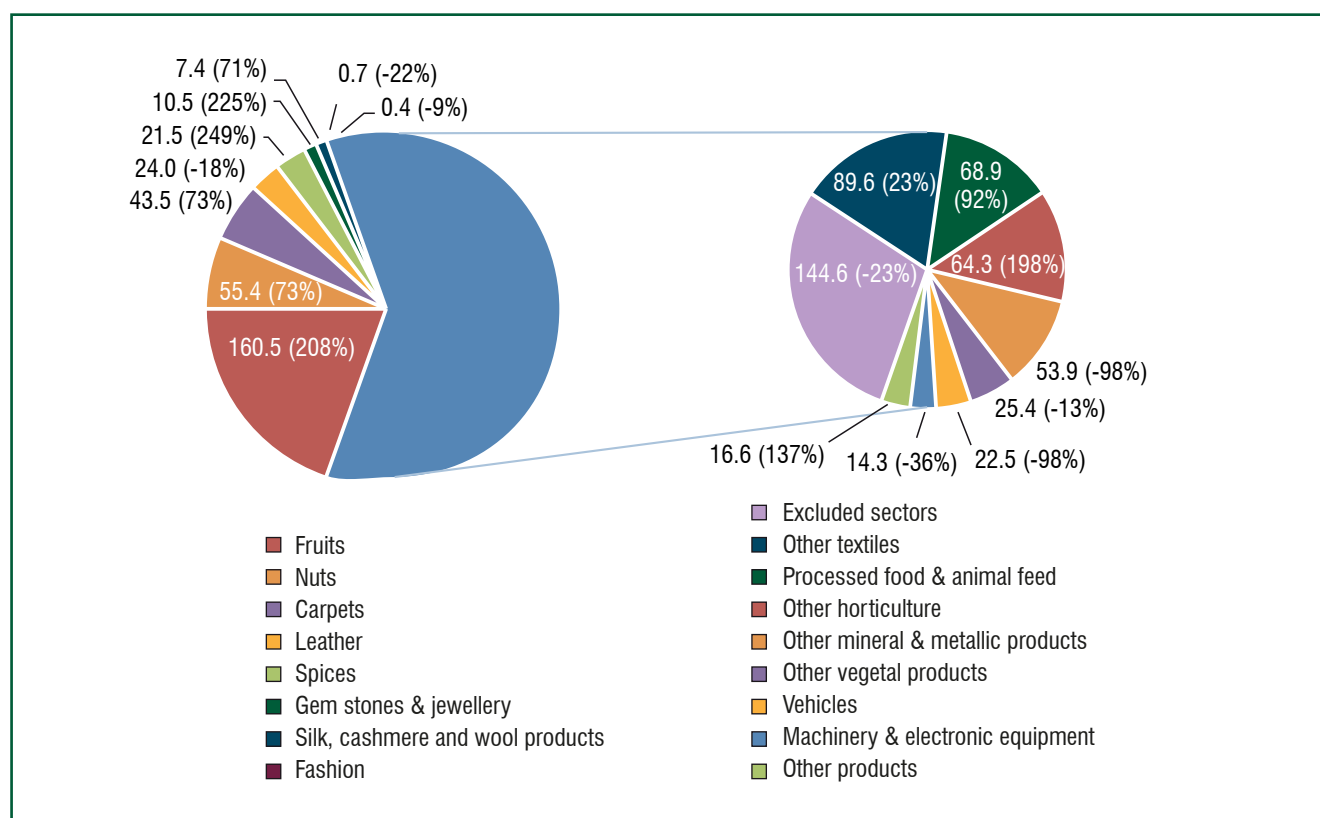
score of 0.293 after adjustment for intensity of deprivations is evidence of the country's severe poverty challenges.⁴² The economic slowdown coming on the heels of the decline in international aid to Afghanistan had a negative impact on citizens' livelihoods throughout the country. The Poverty Status Update report by the World Bank and Government of the Islamic Republic of Afghanistan (GoIRoA) found that absolute poverty increased from 36% in 2011/12 to 39% in 2013/14, resulting in 1.3 million more Afghans unable to satisfy their basic needs. As can be observed in the stagnant unemployment figures, job creation no longer seems able to keep up with the fast-growing labour force and especially fails to provide illiterate and unskilled Afghans with stable livelihoods. This indicates a need for policymakers to focus on initiatives that could have a significant impact on reducing unemployment and poverty.

7. Small exports basket reflects modest growth for traditional sectors producing relatively low-technology goods for which there is nevertheless growing global demand.

Horticulture, vegetables and carpets are the leading export sectors for Afghanistan, with the greatest growth rates in the country as visualized in figure 14 on Afghanistan's key export sectors (left: main export sectors; right: remaining sectors). These traditional sectors have served as the mainstay of the country's exports at least over the last few decades. The fruits sector is by far the largest of the main sectors with exports worth US\$ 160 million on average between 2012 and 2015. Exports of nuts, carpets, spices (mainly saffron), precious stones and jewellery, silk, cashmere and wool products have grown. The agriculture and carpets sectors have benefited from a comparatively high degree of technical support from the Government and donors.

42.– *Ibid.*

Figure 35: Afghanistan's key export sectors (US\$ millions) and growth rate 2012–2015



Source: ITC calculations based on data from ITC Trade Map (2017) and from ITC (2017):

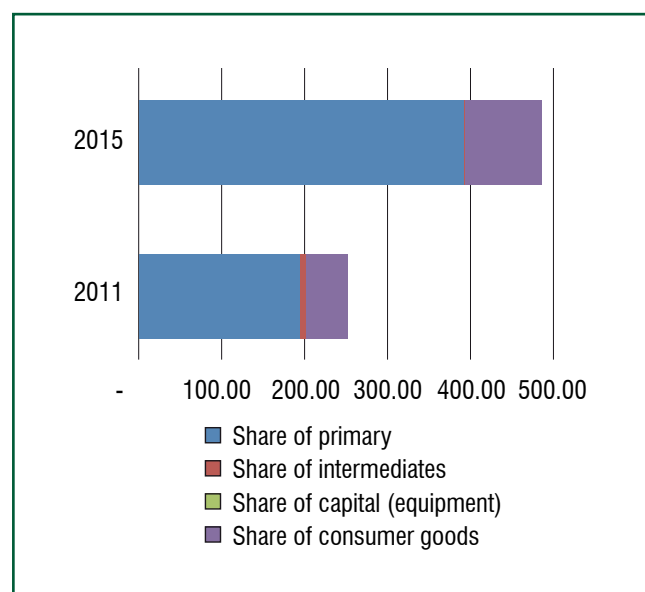
Reconnecting Afghanistan to Global Markets.

Note: Average export value in US\$ millions, 2012–2015, in brackets: overall growth rate between 2012 and 2015.

A common theme across the list of exported products is low value addition. As indicated in figures 32 and 33, Afghanistan mainly exports commodities such as fresh/dried fruits and unfinished carpets to neighbouring countries due to a host of internal and extraneous factors.⁴³ The country relies heavily on a few export commodities that are generally produced with low levels of skill. Only 5% of its exports are classified as medium or high technology, compared with almost 37% of exports in other developing economies.

While the exports basket is small, there are a number of products with high demand, particularly in the region. These include traditional sectors including carpets and fresh/dry fruits and vegetables, which are leaders in Afghanistan's export basket and also experiencing relatively high demand in global and regional markets. Analysis has shown that Afghanistan has a comparative advantage (in theory at least) for sectors including fruits and vegetables, carpets and marble, which can be leveraged for gain

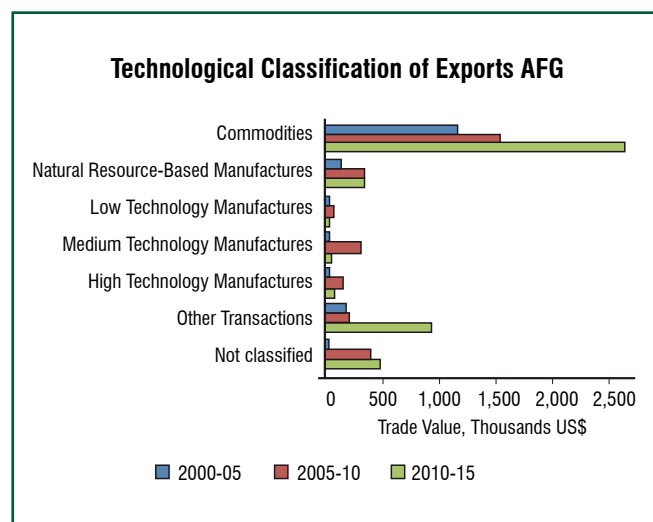
Figure 36: Stage of processing and goods in value (US\$ millions)



Source: ITC Trade Competitiveness Map (2017).

43. Please see the competitiveness constraints (3Cs) section for further details.

Figure 37: Technological classification of Afghan exports, 2000–2005 to 2010–2015

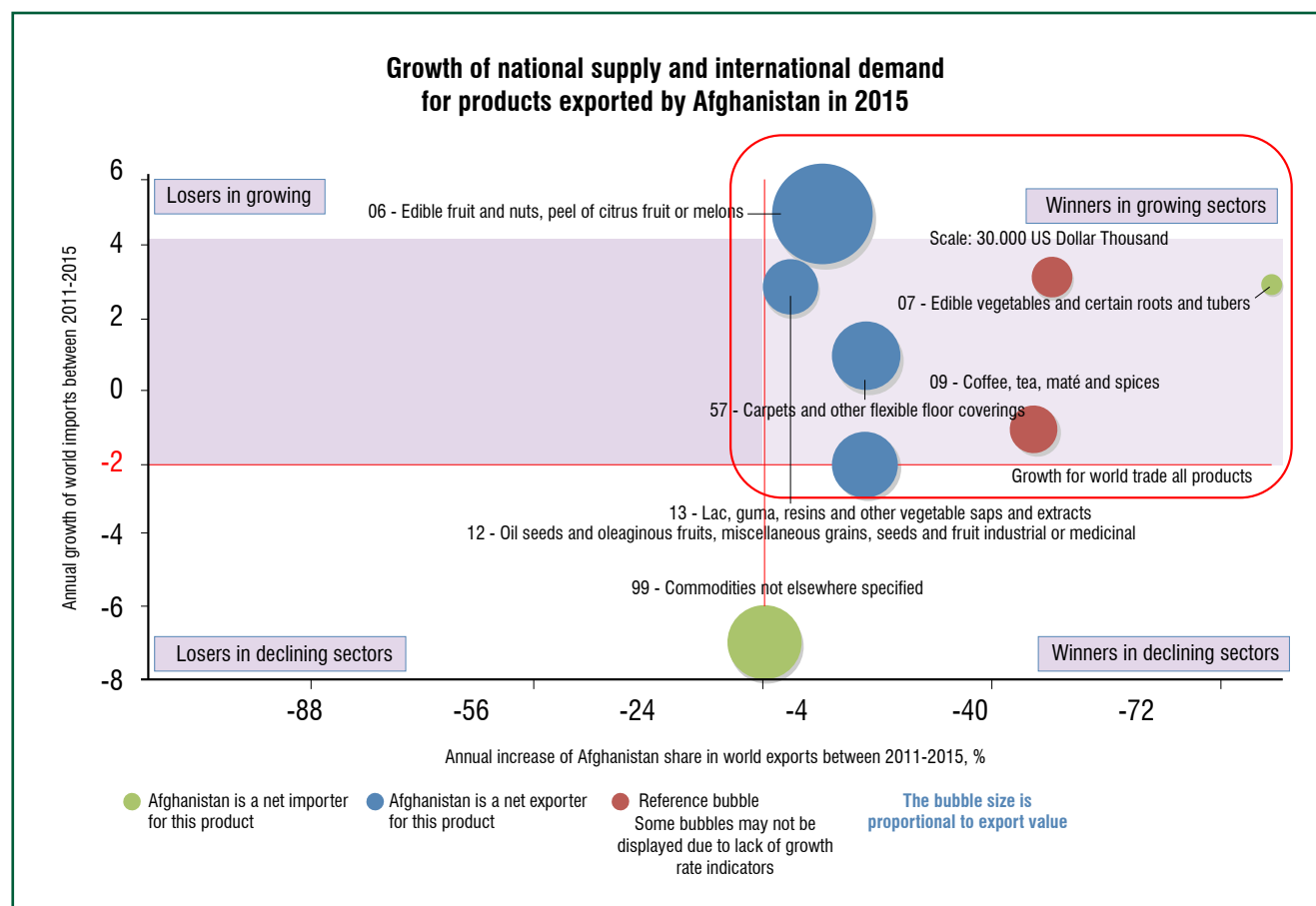


Source: ITC calculations based on ComTrade Data (2016).



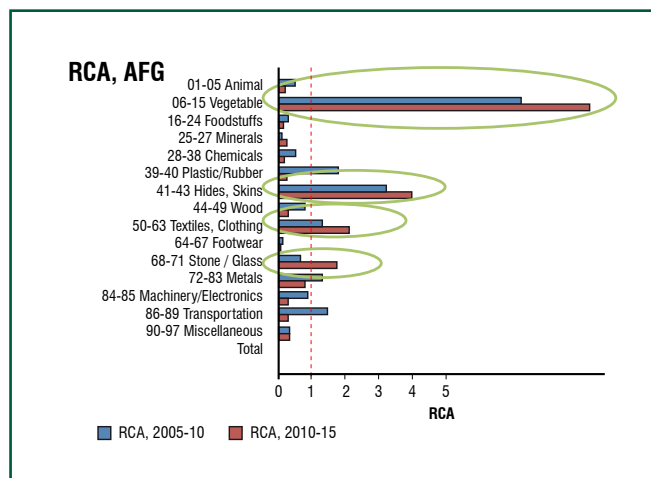
Photo: ITC

Figure 38: Growth of national supply and international demand for products exported by Afghanistan in 2015



Source: TradeMap (2017).

Figure 39: Revealed comparative advantage, Afghanistan

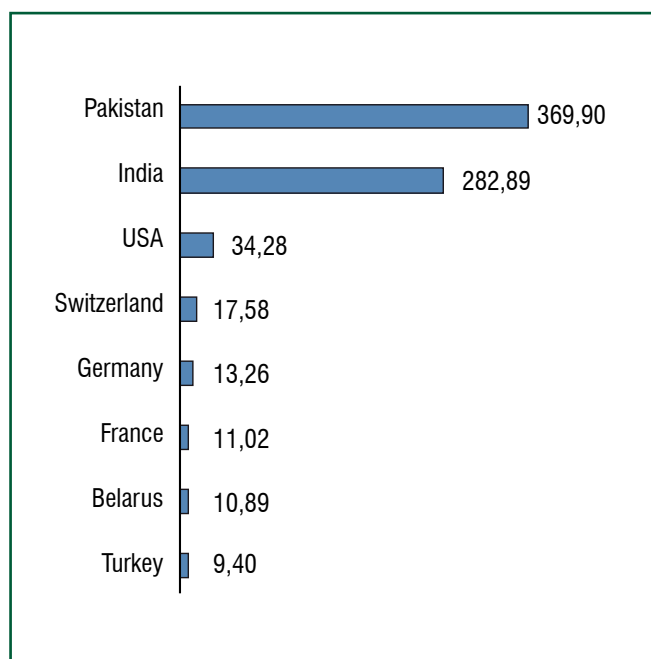


Source: ITC calculations based on ComTrade Data (2016).

8. Regional markets remain key, particularly in the short-to-medium term

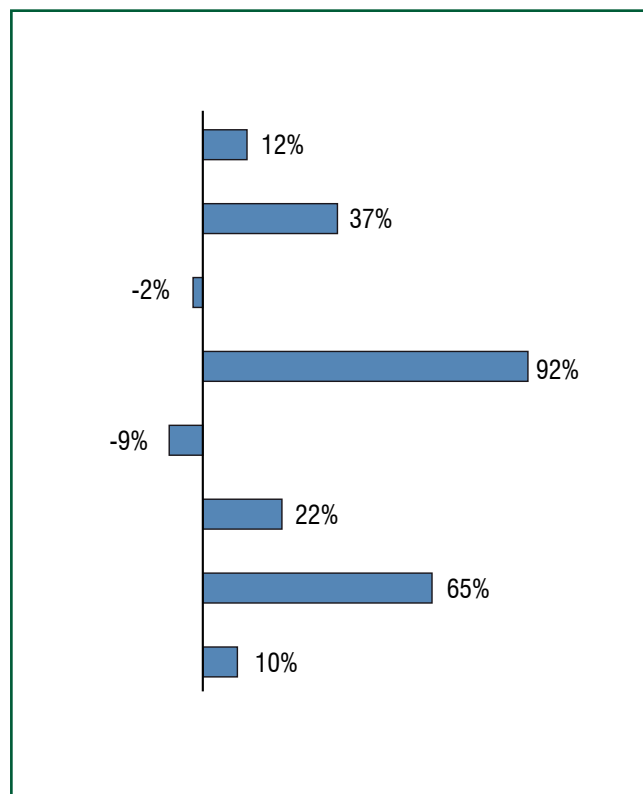
Exporters have managed to increase penetration to some extent; however, overall market and product diversification remain limited. Physical proximity, established distribution channels/ relationships with buyers and the relative ease of buyer requirements (legal and non-legal) have all contributed to the importance of regional markets for Afghanistan's export portfolio. Pakistan and India together account for more than 80% of all Afghan exports, with the United States of America, Switzerland, Germany, France, Belarus and Turkey the other prominent but much smaller importers.

Figure 40: Top export destinations, 2016 (US\$ millions)



Source: TradeMap (2017).

Figure 41: Compound Annual Growth Rate, 2012–2016



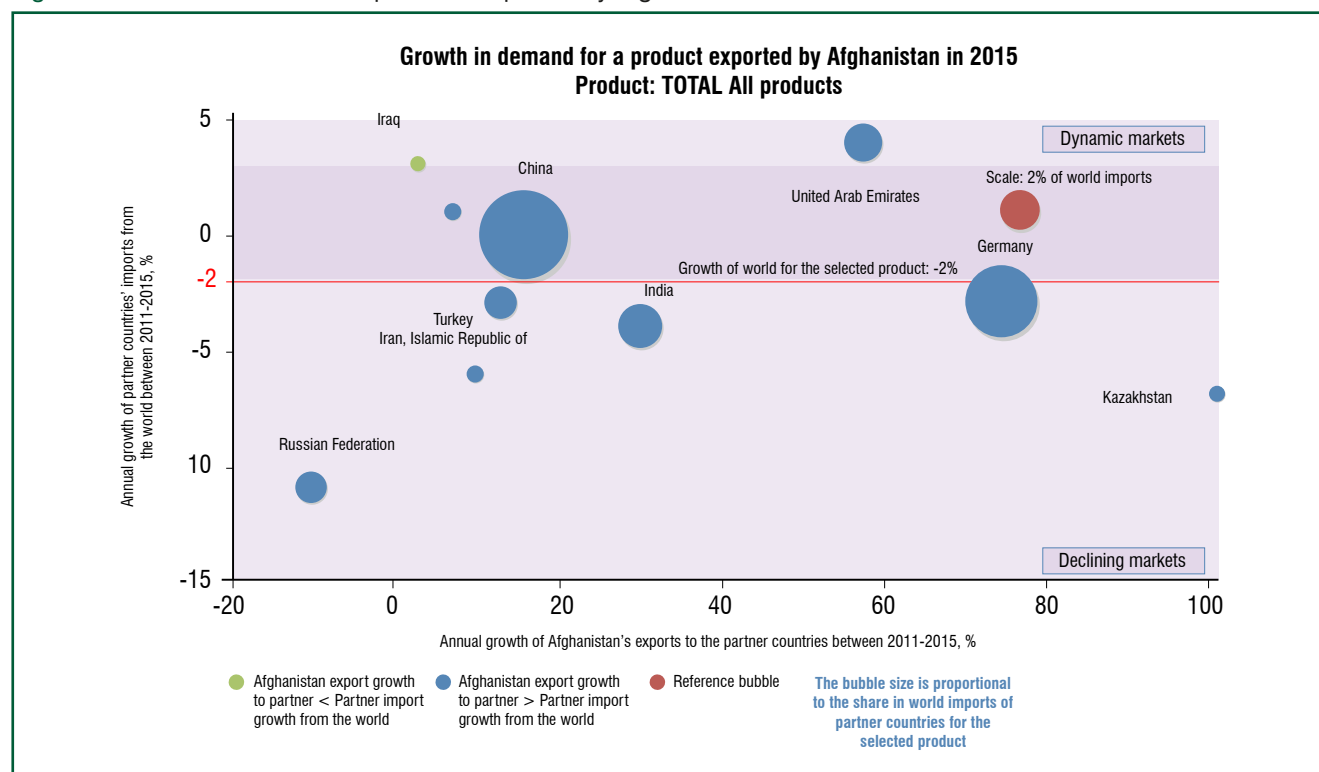
Source: ITC calculations based on ComTrade Data (2017).

Afghanistan's market penetration is today heavily dominated by the relationship with Pakistan and India, and in addition to access developed through natural geographical proximity, the Afghan Government has placed a strong emphasis on trading within its immediate region.

Despite political challenges with this trading relationship, Pakistan remains Afghanistan's major transit route to the sea, making it a key trading partner with a 47% share of exports and 29.1% of imports. India will remain immensely important as well in both the short and long terms. Both markets offer relatively flexible quality requirements, which is important for stability.

It is anticipated that this leader board will stay stable, at least in the short-to-medium term as Afghanistan struggles to shore up private sector abilities, support infrastructure and institutional support to export to the geographically more distant, and more demanding, EU and other Western markets.

Figure 42: Growth in demand for products exported by Afghanistan in 2015



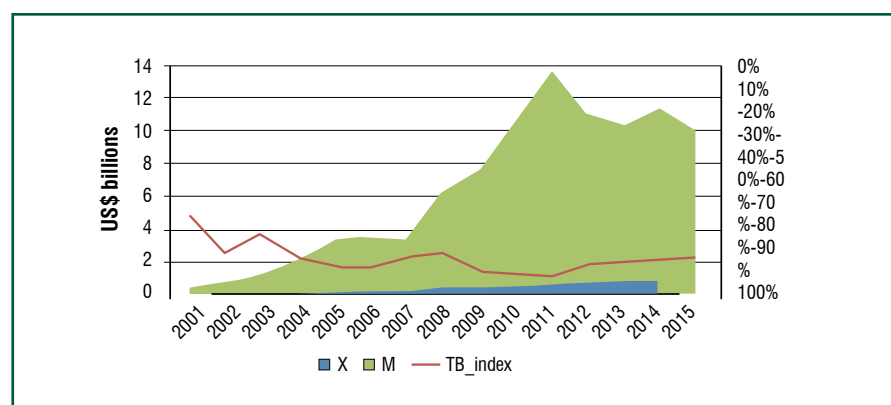
Source: TradeMap (2017).

9. The private sector is unable to satisfy domestic consumer demand, contributing to a high trade deficit.

The Afghan private sector is largely unable to satisfy domestic market demand, even with recent contractions in the market. As a result, more than 90% of consumer goods are imported from regional countries and beyond, and the bulk of these imports are consumption goods rather than imports

of inputs for value added activities. The bottom line is that Afghanistan imported almost 10 times in dollar value what it exported in 2015. Although the trade balance stabilized in 2011, the trade deficit still reflects the aid flow coming into the country and the shortcomings in building productive capacity. Increased competition expected post-WTO accession, along with a potential slowdown in exports, might result in an even higher deficit, which does not bode well for a struggling economy.

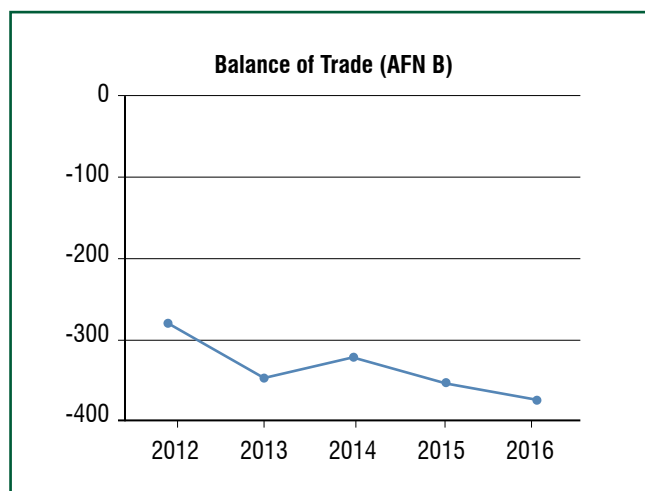
Figure 43: Evolution of Afghanistan's trade balance (goods only)



Source: ITC calculations based on data from ITC Trade Map (2017) and from ITC (2017): Reconnecting Afghanistan to Global Markets.

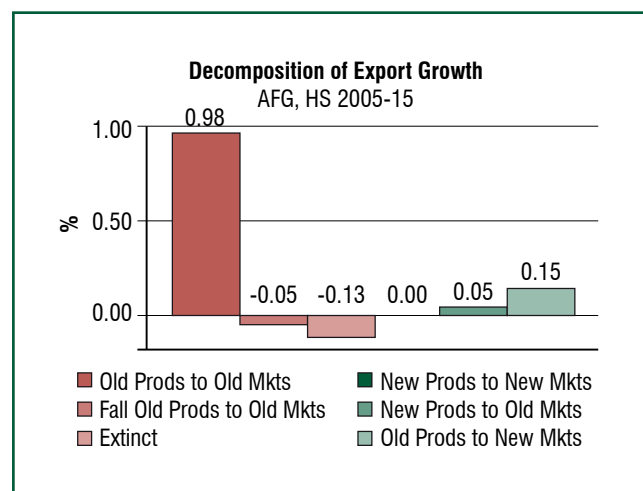
Note: The trade balance index is calculated as $(X-M) / (X+M)$.

Figure 44: Balance of Trade (AFN B)



Source: Afghan Econ Advisor – ARD MoF (2017).

Figure 45: Decomposition of export growth, Afghanistan



Source: ITC calculations based on ComTrade Data (2016).

10. Exporters have managed to increase market penetration to some extent; however, overall market and product diversification remain limited.

Recent diversification efforts remain limited to traditional markets and there is also evidence of poor survivability of export relationships. The decomposition of export growth in Afghanistan confirms that 98% of export growth in the last decade was driven by trade in traditional products to traditional markets. The country exported a few new products to those traditional markets, indicating that there has been some limited innovation. All in all, the export sector relied strongly on old trade preferences and limited market diversification between 2005 and 2015. Almost no new products exported to new markets were reported during the period, with the great majority of growth due to old products reaching traditional markets. Such figures highlight the limited market penetration of exported products. An important lesson to learn from the decomposition of export growth is that the country urgently needs to diversify its export markets and products.

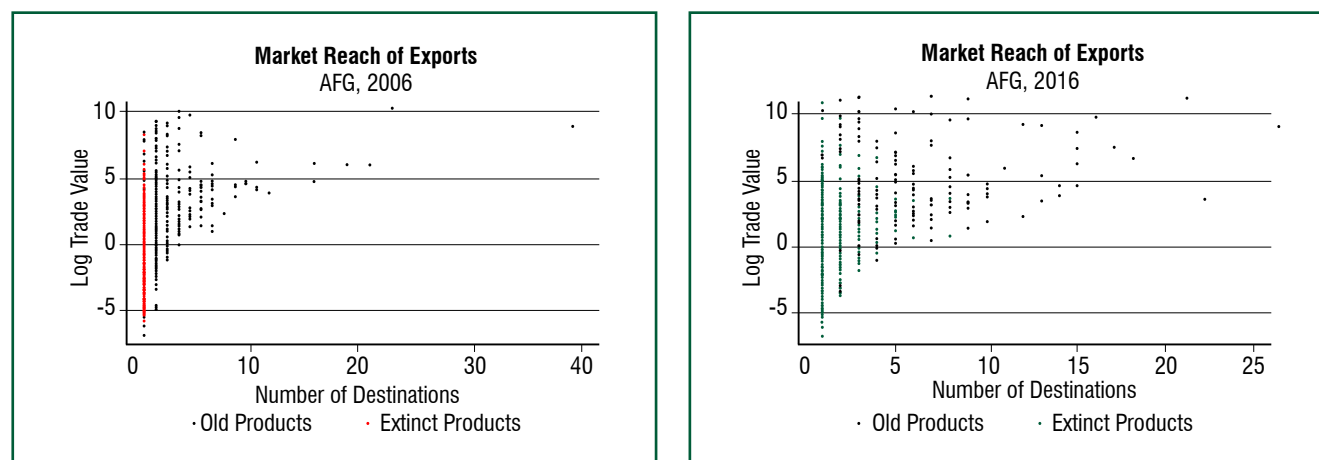
11. Persistent intermittency of Afghan exports points to weak survivability of export relationships.

A high degree of irregularity in terms of export flows has been observed. Figure 25 provides a comparison between the sector's export baskets in 2006 and 2016. It compares the number of products and the number of markets reached by each product. The horizontal axis shows the number of

markets reached, while the vertical axis shows the (logarithmic) value of the export flow. Each dot represents a variety in the export basket of Afghanistan. Red dots appear when the basket contains varieties which existed in 2006 but were no longer exported in 2016: products which have become extinct. Products which were not exported by Afghanistan in 2006 but were exported in 2016 appear in green. Comparing the two charts, Afghan products reached a larger number of markets over the last decade. While there are many products which were not exported in 2006 but were in 2016, the number of extinct products for Afghanistan is remarkable. This again signals low survival rates of exported products on international markets, and hence a lack in competitiveness of Afghan products.

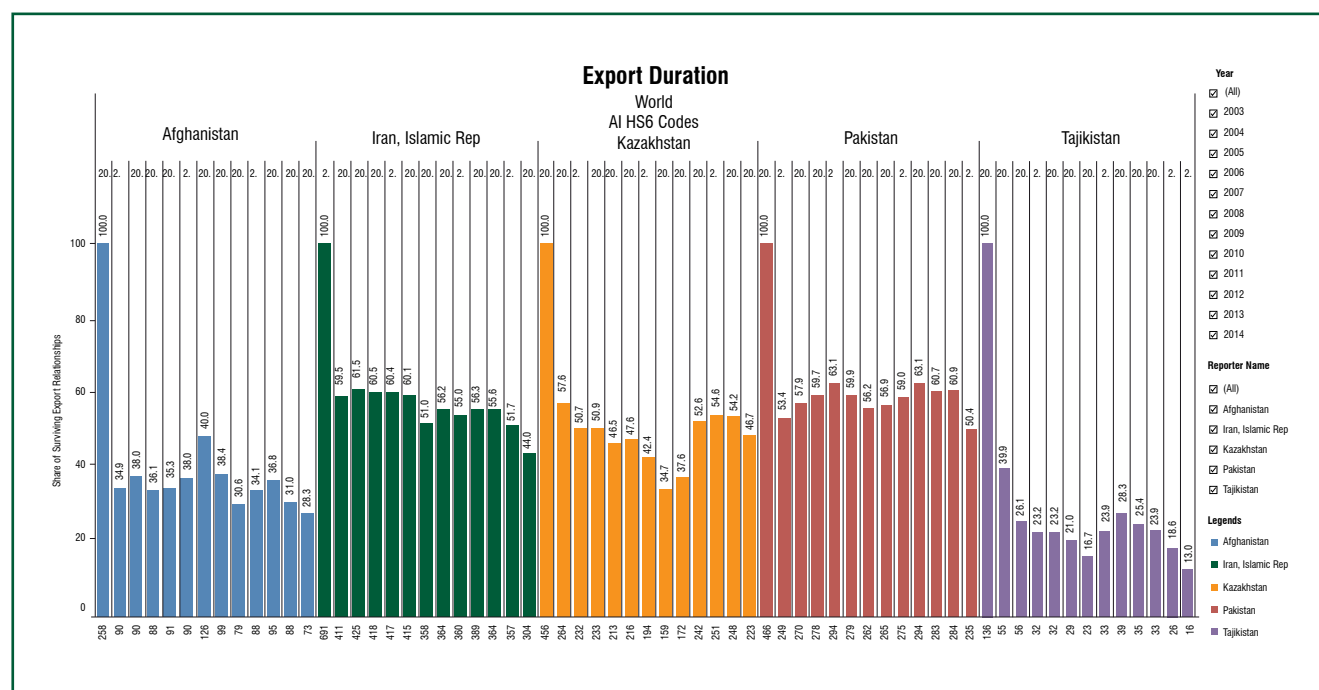
Additionally, a dichotomy exists relating to the country's survivability of export relationships. On one hand, trade data show that the main channel of export growth for Afghan exporters has been market penetration. Exporters have managed to dig deeper in existing markets through existing products. The other forms of growth – product diversification, market diversification and full (product + market) diversification – have been scarce and will require a longer-term approach to materialize. On the other hand, despite the increase in market penetration, ITC analysis finds the sustainability of Afghanistan's export flows to be in the bottom half among its regional neighbours (including the Islamic Republic of Iran, Pakistan and Kazakhstan), with an average export duration of only two years.

Figure 46: Market reach of Afghan exports 2006 (left) and 2016 (right)



Source: ITC calculations based on ComTrade (2017).

Figure 47: Export Duration.



Source: ComTrade Data (2017).

12. Unsuccessful attempts to make exports competitive point to deeper structural weaknesses in individual sectors as well as the overall economy.

The Central Bank of Afghanistan has been active in using the monetary policy tools at its disposal to stimulate growth. It has increased the country's import bill, yet currency devaluation has not led to the expected boost in Afghan exports,

including both goods and services. This is in spite of a depreciating currency (vis-à-vis the dollar), which should ordinarily render exports more competitive. Instead the import bill has increased. The key takeaway is that the core issues leading to weak export competitiveness lie elsewhere, in areas such as QM, trade facilitation, productivity gaps at the supply side, access to finance, and others.

DAUNTING COMPETITIVENESS CHALLENGES FACING THE PRIVATE SECTOR (3CS)

Key issues constraining the sector’s ability to compete, connect and change

The following section analyses sector challenges across three levels – firm capabilities; institutional and trade support and national environment; and policy and regulations. Three dimensions of competitiveness of Afghanistan exports were analysed:

Compete: Issues limiting the sector’s capacity to compete in national and foreign markets. This includes challenges related to access to inputs, productivity, business skills and national infrastructure support, among others.

Connect: Issues restraining connectivity to suppliers, markets and clients. This dimension includes challenges related to market information, marketing and trade promotion, branding and trade agreements, among others.

Change: Issues limiting the sector capacity to change, innovate and tap into emerging trends. This dimension relates to challenges accessing trained/skilled labour, intellectual property protection, institutional support to innovate, investment promotion and protection, corporate social responsibility, and youth and women’s employment, among others.

COMPETE

The competitiveness capacity of exporting sectors in Afghanistan is undermined by several factors related to firms’ abilities, institutional support and the national environment.

Limited availability of critical inputs. One of the main challenges affecting enterprise competitiveness is the limited availability of critical inputs. In some cases, inputs that could be produced in Afghanistan are being imported from neighbouring countries, generating a value loss and high dependency on foreign suppliers. This applies, for example, to the carpet sector, where dyed yarn is largely imported from Pakistan despite Afghanistan being a wool producer. Lack of organization among small-scale producers also encumbers the efficient distribution of inputs, particularly in rural areas. Moreover, inconsistency of volume and quality of raw materials, particularly in agriculture, often constrains production in dependent industries. This occurs, for example, in the dried fruits and nuts sector, which is constrained by low levels and inconsistent volumes of fruit production for processing.



Outdated production methods restrain productivity. In turn, low production levels in agriculture are partially explained by producers’ heavy reliance on outdated

production methods, creating inefficiency and limitations in terms of productivity. Explanatory factors behind this are the limited reach and quality of extension services at the national level, the limited offering of women-to-women extension services and substantial postharvest losses caused by a weak national cold chain infrastructure. These issues are evident in prioritized sectors such as saffron, fresh fruits and vegetables, and dried fruits and nuts. Outdated processing methods is another major issue reducing the value of Afghan products. Such is the case for the drying of fruits and saffron, two key industries in the country. Lack of knowledge of better processing methods and weak basic infrastructure (e.g. electricity shortages, access to water) hamper enterprises’ ability to improve traditional practices.



Low awareness of buyer requirements and international standards. Companies have a low awareness of buyer requirements and lack of understanding of international quality and food safety standards. At the institutional level, the overall national infrastructure and technical capacities for quality and food safety control are weak and have low outreach, severely affecting the entry of Afghan products into first-tier markets.



Weak national infrastructure. Weak national infrastructure raises the costs of doing business in Afghanistan, as most products are exported by road through neighbouring countries. Deficiencies in transport infrastructure and inefficient cross-border procedures hinder the competitiveness of domestic companies, constraining their ability to deliver products to overseas markets in a timely manner. Additionally, cumbersome administrative procedures exacerbate costs for enterprises.

Severity



CONNECT

Critical factors constrain the ability of Afghanistan export sector to connect and maintain commercial relationships.

Limited dialogue and coordination with Customs authorities in neighbouring countries. At the regional level, a marked absence of coordination with Customs authorities in neighbouring countries results in frequent disruption and delays of cargo, as burdensome official procedures and multiple export controls damage goods.

Severity



Adulteration of origin of Afghan products. The above context allows for frequent incidences of corruption and smuggling of products across borders. This results in Afghan products being smuggled into neighbouring countries, particularly Pakistan, where they are later labelled as foreign. The fact that enterprises have limited access to packaging services and materials facilitates the adulteration of the denomination of origin of Afghan products. This is also partly because some finishing processes are carried out in neighbouring countries; for example, cut and wash services for Afghan carpets in Pakistan, which allows for these products to be branded as Pakistani.

Severity



Insufficient promotion and in-market support and dissemination of market intelligence. This contributes to low international awareness of the attributes of key Afghan products in global markets. At the institutional level, insufficient in-market support and dissemination of market intelligence is a crucial issue across sectors and throughout their corresponding value chains. Market intelligence services are particularly needed with respect to information on buyer requirements and market trends. For instance, trade attaché positions are often not at full capacity in key markets, which limits the provision of market intelligence and business connectivity services for Afghan exporters.

At the national level, weak dissemination of the regulations and potential benefits of trade agreements and the Generalized System of Preferences (e.g. United States) granted to Afghanistan undermines export potential. More efforts are also needed to facilitate the participation of domestic companies in international fairs and exhibitions. Currently, exporters struggle to obtain short-stay visas to participate in such events. Further, marketing support and the concept of branding are also largely underdeveloped, as the promotion of Afghan products in local and foreign markets is limited.

Severity



CHANGE

The Afghan export sector has limited capacity to innovate and tap into emerging trends and markets.

Low availability of skilled labour. One of the main reasons behind this is the low availability of skilled labour. Low levels of adult literacy (approximately 38%)⁴⁴ coupled with a general low rate of enrolment in training and educational institutions limit the pool of available skilled labour. A combination of factors such as security issues and poverty contribute to persistent figures of low literacy and enrolment. Moreover, Afghanistan has experienced a striking drain of skilled workers in recent years. At the institutional level, there are no formal coordination mechanisms between educational institutions and the private sector, resulting in national curricula which are largely supply-driven rather than based on market demand. Production in Afghanistan is mostly small-scale so entrepreneurial training should accompany technical training but this type of training is not available. Another challenge is weak infrastructure in educational institutions and outdated or inadequate teaching methods in TVET institutions, including agriculture institutions.

Severity



Insufficient access to credit. Enterprises' ability to upgrade production processes are constrained by limited access to finance available. Since Afghanistan's production in prioritized sectors is largely small-scale and done at provincial level, commercial banks face difficulties reaching and serving enterprises. Cultural and religious factors also need to be addressed by financial institutions in order to appeal to producers and exporters through the offering of Islamic-compliant financial products.

Severity



44.— United Nations Educational, Scientific and Cultural Organization Institute for Statistics (2015).

Low levels of investment. An uncondusive investment environment hinders the capacity of the export sector to innovate and upgrade production and processing methods. Several factors, such as security concerns, contribute to low levels of investment but also a general lack of confidence and clarity on the domestic system and regulations for investment protection.

Severity



Limited access to land. In addition, lack of available land is constantly alluded to as a hindering factor to invest in productive sectors of the economy. There is a perceived legal ambiguity regarding the leasing and ownership of land, which translates to onerous procedures for land acquisition and weak property rights protection.

Severity



Low adoption of socially conscious practices in production. Lastly, Afghan firms have not sufficiently adopted concepts and practices related to social responsibility. Child labour is widely used in key activities and industries such as input production and weaving for the carpet sector. Root causes are a lack of understanding of children's rights, economic necessity and social factors. In a like manner, the participation of women in trade-related productive activities is hindered by social and cultural barriers, coupled with security concerns, among others. The latter restrains women's access to support services across the value chain, as in the saffron and dried fruits and nuts sectors. As a consequence, these exporting sectors which largely employ women are not unlocking their full potential. For similar reasons, additional measures are needed to integrate returning migrants into productive employment.

Severity



Box 32: Main constraints affecting Afghanistan's exports at the national level

	Firm capabilities	Institutional and trade support	National environment, policy and regulations
Complete	<ul style="list-style-type: none"> Access to inputs – value loss as many inputs are imported from neighbouring countries but could be manufactured in Afghanistan (e.g. wool yarn for carpets) Outdated processing methods (e.g. drying of fruits) Little knowledge of buyer requirements and market trends Difficulty implementing and maintaining quality and food safety controls, severely affecting entry to first-tier markets 	<ul style="list-style-type: none"> Limited support to the agricultural sector from extension services (women-to-women extension services, e.g. saffron, fruits and vegetables) Electricity shortages and fuel is expensive Weak cold chain infrastructure Cumbersome administrative procedures Limited dialogue and coordination between QM and other relevant institutions 	<ul style="list-style-type: none"> Challenging infrastructure business (landlocked, poor road infrastructure) increases the costs of doing and the ability to deliver products to markets in a timely manner Lack of transparency / corruption in Customs procedures and the taxation system Weak infrastructure and technical capacities for quality and food safety controls
Connect	<ul style="list-style-type: none"> Challenges meeting buyers, contracting sales and maintaining commercial relationships Limited adequate packaging available for processed products, which also affects the branding / reputation of sectors at the international level. Promotion of Afghan products in local and foreign markets is limited Limited physical presence in key export markets (i.e., no permanent showroom or single address for be found by buyers in export markets) Traceability is largely absent in production (e.g. dried fruits and nuts / small-scale production) 	<ul style="list-style-type: none"> Often trade attaché positions in key markets are not filled, and those that do exist provide limited services Insufficient in-market support and dissemination of market intelligence across sectors 	<ul style="list-style-type: none"> Weak dissemination of benefits of signed trade agreements, Generalized System of Preferences, etc. No coordination with neighbouring Customs authorities Cargo is frequently delayed and disrupted because of burdensome official procedures Insufficient efforts to support companies to obtain visas to participate in foreign fairs and exhibitions
Change	<ul style="list-style-type: none"> Limited access to finance (including trade support finance). Afghan production in prioritized sectors is largely small-scale and in decentralized. Producers are not reached well enough by commercial banks Insufficient business management skills at various levels of the value chain Low skills levels, low levels of literacy and a generally low rate of enrolment in training and educational institutions Marked drain of skilled workers Socioeconomic context allows the prevalence of child labour in certain sectors 	<ul style="list-style-type: none"> No formal coordination mechanisms between educational institutions and the private sector Great lack of equipment and teaching material (e.g. agriculture TVET institutions) 	<ul style="list-style-type: none"> Insufficient financial tools / not aligned with Islamic beliefs Limited access to land Uncondusive investment environment (security reasons, but also lack of confidence in the investment protection system, sense of lawlessness) Lack of education, skills, security and cultural barriers hinder women's participation and access to support services across value chains Insufficient measures to integrate returning migrants into productive employment

METHODOLOGICAL NOTE: SECTOR SELECTION

How were NES priority sectors selected?

The NES priority sector selection exercise demanded focus on a number of quantitative and qualitative analytical parameters. It also required attention to the specific political, developmental and diplomatic contexts at the country as well as the region. In Afghanistan, this was achieved through a mix of consultations and research. The following parameters were considered. The Strategy implementation period also guided the sectors to be included. The NES is a long-term strategy as far as the vision and strategic objectives are concerned but the strategic PoAs are limited to five years and must be revised after three years. The following five-year time frame will allow other developing sectors that are ripe for growth to be included in the revised NES.

In the context of limited resources for sector support and the low starting position of many of the sectors, planners have the unenviable task of conducting a drastic prioritization of sectors to be included in the NES. Some sectors are already poised for rapid improvements once technical support is initiated. These 'first movers' can help linked sectors gain ground for a collective scaling up.

Through the essential combination of priority sectors, the NES ensured that relatively well-performing sectors important to the current trade portfolio are boosted and comprehensively supported over the next five years. In order to achieve this goal, the NES priority sector selection exercised demanded focus on a number of quantitative and qualitative analytical parameters. Using a combination of quantitative and qualitative analyses allowed for a balanced selection of high performing goods and services sector, but also merging sectors with future potential. It also required attention to the specific political, developmental and diplomatic contexts at the country as well as the region. In Afghanistan, this was achieved through a mix of consultations and research. The following parameters were considered during the selection process.

EXPORT POTENTIAL INDICATORS

The ITC export potential indicator analysis was the starting point in a decision-making process and needed to be complemented with further research and stakeholder consultations. The export potential indicator identifies products already competitively exported with good prospects of export success (in specific target markets).

Quantitative and qualitative data involved in the analysis included:

- Current/past export performance
- Global import demand
- Market access conditions (tariffs, distances)
- Percentage of unused potential (per specific markets)
- Stability of export revenue (qualitative)
- SME presence in the sector (qualitative).

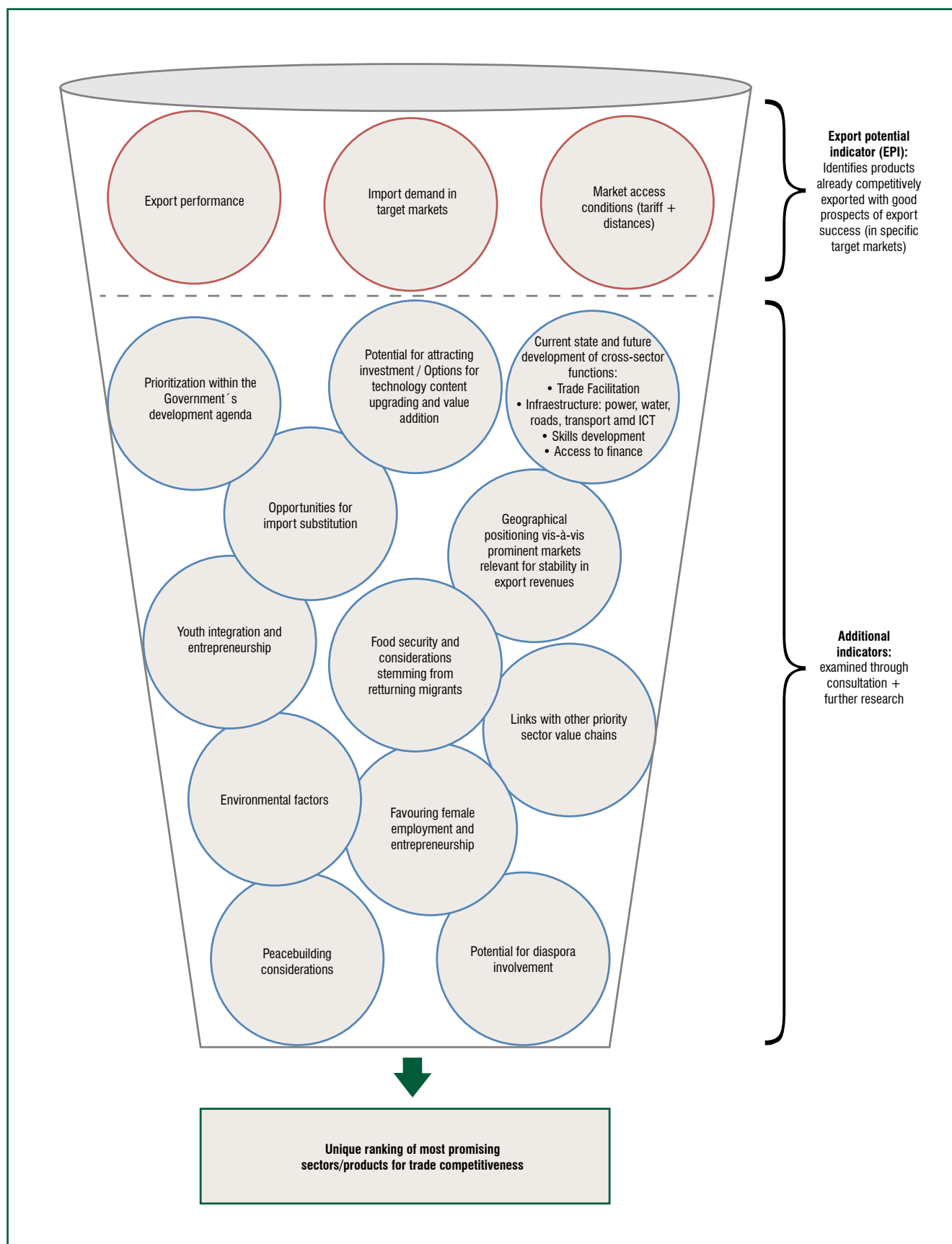
ADDITIONAL CRITERIA

In addition to the export potential indicators, additional indicators assessed whether the products meet certain policy and socioeconomic objectives. These factors included:

- Prioritization of the sector within the Government's development agenda
- Potential for attracting investment/technology upgrading and value addition
- Current state and anticipated improvements in important TSFs including:
 - Trade facilitation
 - Infrastructure including: power, water, transport, roads, and information and communications technology
 - Access to finance
 - Skills development
- Food security, and considerations stemming from returning migrants
- Geographical positioning vis-à-vis prominent markets relevant for stability in export revenues
- Environmental sustainability
- Gender employment and entrepreneurship
- Youth integration in productive economic activities
- Potential for diaspora involvement
- A sector's potential impact on ongoing peacebuilding efforts
- Potential for import substitution
- Links with other priority sector value chains.

The non-selection in this iteration of the NES however does not imply de-prioritization of the sector. Comprehensive TSF support will ensure that the scope of the NES goes beyond the priority sectors. Functional areas of the TSF are meant to provide necessary support that impact every enterprise. The interventions stemming from the strategies for these technical areas will ensure that other sectors also benefit. With increasing capacities over time, these sectors will be well-positioned to be included in further iterations of the NES, as current priority sector 'graduate'.

Figure 48: NES Priority sector selection variables





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