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Tokyo Mutual Accountability Framework (TMAF)

Senior Officials Meeting Joint Report

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Background

Afghanistan's reconstruction and development started in 2002 after almost three decades of war and destruction. Significant achievements over the past decade have laid the foundations for establishing democracy, rule of law and effective governance; for putting in place a robust security apparatus; for capacity and institution building; for infrastructure development; for reviving the economy; and improving the quality of lives of the Afghan people. Challenges, however, remain. With support from the international community Afghanistan needs to continue to make progress on issues such as security, sustainable economic growth, poverty reduction, meeting humanitarian needs, the protection of human rights, in particular those of women and children, and building a functional democracy

Achievements of the Decade (to be updated)

With the support and partnership of the international community, Afghanistan's estimated per capita Gross Domestic Product (GDP) of \$591 in 1390 (2011) is almost five times higher than the \$123 per capita GDP of 10 years ago. Access to primary health care has increased from 9 per cent of the population to more than 57 per cent; more than 10.4 million students are enrolled in school, of whom 42 per cent are girls. More than 260,000 students graduated from high school in 2012. Approximately 34,000 students are being trained in 250 technical and vocational education and training facilities.

Nearly 8,000 kilometers of national highways, regional highways and provincial roads have been built, cutting travel times between centers by up to 75 per cent. The Afghan ring road, which connects Afghanistan to its neighbors, linking every major city in the country and providing connections to provincial capitals, should be completed by 2014. Civil aviation services have improved considerably, connecting Afghanistan to major hubs in the region and beyond. Access to electricity has increased by 250 per cent and the national power utility has grown into a more efficient, well-managed corporation. Irrigated land has increased from 1.2 million hectares to more than 1.8 million hectares, with wheat production from that land more than doubling from 1.5 million tons to 3.5 million tons.

based on credible and inclusive elections.

At the Tokyo Conference in July 2012 Afghanistan presented a roadmap to move towards achieving economic self-reliance by 2024.¹ The international community committed over US\$ 16 billion through 2015 in support of this roadmap. The international community's ability to sustain support to Afghanistan depends upon the Afghan Government delivering on its commitments as described in the Tokyo Framework. This requires a paradigm shift in the nature of partnership between the Afghan Government and the international community from that of recipient and donors to owner and partners.

¹The government presented its Strategy Paper "Towards Self-Reliance: Strategic Vision for the Transformation Decade" at the Tokyo Conference on 8 July 2012. The Strategy is to be implemented through 22 National Priority Programs.

The Tokyo Mutual Accountability Framework (TMAF) started this new phase in partnership based on mutual accountability, with follow-up mechanisms put in place to ensure progress both in the letter and the spirit. These mechanisms include an annual meeting to be held alternately at the level of senior officials and the ministers. The first follow-up meeting will be held on 3 July 2013 at the level of senior officials.

At the Tokyo Conference the Government and the international community agreed on a set of long-term indicators to monitor progress against their mutual commitments. The Government and international donors remain committed to meeting their TMAF deliverables, and in April 2013 a set of hard deliverables were agreed to assess progress at the first senior officials' meeting. The following analysis is a joint assessment by the Afghan Government and the international community to review progress made since Tokyo, to analyze critical issues, challenges and risks, and to suggest ways forward.

Tokyo Mutual Accountability Framework (TMAF)

TMAF as a whole aims to create an enabling environment for sustainable democracy, good governance, and economic growth. Government commitments under TMAF have been grouped under the themes of Representational Democracy and Equitable Elections; Governance, Rule of Law and Human Rights; Integrity of Public Finance and Commercial Banking; Government Revenues, Budget Execution and Sub-National Governance; and Inclusive and Sustained Growth and Development. The international community's commitments focus on Aid Effectiveness.

TMAF Area I: Representational Democracy and Equitable Elections

Goal: Conduct credible, inclusive and transparent Presidential and Parliamentary elections in 2014 and 2015 according to the Afghan Constitution, in which eligible Afghan citizens, men and women, have the opportunity to participate freely without internal or external interference in accordance with the law.

The Government, with assistance from its partners, has made a determined effort to place the country on an irreversible path towards democratic governance through the conduct of two rounds of Presidential/Provincial Council and Parliamentary elections, an active Parliament and a nascent but improving judiciary. The second Presidential and Parliamentary elections highlighted the vulnerability and fragility of the election process and need for legislative and institutional safeguards. These issues have become even more important, since the third Presidential and Provincial Council elections in 2014 will coincide with the security transition. The electoral cycle of the 2014 Presidential and 2015 Parliamentary elections will therefore be critical for democracy, peace and stability. The Government is committed to actively supporting the development of a robust electoral architecture, developed in a secure, participatory and transparent manner, to enable successful and timely elections.

Recognizing this fact, the Government has been gearing up to ensure free, fair, transparent, inclusive and accountable elections by acting on lessons learnt from previous elections, and ensuring the right legal environment, the right planning, and other necessary arrangements. With the approach of the 2014 elections, establishing a robust legislative framework and appointing Independent Election Commissioners have become urgent issues for the Government to address.

Right Legal Environment: Measures to strengthen Afghanistan's electoral legislative architecture include Government support for the enactment of two key pieces of legislation, the Elections Law and the Law on the Structure, Duties and Authorities of the IEC (Independent Election Commission) and ECC (Electoral Complaints Commission). Both Laws have been passed by the Wolesi Jirga (the lower house of Parliament). The Meshrano Jirga (the upper house) has also passed both the Structural Law and the Election Law but with some amendments. A Joint Commission of both the houses is now looking into these amendments. Timely approval of both Laws is required if the timelines for the 2014 elections as published by the IEC are to be met.

Right Planning: The IEC released its first 5-year Strategic Plan in June 2012 with the goal of establishing an atmosphere of trust, enhancing the level of national participation and institutionalizing credible elections. The timetable for the 2014 Presidential and Provincial Council elections was announced in October 2012, almost one and a half years in advance of the election date (5 April 2014). The Government is committed to announcing the election timeline for the 2015 Parliamentary elections at an early date. In April 2013, the IEC developed and shared with the international community a draft Detailed Operational Plan with an indicative budget (covering, amongst others, security, civil society engagement, capacity building, fraud mitigation, and inclusive voter outreach).

Right Election Managers: The term of the IEC Chair ended on 17 April 2013, and H.E. The President has already held consultations with various stakeholders, including political parties, eminent persons, ministers, representatives of the international community, civil society, and parliamentarians. The appointment of a replacement Chair is currently awaiting passage of the Elections and Structural Laws.

Right Activities: After finalizing the plan for a top-up voter registration exercise and approving the voter registration regulation in January 2013, the current voter registration top-up exercise commenced on 26 May 2013. It is estimated that cards with improved security and anti-fraud features will be issued to almost 4 million eligible voters. The e-Tazkira roll-out has been suspended pending passage of the relevant legislation.

Risks: Government has taken measures to ensure timely, transparent, and inclusive elections, but still challenges and risks remain. Security is a major risk with multiple implications. In addition, elections require a large number of stakeholders to function in a collective and timely fashion, which may present its own problems.

Priorities going forward:

- The Elections and Structural Laws are currently in the process of being passed by the National Assembly. H.E. the President is committed to signing the Laws immediately after Parliament's approval, which is expected before Parliament goes into recess in the third week of July 2013.
- Once the relevant legislation has been passed, the Government will engage in a consultative and transparent process for senior IEC appointments, aiming to select qualified and well respected appointees.
- The comprehensive election timeline, operational plan and budget developed for the 2014 Presidential and Provincial Council elections will be signed by the IEC Commissioners on their appointment. Government remains committed to announcing the election timeline for the 2015 Parliamentary elections in the near future.

TMAF Area II: Governance, Rule of Law and Human Rights

Goal: Improve access to justice for all, in particular women, by ensuring that the Constitution and other fundamental laws are enforced expeditiously, fairly and transparently; ensure that women can fully enjoy their economic, social, civil, political and

Anti-corruption efforts of Government Ministries and Agencies

- The Ministry of Education has constituted an Anti-Corruption Committee headed by the Deputy Minister for Administration and Finance. In addition, the MoE has signed Memoranda of Understanding with Integrity Watch Afghanistan and the High Office of Oversight and Anti-Corruption.
- Afghanistan Extractive Industries Transparency Initiative (AEITI) has published two EITI reports covering three years. The Government has taken some steps but is yet to become a full EITI member. The Ministry of Mines and Petroleum (MoMP) has committed to publish all mining, oil and gas contracts, and over 200 contracts have been published, including the Amu Darya oil, the Qara Zaghan gold and the West Garmak coal contracts. In terms of mining contract disclosure, Afghanistan tops the list of countries with such practices. The MoMP is also committed to publishing all ancillary contracts, e.g. infrastructure, community development agreements and lists of beneficiaries.
- The simplification of procedures include the piloting of simplified building permits by Kabul Municipality.
- The steps required for land leasing steps have been reduced from 52 to 9 steps, leading to increased Government revenue from Afs 25 million annually to more than Afs 225 million.

cultural rights; fight against corruption, including strengthening counter-narcotics efforts; and improve the capacity of state institutions. Good governance, the rule of law, and respect for human rights provide legitimacy to and respect for the Government in the eyes of its population and other stakeholders. They underlie every activity of the Government and are essential for service delivery. While these elements cover a wide range of issues, the

TMAF Indicators and Hard Deliverables focus on anti-corruption, human rights, and the Elimination of Violence against Women (EVAW) Law.

Anti-corruption: Corruption in Afghanistan remains a serious issue that needs to be urgently addressed. The Government has publicly recognized corruption as a problem, and reaffirmed its commitment to fight it on a number of fronts. The ratification of the United Nations Convention against Corruption (UNCAC), the Government's TMAF commitments and Presidential Decree 45 of July 2012 all represent major initiatives to combat corruption and eliminate vulnerabilities to corruption. The establishment of the Independent Monitoring and Evaluation Committee (IMEC), now fully operational with a mandate to monitor instances of corruption, including those involving internationals, is a further important development.

The assets of more than 7000 officials have been registered, including the assets of 37 out of 38 High Ranking Officials mentioned by the Constitution, including The President, Vice Presidents, Cabinet Ministers, the Attorney General, and Members of the High Council of the Supreme Court. Of these, 13 declarations have been verified and verification of 21 high officials is under process. The assets of 37 high officials have been published in 'Anees' newspaper. The assets of 28 provincial governors have been registered, with the verification of 2 provincial governors completed and the remaining 26 under way. The assets of 27 provincial governors have been published on the HOO website.

Human Rights: Recognizing the importance and criticality of human rights and civic responsibilities to create responsive governance institutions, the Government has prepared a National Priority Program, led by the Afghanistan Independent Human Rights Commission, to help protect and promote human rights of all Afghan citizens. In June 2013, H.E. The President appointed nine Human Rights Commissioners, headed by Dr. Sima Samar, in succession to the Commissioners whose mandates expired in December 2011.

Elimination of Violence against Women: The Government is committed to ensuring that women can fully enjoy their economic, social, civil, political and cultural rights. Violence against women remains a particular issue. The requirements of the EVAW Law are already under implementation through the Presidential Decree. The report on the application of EVAW Law committed to in the TMAF Hard Deliverables, is currently under preparation by the Ministry of Women's Affairs (MoWA) in collaboration with the Ministry of Interior (MoI) and the Attorney General's Office (AGO). The Government continues to implement the National Action Plan for Women, its blueprint for the elimination of discrimination against women, the development of their human capital and promotion of their leadership, in order to guarantee women's full participation in all aspects of life.

Despite efforts by the government, corruption still remains an endemic problem. There are also substantial human rights challenges remaining to be addressed, and continued efforts to defend women's rights are of utmost importance.

Priorities going forward:

- HOO will expedite verification of the remaining asset declarations.
- MoWA, Mol and the AGO will continue to coordinate to produce a detailed report on the application of the EVAW Law in each province. The report will include the number of VAW cases brought to the police, and the disposition and outcome of each case. The data collected will be made public and serve as a baseline for future analysis of EVAW Law implementation.
- The Afghan Government remains committed to meeting the standards of the appointment process for Human Rights Commissioners in accordance with Article 11 of the AIHRC Law and the Paris Principles, and to retaining its 'A' accreditation status by the International Coordination Committee of National Human Rights Institutions.

TMAF Area III: Integrity of Public Finance and Commercial Banking

Goal: Improved integrity of public financial management and the commercial banking sector.

The proper functioning of the economy requires integrity in all aspects of public financial management and the financial sector. The Area III TMAF Indicators and Hard Deliverables relate to Kabul Bank accountability and recoveries, the IMF, Public Expenditure and Financial Accountability (PEFA), the Open Budget Index, and implementation of the Financial Action Task Force Asia Pacific Group (FATF-APG) recommendations on Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT).

Kabul Bank Crisis

The Government has taken measures to recover Kabul Bank assets and to hold the complicit parties accountable for their actions. However, the most recent assessment by the IMEC highlights the need for vigorous action to track and seize money that was laundered internationally. The Government is committed to implementing the IMEC enquiry's recommendations on asset recovery from the Kabul Bank fraud.

Asset Recovery: The initial cost to the Government of the Kabul Bank rescue, to be offset by the amount of recoveries, stands at \$825 million,² but could rise to around \$935 million³ before the matter is fully resolved. Cash recoveries of US\$173.2 million have been secured to date, US\$45.2 million of which has been recovered since July 2012, amounting to one fifth of total losses. Asset recoveries are continuing, and during the coming year the Kabul Bank Receivership will continue to sell seized assets. Kabul Bank Receivership's possession

² Source: the promissory note issued by Ministry of Finance to the Central Bank to cover the lender of the last resort extended to Kabul Bank.

³ Source: IMEC report

of physical assets has a book value of nearly \$200 million, although actual recoveries may vary depending on market prices.

Criminal Process: The perpetrators of the scheme have been prosecuted on a range of charges and found guilty of breach of trust. The Court also ordered the imposition of fines of approximately \$800 million. However, the 'breach of trust' verdict, while ordering fines, does not clearly allow for confiscation of defendants' assets, and increased efforts are required from all parties – Afghan officials and recipient countries – for international assets and funds to be recovered and to bring all of those responsible to justice. The Government, not satisfied with the sentences passed, is seeking stronger charges to be brought against the perpetrators with stronger confiscation orders to assist with the recovery of overseas assets. The Attorney General's Office appealed the verdict on 16 March 2013.

IMF-Supported Government Program: Guided by the IMF Extended Credit Facility (ECF) Program, the Government and Central Bank have sought to maintain a stable macroeconomic framework. The reforms in the program address key macroeconomic issues, seek to safeguard the financial sector, strengthen economic governance, and move toward fiscal sustainability. The Government is steadfastly committed to meet the ECF's benchmarks. The Second Review of the IMF program was delayed because three of the seven structural benchmarks, due in September and December 2012, had not been met. The momentum of structural reform picked up in 2013, with only one benchmark from the second and third reviews outstanding, namely, the submission of AML/CFT legislation to the Parliament, which has also been approved by the Cabinet on 1 July 2013 and will be submitted to Parliament soon. On the quantitative targets, while the revenue collection and foreign reserves targets were not met, an IMF visit in May agreed to revise quantitative benchmarks, including those for domestic revenue for 2013.

Public Expenditure and Financial Accountability (PEFA): Afghanistan's performance with regard to PEFA assessments, if compared to the results of Fragile States (FS) and Low Income Countries (LIC) generally, is strongly positive. In most of the PEFA dimensions it scored higher than FS and LICs, surpassing Middle Income Countries in 2 dimensions. The trajectory of PEFA scores reflect an exceptional accomplishment by the Government, attributable to its commitment towards strengthening PFM systems. Despite recognized challenges, Afghanistan has embarked on a path of significant public finance reform, committed to addressing capacity gaps; in doing so, it anticipates sustained support from international partners.

Open Budget Index (OBI): The International Budget Partnership (IBP), an independent non-governmental organization, carries out the Open Budget Index (OBI) survey comparing fiscal and budget transparency, participation in and oversight of public finances in around 100 countries. In the 2012 survey, Afghanistan showed the second greatest improvement in budget transparency among all countries surveyed, with Afghanistan's OBI score rising by 38 points to 59 in 2012 (against scores of 21 in 2010 and 8 in 2008). Afghanistan's 2012 score

significantly surpasses the target of 40 agreed under TMAF, and is an indicator of the Government's transparency in its budgeting. Afghanistan currently ranks fourth in Asia, second in South Asia (behind India) and 26th in the world. Afghanistan rates higher than any poor or conflict-affected country, most middle-income countries and some developed countries.

FATF-APG recommendations on anti-money laundering and counter-terrorist financing:

The AML/CFT Law was discussed in the Cabinet and referred to a ministerial commission for review due to inconsistencies with the Afghan Constitution. The Law was passed by the Cabinet on 1 July 2013. Automated systems to monitor financial transactions and identify suspicious large transactions have been put in place. The Government is committed to the passage of an adequate AML/CTF Law by December 2013 to meet the recommendations of the FATF-APG, used as a standard by the private sector.

Issues and Risks: Impediments to further Kabul Bank recoveries that need to be addressed include difficulties in finding buyers for some of the assets owing to issues relating to titles and ownership deeds, and the slow settlement of the sale of Dubai properties owing to the lengthy process of ownership transfer there. Appeals against the verdicts handed down, and the completion of investigations of other individuals suspected of benefitting from the Kabul Bank fraud, also need to be finalized, as do linkages between the FinTRACA system and commercial banks' systems and gaps in PFM systems.

Priorities going forward:

- Continued progress on resolving the Kabul Bank issues including IMEC recommendations and asset recovery. The Supreme Court is expected to assign the appeals case to judges and a date for the hearing will be announced soon.
- Remain on-track with the IMF Program.

TMAF Area IV: Government Revenues, Budget Execution and Sub-National Governance

Goal: Improve the Afghan Government's revenue collection and capacity of line ministries to develop and execute budgets accountable to, and incorporating, local needs and preferences.

Government revenues, robust expenditure management and budget execution are the foundations for achieving self-reliance while sub-national governance is critical to ground-level delivery. The Indicators and Hard Deliverables in this area mainly relate to raising revenue collection, improving budget execution and provincial budgeting.

Raising Revenue Collection: Afghanistan's domestic revenues have increased from a negligible base a decade ago to about US\$ 2 billion in 2011/12 (11 per cent of GDP) and US\$ 1.7 billion in nine months ending 2012 (around 10.3 per cent of GDP). Revenue collection in the first two quarters of the current fiscal year, however, has been below projected targets

due to the economic slowdown and the impact of the forthcoming 2014 security transition. Specific measures to arrest the fall in revenues include sweeping changes in the senior management of Revenue and Customs departments across the country.

Other measures to mitigate the adverse impacts of economic slowdown on revenue during the transition will include the introduction of Value-Added Tax (VAT), the introduction of a Tax Administration Law, preparation of a 5 year Strategic Plan for the Revenue Department, organizational re-structuring of the tax administration, and mitigating corruption through the continuing automation of processes in the Revenue and Customs departments.

Improving Budget Execution: Budget execution for the development budget was 39 per cent in the Fiscal Year (FY) 1389, increased in FY 1390 to 49 per cent and further increased to 50 per cent for the first 9 months of 1391; adjusted for the full 12 month period, budget execution reaches 66.7 per cent, a 17 percentage point improvement. Measures taken to improve budget execution include: changing the start of fiscal year from 21st March to 21st December; starting the project procurement processes after concurrence of the draft budget by the Council of Ministers, saving around two months; stronger monitoring of development budgets in line ministries; monitoring of the 50 largest national projects, representing more than 60 per cent of the development budget; and quarterly performance monitoring and evaluation of public spending.

Provincial Budgeting: The Ministry of Finance is prioritizing efforts to strengthen provincial budgeting and financing. A provincial budgeting policy has been drafted, based on lessons learnt during past budget reform initiatives. The policy will be a tool for fiscal de-concentration to provincial administrations, in line with the prevailing legislative framework.

In addition, short-term solutions to address challenges in provincial budgeting include capacity building in provincial directorate and governors' offices on PFM issues; medium-term solutions include clarification of fiscal roles and streamlining of provincial budget formulation and consultation with key actors, including provincial councils, through the planned roll-out of the provincial budgeting policy; while long-term solutions include a review of the public financial management legislative framework and amendment to legislation to entrench principles of de-concentration of fiscal responsibilities, program-based budgeting, and accountability for service delivery results.

Issues and Risks: Revenue collection faces significant challenges as enforcement of taxation is hampered by deteriorating security situation, limitations on the application of the rule of law, and low organizational capacity, all leading to a potential leakage of revenue. Overall spending pressures remain high against a shrinking resource envelope and are likely to intensify both during and after transition. The budget execution rate, while improving, remains vulnerable to delays in budget approval and the issuance of allotments; the front-loading of allocations for multi-year development projects; poor procurement planning and contract management by executing agencies; delays in disbursements from donors; and a

high degree of earmarking of funds by some donors. There is also a general lack of strategic vision at the provincial level due to the disconnect between provincial planning processes and national plans, and a lack of legislative clarity on the fiscal roles of Provincial Governors, especially in relation to provincial budget formulations.

Priorities going forward:

- The Government will circulate a draft provincial budgeting policy within Government and to the international community in the near future, with a clear plan for consultations aiming to lead to finalization by the end of 2013.

TMAF Area V: Inclusive and Sustained Growth and Development

Goal: Achieve inclusive and sustained growth through a focus on human development, food security, private investment, and decent work and employment opportunities and the improvement of ranking in the human development index.

Sustained and inclusive economic growth requires adequate infrastructure, an enabling legal, policy, and institutional environment, and a robust private sector. The TMAF Indicators and Hard Deliverables relate to the following.

Millennium Development Goals (MDGs): The Government, with support from international partners, has already made substantial progress towards achieving its MDGs, including in the sectors of education and health. Further progress depends on stability, strong regional cooperation and sound domestic policies. Currently, the Government is implementing its development strategy through National Priority Programs (NPPs), into which the MDGs have been integrated, but which require adequate domestic and external financing. The NPPs focus on sustainable economic growth, job creation, and revenue generation. Analysis of the 1392 budget shows that 95 per cent of the health sector budget was allocated to the relevant health MDG goals, 6 per cent of the total national budget to gender empowerment and gender mainstreaming, 93 per cent of the education budget to the education MDGs, 0.06 per cent of the total national budget to the environment sector, and 54 per cent of the agriculture sector budget to food security.

WTO Accession: Although Afghanistan launched its WTO accession process in 2004, limited progress was made during the first five years. The last three years, however, have witnessed major progress in all aspects of the WTO accession process. An action plan has been prepared to enable conclusion of accession in 2014.

Rail, Road and Civil Aviation Institutions: A railway authority has been established and its head appointed. Work is under way to finalize the organization's structure and its operationalization. A request to establish a road authority has been approved by the Economic Committee of the Council of Ministers and will be submitted to the Cabinet for discussion and approval. The Civil Aviation Law was approved in October 2012, a Civil Aviation Working Group has been established comprising national and international

partners to develop the Civil Aviation Authority, which held its first meeting in April 2013. A Director-General for the Civil Aviation Authority has been appointed.

Mining Law: The extractive industries sector is expected to be a major contributor to self-reliance through triggering growth and revenue generation. To achieve this, a revised Mining Law is important so that organized development of the sector takes place and investors have confidence in investing in the country. The new Mining Law was approved by the Cabinet in May 2013 and is currently before Parliament.

Issues and Risks: Inclusive and sustained growth is important both for self-reliance and for maintaining stability and peace. To sustain the gains of the last decade Afghanistan needs long-term donor support.

Priorities going forward:

- The mining law is approved by the Cabinet and is currently with the Parliament. The Government will work with Parliament for the expeditious passage of the law.
- The Government plans to establish the Road and Civil Aviation institutions by the end of 2014.

International Community Commitments: Aid Effectiveness

Progress has been made towards meeting the hard-deliverables for the International Community established under the Annex II of the Tokyo Mutual Accountability Framework (TMAF). However, variations in the degree and pace of progress in meeting the Annex II hard deliverables across donor countries have been observed.

International Commitment

Goal: International Community commits to directing financial support toward Afghanistan's economic development through the Transformation Decade.

Hard Deliverable: *By June 2013, each Development Partner officially confirms its Tokyo commitments or projections from 2012 to end 2015.*

Donors are on target in meeting their Tokyo pledges. At Tokyo in 2012, donors pledged \$16 billion in development assistance from 2012 to 2015. The current financial data held by the Ministry of Finance, and information provided by donors, confirm that this pledge is on track to be met. The International Community's ability to sustain support for Afghanistan depends upon the Afghan Government delivering on its commitments described in the Tokyo Framework.

Medium term predictability of donor commitments remains to be a particular challenge. Only a few donors are able to forecast aid flows up to 2017 and beyond. Others are constrained by their annual budgeting processes and are not able to provide a clear indication of future allocations of their aid. This poses a problem to the medium-term budget planning approach adopted since 2010 by the Government of Afghanistan in implementing the Medium Term Expenditure Framework.

Donor Assistance Database

Hard Deliverable: *Each Development Partner updates its aid information in the Donor Assistance Database (DAD) by June 2013 and annually thereafter.*

Twelve of twenty-four donors representing 79% of aid have made complete or satisfactory progress in updating the Donor Assistance Database (DAD). The other twelve donors, representing 21% of aid have not provided data. Due to technical issues, some donors who were unable to update data on-line, provided data in an off-line format.

By registering all aid information in the DAD, the Government will be able to recognize Official Development Assistance (ODA) in the Development Cooperation Report (DCR) and will be better positioned to account for the aid money spent in Afghanistan. Furthermore, aid will be adequately reflected in the national budget increasing the incentive for better alignment and accountability to the Legislature and the citizens.

Priorities going forward:

- Development Partners commit to working with the Ministry of Finance to resolve the technical issues, which will support further improvement in the quality of aid information in DAD.
- Development partners will continue to register information in the DAD in accordance with the Budget Calendar to inform the budget preparation and reporting processes.

Development Framework Agreements

Hard Deliverable: *By December 2013, each Development Partner finalizes its Development Framework Agreement (DFA) or equivalent (the format to be agreed by MoF) to reconcile donor assistance with government development priorities, make aid more predictable and to confirm mutual accountability.*

While not due until December 2013, of 24 bilateral donors and multilateral agencies reviewed during the DCDs, 13 donors have DFAs or equivalent in place and two donors have DFAs under negotiation.

Increased multi-year programming will enable more donors to share reliable aid projections, allowing the government to use this information for budgeting and planning purposes under

the Medium Term Fiscal Framework and Medium Term Budget Framework (MTFF and MTBF).

Priorities going forward:

- Development Partners without DFAs yet in place commit to continuing efforts to have DFAs or equivalent in place by December 2013.

Goal: The international community welcomes the Afghan strategy, and reaffirms its commitment of aligning 80 percent of aid with the NPPs and channeling at least 50 percent of its development assistance through the national budget of the Afghan government.

On-budget

Hard Deliverable: *By June 2013, and annually thereafter, each Development Partner routes, 50 percent of its aid through the National Budget.*

Donors are increasingly using the on-budget mechanism for aid delivery. When all 24 donors are considered, based on the data provided by donors, approximately 46% of the 2012 disbursement is noted as on-budget (either through trust funds or through bilateral modalities). The Ministry of Finance (MoF) Treasury data, however, suggests a lower percentage.⁴

Trust Fund arrangements continue to be the most utilized modality for donors to meet their on-budget commitment. In 2012, an estimated 75% of total on-budget support was channeled through the trust fund mechanisms administered by IFIs.

Important variations in the degree of progress across donors were noted. In 2012, seven out of 24 donors representing 21% of total disbursements were able to fully meet or exceed the on-budget target. For some donors, commitments for the on-budget allocation may be higher than actual disbursements in a single year. In such cases, an annual increase in disbursements would allow the target to be reached within a two to three year period. In some other cases, the use of the on-budget modality is conditional on the results of fiduciary risk analysis in specific line ministries. Greater efforts are needed to meet the on-budget assistance target in 2013.

Priorities going forward:

- Development Partners remain committed to provide at least 50% of aid on-budget consistent with the Tokyo Mutual Accountability Framework.
- Development Partners commit to working with Government to resolve any remaining constraints to putting more aid on-budget, including fiduciary risk and funding modality issues.

⁴ Provisional MoF data suggests a figure of 36%

- Development Partners will also work with Government and Trust Fund Administrators to further support the effectiveness of on-budget support through Trust Fund mechanisms.
- Development Partners commit to work with the Afghan Government to ensure that the balance between different on-budget modalities for aid delivery is consistent with international assessments of capacity e.g. PEFA, Open Budget Index and others.

Alignment

Hard Deliverable: *By June 2013, and annually thereafter, each Development Partner aligns 80% of its aid to the National Priority Programs at least.*

Many donors have made progress in aligning their development aid with the NPPs. However, differences in the interpretation of the term alignment mean that it is not possible to confirm the precise degree of alignment with NPPs. Further work will be jointly undertaken by the Government and Development Partners to verify alignment data, based on an agreed definition. The Government is keen that donors move further towards use of country systems and institutions.

Priorities going forward:

- Development Partners remain committed to align 80% of aid with the NPP deliverables.
- Donors and Government will work together to verify alignment data based on an agreed definition.
- Development Partners commit towards addressing priority NPP financing needs.

Joint Reviews

Hard Deliverable: *By June 2013, Joint Review of current and planned projects/programs conducted with each Development Partner to determine and agree on the level of alignment with NPPs.*

Donors held bilateral DCD meetings with the Ministry of Finance in recent weeks and programs are being reviewed on an ongoing basis.

Priorities going forward:

- Based on agreed definitions, donors and Government will review the alignment performance of projects/ programs in a prioritized manner i.e. focusing on large interventions.

Financing Agreements

Hard Deliverable: *With effect from February 2013, Financing Agreements, or equivalent, (the format, scope and applicability will to be agreed by Development Partners, on a bilateral basis, with the MoF) for new on and off -budget projects signed with Development Partners.*

Most donors have already agreed to, or are in the process of, negotiating Financing Agreements with the Ministry of Finance. The Government has issued guidance on Financing Agreements. Most donors have already agreed to, or are in the process of, negotiating Financing Agreements with the Ministry of Finance, though further bilateral discussions are required to confirm how different categories of off-budget projects will be treated. With Financing Agreements in place, aid flows will be systematically captured in the national budget and discrepancies will be reduced.

Priority going forward:

- Development Partners without Financing Agreements commit to finalizing such agreements with the Ministry of Finance for all new projects from 2013 onwards, subject to bilateral discussions as indicated above.

Joint Assessments

Hard Deliverable: *Joint Assessments, which meet Donors and Government standards, of fiduciary risks at major ministries for increased on-budget financing conducted by December 2013.*

Development Partners have expressed a desire and willingness to move towards undertaking joint assessments as agreed.

Priorities going forward:

- Development Partners and government will review the recently released Guidance Note for completion of this work by December 2013.
- Development Partners commit to conduct joint assessments by December 2013.

Goal: The International Community commits to taking concrete steps to improve aid delivery consistent with partnership and global aid effectiveness principles.

Aid Management Policy (AMP) Implementation Plan

Hard Deliverable: *The AMP implementation plan including mechanism for joint review agreed by government and donors by June 2013.*

The Government of Afghanistan and Development Partners have held discussions and exchanged proposals on an AMP implementation plan. Work to complete the implementation plan continues.

Priority going forward:

- The Government of Afghanistan and Development Partners work together to finalize the AMP implementation plan as soon as possible.

NPP Alignment Plans

Hard Deliverable: *By July 2013 each Development Partner prepares a plan, with the Ministry of Finance, to align 80% of its total aid to deliverables of NPPs.*

See text under 'Alignment' above.

Priority going forward:

- Based on an agreed definition of alignment each Donor will develop plans with the Ministry of Finance to achieve 80% alignment.

NPP Funding Modalities

Hard Deliverable: *Jointly identify funding modalities for National Priority Programs by September 2013.*

This hard deliverable is not yet due. The Government has made the following observations:

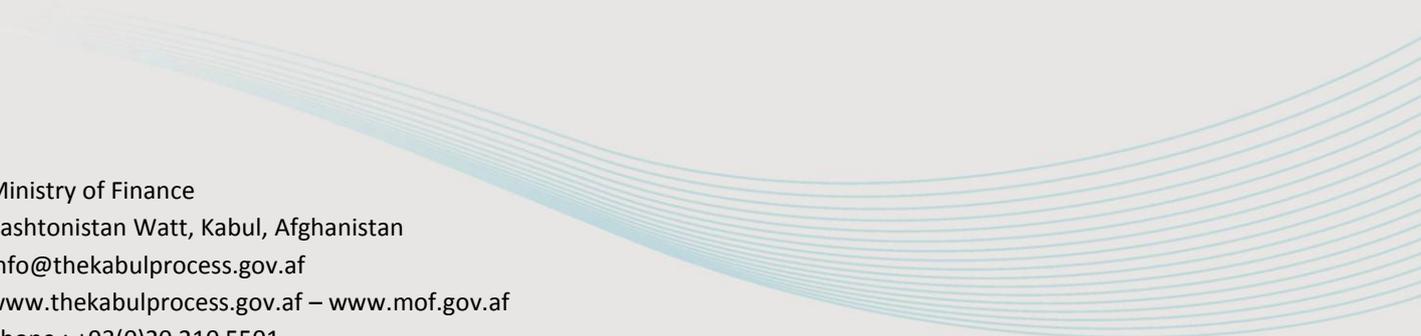
- Coordination of off-budget funding and the optimum use of on-budget mechanisms for NPP financing remains an important challenge.
- Pooled funding mechanisms as the largest recipients of on-budget aid should adjust to NPP funding requirements. There are also options to establish new Trust Funds, either to focus on service delivery or perhaps a theme such as capacity development as has been adopted in other countries. SWAPs (health, education, agriculture) and bilateral projects could also be used to cover the financing gap of NPPs.
- In all cases, the Government wishes to take more control over direction and use of funds and therefore funding and implementation strategies must be first based upon the Government's priorities and approved plans.

Priority going forward:

- Development Partners and the Government agree to review, for all endorsed NPPs, the on and off budget funding modalities available and where needed start (or pursue) consultations on how to best coordinate NPP financing or establish new modalities.

Way Forward

Beyond the SOM, the Government and the international community need to maintain and continue to review progress against TMAF reform areas in the run-up to the Ministerial Conference in 2014. To this end, Government and donors will continue to meet in Kabul on a monthly basis, both at Ministerial and Ambassadorial levels (or equivalent), with their designates pursuing progress at the working level. Existing Ambassador and Heads of Agency meetings will service as a continued platform for engaging with the wider international community.



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