

AFGHANISTAN POSTCONFLICT RECONSTRUCTION

A large, faint watermark of the Asian Development Bank logo is visible in the background. The logo features a stylized gear-like border with the text 'ASIAN DEVELOPMENT BANK' across the top and a central emblem.

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Introduction

When we speak of postconflict reconstruction, it is more than new roads, bridges, and schools. It is about:

- Capacity building and
- Identifying and implementing the right set of policy and institutional reforms

These reforms will help:

- Develop free markets,
- Enable individual initiatives to thrive,
- Encourage the participation of women in society and economy,

- Allow civil society to operate freely,
- Enhance trade and commerce,
- Restore internal and external financial linkages,
- Reopen and strengthen regional links, and
- Increase factor mobility.

- ADB follows a three-pronged approach for postconflict reconstruction focused on:
 - Building capital,
 - Rehabilitating production and income especially for the poor, and
 - Improving capacity to improve aid absorption.

Political Events

In Afghanistan, the international community has witnessed:

- Removal of the Taliban from power in November 2001,
- Signing of a power-sharing agreement by representatives of the major Afghan factions in Bonn in December 2001,

- Convening of a Loya Jirga (a traditional council of elders) in June 2002,
- Transfer of power to a legitimate transitional government to rule Afghanistan until elections are held by June 2004,

- Resettlement of more than two million refugees and one million internally displaced persons and returnees,
- Initiation of a program to demobilize, disarm, and reintegrate one million ex-combatants into civil society,

- Preparations are underway to convene a Constitutional Loya Jirga in October 2003 and to conduct national elections by June 2004.

The Economy

- GDP per capita estimated at \$167 in 2002 at current prices
- Macroeconomic picture is improving
- Agricultural production especially wheat production well above previous years
- Small construction boom is underway in Kabul and other towns

Financial Policy Initiatives

- Successful introduction of a new currency that was well received by the public and business community has exerted a stabilizing influence.
- Central Bank Law and Banking Law to modernize the banking sector should be approved by end-2003.

- Continued adherence to a no-deficit-financing policy
- Customs tariff and administrative reforms are evolving
- Domestic revenue collection is projected to double in FY2003/2004

The Cost of Reconstruction

A Comprehensive Needs Assessment prepared by ADB, UNDP and WB in 2002 estimated Afghanistan's reconstruction costs at \$14.6-\$18.1 billion over 10 years.

Scenario	US\$ million			
	1 year	2.5 years	5 years	10 years
Base Cost	1,700	4,900	10,200	14,600
Low Cost	1,400	4,200	8,300	11,400
High Cost	2,100	6,500	12,200	18,100

At the International Conference on Reconstruction Assistance in Tokyo on 21-22 January 2002 (“**Tokyo Conference**”), donors pledged \$4.5 billion over 2.5 years (January 2002 – June 2004).

\$1.8 billion was actually disbursed in 2002.

International Assistance

- International support for Afghanistan became structured in 1997 with the establishment of the **Afghanistan Support Group (ASG)** comprising the European Union and 15 donor countries.

- In November 2001, the **Afghanistan Reconstruction Steering Group** (Japan, Saudi Arabia, United States and the European Union) was established to set the stage for international assistance for Afghanistan's reconstruction.

- In December 2001, the **Afghanistan Reconstruction Implementation Group** (ADB, IsDB, UNDP, World Bank) was formed to help coordinate the reconstruction effort.

- During the **ASG annual meeting** in Oslo in December 2002, the Government of Afghanistan laid out its plans to move towards a Consultative Group mechanism to replace the SG, IG and ASG, leading to the first **Afghanistan Development Forum (ADF)** held on 13-14 March 2003 in Kabul.

Afghanistan Reconstruction Trust Fund (ARTF)

- Set up in **May 2002**. Has channeled the assistance of 22 donors and emerged as one of the main instruments for financing the Government's recurrent budget.
- Evolving into a significant financing source for the Government's investment programs and technical assistance.

- Donors have so far pledged more than **\$370 million**.
- Government is requesting a major increase in donor contributions to the ARTF – approximately **\$600 million** for FY2003/2004:
 - \$200 million for recurrent costs
 - approximately \$400 million for investment projects, hiring of expatriate Afghans, and training.

By contrasting this estimate of needs with the current level of pledges for FY2003/2004 (approximately \$200 million as of June 2003), the ARTF is facing a funding gap of about \$400 million.

The National Budget

- In the ADF, President Hamid Karzai appealed to the community to quadruple the aid package pledged in Tokyo in January 2002:
 - Afghanistan would need **\$15-20 billion** over the next five years to rebuild vital social and economic infrastructure and to combat terrorism and drugs production

- President Karzai said there is a need for a new pledging conference in 2003 to firm-up longer-term commitments as most pledges made at the Tokyo Conference will be fully disbursed within the next year.

National Budget 2002/2003 and 2003/2004 (\$ million)

	2002/2003		2003/2004		Total	
	Recurrent (est. act.)	Development (budget)	Recurrent	Development	2002 /2003	2003 /2004
Budget	324.8	1,479.0	550.0	1,718	1,803.8	2,268
Financing						
Domestic revenue	100.9	0.0	200.0	0.0	100.9	200
Donor assistance/pledge	196.1	737.5	350.0	1,476	933.6	1,826
Grants	195.6		350.0		195.6	350.0
ARTF ¹			250.0			250.0
LOTFA ² and ATF ³			100.0			100.0
Loans	0.5 ⁴				0.5 ⁴	
Other receipts	27.8				27.8	
Surplus/deficit net (Financing gap)	0.0	741.5	0.0	242	741.5	242
Total	324.8	1,479	550.0	1,718	1,803.8	2,268

Notes: ¹ Afghanistan Reconstruction Trust Fund. ² Law and Order Trust Fund. ³ Army Trust Fund. ⁴ Use of \$0.5 million from ADB loan.

- The national budget presents an overall expenditure plan totaling \$2.27 billion.
- Funding the 2003/2004 recurrent budget will require \$550 million
 - \$200 million projected to come from domestic revenue, and

- **\$350 million** from donor financing.
- Donors have pledged so far \$116 million for the recurrent budget, leaving a **\$234 million** gap.

- Funding the 2003/2004 **development budget** will require \$1.72 billion, to be financed by donors through:
 - direct program support
 - contributions to the ARTF investment window
 - direct contracting of projects in consultation with the Government.

- Pledges of \$1.48 billion have been received, leaving a **financing gap of at least \$242 million.**

	US\$ million		
	2003/2004	2004/2005	2005/2006
Pillar 1 – Human and Social Capital			
Refugee Return	163.6	26.3	2.0
Education	250.0	475.0	600.0
Health and Nutrition	173.0	257.0	286.0
Rural Livelihoods	248.0	501.0	695.0
Culture, Media and Sports	30.0	45.0	4.0
Subtotal	864.6	1,304.3	1,587.0
Pillar 2 – Physical Infrastructure			
Transport	238.0	494.0	1,040.0
Mining, Energy and Communications	163.0	269.0	383.0
Natural Resource Management	147.0	302.0	435.0
Urban Management	74.9	114.0	na
Subtotal	622.9	1,179.0	1,858.0
Pillar 3 – Rule of Law and Security			
Trade and Investment	5.5	7.5	3.0
Public Administration and Economic Management	97.0	85.0	42.0
Justice	27.0	na	na
Interior	101.6	115.0	176.0
Subtotal	231.1	207.5	221.0
TOTAL	1,718.6	2,690.8	3,666.0

Role of International Financial Institutions (IFIs)

- Play a *coordinating* and *catalytic role* in assisting postconflict reconstruction
- Operations are designed to take longer-term perspective and provide assistance for capacity building, rehabilitation, reconstruction, and development.

- IFIs are helping rebuild Afghanistan's institutions, formulate policies and establish sustainable systems.

- **ADB, IsDB, UNDP and WB** have been directly involved in assisting reconstruction.
- **ADB, WB and UNDP:**
 - **undertook a comprehensive needs assessment** that constituted the basis for donor pledges at the Tokyo Conference
 - **provided technical assistance** for initial capacity building and institutional support to the Afghanistan administration

- ADB, IMF and WB were able resume lending operations in Afghanistan following the clearance of arrears to the institutions by various bilateral donors.

- ADB and WB pledged \$500 million and \$570 million respectively in loan and grant assistance during the Tokyo Conference (January 2002 - June 2004).
- For the period 2003-2005, ADB updated its assistance program to \$610 million.

Private Sector Development

- Seen by the Government as:
 - the **engine of growth**
 - the **medium** for creating an environment conducive to private sector growth

The Government's initiatives to promote private sector investment include:

- New foreign investment law
- Opening up the telecom sector to private investors
- Removal of export taxes
- Establishment of a consultative forum with local businesspeople

The **investment law**:

- Removes a number of statutes that inhibited the inflow of capital including:
 - joint venture requirements,
 - capital requirements, and
 - limitations on repatriation of profits.
- Provides a corporate income tax holiday for certain types of investments

- ADB is directly involved in creating an enabling environment for private sector development under the **Postconflict Multisector Program Loan** (\$150 million) approved in 2002.

- In infrastructure, reforms supported by the Program include:
 - separation of operational and regulatory functions of sector institutions,
 - Establishment of regulatory frameworks that give the private sector comfort to operate and invest, and

- introduction of procurement guidelines, regulations and documentation in accordance with international standards.
- Through ADB's infrastructure investment projects, international and local contractors will be directly involved in reconstruction activities.

ADB in Afghanistan

- Assumed a **key role** since September 2001 in the international community's efforts to assist in Afghanistan's reconstruction.
- Drawn from ADB's experience in providing postconflict assistance for rehabilitation and reconstruction in Cambodia, East Timor, and Tajikistan.

- Resumed operations in 2002 in Afghanistan after 23 years
- Provided \$187 million in loans and grants in 2002
- The 2002 program focused on:
 - capacity building,
 - policy formulation, and
 - institutional reforms.

- Postconflict Multisector Program for \$150 million approved on 4 December 2002.
 - \$100 million was disbursed on 6 December 2002.
 - Program is on track. \$50 million second tranche should be disbursed by December 2003
- \$37 million in grants (capacity building TA and JFPR-funded pilot projects in agriculture, education and health)

- Country Strategy and Program Update for 2003-2005 was approved by the Board in June 2003 committing **\$610 million**:
 - **\$580 million** in concessional loans from the ADF
 - **\$30 million** in technical assistance grants

- **\$155 million** in grant cofinancing from bilateral and other sources
- Focus on **transport** (i.e., roads and civil aviation), **energy** (i.e., power, petroleum and gas) and **natural resource management** (i.e., agriculture, irrigation and environment) sectors.
- Reconstruction of road network vital for economy

For 2003:

- Total requirement is \$200 million:
 - \$190 million in ADF, and
 - \$10 million in technical assistance grants
- Emergency Infrastructure Rehabilitation and Reconstruction Project for \$150 million (approved on 3 June 2003) is the **most important ADB activity** for the year.

The **Project** will rehabilitate and reconstruct:

- 447 km of primary national road network including the link to Uzbekistan,
- Power transmission lines in the northern provinces and the distribution system in Kabul, and
- damaged gas production, transmission, and distribution facilities in Sheberghan, including a natural gas pipeline between Sheberghan and Mazar-i-Sharif.

Regional Cooperation

Strong potential for subregional cooperation – given the pattern of trade and flows and considering Afghanistan is a landlocked country.

- **In transport**, Central Asian Republics are looking for road access to the Arabian Sea through Afghanistan, Iran and Pakistan – combined with streamlining of customs and border procedures to foster regional trade.

Possibilities for **regional energy trade** include:

- Export power from Uzbekistan to Afghanistan;
- Resumption of export gas from Afghanistan; and
- Export gas from Turkmenistan to Pakistan (and possibly India) via Afghanistan

- ADB is financing a **feasibility study** of the 1,600 km gas pipeline that runs from the Dauletab gas fields in Turkmenistan through Afghanistan into Pakistan and possibly India. **Construction costs are estimated at \$2.5 billion.**

- ADB is also developing a **framework and legislation for cross border trade** between Afghanistan and neighboring countries and subregional transport corridors connecting the Central Asia Republics with the Arabian Sea through Afghanistan, Pakistan, and Iran.

Security

- Overall security situation remains tenuous.
- The north and west of the country are relatively safe; the south and east are high risk areas.

- Security considerations in project sites, especially will determine the pace at which ADB-supported transport and energy projects can be implemented.

Outlook

- Domestic revenue collection has been poor but is improving.
- Meetings with Governors of revenue producing provinces resulted in:
 - centralization of revenue and
 - associated customs reforms.

- External financing commitments are insufficient to finance **recurrent budget** requirements.

- Financing the **development budget** is also encountering problems:
 - current level of contributions to the ARTF does not allow financing of investment projects.
 - donors have committed support for only a small proportion of the projects in the development budget.

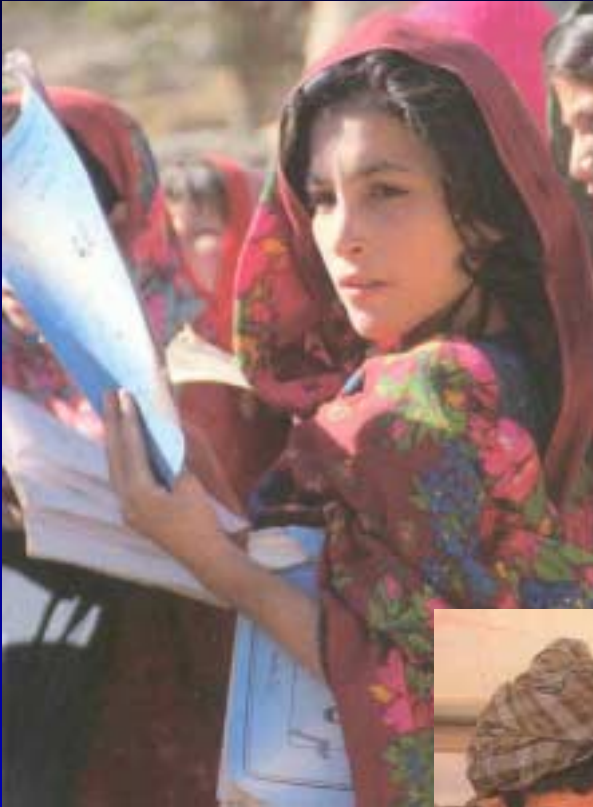
“What sort of country Afghanistan becomes in the medium term will be determined by whether it receives sustained and effective international support. It could become a moderate, Islamic, western-friendly state, a bridge between western and Islamic civilization, a crossroads for regional trade that historically determined its prosperity...”

“... Without such support, Afghanistan may become another development failure – and fall back into factionalism and war.” *Ashraf Ghani, Minister of Finance*

As a civil society representative explained to donors during the first Afghanistan Development Forum:

We want you to look at Afghanistan differently than you did before. Just because some of us are conservative, wear long beards, turbans and traditional clothes, does not mean that we do not want a better future for our children (boys and girls)...

"We want a better Afghanistan and we want to build a new Afghanistan together."



Thank you.

For More Information

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