

IV. GOVERNANCE AND ECONOMIC MANAGEMENT

48. Reconstruction is impossible without good governance—transparency, participation, accountability and the rule of law. The people of Afghanistan need security; rule of law; respect for human rights; a legal framework consistent with international standards and the needs of Afghan society in the 21st century; an independent judiciary and fair and effective administration of justice; and public officials fully accountable in an open and transparent way to the citizens they serve.

49. Afghanistan's social, political, and geographic dispersion inescapably means that a substantial degree of political and economic decentralization must go along with a minimalist national government providing essential functions.

50. Afghanistan's prosperity requires good economic management—resulting in stable and efficient markets. This assumes a sound national currency that people can trust as a medium of exchange; a safe and sound, low cost financial system to provide intermediation (channeling savings to high valued uses); and a set of institutions to provide the core of sound economic management (a central bank and monetary control, a payments system, a treasury, and a system of public financial management that instills trust).

A. Good Governance

1. Current Situation

51. Many Afghans continue to face insecure conditions—the aftermath of conflict and continuing firefights between hostile factions; lawlessness (seizure of goods and coercion with impunity); and lack of legal or judicial recourse to threats to human rights (dysfunctional policing, legal system, courts).

52. The AIA has inherited a core public administration, including teachers, health workers, district and provincial and national administrators. The reported numbers (around 170,000) are small for a country the size of Afghanistan; and the quality of government services provided by these administrators varies widely. Even at the central level in Kabul, ministries or departments are war-damaged shells, without even the most basic materials or equipment, and with few experienced staff. Before the Taliban 43% of government employees were women, most of whom were dismissed. Similarly, in other walks of life women were largely prohibited from work. Government staff has been paid intermittently, if at all, and many of the senior personnel have either left the country or sought alternative part-time employment. It is difficult to predict how many of those who have left the country might return. Even if many return, there is likely to be a major skills gap, especially in key aspects of public administration such as policy formulation, planning, priority-setting, budgeting, and monitoring, which will require a comprehensive program of recruitment, reorientation, and training.

2. Short-Term Priorities

53. Ending the climate of physical violence, fear, and impunity is an immediate priority. The re-establishment of the rule of law will include

- (i) an updated legal framework consistent with international standards and the needs of Afghan society;
- (ii) an independent and effective judiciary;

- (iii) access to justice; and
- (iv) effective law enforcement.

54. Restoring sound civil administration includes

- (i) undertaking a comprehensive review and needs assessment for reform of the civil service;
- (ii) designing and implementing a salary structure for regular government employees that pays a living wage and is fiscally sustainable;
- (iii) attending to immediate issues of staffing (claims of former civil servants, their selective reintegration, equitable entry and exit rules) and related staff training;
- (iv) formulating special procedures to attract Afghanistan citizens currently living abroad who can bring back (a least for short periods) highly needed skills;
- (v) re-establishing gender balance;
- (vi) keeping the size of the public service small but effective (e.g., 1% of population), which will allow higher salaries to help combat corruption;
- (vii) modernizing personnel rules and regulations for the future;
- (viii) fighting corruption; and
- (ix) making special arrangements for reconstruction.

55. One precondition for effective action across the board in the first year will be the establishment of an initial structure of salaries that provides a living wage and adequate incentives for good performance without leading to an unsustainable eventual burden on Afghanistan's future public finances.

56. Scattered information points to government wages of the order of \$1-2 per day. However, the information is unreliable and cannot provide a sound guideline for future salary policy. As in the case of employment, international comparisons can help somewhat in setting the broad parameters for an initial compensation structure: in recent years, average government wages have been equivalent to 5.7 times per capita GDP in Africa, 2.7 times in Latin America, 3.4 times in Middle East and North Africa, and 3 times in Asia. In the region, government wages have averaged about 7 times per capita GDP in India, 4.1 times in Bangladesh, and about twice per capita GDP in Pakistan. The notion of a relatively small but efficient government implies an adequate level of compensation of government employees. A multiplier of 4 could be an option to be considered as a starting point by the AIA—or about the equivalent of \$1,000 a year on average. While this is low, given the low current per capita income in Afghanistan, it is higher than has been the practice in the past.

57. **Anticorruption.** In any postconflict situation, the fluidity of events and the large volume of aid money makes some theft and waste inevitable. The realistic goal is to minimize corruption without hampering effective action. Experience suggests that the following are important considerations. At the official (public accounts committee) level, a credible audit review process should be undertaken by legitimate representatives of citizens, along with public disclosure of the assets of high officials. Adequate salaries should be paid to government employees. Anticorruption rules should be clarified, and appropriate mechanisms put in place for enforcing these rules.

58. Immediate Actions include

- (i) launching a review of the compatibility of existing laws with Afghanistan's international legal obligations;

- (ii) providing financial support for employee salaries and supplies for the justice system;
- (iii) providing technical assistance for the establishment of the Civil Service Commission and the Constitutional Commission;
- (iv) launching a review of all government personnel regulations;
- (v) launching work on a legislative framework for investment, to facilitate investments by Afghan expatriates; and
- (vi) developing the aid coordination mechanism and reporting tools to be utilized by the AIA and all donors, to provide a forum to coordinate aid activities, raise development challenges, and address emergency needs. This will include providing the necessary training and capacity building to the associated secretariats.

59. In the medium to longer term, critical requirements include

- (i) a coherent legal framework consistent with international human rights standards;
- (ii) an independent judiciary and a revitalized, effective and accessible judicial system at national and subnational levels;
- (iii) a revitalized prosecution and penitentiary service. A human rights commission to address, among other things, problems emerging from the conflict, gender inequalities and previous capacity, and subsequent expansion, as indicated below;
- (iv) capacity building of government staff in aid programming and planning, including program evaluation, proposal writing, and project tracking and follow-up;
- (v) capacity building of government staff in strategic development planning, prioritization, and issues of sustainability. A national development plan would be the end result of this process with the appropriate institutional framework and intergovernment and civil society coordination mechanisms; and
- (vi) paying government employees' salaries and other establishment costs will be the single largest expense in Afghanistan's recovery and reconstruction. In addition to urgent technical assistance in establishing the pay structure and payments system, some funds for technical assistance for the working of the Civil Service Commission, the Judicial Commission, the Constitutional Commission, and the Human Rights Commission will be required.

B. Local Governance and Community-Led Development

1. Current Situation

60. Despite the destruction of so much physical capital and so many economic assets, Afghan communities have shown remarkable resilience. Community groups of various types have been at work for years reconstructing mosques, schools, and houses; repairing irrigation and water supply systems; and rebuilding livelihoods. The capacity of communities represents one of the most important assets for reconstruction and a key organizing principle for targeted demand-driven programming at the local level. It is critical to find ways to leverage this capacity to achieve immediate results at the local level and to achieve broad-based participation of Afghans in reconstruction. In addition to helping increase access to basic services, this approach is a key element of the strategy to stabilize the political situation.

61. The social institutions at the community level in Afghanistan vary from region to region in their function and structure and are referred to differently, most commonly as *shura* and *jirga*. In broad terms these institutions are ad hoc groups of respected people within a community, convened for functions such as resolution of disputes and organization of collective action.

Shura and *jirga* can also signify ad hoc groups of a similar nature representing two or more communities or at the *woluswali* (district) level as a means to interact with government institutions. In some areas, women have their own informal *shuras*—even if they are not allowed to be part of man’s *shuras*. *Shuras* should be encouraged to become more inclusive to allow women to play a community role in an organized manner.

62. UN agencies and NGOs, during the war years, have been supporting traditional *shuras* and *jirgas* and have helped establish parallel community-based mechanisms to set priorities and implement local-level projects. Some 300 local and 180 international NGOs are currently operating either from inside Afghanistan or on a cross-border basis from Pakistan in a wide range of sectors. Over the last few years, total UN and NGO programming directed to Afghanistan (including refugee operations) have averaged between \$150 million and \$200 million per year. While UN/NGO activity extends to all provinces in Afghanistan, some provinces have been better served than others. There is a general agreement that current NGO capacity is only capable of reaching a small percentage of Afghan communities using present methodologies of implementation.

2. Short-Term Priorities

63. Support to local governance and community-led development should finance community-level improvements in basic infrastructure and services such as irrigation, water supply and sanitation, rural roads, and education and health facilities. Two approaches can be used together:

- (i) moderate scaling up of NGO programs, while achieving a phased change in the role of NGOs from implementing agencies to facilitators of participatory community development, clearly accountable to government and/or communities; and
- (ii) instituting a demand-driven financing mechanism to provide communities with direct access to resources to support small-scale reconstruction activities and promote community organizations and empowerment.

64. The second approach mentioned above, a demand-driven financing mechanism, has been identified by the AIA as a critical priority. It would have the double objective of strengthening local governance and of achieving tangible results in a large number of local communities, across a variety of sectors to be prioritized by the communities themselves. The timing and nature of establishing such mechanism would be dependent upon assessing the capacity of both community institutions (such as *shura* or *jirga* at both village and district levels) and making policy decisions on institutional frameworks for district government bodies and their linkages with provincial and national governments. In the event that local government bodies are established and empowered at the *woluswali* (district) level, block grants could be transferred to *woluswalis* to be allocated to community subprojects through transparent and participatory planning processes. Until the *woluswali* institutions are revived and become functional, funds could be temporarily directly transferred by the funding mechanism to community groups. In both cases, strict program rules would need to be broadly disseminated and adhered to, in particular in the administration of the eligibility criteria for the appraisal and funding of community subprojects. Equally important would be mechanisms to facilitate the local planning process and to provide technical support to *woluswalis* and community groups.

3. Immediate Actions

- (i) funding the continuation and moderate expansion of NGO programs supporting community development in a variety of sectors, in close

coordination with the AIA to mitigate risks of negative side effects on the local political process;

- (ii) capacity building of NGOs and local institutions such as *shuras* and *jirgas* as well as subnational governments for facilitating community development and reconstruction;
- (iii) making important policy decisions to define the intergovernmental institutional framework that would define the roles and responsibilities of different levels of government and the ways in which local governments and communities would collaborate. Policy decisions are also required for targeting mechanisms for distribution of resources among districts and among communities within individual districts in a transparent and fair manner; and
- (iv) designing the demand-driven funding mechanism, including its operational modalities, and launching its activities during the second half of 2002.

4. Longer-Term Needs and Options

Training of NGOs and local institutions and other actors in facilitating community development.

C. Economic Management

1. Current Situation

65. The core institutions of managing the economy broke down in the 1990s. The orderly postconflict recovery and restoration of sustained economic growth will require a stable macroeconomic environment. This will call for strengthening economic management and restoring critical economic and financial institutions. The focus should be on (i) strengthening the central bank, Da Afghanistan Bank (DAF Bank), and the Ministry of Finance/Treasury; (ii) establishing a functional payment system; and (iii) strengthening the capacity to implement macroeconomic policies so as to support growth with fiscal and macroeconomic stability. These steps should be initiated immediately and built upon over the medium term, to strengthen the foundations for macroeconomic management, promote well functioning markets, and develop financial institutions to ensure efficient mobilization and allocation of resources. Enhancing economic and trade relations with other countries in the region under a transparent and liberal trade regime, including a clearcut transit trade agreement, would be crucial.

66. The key elements of good economic managements are

- (i) **Currency Reform.** Several “Afghan” currencies are now circulating in the markets. A decision is needed on what currency the AIA will use; how the needed confidence and liquidity of that currency will be ensured; and the exchange rate arrangements for that currency.
- (ii) **Central Banking and Payments System.** The basics of monetary control, banking laws and regulations, bank supervision, and bank licensing need to be re-established. A payments system is also needed to facilitate transactions and other essential services of the government and other entities. Foreign assistance and government revenues will need such a payments system from the outset of the reconstruction process. These payment and service functions will eventually devolve to the decentralized banking system, when it starts functioning.

- (iii) **Financial Institutions.** A rudimentary banking system functions at a low level in Afghanistan, much of it without benefit of licenses, regulations, and supervision. Priority should be given to proper licensing, regulation, and supervision. A credible banking system is a crucial foundation of prosperity and should be the central aim from the start. Licensing small domestic banks without minimum banking skills, management, and financial backing carries large risks in the existing situation. Afghanistan should encourage well-run foreign banks with a sound banking culture to establish operations in the country and transfer their technology and banking culture to domestic banks as smoothly as possible.
- (iv) **Ministry of Finance.** A comprehensive, unified government budget is central to Afghanistan's recovery, reconstruction, and long-run prosperity. Such a budget is needed to guide the actions and behavior of the implementing agencies of the Government and to coordinate donor activities within a comprehensive reconstruction framework. The Ministry of Finance should be the focus of budget preparation, payments, accounting, auditing, and efficient expenditure control. It also needs the strategic analytical capacity to ensure that the budget reflects the priority needs for public resources.

2. Short-Term Priorities

a. Immediate Actions

- (i) Establish an emergency payment system.
- (ii) Prepare an interim budget.
- (iii) Establish a treasury single account to receive all funds and make payments.
- (iv) Build capacity needs for economic management.
- (v) Create an economic forecasting capacity, including the tracking of key prices.
- (vi) Establish and support an aid coordination unit in a central location, to be determined by the AIA.

3. Longer-Term Needs and Options

- (i) **Investment Climate.** While foreign direct investment may not flood into Afghanistan in the short term, it is important that the foundations are laid now for a healthy, supportive investment climate. A legislative framework for foreign direct investment is needed to protect investors' rights. In addition, a policy framework is needed for natural resource extraction (royalties, taxes and licensing), covering oil and gas as well as emeralds and lapis lazuli. The first and most important investors will inevitably be Afghanistan citizens, who need the same stable, supportive investment climate as foreign investors. Investors will need security, functioning banks and other financial services, a small and corruption-free public administration, and clear and minimalist rules and regulations. These are tall orders in the short term. Nevertheless, it is realistic to expect some increase of inward remittances from Afghans abroad, as families return, settle, and rebuild their homes and businesses. Numerous opportunities will be created by the reconstruction entities themselves for commercial activities, contractors, and other service providers.

D. Media

67. The media sector has suffered from a lack of resources and from severe restrictions under the Taliban. A vibrant media sector, editorially independent and conforming to internationally accepted principles and standards, is an essential component in ensuring the transition to peace. It should play a role in fostering national unity, educating civil society, and promoting a representative and democratic government.

68. There is a shortage of trained Afghan journalists, technical staff and broadcasting managers, and knowledge of the modern media environment and the whole area of regulatory frameworks is low. Guidance has been requested by AIA officials and media professionals to urgently rebuild capacity in the Government and in all media sectors.

69. Radio is the primary medium for information in Afghanistan and in many of the surrounding countries. Existing technical infrastructure, however, is minimal, poorly maintained and out of date. It will require substantial replacement.

70. Print is the medium of record for any society and government. However, the main state printing press has been destroyed and computers and other technical print equipment are either nonexistent or obsolete. There is no print media distribution system.

71. There is an immediate need to coordinate assistance within a national media strategy to stop the uncoordinated proliferation of small radio and TV stations. A regulatory framework should be established for Afghan owned and managed broadcasting that reflects the linguistic and ethnic diversity of the country.

1. Short-Term Priorities

- (i) a time-bound comprehensive media needs assessment to review national broadcasting needs and regulatory frameworks and to produce recommendations for action. This should include a detailed audit of the technical infrastructure and equipment required;
- (ii) a series of training programs for editorial, technical, production and journalism skills, including strategic planning and management training for a small number of key senior staff. Assistance will be required for re-establishing the Faculty of Journalism at Kabul University. The creation of professional journalistic association(s) should be supported;
- (iii) a voluntary register of spectrum usage by all broadcasters, to minimize spectrum interference issues in the short term and with a view to establishing the foundations for a national regulatory framework;
- (iv) a series of programs in local languages to familiarize listeners throughout Afghanistan with the purposes and processes involved in the *Loya Jirga* and on the functions of government and civil society. Ways and means of broadcasting programs through impartial channels to the people of Afghanistan will have to be explored until such time as national broadcasting capacity is restored;
- (v) few initial steps to stabilize the current level of radio and TV service in Kabul. Re-equipping Radio/TV Afghanistan and Bakhtar news agency with basic journalism and production equipment and training in its use;
- (vi) media resource center to act as a coordination mechanism for media-related initiatives that would seek to avoid duplication of training, equipment and programming; and

- (vii) a sustained effort to revive the print media, including developing an independent newspaper sector, through the provision of printing facilities at regional and local levels. The establishment of commercial Afghan Internet service provider(s) should be supported.

2. Longer-Term Needs and Options

- (i) Development of a long-term national media strategy. This will include a review of options and steps needed to establish an editorially independent, national public service broadcaster, including the likely funding of such an entity;
- (ii) Development of the regulatory frameworks necessary for a free and independent media;
- (iii) Review of the role educational programs targeting children and young people, especially girls, will play in the national education system. Subsequent research and design of programs for literacy and teacher training by radio. The media strategy should target opinion leaders and policymakers to sensitize them about gender issues to change attitudes and behaviors.

72. Review of the need for radio and television programs, that will seek to provide a better understanding of the history, culture and, traditions of various groups within Afghan society. Production of television and radio programs that focus on the different roles and contributions of the Government and branches of civil society are important to the creation of a peaceful Afghanistan.