



Islamic Republic of Afghanistan
Ministry of Transport & Civil Aviation
Foreign Relation Department

National Report of Afghanistan on Transport- Sector
United Nation Economic Commission for Europe
(UNECE)

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EXECUTIVE SUMMARY

Afghanistan after the establishment of the new government in this war torn country. After the two years of hard work and intensive consultation within government institution and donor community, the government finally announced its first comprehensive development plan "Afghanistan National Development Strategy (ANDS)", which was finally approved by the donor community in Paris Conference on June, 2008.

Promoting regional cooperation is a vital principle in the Afghanistan Compact and an important cross cutting issue of the Afghanistan National Development Strategy (ANDS). Afghanistan's regional cooperation goal is to leverage the strategic position of Afghanistan as a land bridge between the energy rich Central Asian countries and energy deficit South Asian countries, and the Middle East and Far East. Further, Afghanistan is seen as having a central role in facilitating regional growth, stability and prosperity. Stability in the region and Afghanistan as a land bridge offers the prospect of new trade routes linking with India, Pakistan and Iran.

In the past 7 years government is working on the multi-pronged Pro-active Regional Diplomacy Programme aims at promotion of regional confidence building measures to sustain meaningful dialogue and engagements with its neighbors and other countries of the region. Afghanistan has adopted a policy of joining as many effective regional groupings as possible and is an active member of ECO, SAARC and CAREC and a good partner to SCO and OSCE. In addition to pursuing the long term goal of joining WTO, the Government is developing effective trade and transit facilities, streamlining border crossing management and modernizing its customs codes, procedures and infrastructure. Efforts to promote energy trade with neighboring countries are a priority focus. Labor exchanges with neighboring countries and private sector investment are other priorities, so as to build up remittances as a source of income and to strengthen overall development of the economy.

Key obstacles to increased regional cooperation include: (i) recent conflicts which have fuelled regional mistrust; (ii) ongoing insurgency and insecurity in Afghanistan elsewhere in the region (partly fuelled by the narcotics industry); (iii) poorly developed infrastructure; and (iv) weaknesses in the public and private institutions needed to facilitate regional trade and investment. In addition to the security concern in Afghanistan and in some of its neighboring countries, the ANDS regional cooperation chapter argues that efforts to increase regional cooperation need to recognize the following realities:

- **Geopolitical dynamics.** Afghanistan is at the centre of a region affected by rivalry among non-regional and regional powers (accentuated by the region's rich natural resources). These dynamics have changed, but remain a potential source of instability.
- **Drug trafficking, human trafficking, and money laundering** exist in troubling proportions across the region and undermine confidence, governance and stability. Some stakeholders fear that opening borders, easing visa regulations, and improving transport corridors will also facilitate illegal movements.
- **Restrictive trade policies.** While Afghanistan has a relatively liberal trade regime, more needs to be done to remove regional trade barriers. Complicated visa procedures continue to impede regional trade and investment.
- **Sustained efforts needed.** Regional cooperation and confidence-building requires patience and persistent efforts. Some stakeholders feel that the benefits from regional projects are no commensurate to the efforts required, and that benefits are unequally distributed.

- **Outdated trade and transit agreements.** Many existing transit agreements need revising to reflect current realities; some are not being enforced because of limited high level commitments, and/or inadequate monitoring mechanisms. Power trading agreements are needed to develop regional power trade.
- **Institutional and human resources constraints** limit the Government's ability to coordinate and initiate regional initiatives, to promote private-public partnerships, or to negotiate, implement and monitor Afghanistan's various treaty obligations.
- **Information.** The private sector lacks information about opportunities for regional trade and investment. Businesses lack a regional platform to exploit cross-border trade and investment opportunities. This is compounded by inadequate national trade support infrastructure and regional trade support institutions.
- **Weak transport links.** Limited civil aviation links, weak road infrastructure, and the high cost of travel constrain business travel and transit traffic. Slow and unpredictable visa processes inhibit business travel and investment efficiency.

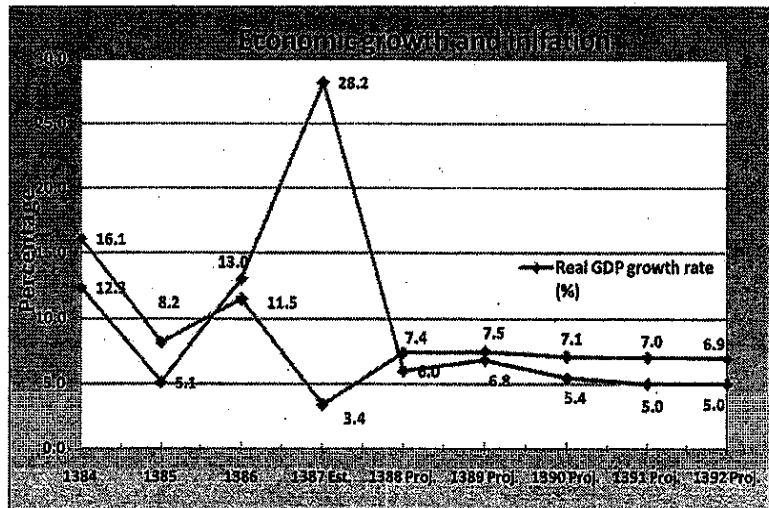
Despite the challenges, there are good opportunities for regional cooperation, building on Afghanistan's strategic transit trade location; it's sharing of important water resources with neighboring countries and donor community interest and support to the regional integration. The Afghan Custom Department (ACD) data shows that the trade between Central and South Asia has already started using Afghanistan a transit rout. The total recorded value of the contracts for goods in transit for Central and South Asia during the first nine months of 2008 was US\$ 431,287,330. Although, there is significant imbalance in the flow of trade between the two regions, South Asia's (Pakistan) recorded export amounted US\$ 316,554,482 (73.40%) and imports US\$ 115,146,972 (26.70%).

Efforts are on to enhance the availability of electricity supplies to Afghanistan from its neighbors. Necessary transmission systems are being constructed with the help of donor community to import electricity from Uzbekistan and Tajikistan and the Government is in the process of formalizing the power purchase agreements with these countries. The 70 MW electricity flow from Uzbekistan during last four months has brought tremendous change in the problem faced by many Afghan citizens. Currently Afghanistan is an observer member to the Energy Charter Treaty and is striving to become full member. Other major initiatives to develop regional projects in the region include proposed Turkmenistan-Afghanistan – Pakistan – India gas pipeline project (TAPI) and Central Asia – South Asia 1300 MW power project (CASA 1300). This project proposes building of transmission system to export 1300 MW of electricity from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan. The CASA 1000 project has also moved a long way.

Government is also working to boost its trade with international world by signing agreements and treaties. There are many agreements concluded with neighboring countries including, Iran, Uzbekistan, Turkmenistan, Tajikistan, China and some had been revised and official forwarded to relevant countries. In addition to neighboring countries, Afghanistan has negotiated many trade and transport agreement within the region and beyond the region most importantly Afghan-Kazak Trade Agreement, Afghan-Turkey Investment Agreement, Afghan-Turkey Trade Agreement, Afghanistan-India Preferential Agreement. Afghanistan has also signed many agreement with USA and European countries most importantly, Exports Preferential (LDC) Agreement between Afghanistan – Canada ,Afghan and British Chambers of Commerce Agreement , Afghan - U.S.A Trade & Investment Development Agreement , Afghan-Check Chambers of Commerce Agreement, Afghan-Holland Chambers of Commerce on new markets and etc. Although, in a very short period of time government have concluded many trade, transit and transport agreements, however, there are many challenges in the implementation of these agreements.

Afghanistan's economic context and outlook¹

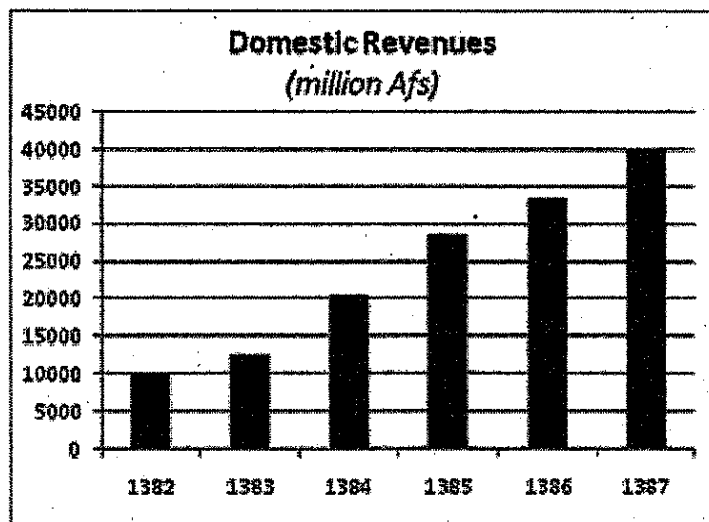
Over the past several years, Afghanistan has made significant progress towards strengthening the foundation for macroeconomic stability. Progress has also been made in the area of political and institutional development which has in turn facilitated strong economic growth. With political and institutional structures in place, structural reforms are needed to pave the way for a sound economic environment. The



The security situation, however, has hampered the Government's efforts in creating a sound economic environment in which the private sector can flourish. Building on these gains, the ANDS submitted to the donor conference held in Paris in June 2008 - provides a strategic medium term vision to foster sustainable growth, create jobs, and tackle poverty. GDP per capita has grown progressively from US\$ 157 in 1381 to US\$ 450 in 1388 and reaching to about US\$800 in 1392.

Afghanistan's economy is characterized by the high dependence on agriculture, which makes the economy vulnerable to weather-related shocks. Because of adverse weather shocks, the agriculture sector has experienced negative growth rates in the recent past including for 1387. This led to a decline in the overall growth rate.

Real GDP growth in 1386 was 11.5 percent. Available information suggests that GDP growth will be reduced to about 3.4 percent in 1387 due to a drought-induced decline in agricultural production. Inflation, as measured by the consumer price index for Kabul, was about 13 percent (period average) in 1386, as a slower increase in rent prices largely offset a faster rise in food and tremendous increase in energy prices. The spike in food prices in 1387 together with significant increases in the oil prices earlier this year is projected to push



¹ This whole part without any change has been taken from Budget Statement for 1388, prepared by Budget Department, Ministry of Finance

headline inflation to about 28.2 percent in 1387. However, non-food inflation is likely to remain around 10 percent for the year.

In 1387, domestic revenues are expected to be around Afs. 40,100 million compared to Afs. 33,645 million in 1386, an increase of 19.12 percent. Domestic revenues for 1388-1392 are expected to increase against the 1387. For 1388, 1389, 1390, 1391, and 1392 with the revenue increase being 26 percent, 22 percent, 21 percent, 20 percent, and 18 percent respectively over the horizon. In other words, domestic revenues will be more than double over the next five years. The Ministry of Finance is putting in place a range of measures to increase domestic revenues. Unless these measures are fully supported by various stake holders (Government agencies, Parliament, and the private sector), the Government and the Parliament will have to exercise tighter controls over expenditures.

Due to limited exposure to foreign capital markets, the recent global financial crisis will have little direct impact on the Afghan economy. However there are secondary effects from the 2008 economic turbulence, including a strengthening dollar that will impact on the purchasing power of non-dollar aid flows, and lower aid pledges as donor governments switch expenditures towards their own domestic priorities.

Looking ahead, Afghanistan's medium-term prospects are broadly favorable. Based on preliminary projections, agricultural growth is expected to return to its historical trend, while telecommunications, transport, and trade should continue to expand at a strong pace, and construction activity should increase steadily, albeit more slowly than in recent years. Further growth prospects are predicated on the emergence of new economic activities, assuming increased efficiency in the public sector, the design of an appropriate regulatory framework for private sector activity, and improvements in human capital and infrastructure.

Real GDP growth is expected to reach 7.4 percent in 1388 with a slight slippage due to the agricultural sector's slowdown in 1389 to reach 7.5 percent and deteriorate further to 7.1 percent in 1390 and to 6.9 percent in 1392. Assuming continued sound monetary and fiscal policies, inflation is expected to decline to 6 percent in 1388. With the projected decline in oil prices, inflation is expected to decline further to about 5 percent by 1392. With tight monetary policy measures, the exchange rate is expected to remain stable at around the Afs. 52/US dollar.

1. TRANSPORT SECTOR

Afghanistan's Road Network comprises about 3,300 km of Regional Highways, about 4,800km of National Highways, 9,600 km of Provincial Roads and 17,000km of rural roads. Regional Highways foster regional trade and economic linkages between Afghanistan and neighboring countries - Iran, Pakistan, Tajikistan, Uzbekistan and Turkmenistan. Ministry of Public Works (MPW) is responsible for development, management and maintenance of 17,700 km of roads-

- National Highways – 3,363 km.
- Regional Highways- 4,884 km.
- Provincial Roads - 9,656 km.
- Rural Roads - 17,000 km.

As a result of decades of conflict, the road network was largely destroyed. Since 2002, Afghanistan has launched a major programme for improving its road network. As per the Road Master Plan, Afghanistan has the following four kinds of roads:

With the help of Afghan's development partners (USAID, World Bank, ADB, European Commission, Japan, Iran, India, Pakistan and others) the Government of Afghanistan has rehabilitated and/or constructed the following roads:

1. Challenges and Constraints

- The deteriorating security situation in several parts of the country, mainly in the southern provinces as well as in the southeast is a major challenge for transport sector. This has implications for the physical improvements to the transport sector, donor agency activities, and governance. Implementing partners have revised their strategies and organizational structures to reduce risks to their personnel in less secure areas. The security constraints seriously affect the pace, cost and quality of development activities, including those in the transport sector. Work stoppages, additional security requirements in volatile areas, and the ability to provide technical oversight and guidance to contractors all have an impact on the delivery capacity and cost of development programmes. To improve the transport sector, closer collaboration between all actors in the sector is required because of this situation.
- Transport sector ministries and institutions lack the human capacity and organization to carry out: budgeting; procurement and contract administration; and adequate management of transport related assets. The institutions lack the necessary regulatory and enforcement frameworks and personnel management systems.
- Complex organizational structures lead to waste, excess fees, and gaps in service to the people.
- There are overlapping responsibilities in the sector.
- Poor maintenance policy/ arrangements are causing major damage to the roads already rehabilitated or constructed.
- Lack of Private sector more specifically the international private sector in the long term activities related to road sector (the maintenance), due to the uncertain, security, political and economic situation of Afghanistan.
- Lack of local private sector capacity to participate in the implementation of transport related projects.
- The transport sector needs an integrated strategy on a regional level where roads, airports and rail infrastructure are improved while, at the same time, related programs improve security, develop agriculture (extension services, alternative crops), develop water

resources (irrigation and drinking water), provide accessible health and education facilities, and reduce the production and trade in narcotics.

- There is a lack of coordination and communication within the transport sector governance institutions, as well as between these institutions and the institutions that govern the agriculture, rural development, water, education, and other sectors.

2. Opportunities

- **International Community Interest;** During last seven years donors have taken lot of interest in the development of this road infrastructure and as per the data provided by Ministry of Public Works donors have committed US \$ 2.2 billion dollars. However, all these funds go to road sector and very limited to other means of transportation such as Civil Aviation and rail links etc.
- **Land bridge between two important regions ;** To capitalize on its strategic location as a land-bridge in the Central and South Asia region, integrating Afghanistan s markets with the global and particularly regional economies is of critical importance to the achievement of the national economic goals. Linkages with global and regional markets is not possible without good transportation system, the current investment in this sector has assisted the country to integrate in the region.

3. Current Rehabilitation Programme:

Regional Highways: These are roads which connect Afghanistan with its neighbouring countries viz. Iran, Pakistan, Tajikistan, Uzbekistan and Turkmenistan. They also connect neighbouring countries with each other. Major projects currently underway are the following:

Ring Road: Rehabilitation of the Ring Road has been given priority. This road interconnects the country, as it starts from Kabul and after going through Doshi-Pulekhumry, Mazar-e-Sharif, Faryab, Badghees, Herat, and Kandhahar it finally circles back to Kabul. The total length of the Ring Road is 2,210 km, of which 1,504 km (about 75 per cent) has already been rehabilitated. the total cost of the project is US\$ 1,142 mn. It is expected that by end of 2009 the Rring Rroad will be complete.

Connections with the Neighbours: Roads that connect Afghanistan with its neighbours, and consequently connect countries in the region, include the following: Kabul-Torkham; Herat-Torghundi; Herat-Islamqala; Kandhahar-Spinboldok; Aquina-Andhkho; Delaram-Zeranj; Pule Khumri-Sherkhan Bandar; Khost-Ghulam Khan; and Naibabad-Hayratan. The total length of these roads is 1,153 km, of which 1,119 km has been rehabilitated and the remaining 34 km is under rehabilitation.

National Highways and Provincial Roads: Roads built according to highway standard and connecting regional highways with provincial capitals are called National Highways. These roads are vital, as they provide trade and commerce linkages and contribute to stability and economic growth in the country. Roads that connect district headquarters with respective provincial capitals are called Provincial Roads. These roads are also very important as they

provide linkages to remote corners of the country. The total length of these roads is 2,547 km. About 1,470 km of these roads have been rehabilitated.

As noted earlier, most of the projects are implemented with the help of international community. The following table summarises this international assistance:

Funding Agency	Funds Committed (US\$ Million)	Total length (km)	% coverage (in funds)	% coverage (in km)
USAID	788	1844	35.9	36.7
ADB	518	1253	23.6	24.9
World Bank	166	447	7.6	8.9
Japan	160	211	7.3	4.2
EC	118	166	5.4	3.3
India	86	236	3.9	4.7
Iran	83	216	3.8	4.3
Saudi Arabia	83	183	3.8	3.6
Pakistan	51	84	2.3	1.6
Italy	46	50	2.1	1.0
IDB	30.7	97	1.4	1.9
Kuwait	12.3	41	0.7	0.8
Canada	12.3	48	0.5	0.9
Afghanistan	73.8	135	3.3	2.7
Total	2,228.1	5,011	101.6	99.8

4. Current Planned Programme:

After the completion of Regional Highways, which have been given top priority, the following projects are planned:

Rehabilitation of the North-South Corridor:

The total length of this corridor is 410 km and includes the following components:

- The first component which starts from Mazar-e- Sharif and reaches Dara-e-Soof is 140 km long. With the financial assistance of ADB, this is under construction.
- The second component starts from Bamyan and ends in Yakawlang. This 100 km long road is under construction also with the assistance of ADB.
- The third component, 40 km Yakawlang – Panj Aab, is still waiting for financing (estimated cost US\$28 million).
- The fourth component, 130 km road from Panj Aab to Tareenkot, is also awaiting financing (estimated cost US\$ 91 million).

Rehabilitation of the East - West Corridor:

This National Highway is an alternate, shorter route from Kabul to Herat. Currently the connection to Herat is made through Kandahar with a distance of 1,050 km. With the construction of EW Corridor, this distance will be shortened by 250 km. The components of this section which are yet to be financed are:

- 335 km long road starting from Herat Province and reaching Cheghcheran (estimated cost \$ 234 million)
- 330 km road from Cheghcheran to Garden-Dewar (estimated cost \$231 million).

The above information is summarized in the following table;

Project/Road Name	Length (km)	Estimated Cost (million US\$)	Funding source
North South Corridor 1. Mazar-e-Sharif - dari suf 2. Bamyan-Yakawlang	240	140	ADB
East West Corridor Herat-Chagcheran	335	234	
East west Corridor Chaghcheran-Gardandewar	330	231	
North South Corridor Yakawlang-Panjab	40	28	
North South section Dare suf- Bamyan	180	126	
North South Corridor Panjab-Kandahar-Herat Ring Road	300	120	
Eshkashem-Faizabad	150	150	
Jabalsaraj-Sorubi	100	40	
Kabul City Ring Road	160	160	

Khulum-kunduz	113	45	
Charekar-Barnyan-Doshi	300	180	
Total	2,248	1,454	

In addition to these projects, two more roads are planned which are very important for regional linkages. These are:

- Hiratan-Mazar-e-Sharif, Islam Qala - Herat Road: This road, starting from the crossing point with Uzbekistan and passing through two major Afghan cities, reaches the Iranian crossing point, connecting the regional corridor between Aksarayaskaya and Bandar Abbas.
- Sherkhan Bandar-Kunduz-kabul-Jalalabd-Torkham Road: Most parts of this road are two lanes and asphalted but it is necessary to make it a four lane road. This road starts from Sherkhan Bandar, the crossing point with Tajikistan, and connects major Afghan cities and reaches Torkham, crossing point on the Durand Line with Pakistan. It fills the gap in the Regional Corridor between Orenburg and the Karachi/ Gwador sea port.

5. Railways Network Overview

At present, there exists only two railway links

- (i) Termez (Uzbekistan) to Hairatan (Afghanistan) in the north of Afghanistan and
- (ii) Kushak (Turkmenistan) to Tourghundi (Afghanistan) – 120 km

Current Project in Progress within Afghanistan:

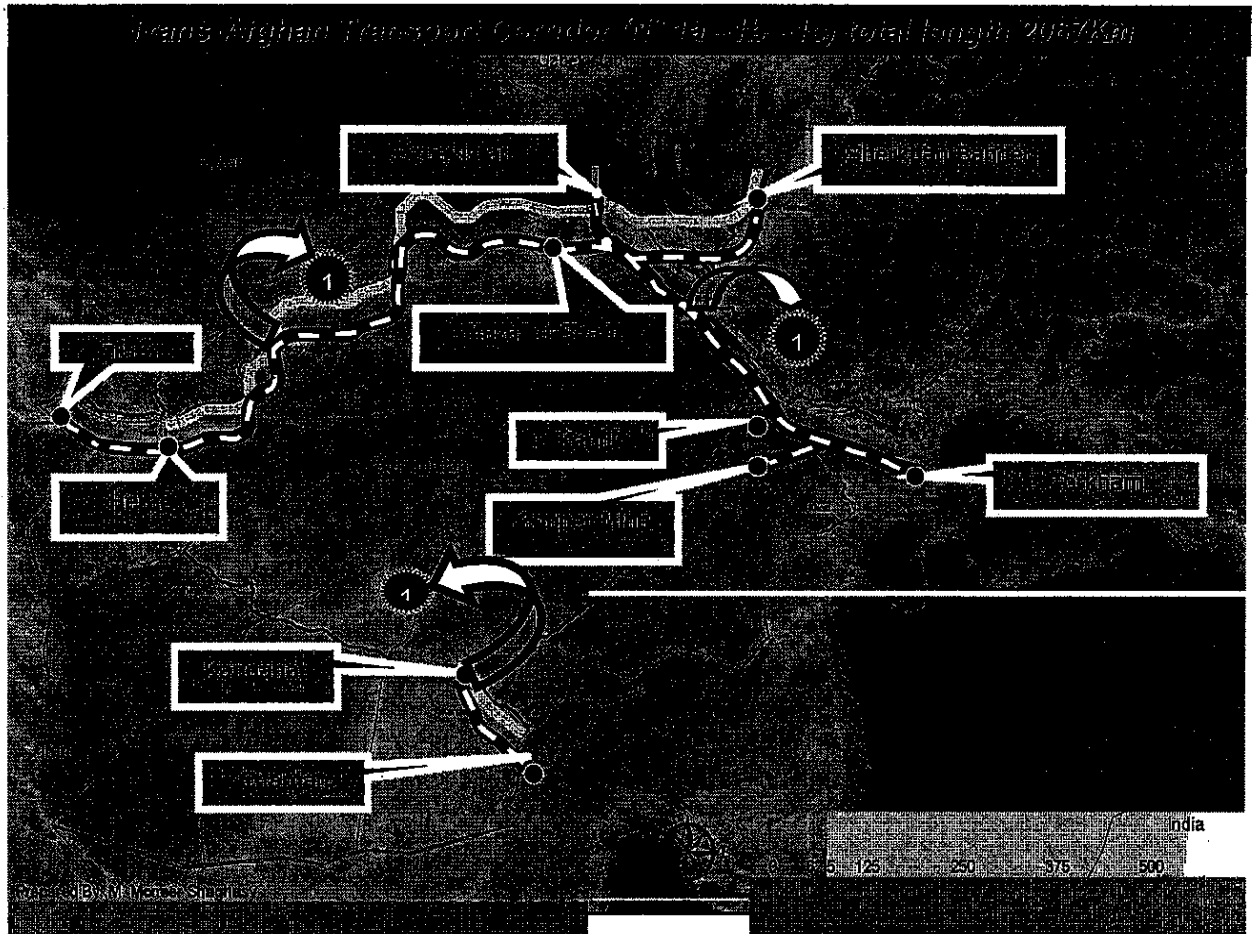
- Construction of a railway link between Khawaaf (Iran) and Herat (Afghanistan) is in progress (about 124 km)

Proposed Projects

- Kabul-Jalalabad-Torkham-Peshwar (Pakistan)
- Kandahar –Spin Boldak-Queta (Pakistan)
- Iran – Tajikistan – Peoples Republic of China 630-kilometre railway study estimates US\$2 billion cost. Railway crosses Tajikistan border at Shirkhan Bandar
- Chinese mineral company won the Aynak copper mine tender. As part of the mineral company offer they will build a railway from Torkham (Afghanistan-Pakistan Border) upto one of the Central Asian Countries Border Crossing Poi
- The first (SOM) Meeting of railway in Kabul Afghanistan (July 12-13, 2009)
- Based on the briefings by the heads of delegations, the meeting identified the details of the route from china to Iran in each en-route country as follows;

Kashghar-Irkeshdam (in China)- Saritash-Karamic (Kyrgyzstan)- Jirgatal-Tajikabad-Noorabad-Abigharm-feizabad-Yanghibazar iliyak station- Kurghan Tubeh-Kalkhozabad-Nighnipanj (in Tajikistan)- Shirkhan Bandar-kundoz-Mazari Sharif- Heart-Delaram-Zaranj..... (in Afghanistan)- Zahedan-chabahar (in Iran).

The total length of the route is around 2155 km out of which 215 km is in china, 194km is in Kyrgyzstan, 496 km is in Tajikistan, and 1250 km (from Sherkhan Bandar to Heart) is in Afghanistan. The length of the route from heart to delaram and onward to zaranj and Iran border is km and the distance from Afghanistan border to Zahedan and onward to Chbahar is aroundkm.



Proposed Afghan railway plan presented by Ministry of Public Work during CAREC 7th Ministerial Meeting in Baku.

6. Investment Program for 2008-2012

Sr	Section	Km	Funds	Status
1	Second road between Kabul and Jalalabad	156	100	Detailed Engineering being got done, procurement for first 50 km to start by

					Sep'08
2	4-laning of Kabul – Jabal Saraj Section	65	70		Detailed Engineering to be done
3	Faizabad – Eashkashim	156	200		Detailed Engineering completed, procurement to start by Jul'08
4	Jabal Saraj – Sorubhi	100	80		Detailed Engineering completed, procurement to start by Jul'08
5	North South Corridor (Dari Suf to Yakawlang)	182	150		Procurement to start by Sep'08
6	North South Corridor (Yakawlang-Panjab-Tirinkot)	350	200		Detailed Engineering to be done
7	East West Corridor (Heart-Chagcharan)	335	160		Detailed Engineering being done
8	East West Corridor (Chaghcharan-Garden Dewall)	340	190		Detailed Engineering being done
9	Ring Road at Kabul City	100	100		Feasibility study completed
10	Khulam-Kunduz	124	50		Detailed Engineering to be done
11	Charikar- Bamiyan-Doshi	300	200		Feasibility Study completed
	Total	2208 km	\$1500 M		

TRADE POLICY, BUSINESS CLIMATE AND TRADE AND FINANCE

1. Major Challenges

Afghanistan faces a number of constraints that stand in the way of increased economic growth and development, constraints that particularly impact on development of the private sector.

Security;

Afghanistan continues to face a difficult security situation that threatens both life and property, adds to the costs faced by businesses, and makes it difficult to attract large, long term private investments.

Access to land

Property and land rights are unclear and enforcement mechanisms weak. Rural and urban land tenure is subject to a vast and disaggregated regime of formal and informal mechanisms. The uncertainty of land titling and availability of serviced land is a serious constraint on the establishment of businesses. Unclear property rights also impact adversely on the private sector's ability to use land as collateral for credit.

Inefficient licensing systems

Private Sector Development and associated activities such as the move of enterprises from the informal to the formal sector of the economy are seriously constrained by highly inefficient systems for business licensing, the gaining of permits or certification, and related regulatory matters. There are generally several steps in gaining such approvals, with a number of government agencies involved and substantial rent-seeking at each step. There is an urgent need to streamline licensing and other systems in support of PSD and economic development.

Limited availability of skilled labor and business development services

Only 28 percent of the Afghan adult population has basic literacy and numeracy skills. A considerably smaller proportion has had any form of training in technical or vocational skills. There is also very limited access to business development services (BDS)

Weak legal and regulatory systems

A functioning set of commercial laws that is understood and widely accepted is not yet in place. Weak legal and regulatory systems constrain private investment by both domestic and foreign investors. Furthermore, effective enforcement mechanisms are not yet in place or lack resources and capacity. A lack of adherence to international standards, particularly accountancy standards, creates additional hurdles and reduces the attractiveness of foreign direct investment in Afghanistan. Weakness in the legal and judicial framework governing the enforceability of commercial contracts reduce creditor rights, reducing the willingness of borrowers to lend, and increasing interest rates to offset risks. Consistent and reliable information on licensing requirements and regulations is often difficult to obtain, yet this is important to easing the regulatory burden and the establishment of an appropriate enabling environment.

Lack of physical infrastructure

Years of conflict that severely damaged or completely destroyed much of the country's physical infrastructure have resulted in high costs of doing business. This problem is particularly acute with respect to the cost and availability of power and water supplies.

Many firms rely on expensive generators and high fuel costs for electricity generation and must invest additional amounts for reliable water supplies. Poor roads and limited airport facilities also act as constraints on regional and international trade and investment. High transportation costs and high cross-border trade costs limit access to markets and again increase the cost of doing business.

Constraints on credit and financing

While the number of commercial banks operating in Afghanistan has increased substantially, their ability to provide credit to private businesses is limited due to the lack of laws and institutions necessary to guarantee collateral (i.e., secured transactions laws for fixed and moveable assets and a registry for assets pledged as collateral).

The banking sector itself currently faces a series of challenges, including:

- Absence of an effective legal framework
- Poor and outdated physical infrastructure
- Lack of trained personnel
- Inappropriate governance and ownership structures in the state banks
- Inadequate collateral and bad debts
- Low depositor confidence

- Absence of clear accounting standards
- Lack of an effective formal payments system.

The banking sector in Afghanistan faces the additional constraint of the restrictions on the lending of money for interest. Alternative methods of borrowing money that are compatible with Islam do exist. However, these need to be established in Afghanistan and better understood by potential borrowers.

Restrictive Trade Policies of Neighboring Countries

Its main, primarily regional, trading partners have high rates of import tariffs, very active and aggressive export promotion policies and apply other protectionist measures which undermine the competitiveness of Afghan exports. These restrictive trade policies have an adverse effect on the productive sectors and impede industrial growth in the country.

Lack of Transit and Trade Facilitation

Afghanistan's trade in transit situation is characterized by three essential challenges:

2. High logistics costs
3. Ineffective transit agreements
4. Inadequate financial infrastructure.

High logistics costs: Delays, cumbersome procedures, and lack of facilities at border posts substantially impact transport costs which seriously undermine the competitiveness of Afghan exports, increase the cost of imports, and discourage the development of transit traffic through Afghanistan. Costs of trade do not consist simply of transport charges, but of many further direct and indirect costs generally termed trade logistics costs, and include factors such as delays, charges, and other challenges to reliable delivery.

In a well-functioning market economy with highly developed transport and distribution networks, measurable logistic costs are usually less than 10 percent of the sale price of goods. In Afghanistan, with inadequately developed trade logistic systems, costs are much higher.

Indications are that for Afghanistan, trade logistics costs can be up to twenty five percent of the value of goods shipped, the costs even exceeding 50 percent of the sale price for raw materials or basic commodities such as grain or cement. Without efficient and effective trade logistics services on routes to and through Afghanistan, the costs these transactions will remain high.

Among the most serious bottlenecks to the movement of goods entering, leaving, or in transit through Afghanistan, the Ministry of Commerce and Industries has identified:

- Poorly designed, poorly managed official border port stations
- Long border waiting times only relieved with unofficial payments truck-to-truck border transshipment increasing handling costs, transit times, risk of cargo loss/damage
- No external transit role for afghan truckers (except Peshawar route) as trucking entirely by transit countries foreign truckers restricted from operating in Afghan
- High-rates charged by trucking cartel
- Vehicle standards below international levels
- Check-posts, arbitrary delays, and extensive unofficial and discriminatory charges.

Ineffective transit agreements

Afghanistan has signed a number of bilateral or multilateral transit agreements with countries of the region, Pakistan, Iran, Uzbekistan, Tajikistan, Turkey and India, to facilitate the movement of goods and commercial vehicles through neighboring countries. However, the transit system from/to Afghanistan is not operational due to:

- Complex and uncoordinated cross border customs practices and documentation;
- No coordination between working days and working hours of the adjacent border ports;
- Time consuming border controls;
- Numerous and costly transit fees for crossing borders which do not reflect actual services;
- Lack of standards for admittance of vehicles across borders (vehicle inspection, issuance of certificates);
- Lack of third party insurance schemes;
- Lack of bond/guarantee system to ensure the payment of customs duties;
- Visa problems for drivers of another country;
- Unofficial charges.

Institutions Capacity

There is a serious under capacity among the institution involved with Trade and Investment and Financial Issues (selection is not on basis of written competitive examinations and officers lack training), for meeting the plan objectives. The PRR system has shown its limitations and does not address properly the Human resource concerns of these institutions.

2. Opportunities

Regional Trade Hub; Although Afghanistan is a land-locked country, it is a potential regional hub. Afghanistan's foreign trade is dependent upon two main transit routes which cross Pakistan and Iran and offer the primary access to a sea ports. Like any other land-locked country, Afghanistan faces high transport costs and long delivery delays. At the same time, due to its strategic geographic position, Afghanistan has the potential to become a land-linked country (i) providing Iran and Pakistan with direct routes to the Central Asia Region (CAR); and, (ii) providing the Central Asian Region with its shortest access to the sea, in comparison with routes to the Black Sea, Europe and China.

Two major transit corridors have been identified:

- A North-South Corridor connecting Tajikistan, Uzbekistan, and Turkmenistan with Pakistani ports Karachi, Port Qasim and Gawada and continuing via Wagah, Pakistan, in the direction of India and South Asia,
- An East-West Corridor connecting Tajikistan, Uzbekistan and Turkmenistan with the Iranian ports of Cha Bahar and Bandar Abbas.

These corridors carry significant potential for an increase in trade between energy rich Central Asia and energy deficient South Asia but with high export capacities of manufactured goods. A recent study by the ADB suggests that the development of these two corridors could result in a major shift in trade transit routing from and to Central Asia, with the potential for a very positive impact on both employment and production in the region.

Iran and Pakistan are investing heavily in their transport systems to meet transit potential through Afghanistan. Afghanistan itself is in the process of completing the rehabilitation/reconstruction of the ring road, the circular road linking Kabul to Kandahar, Dilaram, Herat, Mazzar Sharif Polchumri (Kunduz), and Kabul. Similarly, the connections to neighboring countries from the ring road are also progressing well. However, even if Afghanistan's infrastructure is improved, the ability of investment to reduce operating costs is limited as long as the facilitation of transit and trade is deficient.

Regional and global integration and cooperation; To capitalize on its strategic location as a land-bridge in the Central and South Asia region, integrating Afghanistan's markets with the global and particularly regional economies is of critical importance to the achievement of the national economic goals. Linkages with global and regional markets will not only promote the competitiveness of domestic industries but also add to the attractiveness of Afghanistan for investors.

To become a full member of the global economic community, Afghanistan must complete requirements for WTO accession and create trade agreements with large international markets. This will send strong signals to international investors and traders regarding the stability and parameters of the trade regime. Afghanistan has actively participated in regional economic initiatives including the Economic Cooperation Organization (ECO) as well as bilateral negotiations with neighboring countries including Iran, India, Pakistan, Tajikistan and Uzbekistan. Further opportunities for regional integration are participation in the South Asia Free Trade Area (SAFTA) and the Central Asian Regional Economic Cooperation (CAREC) program.

With the development of an effective system for international trade and transit, a large portion of future investments will capitalize on Afghanistan's location, using Afghanistan as a regional platform for export. The priorities for the immediate future will require a review of the existing regional trading arrangements with regard to their effectiveness and implementation identifying areas in which these agreements can be strengthened.

International Community Support; The most important opportunity is the donor community support to the Government in all the areas but more specifically trade, transit and investment sector. All the donors want to see Afghanistan an effective member of the International community, financing its all expenses by its own.

3. Bilateral, Regional and Multilateral Trade Agreements and Regulatory Improvements

Since the establishment of new government, Afghanistan has concluded a variety of bi- and trilateral trade, transport and transit agreements with most of its neighbours in the region. However, due to political and economic factors (such as capacity limitations) few have been

implemented or are operational. Nevertheless, in order to address transit problems and improve regional cooperation, Afghanistan has concluded bilateral cooperation agreements with China, Kazakhstan, Turkmenistan and Uzbekistan. The following tables reflect the short information about bilateral and trilateral agreements with countries in the region and also with European countries and the U.S.A.;

BILATERAL TRADE AGREEMENTS BETWEEN	
<p>A. Afghanistan-Iran:</p> <ol style="list-style-type: none"> 1.Afghan-Iran Trade Agreement (2003) 2.Afghan-Iran Chabahar Agreement (2004) 3.Afghan-Iran International Transport Agreement (2003) 4.Afghan-Iran Trade MoU 5.Afghan-Iran Consulate Trade Agreement (2006) 	<p>B. Afghanistan – Uzbekistan</p> <ol style="list-style-type: none"> 1.Afghan-Uzbek Railway Agreement (2005) 2. Afghan-Uzbek Economic & Commercial Cooperation Agreement (2004) 3.Afghan-Uzbek Trade Agreement (2003) 4.Afghan-Uzbek Chambers of Commerce & Industries Agreement (2005) 5.Afghan-Uzbek Transport Freight Forwarding Agreement 6.Afghan-Uzbek Transit Transport Agreement (2006)
<p>C. Afghanistan- Tajikistan</p> <ol style="list-style-type: none"> 1.Afghan-Tajikistan Chambers of Commerce Agreement (2004) 2.Afghan-Tajikistan Trade Agreement (2004) 	<p>D. Afghanistan – Kazakhstan</p> <ol style="list-style-type: none"> 1.Afghan-Kazak Trade Agreement (2004) 2.Afghan-Kazak Economic, Commercial Technical Cooperation Protocols (2007)
<p>E. Afghanistan – Turkey</p> <ol style="list-style-type: none"> 1.Afghan-Turk Investment Agreement (2004) 2.Afghan-Turk Trade Agreement (2004) 3.Afghan-Turk Customs Cooperation Agreement (2005) 4.Afghan-Turk International Road Transportation Agreement (2005) 5.Afghan-Turk MoU Agreement (2005) 	<p>F. Afghanistan – China</p> <ol style="list-style-type: none"> 1.Afghan China Investment Agreement (2006) 2.Afghan China Chambers of Commerce Agreement (2006) 3.Afghan China Trade Agreement (2006)
<p>G. Afghanistan India</p> <ol style="list-style-type: none"> 1.Afghan-India Preferential Agreement (2003) 	<p>H. Afghanistan – Turkmenistan</p> <ol style="list-style-type: none"> 1.Afghan Turkmenistan Transport and Transit Agreement (2007) 2.Afghan-Turkmenistan Economic and Commercial Agreement (2007)
<p>I. Afghanistan and Pakistan</p> <ol style="list-style-type: none"> 1.Afghan-Pakistan Transit Trade Agreement (1965) 	

TRILATERAL AND REGIONAL AGREEMENTS	
1. Afghan-India-Iran Transport & Transit Agreement (2003)	4. Afghan-Iran-Tajikistan Transit Transport Agreement (2004)

2- Afghan-India-Iran Transit Transport Agreement through Chabahar-Milak-Zarange-Delaram Route) (2003)	5. Afghan-Pak-Turkmenistan Gas Pipeline Agreement
3.Afghan-Uzbek-Iran TransitTransport Agreement (2005)	6. ECO Trade Agreement (17-07-2003)
	7. South Asia Free Trade Agreement (SAFTA) 02-08-2008

Agreements signed with European countries and the USA	
1.Exports Preferential (LDC) Agreement between Afghanistan – Canada (2003)	7.Afghan - U.S.A Trade & Investment Development Agreement (2004)
2.Afghan and British Chambers of Commerce Agreement (2003)	8.USA Investment Agreement (2004)
3.Afghan-Holland Chambers of Commerce on new markets (2005)	9.USA MoU for Economic Cooperation (2003)
4.Afghan-Czech Chambers of Commerce Agreement (2005)	10.Afghan -USA Joint Economic Cooperation Deceleration (2007)
5.Afghan –Ukraine Trade and Economic Cooperation Agreement (2004)	11.UNDP Agreement on development and provide of equipment and professional resources (2004)
6.German Investment Agreement (2004)	12.Intellectual Property Convention (2007)
	13.Afghanistan Observer Membership to Energy Organization ECT

An important draft agreement that awaits negotiation is the Afghan-Pakistan Trade and Transit Agreement-APTA (and its five protocols), that is to replace the outdated 1965 agreement. The revised draft has been completed by the Afghanistan Government and has been sent to the Islamic Republic of Pakistan for review.

During the 7th Joint Economic Commission (JEC) meeting that took place on 25 and 26 November 2008, the JEC endorsed the draft of the new Afghanistan and Pakistan Transit Trade Agreement (APTA), submitted by the Afghan delegation and agreed to establish a Joint Working Group (JWG). The JWG was supposed to meet for the first time in April 2009 but Pakistani nominees for the JWG have not yet been introduced to Afghanistan and, thus, the first meeting is still pending.

One of the five protocols deals with “Control of Precursors and Chemical substances used in the illicit manufacture of narcotic drugs or psychotropic substances,” a serious problem for Afghanistan and the region as a whole.

Following is the list of the main transit agreements signed by the Ministry of Commerce and Industries or under negotiation (draft) with neighbouring countries.

BILATERAL/MULTILATERAL TRANSIT AGREEMENTS SIGNED OR UNDER NEGOTIATION (Draft)		
Contracting Parties		Place and Date of signing
Afghanistan/Pakistan	<i>Afghanistan Pakistan Transit Agreement (APTA)</i>	Under negotiation (2009)

Afghanistan/Iran/India	MoU of the Trilateral Commission (A. <i>Trade, and B. Goods in transit.</i>)	Tehran 5 January 2003
Afghanistan/Uzbekistan	Agreement on Cooperation in the field of Transit and Transport between Afghanistan and Uzbekistan	Tashkent, 29 August 2004
Afghanistan/Uzbekistan	Agreement between Afghanistan and Uzbekistan on cooperation in railway transport	Tashkent 16 October 2003
Afghanistan/Uzbekistan	Agreement Afghanistan and Uzbekistan on check points through State Borders	DRAFT
Afghanistan/Uzbekistan	Agreement between Afghanistan and Uzbekistan on the international transportation of cargoes by automobiles, river and railways transportation	DRAFT
Afghanistan/Tajikistan	Transit Agreement between Afghanistan and Tajikistan Addendum no1 Concerning Transit routes Addendum no2 Customs facilities Addendum no3 Transportation of Goods	DRAFT
Afghanistan/ Tajikistan	Protocol on cross border bridge traffic between Afghanistan and Tajikistan	February 2008
Afghanistan/Tajikistan/Iran	Agreement between Afghanistan, Iran and Tajikistan for Traffic in Transit.	Tehran 18 June 2003
Afghanistan/Kazakhstan	Agreement between Afghanistan and Kazakhstan for traffic in transit.	DRAFT

In April 2007, Afghanistan became a member of SAARC, which is expected to enhance the level of its cooperation on interconnectivity and trade with member countries. SAARC membership will complement and expand Afghanistan's regional cooperation initiatives on transport, trade and energy with CAREC and ECO. During the 15th SAARC summit Afghanistan signed the Protocol of Accession to the South Asia Free Trade Area (SAFTA), along three other important documents designed to further cooperation among SAARC member countries.

In November 2006, Afghanistan ratified the ECO Transit Transport Framework Agreement (TTFA), becoming the sixth country to do so and allowing the TTFA to enter into force in May 2007, according to Article 43 of that Agreement. Five countries, namely, Azerbaijan, Kyrgyz Republic, Kazakhstan, Pakistan and Tajikistan have ratified this important regional transit transport document. Uzbekistan has yet to ratify the TTFA.

Afghanistan gained WTO observer status in December 2004. A draft Memorandum on the Foreign Trade Regime (MFTR) was submitted to the WTO in February 2009. The official accession process has started. The High Level Working Party will be convened in the coming months in Geneva to deal with the accession process. MoCI has conducted a number of WTO training courses for an inter-ministerial task force, with the support of international donors, and Afghan officials have participated in a number of training programmes abroad.

Apart from working towards accession to the WTO, many bilateral and regional agreements have been signed by Afghanistan. The following list provides information about some of the important trade, economic and investment agreements signed by Afghanistan in recent years with regional countries:

Partner Country	Type of Agreement	Signed on	Remarks/ signatory from Afghanistan
Iran, Chabahar	Trade, Transit	17-06-1382	Minister of Commerce
Multilateral (Iran, Tajikistan)	International Transportation	23-03-1382	President
Multilateral (Iran, India)	Chabahar Transit, Delaram Zarang issues	15-10-1381	Minister of Commerce
Multilateral (Iran, India)	MOU Multilateral Commission	15-10-1381	Minister of Commerce
Iran	Commercial	15-10-1381	Minister of Commerce
Multilateral (Iran, Uzbekistan)	Int'l transportation	28-03-1383	

Source: *Ministry of Commerce & Industry.*

CUSTOMS COOPERATION AND TRADE FACILITATION FOR REGIONAL COOPERATION

As per the transport and trade facilitation strategy followed by the CAREC forum, the efforts have to be made to improve Customs infrastructure and logistics along the 6 priority transport corridors identified by CAREC countries. These corridors include Afghanistan's both the North South and East West road networks connecting Central Asian countries with Iran and Pakistan and thereby providing access to the other Gulf and South Asian countries. A number of measures have been taken by the Government in this direction, which are enumerated below and can be placed under following three broad headings:

1. Major Challenges

Some of the major challenges identified by Afghan Custom Department in next five years are as following;

1. The condition of customs offices in many places, and equipment/stationery etc. available in nearly all of them, is highly unsatisfactory as many offices are mud built lacking electricity and water.
2. The physical infrastructure available in most customs terminals and warehouses is highly inadequate with little civil works and no cargo handling and security equipment for purpose of providing service to trade. The cargo handling and warehouse operations are being supervised by customs though such works are not within the core competence of customs officers.
3. Introduction of automated processes through adoption of ASYCUDA modules in any customs office will need sustained efforts at retraining the custom officials to work with automated processes.
4. Customs legislation needs to be developed in conformity with the working conditions in Afghanistan, especially for the purpose of automation, fines, penalty, appeal, enforcement, Regional Opportunity Zones.
5. Customs need to create capability to generate analysis reports on the basis of data available in customs offices, to assist the Government in formulation of its Customs tariff policy and to make development plans.

6. Departments other than Customs (Ministry of Interior, Ministry of Commerce and Industry, Ministry of Health etc) interfere with clearance of imported/exported goods or goods in transit resulting in severe harassment to trade, increased costs and delay in clearances.
7. ACD does not have a strong control over staff operating in provincial customs offices, as local authorities have unduly been interfering in Customs operations.
8. Enforcement machinery is not adequately equipped to meet the challenge of smuggling and evasion of duty. The weak areas of enforcement regime are lack of enabling laws, man power deployment, availability of equipment, and training.
9. There is a serious under capacity among customs staff (selection is not on basis of written competitive examinations and officers lack training), for meeting the plan objectives. The PRR system has shown its limitations and does not address properly the Customs Human resource concerns.
10. There is no scheme for giving rewards or other incentives to recognise and encourage good performance nor are there any administrative powers with ACD to discipline misconduct or suppress delinquent behavior.
11. There is no Customs audit machinery within ACD. Customs need to acquire capability of inspection and audit, develop necessary procedures and ensure their harmonized application in different custom offices.
12. There is no risk management policy and practices in Customs operations. Such practices have been introduced in most of the countries after the incident of Sep11, 2001.
13. Security remains a major challenge for the implementation of many custom infrastructure projects and reform process in the custom administration. The worsening security situation within Afghanistan and in some of neighboring countries has negative impact on the efficient and effective Afghan Custom operations across Afghanistan.

2. Major Opportunities

Following are the major opportunities listed by the Afghan Custom Department in its Five Year Strategic Plan;

1. Customs is recognized as a major source of revenue and the collection has grown over the last four years, from AF 4.5 billion in 1382 to AF 9.4 billion in 1384, AF 15.4 billion in 1385 and AF 19.68 billion in 1387.
2. The department is instrumental in collecting other duties/taxes as well and its net contribution to Government coffers is nearly 54.5% of all Government revenues. Bringing greater efficiency in the system is presently the most certain way for the Government to augment revenue.

3. The achievements of ACD in the past four years are considerable. Based on empirical evidence collected by donors one can conclude that assistance in the projects of ACD will bring high dividends to the Government system and to the economy as a whole.
4. Customs regulations can be consistently applied across the country. Commitment to achieve an average time for import and exports of goods in line with the best practices in the region.
5. Customs Clearance & Transit Times for Importing and Exporting goods can be brought down in line with International Best Practices/Standards.
6. Customs systems can be modernized to provide international transit facilities to make the country a land bridge for the region.
7. There is a strong commitment of the senior Management of Ministry of Finance as well as Afghan Customs Department to the Reforms program of ACD.

3. Building Customs Infrastructure and Logistics on Borders-

Decades of war has badly effected the entire infrastructure of Afghanistan generally and Government infrastructure specifically. The ACD is no exception. The first five-year plan focused on the development of temporary infrastructure facilities for basic ACD functionality and beginning of construction of permanent buildings and facilities. A number of projects have successfully been completed and many other are under progress, the brief overview of some major infrastructure project is as following;

1. **Afghan-Tajikistan Border-** Two world class facilities are being developed at this border, one at Sher Khan Bandar and another one at Takhar/Aikhanam. While the infrastructure for Border Custom Station and the Regional Custom Centre is almost ready at the Sher Khan Bandar, the construction at Takhar is going to start soon with the signing of US\$ 10.6 million agreement recently. The Custom facilities at Sher Khan Bandar can handle over 400 trucks of cargo daily in exports and imports and once they become operational, the Regional Customs Centre will be shifted here from Qunduz providing all the clearance facilities at the border itself.
2. **Afghan-Uzbekistan Border-** Afghan Custom Department has well developed Customs Stations on this border. However, the existing infrastructure is being further upgraded to cater to the future needs. Furthermore, new building for the Inland Customs Depot at Hairatan is under construction, the first phase is completed and the second phase will start soon. The completion of this custom facility will increase the trade volume through this important border.
3. **Afghanistan-Pakistan Boarder**
 - 1) **Torkham customs facility;** a modern customs facility has been built at Torkham. The project cost is 1.2 million Euros. The building has already been handed over to customs and the ASYCUDA transit module is being operated from this facility. The task of installation of a heavy-duty cargo scanner and provision of other facilities like parking yard etc has been accomplished. The

- Torkham customs facility have two separate terminals, one for export and other form import, which has facilitated the trade and transit.
- II) **Ghulam Khan**, the custom facility with another boarder point of Ghulam Khan has been enhanced. This will give an alternate option to the traders dealing in export, import and transit.
 - III) **Spin Boldak and Waish**, the custom facility at Spin Boldak has been upgrades. All these measures have been taken to ensure requisite infrastructure at the Border Customs stations to facilitate clearance of international trade through Afghanistan.
 - IV) **Khost Custom House**, World Bank has allocated funds for the construction of this custom house, however, due to security situation the implementation of this project is pending. Although, this is not a boarder custom house, however, it will facilitate the trade between Afghanistan and Pakistan.
4. **Afghan-Turkmenistan Border**, A customs office has renovated at Torghundi to facilitate trade, improved management and collect revenue at the border. ASYCUDA transit module has been installed which will help exercise greater control over customs declaration registration and processing.
 5. **Afghan-Iran Border**, two major Custom houses in the vicinity is in final stages of completion to cater to larger volumes of traffic emanating from Bandar Abbas and other ports of Iran.
 - I) **Islam Qala Border Customs Station**; Additional customs offices have been raised at Islam Qala with neighboring Iran to accommodate the trade via Iran.
 - II) **Nimroz Border Custom Station**; The custom house at Nimroz is getting more and more traffic and to address the issue a new building is needed at this important border point.

Main proposed Custom Infrastructure Project for Next Five Years

<i>Infrastructure</i>	<i>Area of activity</i>	<i>Target objective</i>	<i>Resource Requirements</i>	<i>Cost Estimate</i>
Project – Infrastructure 1	Civil works and automation	Facility to support trade, automation, and security	New building for Khost Customs and equipment	\$8 million
Project – Infrastructure 2	Civil works and automation	Facility to support trade, automation, and security	New building or renovation of customs facilities at Weash, Kandahar and equipment	\$20.0 million
Project – Infrastructure 3	Civil works and automation	Facility to support trade, automation, and security	New building, road, and equipment for Hairatan Customs	\$15 million
Project – Infrastructure 4	Civil works and automation	Facility to support trade, automation, and security	New Building and equipment for Aikhanum	\$8.0 million
Project – Infrastructure 5	Civil works and automation	Facility to support trade, automation, and security	New building and equipment for Aqina customs	\$2.9 million

Project – Infrastructure 6	Civil works and automation	Facility to support trade, automation, and security	New building and Equipment for Sherkhan Bandar	\$26.3 million
Project – Infrastructure 7	Civil works and automation	Facility to support trade, automation, and security	New build or renovation of customs facilities Torkham and equipment	\$5.5 million
Project – Infrastructure 8	Civil works and automation	Facility to support trade, automation, and security	New building and equipment for customs facilities Darwaz, Korukh and Eshkashem Tajikistan Border	\$5.0 million
Project – Infrastructure 9	Civil works and automation	Facility to support trade, automation, and security	New building and renovation of customs facilities—in Kabul and Airport	\$4.0 million
Project – Infrastructure 10	Civil works and automation	Facility to support trade, automation, and security	Truck parking for Jalalabad Customs	\$4.1 million
Project – Infrastructure 11	Civil works and automation	Facility to support trade, automation, and security	New Buildings for Paktia, Paktika, Patan, Ghulam Khan, Kunar and equipment	\$18 million
Project – Infrastructure 12	Civil works and automation	Facility to support trade, automation, and security	New buildings Helmand, Islam Qala, Herat, Tourghunde and equipment	\$18 million
Project – Infrastructure 13	Civil works	Facility to support trade, and security	New buildings for Farah, Nimroz and Zabul	\$ 8 million
Project – Infrastructure 14	Civil works	Facility to support trade and security	Provision of staff housing in Islam Qala, Aqina, Spin boldak, Patan, Torkham, Sherkhan Bandar, Ghulam Khan, Nimroz, Zazai, Torghunde.	\$ 8 million
Project – Infrastructure 15	Civil works	Laboratories	Build customs laboratories and buy equipment	\$ 5 million
Project – Infrastructure 16	Civil works	Customs Training and Research Center	Building of modern training center support equipment,	\$ 7.3 million
Project – Infrastructure 17	Equipment	Equipment and vehicles for	Operational vehicles, communication equipment,	\$ 29.2 million

		smooth customs operation.	security equipment, cargo scanners, weigh bridges, forklift, cranes and containers stackers, 500 personal computers along with 100 printers, 50 scanners, and 50 photocopy machines.	
Project – Infrastructure 18	Establishment of Inventory management and maintenance unit.	To have control and regulate the complete inventory of all equipment and vehicles and to ensure proper maintenance of the same at headquarters and regional customs houses.	Trained experts to be hired to improve capacity building of customs employees at headquarter and regional customs houses, inventory control system.	\$ 0.25 million
Project Infrastructure 19	Establishment of Infrastructure Management Unit	1).Identification of Infrastructure projects and requirements. 2) Costing of Infrastructure projects. 3). Work plans for projects. 4) Coordination with donors, ACD and other government agencies. 5) Monitoring progress of projects and writing monthly progress reports	One Civil engineer, One architect , Representatives of Donors on Infrastructure projects and representative of DDG Administration ACD.	\$ 0.50 million
TOTAL				\$ 202.4 million

Apart from the above Border Custom Stations New Customs/Revenue HQ Building construction has been completed and the existing Custom facility at Jalalabad has been upgraded to improve services for the traders. The upgrades include construction of new warehouses including cold storage for perishable goods, new truck parking and separate oil parking facility. The construction of warehouse and bank facility has been completed; on the other hand, 90% work has been done on truck parking and drainage system.

As per the Afghan Custom Department Five Year Strategic Plan, they proposed the following matrix provide the basic requirement of any administrative setup.

Components	Period of implementation	Source	Requirements & Methodology
Refurbishment, construction, or development of ICDs and regional headquarters	5 years	Donors	1). Improve present offices. 2). Built new Customs houses. 3). Provide necessary facilities for a modern Customs terminal.
Border stations Construction and development.	5 years	Donors	1) Priority for major transit routes 2) Scanners & Weigh Bridges. 3). Infrastructure for ASYCUDA needs. 4). Adjust to clearance & Transit policy. 5) Segmentation of Trade . Identify categories of traffic and establish dedicated lanes/procedures. 6). Shared border facilities
Establishment of Inventory management and maintenance unit	1 to 1.5 Years	ACD HQ	1) Inventory of all ACD ASSETS. 2) Computerisation of all moveable immovable assets. 3) Maintenance and Inspection units at regional Customs.
Establishment of Infrastructure Management Unit.	1 Years	HR Recruitment & Donors Representatives.	1). Identification of Infrastructure projects and requirements. 2) Costing of Infrastructure projects. 3). Work plans for projects. 4) Coordination with donors, ACD and other agencies. 5) Monitoring progress of projects and writing monthly progress reports.
Establish structure for cargo handling.	1 years	ACD HQ & Private sector	1) Procedure in the process of approval Private sector involvement. 2). Equipment maintenance and operations responsibility delegated to Private sector.
Surveillance equipment	1.5 Years	Donors	1). Equipment for Customs patrols. 2). Mobile weighbridges 3). Tracking. 4). Communications. 5). Scanners

4. Customs Reforms and Modernization

Automation of internal transit procedures- ASYCUDA transit module has been introduced thereby computerizing internal transit procedures for imports/exports affected through the border Customs stations of Torkham on Pak border, Torghundi on Turkmenistan border, Islam Qala on Iran border and Hairatan on Tajikistan border. As per the Afghan Custom Department Five Year Strategic Plan the ASYCUDA will be completed implemented in the next five years having a complete time break down for its implementation

Components	Period	of	Source	Requirements	&
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	implementation		Methodology
Implementation of transit and declaration processing at all major stations	2 years. (Sept 2009)	Donors and ACD national ASYUDA team.	1). Necessary Infrastructure. 2). Training ACD employees. 3). Required equipments. 4). Well defined automated processing Customs procedures. 5). Risk Management system
Full implementation of all ASYCUDA modules	4 years. (Sept 2010)	Donors and ACD National ASYCUDA team.	1). Necessary Infrastructure. 2). Training ACD employees. 3). Required equipments. 4). Well defined automated processing Customs procedures. 5). Necessary changes in Customs law. 6). Risk Management System
Training for operations	On going	Customs Training Institute & National ASYCUDA team.	1). Training of ACD core employees. 2). Training of IT staff. 3). IT training of ACD Headquarters employees.
MIS and other revenue reporting system of ASYCUDA.	2 years. (Sept 2009)	National team ASYCUDA, TRU and Treasury deptt of MOF.	1). Consolidated Revenue reporting procedure . 2). Automated revenue reporting to ACD , Treasury and Revenue department. 3). MIS reporting system of ASYCUDA to be developed. (Linked with regional Customs and HQ).
Full internalization	On going.	National ASYCUDA team, HR directorate of ACD, Regional Customs.	1). Training of ACD core staff. 2). Recruitment of local staff for IT software and hardware handling in ACD. 3). Knowledge transfer plan with time lines.
Equipment	Ongoing for next 5 years	Donors and ACD	1) Computers, scanners, servers and back up generators. 2). Connectivity & Communication equipments.
Cross border exchange of data.	One year	Donors, ACD and. Regional	1). Electronic Data Interchange and connectivity

		Customs Administrations.	with regional Customs systems. 2). Access and connectivity with Transit Modules of regional customs Administrations.
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Simplification and harmonization of laws & procedures- A new Customs Law has been enacted in 2007 in line with the best international practices. Further, as many as 27 Customs procedures have been simplified and streamlined for trade facilitation in the recent past. A single administrative document has been adopted for Customs declaration at all the Customs Stations/Custom Houses.

Simplification of clearance procedures for international transit cargo- A simplified procedure has been evolved for movement and clearance of international cargo through Afghanistan. This entails detailed instructions on movement of Bonded Carriers, International transit cargo, improvised sealing and automation under ASYCUDA international transit module etc. Talks are being held with Pakistan for extending reciprocal facilities. Similar trade and transit arrangements could also be worked out with Tajikistan, Uzbekistan and other CAREC countries, so that transit of goods could be allowed unhindered through multi-modal transport from/to these countries as well, without any trans-shipment and procedural bottlenecks.

Automation of clearance procedures- Custom clearance at Kabul Custom House and Kabul Air Cargo has been computerized with ASYCUDA system. Under the system, declarations are filed by brokers/ customs agents/ importers electronically. This has streamlined customs clearance and has greatly reduced the time taken in cargo clearance. It is being further expanded to other major Custom Houses shortly viz., Jalalabad, Mazar and Herat.

Afghan Customs Website has been launched last November bringing in public domain comprehensive information on Customs Code, tariff rates and other Rules & Regulations for the benefit of local and international traders and public at large.

AFGHANISTAN REGIONAL COOPERATION ACTIVITIES

Afghan government prepared the Regional Cooperation Strategy as part of the over all Afghanistan National Development Strategy (ANDS) in close consultation with neighboring countries representatives based in Kabul and donor community. Regional cooperation strategy goal is to leverage the strategic position of Afghanistan as a land bridge between the energy rich Central Asian countries and energy deficit South Asian countries, and the Middle East and Far East. It advocates the centrality of Afghanistan to regional growth, stability and prosperity and seeks the support of international community in adopting the necessary policies and practical steps to achieve this goal. Afghanistan has taken a number of diplomatic initiatives to promote regional cooperation and expand the economic, social and cultural relations with the surrounding countries of the region.

The regional cooperation strategy focus is to ensure that regional aspects are integrated into relevant policies and programmes of sector strategies. Regional cooperation is a cross cutting theme and is not dealt by a separate nodal ministry. Monitoring and evaluation section of the strategy explains the need for setting up such a system for regional cooperation projects and initiatives and the methodology suggested. It gives a monitoring matrix for the projects under consideration or implementation in all sectors, in

particular energy, trade and transit, transport and labour migration sectors. Afghanistan faces both challenges and opportunities to be active in regional cooperation activities. Based on the clear vision given by the regional cooperation strategy, Afghanistan is actively involved in all regional activities.

1. 7th Ministerial Meeting of the Central Asia Regional Economic Cooperation Conference (CAREC) (17-22 November 2008)

This important conference was attended by Afghan minister of finance and high ranking officials of all relevant sectors. The ADB, EBRD, IMF, IsDB, UNDP and the World Bank participated as development partners for the CAREC Program. The European Commission, Iran and Pakistan as well as USAID were invited as observers. In this conference several very important documents were presented, deliberated on and approved by the Ministers, namely: the Implementation Action Plan for the Transport and Trade Facilitation Strategy; the Trade Policy Strategic Action Plan; the Strategy for Regional Cooperation in the Energy Sector; and the CAREC Institute Work Plan. These strategies and work plans, together with the CAREC Comprehensive Action Plan, are designed for the period to 2017. Funds required to support projects under the Action Plan for the Transport and Trade Facilitation Strategy are estimated to be approximately US \$21 billion.

In addition to the CAREC ministerial conference Afghanistan actively participated in all senior officials, workshops, seminars and workshops organized by CAREC since its membership in CAREC.

2. Membership in SAARC:

In April 2007, at the fourteenth SAARC Summit in Delhi, Afghanistan formally became the eighth member. It is hoped that its participation in SAARC/SAFTA will result in many benefits. Compared to other countries in the SAARC region, Afghanistan already has the lowest tariff regime. As Afghanistan also has the lowest per capita income in the region, it is classified as a least developed country. This means it is eligible for the longer implementation period and special differential treatment under SAFTA. Since Afghanistan's tariff rates are already low, it does not have to do anything special for the SAFTA.

The markets of SAARC member countries are important destinations for Afghanistan's exports. The most important benefit could be freer trade with two of its important trading partners, Pakistan and India. The recent success of Afghan fruit and nut exports to India under the preferential bilateral agreement shows that there is large potential to be tapped. If everything goes as planned, Afghanistan's exports to India and Pakistan would face a maximum tariff of 5 percent by mid-2009. Although Afghanistan's exports to other SAARC countries are very limited, trade liberalization may open new opportunities for its exports to Bangladesh, Sri Lanka and Nepal. Preferential access to the South Asian market could significantly expand its trade. Overall, Afghanistan's membership to SAARC has the potential to fundamentally change and rejuvenate regional economic linkages between the South Asia and Central Asia regions.

During the 14th SAARC summit, the main themes discussed were trans-border transport networks, energy corridors and the freer flow of people and ideas. Afghanistan has been deeply interested in all these issues. Freer flow of goods and people across South Asia would benefit its economy and its population. The 15th SAARC Summit strengthened confidence building and better understanding about transit relations among SAARC countries. In the coming years, Afghanistan would like to focus on the following issues within the SAARC framework:

The second meeting of SAARC transport ministerial conference identified this corridor
The Meeting noted that the following corridors could be considered by the Member States concerned for further processing:

Corridor	Countries
Kabul-Jalalabad-Turkham-Peshawar-Islamabad-Karachi-Lahore-LAHORE-Islamabad-Kabul	Afghanistan, Pakistan
Islam Qala's-Herat-Lashkargah-Kandahar-Ghazni-Kabul-Jalalabad-Torkham-Peshawar-Islamabad-Lahore-Karachi-New Delhi-Nepalgunj-Kathmandu-Torkhum-Delhi-Karachi-Kabul-Islam Qala	Afghanistan, Pakistan, India & Nepal
Shirkhan's harbor-Baghlan-Kabul-Jalalabad-harbor of Turkham-Islamabad-Lahore-New Delhi-Nepalgunj, Nepalgunj-Delhi-Islamabad-Kabul-Shirkhan Harbor	Afghanistan, Pakistan, Nepal and India

- Joint and coordinated campaign against terrorism
- Importance of Afghanistan as a land bridge between South & Central Asia
- Creation of an Afghanistan Fund in SAARC
- Trans-border transport networks
- Energy corridors
- Liberal visa regimes
- Better transit relations
- Free media flow across borders/crossing points
- Cultural and educational exchanges
- Migration issues
- Request to SAARC to design and implement more regional projects

Since membership in SAARC, Afghanistan has actively participated in all its meeting.

3. ECO Council of Minister Meeting in Herat:

The MoFA organised a very successful meeting of the ECO Council of Ministers in Herat in October 2007. The meeting reviewed the progress towards implementation of important ECO agreements and projects including: the Transit and Transport Framework Agreement; ECO Trade Agreement; ECO Trade and Development Bank; inter-connection of power systems of member states; ECO Science Foundation; and ECO Regional Institutes. Issues concerning implementation of the agreement on simplification of visa procedures for business people, agreement on promotion and protection of investment, etc. were also discussed. Further, the meeting reviewed projected finance from the ECO Special Fund for Reconstruction of Afghanistan.

RECOMMENDATIONS

Improvements in the quality of transport infrastructure

It is obvious that the quality of transport infrastructure affects trade. Poor quality of infrastructure increases total transport costs as it increases direct transport costs and the time of delivery. Therefore, first of all the missing links and low standard infrastructure problems should be solved.

Institutional and Regulatory Reforms for Effectiveness and Efficiency of Transport Services

An adequate institutional and regulatory framework can play a key role in helping transport modes to become dynamic nodes in international distribution networks. Policy reforms can improve the capacity utilization of existing physical infrastructure and thus reduce the need for investments. Insufficient competition in rail services reduces the quality and increases the costs. Government budget constraints, combined with obstacles to private participation often prevent timely modernization and maintenance of rail and port facilities. Outdated regulations distort market dynamics and create red tape. The changing pattern of demand for services and physical infrastructure requires new forms of service delivery and large investments that the current organizations dominated by public sector cannot provide.

Therefore, introduction of private participation in transport investments and operations should be encouraged for increasing efficiency and being more responsive to user needs.

Harmonization of Technical and Administrative Standards / Procedures

Harmonization of infrastructural standards in the Region should be realized ensuring interoperability and interconnection between systems (common information system, reduction of administrative procedures, and standardization of loading units). This will lead to efficient integration of transport modes and thus ensure an efficient combined transport.

Simplification of Trade Procedures

In many ECO countries, inefficient trade procedures including cumbersome custom practices remain one of the most notorious causes for delays in borders. Streamlined customs clearance can release storage space for more productive use.

On the other hand, harmonization of regulations for different transport modes, including the feasibility of developing a single intermodal framework covering, inter alia, liability rules, the use of modern techniques for data provision, payments and invoicing methods, together with measures for cargo tracking and tracing across the different modes is necessary.

The Use of Information Technology

It is necessary to initiate the installation of IT in all customs in the Region. The system will increase the productivity and efficiency in transport operations. It will greatly increase the quality of the services provided to the transport users. The use of IT is a tool in trade facilitation policy that can work only in conjunction with prior simplification and harmonization of procedures