



**Government of the Islamic Republic of Afghanistan  
Ministry of Economy**

# **Afghanistan National Development Strategy 2008 – 2013**

## **Executive Summary**



**June 2014**

**General Directorate of Policy & Result Based Monitoring**



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the Name of Allah, the Most Compassionate, the Most Merciful

إِنَّ اللَّهَ لَا يُغَيِّرُ مَا بِقَوْمٍ حَتَّىٰ يُغَيِّرُوا مَا  
بِأَنْفُسِهِمْ

Verily, never will Allah change the condition of people  
unless they change it themselves  
(Holly Qurah, Surah Al-Rad, Ayat 11<sup>th</sup>)

# Map of Afghanistan



## EXECUTIVE SUMMARY

The Afghanistan National Development Strategy (ANDS) has been prepared and organized under the leadership of the Higher Oversight Committee including the Ministries of Foreign Affairs, Finance, Economic, Justice, Education, Commerce and Industry as well as National Security Adviser. The committee was appointed by H.E. the President and was chaired by the Senior Economic Advisor to the President. The Afghanistan National Development Strategy was approved by the Cabinet on 2<sup>nd</sup> Sawr in 1387 (21<sup>st</sup> April 2008). Thereafter, it was presented at the Paris conference on 13<sup>th</sup> Jawza 1387 (02 June 2008) and welcomed by the donor countries.

The ANDS serves as the country's first poverty reduction strategy paper. It is based on the Millennium Development Goals (MDGs) and organized under three pillars of: (1) security; (2) governance, rule of law and human rights; and (3) social and economic development. These three pillars divided into eight sectors and 17 subsectors and six cross cutting issues. In order to effectively implement the ANDS, the Afghan Government's Ministries and public institutions, as well as Donor Countries, jointly aimed to sync projects and programs with the ANDS.

To reflect people's needs, particularly with regard to poverty reduction and welfare, the ANDS applies a bottom-up approach, taking into account all aspects of social and economic dimensions. Moreover, the ANDS is a product of extensive consultation at the national and subnational level. In total, around 17,000 different individuals (including Government officials, members of parliament, members of

provincial councils, member of civil society organizations, representatives of the private sector, representatives of donor countries, and provincial reconstruction teams) participated in ANDS consultation meetings. Remarkably, 47 percent of the participants in the consultation processes were women.

Overall, the ANDS consists of 86 expected outcomes that are measured by 276 development indicators. In total, it is estimated that more than 15.6 billion USD have been spent to achieve these outcomes over the five-year implementation period (2008-2013) of the ANDS. About 4.9 billion USD were invested through the government budget (on-budget), the remaining 10.7 billion have been spent outside the regular budget (off-budget). Leaving the security sector aside, at the beginning of the implementation period an amount of 35.9 billion USD were predicted to entirely realize the ANDS. Thus, the actual spending was only 44 percent of this estimated amount.

As this report will present in detail, as of 2013 about 66 percent of the targeted outcomes formulated in the ANDS were achieved. While a higher percentage of targets have been accomplished in the health sector (88 percent), private sector development only achieved 45 percent of its targeted outcomes. The percentages of achievements in the other sector of ANDS are as follows: security 73 percent, governance 71 percent, infrastructure and natural resources 63 percent, education 71 percent, agriculture and rural development 69 percent, and social security 46 percent. After highlighting some key findings across sectors, the executive summary will present core findings on each

sector's performance in relation to expected outcomes as named in the ANDS as well as related budget execution. It furthermore formulates related recommendations indicated by the findings.

#### **A. The Report's Key Findings in Macroeconomic Level:**

- The average economic growth rate for the ANDS implementation period (2008-2013) was predicted to be 8.1 percent but was surpassed at 8.5 percent. In 2008, the total value of GDP was about 10.8 billion USD, which increased to 21 billion USD in 2013. Facing population growth of 2.03 percent, Afghanistan's future government will be challenged to ensure that gross domestic product growth keeps pace with its population growth.
- Considering population growth, the per capita income increased from 426 USD in 2008 to 779 USD in 2013.
- The ANDS targeted to fully finance the operational budget through revenues by the end of its implementation. However, by 2013 domestic revenues met only 52 percent of the operation budget. Afghanistan generated 41.4 billion Afs (828 million USD) revenue in 2008, which increased to 99.4 billion Afs (1.9 billion USD) in 2012. The country's revenue decreased from 1.9 billion USD in 2012 to 1.7 billion USD in 2013 due to changing the financial year from 12 month to 9 month. Despite significant growth in the revenue during the past five years, revenue forms only 9 percent of the GDP, which is comparatively low. It is suggested that

within the next five years the domestic revenue should reach to at least 15 percent of the GDP.

- During the ANDS implementation period, total national debts increased from 2.1 billion USD in 2008 to 2.4 billion USD in 2013. The current debt stock equals 11 percent of our GDP, and per capita debt is estimated around 88 USD per Afghan.
- During the ANDS implementation period, inflation fluctuated. According to the Central Statistical Organization (CSO) and the Central Bank of Afghanistan, the inflation rate was 4.8 percent in 2008. In 2009 it decreased to -4.5 percent. Then, in 2010 it jumped up to 13.7 percent due to the floods in Pakistan which affected food prices in both countries. Thereafter, the inflation rate again decreased to 8.4 percent and 5.8 percent respectively for the years of 2011 and 2012. The key factors behind inflation were export, foreign reserve, and currency exchange policy, and to some extent increasing productivity of agriculture sector.
- The amount of money in circulation shows decent growth during the ANDS implementation period. The total amount of money in circulation increased from 76.8 billion Afs in 2008 to 143.9 billion Afs in 2013 indicating an improvement in both the currency stability and the economy.
- Considerable achievements can be reported for the banking sector. At present, there are 16 private banks



and three public banks in Afghanistan. The total deposit in the banking sector increased from 1.3 billion USD in 2007 to 3.8 billion USD in 2012. Likewise, the total bank loans have increased from 1.35 billion USD in 2007 to 4.1 billion USD in 2012. The total asset of the mentioned banks has increased from 1.6 billion USD in 2007 to 4.7 billion USD in 2012. However, despite these achievements, there remain challenges. The Kabul Bank crisis was an alarming incident for all other private banks. Nearly one billion USD of public deposit in the Kabul Bank vanished due to corruption and mismanagement.

- Afghanistan trade deficits significantly increased during the ANDS implementation period. Starting off with 2.5 billion USD in 2008, it rose to 8.5 billion USD in 2012. The main reason for the trade deficit is the existence of international military troops, less attention to the private and manufacturing sector, and ongoing security challenges. The current trade balance is not tolerable, therefore it is suggested that in the next 5 years development plan we have to focus more on improving our domestic products capacity, further enabling environment for domestic investment, implement export promotion and import substitution policies.
- During the ANDS implementation period Afghanistan experienced a slight reduction in poverty. Baseline data shows 42 percent poverty in 2008. A decrease of two percent per year was targeted. According to NRVA 2011/2012 data revealed the poverty rate reduced to 36

percent, indicating a 6 percent decrease compare to the 10 percent reduction, which was targeted. Despite of having surpassed GDP growth rate targets (on average 8.5 percent during the ANDS implementation period), poverty reduction did not keep pace. Therefore, it is important that for the future we should focus more on better poverty reduction policies and implement targeted programs in order to reduce poverty. Considering high population growth rate, 36% of the population below poverty line is still a big challenge for future planning and investment.

#### **B. Key Finding and Recommendations across Sectors:**

- Despite challenges, an average of 66 percent of the outcomes targeted in the ANDS was achieved.
- In total, it is estimated that more than 15.6 billion USD have been spent to achieve these outcomes over the five-year implementation period (2008-2013) of the ANDS. About 4.9 billion USD were invested through the government budget (on-budget), the remaining 10.7 billion have been spent outside the regular budget (off-budget). Off-budget spending was thus twice as much as on-budget spending.
- The significant difference between off- and on-budget executions indicates that the Afghan Government has played little role compared to international donors, when it comes to the ANDS implementation. The off-budget expenditure by the international community caused

establishment of parallel structures for service delivery and made it hard to monitor and maintain the required accountability of the overall investment process across the country.

- The total approved national development budget (on budget) for the five-year ANDS implementation period (2008-2013) was 11.2 billion USD. The actual spending of only 4.9 billion USD shows that overall only 44 percent of the approved development budget has been executed by all budget entities. This indicates a crucial lack of capacity to perform development tasks within budgetary institutions.
- The planning process in the past decade was fragmented due to many factors and different institutions intervened in different periods. Generally, planning was not undertaken seriously, partially as it was perceived to be an aspect system of centralized economy, thus this report recommends that national planning should remain as a strong tool in the public and private sectors investment processes and should be led by a specific government institution.
- Despite mutual efforts by the government of Afghanistan and the international community toward accepted principles of the aid effectiveness, it still evaluated unsatisfactory.

## I. **Key Findings Security Sector:**

- The ANDS mentions nine expected outcomes for the security sector and applies 17 indicators to measure their achievement. Within the sector 72.8 percent of the targets set have been achieved during the ANDS implementation period.
- Overall, the total investment in the security sector as part of its development budget is estimated to be around 803 million USD for the ANDS implementation period. About 66.3 million USD have been spent through the Afghan development budget. Donors spent the remaining 737 million USD outside the development budget.
- More than 70 percent of security sector outcomes were met with the exception of the outcomes that Afghan National Army, Afghan National Police and Afghan Border Police expenditures are fiscally sustainable.
- To some extent, the security transition impacts the level of investment, revenue and economic growth. With the international security withdrawal, Afghanistan will take the lead of security operations and consequently the increased operation expenditure compared to the development budget will slightly affect our current economic growth.
- Lack of firm commitment to equip Afghan national army and police with required updated weapons.

## **II. Key Findings Governance Sector:**

- The ANDS planned 18 expected outcomes for the governance sector and applies 18 indicators to measure their achievements. About 71 percent of the targeted outcomes have been achieved during the ANDS implementation period.
- Overall, the total investment in the governance sector was about 2.4 billion USD. About 132 million USD have been spent through the Afghan development budget. Donors spent about 2.2 billion USD outside the national budget – or 95% of the total investment - indicating a heavy imbalance between on- and off-budget spending.
- The following planned outcomes had less than 50 percent achievement: corruption reduced enhanced availability of information to public and enforcement, census completed and results published, statistical baselines established, and single national identity document. The rest had better achievements.

## **III. Key Findings Infrastructure and Natural Resource Sector:**

This sector is divided into the following six sub-sectors: energy, transport, water management, urban development, information and technology, and mining. Each of the sub-sectors will be treated separately, following an overview of general findings.

- Overall, the ANDS mentions 29 expected outcomes for the Infrastructure and Natural Resource Sector. To measure achievements on the outcomes 74 indicators were developed. Sector-wide,, 63 percent of the targets set through the outcomes have been achieved during the ANDS implementation period.
- During the ANDS implementation period, around 4.1 billion USD was invested in the sector, which represents the highest spending in any one sector. About 2.1 billion USD was spent through the national development budget, and donors spent the remaining 2 billion USD off-budget.

#### **1. Key Findings Sub-Sector Energy:**

- During the implementation period of the ANDS, responsible institutions achieved 63 percent of the targets set in the related ANDS outcomes.
- Visible achievements in this sector include the expanded public power grid and restructured energy sector governance and commercialize operations.
- Remaining challenges for the sector are to meet its other planned outcomes such as enhancing rural access to electricity and attracting private sector investment in energy. Achievements in these outcomes are less than 50 percent of the targets. Additional challenges for this sector are the lack of capable and credible foreign and domestic companies interested to implement the water and energy projects, and at the same time a low level of technical capacity.

### **Recommendations Sub-Sector Energy:**

- More focus should be given to encourage private sector engagement and investment in energy sector and to promote an enabling environment for investment in renewable energy in the rural areas.
- Improve rural access to electricity.
- Foster technical capacity building and developing coordination mechanism among the sector line ministries and institutions.

### **2. Key Findings Sub-Sector Water Resources:**

- During the implementation period of the ANDS responsible institutions have achieved 68 percent of the targets set in the related ANDS outcomes.
- Only 49 percent of the approved development budget for this sub-sector over the course of ANDS implementation period has been spent.
- Significant success is particularly found with regard to improved water sector legal and governance structures and institutions. Achievements with regards to other expected outcomes are also good, but the targets were set relatively lower; for instance, 30 percent of urban population should have access to piped water (with Kabul expected to have 50 percent by that time).
- A remaining challenge for the sub-sector is to improve water management for better irrigation and

consumption because it met only its half of planned targets.

#### **Recommendations Sub-Sector Water Resources:**

- More focus should be given to increasing access to clean drinking water in the urban and rural areas. Current targets on accessing drinking water in rural and urban areas are relatively low; in the next 5 years plan targets need to be set a bit higher.
- Foster technical capacities of the responsible institutions in this sector to improve their development budget expenditure rate.

#### **3. Key Findings Sub-Sector Transport and Civil Aviation:**

- During the implementation period of the ANDS responsible institutions have achieved 64 percent of the targets set for this sub-sector.
- Significant achievements were made with regard to road reconstruction and airport reconstruction. About 7,000 km of roads have been asphalted which connect most parts of the country and neighboring countries. Kabul, Mazar, Herat, and Kandahar International Airports almost meet ICAO standards. In addition, construction of more than 10 domestic airports is well underway.
- Within the sub-sector, there were fewer achievements in the expected outcome of lower road users' cost. Around 50 percent of the outcomes of improved governance in the transport sector and improving business



environment for private sector investment were achieved.

- Remaining challenges for the sub-sector are a lack of resources to maintain and operate the roads and a lack of governmental auditing of infrastructure projects, as well as delay in their funding.

#### **Recommendations Sub-Sector Transport and Civil Aviation:**

- Establish a trust fund for expansion, maintenance and operation of transit infrastructures.
- Focus on promoting an enabling environment to attract private sector investment in this sector.

#### **4. Key Findings Sub-Sector Information and Communication Technology:**

- During the implementation period of the ANDS responsible institutions have achieved 75 percent of the targets set for this sub-sector.
- About 65 percent of the approved budget for this sub-sector has been spent.
- Significant achievements include improved information and technological coverage, along with expanded infrastructure. Moreover, the enabling environment for the private sector has been improved.
- Remaining core challenges for the sub-sector are the creation and implementation of E-Afghanistan, as well as improving ICT literacy.

## **Recommendations Sub-Sector Information and Communication Technology:**

- Foster the distribution of electronic Identity cards in order to improve electronic governance.
- Emphasize the improvement of internet services and national optical fiber expansion.

## **5. Key Findings Sub-Sector Urban Development:**

- During the implementation period of the ANDS responsible institutions have achieved only 54 percent of the targets set for the sub-sector urban development.
- About 85 percent of the approved development budget for this sub-sector has been spent. This indicates better than average expenditure of the development budget in this sub-sector.
- Visible achievements in the sub-sector include improved institutional coordination of the sector, as well as strengthened institutional capacity to plan and manage urban development.
- Core challenges remain, including insufficient access to basic urban services, lack of affordable housing, and poor access to secure tenure and improved services to informal settlements. In these outcomes, the sub-sector achieved less than 50 percent of what were targeted.

## **Recommendations Sub-Sector Urban Development**

- More focus should be given to above mentioned underperforming outcomes such as: improved access to basic urban services, access to secure tenure, and improved services to informal settlements in the future plans. At the same time, for future planning and

monitoring a sound urban development management information system is needed.

#### **6. Key Findings Sub-Sector Mining:**

- During the implantation period of the ANDS, the responsible institutions in this sector have achieved only 53 percent of the targets set for the sub-sector of mining.
- Only 34 percent of the approved development budget for this sub-sector has been spent.
- Remarkable achievements include access to geophysical and geological information, and the introduction of a strong regulatory framework for the sub-sector.
- Core challenges and shortcomings are seen in the area of attracting private sector investment and increasing public access to natural gas resources. Achievements in these two outcomes are much less than what were planned.

#### **Recommendations Sub-Sector Mining:**

- Attract private sector investments.
- Improve technical capacity of this sector's institutions in order to increase its development budget expenditure rate.

#### **IV. Key Findings Education Sector:**

- The ANDS mentions nine expected outcomes for the education sector and introduces 32 indicators to measure their achievement. About 71 percent of the

targets set through the outcomes were achieved during the ANDS implementation period.

- During the ANDS implementation period, around 1.45 billion USD was invested in the sector, of which 498 million USD was spent through the national development budget. Donors spent the remaining 949 million USD through off-budget.
- Visible achievements in the sector include improved education quality and access to higher and vocational education. Moreover, the overall literacy rate has remarkably improved.
- Core challenges and shortcomings in the sector remain, including the need to improved quality of vocational education, support a science academy, and improve sports facilities; the achievement of all of these outcomes was around 60 percent of the planned levels.
- Over the course of ANDS implementation, the budgetary institutions in this sector on average spent only 40 percent of their approved development budget. Off-budget expenditures were comparatively higher, at around 73 percent of what was committed.

#### **Recommendations Education Sector:**

- Increase universities absorption capacities compared to secondary school graduation rate.
- Further strengthen sector institutions' capacity to spend their development budget and to shift development

spending from off-budget to on-budget executions. During the ANDS period, off-budget expenditures were two times that of on-budget expenditures.

- Focus more on quality and credibility of vocational trainings and align it more to market needs.

## **V. Key Findings Public Health Sector:**

- The ANDS mentions three expected outcomes for the public health sector and introduces 13 indicators to measure their achievement. About 88 percent of the targets set through the outcomes were achieved during the ANDS implementation period, making health the most successful sector.
- Throughout the ANDS implementation period 1.27 billion USD was invested in the sector. Some 426 million US dollars were spent through the national development budget, and the remaining 845 million US dollar was spent outside the development budget (off-budget).
- The key achievement of public health sector is perfect achievement of the targeted plan of effective reproductive and child health systems. Moreover, significant improvements have been made with regard to the other two outcomes of quality health care and increased access to health care services.
- As in other sectors, the key challenge in the health sector is that the off-budget expenditure is more than two times that of the on-budget expenditure. Secondly, the

three indicators set for effective reproductive and child health system cannot be assessed through Ministry of Public Health administrative data. They have to be assessed through national level surveys.

## **VI. Key Findings Agriculture and Rural Development Sector:**

- The ANDS names six expected outcomes for the agriculture and rural development sector and 78 indicators to measure their achievement. About 65 percent of the expected targets were achieved during the ANDS implementation period.
- During the ANDS implementation period around 3.26 billion USD were invested in the sector. About 1.3 million USD has been executed through the Afghan development budget. Donors spent the remaining 1.9 billion USD outside the national budget.
- Improvements are visible with regard to expected outcomes of strengthening local governance, increasing agriculture productivity and provision of disaster and emergency responses.
- A core challenge for the sector remains the expected outcomes of provision and maintenance of agriculture and rural infrastructures and promotion and facilitation of economic opportunities for small and medium enterprises. These expected outcomes achieved less than 50 percent of their targets.

## **Recommendations Agriculture and Rural Development Sector:**

- The expected outcomes of “Promotion and facilitation of Economic opportunities for SMEs” and “Provision and Maintenance of Agriculture and rural infrastructures” progressed but require further attention through proper planning and investment.
- Shift investments from off- to on-budget spending to improve the sectors incorporation in the national development planning process and increase the level of investment in Ministry of Agriculture. In the agriculture and rural development Sector MAIL is receiving around one third of amount MRRD is receiving every year.

## **VII. Key Findings Social Protection Sector:**

- The ANDS names four expected outcomes for social protection sector and 22 indicators to measure their achievement. About 46 percent of the expected targets were achieved during the ANDS implementation period. However, it must be clearly stated that assessing the improvements in the sector was technically challenging. Of the 22 indicators 20 were lacking specific baseline data.
- During the ANDS implementation period a total of 643 million USD was invested in the sector. About 57.8 million USD has been spent through the national development budget; the remaining amount of 585 million USD has been executed off-budget.
- There are some achievements in “Improved old age protection”, “disaster preparedness and response” and “reduction of infant mortality” outcomes, but the

average achievement compared to their planned targets measured around 50 percent.

- Core challenges for the sectors are a lack of adequate resources for investment in this sector through government channel (on-budget expenditure) and a weak coordination mechanism among national and international stakeholders in this important sector, as well as weak technical capacity of the government institutions in charge of this sector.

#### **Recommendations Social Protection Sector:**

- Create a management information system (MIS) to properly track and evaluate crucial indicators of social protection sector.
- Foster capacity building in responsible institution to spend fully their approved development budget and attract off budget expenses by developing sound joint management and coordination mechanisms and more important to attract and coordinate private sector investments in this sector.

### **VIII. Key Findings Private Sector Development:**

- The ANDS mentions eight expected outcomes for private sector development and introduces 22 indicators to measure their achievement. About 45 percent of the expected targets were achieved during the ANDS implementation period. However, it must be clearly stated that assessing the improvements in the sector was technically challenging. Of the 22 indicators 13 were lacking specific baseline data.
- During the ANDS implementation period a total of 1.29 billion USD was invested in the sector. About 304.6



million USD has been spent through the regular development budget; the remaining 984 million USD has been executed off-budget.

- The main achievements of the sector are the creation of legal framework for the trading sector, and simplification of regulations for business licenses and registration.
- Remaining challenges are the need to improve public private partnerships, increase access to finance for private sector, the utilization of land by the private sector, and promote the economic growth of provinces.

#### **Recommendations for Private Sector Development:**

- Under this sector, annual on-budget development investment of the Ministry of Commerce and Industry and the Afghanistan Investment Support Agency (AISA) were very low compare to other budgetary institutions. In order to fully achieve the expected outcomes of this sector, it is particularly important that the mentioned two institutions should increase their current level of investments in the upcoming years.
- Improve technical capacity within responsible institutions to foster planning and development, as well as budget expenditure.

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