



Business Environment Reform Facility

Diagnostic Report: Harakat Afghanistan Investment Climate Programme

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Business
Environment
Reform
Facility



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About Business Environment Reform Facility (BERF)

BERF is funded by the UK Department for International Development (DFID) under the Business Environment for Economic Development (BEED) Programme. BERF is a central facility responding to demand from the DFID's priority Country Offices and stakeholders to initiate, improve and scale up business environment reform programmes. BERF is managed by a consortium led by KPMG LLP. The programme started in January 2016 and will finish in January 2019.

We provide expert advice, analysis of lessons learned, policy research about what works and what doesn't and develop innovative new approaches to involving businesses and consumers in investment climate reform.

BERF has a strong emphasis on strengthening the Business Environment for women and girls, as well as for young adults more generally. It is also aiming to improve the relationship between business and the physical environment including where relevant through linkage to climate change analysis. BERF recognises the need for appropriate political economy analysis in order to underpin business environment reform processes and interventions.

About this Report

Research for this study was conducted by Tim Tuckett between November and December 2016.

The views contained in this report are those of the authors and do not necessarily represent the views of KPMG LLP, any other BERF consortium member or DFID.

This is a working paper shared for discussion purposes only. No reliance should be placed upon this report.



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Acronyms and Abbreviations

ACCI	Afghanistan Chamber of Commerce and Industries
ADR	Alternative Dispute Resolution
AICF	Afghanistan Investment Climate Facility
AICP	Afghanistan Investment Climate Programme
AISA	Afghanistan Investment Support Agency
AGO	Attorney General's Office
ARTF	Afghanistan Reconstruction Trust Fund
ASYCUDA	Automated System for Customs Data
AISA	Afghanistan Investment Support Agency
BE	Business Environment
BER	Business Environment Reform
BMO	Business Membership Organisations
CBR	Capacity Building for Results
CPA	Central Partnership Authority
CSC	Civil Service Commission
DBIs	Doing Business Indicators
DCED	Donor Committee for Enterprise Development
DDR	Due Diligence Review
DFID	Department for International Development
DTF	Distance-to-frontier
FCAS	Fragile and conflict-affected states
GoIRA	Government of Islamic Republic of Afghanistan



HOO	High Office for Oversight and Anticorruption
IC	Investment Climate
ICAI	Independent Commission for Aid Impact
ICT	Information Communication Technology
IDLG	Independent Directorate for Local Governance
IF	Investor Facilitation (Pillar)
ISAF	International Security Assistance Force
LRR	Legal and Regulatory Reform (Pillar)
MBO	Membership Business Organisations
MDAs	Multilateral Development Agencies
MEC	Monitoring and Evaluation Committee
M&E	Monitoring and Evaluation
MoCI	Ministry of Commerce and Industry
Mol	Ministry of Interior
MoJ	Ministry of Justice
MoUD	Ministry of Urban Development
MRRD	Ministry for Rural Rehabilitation and Development
NEC	National Economic Council
NEEP	National Economic Empowerment Plan
NPA	National Procurement Agency
NPP	National Priority Programme
NUG	National Unity Government



NSP	National Solidarity Programme
ODR	Operational Development Review
OSS	One Stop Shop
PEA	Political Economy Analysis
PPD	Public Private Dialogue
PPP	Public Private Partnerships (Pillar)
PSD	Private Sector Development
SAO	Supreme Audit Office
SEC	Stakeholder Engagement and Communications
USAID	United State Agency for International Development



Executive Summary

Background

The UK Department for International Development (DFID) and the Board of Harakat commissioned Business Environment Reform Facility (BERF) to carry out a diagnostic review of the business environment (BE) in Afghanistan, following the approval of the Afghanistan Investment Climate Programme's (AICP) Business Case for funding in June 2016.

The programme aims to improve the business environment in Afghanistan by supporting private sector-led growth through advice and advocacy on legal and regulatory reforms, supporting women's economic empowerment, and facilitating investment. Harakat is an independent organisation with its own board who will be responsible for implementing AICP.

The Business Case highlighted that Harakat's strategy for 2016 – 2021 is to become a more 'linear' organisation supporting investment climate reforms in Afghanistan¹. The new Harakat-AICP will be implemented through four programme pillars, with enhanced and more robust management systems in place. BERF was asked to provide technical support for organisational development, the design and update of the procurement system, and a diagnostic review of the BE in Afghanistan. This report contains the diagnostic review of the BE in Afghanistan with recommendations for way forward.

Findings

The government's private sector reform priorities are highly relevant and have guided BER priorities set for Harakat-AICP. Promoting a one-stop-shop, strengthening investor protection as well as national policy for public and private partnerships have particularly influenced the prioritisation of reforms for Harakat-AICP. Public Private Partnerships (PPPs) and Investor Facilitation have been identified as priority pillars for Harakat-AICP.

Successful and sustainable BER in Afghanistan must take into account the importance of consulting and engaging with all stakeholders, particularly with the private sector, to enable the government's ownership of and accountability for interventions that will bring positive change to the investment climate. Harakat-AICP will need to ensure its ability to influence the government in policy making and regulatory reform, which means forming credible relationships with key ministries and their departments and agencies that will lead to increasing investor confidence in Afghanistan.

Consultations carried out during this assignment highlights three issues that need to be addressed to enable better engagement and ownership for BER:

- 1) Lack of ownership of Key Performance Indicators (KPIs) by prospective government ministries and agencies.

¹ Approach has been confirmed in the AICP Business Case



- 2) Lack of inter-ministerial (including the High Economic Council) and private sector engagement:
- 3) Lack of donor coordination among multilateral development agencies (such as the World Bank and Asian Development Bank) and bilateral donors and contractors.

The key BER constraints identified in this review are:

- Lack of private sector representation and protection to do business;
- Regulatory environment for business is fragmented and complex to follow;
- Legal and regulatory frameworks for PPPs are not properly implemented;
- Capacity is weak within government to identify, plan, and monitor PPPs;
- Complicated processes for business start-ups; and
- Legal and regulatory frameworks for business law are weak and in some cases non-existent.

Legal and regulatory frameworks for doing business in Afghanistan are complex and in some cases non-existent. The business environment is not well regulated, and often business is conducted informally without legal recourse. Investor protection is limited, and the legal framework for dispute resolution is weak. Legal and regulatory framework is under developed for loan recovery and recovery of assets and debt. Reforms in this area will be complex and time consuming as government ministries and agencies will need to change behaviour and adopt new practices. Private sector confidence continues to deteriorate, and there is ongoing mistrust between the private sector and the government, brought about by the apparent lack of commitment by the government to address basic business environment issues and streamline processes for doing business. There is an urgent need to prioritise the strengthening of and progression with PPPs since this is a government priority, and there is also substantial support provided by donors.

As several studies² and due diligence activities have identified in fragile and conflict-affected states (FCAS), here will be greater emphasis on financial risk management both within DFID and its service providers, which will cascade to downstream partners.

Priority Recommendations

Findings from this study suggest the following high level actions to be taken with the appropriate government and public sector partners:

- Establish a stakeholder and communications function within Harakat-AICP and use this to promote ownership and accountability for interventions by all actors in BER including government and private sector agencies and organisations;

² UK Independent Commission for Aid Impact- ICAI report 2012 notes that fiduciary risk remains high, particularly for the procurement of services. The report highlights this as especially important to manage in Afghanistan.



- Form a formal partnership and agree on a capacity enhancement programme with the Central Partnership Agency (CPA)- Ministry of Finance;
- Prepare requests for proposal for third parties to support reform in each of the three pillars;
- Identify and appoint third party contractor to strengthen CPA, and enhance promotion and management of PPPs;
- Form partnerships with other government ministries and agencies including the High Economic Council, Ministry of Commerce and Industry, Afghan Chamber of Commerce and Industry (ACCI), and *Asan Khedma*³ to promote investor facilitation;
- Recruit a gender specialist to support the design and implementation of the forth pillar for women's economic empowerment; and
- Harakat to incorporate robust management, financial and procurement systems.

³ The government will form a one-stop-shop under the auspices of the Ministry of Finance (MoF) to improve public services with key objectives to be more responsive to the needs of Afghan citizens. This facility will be known as *Asan Khedmat* and whilst it will strengthen good governance in Afghanistan, there is an opportunity for AICP support to widen its scope and include business enhancement services provided for the private sector



1. Introduction

This report forms part of BERF support to Harakat-Afghanistan Investment Climate Programme (AICP) during its inception period. AICP is a six-year (2017 to 2023) programme jointly funded by the UK and Sweden, and builds on the successful implementation of the Afghanistan Investment Climate Facility (AICF, 2008 to 2016). Unlike its predecessor programme, AICP is a multi-donor programme. AICP supports private sector led growth through focusing on legal and regulatory reforms, supporting women's economic empowerment, and facilitating investment. The programme will tackle investment reform issues that constrain economic growth. Although AICP will be operating from Kabul, its activities will have direct impact on other provinces.

The Business Case highlights programmatic areas of operation that will be implemented through four pillars:

- Public Private Partnerships (PPPs)
- Investor Facilitation (IF)⁴, previously Investor Protection
- Legal and Regulatory Reform (LRR)
- Women's Economic Empowerment (WEE)

AICP will be implemented by Harakat, an independent, non-profit, Afghan-managed organisation that aims to improve Afghanistan's business environment (BE). The organisation will back programme pillars to support the private sector, government and civil society to reduce or remove barriers that currently make it difficult to do business in Afghanistan.

The six-month long inception phase for AICP started in July 2016, following approval of the Business Case in May 2016, and has been extended to March 2017. Implementation of AICP will commence in April 2017 for 6.5 years ending in June 2023. The total value of the programme is £50 million. Commitment from donors so far include £15 million from the UK and SK150 million from Sweden for the first 4 years of the programme. DFID plans to contribute a further £10 million from 2020 to 2023, subject to satisfactory findings from an independent process evaluation planned for year 4 of the programme taking account of actual disbursements then and the state of other donor funding with an expected additional £25 million from other potential donors.

As highlighted in Harakat strategy, and the Business Case, AICP will migrate from a grant funding approach to a programme management framework approach through four pillars: Public Private Partnerships (PPP), Legal and Regulatory Reform (LRR), Women's Economic Empowerment (WEE), and Investor Facilitation (IF). AICP will adopt the role of a funding agency that includes contract management work with implementation partners in each of the

⁴ Detailed discussions were held at the Strategy Planning Board Meeting in Dubai on 19-22 December 2016, where the Board agreed Investor Protection would be renamed Investor Facilitation. The use of the term 'Protection' has legal and regulatory implications, which is covered in LRR pillar. The term 'Facilitation' is more appropriate and encompasses support to private sector investors to enable them to confidently make investment decisions.



four pillars. To this end, procurement, financial management, compliance and auditing capacity needs to be strengthened at AICP.

The purpose of this report is to identify BE constraints and priority areas for reform through the four pillars. BE constraints and reforms documented in this report have been identified through desk-based diagnostic research (building on the DFID Business Case) and stakeholder consultations in Kabul.

Changes to ToR to focus on Stakeholder Engagement

During the fieldwork for this diagnostic review, it became clear that there was not enough stakeholder engagement to verify that priorities previously identified are still relevant, and to ensure that the needs of the private sector and other stakeholders are properly taken into account. The fieldwork identified that insufficient resources have been made available for short-term and long-term stakeholder engagement. More resources in this area will help to verify and validate the priorities for reform that have been identified in the DFID Business Case. After presenting this finding to AICP and DFID, it was agreed that the BER Advisor should adjust the review to focus more on stakeholder engagement. Stakeholder engagement is required to gain a deeper understanding of the BE constraints as perceived by local actors on the ground. It also serves to ensure a bottom-up approach to BE reforms and enable local ownership for reform.

With this shift in focus, some of the time and resources allocated to this assignment were allocated to build a framework for stakeholder engagement and communications that will be incorporated into AICP. The consultant worked in collaboration with the AICP team to construct a framework for stakeholder engagement. Using the framework, the BER Adviser worked with the AICP team to carry out initial stakeholder engagement activities during site visits⁵ to guide AICP with prioritisation and design of the four pillars.

⁵ November and December 2016



2. Approach and methodology

A BERF consultant carried out stakeholder engagement during two country visits in November and December 2016. Desk-based research was carried out in the UK, involving a review of AICF reports, DFID reports on BER in Afghanistan and on AICF, as well as a range of other government related reports addressing priorities for economic and political reform. The desk research also took into account findings from recent reports on BER and BER related programmes produced by the World Bank, International Finance Corporation (IFC), United States Agency for International Development (USAID), and Netherlands Development Agency(SNV).

The methodology for this assignment involved literature review providing a synopsis of the current situation for investment climate (IC) and BER in Afghanistan. Efforts were made to source new data around BER in Afghanistan to add value to what has already been in circulation since 2012, but limited new material was found. It was agreed with DFID and Harakat⁶ that added value will come from stakeholder consultation.

A stakeholder engagement and consultation framework was developed which is planned to become a permanent feature of AICP. Stakeholder engagement has two key elements: (1) stakeholder engagement for long term public private dialogue (PPD) to ensure the private sector has a voice in addressing constraints to investment and BERs, and (2) stakeholder engagement for short term planning and design of pillars. A new pillar for stakeholder engagement (which will incorporate communications) will need to be introduced with the appointment of a Stakeholder Engagement and Communications Manager (SEC).

The framework was constructed using a two-stage approach. The first stage was designed to enable a series of rapid consultations with key stakeholders who have direct and indirect influence on pillar design, to quickly ascertain relevance and validity of constraints, and initial interventions set out in the Business Case. This stage also sought to identify other key reform priorities for early intervention by AICP in particular the PPP pillar, and subsequently the Investor Facilitation (IF) and Legal and Regulatory Reform (LRR) pillars. Work in this area is on-going particularly for the IF and LRR pillars, and is expected to be completed by the end of March 2017, that will help to inform the design of one or both of those pillars by the end of the inception period.

Stage 2 of the stakeholder engagement aims to work through permanent stakeholder groups to address specific focus on pillar-related BER constraints, and/or wider ranging constraints spreading across several pillars. AICP (through a proposed permanent stakeholder engagement function with the AICP organisation) will facilitate stakeholder groups.

⁶ Discussed and agreed with DFID and Harakat on 10 November 2016



3. Key BER Findings from literature review and stakeholder consultation

3.1 Business Environment in Afghanistan

As detailed in the Business Case and through other wider ranging documents produced by the government, donors and other bilateral funding agencies, despite on-going commitments and pledges by National Unity Government (NUG) the business environment in Afghanistan is still challenging. This is especially highlighted in the latest World Bank Doing Business Report.⁷

Since the formation of the new government and the withdrawal of International Security Assistance Force (ISAF) in 2014, the government identified several key areas for reform as documented in its reports; Realising Self-Reliance⁸ and Key Priorities⁹ for Private Sector reform tabled at the October 2014 London Conference hosted by NUG and co-hosted by DFID. These assertions aimed to provide for a stronger BE to attract more foreign investment.

However, there is still much to be done to reform the BE. The aim of this report is to take into account government priorities for reform, its ability and capacity to carry out these reforms, and to ensure that priorities for reform are valid, relevant and Afghan-owned. While there have been numerous surveys and diagnostics undertaken for BERs and private sector investment in recent years, not enough emphasis has been placed on local ownership of reform. To this end, there is a need to engage with stakeholders more comprehensively both in the short-term to identify immediate priorities, and in the longer term to ensure ongoing stakeholder engagement and ownership of BERs.

3.2 Doing Business in Afghanistan and National Unity Government Priorities

Investors and other private sector stakeholders are interested in how Afghanistan ranks for doing business, and what the government's commitment is to supporting business growth. World Bank provides annual assessments of BE for selected countries around the world. Though this is not an ideal interpretation of the challenges in doing business, it does provide an indication of trends and how changes occur over time. Many observers have criticised the Doing Business Indicators (DBIs) as too generic to be of use. Some commentators¹⁰ suggest that the aggregation of indicators to give a ranking for a country is misleading as the indicators are for 10 business-related activities, which are difficult to correlate.¹¹

⁷ World Bank Doing Business Report 2016

⁸ Realizing Self-Reliance (December 2014)

⁹ There were 11 key priorities identified to be tabled at the London conference from a list of 40 that were discussed at the preceding priorities reform conference held in Kabul

¹⁰ Extracted from article published by review panel, set up by the World Bank and headed by South African Planning Minister Trevor Manuel "Ranking countries on 'ease of doing businesses should be stopped – World Bank" June 2013

¹¹ Doing Business Indicators include; starting a business, getting construction permits, electricity, and credit, registering property, protecting investors, paying taxes, and enforcing contracts



Alongside the DBIs, and in response to wider international observations on doing business in Afghanistan, NUG responded through its commitment to support growth in investment. Two documents produced by NUG to note: Realising Self Reliance, and Key Priorities for Private Sector Reform are summarised below separately.

3.2.1 Doing Business in Afghanistan

The World Bank Doing Business Report for 2016, ranked Afghanistan 182 out of 190 economies. The distance-to-frontiers (DTF) score, which measures how close Afghanistan's business regulations are to global best practice, was 38.4%. The lower the percentages the less efficient regulatory practices are from global best practice. Table 1 summarises the DBI and DTF scores for Afghanistan.

Table 1: Afghanistan DBIs and DTF Scores						
Indicator	2017 DBI Rank	2016 DBI Rank	Change in DBI	2017 DTF Score	2016 DTF Score	Change in DTF
Overall	183	182	-1	38.1	38.4	-0.3
Starting a business	42	38	-4	92.1	92.2	-0.1
Dealing with constructions permits	186	185	-1	22.4	22.4	0
Getting electricity	159	157	-2	45.0	45.5	-0.5
Registering property	186	185	-1	27.5	27.5	0
Getting credit	101	97	-4	45.0	45.0	0
Protecting minority interests	189	189	0	11.7	11.7	0
Paying taxes	163	150	-13	51.3	55.6	-4.3
Trading across borders	175	176	+1	30.6	28.9	+1.7
Enforcing contracts	180	180	0	31.8	31.8	0
Resolving insolvency	159	161	+2	23.6	23.6	0

(Source: WB Doing Business Report 2016)

There was a significant drop in the Paying Tax Indicator ranking due in part to the authorities, making paying taxes costlier with the introduction of an increase in business receipts tax rate. However, there was an improvement in the ranking for trading across borders and resolving insolvency. Trading across borders was made easier with the introduction of several modules of the Automated Systems for Customs Data (ASYCUDA) world customs processing system.

As can be seen from the overall indicator, the BE in Afghanistan has not improved over recent years. This can be attributed to fundamental constraints relating to the political and regulatory environment, corruption, uncertainty and low investor confidence, and lack of access to key resources. This is consistent with recent assessments and NUG's recognition of the current state of security, politics and economy.

As highlighted in the DFID Business Case, Afghanistan is one of the poorest countries in Asia with an economic growth rate at just above 0% in 2015. The investment climate is weak and severely constrains private sector investment and growth. As noted in the Business Case



‘mobilising private investment requires development of more modern laws and regulation frameworks, investor protection and risk sharing instruments.’

Whilst the indicators for Doing Business in Afghanistan are quite general and affected by a wide range of economic and political factors beyond control of individual programmes, it is recommended that Harakat-AICP ensures impact from its interventions are channelled into the World Bank Doing Business analyses.

3.2.2 NUG Priorities for Private Sector and BE Reform

NUG ambitions are to correct and improve the IC for Afghanistan. It is cognisant of the heavy challenges it faces. However, the current government also recognises similar commitments made in the past, which have not been adhered to. There is a public sense of repetition, and the same rhetoric was heard in the past but yielded no significant change in improving the IC.

The priorities are summarised from two key documents published by NUG resulting from consultations between itself and the private sector: Private Sector Reform Priorities (October 2014); Realising Self-Reliance (December 2014) and Afghanistan National Development and Peace Framework.

■ Private Sector Reform Priorities

There is a clear vision for economic reform that is underpinned by private sector growth. Eleven private sector priorities were developed in response to economic and political challenges, with consultation between NUG and the private sector as facilitated by Afghan Chamber of Commerce and Industry (ACCI) and supported by AICF. These priorities were tabled at the London Conference for Private Sector Priorities for Reform in 2014. These priorities have recently been further developed by NUG at its Council of Ministers Affairs Management Directorate in June 2016, which agreed to the formation of 11 committees with nominated membership of relevant stakeholders to develop and implement priority programmes as summarised in table 2.

Table 2: List of 11 approved committees for 11 priorities		
No.	Priority	Committee Members
1	Improving traditional irrigation systems and promoting modern and sustainable systems	MoEW, MRRD, MoJ, ALA
2	Establishment of national railway system (seeking international support)	MoT, MoFA, MoJ
3	Installation of accessible infrastructure for the power generation and extractive industries	MoEW, MoF, MoJ, MRRD, AEITI, Transparency Watch
4	Creation of a system of one-stop-shops in the main cities to support commerce and investment ¹²	MoIT, MoJ, MoF, MoUD, MoWA, MAIL, MoM, MoT, MoEW, MoI, MoLSAM, KM, ACCI, AIACC
5	Strengthening of the financial sector to enhance issuance and retrieval of loans and improve investor protection	Supreme Court, NSC, MoJ, HAO, AAB

¹² Registration and renewal of licenses, payment of taxes and custom duties and other affairs of enterprises in Kabul and 7 major commercial centers around the country delivered through a computerized system



6	Develop and implement strategy for industrial parks, facilities and formation of an Independent National Parks Authority	MoUD, ACCI, KM, ALA, NEPA
7	Approval of Electricity (power energy) Law, Bylaws and procedures to set up an Independent Power Energy Management Authority ¹³	MoJ, MoM, MRRD, ACCI, NEPA, Breshna Corporation, Association of Industrialists
8	Upgrade and modernise Technical and Vocational Education Entities	MoHE, MoLSAM, MAIL, MRRD, MoWA, ACCI, CSO, GI, AWDP
9	Protect investors and promote investment through improving the implementation of agreements, dispute resolution, and bankruptcies and failures' settlements	Supreme Court, MoE, MoJ, MoF, MoHE, MRRD, MoWA, CB, NPA, ALA, Administrative Reforms Commission, Dispute Resolution Commission ACCI,
10	Develop a National Policy and Legal Regulatory Framework for PPPs	MoM, MoJ, MoUD, MoPW, MoWA, ALA, Railway Line Authority, NPA
11	Establish alternative transit routes through the Middle East alongside the proposed Middle East Gas Pipeline construction project	MoCI, MoT, MoPW, MoLSA, MoM, Representative of President for Middle East Countries, Railway Line Authority, ACCI.

The purpose of forming these committees was to enhance progress for each of the priority areas and to raise levels of accountability to achieve goals. The council nominated the Ministry of Commerce and Industry (MoCI) to lead the process in collaboration with ACCI. This is important and relevant for consideration and design of the IF and LRR pillars.

The achievement of these 11 priorities will depend in part on the government's commitment to tackle wider political and economic challenges that were identified in its Realising Self-Reliance paper presented to the international community in London (December 2014).

■ **Afghanistan's Priorities for Economic Reform: Realising Self-Reliance¹⁴**

Following the election of the new coalition administration and the later withdrawal of military support in 2014, commitments to reforms and renewed partnerships were made. NUG committed to ensuring peace, stability and security. In its Realising Self-Reliance paper, NUG highlighted the need to enhance productivity, growth and revenues through improving welfare and wellbeing, better opportunities, improved governance, respect for human rights, and peaceful coexistence with neighbours. Despite significant challenges, some improvements in fighting corruption, better rule of law and improved governance have been seen, even if not sustained.

The Realising Self-Reliance paper was intended to present an open and honest statement of commitment to reform whilst recognising the current problems of corruption, political instability, and severe challenges to the state of the economy.

The paper is built around four propositions:

¹³This will support and provide opportunity for private sector investment in the power energy sector

¹⁴ In October 2016 NUG subsequently hosted a follow-up conference in Brussels to re-affirm its intentions and commitments as stated in this paper under the Afghanistan National Development and Peace Framework.



- 1) Mobilise revenues in response to challenges of the economic/fiscal crisis resulting from the withdrawal of international support for provision of security, slump in the private sector and corresponding reductions in revenues.
- 2) As donor assistance declines, the government needs to respond by promoting more private sector investment by creating a stronger BE and placing more focus on: a) building infrastructure; b) enhancing regional integration; c) promoting and support regional trade and transit agreements; d) encouraging cross-border investment. NUG commits to channelling public funds into high potential sectors.
- 3) End corruption, fight patronage and reduce/eliminate collusive practices.
- 4) Enhance government leadership and promote senior-level government management to lead overall implementation of policy reforms and development assistance, which calls for a more coordinated and harmonised approach to government.

Though improvements have been evident and the country has benefited to some extent, they have not been able sustain benefits and ensure continued growth. Corruption is still rampant, the country is still dependent on international aid, with aid perceived as the default for recovery. The legal economy is still constrained by an uncoordinated and dysfunctional regulatory environment and run by 'parallel' institutions, and there is a lack of management of natural resource worsened by poor infrastructure, weak institutions and regulations. Dispute resolution is also weak and poorly managed through informal means due to the absence of effective formal dispute resolution systems in place.

So the key challenges highlighted in the paper refer to high levels of poverty (36% of Afghans unemployed), little job creation for the youth and poor, poor infrastructure, violence and discrimination against women, corruption, narcotics, and illicit economy and personal insecurity.

NUG recognised there were severe obstacles to private sector participation and growth that need to be addressed. It also recognised that with the withdrawal of ISAF there is increasing political uncertainty and deteriorating security, economic growth is projected at 3.5% (2017)¹⁵, and with the increasing fiscal gap, economic and political reform is essential. In appreciation of the challenges, the paper highlighted seven priority areas for reform that were presented at the London Conference:

- 1) Improving security and political stability;
- 2) Tackling corruption*;
- 3) Better governance*;
- 4) Fiscal stability*;;

¹⁵ Afghanistan National Development and Peace Framework 2016



- 5) Reformation of development planning and management
- 6) Bolstering private sector confidence and job creation*; and
- 7) Securing human rights and restoration of citizens rights.

Note: * These priorities have direct relevance to BER.

The NUG committed to developing detailed plans to address these priorities at a Senior Officials Meeting (SOM) in 2015. It has since formed the 11 committees (noted above) that meet regularly to monitor progress.

Within these seven priority areas NUG outlined key actions that are most relevant for BER, tackling drivers of corruption; building better governance; restoring fiscal sustainability; and re-building private sector confidence.

1) Tackling corruption

The aim is to address collusive procurement practices and remove abuse of rule of law, through the strengthening of legal and regulatory environment particularly in the business sector. The NUG recognised that the weakness of the regulatory environment is due to arbitrary regulations that often had built-in incentives to pay bribes. The NUG is committed to strengthening enforcement and reducing opportunities for bribes through establishing a national action plan to reduce corruption that would be policed by the Monitoring and Evaluation Committee (MEC), and strengthening the role of the Supreme Court. The government pledged to form an independent anti-corruption commission, reform the Supreme Audit Agency, form a new National Procurement Board, direct line ministries to focus on policy, strategy and monitoring rather than implement infrastructure development (which would be out-sourced); and modify laws, regulations and procedures to stop corrupt public services.

2) Building Better governance

Key aspects for improvement included the reforming the justice sector, restructuring ministries and agencies to avoid overlapping functions, reforming the civil service to reduce parallel systems and retain experienced staff, and promote cities to become economic drivers of growth.

Though these are ambitious aspirations, better governance will have a direct impact on the BE and will contribute to increased private sector/investor confidence. Stronger governance and increased political stability will encourage international investors.

3) Restoring fiscal sustainability

A number of measures will be introduced to raise revenues that will include creating a better BE underpinned by improved access to land and finance, and a more efficient business regulatory environment. In essence, the government seeks to ensure it has a strong basis for revenue generation upon which it will strengthen the enforcement of tax payments. It will also enhance opportunity to develop natural resources by promoting PPP focused on energy, water and natural resources.



Part of fiscal sustainability involves a strong BE that provides for streamlined and efficient licensing, provision of visas, financial guarantees, access to finance, investor protection, and formal dispute resolution. The government recognises it will need to strengthen tax enforcement and improve the use of the national budget to manage policy. Its expectation is that with a stronger private sector and increased inward investment, fiscal sustainability will be enhanced through improved revenues.

4) Rebuilding private sector confidence

Private sector investment is at an all-time low, as confidence is almost non-existent due to lack of formal controls, finance, corruption, access to property and land, and security. Through periodic surveys done by various bodies and agencies, the private sector has often voiced its concern about the lack of coordination and duplication of business enabling systems, and the long delays to comply with regulations, if and when they apply. There is a strong sense of frustration that the private sector does not have adequate protection from unscrupulous traders, business entities or corrupt politicians to carry out businesses to a level that is worthwhile.

In response, government is committed to supporting the private sector by allowing it the 'security it needs to invest and grow'.¹⁶ In its Realising Self-Reliance paper and Afghanistan National Development and Peace Framework (ANDPF) the government targets the improvement of the BE as a top priority and recognises that past efforts to support IC reforms have lacked political support (despite perceived political will). In response to this, NUG formed the National Economic Council (NEC) to enforce and coordinate economic reforms. With this, it prioritised improving IC, strengthening the financial sector, strengthening the regulatory and supervisory capacity of the Central Bank; and investment in agriculture, transport and mining.

The government aims to enforce a more streamlined and better-coordinated business licensing and registration system, to focus on improving access to finance and anti-money laundering activities in effort to clean up and strengthen the financial and banking sectors. Addressing these challenges will raise the chance of success in private sector priority reforms. However, the reality of where the government is with BER, measured through a recent political economy analysis (PEA) commissioned by USAID in May 2016 looks different. This is perhaps the most important area through which Harakat-AICP can support the government in achieving its private sector reforms priorities.

3.3 Additional Literature Review

Extensive review of literature concerning BER in Afghanistan has been undertaken for the Harakat-AICP Business Case. Detailed references have been made for the justification of the Business Case, and used to provide sufficient analysis for funding the programme. This report recognises the validity and value of the literature review carried out for the Business Case, and has therefore not replicated a detailed literature review. However, a truncated synopsis is

¹⁶ Extracted from NUG's Realising Self-Reliance December 2014.



provided for completion of this diagnostic study. During the first field trip (28/10 – 10/11 2016), the consultant discussed this approach with DFID and Harakat Management, and agreed that there was little added value in extensive reporting of relevant literature, and that the time spent on developing a stakeholder engagement framework would be more valuable. Below is a brief synopsis of key literature reviewed for the Business Case, with the exception of the USAID commissioned PEA for Afghanistan. This commission and resulting document is new to previous research carried out for the Business Case.

- **Afghanistan Political Economy - USAID PEA (May 2016)**

In May 2016, USAID commissioned a PEA to understand latest developments and responses to NUG's commitments to reform dating back to the transition and election of NUG in Afghanistan.

Despite some recent signs of reduction in bribery and improvements in procurement reform,¹⁷ the general population still perceived corruption to be a major challenge and constraint to economic growth. The public does not bother with reporting corruption and bribery as it lacks confidence in the authorities to notice and respond to reports and complaints. This clearly affects the legitimacy of government and its ability to promote a more enabling BE. Social contract continues to weaken despite good intentions of the NUG. In recognition of this, donors have sponsored numerous service delivery programmes to improve government, governance, administration and public services, but none targeted corruption specifically.

The current situation remains the same as has been for decades: corruption is still rampant; regulations and legislation are complex to administer, uncoordinated, and non-conducive to business growth. Afghans continue to lose faith in government. The country is dependent on aid and agriculture, vulnerable to economic and political shocks and has limited potential for job creation and employment prospects. As the population's average age decreases, there is a 'new political norm' evolving with the acceptance of insecurity, corruption, political instability and weakness of state services that causes the younger population to seek opportunities elsewhere abroad.

With the introduction of the new coalition government in 2014, there has been an increase in centralisation of services and decision-making resulting in long delays in key projects and implementation of policy across government departments. Added to this, there is increasingly poor coordination between government departments and entities (e.g. High Office for Oversight and Anticorruption – HOO, Monitoring and Evaluation Committee – MEC, Supreme Audit Office – SAO, Ministry of Interior – Mol and Attorney General's Office – AGO) to deal with anti-corruption and bribery. Despite evidence of commitment to change for the better at higher levels of government, there is resistance to change in the middle and lower ranks making reforms harder to achieve. The commitment to change at higher levels is captured in statements contained in the NUG Realising Self Reliance Paper. However, there is little

¹⁷ PEA USAID May 2016



evidence of delivery against key milestones due in part to the problems described above, but also to in-fighting within the NUG prompted by the disparity between the President (Ashraf Ghani) and CEO (Abdullah Abdullah) offices.

The PEA report noted overlaps between government ministries in matters concerning BE. Specific note is made of the numerous government agencies involved in provision of business licences that have similar functions. Afghanistan Investment Support Agency (AISA), MoCI, and Kabul Municipality are all involved in the issuing of business licences, but they are not well coordinated. This causes delays and confusion to the business sector and works as a disincentive for investment and business growth.

The government suffers from a lack of policy direction and priorities from senior leadership, due in part to problems in attracting talented and able staff to fill senior positions. Capable and well-qualified Afghan professionals continue to be lured away, in some cases to more lucrative private sector roles but more generally to overseas opportunities. Nepotism also continues and is rampant throughout government leading to an ineffective workforce.

Despite widespread criticism aimed at the current government around its inadequacies in management and service provision, there is still a strong political will to address key political and economic challenges currently facing the country. In particular, the President has recently formed the High Council for Governance and Justice to fight corruption. This council is chaired by the President with members comprising: CEO and both Vice Presidents, Chief Justice, Attorney General, Director of Supreme Audit Office, Director General of High Office for Oversight and Anticorruption, Chair for Civil Service Commission, and Director General for Independent Directorate for Local Governance (IDLG). The council will focus on corruption prevention, public outreach and civil accountability. It is supported by a secretariat headed by the President's Policy Unit. How this council will fit with the rest of government remains to be seen, in particular with the appointment of the Special Representative for Reform and Good Governance in 2015. The Special Representative has the same level of authority as Vice President and is responsible for leading initiatives for improving government performance, fighting corruption and coordinating donor engagement.

Other recent initiatives to try and address challenges to service the provision of BER include improvements in coordination between government departments for procurement, led by the consolidation of Afghanistan Reconstruction and Development Services, Procurement Policy Unit (of MoF), and the MoF Contracts Department under the National Procurement Agency (NPA). NPA is now leading procurement reform into other government agencies, and has established a procurement framework for Afghanistan that involves reviewing ministerial procurement for compliance.¹⁸ The procurement reform process has been met with challenges not least by government officials trying to get in the way to preserve opportunities for bribery. However, there have been some positive results including the unification of standards and identification of unscrupulous business operations.

¹⁸ Extracted from USAID Commissions PEA May 2016



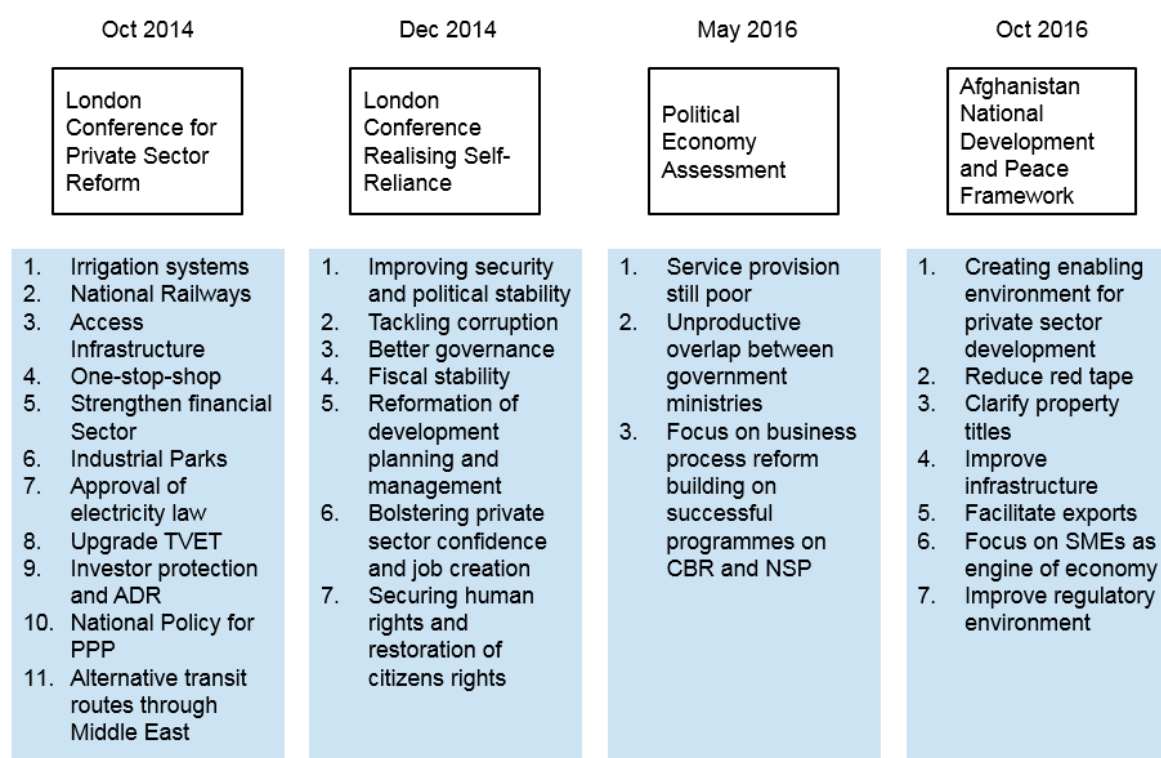
The PEA points out that the government is very keen to promote business process reform that will enable consolidation of the results of large-scale programmes, thus ensuring national programmes have relevant and lasting impact. Such programmes include National Solidarity Programme (NSP) and Capacity Building for Results (CBR). CBR has been running since 2012 funded through the Afghanistan Reconstruction Trust Fund (ARTF) under the National Budget. This programme has played a key role in identifying unnecessary and cumbersome processes. To date CBR has worked with several line ministries to map current processes and assisted with the design of more streamlined systems to aid better performance within affected ministries. A dedicated CBR Administrative Reform Secretariat then monitors these, and the President directs CBR through the Civil Service Commission (CSC) to identify overlapping mandates of government institutions to eliminate overlapping functions.

These two efforts have both planted seeds for larger scale reforms concerning how the government conducts its businesses and treats its citizen-customers. The World Bank plans to roll out a successor program to NSP, the Citizens Charter, which will collaborate with Community Development Councils (CDCs) in the planning, implementation and oversight of development projects in their communities.

The government realises limitations in its service delivery to its citizens, and that this imposes severe constraints to the BE and to economic growth. To this end, it has demonstrated its intention to streamline the provision of services through organisational change and refinement of systems. There is however a tendency to react to challenges in response to international expectations, rather than to formulate reforms that are relevant to the country's needs and within the capacity of the government to deliver.

Figure 1 below, summarises the key areas for reform and provides the context for AICP BER priorities.

Figure 1: NUG Key areas for BE Reform



This PEA provides useful insight into the current political situation in Afghanistan, and opportunities for AICP involvement to support NUG to achieve its private sector reform priorities. The following recommendations are proposed for consideration in the final design of Harakat-AICP pillars.

Other key documents reviewed during this study are summarised as follows.

- Organisational Development Review (January 2015)

The Organisational Development Review (ODR) for AICF was commissioned by DFID at the end of 2014. The main purpose was to review and assess the programme and its ability to deliver against its targets. The review investigated various areas of Harakat-AICF including: remit; operating model; capacity; legal status; governance; and financial stability. The review developed 91 recommendations that were categorised by area and priority as shown in Table 3 below.

Aspect	Critical	High	Medium	Low
Remit	0	3	15	2
Operating Model	0	11	23	2
Capacity	0	0	3	1



Legal Status	0	0	1	0
Governance	0	6	10	3
Financial Stability	0	4	7	0
Total	0	24	59	8

(Source: WYG/Upper Quartile Organisational Development Review January 2015)

The review found AICF to be a sound model for UK to channel funds to support IC reform. It found that AICF developed a strong reputation for initiating BER changes through funding interventions in association with both public and private organisations. It has become an effective Afghan-led organisation for the provision of grants for interventions to initiate change.

Whilst the AICF model was sound, there is need to make technical adjustments to address issues involving project management, procurement, management of risk, legal status, cost efficiency, and value for money. This review formed the basis for re-structuring AICP. Since the approval of the Business Case, BERF has provided diagnostic and planning support, taking into account recommendations and lessons from the ODR. The key recommendations are to put in place: (1) a more robust financial management system that includes procurement and audit; (2) an improved monitoring system for programme implementation; and (3) tighter programme management systems with a capable and experienced manager to manage downstream partners.

Proposals for a new procurement system and a new organisational structure can be found in separate documents compiled and submitted by the Procurement and Organisational Development Specialists.

- ACCI Business Tendency Survey Report (June 2015)

The ACCI produces periodical reports on the status of business activities around the main cities of Afghanistan. The latest report was produced in June 2015. Majority of findings highlighted deteriorating conditions for businesses driven by lack of business and investor confidence in Kabul, however the opposite was true for Balkh and Nangarhar. There were also isolated cases of improved performance in manufacturing. Surveys identified that many of the respondents wanted administrative reforms, i.e. the need of reducing the complexity of business registration and licencing. The findings of this survey are not detailed enough to inform BER, but there is potential for ACCI to use its strong network with the business community in Afghanistan to upgrade their survey model to provide more specific information on business needs. There is scope for Harakat-AICP to collaborate more closely with ACCI to develop a more comprehensive survey model that focuses on BER constraints. This will fit neatly with the Investor Facilitation Pillar and will form an important part of Stakeholder Engagement and PPD.

3.4 Other BER projects in Afghanistan

DFID has provided support to the Supporting Employment and Enterprise Development (SEED) programme in 2009-2015. This £28.9 million umbrella programme covered seven projects aimed at supporting market development in Afghanistan. The programme focused



more on supporting private entrepreneurship at the community level and for men and women that are economically challenged, and less on BER. At the review date for this programme (April 2015) from which useful conclusions can be drawn for AICP, the following five projects were still operational within the SEED framework:

- Afghanistan Business Innovation Fund (ABIF);
- Market for Female Afghan Artisans (MFAA);
- Afghanistan Rural Enterprise Development Programme (AREDP);
- Business Edge (BE); and
- Turquoise Mountain Trust (TMT).

As there are similarities in the construct of this programme with AICP, namely multiple projects being run under one programme, there are a number of lessons to be learned for AICP in terms of reporting and results measurement. One observation made during the SEED review was that SEED projects needed to adopt a standardised reporting format, and report results that are verifiable and consistent with the overall objectives of the programme as set out in the logframe. AICP should adopt a similar approach to programme management.

3.5 BER in FCAS

While there is no single definition for FCAS that captures the characteristics of all FCAS states, there are common themes that emerge to create challenging situations for BEs and investors. For example, a recent BERF study entitled *Scoping Study on Business Environment Reform in Fragile and Conflict Affected States* (May 2016) noted that there is usually a correlation between low economic growth and inequality of women and conflict, both of which have a negative influence on levels of confidence for business. The study goes on to suggest that FCAS states are low-income countries that have poor political systems in place to properly service its citizens. Literature around BER in FCAS identifies four main categories of challenges that businesses and investors across countries and regions face, which are: economic, political and security, social, and demographic. This implies FCAS states tend to be economically broken with reduced investor or business confidence, low legitimacy and residual violence, and a lack of a functioning judicial system. There are also social tensions between communities that have a negative effect on BER and therefore discourage business growth particularly in the formal sector. Where there is conflict there is a high incidence of female-headed households.

Doing business in FCAS has many varied complex challenges which cannot be easily addressed through tried and tested 'global best practices', as what works for one situation in a country may not work for the same situation in another. BEs within FCAS states are notoriously complex as reported in the BERF study. The study also highlights a distinct lack of research around BER in FCAS states as concluded below:

“



“Significant gaps that require further research include sequencing or timeline of interventions on BER and the appropriateness of BER in humanitarian or conflict situations. There is also little acknowledgement of the variable regional dimension – typically BER interventions (and consequently research) focus on the capital city and do not highlight the sometimes significant differences in BE between different cities and provinces in FCAS.

Further research, focusing on measureable achievements that can be attributable to the interventions is needed to assess and compare evidence on the effectiveness of specific interventions.

Commissioning research to address these shortfalls in BER research is problematic because of the breadth of FCAS states and the range of potential interventions within the BER categorisation. A more focused approach based on the specific range of intervention types that are appropriate within the full range of FCAS states is recommended. Sometimes these interventions need not be specific to FCAS environments; rather they may represent a more flexible and simplified approach to those employed in other developing states.”

To this end, the use of documented evidence from specific BER interventions (one-stop shops; banking and land reforms; government procurement and regulatory systems; commercial courts and Alternative Dispute Resolution (ADR); tax policies and administration) is academically informative for the situation and country for which they were designed. Lessons can be learned and applied, but it is questionable whether those lessons could be transferred to similar situations in other FCAS countries.

The BERF report makes a valid note of the importance of implementing BER interventions based on a deep understanding of the political economy and the unique nature thereof for each FCAS country. This is especially true of Afghanistan, where the political economy alongside the government priorities for reform and the priorities of stakeholders are unique from other FCAS countries.

The study concludes that prioritisation of BER interventions should be based on deep understanding of the political economy, government priorities, and stakeholder groups in Afghanistan, before trying to apply lessons learned from other FCAS states. Perhaps later in the BER cycle when it is more mature in Afghanistan, lessons from other FCAS states can be brought in. At present, AICP should focus on designing interventions that will be specific to the BE challenges in Afghanistan.

With regards to stakeholder engagement, the report also notes *“Stakeholder engagement throughout the planning, design, implementation and evaluation of reforms is especially important in FCAS to ensure no stakeholders are isolated causing further tensions, in order to build a sustainable and stable consensus. Reforms need to align with priorities and needs of the private sector in the host country”*. One important observation this Diagnostic Study has made is that the private sector in Afghanistan does not have a voice in BER and to date has not been sufficiently engaged in private sector reform.

3.6 Stakeholder Engagement

Investor confidence declined sharply in Afghanistan immediately before and after the political and military transition in late 2014, resulting in a sharp contraction of domestic and foreign investment. The number of new registrations dropped 26% to 2,470 in 2014. This decline was evident across all sectors including construction, manufacturing, and services.

This diagnostic began with assessing the four programme pillars from the prospective of the Business Case. Given that all four pillars will need to be designed, tendered and awarded by the end of 2017, with two pillars designed and tendered during the inception period (currently in March 2017), a stakeholder engagement framework was designed by the BER Adviser in close collaboration with the AICP Team. Details of the framework and stakeholder engagement methodology was developed to align stakeholders with the pillars. This matrix enables Harakat-AICP to capture interventions by pillars that have been identified during stakeholder consultations, and will be used as a 'live' tool that will be continuously updated over time. The format of the tool is illustrated in Figure 2 of Appendix 3.

On further consultation with government entities including the MoF for the PPP pillar, and separate consultations with the MoCI and the ACCI (see Appendix 1 for detailed list of stakeholders consulted), three further critical constraints were discovered in addition to the BER constraints typically associated with FCAS countries:¹⁹

- Lack of ownership of key performance indicators (KPIs);
- Lack of inter-ministerial and private sector engagement; and
- Vacuum of ownership.

These warrant further comprehensive stakeholder engagement.

1. Lack of ownership of KPIs: It was discovered through stakeholder consultation, that prospective government partners lacked any comprehension of the application of measurable KPIs at the pillar level as well as the specific areas of interventions envisaged for each pillar. By way of example, there are no KPIs developed by the MoF for its PPP program and deliverables are project based, and lack specific targets against which the government could be measured.

2. Lack of Inter-ministerial and private sector engagement: During discussions with stakeholders, a recurring theme emerged signalling a distinct lack of dialogue between public and private sectors.

3. Vacuum of ownership: In consulting the public sector actors, a new dimension has emerged with respect to the relationship between the government and those offering technical assistance (donors). In the past donor/consultant led process for programme/project planning has prevailed which resulted in government actors undertaking activities on their own while

¹⁹ Weak legal and regulatory environment, access to finance, access and markets, poor infrastructure, prevalence of informal business environment leading to lack of investor confidence, security, corruption etc.

consultants appear to work in a vacuum. The reasons behind this include security-related constraints that prevent international experts from fully engaging with the government, distrust between international experts and specific government actors, and misdirected priorities of some government actors, which point to corruption.

These three constraints were reviewed and are considered greater constraints than the business constraints identified in the Business Case. These constraints can inevitably interfere with the implementation of the programme pillars. Taking the PPP pillar programme as an example, it is critical that government stakeholders and partners take ownership of the KPIs included within the existing and soon-to-be enhanced M&E logframes.

The existence of these additional constraints across all sectors necessitates the need for further stakeholder engagement during inception and throughout implementation of Harakat-AICP's work to successfully implement the programmes as envisioned under the Business Case. Therefore, Harakat-AICP needs to incorporate a comprehensive stakeholder engagement model to adopt a bottom-up approach for design and implementation of innovative and strategic interventions.

Realising the urgent need for consistent dialogue between the public and private sector, as well as seeing the positive impact of the previous stakeholder meetings (facilitated by Harakat-AICP), Harakat-AICP aims to establish a platform for consistent interaction. The primary group members of the dialogue include public and private sectors; and the secondary group will be civil society and donor community.

For Harakat-AICP, the purpose of stakeholder engagement includes: 1) Increase interest for private sector investment, particularly in infrastructure projects as well as to strengthen relationship between public and private sectors, civil society and donor community; 2) Identify sector-specific challenges, constraints in private sector investments and difficulties with legal and regulatory (L&R) frameworks; and to propose solutions; 3) Encourage Foreign Direct Investment (FDI) and Afghan businessmen to invest in Afghanistan, and build a nation-wide network of private sector actors; 4) Harmonise L&R framework with the Afghan context; 5) Account for effective and transparent implementation processes; 6) Reduce trust gap between the public and private sector and move from deal-based to rule-based transaction; and 7) Change the norm from top-down to bottom-up approach, and understand Harakat-AICP role and or impact, pillars, and approach.

As a participatory approach, this stakeholder engagement model would help:

- Identify relevant public and private stakeholders and ensure their involvement and participation in future programmes that Harakat-AICP develops;
- Link nation-wide public and private stakeholder networks with international private sector networks;
- Involve private sector in the formulation of national economic laws and policies;

- Facilitate monitoring of the implementation of local and international investment projects and law/policies;
- Provide for transition from highly politically influenced dealings toward more rule based/principle based transactions; and
- Raise awareness of Harakat-AICP and other donors' objectives and activities to relevant influential stakeholders.

Stakeholder engagement requires approaches that are tailored to specific pillars and their counterparts across the government. Stakeholder engagement is expected to address the following:

- Identification of stakeholders for each programme pillar;
- Verification and validating the business constraints and pillar objectives;
- Ensuring stakeholder buy-in (public, private, donor and civil society) both through programme implementing contractors and stakeholders directly associated with Harakat-AICP;
- PPD;
- Identification of specific interventions for the programme pillar with ownership residing with the government and other stakeholders;
- Supporting stakeholders to undertake innovative approaches towards achieving targeted reform in the area of BE; and
- Boosting the influence of the private sector through transparent means.

This targeted stakeholder engagement process is expected to result in:

- Measurable KPIs that are linked to economic growth and transformation;
- Ownership at all levels of the KPIs;
- Encouraging the government to be transformative change agents in the areas of business and economic reform;
- Transferring the risks of ownership to the government for long-term and sustainable economic growth;
- Transferring of capacity and skills to local actors; and
- A smooth transition from Harakat-AICP funding to government ownership.

The increased focus on stakeholder engagement will not only ensure planned interventions are valid and relevant to existing ground conditions but that they are owned and implemented by permanent public and private sector stakeholders.

3.6.1 Findings from stakeholder engagement

Using the Stakeholder engagement framework described in Appendix 3, two stakeholder engagement events were held in December for PPP, IF and LRR, using the methodology described above. The main purpose of the meetings at this stage was to introduce AICP and present constraints highlighted in the Business Case as initial discussion points. Discussions later focused on stakeholder's priorities for interventions in PPP, IF, and LRR. Important progress was made in that stakeholders were being taken seriously by Harakat- AICP, their voices were being heard and stakeholders' confidence was promoted.

It soon became clear when meeting with MoF and the Central Partnership Authority (CPA) in particular, that government stakeholders have no perception of measuring success and impact of interventions. The MoF in particular has a long history of international-led planning, design and implementation for interventions ranging from Public Finance Management (PFM), budgeting and tax reform to administrative reform. Although MoF has benefitted from these donor-driven interventions with the introduction of new improved systems, it was driven by the expectation of donors. Because of this, MoF has not 'owned' these changes and so they have not been properly sustained. The Harakat-AICP approach to stakeholder engagement aims to change this and make interventions for BER more 'supply driven' meaning local private and public actors will be consulted for the design and implementation of appropriate interventions. The purpose of these consultations was to get government entities to take ownership of prioritising, planning, design implementation and evaluation of interventions specifically for PPP.

3.6.2 PPP

Several meetings took place with MoF officials, including the Director General for CPA and his team, US Embassy Commercial Division, World Bank, and IFC. This area of enquiry for the AICP team was prioritised due mainly to the government's priority to promote, plan and implement PPP as a means to revive investor interest and promote economic growth. This has been a priority for the government since it took power in 2014 (as documented in the private sector reform priorities and Realising Self- Reliance report). This has attracted much interest from international parties including IFC, and key line ministries to the point where there are now various forms of PPPs being pursued, some of which are not strictly PPPs and lack a well-functioning legal and regulatory environment.

During stakeholder engagement it quickly became clear that there is priority to institutionalise the management of PPP through the central body located as a directorate in the MoF. This necessitated the need to strengthen the capacity of CPA and the systems around PPP management including implementing PPP policy, law and regulations.

After several rounds of meetings to determine priorities for institutional strengthening, the Director General of CPA worked closely with the AICP team to prepare proposals for Harakat-AICP to hire a service provider through an open tender to support the development of PPP management in Afghanistan. This will ultimately include the establishment and capacity

building of PPP units within line ministries. The service provider will work with CPA and Harakat-AICP to design the interventions (through ongoing stakeholder engagement), while taking steps to ensure CPA and MoF identify measurable KPIs, both for institutional capacity building and building the PPP pipeline. AICP will be responsible for the procurement of services to support CPA.

3.6.3 Investor Facilitation and Legal & Regulatory Reform

The Business Case noted that two pillars would be designed during the inception phase, so a second stream of stakeholder engagement has been carried out by the Harakat-AICP Team to identify reform priorities in IF and/or LRR for which there is a significant overlap that also supports the promotion of PPP naturally. Early consultations during November and December, with key players in these two areas suggest that the IF and LRR pillars might be developed alongside each other. Whilst it is intended that Harakat-AICP will have two pillars, there is a strong option emerging (through the on-going consultation/stakeholder engagement process) that one Pillar Manager, reporting to the Pillar Director, will manage these two pillars. This is because there are many overlaps and linkages between IF and LRR, that will be more efficiently managed by a single manager.

Early discussions with representatives from MoCI's Central Business Registry and AISA focused on legal framework, institutional framework, and private sector concerns. On matters relating to legal framework, their main concerns were that laws are not being properly implemented resulting in personal favour and politically influenced private investments. This has a negative effect on private sector confidence, which prevents it from trusting the government and reduced investment interest in Afghanistan. The stakeholder meetings highlighted other issues including public and private awareness of legal reform e.g. private sector is not aware of legal rights and processes. The private sector is also not informed about updated or reformed law, and there is a lack of leadership or coordination between private sector and government actors. As with the stakeholders in PPP, it was clear that there was no perception of government (or any stakeholder) understanding or taking ownership of monitoring BE and the needs of private investors.

With regards to the institutional framework, general consensus was that there is too much bureaucracy and a lack of support to the private sector to navigate through the bureaucracy. Where private sector development projects try to address these issues, there is no coordination between donors and government actors, and again there is lack of ownership and accountability for the outcome of the projects, either with the government or donors.

The AICP Team turned the focus of discussion groups to the views of the private sector and learned (as expected) that there is a distinct lack of private sector awareness on legal and institutional frameworks, and as a result, a lack of confidence in the system. The private sector is highly critical of the lack of top management discipline within the government organisations.

The conclusion of these discussions led the AICP Team to identify some priority areas for intervention including raising awareness among private sector stakeholders on the legal and

regulatory environment as it develops through media campaign and other forms of promotion. Other priority areas for intervention include legal and institutional capacity building for government employees of relevant ministries and private sector representative bodies, and to update laws governing business and investment. There is a need to streamline business licensing, and to make it more accessible for the private sector.

3.7 BER and Gender

Although women's entrepreneurship is on the rise globally, and female labour force participation has increased substantially in recent years, significant disparities still exist particularly in Afghanistan. Women share the same challenges faced by male entrepreneurs, but face significantly more disadvantages owing to the gender bias they face when establishing and developing their own enterprises, and have restricted access to economic resources. This lack of involvement of almost half of the population in business entrepreneurship reduces growth potential, productivity, and economic performance. In Afghanistan, gender exclusion is acute. Laws, regulations, and customs restrict women's ability to manage property, conduct business, or even travel without their husband's consent.

The 2016 Women, Business and Law Report include Afghanistan for the first time in its assessment of legal restrictions on women's entrepreneurship and employment in 173 countries. Afghanistan tied with Iran for the fourth largest number of relevant legal gender discrepancies. To address some of the women specific issues, the NUG has prioritised WEE to address these disparities and drive more inclusive growth.

The government has developed a National Economic Empowerment Plan (NEEP) for women. It plans to implement NEEP through a dedicated National Priority Programme to provide on-budget financing. The NEEP combines plans for legislative and regulatory reform with access to markets, capital and skills training to increase opportunities for women to increase income and accumulate assets.

In recent years, there have been many initiatives to raise profiles in both public and private sectors to enhance women's empowerment in Afghanistan. Donor-funded programmes and government initiatives have helped increase the profile of women and enable women to become more engaged in public and private life. However, there is still much to be done.

AICP needs to ensure that it contributes to empowering women in the private sector and through BER. The challenge for AICP is to ensure that all aspects of BER contain priorities to enable and empower women in private sector opportunities. This will be achieved through the WEE pillar, but also through embedded activities mainstreaming within the other three pillars. The design of Harakat-AICP needs to ensure not only an effective dedicated pillar, but also inclusion of gender sensitive interventions across all pillars.

Designing gender inclusion across AICP as a whole is a high priority and warrants further substantial specialist research, to avoid shallow attention being given to gender inclusion to meet the aspirations of donors and government. In order to pay due attention to make valid

and sustainable changes to WEE in BER, this Diagnostic Review recommends Harakat-AICP engage with a Gender Specialist to research and design the WEE Pillar, for implementation during the latter half of 2017.

4. Recommendations

4.1 BER Priorities for AICP

Notwithstanding the priorities for strengthening AICP, the priorities for Harakat interventions during implementation are suggested based on this review, and relevant lessons learned in BER elsewhere.

In summary, the priorities for strengthening AICP have been addressed through the ODR, wherein a new structure has been proposed to effectively implement a programme approach for BER in Afghanistan. Similarly, in response to lessons learned and recommendations around financial and risk management, an upgraded procurement system has been proposed through BERF technical support for procurement design. Harakat-AICP Board and DFID have been presented details of these proposals separately for approval.

This Diagnostic Review specifically identified a further priority for stakeholder engagement and communications as a result of consultations with key actors in BER in Afghanistan and through lessons learned in other FCAS countries. Stakeholder engagement and PPD are essential if BER interventions are to be effective and sustainable. To this end, this Review recommends the introduction of a dedicated Stakeholder Engagement and Communications function within the Harakat-AICP organisational structure. This will ensure greater traction for BER with local stakeholders, improved relations between government and private sector and improved ownership and accountability for BER interventions. This will be achieved through increased and improved PPD.

4.2 BER Intervention priorities

The Business Case suggests the formation of four pillars. This Review endorses this with one minor adjustment. Following the Strategy Planning meeting, held in Dubai on 20/21 December 2016, where an update on findings for the design and prioritisation of AICP were presented to the Board, a name change for Investor Protection was agreed. The new name for this pillar is Investor Facilitation (IF). Investor Protection implies strengthening legal and regulatory frameworks and practices, which is the essence of LRR pillar.

The Business Case prioritises formation of two pillars during the inception period (ending March 2017), with one pillar being PPP. As documented in this Review, one of the government priorities is to strengthen and promote PPPs. PPPs have been found to be an important mechanism to promote investor activity and confidence. However, this needs to be addressed with caution. As effective L&R frameworks need to be in place, there needs to be clear demarcation of risk sharing and responsibilities between partners for PPP have sustainable impact. As NUG has already embarked on the track of PPPs, and has some in place despite the lack of coordination, effective regulatory frameworks and understanding of how PPPs should be established, Harakat is well placed to provide support to the government and fast track building its capability to manage PPPs. To this end, Harakat has developed a strategy to establish the PPP Pillar. Through extensive consultation, it has negotiated an operating

partnership with the CPA. Together Harakat and CPA have designed an implementation model that will employ third party contractors to provide capacity building services and promote a pipeline of PPPs. Third party services will be procured through an international open tender process using the newly design procurement system.

As previously reported, the stakeholder engagement process involved early meetings with private sector actors, membership bodies, government agencies and departments on matters relating to improving the environment for investment in Afghanistan. The outcome of these initial meetings was the realisation of significant overlaps in challenges between regulatory frameworks and services for business operations. This overlap has raised the question of how IF and LRR pillars might be established, and that these may be implemented concurrently under one management system.

The Harakat team, in consultation with the BER Advisor, has identified two partners that Harakat will collaborate with for the implementation of the IF and LRR pillars. MoCI and ACCI have been selected to partner with Harakat for the IF pillar, and the Ministry of Justice (MoJ) to partner with the LRR Pillar. Further consultations with stakeholders need to be held to guide the detailed design of both pillars, which will be ongoing to the end of the inception period.

However, at the time of writing, this Review supports the notion of prioritising the establishment of the IF pillar ahead of the LRR pillar. There was lengthy discussion around the prioritisation of these two pillars at the Strategy Planning meeting. The Board considered the recommendation of the advisory team to develop the IF and LRR pillars at the same time, but noted the complexities around LRR and the length of time it will take to establish the pillar. This area requires commitment from government, and does not lend itself to quick and productive results and could impact the credibility of Harakat. The Board noted the importance of a quick results to gain the confidence of private investors.

During consultations Harakat identified immediate needs of private investors and businesses, relating to business registrations and enabling processes that could be more easily addressed with early results for BER. To this end the Board and Harakat-AICP advisory team agreed the second priority pillar would be IF and that the design of this pillar will be complete before the end of the inception period. The LRR pillar will be more complex in its design and will therefore be scheduled for implementation during the first quarter of the Harakat-AICP implementation phase.

Detailed priorities for interventions within each of the pillars will be established during the stakeholder engagement process that will be carried out by Harakat in the next stage.

WEE will be considered in more details after the implementation of Harakat starts. Harakat-AICP will engage a Gender Specialist to support the design of the WEE pillar, and is expected to commence consultations, and detailed planning during the final stages of AICP inception. The design and implementation of WEE is not expected to be completed until the second quarter of AICP implementation.

Whilst the eventual design of the remaining three pillars will be in close consultation with stakeholders and local actors, it will also be informed by the lessons learned in this Diagnostic Review. This Diagnostic Review therefore serves as the basis for the subsequent preparation of the AICP Programme Implementation Plan (PIP) that shall be completed by the end of March 2017.

Table 5: Summary of Prioritised list of recommendations for Harakat-AICP

No.	Recommendation	Partner	Timeframe	Priority
1.	Establish stakeholder engagement and communications function within Harakat-AICP	Stakeholders listed in Table 2	End March	High
2.	Establish the 1st pillar for PPPs	CPA	End March	High
3.	Form a formal partnership and agree capacity enhancement programme with Central Partnership Agency	CPA	End March	High
4.	Identify and appoint third party contractor for PPP Pillar to strengthen CPA	CPA, DFID	End April	High
5.	Prepare RFPs for third parties to support BER in pillars	N/A	Immediate	High
6.	Form partnerships with other government ministries and agencies to promote investor facilitation	MoCI, ACCI, Asan Khedmat	End May	High
7.	Establish 2nd pillar for Investor Facilitation	MoCI	End March	High
8.	Establish 3 rd pillar for Legal and Regulatory	MoJ	June	Medium
9.	Recruit Gender Specialist to design WEE pillar	N/A	June	Medium
10.	Establish 4 th pillar Women's Economic Empowerment	MoWA	June	Medium

5. Guidelines for AICP programme implementation plan

Findings from the literature review, other experiences in FCAS, BER programmes in Afghanistan, and during the site visits are summarised below, which will guide the development of Harakat-AICP implementation.

5.1 Approach and Methodology

- Develop stakeholder engagement and communications framework and strategy for Harakat.
- Establish stakeholder engagement and communications function in Harakat.

5.2 Doing Business in Afghanistan and NUG Priorities

- Harakat-AICP ensures impacts from its interventions are channelled into the World Bank Doing Business analyses.
- The stakeholders listed in Table 2 should be considered for inclusion into the Harakat-AICP stakeholder engagement strategy.
- Harakat-AICP should consider MoCI and ACCI as partners for the implementation of the IF and LRR pillars.
- Harakat-AICP should aim to participate (by invitation) in SOMs.
- Harakat-AICP will be well placed to support government to streamline the functions of respective departments to remove overlapping and improve coordination between departments to increase investor confidence.
- Harakat-AICP is well placed to support restoration of fiscal sustainability through PPP, IF and LRR pillars, and to help to promote gender inclusion.
- Harakat-AICP work closely with the relevant agencies including MoCI, MoF, AISA, MoJ, NEC, Anti-Corruption MEC, and others previously listed in Table 2 above, to meet the government priority to enforce a more streamlined and coordinated system of business licensing and registration.

5.3 Political Economy

- Harakat-AICP to assist government in improving the function and coordination of key agencies that will promote BER. This could be achieved principally through the LRR pillar and also the IF pillar. Again, Harakat-AICP should look to promote gender inclusion.
- Harakat-AICP to work with CBR to streamline processes and systems in government organisations and agencies directly related to BER such as those listed above.
- The NSP contribution to improving service provision and relations between government and citizens provides an opportunity for Harakat-AICP to promote

improved relations between the government and the private sector using best practices in stakeholder engagement from NSP.

- If Harakat-AICP is going to provide effective support in BER, it will need to adopt more of a bottom-up approach for prioritisation and design of interventions. This means facilitating and promoting more effective stakeholder engagement and PPD. More dialogue between government and private sector will provide greater certainty that the priorities are still valid and achievable.

5.4 Other BER programmes in Afghanistan

- Harakat-AICP to adopt standardised reporting format across pillars and downstream implementing partners – contractors.
- Results to be verifiable and consistent with overall programme objectives (aggregation of results).
- Routine reporting of negative consequences to learn and adapt tactics when necessary.

5.5 BER in FCAS

- Harakat-AICP to continually have a thorough understanding of the political economy in Afghanistan to ensure relevance of BER interventions.
- Prioritisation of BER interventions should be bottom-up driven by government priorities, and stakeholder groups in Afghanistan, before trying to apply lessons learned from other FCAS states.
- Stakeholder engagement throughout the planning, design, implementation and evaluation of reforms is especially important in FCAS (particularly Afghanistan) to ensure no stakeholders are isolated causing further tensions, in order to build a sustainable and stable consensus.
- Key priority is to ensure that private sector has a voice during planning for interventions and formulation of BER policy.

5.6 DCED Review for BER in Bangladesh

Theme 1: Alignment with National Frameworks

- BER support programmes that focus on investment and markets tend to have a more systemic nature and field of analysis.
- Government interest in sector or budget support can be a powerful motivation for reforms in government administration and accountability.
- Where the appetite for reform at the national level may be weak, stimulating sub-national demands for reform may lead to broader, economy-wide reforms in the longer term.



- Some actors in the BE prefer the status quo or only marginal changes. In these cases, a broader range of actors should be included in PPD and reform discussions.
- It is easy to get caught up in the debates over technical aspects of a desired reform and to overlook the big picture. Donor and development agencies can help programme partners have a broader, economy-wide perspective on the reform process and the desired outcomes of reforms.
- Donor and development agencies can support the broadening of national PPD processes by supporting and facilitating dialogue at the sub-national level.
- Donor and development agencies can support the quality of PPD through activities that help dialogue partners to access more relevant and up-to-date data and information. It is more likely that PPD processes will lead to better and more sustainable BER outcomes if it incorporated the use of sound and objective evidence.
- The lack of direct government involvement by the appropriate line ministries makes effective donor coordination and government alignment difficult. Donors need to engage in these structures and ensure that their programme partners are equally engaged.
- Collaborative programmes and basket funding provides a very practical and effective way of ensuring donor coordination in BER support programmes.

Theme 2: BER programme design.

- Not all binding constraints are found in the BE. Many binding constraints to PSD and economic growth are found in the IC. Thus, many BER support programmes are limited in their scope to address these constraints.
- While BER support programmes can trigger the demand for further reforms and build the capacity of government to manage these, this takes time and changes of government and priorities undermine this sequencing. Government often deals with reform as a way of “putting out fires” than following a phased, long-term reform strategy.
- Aligning PSD and BER support programmes with the government often requires more than what is offered in broader economic and social development plans, such as poverty reduction strategy papers or long-term vision documents. Support for PSD and BER requires more precise prioritisation of reforms in a phased manner. Thus, a PSD strategy or BER agenda that is adopted by the government may improve donor-government alignment.
- The automation of regulatory administration can be a good starting point for reform processes that can be built upon once knowledge, awareness and confidence have

been increased. Often automation can be achieved quickly and without the immediate need for changes in policy and law.

- Because reforms take time, effective sequencing of reform processes often requires a periodic refocusing of BER support programmes. Thus, BER support programmes need to accommodate the need for flexibility and adapt to changing circumstances.

Theme 3: BER programme management and engagement with local partners

- Donor and development agencies can help their programme partners design and implement their own communication strategies, focusing on both internal (i.e., staff) and external (i.e., clients, the business community) audiences.
- Nurturing a core group of change-makers within the government can pay long-term dividends and contribute to a more sustainable reform capacity.
- Building a consensus for reform within and among programme partners is important. Donor and development agencies should take care not to push for change too quickly without nurturing a broader demand for reforms.
- Care should be taken when establishing specialised lead agencies for BER. While weaknesses in government institutions and coordination may be used to justify the need for a specialised agency, it may be better to support improvements within existing structures rather than to create new ones.
- Creating a reform-oriented “mind-set” within the government can improve the implementation of reforms.
- Reforms that automate and streamline regulatory and administrative processes can help to develop an organisational robustness over time. This provides a basis for sustainability in the long-term.
- Often, capacity building for effective BER needs to go beyond the usual partners (i.e., government institutions and their staff, Business Membership Organisations - BMOs) and include actors such as academia and local research organisations.
- Donor and development agencies can skew the market in which local consultants operate. This can encourage consultants to provide what donors want rather than specialist advice that addresses the concerns of the BE and its reform.

Theme 4: Monitoring and Evaluation of BER Programmes

- Monitoring and evaluating BER support programmes can involve local agencies.
- Technical advisory committees provide a useful means through which the achievements of a BER-support programme can be discussed with programme partners and representatives of programme beneficiaries. However, reliance on this means alone may not be enough.



- Donor and development agencies can support quality assurance by engaging local auditing or research groups that can monitor and oversee work within the BER-support programme.

During the consultation process, stakeholders will be encouraged to define interventions and the associated KPIs, so they will have ownership from the outset. This process will enable Harakat-AICP to manage and monitor interventions within pillars and to ensure Afghan entities take ownership.

As previously noted there will be stakeholder engagement activities at pillar level and across ministries and other government agencies that will enable information sharing, and dialogue between entities that will aid better coordination when dealing with constraints. As BER covers a multitude of aspects including regulations, law, land, finance, banking, licensing and others, it is important the Harakat-AICP facilitates collaboration and coordination between actors. For example, Ministry of Urban Development (MoUD) has plans for infrastructure development that may be implemented through PPP. This means the PPP unit in that ministry needs to be fully functional to develop proposals and trained/resourced sufficiently to manage implementation. The ministry also requires mortgage laws to be developed, and require a communications campaign to promote its urban development plan. All these need to be supported and coordinated by Harakat-AICP, which will be done through stakeholder engagement. In this case Harakat-AICP would set up a stakeholder group comprising MoUD, MoF, MoJ, ACCI, BMOs, media organisations and technical specialists to ensure the right partners are collaborating to enable urban infrastructure development. Harakat-AICP will manage this through its Stakeholder Engagement function that would be under the leadership of the CEO.

5.7 Stakeholder Engagement Methodology

Stakeholder engagement will be carried out in two stages: inception and design phase (5 months); and implementation phase (6 years).

5.7.1 Inception and Design Phase: (5 months)

- Review current state of public and private sectors engagement through a combination of desk-review and individual, face-to face, phone/Skype, email, or interviews.
 - Engagements, experiences, and lessons learned;
 - Document and analyse;
- Develop Stakeholder Analysis methodology to:
 - identify stakeholders;
 - prioritise the key, influential, and important stakeholders;
 - group stakeholders to primary and secondary;

- map which stakeholder may support or oppose, which stakeholders are the most powerful, influential, and which stakeholders are committed; and
- build a communication plan.
- Create a Database:
 - Categorise them to direct and indirect beneficiaries/organisations (public and private sector, civil society organisations, and donor community); and
 - Decide who should participate and under what structure (under what pillar).
- Development of stakeholder engagement implementation strategy.

5.7.2 Implementation Phase: (6 years)

The implementation phase will be a continuous project for 6 years.

This involves:

- Developing stakeholder engagement plan;
- Developing monitoring strategy for PPD; and
- Developing strategy plan and tools for on-going feedback and continued engagement.

Developing stakeholder engagement plan should comprise but not limited to the following:

- Stakeholder consultation- this includes forums, consultations, focus group meetings, individual meetings, conferences;
 - Organisation and moderation of the stakeholder consultation meetings in Kabul;
 - Organisation and moderation of the key stakeholder consultation meetings in provinces, including Mazar, Herat, Nangarhar, and Kandahar.
- Awareness- developing key messages, methods of delivery that might include traditional, conventional media to deliver and transmit key messages, reports; and
- Brokering relationships- facilitating relationships between various relevant stakeholders, this results in better delivery, better understanding and might lead to new areas of interventions.

Developing monitoring plan should comprise but not limited to the following:

- Grievance Management: establish accessible channels for various stakeholders to raise concerns about projects throughout;
- Report: two-way reporting to Harakat-AICP management as well as the beneficiaries/stakeholders; and

- Management (PPD): manage and track progress and report to stakeholders and investors (Harakat-AICP).

The methodology for stakeholder engagement is detailed in Appendix 4. In summary, the first step is to identify key primary and secondary stakeholders for the proposed intervention for a particular pillar. This is followed with a stakeholder analysis of all stakeholders in the group to ascertain importance of stakeholders to the project, taking into account the degree of influence.

Meetings and workshops will be convened to open discussion on key issues that constrain reform and development. The first set of discussion points focus on the pillar objectives, and specific problems relating to that area of reform. The second set of discussion points focus on specific problems or issues that constrain business activity, and how this affects stakeholders. Importantly, stakeholders are encouraged to identify solutions collectively since solutions may not be within their individual remits.

The remainder of the process builds on actions and decisions to be taken collectively and ensure ownership of decisions and ultimately interventions. During the process, stakeholders will be encouraged to define KPIs to ensure solutions are implemented and that results can be measured.

6. Conclusions

The proposed strategy and structure in the Business Case for AICP still stands and can be strengthened using additional lessons from stakeholder engagement during the final design of AICP and its pillars.

The Business Case highlighted that NUG recognises the underlying drivers of corruption and intends to root out corruption from critical institutions. It also committed to building better governance, restoring fiscal sustainability, reforming development planning, strengthening private sector confidence that will lead to job creation and economic growth, and enhancing regional cooperation. Improving Afghanistan's BE therefore remains a top priority for reform. It is not realistic to expect Harakat-AICP to be able to tackle the problems of corruption, but it will be able to provide support in reducing obstacles to BERs such as PPP, IF, LRR and WEE.

These priorities as set out by NUG in 2014 and acknowledged in the Business Case provide direction for support that will provide authority and political backing to reforms supported by AICP. AICP has been designed so that it will cover priority areas, as identified in the Business Case, for improvement in the BE, investment and economic growth that is not covered by other infrastructure and financial sector programmes.

The Business Case identified four priority pillars for Harakat-AICP. While these pillars form the overall strategic direction of the programme, specific interventions within the pillars are in the process of being defined after more thorough stakeholder consultations

This study has identified a need for stakeholder engagement not only as a means to identify specific interventions within each of the pillars, but as a permanent function of the programme. For AICP to successfully address the challenges of BER, it needs to consistently engage with permanent actors in the private and public sectors.

The priority BER constraints identified in this review are summarised as follows:

- Lack of private sector representation and protection to do business;
- Regulatory environment for business is fragmented and complex to follow;
- Legal and regulatory frameworks for PPPs are not properly implemented;
- Capacity is weak within government to identify, plan, and monitor PPPs;
- Complicated processes in place for business start-ups; and
- Legal and regulatory frameworks for business law is weak and in some cases non-existent.

Appendix 1

Illustration of templates for stakeholder engagement

Identify Key Primary and Secondary Stakeholders

Stakeholders	
Key Stakeholders	Contacts
Primary Stakeholders:	
World Bank	TBA
Ministry of Finance	Momin Mansoor
Secondary Stakeholders:	
Ministry of Agriculture	
Ministry of Public Health	
Ministry of Mines	TBA
MoCI	
SOEs	
MoJ	

Stakeholder Analysis Table for PPP

Stakeholder Analysis Table for PPP				
Stakeholder Groups	Interests of stake in relation to project	Effect of project on interests	Importance of Stakeholder for Success of Project	Degree of Influence of Stakeholder over Project
			U=Unknown 1=Little/No Importance 2=Some Importance 3=Moderate Importance 4=Very Important 5=Critical player	U=Unknown 1=Little/No Influence 2=Some influence 3=Moderate Influence 4=Significant Influence 5=Very Influential
Ministry of Finance	Achievement of target	To Be Completed (TBC)		
	Control over resources, activities	TBC		
Sub-units	PPP sub-unit	TBC		
	Access to resources	TBC		
Ministry of Justice	Legal framework	TBC		
	Modifications	TBC		
	Islamic financial	TBC		
Private Sector	Partner	TBC		
	Promote PPPs	TBC		
	Build trust	TBC		
Donors/ Supporters	Financial viability	TBC		
	Area of intervention	TBC		



Overview of a Focused Conversation

Overview of a Focused Conversation			
Steps	Type of questions	Problem	Solution
OPENING	<ul style="list-style-type: none"> Welcome participants. Have participants introduce themselves. Define the aim of the conversation. 	TBC	TBC
Step 1: OBJECTIVE Level questions	<ul style="list-style-type: none"> Definition of the pillar and objectives. What is the problem? What do we know about the problem? How does the problem manifest itself? 		
Step 2: REFLECTIVE level questions	<ul style="list-style-type: none"> What are the main barriers to private sector growth/investment, business enabling reform, inward investment (FDI), PPPs What are their associations with earlier experiences that are relevant to the sector or pillar? What is the importance that participants attach to certain aspects and why? 		
Step 3: INTERPRETIVE Level questions	<ul style="list-style-type: none"> Why are there barriers? What are the causes – systemic, political, and economic Why is the current situation as it is? What are the causes and consequences/ effects (e.g. of a problem or situation)? What is the significance of the subject/problem? 		
Step 4: DECISION Level questions	<ul style="list-style-type: none"> What are possible solutions? What should be done? What first, by whom? Any other stakeholders that are relevant to the group? What resources are available? What problems need more looking into? What decisions can be taken now? What will be the agenda for next time? 		
CLOSING	<ul style="list-style-type: none"> Summarise conclusions and outcomes. Agree to follow-up actions and define ownership for development actions and monitoring of KPIs Thank participants. 		

- Stage 1: The Main purpose of Stage 1 is: to raise awareness of Harakat-AICP, the pillar, the proposed interventions, get Stakeholder buy-in, identification of gaps by Stakeholders, get Stakeholders to define KPIs and if possible milestones.
- Stage 2: Implementation phase. On-going Stakeholder engagement to continue their participation and ensure ownership of KPI's, outcomes and to build capacity for sustainability.



Appendix 2 Stakeholders Met

The Key stakeholders that were met during the field visits include:

Position/name	Organisation
Director General, Mansoor	Central Partnership Authority
Director General Business Registry, Ghulam Rabani, Head of Capacity Building	Ministry of Commerce and Industry (MoCI) Results Programme (CBR)
Presidential Adviser for Private Sector Development, Hamid Helamandi	
Team for PPPs	IFC
PPP and Private Sector Development Team	World Bank
Deputy Minister for Civil Aviation	
Manager for Land Lease	ARAZI

The following key stakeholders (accompanied by members of their teams) were consulted as part of the stakeholder engagement for pillar design:

Position/name	Organisation
Muhammad Honar	Afghanistan Investment Support Agency (AISA)
Head of Licensing Department, Hodayun	AISA
Head of Administration. Arzo	AISA
ACCI Leadership	ACCI

Appendix 3 Stakeholder engagement framework and methodology

The stakeholder engagement framework is built around the Pillar/Stakeholder matrix (referred to above), which was constructed by BER Adviser in consultation with the Harakat-AICP Team. Figure 2 below shows an example of the matrix that has been built for the PPP Pillar and shows the constraints for BER as defined in the Business Case. It also shows the 10 indicators for Doing Business and Distance to Frontier reported by the 2016 World Bank Report. The matrix lists specific interventions for the pillar that have been identified both in the Business Case and through stakeholder consultations. A key feature of this matrix is that it specifically links stakeholders with interventions, and enables Harakat-AICP to hold stakeholders accountable for meeting KPIs for each intervention.

Figure 2: Pillar/Stakeholder Matrix

PPP Pillar Interventions and Stakeholders

Constraints	Indicators				PPP	Stakeholders						
	WBDBR	WBDF	Logframe	SDG		MoF	MAIL	MoM	DAB	ARTF	ACCI	EPA
Infrastructure	190	100			Interventions							
Poor roads Power/Water supply Erratic power supply	157	45			Promote PPP Institutional Capacity Building Line Ministries							
Access to land												
Untitled land Land ownership Registering property	185	27										
Weak regulatory & policy environment												
Centralised planning Weak regulatory frameworks Unpredictable enforcement Weak pro-private sector policy Dealing with construction permits	185	22			Legal & Regulatory Frameworks							
Security												
Criminal risks Kidnapping Terrorism												
Low productivity/State competition												
Chronic uncertainty/deterred private sector investment Controlled by inefficient SOE Asset transfer and environment for PPP is absent Starting a business Getting credit Protecting minority interests Paying taxes Trading across borders Enforcing contracts Resolving insolvency	38 97 189 150 176 180 161	92 45 11 55 29 32 24			Awareness Raising Reform of SOE Promote PPP Institutional Capacity Building Policy Execution Public-Private Dialogue							
Exclusion												
Women excluded from market entry Can't obtain credit Can't establish tax identity Female economic empowerment												



Appendix 4 Literature Reviewed

- DFID Business Case (May 2016)
- DFID Due Diligence Review (February 2016)
- World Bank Doing Business Report (2016)
- Realizing Self-Realization (December 2014)
- ACCI Business Tendency Survey Report (June 2015)
- IOB Study: Public Private Partnerships in Developing Countries (April 2013)
- Afghanistan Economic Update (April 2015)
- BERF Scoping Study on BER in FCAS (MAY 2016)
- ACCI/Harakat-AICF Private Sector Priorities (October 2014)
- DFID Annual Review Supporting Employment and Enterprise Development (SEED)
- Political Economy Assessment for Afghanistan (USAID – May 2016)
- “Ranking countries on 'ease of doing Business' should be stopped – World Bank” June 2013. South African Planning Minister Trevor Manuel
- DCED Review of Donor-Supported Business Environment Reform Programmes and Practices in Bangladesh (September 2012)



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