

## **Transition and Transformation: Non-paper by the ICG Working Groups**

Within the framework of the International Contact Group, the Working Group on "Civilian Aspects of Transition" and the Working Group on "IC Long Term Engagement in Afghanistan beyond 2014" met in Dubai on 11 September. Given that the two topics of the Working Groups are inextricably connected and that there should be a seamless continuum between Transition and Transformation, the Working Groups are presenting their findings, thoughts, and possible ways forward collectively in this paper.

*In the context of the International Afghanistan Conference in Bonn, the Working Groups would like to note that a long-term, mutual commitment should be expressed clearly. As a historically poor country, the International Community should acknowledge the significant progress made by Afghanistan in the last ten years, as well as the long-term nature of the challenges ahead. Previous commitments made at the London and Kabul Conferences should be reaffirmed, not revised.*

*Transition focuses on the Afghan National Security Forces (ANSF) assuming security responsibility, reinforced where necessary by Governance and Development factors – and it is on course to be completed by the date set by the President of Afghanistan: the end of 2014. Transformation is a much broader process aiming to strengthen the Afghan state by further developing political, social and market institutions to render the Security Transition sustainable and irreversible in the longer term. To support Transition and to lay the foundations of Transformation, initiatives in the development arena should be aligned with Afghan priorities and the goal of ensuring a self-sustaining Afghan economy.*

### **Key Observations**

- Efforts must be made not only to reach but to surpass the goal of 50% on-budget support, in accordance with the Kabul Conference Commitments, since on-budget support is generally the most efficient means of delivering aid.
- In the spirit of ownership and partnership, GIRoA needs to continue to build capacity to support this goal. While recognising progress already made, further efforts are needed to build GIRoA capacity and strengthen links between the different levels of national and sub-national government.
- It is essential that future elections – whether Presidential, Parliamentary, or local – be fair and seen to be fair. This will be a major government responsibility, for which the support of the international community will be needed.
- The costs of maintaining, training, and equipping the ANSF will require significant and long term IC support post-2014.
- The private sector has an important role to play in the long-term development of Afghanistan. While recognising the progress made, the Working Groups encourage the Government of Afghanistan to redouble its efforts to create an attractive environment for private sector investment.

- We also note that the Ministry of Finance has produced a paper entitled "Towards a More Self-Reliant Afghanistan: Government strategy for the continued implementation of the Kabul Process" and that this will add value to the continued debate.

### Transition

The success of Transition will depend crucially on the ability of the Afghan National Security Forces to manage security threats in transitioned areas. But this should be underpinned by continued progress in the quality and capacity of government at provincial and district levels. Alignment of development assistance with Afghan Government priorities will also help sustain transition.

Provincial Reconstruction Teams (PRTs) support the development of parts of Afghanistan. However, they will phase out as transition is completed. It is important that the PRTs plan their phasing out so as to avoid sudden losses in capacity at provincial level. Development assistance will continue, but through normalised bilateral and multilateral assistance programs. This will allow a greater focus on building capacity by working within Afghan government systems. Development activities also need to plan for operating and maintenance costs in future years. Given that much of the population lives in rural areas, international support for developing rural livelihoods, both for food security and as a sustainable form of economic activity is especially important. At the same time, it is essential to address the serious problem of production and trafficking of drugs.

In the approach to 2014, as aid flows reduce and PRTs phase out, it will be imperative to strengthen aid effectiveness through rigorous donor coordination in the delivery of international development assistance. The international community must contribute to the building of Afghan structures and coordinate its priorities with those of GIRoA. Efforts must be made not only to reach but to surpass the goal of 50% on-budget support, in accordance with the Kabul Conference Commitments, since on-budget support is generally the most efficient means of delivering aid. GIRoA needs to continue to build capacity to support this goal. But the international community needs to lead the way, by boldly embracing their commitment to on-budget support. The Government of Afghanistan must be clear and realistic about its priorities; in return, the international community must help deliver them.

The costs of maintaining, training and equipping the ANSF will require significant and long-term IC support post-2014. Planning now for an eventual phased reduction of ANSF – as security circumstances allow – would lessen the long-term financial burden, potentially making it easier to bear. Once the potential of the Afghan economy is realised, the size and capabilities of the ANSF will have to be tailored to the financial capacity of the Afghan Government. It is also important to recognize that long-term bilateral partnerships will help ensure and sustain a relatively stable security situation.

### Transformation

Further progress can be expected before the end of 2014 in all fields. But development needs are immense and ongoing assistance will be required over the long term. As we approach 2014 there will be a growing need for a re-balancing of efforts – from security to development, from aid to productive investment, from military to civilian, and gradually

yet most importantly, from the international community to our Afghan partners, including the private sector and civil society.

To achieve stability, the Afghan people will require sufficiently trained, equipped and disciplined security forces; qualitative improvements within public institutions; coordinated and coherent donor strategies; adequate monitoring and improved transparency; the protection of basic rights; improved economic opportunities at all levels of society; and a constructive level of regional dialogue towards reduced regional tensions.

### Economic

The Working Groups note that the World Bank Report on "Economic and Financial Performance and Outlook," to be published before Bonn, is likely to include a range of separate analytical papers assessing the breadth and depth of the post-Transition challenge relating to economic growth, fiscal sustainability, and poverty. These findings will be important inputs to the work in the run-up to Bonn and beyond.

The ISAF draw-down and the likely reduction in development aid will pose considerable economic and fiscal challenges for the Afghan Government. These should be addressed urgently, noting that the total volume of aid in 2010/2011 is equivalent to almost 75% of Afghanistan's GDP<sup>1</sup>, making Afghanistan's dependency ratio one of the highest in the world. The international community has a responsibility to avoid sudden and unpredictable reductions in levels of development assistance that could destabilise Afghanistan's aid-dependent economy. That said, it is inevitable that aid will – and should – diminish over time.

Any scaling back of Afghan government interventions would compound the economic downturn and ultimately affect the Afghan population. Similarly, any scaling back of public services and investment, together with stagnating or increasing unemployment, would take a toll on all dimensions of household welfare (e.g. income and food security and potentially access to health and other basic services) which would risk eroding existing achievements.

The Working Groups would like to recognise the significant progress made by GIRoA on Sub-National Governance and Public Financial Management at the central and peripheral levels, including the provincial budgeting pilot project, new arrangements for devolving procurement responsibility, improved ability to allocate funds for expenditure at the provincial level, and Model Provinces and Urban Programs. GIRoA's allocation of money for expenditure at the provincial level and encouraging improved transparency and accountability procedures for sub-national expenditure have also been helpful. Nevertheless, the Working Groups believe that further progress is needed to build capacity and strengthen accountability as well as links between the different levels of national and sub-national government.

The private sector has an important role to play in the long-term development of Afghanistan. Job creation, competitiveness and a strengthened financial sector are some of the key success factors. The right framework has to be put in place to encourage foreign and domestic investment. While recognising the progress made, the Working Groups encourage the Government of Afghanistan to redouble its efforts to

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<sup>1</sup> Source: Ministry of Finance Development Cooperation Report 2010

create an attractive environment for private sector investment. At an international economic symposium organised by Euromines (the European Association of Mining Industries) recently, prospective international investors recognised Afghanistan's economic potential and, in the outcome document ("Brussels Nine Points"), called for improvements in investment conditions necessary to unlock this potential.

Market access plays an important role in creating incentives for private sector development and economic growth. Efforts should be made at global and regional levels in order to improve access for Afghan goods and services. The New Silk Road initiative is also an important contribution towards strengthening regional cooperation and private sector investment. The Gulf States could also play an important role to partner with Afghanistan and support Afghan capacity building, not least in the financial sector.

One element to further encourage private sector development will be continuous and strong GIRoA commitment to governance and the justice sector. This will improve the private sector development climate and make possible greater regional economic integration, and reduce reliance on aid over the long term. Further, rural livelihoods and food security need to be assured in order to minimize a potentially negative socio-economic impact as a result of Transition.

A strong focus on education, in particular higher education, is also imperative in assuring sustainable progress. Improving post-university job prospects as well as the transparency in university admissions and award of degrees should also be stressed.

### Political

The strengthening of democratic, political institutions that constitute the necessary system of checks and balances is essential. Adequate oversight needs to be developed for the long-term to ensure that the public institutions are strong enough to remain in place on a permanent basis.

It will be essential that future elections – whether Presidential, Parliamentary, or local – are fair and seen to be fair. This will be a major government responsibility, for which the support of the international community will be needed. Consideration should be given to refinements of electoral law or practice which will help achieve this goal.

Ways to involve civil society in the Transition and Transformation processes should be identified. The link between GIRoA, the international community and civil society should be strengthened. A special forum for dialogue, confidence building and exchange of information could be a step in this direction.

Engagement with Afghan institutions and civil society should further focus on improvements in the field of democratic principles (such as representative elections, judicial oversight and protection of universal freedoms, the freedom of media etc) and Afghanistan's international human rights obligations. Strong IC commitment and societal involvement, not least from GIRoA, are required in order to achieve success in the long term. It will, however, be necessary to improve GIRoA branding of existing service delivery while continuing to encourage participation at all levels of government.