

Better Business Better Future

# HARAKAT



Annual Report

2010



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Harakat is registered with the Ministry of Economy as Harakat-Afghanistan  
Investment Climate Facility Organisation (H-AICFO): Reg # 1248.

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## FROM THE BOARD CHAIRMAN



The year 2010 saw Afghanistan continue on its ambitious path towards growth and economic development. While Afghanistan remained largely static in the World Bank's Doing Business Indicators, this was a significant year for the country. Despite an environment of sometimes great uncertainty,

the country has nevertheless continued to build on its already considerable efforts in improving its infrastructure, investment climate and building investor confidence.

Over the past year, Harakat has funded projects that directly contribute to the improvement of the business climate in Afghanistan. Our goal is to continue making significant investments to help improve the business environment in the country. The private sector forms the bedrock of the modern economy, but a stable, transparent and efficient public sector is crucial to creating the environment in which businesses are able to flourish. Harakat has worked hard this year with both the private sector- building their confidence and engagement with state institutions, and with the public sector- funding initiatives that directly improve the conditions under which the private sector operates. We acknowledge that investors, just like the domestic private sector, also require a climate that is rooted in transparency, and by working with the Government to reduce corruption and bribery, improve the regulatory framework and create better policies, it is Harakat's ambition that confidence in the Afghan economy will continue to be restored.

The Board and I are proud that in just two years of operation, Harakat has a total of 28 active projects in its pipeline. Five projects have been completed, 13 projects are under implementation and another 9 are in the proposal development/design stage. The total value of active projects in the pipeline is estimated at US\$25million. This is a significant achievement to be celebrated, particularly in the difficult operating context that is the reality of day-to-day life in Afghanistan.

In this, our second year of operation, I am pleased that Harakat's granting capacity has dramatically improved. We are now achieving much greater efficiency in identifying beneficial project ideas, developing high impact interventions and disbursing funds. The permanent Afghan-led team continues to deliver a wide variety of support and management functions to our partners, which paves the way for success through partnership. As we get better at working with our partners, civil society and the Government to deliver relevant and timely programs, our credibility continues to grow. Our aims for 2011 are to double the investment fund, continue to support a growing number of approved projects and improve fund distribution and stakeholder engagement.

As we continue to identify potential projects for the future, I strongly believe that 2011 will bring new investors that will support our growth and increase public and private investment in the country. After all, in just two years, we have proved our initial investors right in thinking that with focus, strong performance criteria, a dedicated staff team and a dogged, 'never say die' attitude, that change is possible, improvements can be made, and better business is the result.

Karim Khoja  
Chairman, Harakat Board

## FROM THE CEO



Harakat has worked hard: with focus and enthusiasm throughout 2010. We are especially pleased to report that our investment portfolio saw a rapid expansion and strengthening in key areas, such as property rights, taxation reforms and anti-corruption measures. Our dedicated staff, partner agencies and consultants have done an outstanding job in supporting our partners in the public and private sector to deliver demanding projects in a complex environment.

While a challenging year, 2010 was also very stimulating. Our projects vary enormously in technical and operational challenges and each represents a core component of Harakat's strategy of tackling structural business-enabling issues facing Afghanistan. We earmarked 2010 as the year of needing to get more runs on the board by disbursing funds more quickly and rapidly identifying a greater number of worthwhile interventions. The Harakat team delivered and I thank them tremendously. During 2010, we signed grant contracts for 9 new projects with a total value of US\$13,337,688. This means that Harakat has allocated more than US\$25m to 28 active projects within two years of operation- a huge achievement in the operating context of Afghanistan. In addition, Harakat is pleased to have seen the first 5 projects to completion in 2010. Of these projects, three have now entered their next phases and we are looking forward to seeing them to subsequent completion.

Whilst delivering funds to approved projects remains our core business, in 2010 Harakat has also sought to influence the broader business environment in Afghanistan. We have supported a range of private-public sector dialogue initiatives, aimed at creating forthright engagement between these two sectors so critical to business reform. In

2011, we are also planning to support better business and economic reporting so that the media is better equipped to understand and communicate economic and business issues facing Afghanistan so that momentum for change is built.

As encouraging as 2010 has been, challenges remain a natural part of our everyday operational reality. These challenges require a high degree of flexibility and innovation on the part of our staff team, and commitment until we arrive – together with our partners – at the best intervention scenario possible. As we take steps to build our own and our partners' capacity, our capability to deliver timely funding and achieve maximum efficiency will improve.

2011 will be an exciting time for Harakat. More than 13 projects are in the implementation stage and several more are likely to be approved for further funding early on. As more projects become eligible for Harakat funding, our financial commitments are likely to grow to more than US\$30 million over the coming year. I am confident that, together with the Harakat management and with our partners in the public and private sectors and civil society, the future is promising for both Harakat and Afghanistan.

Suleman Fatimie  
CEO, Harakat

## 1. HAKAKAT OVERVIEW

### 1.1 ABOUT HAKAKAT

Harakat – Afghanistan Investment Climate Facility is an independent, not-for-profit, Afghan-managed organisation that aims to improve the business environment in Afghanistan by providing grant funds to the private sector, government and civil society to support projects that reduce or remove institutional and regulatory barriers and improve business environment by eliminating obstacles to private investment.

Harakat was established in May 2008 and became operational in 2009. With a starting capital of £30 million (≈US\$50 million) Harakat's capital fund is planned to grow to US\$100 million as it attracts private sector and donor contributions to fund practical, rapid-result projects that promote 8 priority outcome areas.

Harakat does not implement projects; it funds the activities of others, supporting the reform role of the Government and complementing the vision of the private sector. Over the next 5 years, it will use its capital fund to identify and finance projects that will increase the attractiveness and ease of investing in Afghanistan. Harakat is demand driven and expects rapid and measurable results.

#### In brief, Harakat's operational model is as follows:

- Harakat was established in 2008 as an initiative of the UK Government's Department of International Development (DFID) with seed funding of £30million (equivalent to

approximately US\$50million). It is planned that other multi-lateral, bilateral and private sector funders will augment this seed funding;

- Harakat's goal is to boost economic growth and investment and contribute to employment generation and poverty reduction in Afghanistan. Its purpose is to make Afghanistan a better place to do business by removing obstacles and constraints to domestic and foreign private investment;
- Harakat is a proactive and responsive grant facility, leveraging resources from the international donor community and the private sector;
- Harakat responds practically, quickly and effectively by funding business climate improvement activities across the whole of Afghanistan and specifically focuses on 8 priority outcome areas; and
- Harakat seeks to identify and engage with key stakeholders within the Government of Afghanistan, civil society organisations and the private sector.

### HAKAKAT'S 8 PRIORITY OUTCOME AREAS

1. Financial markets that provide greater access to finance and affordable credit to all sizes of business, especially SMEs;
2. Streamlined and more effective regulations and creation of regulatory impact assessment systems;
3. Increased private sector investment in infrastructure, especially energy, water, agriculture and transportation;
4. More equitable and efficient taxation and customs systems;
5. Strengthened property rights and more effective contract enforcement;
6. Higher workforce productivity and mobility and improved labour market regulation;
7. Strengthened competition policy that reduces anti-competitive practices; and
8. Improved capacity of government and institutions to tackle corruption.

## 1.2 HAKAKAT'S APPLICATION AND APPROVAL PROCESS

Grant applications are accepted from Government, private sector and civil society organisations. The project application to implementation process is summarised below:

#### Project Identification

1. Applicants discuss initial project ideas with Harakat to see whether they fit Harakat's mandate – (this stage can be skipped;)

#### Concept note submission

##### Project application reviewed against primary criteria Project approved or rejected

2. Applicants submit a four-page Concept Note. Guidance notes are provided by Harakat to help applicants answer each question fully. Additional support is given by the Proposal Development Unit (PDU), which presents the Concept Note to the Proposals Sub-Committee (PSC) of the Board for approval. If the concept is a good fit with Harakat strategic priorities and its set of standard project selection criteria, the applicant is invited to submit a more detailed proposal (Full Application);

#### Full application submission

##### Due diligence and final project design Project finally approved or rejected

3. Applicants submit a full proposal, which is more rigorous in nature. Harakat's PDU assists the client in developing it. The proposal is presented to the PSC for approval or rejection.

#### Grant agreement award

4. If the Full Application is approved, then a Grant Agreement is drawn up, a signing ceremony is held, project implementation and financial disbursement begin.

#### Project implementation

5. The project partner implements the project: public or private sector or civil society.

#### Monitoring and evaluation

6. A comprehensive monitoring and evaluation plan supports each project. Projects are continually assessed throughout their life cycle and learnings incorporated.

'The Ministry of Commerce and Industry hopes that a transparent, comprehensive and inter-connected licensing regime in Afghanistan will be delivered through the Licensing Reform Project. Ultimately, we envisage that this will result in a reduction in opportunities for corruption, the facilitation of investment and the creation of new formal jobs. Harakat is a natural partner for us to achieve this, as our objectives are closely aligned.

Harakat is a unique grant facility as its board members are able to bring their business experience and intimate knowledge of Afghanistan's business environment to bear when assessing submissions. As a result, Harakat is more realistic about what can be achieved, and better placed to provide pertinent feedback on the development and design of projects.

Overall, the experience of working with Harakat has been positive. Harakat has supported the Ministry to achieve its reform objectives and in its numerous efforts to improve the business environment for Afghan firms. We very much hope this partnership continues.'



## 2. TWO YEARS ON: CHALLENGES & OPPORTUNITIES

Two years since its creation, Harakat continues to fund projects essential to the future development of Afghanistan. The last two years have been highly productive with an associated steep learning curve! Harakat will not be around forever. We have a seven-year lifespan and will end our activities by 2015. That means we have a real urgency behind needing to make a tangible difference to how people do business in Afghanistan within the next 5 years.

### PROGRESS

Our first year of operation focussed on capacity building of our own

### CHALLENGES

Any new organisation goes through a teething stage, where it comes to grips with how to make its mandate work best in a given environment. Harakat has faced some real challenges, including:

#### **Delays in the initial stages of project implementation**

Delays were experienced during the initial kick-off of the project implementation. The major reason for delays in the initial kick-off of the projects was largely due to delays in staff recruitment and/or delay in hiring qualified technical services. This subsequently delayed on time fund distribution.

#### **Lack of capacity and commitment from implementing partners**

Considering the fact that Harakat is a demand-driven institution, the

staff; establishing procedures and standards that would bear the weight of the reality of the day-to-day operating environment in Afghanistan; exploring possible and realistic interventions and developing a team approach to identifying, shepherding and supporting the implementation of them; ensuring rigorous monitoring and evaluation systems that would enable us to see if we were getting value for our money and delivering impact, not just activities, and beginning to build our brand through planned stakeholder engagement. We built a solid foundation to support future operations.

commitment from its implementing partners – especially government entities that currently receive most of the Harakat grant contracts – is vital for its success. However, in many cases the implementing partners were unable to fully deliver on their initial commitment for the project implementation. Some common commitment gaps of the implementing partners were:

- Lack of timely in-kind contribution
- Cumbersome and bureaucratic procedures required to get the project up and running internally
- Lack of required human capacity to deliver the project

#### **Major revisions of project plans (project scope) during the implementation stage**

Despite a detailed proposal review process of Harakat, in some cases, due to unforeseen circumstances,

In our second year, we raised our sights from preparing the ground to growing something in it. We realised in late 2009 that we needed to rapidly improve the number of worthwhile project ideas coming through our doors, and acknowledged that most of our ideas would need to be self-generated. We faced the reality of differing capacity levels in our partners; of trying to instil private sector values of evidence-based and quick decision making in complex bureaucratic environments; and of how to disburse funds despite sometimes lengthy, unavoidable delays in implementation.

some of the projects were revised in the implementation stage. This contributed to some projects being delayed. Harakat is also seeking to improve the length of time it takes to approve projects.

Of course, challenges present opportunities for improvement, and Harakat is very much focussed on monitoring and evaluating not just the performance of the projects we are funding but our own organisational performance so that we can make rapid interventions in both areas as necessary.

## OPPORTUNITIES

In 2011, we acknowledge that it's critical to continue to improve in the following areas:

#### **Two-way conversations with stakeholders and partners**

Harakat has worked hard over the past two years to build trust amongst its constituents, and establish a known, credible brand. In 2011 we will continue to create opportunities to seek the opinion of our partners through dialogue meetings and forums. We will support the advocacy efforts of our partners by providing them with the information and support they need to be a voice for change and we will build the capacity of Afghan media by training them to better understand the ins and outs of economic development and how to report with conviction. In order to understand our beneficiaries better we will visit provinces to hear from the private sector and civil society directly.

#### **Communicating lessons learnt**

There are many opinions about what does and doesn't work in Afghanistan. As Afghans and as an Afghan organisation we have a duty to our country to make sure that opinions are based on facts. Harakat is in an enviable position of supporting our partners to work at the coalface of economic and business development in Afghanistan. This means that we are in a position to build a compelling evidence base about what donors and others should focus on in the future. In 2011 and beyond, Harakat will create opportunities to communicate lessons learnt domestically and internationally. We

will do this through our publications, our website and participation in domestic and international forums and think tanks.

#### **Focus on under-served priority outcome areas**

This report demonstrates the broad portfolio of projects funded by Harakat. Yet, we are still to identify meaningful opportunities in priority outcome area 3 (increased private sector investment in infrastructure, especially energy, water, and transportation). Whilst it is expected that all Harakat funded projects in the long-term will collectively contribute to increased private sector investment in infrastructure, i.e. a better investment climate in future will encourage the private sector to invest themselves in infrastructure, energy and power, agriculture projects etc., we resolve to identify workable project ideas in 2011.

#### **Continuing to improve efficiency by shortening the time taken to generate, investigate, approve and disburse funds**

Harakat has improved significantly in this area in 2010; for example, one of the most critical processes in the project design stage is getting PSC approval for projects. The PSC reviews and has to approve the project both at the Concept and Proposal stages in order for it to be considered. The PSC approval rate has increased over the last two years: from 69% in 2009 to 85% in 2010. This means that the Secretariat is improving its ability to identify and develop projects that have the best fit for Harakat's objectives. Now we need to build on

those gains. In particular, we need to better forecast where our partners' capacities may be such that it will dramatically affect implementation start dates, and/or where original project ideas need to be re-scoped at the concept note stage, rather than at the full application phase. In order to do this, we have introduced key performance indicators (KPIs) to better inform operations and indicate where improvement is needed. The KPIs include:

- average time from the first presentation of a concept to the date of grant approval; (<110 days)
- period from the first presentation of a concept to the first response to the applicant; (<7 days)
- percentage of projects approved for funding by the Secretariat and subsequently rejected by the Board; (<25%)
- Average number of projects on track for completion; (>70%) and
- grading at DFID's Annual Review Evaluation. (<3)

#### **Building Harakat's investment fund from US\$50 million to US\$100 million through new investors from donor agencies and the private sector**

Harakat has proven that there is both the need and the willingness on the part of our Afghan Government, private sector and civil society partners to engage with the Harakat model. To further capitalise on the goodwill and energy created it will be actively pursuing additional investor support from donor agencies and the private sector to build the fund to US\$100 million in 2011.

**Improving harmonisation with other donors' projects and initiatives**

There are many actors running many activities in Afghanistan. The project landscape is cluttered with often

competing initiatives. Harakat will continue to openly share what it is working on, communicating how it benefits the overall development environment of Afghanistan. We will continue to look for and create

opportunities to harmonise our ideas and activities with those of other donors and partners so that money and effort are not duplicated.

### 3. HAKAKAT GOVERNANCE

#### 3.1 GOVERNANCE AND MANAGEMENT STRUCTURE

Harakat is set up to be funded by multiple donors and the private sector (investors), and is governed by a Board. The Board meets quarterly and has three standing sub-committees of selected Board members that support the Board in its on-going responsibilities.

The Board currently comprises 6 Members: four Founding Board Members from the private sector and two Members appointed by the Donor Investor.

The Harakat Board exercises oversight over, and has ultimate fiduciary control and responsibility for, all aspects of the operation of Harakat. The three sub-committees of the Board are as follows:

- **Proposals Sub-Committee (PSC)**, which is responsible for reviewing and approving all grant proposals to be funded by Harakat;
- **Finance, Procurement and Audit Sub-Committee (FPASC)**, which is responsible for reviewing the procurement and financial activities of Harakat to ensure that all fiduciary controls are effective and for overseeing investments into Harakat; and
- **Performance Review Sub-Committee (PRSC)**, which is responsible for monitoring and evaluating the performance of Harakat and its projects in pursuit of its aims and objectives.

The **Harakat staff team**, under the leadership of the CEO and assisted by the Heads of Units, is responsible for the day-to-day management of Harakat. The team consists of 4 units: Finance and Procurement, Proposal Development, Monitoring and Evaluation, and Communications.

The Board, through the Chairperson, provides support and supervision to the CEO. The Chairperson is the direct line manager for the CEO.

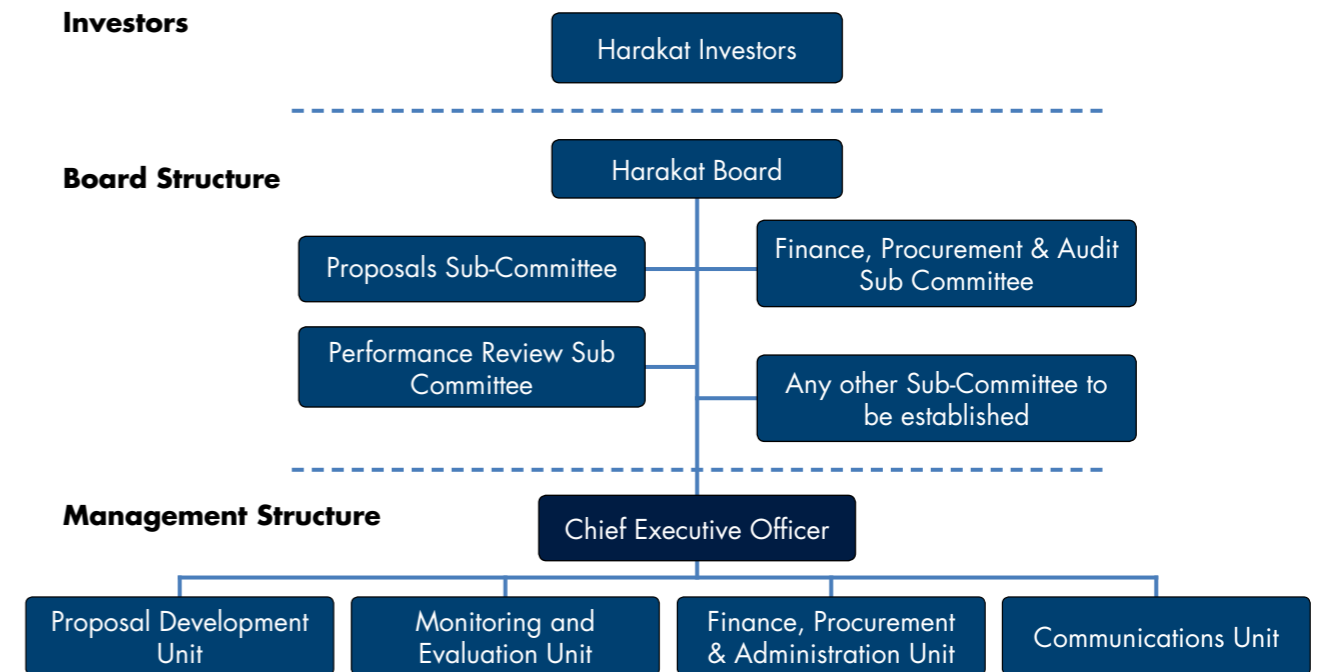
Harakat was approached because of its emphasis on building human capacity. There has been much talk of capacity building, but not enough action on the human capital side. Harakat's tight focus on human capacity is essential for Afghanistan, so that it can stand on its own two feet, economically and politically. Harakat is a good match for DAB because of this focus and because it is working closely with the Afghanistan Institute of Banking and Finance.

Our experience with Harakat has been very positive. Trying to start an organisation like the Afghanistan Institute of Banking and Finance within a very difficult environment is not easy. Harakat has been a good partner in terms of listening to our issues and addressing them in a timely manner.



H.E Qadir Fetrat  
Governor of Afghanistan Central Bank

**Figure 1: Harakat Governance & Organisational Structure**



#### 3.2 GOVERNANCE CHARTER

Harakat's Governance Charter sets out the roles and code of conduct for as well as relationships between investors, the Board and management team. It has been developed in the context of the following core principles:

**Human Rights**

Harakat is committed to upholding the principles of the United Nations Universal Declaration of Human Rights in its policies, procedures and practices.

**Gender and Social Exclusion**

Harakat ensures that all of its activities are applied as consistently and broadly as possible to benefit all Afghans regardless of social background or gender. It commits to integrating and tracking in the

design and impact of its activities the dimensions of gender and socially excluded groups where possible. Should this not prove possible in the majority of cases, Harakat seeks out specific opportunities to empower women and marginalised groups through appropriate, targeted initiatives.

**The Environment**

Harakat upholds sound environmental principles and commits to mitigating the potential negative impact of its activities on the environment. It complies with applicable environmental legislation and regulations where necessary to implement its commitments to the environment.

**Bribery and Corruption**

At all times Harakat must maintain the highest standards of probity and integrity to fulfil its role as effective change agent and credible advocate for business reform. It is a strong opponent of bribery and corruption in any form.

Harakat does not support any activities or projects involving money laundering. All members of the Harakat Board and Harakat employees shall notify the CEO and Board Chairman immediately on becoming aware of suspected or actual acts of bribery or corruption by any party in connection with the activities of Harakat, including third parties receiving funding from Harakat or seeking such funding.

**Compliance with the Law**

Harakat complies fully with all relevant Afghanistan and international laws and will act in accordance with all applicable guidelines and regulations.

**Transparency and Objectivity of Reporting**

Harakat reports on its activities

transparently and will seek to take all necessary steps to ensure that statements and reports are correct, timely and not misleading. An external auditor will review financial and performance information on an annual basis to ensure sustained accuracy and objectivity of reporting. The CEO and Board Chairman must be made aware

of any sensitive disclosure before it is made. Harakat, through its website and through the published annual report and accounts and other statements, will at all times endeavour to provide appropriate information to enable investors to assess its performance.

**3.3 BOARD MEMBER PROFILES****Karim Khoja - Board Chairman (Founding Board Member 2009 - current)**

Karim Khoja has more than 20 years of experience in the telecommunication industry and is currently the CEO of Roshan. His experience includes starting and managing successful GSM companies in Pakistan, Poland, Croatia, Tajikistan and most recently Afghanistan.

Mr Khoja started his GSM career as CEO for Motorola in Pakistan, and then launched Era GSM for Media One International in Poland. He went on to spin off the mobile company HT Mobile from Croatia Telecom. Over the course of the last five years, Mr Khoja has volunteered his time with the Aga Khan Fund for Economic Development to bring competition to the telecommunication indus-

try in Afghanistan and Tajikistan. He currently sits on the boards of four international companies and is an associate board member of another. He also owns a software company, Orbital Simba Technologies, in Vancouver, Canada.

**George Manu - Board Member (2009 - December 2010)**

Dr George Manu led the team that designed Harakat and previously worked on the design and marketing of the Investment Climate Facility for Africa. He is the Director of Creative Squares – a boutique international development consultancy and venture management firm. He also manages the West Africa hub of the Africa Enterprise Challenge Fund on behalf of KPMG. He has held senior positions in the private sector,

academia and the United Nations, and has served on several boards including a privatisation agency, a private equity fund, and a venture fund management company.

**Tamim Samee - Founding Board Member (2009 - current)**

Tamim Samee - Investor/entrepreneur returned to Afghanistan from the United States in late 2002 to participate in the process of rebuilding Afghanistan and currently represents information technologies and telecommunications, agro-business and print media companies in Afghanistan. His international experience includes management and executive roles in a number of leading telecommunication companies in the US, Canada, the UK, Brazil and Mexico. He has applied his experience

to pressing and complex national projects and personally invested in the private sector to create economic independence: prosperity through meaningful jobs, new opportunities and peace through economic development.

**Khalil Sediq - Board Member (2009 - current)**

Khalil Sediq is a banking and business professional with more than thirty years of experience in financial, investment and bank management. He is currently the CEO of the Afghanistan International Bank and is passionate about banking sector reform and ensuring equitable access to finance and credit to fund the growth of the private sector. Previous to his last position at Sun Trust Bank in the USA, Mr Sediq worked with Da Afghanistan Bank from 1971 – 1999 in a variety of managerial positions.

**Malalai Wassil - Founding Board Member (2009 - current)**

Malalai Wassil is a US trained attorney (BA in Political Science from Trinity College and a JD from New York Law School). Ms Wassil has been working with the Ministry of Energy and Water (Afghanistan) as a legal advisor, advising on sector reform. Ms Wassil also works in the commercial legal sector, advising the International Finance Corporation on the implementation of the financial leasing law, serving as legal counsel to the telecommunication provider Etisalat and as adjunct professor at the American University of Afghanistan, teaching Commercial Law. She is a founding member of the Rebuilding Afghanistan Foundation.

**David Crichton - Board Member (2010 - current)**

David Crichton is an economic development professional with more

than 30 years' experience as a senior manager in the private and public sectors. He is a Partner in Upper Quartile, a company that specialises in economic reconstruction in conflict-affected regions. He works primarily in Afghanistan, where he has advised on economic strategy, infrastructure investment, programme design and implementation, and programme review for clients including DFID, USAID and CIDA. Before joining Upper Quartile, he was Global Director of Country and Economic Research with the Economist Intelligence Unit in London, managing a team of economic analysts in London, Vienna, New York, Delhi and Singapore. He has consulting experience throughout Western Europe, the Balkans and North America and has been a non-executive director of businesses and organisations in the health, tourism and property sectors.

**3.4 HAKAKAT'S PARTNERS**

Harakat works in partnership with the Government of Afghanistan, the private sector, civil society organisations and donor agencies to identify, fund and implement projects that build a better enabling environment for private sector development and growth in Afghanistan.

**Government of Afghanistan**

While it has been correctly said that the private sector is the engine of economic growth, it is equally true that a supportive, healthy public sector creates the climate where growth flourishes. To that end, Harakat works closely with the Government of Afghanistan, strengthening the role of government in this important reform, reconstruction and stabilisation phase in Afghanistan's development.

Currently, Harakat is supporting projects under development or implementation with the following Ministries and public authorities: Ministry of Agriculture, Irrigation and Livestock (MAIL), the High Office of Oversight on Anti-Corruption (HOO), the Ministry of Finance (MOF), Da Afghanistan Bank, the Ministry of Commerce and Industry (MOCI), Ministry of Economy, the Afghanistan National Standards Authority (ANSA), the Private Sector and Civil Society Enabling Council (PSCSEC), and the Supreme Court of Afghanistan.

**The Afghan Private Sector**

Harakat also works with the Afghan private sector by receiving ideas and suggestions from companies

on what to improve in Afghanistan's business environment, by providing funding to projects with business associations, such as the Afghanistan Chamber of Commerce and Industry, and by involving the private sector as stakeholders in project implementation and consultation. The private sector also has an important stake in the Harakat project portfolio demonstrated by its involvement in various organisations, such as the Afghanistan Land Authority (ALA), the Extractive Industries Transparency Initiative (EITI) and Afghanistan Building Code (ABC). In 2011 we anticipate that we will be working directly with business membership organisations in different sectors.

'Afghanistan is experiencing a rapid transformation from a command economy to a private sector-led market economy. This means that technical and financial support for capacity building of relevant institutions as well as the transfer of knowledge and technology throughout the country is essential. The two ANSA projects: Standard Development and Capacity Building of Technical Committees, and Afghanistan Building Codes, should make a real time difference to Afghanistan's trade opportunities and the development of infrastructure within the country. Because Harakat is led by Afghans, we've found that they have a thorough understanding and knowledge of the realities of the economy and operating environment: both the private and the public sector. We were able to work side by side to conceptualise ideas quickly and are now enjoying coordinating efficiently with the team to bring these projects to fruition.'



Dr. Mujiburrahman Khateer  
Technical Deputy Director General  
Afghanistan National Standard Authority

In addition, the private sector can contribute more than just ideas to Harakat – it should become an investor to Harakat, alongside donor agencies. It is a sign of market maturity when the private sector is able to reinvest in itself, and Harakat will be supporting the Afghan private sector to work towards this in 2011 and beyond.

**Civil Society Partners**

Civil society is instrumental for building transparency, demand for reform, and service delivery. It is thus an important partner for identifying and implementing Harakat-funded projects. Harakat has 6 projects in various states of project readiness generated by our civil society partners.

**Development Partners**

Harakat was set up to be funded by donors and the private sector. To date, DFID – the founder of Harakat – is the only investor. Other development agencies either co-finance and collaborate with Harakat projects (e.g. World Bank, USAID) or support Harakat as implementing partners, such as the International Finance Corporation (IFC).

**4. HARAKAT ACTIVITY OVERVIEW**

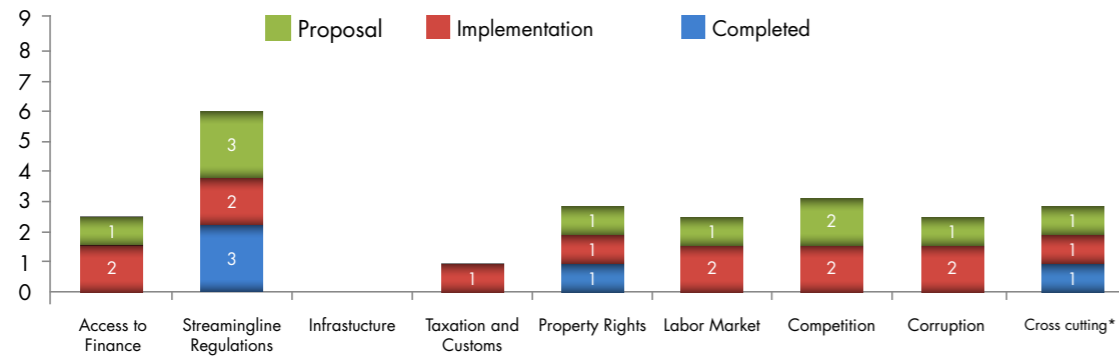


Figure 1: Project count & stage per priority outcome area

As of December 2010, Harakat has committed a total US\$25,166,347 to the 28 active projects in its pipeline. Of this, US\$17million (or 68%) has already been committed to projects that have been completed or are being implemented. Another US\$8 million has been earmarked for potential projects currently in the proposal stage and awaiting final sign-off.

During 2010, Harakat signed grant contracts for 9 new projects with an overall value of US\$13,472,483, or 78.3 % of overall total Harakat committed funds to date. In addition, five projects were completed during the year with three of them progressing to a subsequent implementation phase. The number of funded projects and the volume of committed

funds could not be translated as the Harakat impacts in different outcome areas. Figure 2 explains the amount of funds allocated per priority outcome area.

Whilst no specific infrastructure projects have been funded as yet, several of the projects will have a direct impact on infrastructure improvement.



Figure 2: Harakat's funding commitments per priority outcome area

\* These projects have cross cutting impact across the Harakat themes to improve the business climate.

Project proposals are received from three sectors: the Government of Afghanistan, the private sector and civil society. Figures 3 and 4 illustrate the current distribution and value of projects across the three types of

applicants. The Afghan Government is the largest recipient of funding from Harakat, having received US\$18,352,478 (see Figure 3). This corresponds to the number of current and proposed projects between the

two partners (22 active projects in various stages of application and implementation). Civic society and the private sector have received roughly US\$9.5 million and have 5 and 6 projects in the pipeline respectively.

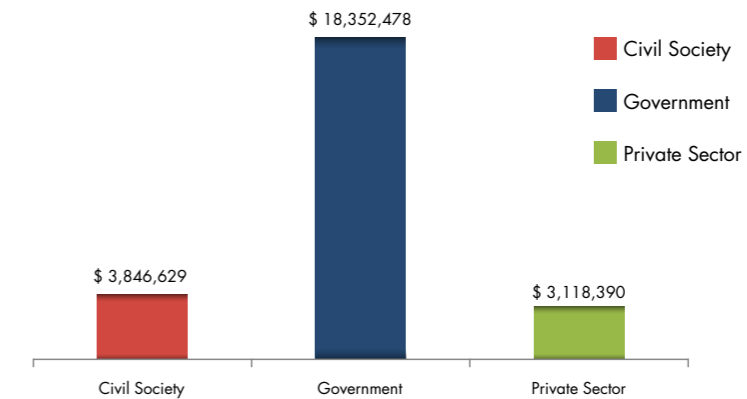


Figure 3: Value of Harakat commitment per partner group

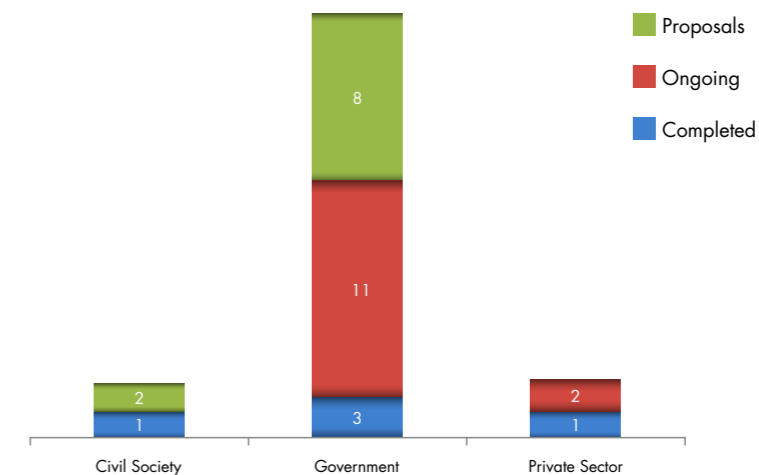


Figure 4: Number of projects per partner group

'MAIL and Harakat have truly created a single team committed to a fully operational Land Lease One Stop Window. Communication has been frank, honest and transparent. I have been impressed that Harakat staff have demonstrated personal commitment to the project beyond normal expectations. In my experience, the common working environment has been one of dynamism and enthusiasm. Harakat's policies and systems have been made clear and consistently applied. Professionalism and ethics, which are the expected values for the future Afghan Lands Association, have found a source of inspiration in Harakat's daily performance.'





#### 4.1 PROJECTS' FIT WITH HARAKAT OUTCOMES AND OBJECTIVES

A summary of projects under implementation and their allocation across Harakat's outcome areas with associated objectives and expected results for a better investment climate is shown in the table below.

| # | Harakat Priority Outcome Area                                       | Harakat Objectives  | Contributions To Improved Investment Climate   | Harakat Funded Projects   |
|---|---|---|--|---|
| 1 | Improved financial markets with greater access to finance           | <ul style="list-style-type: none"> <li>Improve Afghanistan's legal and regulatory framework to increase access to finance for SMEs</li> <li>Improve information sharing in the financial market</li> <li>Contribute to increased knowledge on how to expand access to finance</li> </ul>  | <ul style="list-style-type: none"> <li>Improves access to credit, particularly for SMEs</li> <li>Improves access to information on borrowers and reduces related credit risk</li> </ul>  | <ul style="list-style-type: none"> <li>Afghanistan Public Credit Registry</li> <li>Afghanistan Secured Lending Project</li> </ul>   |
| 2 | Streamlined and more effective regulations                          | <ul style="list-style-type: none"> <li>Simplify and streamline registration and licensing process and other business regulations to reduce costs and delays</li> <li>Increase private sector awareness of and compliance with regulations</li> <li>Increase Government capacity to enact and implement effective regulations</li> </ul> | <ul style="list-style-type: none"> <li>Reduces costs for private sector and increases regulatory compliance</li> <li>Formalises economy by increasing the number of businesses formally registered and licensed (with important benefits to government &amp; civil society)</li> </ul> | <ul style="list-style-type: none"> <li>Business Licensing Reform Project.</li> <li>Information and Awareness Programme on Commercial Laws</li> <li>Reforming Construction Permit process</li> <li>Secretariat support to PSD-IMC</li> <li>Land Lease Management &amp; One Stop Window Phase I &amp; II</li> <li>Leadership and Vision for PSCSEC</li> </ul> |
| 3 | Increased private sector investment in infrastructure               | <ul style="list-style-type: none"> <li>Facilitate private sector investment in infrastructure, energy, water, and agriculture via PPP establishment</li> </ul>  | <ul style="list-style-type: none"> <li>Increased investment in better infrastructure</li> <li>Improved Public-Private partnerships in the infrastructure sector</li> </ul>   | NA  |
| 4 | More equitable and efficient taxation & customs systems             | <ul style="list-style-type: none"> <li>Simplify processes</li> <li>Reduce costs and delays</li> <li>Increase transparency</li> </ul>  | <ul style="list-style-type: none"> <li>Formalises economy</li> <li>Greater compliance</li> <li>Encourages international trade</li> </ul>   | <ul style="list-style-type: none"> <li>Small Taxpayers Office Reform Project</li> </ul>   |
| 5 | Strengthened property rights  | <ul style="list-style-type: none"> <li>Streamline the property registration process</li> <li>Increase the proportion of formal property registration</li> </ul>   | <ul style="list-style-type: none"> <li>Improves security of tenure for investors</li> <li>Increases access to finance for Small and Medium Enterprises</li> <li>Reduces costs of property registration and contract enforcement</li> </ul>   | <ul style="list-style-type: none"> <li>Land Records Modernisation Project</li> <li>Afghanistan Centre for Alternative Dispute Resolution</li> </ul>   |
| 6 | Higher workforce productivity & improved labour market regulation   | <ul style="list-style-type: none"> <li>Equip different sectors with qualified professionals to produce effective and efficient services</li> <li>Improve and enforce labour market regulations</li> </ul>   | <ul style="list-style-type: none"> <li>Reduces cost and time for doing business by accessing locally available professionals</li> <li>Private sector delivers better quality goods and services</li> <li>Better working conditions</li> </ul>  | <ul style="list-style-type: none"> <li>Afghanistan Institute of Banking and Finance</li> <li>School of Accounting</li> </ul>  |
| 7 | Strengthened competition policy                                     | <ul style="list-style-type: none"> <li>Encourage more companies to invest in different sectors</li> <li>Reduce anti-competitive practices</li> <li>Improve product standards</li> </ul>   | <ul style="list-style-type: none"> <li>Establishes equitable opportunities for doing business in Afghanistan</li> <li>Improves quality of goods and services, and reduces prices</li> <li>Increases market trust</li> </ul>  | <ul style="list-style-type: none"> <li>National Standards Development &amp; Capacity Development of Technical Committees (TCs)</li> <li>Afghanistan Building Codes</li> </ul>   |
| 8 | Improved capacity of government & institutions to tackle corruption | <ul style="list-style-type: none"> <li>Equip government with human and institutional capacities to tackle corruption</li> </ul>   | <ul style="list-style-type: none"> <li>Reduces business costs</li> <li>Builds trust between government and the public</li> </ul>   | <ul style="list-style-type: none"> <li>Traders Information and Complaint Call Centre</li> <li>Extractive Industries Transparency Initiative</li> </ul>  |

### 5. HARAKAT FUNDED PROJECTS

#### 5.1 COMPLETED PROJECTS

| # | Project Name   | Implementing Agency                                      | Expended (USD) | Duration                        |
|---|--|--|----------------|---------------------------------|
| 1 | Information and Awareness Programme on Commercial Laws                     | Afghanistan Chamber of Commerce and Industries (ACCI)    | \$110,740      | 7 months (Jul 2009 – Feb 2010)  |
| 2 | Private Sector Development Inter-Ministerial Committee Secretariat Support | Ministry of Commerce & Industries (MoCI)                 | \$83,085       | 12 months (Jun 2009 – May 2010) |
| 3 | Reforming the Process of Issuing Construction Permits (Phase 1)            | High Office of Oversight on Anti-Corruption (HOO)        | \$80,700       | 11 months (Jan 2010 – Nov 2010) |
| 4 | Land Records Modernisation Project (LRMP)                                  | Afghan Land Consulting Organisation (ALCO)               | \$758,751      | 12 months (Oct 2009 – Sep 2010) |
| 5 | Afghanistan Land Authority (Arazi) Phase 1                                 | Ministry of Agriculture, Irrigation and Livestock (MAIL) | \$598,757      | 12 months (Sep 2009 – Aug 2010) |

#### INFORMATION AND AWARENESS PROGRAMME ON COMMERCIAL LAWS

Lack of awareness on the part of the business community about commercial laws is one of the major constraints for the private sector in complying with commercial regulations. This project addressed the problem by organizing 49 training seminars in seven provinces (Kabul, Balkh, Herat, Jalalabad, Kandahar, Kunduz and Khost) to

train 220 Afghanistan Chamber of Commerce and Industry members on seven different commercial laws (Taxation law, Customs law, Tariffs legislation, Arbitration law, Anti Hoarding law, Anti-Monopoly law, and Contracts law). To make this program more sustainable, 10,000 booklets and 10,000 DVDs were published for broader distribution

and long-term reference. A round table was held at the conclusion of the project between the private sector, government and donor community to discuss private sector problems – specifically commercial regulation - with existing business laws and ways to tackle them.



**Project achievements**

- 220 business entrepreneurs were trained on Taxation law, Customs law, Tariffs legislation, Arbitration law, Anti Hoarding law, Anti-Monopoly law, and Contracts law during 49 training seminars.
- Training seminars were organized in 7 provinces, providing 105 days of training.
- Evaluation revealed that participants were satisfied with the training and their level of understanding of the course material was assessed at 90%.
- 10,000 copies of an educational DVD and an accompanying educational booklet about the seven commercial laws were produced and distributed among business entrepreneurs in seven provinces.
- Business entrepreneurs provided their inputs to the legislative reform process in the round table conference, which was organized by ACCI and funded by Harakat to initiate a public-private dialogue on commercial regulations.

- A mechanism was agreed between MOF, MOJ, MOCI and ACCI to work on the challenges arising from the commercial laws and regulations for the private sector during the round table conference. A working group was formed from the private and public sector to follow up on the round table discussion.

## SECRETARIAT SUPPORT TO PRIVATE SECTOR DEVELOPMENT INTER-MINISTERIAL SUB-COMMITTEE (PSD-IMC)

The primary responsibility of the Private Sector Development Inter-Ministerial Committee (PSD-IMC) is to make the Afghanistan National Development Strategy (ANDS) a working document that materialises into action. Its effective implementation is one of the highest priorities of the Government of

Afghanistan and the international community.

Harakat provided one year of funding for the interim Secretariat for the ANDS PSD-IMC within the Ministry of Commerce and Industry (MOCI). The interim Secretariat has four functions: coordinate

implementation of ANDS PSD strategy; facilitate the functioning of High Level and Technical Committees within the PSD-IMC; report on progress in achieving the ANDS PSD Strategy and build capacity for ongoing operation of the Secretariat.

**Project achievements**

- By the end of the project the Secretariat team had facilitated eight ANDS PSD meetings to discuss the progress and challenges for the implementation of ANDS PSD. The Secretariat was able to engage other stakeholders such as Export

Promotion Agency of Afghanistan, ACCI, ANSA and PSCSEC in dialogue. The Secretariat also reviewed and commented on important strategic documents including UNIDO's 5 years country program and MOCI's Business Plan, amongst others.

- The Secretariat team contributed to the ANDS-PSD Annual Report 2009 and continues to support the ongoing work of the ANDS PSD-IMC.

## REFORMING THE PROCESS OF ISSUING CONSTRUCTION PERMITS (PHASE 1)

Afghanistan ranks poorly on the World Bank's Doing Business Indicators (DBI) when it comes to issuing Construction Permits. Investors face an approximate 270-day waiting period before obtaining a construction permit, or need to pay bribes to speed up the process. The lengthy process of obtaining a permit discourages investors and paves the way for corruption. This project of the High Office of Oversight on Anti-Corruption aimed to eliminate unnecessary delays, reduce/remove corruption in the process of issuing permits, and encourage investment in the construction sector through the reform and simplification of construction permit processes within Kabul Municipality.

The project consists of two phases. The first phase of the project assessed the current process of issuing construction permits and developed a realistic action plan for reform, and was completed in November 2010. The second phase of the project is currently in the design stage and will focus on implementing the recommended reforms.

- Based on the analysis of the current process, the project has produced a comprehensive and realistic action plan for reforms that will be implemented in the second phase of the project and result in a reduction of time for processing and issuance of construction permits.

**Project achievements**

- Data collection and review of the relevant data (relevant laws, procedures, manuals and human resource processes within the Kabul Municipality and other related bodies) to better understand the current process.



## LAND RECORDS MODERNISATION PROJECT (LRMP)

The Afghanistan Land Consulting Organisation (ALCO) is a newly created Afghan not-for-profit, non-government organisation established to help Afghan citizens, especially the poor and women, to defend their land rights. A secured property registration system will lead to higher tenure security, lower investment risk and increased access to credit through the ability to pledge property as collateral. In addition, computer-based deed registries will reduce the time needed to verify property titles and register property transactions, resulting in considerable savings for individuals and investors.

The Land Records Modernisation Project (LRMP), implemented by ALCO improved tenure security through the registration of property rights by: 1) assisting the Supreme Court in completing the computerisation of archived property deeds in Afghanistan; 2) extending the current computer-based deed registration system to include the registration of mortgages; and 3) maintaining a secured computer-based central registry of property deeds which protects investors from

fraudulent transactions, competing claims, and forced eviction leading to financial loss. This project built upon the infrastructure and methodology developed by the USAID-funded Afghanistan Land Titling and Economic Restructuring Activity (LTERA).

### Project achievements

- The project completed the indexing and computerization of some 345,784 title deeds in 12 provinces. This equals 98.79 % of the total number of deeds planned.
- The project computerized about 25,000 mortgage deeds at Kabul provincial court on a pilot basis to avoid duplicate use of property collaterals. This was 27% more than what was originally planned.
- 13 provincial courts were surveyed technically and financially for the condition of Makhzans and property records.
- The total number of project beneficiaries is estimated at 2,420,488 people (calculation

based on an average number of 7 members per family).

- The project trained 49 government officials, which was to ensure the technical sustainability of the project. It was an on the job training for court officials as well as developing a number of training manuals in native languages.
- The project conducted an evaluation study during September 2009, which showed that the average number of days to verify a title deed decreased from (1-365 days) to 2 days. The average number of days to register/transfer a land property reduced from 250 days to 45 days, while the official cost for property transfer/registration was recorded 4 to 5% of the property value.
- Considering the above-mentioned achievements, the project has improved Afghanistan's ranking for property registration by 36 points, which will be reflected in World Bank Doing Business Report 2012.



## AFGHANISTAN LAND AUTHORITY – ARAZI (PHASE-1)

Access to land is one major obstacle for productive investment in Afghanistan for both foreign and local investors. To tackle this problem, Harakat supported the establishment of the Afghanistan Land Authority (ALA), an autonomous land authority within Ministry of Agriculture aiming at removing this economic constraint by improving access to governmental lands for commercial activities through developing standardized, efficient and transparent land lease management procedures and services. This is

a four phase project, and with the first phase complete, Harakat is now funding Phase 2 (featured later in the report).

### Project achievements

- The ALA secretariat is now fully staffed.
- The board for the ALA was established and was approved by the Cabinet in August 2010 along with the Cabinet-endorsed merger of the AMLAK Department of MAIL with ALA.

- ALA was approved as an executive agency through a Presidential decree.

- A five-year strategic plan for land lease and lease management was developed.

- A number of policies and manuals were developed by the ALA, streamlining the existing land lease procedures by 80%, reducing the lease procedure time from 180 days to 45, and reducing the number of procedures from 45 to only 7.

## 5.2 PROJECTS CURRENTLY BEING IMPLEMENTED

| #  | Project Name  | Implementing Agency                                | Budget (USD) | Disbursed as of 31 Dec 2010 (USD) | Duration                                  |
|----|---|--|--------------|-----------------------------------|---|
| 1  | National Standards Development & Capacity Development of Technical Committees (TCs) | Afghan National Standards Authority (ANSA)         | \$1,263,360  | \$426,045                         | 24 months (June 2010 – May, 2012)         |
| 2  | Traders' Information and Complaints Call Centre                                     | MoCI/Export Promotion Agency of Afghanistan (EPPA) | \$176,000    | \$156,250                         | 24 months (Apr 2009 – Mar 2011)           |
| 3  | Afghanistan Public Credit Registry  | International Finance Corporation (IFC)            | \$320,000    | \$160,000                         | 24 months (Jan 2010 – Jun 2012)           |
| 4  | Afghanistan Secured Lending Project (Collateral Registry)                           | International Finance Corporation (IFC)            | \$250,000    | \$125,000                         | 24 months (Jan 2010 – Jun 2012)           |
| 5  | Leadership and Vision for PSCSEC  | PSCSEC Secretariat                                 | \$164,520    | \$76,140                          | 12 months (July 2010 – July 2011)         |
| 6  | Afghanistan Institute of Banking and Finance  | Da Afghanistan Bank (DAB)                          | \$1,289,700  | \$324,675                         | 36 months (Dec 2009 – Nov 2012)           |
| 7  | Licensing Reform in Afghanistan (Phase 1)   | International Finance Corporation (IFC)            | \$1,262,500  | \$841,600                         | 15 months (Sep 2010 – Dec 2011) (Phase 1) |
| 8  | Extractive Industries Transparency Initiative (EITI)                                | Ministry of Finance (MoF)                          | \$743,400    | \$78,101                          | 36 months (Mar 2010 – Feb 2013)           |
| 9  | Afghanistan Building Codes  | Afghanistan National Standards Authority (ANSA)    | \$2,112,090  | \$470,000                         | 28 months (July 2010 – Nov 2012)          |
| 10 | School of Accounting  | American University of Afghanistan                 | \$1,307,650  | \$529,565                         | 48 months (May 2010 – May 2014)           |

| #  | Project Name                                | Implementing Agency                                      | Budget (USD) | Disbursed as of 31 Dec 2010 (USD) | Duration                        |
|----|---|--|--------------|-----------------------------------|---------------------------------|
| 11 | Afghanistan Land Authority (Arazi) Phase II | Ministry of Agriculture, Irrigation and Livestock (MAIL) | \$3,260,999  | \$1,200,000                       | 12 months (Sept 2010-Sept 2011) |
| 12 | Small Taxpayers office Reform Project       | Ministry of Finance                                      | \$1,584,400  | \$37,866                          | 36 months (Nov 2010-Nov 2013)   |
| 13 | Afghanistan Centre for Dispute Resolution   | International Financial Corporation – World Bank         | \$1,700,000  | \$425,000                         | 48 months (Nov 2010 – Nov 2014) |

### NATIONAL STANDARDS DEVELOPMENT & CAPACITY DEVELOPMENT OF TECHNICAL COMMITTEES

Markets across Afghanistan are full of low quality and inexpensive imported goods that undermine effective domestic competition and import substitution. The Afghan National Standards Authority (ANSA), the sole standards setting body in Afghanistan, has been making efforts to tackle the technical challenges that the Afghan private sector is facing regarding lack of competitiveness and inaccessibility to more lucrative global markets. The general lack of awareness of the importance of standards and the lack of institutional capacity to apply and enforce them have exacerbated problems at every level of production and led to stifled domestic production.



Agreement Signing Event of National Standards Development & Capacity Development of TCs Project between Harakat & ANSA, Dr. Mujiburrahman Khateer, Technical Deputy Director General of ANSA & Mr. Suleman Fatimie CEO of Harakat.

The aim of the project is to create, through technical assistance, the institutional infrastructure (in the form of Technical Committees) capable of developing and enforcing mandatory National Standards in the five

fields of ANSA's operation (Petroleum Products, Construction, Food, Pharmaceuticals and Cosmetics, Metrology), plus in two new fields (Textiles and Electronic Goods); and facilitating implementation of, and

compliance with the standards introduced through awareness of standards in the new ANSA magazine and website.

#### Main project activities to date

- Overall, the 7 technical committees have drafted and finalized 28 standards (5 in Food, 1 in Pharmaceuticals and Cosmetics, 12 in Electronics, 5 in Petroleum,

2 in Environment, 2 in Metrology and 1 in Textiles), which have been submitted to the ANSA Management Board for final approval.

- ANSA is also in the process of establishing an Environment Standards Technical Committee, which was requested by the National Environment Protection Agency of Afghanistan. Invitations have been

sent out to the relevant government, private sector and academic institutions.

- The ANSA Strategy was drafted with technical assistance from USAID's Trade and Accession Facilitation for Afghanistan (TAF) project. A donor coordination meeting was held to review the draft strategy and a final version of it was presented in a Donor Conference early December 2010.

### TRADERS' INFORMATION AND COMPLAINTS CALL CENTRE

According to the performance review survey conducted by an external evaluation firm, illegal fees and bribes are one of the top three problems for import and export. It costs on average 6500 Afs and 3 additional days per transportation truck for import or export. This project, implemented by MoCI, seeks to reduce and remove barriers to trade by establishing a hotline for traders nationwide to register their complaints about bribes and illegal stoppages along the way to market destinations; and forwarding these complaints to a decision-making committee for action. In the short to medium term, the hotline is expected to improve product quality and increase net returns of exporters and importers. In the longer term, a

more efficient flow of goods should contribute to both increased exports and greater SME involvement in export activity.

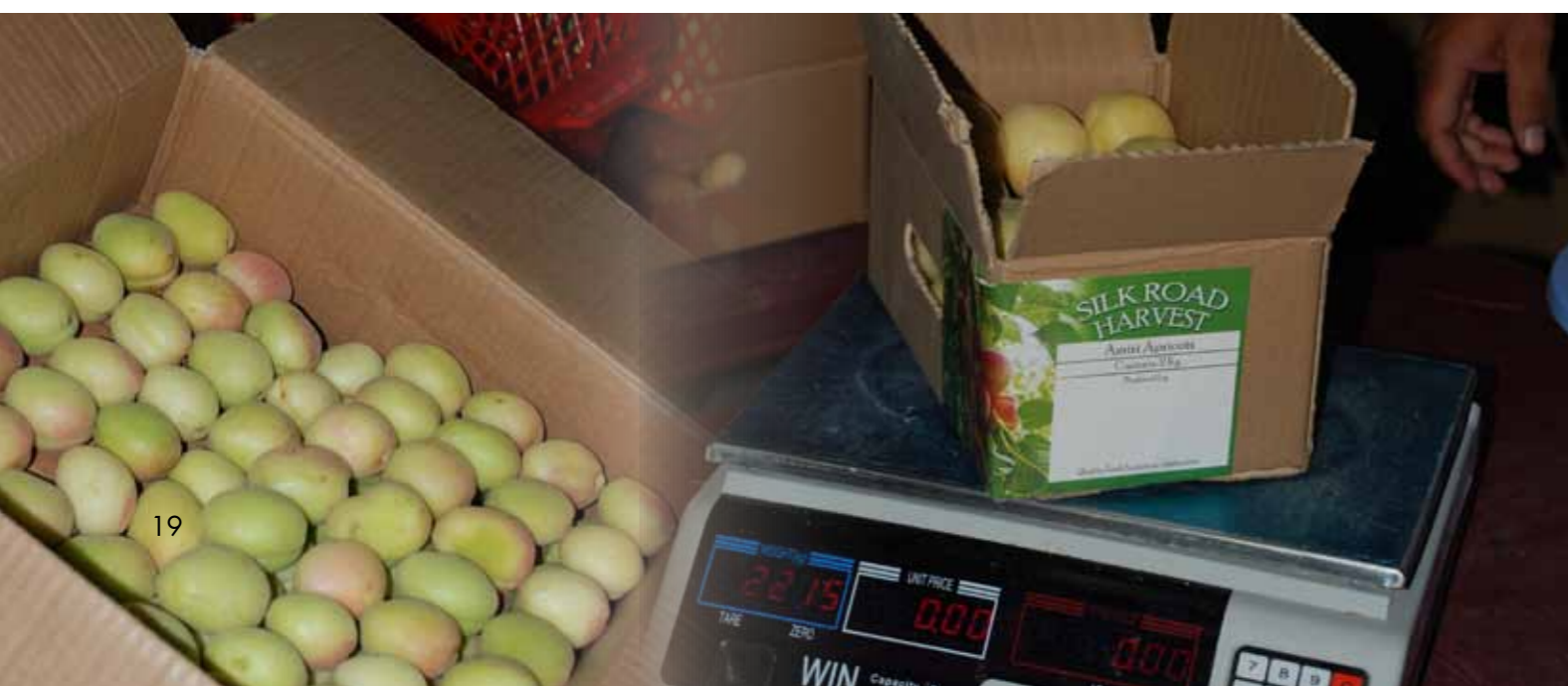
#### Main project activities to date

- By the end of December 2010, the Call Centre had received a total of 8304 calls. Out of these, 1234 were deemed to be legitimate complaint calls and were forwarded for further investigation and action. Out of 1234 legitimate complaints 955 (77%) of them were shared with relevant government offices for follow-up.

- The project facilitated 49 discussion sessions with the relevant stakeholders including MOI, MOF, MOCI, MOPW, Independent

Directorate of Local Governance (IDLG), ACCI, Kabul Municipality, and the National Security Department, to discuss traders' complaints. In addition, the project conducted on the spot follow-up and as a result, 214 legitimate complaints were resolved.

- One of the major barriers identified by the project was inconsistency in the Municipality Tax Guidelines. Several complaints were registered by the project on this issue. Due to extensive follow-up undertaken by the project the Municipality Tax Guidelines have been revised and approved by the Council of Ministers.



## AFGHANISTAN PUBLIC CREDIT REGISTRY AND AFGHANISTAN SECURED LENDING PROJECT

The World Bank cites access to finance in Afghanistan as among the most debilitating constraints to the investment climate. Lack of access to finance for the vast majority of the private sector limits growth prospects of micro, small and medium size enterprises (MSMEs). Almost all commercial banks and Micro-Finance Institutions (MFIs) in Afghanistan issue loans with very high collaterals (movable or immovable), which is a real problem for MSMEs to provide. To change this practice and ensure reputational collateral replaces physical collateral, an information sharing mechanism among the lending community is vital. To this end, IFC has introduced regional best practice by establishing a public credit registry inside Da Afghanistan Bank (DAB). The Secured Lending Project aims to foster the use of movable assets as collateral to generate loans. The Credit Registry will enable the sharing of information on creditors, enhance the ability of financial institutions

and lenders to better manage credit risk, improve operational efficiency, diversify credit products, and increase lending volume and outreach – key factors in expanding access to finance in Afghanistan.

While the two projects are housed at the Da Afghanistan Bank (DAB), co-funded by the World Bank, and implemented by the International Finance Corporation (IFC), both the private sector and civil society have an active role in the development of the legal framework for the Registries as well as the mechanisms that will govern how the facilities will function.

### Main project activities to date

- Creation of an effective legal framework for credit information sharing.
- Establishment of the Public Credit Registry.
- Public awareness activities includ-

ing workshops and seminars for the legal and private sector informing them of new developments.

- Capacity building for financial institutions including understanding new IT developments and how to file notices and issue loans.
- Regulation on the credit reporting has been developed and enacted.
- Three staff of Da Afghanistan Bank (DAB) have been trained on the operation of the credit registry and supervision of commercial banks using the registry services to enhance their credit portfolio.
- 50 individuals from almost all commercial banks across Afghanistan and financial institutions participated in drafting/developing credit reporting regulations using the credit registry.

## LEADERSHIP AND VISION FOR PSCSEC

PSCSEC (the Private Sector and Civil Society Enabling Council) was established through a presidential

degree in June 2008. The Presidential Decree determined that the Council serve as a consultative group

between the Afghan Government, the parliament, private sector, civil society, donors and other relevant

organizations to enable a better environment for the development of private sector and civil society. The project started its operations in June 2010 and will end in June 2011. The aim is to re-activate the PSCSEC through a dynamic and creative secretariat to ensure that PSCSEC achieves its benchmarks of the Enabling Environment Conference Roadmap by facilitating dialogue between the private sector, civil society and the government.

### Main project activities to date

- PSCSEC drafted an action plan to guide its operations. The action plan was submitted for further inputs and final approval to the PSCSEC Council and management.
- The Secretariat had several rounds of discussions with key ministers, civil society and private sector representatives to build PSCSEC's profile. In addition, the Secretariat participated in different events to

re-activate PSCSEC's contacts.

- PSCSEC identified 3 regulatory areas for its review: the NGOs Law, Income Tax Law and Civil Society Law. However, the Secretariat is doing further due diligence in terms of the role of PSCSEC in the revision process and more importantly how these laws will help the investment climate in Afghanistan.

## AFGHANISTAN INSTITUTE OF BANKING AND FINANCE

The financial sector in Afghanistan has grown significantly over the last five years. Bank loans and deposits have grown and non-bank financial institutions, such as microfinance, leasing, equity, and insurance companies have also started operating in Afghanistan.

However, lack of human capacity has been identified as a key impediment for further development of the sector. The training provided by the Afghanistan Institute of Banking and Finance (AIBF) is designed to alleviate this constraint. The AIBF has been established as a corporation

under the Company Law of Afghanistan with three shareholders – Da Afghanistan Bank, the Afghan Bankers Association and the Microfinance Investment Support Facility for Afghanistan.

The project aims to build capacity within the financial institutions and commercial banks to enable them to deliver better financial services. In a highly competitive financial business environment, investing in employee training and education is vital to develop a sustainable financial sector. Harakat funding is being used to establish the Institution, recruit inter-



national trainers and administrative staff, design training curriculum, collaborate with regional banking institutions for experience and knowledge-sharing as well as conduct training courses for commercial banks and financial institutions.





Harakat is funding the first phase (three years) of a ten-year, three phase project.

**Main project activities to date**

- A three-year regional cooperation agreement has been signed with the Bangladesh Institute of Bank Management (BIBM). The BIBM will provide their services in market assessment, curriculum development, exchange visits for the AIBF faculty, developing the AIBF business plan and delivering training for professional staff from the financial sector.

- A three-year draft implementation plan has been developed by AIBF.

- Training delivery started in August 2010. More than 200 banking staff have been trained in ten different courses including banking operations, micro-finance operations, accounting operations, anti-money laundering, risk management, Islamic banking and combating financial terrorism.

**BUSINESS LICENSING REFORM IN AFGHANISTAN (PHASE 1)**

The current business licensing regime in Afghanistan is highly bureaucratic, lacks transparency and requires businesses to dedicate considerable time and financial resources to comply with the often unnecessary requirements. This is a clear disincentive to domestic and foreign investment.

The Afghanistan Licensing Reform Project (ALRP), implemented by IFC,

aims to create a streamlined, transparent, and inter-connected licensing regime in Afghanistan. This project will allow businesses to obtain necessary licenses and start their operations with minimal cost and time. Amongst other things, the project will include surveying and mapping of nine prioritized licenses, reforming the six trade licenses under MoCI with the view of reducing unnecessary costs and complexity and making them clearly documented to investors, training about 25 civil servants involved in the process, and designing a clear and predictable legal and regulatory framework for trade licenses.

**Main project activities to date**

- Mapping activities of the six trade and three other sector specific licenses began in August 2010.

- A draft survey template has been designed and shared with MoCI and Afghanistan's Chamber of Commerce and Industries (ACCI).

- A training needs assessment has been conducted for relevant MoCI staff.

- Two public-private sector forums were conducted to ensure necessary input from both the public and private sector in the process.

- A number of coordination meetings were held with different technical experts and associated donors to harmonise licencing efforts across several different projects.



**EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE (EITI)**

Afghanistan is rich in minerals and hydrocarbon deposits. However, private sector investment in their extraction and development has been hindered by lack of security, physical infrastructure and technical expertise, and weaknesses of the policy and regulatory environment.

The Government has committed to reforming the mining sector and the respective governance system as well as to providing necessary services to attract investors. Among others, it has signed up to the implementation of the Extracting Industries Transparency Initiative (EITI).

The initiative stipulates that all extracting firms and the government will report on all financial transactions associated with their mining activities to an independent 3rd party, which will be overseen by a multi-stakeholder group comprising of government, civil society and the private sector. The objective of this combined effort is to improve transparency and build trust among investors in Afghanistan's mining industry to ultimately increase investment in this important sector.



EITI Multi-Stakeholders Meeting

**Main project activities to date**

- A formal multi-stakeholder group was formed with 28% private sector membership and met four times during the year.

- 70% of the hiring for the EITI Secretariat is complete.

- The action plan for EITI implementation was developed and endorsed by the MSG.

- The EITI reporting template is under discussion with various experts and Ministries.

- A number of modifications in the Afghanistan mining law have been drafted to accommodate certain clauses about EITI. Discussion about the approval process is underway with the Ministry of Justice.



## AFGHANISTAN BUILDING CODES (ABC):

Afghanistan has seen a substantial influx of investment infrastructure capital in the last ten years. However, an absence of building codes has led to chaos and unauthorized building practices, rendering much of the current infrastructure incompatible with the modern building standards or practices.

The Afghanistan Building Codes (ABC) project began in July 2010 with an aim to develop architec-

tural, structural, urban development, highways and bridge design construction codes that are compatible with geography, landscape, seismic specifics and weather conditions of Afghanistan.

### Main project activities to date

- Staff are recruited and a competitive bidding process is underway to complete office setup.
- Technical committees which have

oversight for all technical issues to do with each code have been established and the first national technical committee meeting held.

- The Building Codes Advisory Board has been established and endorsed by H.E. The President of Afghanistan. Its role is to provide overall guidance for the technical committees and project staff.

## SCHOOL OF ACCOUNTING

The objective of this project is to improve the accounting sector by educating and training qualified accountants, auditors and finance professionals. The project aims to



establish the School of Accounting at the American University of Afghanistan (AUAF) to support the development of a modern and professional accounting profession in Afghanistan. This will address the lack of capacity to deliver financial services by improving accounting skills directly, through a high quality educational program, and indirectly, through working with other institutions in the public and private sectors.

### Main project activities to date

- An Advisory Council, which will assist the School in expanding its services, was formed with Harakat's support in June 2010 and includes

representatives from the government (Ministry of Higher Education) in addition to representatives from the World Bank, and the private sector.

- The School has also developed and finalized the curriculums for both of the academic programs (BBA and Associate), which were approved by the business faculty, the University's Chief Academic Officer and the Curriculum Committee. Currently the curriculum is being fully implemented with first graduates expected in May 2012.

## AFGHANISTAN LAND AUTHORITY – ARAZI (PHASE-2)

To tackle the issue of access to land, Harakat supported the establishment of an autonomous land authority within the Ministry of Agriculture aiming at removing this economic constraint by improving access to government owned land for commercial activities. The project is a reform initiative seeking to establish standardized, efficient and transparent land lease management services. This is a four-phase project. The first phase has been completed and is summarised earlier in this report.

Harakat is now funding the second phase of the project, which will develop detailed procedures for the manuals and strategies that were developed in Phase I in order to streamline land lease processes. The project will also establish the Arazi office (with both physical and human infrastructure), conduct the inventory of the first 25,000 ha of land and integrate AMLAK's existing land lease contracts as the first step towards merging it with Arazi. It will also enable the lease of 2,500 ha of public land for productive use.

### Main project activities to date

- Arazi's legal status as an Executive Agency and its merger with AMLAK and the Independent Board for re-institution of grabbed land was approved both by the President and the Cabinet of Ministers.
- Half of the new Arazi staff have been hired.
- Development of detailed procedures for land lease, lease enforcement, contract management, dispute resolution and referral mechanism, land preparation and land valuation procedures are in progress.
- A contractor for the development of Arazi's data centre/virtual platform has been selected.
- 25,000 ha of land have been identified for a computerized inventory.
- A total of 46,000 ha of land have been recovered and cleared by Arazi during the year.
- Arazi leased about 26.4 ha of

land to the private sector in Herat and Faryab provinces, facilitating US\$64 million in investment in oil and gas refineries. This is expected to create about 400 jobs by providing land for small business opportunities. Another 91 lease applications for small businesses were processed by Arazi for board approval.

- Land leasing time and procedures are reduced by 75 to 80%.
- A documentary film for Arazi has been completed.



## AFGHANISTAN CENTER FOR ALTERNATIVE DISPUTE RESOLUTION

According to the 2011 World Bank "Doing Business Report", contract enforcement in Afghanistan involves 47 procedures and takes over 1642 days to resolve, while costing up to 25% of the settlement. These contract enforcement issues reflect the inefficiencies of the court system which, among other things, serve as a disincentive for foreign investment. This project proposes to institutionalize commercial Alternative Dispute Resolution (ADR) and mediation services for the private sector.

Alternative Dispute Resolution has

considerable appeal in Afghanistan. It would provide the services of well-qualified professionals capable of dealing with complex legal matters more efficiently than the formal court system. ADR could also provide a very important link between the state and the shuras and other traditional institutions by making it possible for the parties to deal with certain matters in a way that could be given binding legal effect. The project will institutionalize mediation systems to increase efficiency and help to reduce heavy case backlogs in courts; promote SME access to the justice system by reducing the

time and cost of dispute settlement; professionalize mediation by transferring skills and the 'know-how' to judges, lawyers and other groups working within ADR and will establish an independent pilot mediation centre to activate commercial mediation practices.

### Main project activities to date

- Grant agreement signed.

## SMALL TAXPAYERS OFFICE REFORM PROJECT (STOR)

A functioning and fair taxation system is a cornerstone of an operational governance structure. In Afghanistan, poor services at the Small Tax Office (STO) affect almost 130,000 SMEs in many ways, including arbitrary tax assessments, excessive waiting times when attending the STO, multiple visits to resolve common issues, inappropriate auditing

of businesses, and significant opportunities for corrupt behaviour in hastening customers' assessments. These inefficiencies increase the cost of compliance with tax regulations for small business. The aim of the project is to undertake a comprehensive assessment of existing procedures in the STO, draft a reform plan and then implement various reform

activities, including the establishment of a customer care unit inside the STO and the introduction of a self-auditing system for STO clients.

### Main project activities to date

- Grant agreement signed.

## 6. HAKARAT'S COMMUNICATION ACTIVITIES

Robust, frank communication with and between our stakeholders allows the Harakat staff and board to make evidence-based decisions about – amongst other things- our response and reaction time and how we best care for our partners through the application process and demanding implementation phase. Harakat's communication strategy also specifies an objective of contributing, through communication and stakeholder engagement, to a broader environment in Afghanistan in which all contributors, private and public sector, civil society and the media alike, understand the importance of an energetic, plugged in private sector.

In order to do these two key things: build trust and credibility amongst our stakeholders and to contribute to better understanding about the importance of the business environment, Harakat undertook numerous activities in 2010.

Many informal and formal stakeholder engagement activities were organised. These included strategic information sessions with our partners such as various ministries, the lower house of Parliament, private sector partners and civil society

organizations. Harakat's board and its CEO in particular, played an active advocacy role promoting practical solutions to the enduring problems facing the country. Dialogue events included presentations on the investment climate, business barriers, and particulars of Harakat's operations. Ensuring discussion generated potential ideas for future projects and solutions to the current obstacles. As part of its advocacy effort, Harakat issued media releases and its representatives spoke at events concerned with this topic.

In order to facilitate interaction with the media on the investment climate within Afghanistan, Harakat hosted a media information workshop, to which a large number of members of the local Afghan media were invited. This was an important first step in developing strong relationships with the media and providing initial training and information on private sector development and its importance to the future of Afghanistan. Harakat also facilitated radio programs and four TV shows and roundtables on the challenges of the investment climate in Afghanistan. Furthermore, numerous articles were published on the same topic in several leading

local and national newspapers. Looking ahead, Harakat is convinced of the need to improve journalists' capacity to report accurately on business and economic development activities within Afghanistan. Business reporting is sorely underrepresented and in general, Afghan journalists have both a poor understanding of economics and investigative journalism. To turn this around, Harakat is working to encourage the creation of the Business Journalist Association – a much needed association for the journalists reporting on the issues surrounding the business climate in the country. In 2011, Harakat will continue to strengthen its ties with the academia and civil society. Current issues require collaborative and thoughtful solutions, which only a fully engaged academic sector and civil society can provide. Also, a series of fact finding missions, in conjunction with ACCI, are planned to major commerce centres in four different provinces, in order to develop a fuller, more engaged business community and improve the understanding of the current regional business differences.



ACCI's projects funded by Harakat have always been highly crucial in enabling ACCI to be the True Voice of the Afghan Private Sector. Harakat funding has always supported ACCI in implementing the key components of its Strategic and Operational Plans. In spite of being small in size, the projects funded by Harakat have always had great impact on ACCI's image as well as on the efficiency of its service delivery to its members.

The fundamental reason for ACCI to choose Harakat as one of its key funding agencies is that Harakat is an Afghan-led and an Afghan-managed organization. As an Afghan organization, ACCI is committed to partnering with Afghan-led and managed organizations. We believe Harakat is a good match for ACCI because we both pursue the same mandate; we both struggle to create an enabling environment for doing business in Afghanistan.



Mr. Qurban Haqjo  
CEO of ACCI



Harakat-Afghanistan Investment  
Climate Facility Organisation

Financial Statements  
For the year ended 31 December, 2010



Per cent of GDP



## Independent Auditors' Report

To: The Board of Directors  
Harakat-Afghanistan Investment Climate Facility Organization, Afghanistan

We have audited the accompanying financial statements of Harakat-Afghanistan Investment Climate Facility Organization, Afghanistan ("H-AICFO"), which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

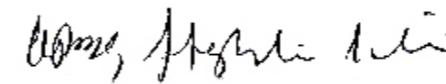
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of H-AICFO as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



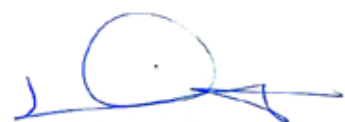
KPMG Afghanistan Limited

Kabul

Harakat-Afghanistan Investment Climate Facility Organisation  
Statement of financial position  
As at 31 December 2010

|                                      | Note | 2010<br>Afs        | 2009<br>Afs |
|--------------------------------------|------|--------------------|-------------|
| <b>Assets</b>                        |      |                    |             |
| Property and equipment               | 5    | <b>3,234,074</b>   | 4,129,439   |
| <b>Total non-current assets</b>      |      | <b>3,234,074</b>   | 4,129,439   |
| Advances to sub-grantees             | 6    | <b>154,959,192</b> | 24,190,574  |
| Prepayments, advances and others     |      | <b>628,255</b>     | 472,311     |
| Cash and cash equivalents            | 7    | <b>58,259,347</b>  | 36,666,586  |
| <b>Total current assets</b>          |      | <b>213,846,794</b> | 61,329,471  |
| <b>Total assets</b>                  |      | <b>217,080,868</b> | 65,458,910  |
| <b>Liabilities</b>                   |      |                    |             |
| Deferred grants                      | 8    | <b>214,717,950</b> | 51,763,155  |
| <b>Total non-current liabilities</b> |      | <b>214,717,950</b> | 51,763,166  |
| Accrued and other liabilities        | 9    | <b>2,362,918</b>   | 13,695,755  |
| <b>Total current liabilities</b>     |      | <b>2,362,918</b>   | 13,695,755  |
| <b>Total liabilities</b>             |      | <b>217,080,868</b> | 65,458,910  |

The annexed notes from 1 to 14 are an integral part of these financial statements.



Chief Executive Officer

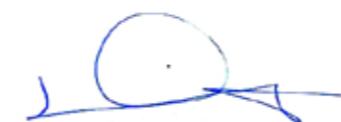
CHANCE Zulum  
Head of Finance

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Harakat-Afghanistan Investment Climate Facility Organisation  
Statement of Comprehensive income  
For the year ended 31 December 2010

|  | Note | 2010<br>Afs        | 2009<br>Afs |
|--|------|--------------------|-------------|
| <b>Income</b>                              |      |                    |             |
| Grant income                               | 8    | <b>211,427,451</b> | 79,973,452  |
| <b>Total income</b>                        |      | <b>211,427,451</b> | 79,973,452  |
| <b>Expenditure</b>                         |      |                    |             |
| Administrative expenses                    | 10   | <b>58,209,147</b>  | 39,131,171  |
| Consultants fee                            | 11   | <b>7,708,107</b>   | 20,033,323  |
| Expenditure against sub-grants             | 12   | <b>142,101,548</b> | 17,975,712  |
| Depreciation                               |      | <b>1,091,010</b>   | 633,662     |
| Bank charges                               |      | <b>245,124</b>     | 34,082      |
| Loss on disposal of property and equipment |      | -                  | 48,500      |
| Exchange loss                              |      | <b>2,072,515</b>   | 2,117,002   |
| <b>Total expenditure</b>                   |      | <b>211,427,451</b> | 79,973,452  |
| <b>Surplus for the year</b>                |      | -                  | -           |

The annexed notes from 1 to 14 are an integral part of these financial statements.



Chief Executive Officer

CHANCE Zulum  
Head of Finance

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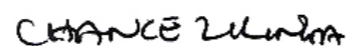
Harakat-Afghanistan Investment Climate Facility Organisation  
Statement of cash flows  
For the year ended 31 December 2010

|  | Note | 2010<br>Afs          | 2009<br>Afs  |
|--|------|----------------------|--------------|
| <b>Cash flows from operating activities</b>      |      |                      |              |
| Surplus for the year                             |      | -                    | -            |
| Adjustments for:                                 |      |                      |              |
| Depreciation                                     | 5    | 1,091,010            | 633,662      |
| Loss on disposal of property and equipment       |      | -                    | 48,500       |
|  |      | <b>1,091,010</b>     | 682,162      |
| Change in advances to sub-grantees               | 6    | (130,768,618)        | (24,190,574) |
| Change in prepayments                            |      | (155,944)            | (472,311)    |
| Change in accrued and other liabilities          | 9    | (11,332,837)         | 13,695,755   |
| <b>Net cash from operating activities</b>        |      | <b>(141,166,389)</b> | (10,284,968) |
| <b>Cash flows from investing activities</b>      |      |                      |              |
| Acquisition of property and equipment            | 5    | (195,645)            | (4,811,601)  |
| Interest on bank deposits                        |      | 491,721              | 560,186      |
| <b>Net cash used in investing activities</b>     |      | <b>296,076</b>       | (4,251,415)  |
| <b>Cash flows from financing activities</b>      |      |                      |              |
| Grants received less expenses                    |      | 162,463,074          | 51,202,969   |
| <b>Net increase in cash and cash equivalents</b> |      | <b>21,592,761</b>    | 36,666,586   |
| Cash and cash equivalents at 01 January          |      | 36,666,586           | -            |
| <b>Cash and cash equivalents at 31 December</b>  | 7    | <b>58,259,347</b>    | 36,666,586   |

The annexed notes from 1 to 14 are an integral part of these financial statements.



Chief Executive Officer



Head of Finance



Harakat-Afghanistan Investment Climate Facility Organisation  
Notes to the financial statements  
For the year ended 31 December 2010

## 1. Status and nature of operations

Harakat-Afghanistan Investment Climate Facility Organization ("H-AICFO") is registered as an NGO with the Ministry of Economy, Government of Afghanistan.

H-AICFO is formed with the funding from the UK Department for International Development ("DFID") in order to provide grants to private sector, government and civil society to implement activities to reduce or remove barriers that currently make it difficult to do business in Afghanistan.

The Government of the United Kingdom of Great Britain and Northern Ireland, acting through the Department for International Development ("DFID"), has committed to Harakat - Afghanistan Investment Climate Facility ("the H-AICF") a sum not exceeding £ 30 million (the "Contribution") in accordance with the provisions of the Investor Grant Arrangement. The funding commenced on 15 February 2009 and, under the original agreement, was to end on earlier of 30 March 2011 or termination of the H-AICF. On 09 December 2010 the grant agreement was amended and the period of agreement extended up to 30 March 2013. As at the reporting date an amount of £ 7 million has been received against the amount committed.

The principal office of H-AICFO is located in Kabul, Afghanistan.

## 2. Basis of preparation

### (a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were approved by the Board of Directors on 29<sup>th</sup> May, 2011.

### (b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

### (c) Functional and presentation currency

These financial statements are presented in Afghani ("Afs"), which is the H-AICFO's functional currency. All financial information presented in Afghani has been rounded to nearest Afs.



Harakat-Afghanistan Investment Climate Facility Organisation  
Notes to the financial statements  
For the year ended 31 December 2010

**(d) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 5 - Property and equipment

**3. Significant accounting policies**

The accounting policies set out below have been applied in these financial statements, consistently to all periods presented in these financial statements.

**(a) Foreign currency**

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

**(b) Financial instruments**

*Non-derivative financial assets*

H-AICFO initially recognises financial assets on the date that they are originated.

H-AICFO derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

*ILPHG*

Harakat-Afghanistan Investment Climate Facility Organisation  
Notes to the financial statements  
For the year ended 31 December 2010

Financial assets and liabilities are offset and the net amount presented in the financial statement when, and only when, H-AICFO has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised costs using effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and balances with banks.

*Non-derivative financial liabilities*

H-AICFO initially recognises a financial liability on the date that they are originated.

H-AICFO derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

H-AICFO's financial liabilities comprise of accrued and other liabilities which are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

**(c) Property and equipment**

*Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net in profit or loss.

*ILPHG*

Harakat-Afghanistan Investment Climate Facility Organisation  
Notes to the financial statements  
For the year ended 31 December 2010

*Subsequent costs*

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to H-AICFO and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

*Depreciation*

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amounts substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives of the current periods are as follows:

|                         |         |
|-------------------------|---------|
| ■ Vehicles              | 5 years |
| ■ Computer equipment    | 3 years |
| ■ Office equipment      | 5 years |
| ■ Furniture and fixture | 5 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**(d) Impairment**

*Financial assets*

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor or indications that a debtor will enter bankruptcy.

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Harakat-Afghanistan Investment Climate Facility Organisation  
Notes to the financial statements  
For the year ended 31 December 2010

H-AICFO considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been occurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in allowance account against receivables.

*Non-financial assets*

The carrying amounts of the H-AICFO's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

**(e) Provisions**

A provision is recognised if, as a result of a past event, H-AICFO has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the liability.

**(f) Revenue**

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and H-AICFO will comply with the conditions associated with the grant. Grants that compensate H-AICFO for expenses incurred are recognised in profit or loss on systematic basis in the same periods in which the expenses are recognised. Grants that compensate H-AICFO for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the assets.

*llpny*

Harakat-Afghanistan Investment Climate Facility Organisation  
Notes to the financial statements  
For the year ended 31 December 2010

**(g) Grants to sub-recipients**

Sub-grants are initially recognised as advances to sub-grantees and subsequently adjusted against the expenses incurred and reported by sub-recipients through periodic financial reports. Unspent funds are refundable to H-AICFO.

**(h) Expenditure against sub-grants**

Expenditure against sub-grants is recognized on the basis of un-audited financial reports submitted by sub-grantee to HAICFO.

**(i) Finance costs**

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise bank charges which are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis.

**(j) Income tax**

As per Afghanistan tax law, NGOs are exempt for income tax subject to specific private ruling on exemption from Ministry of Finance, Government of Afghanistan.

No provision for income tax has been made in these financial statements in view of the available exemption.

**(k) New standards and interpretations not yet adopted**

A number of new standards, amendment to standards and interpretations are effective for annual periods beginning after 01 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on these financial statements.

*U.P.M.G.*

Harakat-Afghanistan Investment Climate Facility Organisation  
Notes to the financial statements  
For the year ended 31 December 2010

**4. Financial risk management**

**Overview**

H-AICFO has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk

This note presents information about H-AICFO's exposure to each of the above risks, H-AICFO's objectives, policies and processes for measuring and managing risk. Further, quantitative disclosures are included throughout these financial statements.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of H-AICFO's risk management framework. A Monitoring & Evaluation Unit (MEU) is established which is responsible for monitoring and evaluating the performance of H-AICFO in achieving its aims and objectives. MEU also review the project's performance and its impact on the strategic objectives of the H-AICFO.

**Credit risk**

Credit risk is the risk of financial loss to H-AICFO if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from H-AICFO's advances to sub-grantees.

H-AICFO has established an operational manual for its Proposal Development Unit (PDU) which sets out the policies and procedures for the identification and assessment of project opportunities and managing the process of submission, evaluation, review and due diligence of the sub-grantees.

**Liquidity risk**

Liquidity risk is the risk that H-AICFO will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. H-AICFO's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the H-AICFO's reputation.

*U.P.M.G.*

Harakat-Afghanistan Investment Climate Facility Organisation  
Notes to the financial statements  
For the year ended 31 December 2010

| 5. Property and Equipment          | Vehicles                | Computer<br>Equipment   | Office<br>Equipment     | Furniture<br>and fixtures | Total                   |
|------------------------------------|-------------------------|-------------------------|-------------------------|---------------------------|-------------------------|
|                                    | (Afs)                   |                         |                         |                           |                         |
| Cost                               |                         |                         |                         |                           |                         |
| Additions during the year          | 2,125,000               | 946,571                 | 1,442,880               | 297,150                   | 4,811,601               |
| Deletions                          | -                       | (48,500)                | -                       | -                         | (48,500)                |
| Balance at 31 December 2009        | <u>2,125,000</u>        | <u>898,071</u>          | <u>1,442,880</u>        | <u>297,150</u>            | <u>4,763,101</u>        |
| <b>Balance at 1 January 2010</b>   | <b>2,125,000</b>        | <b>898,071</b>          | <b>1,442,880</b>        | <b>297,150</b>            | <b>4,763,101</b>        |
| <b>Additions during the year</b>   | -                       | 156,205                 | 11,040                  | 28,400                    | 195,645                 |
| <b>Balance at 31 December 2010</b> | <b><u>2,125,000</u></b> | <b><u>1,054,276</u></b> | <b><u>1,453,920</u></b> | <b><u>325,550</u></b>     | <b><u>4,958,746</u></b> |
| <b>Depreciation</b>                |                         |                         |                         |                           |                         |
| Depreciation for the year          | 271,528                 | 171,272                 | 179,042                 | 11,820                    | 633,662                 |
| Balance at 31 December 2009        | <u>271,528</u>          | <u>171,272</u>          | <u>179,042</u>          | <u>11,820</u>             | <u>633,662</u>          |
| <b>Balance at 1 January 2010</b>   | <b>271,528</b>          | <b>171,272</b>          | <b>179,042</b>          | <b>11,820</b>             | <b>633,662</b>          |
| <b>Depreciation for the year</b>   | <b>425,000</b>          | <b>314,792</b>          | <b>289,912</b>          | <b>61,306</b>             | <b>1,091,010</b>        |
| <b>Balance at 31 December 2010</b> | <b><u>696,528</u></b>   | <b><u>486,064</u></b>   | <b><u>468,954</u></b>   | <b><u>73,126</u></b>      | <b><u>1,724,672</u></b> |
| <b>Carrying amounts</b>            |                         |                         |                         |                           |                         |
| At 1 January 2009                  | 1,853,472               | 775,299                 | 1,263,838               | 285,330                   | 4,177,939               |
| At 31 December 2009                | <u>1,853,472</u>        | <u>726,799</u>          | <u>1,263,838</u>        | <u>285,330</u>            | <u>4,129,439</u>        |
| <b>At 1 January 2010</b>           | <b>1,853,472</b>        | <b>726,799</b>          | <b>1,263,838</b>        | <b>285,330</b>            | <b>4,129,439</b>        |
| <b>At 31 December 2010</b>         | <b><u>1,428,472</u></b> | <b><u>568,212</u></b>   | <b><u>984,966</u></b>   | <b><u>252,424</u></b>     | <b><u>3,234,074</u></b> |

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| Note  | 2010                      | 2009              |
|---|---------------------------|-------------------|
|   | Afs                       | Afs               |
| <b>6. Advances to sub-grantees</b>                            |                           |                   |
| Export Promotion Agency of Afghanistan (EPAA-005)             | <b>193,670</b>            | 430,440           |
| High Office of Oversight and Anti-Corruption (HoO)            | <b>34,095</b>             | 4,035,000         |
| Afghanistan Land Consulting Organisation (ALCO-095)           | <b>190,029</b>            | 2,323,115         |
| DAB - Afghanistan Institute of Banking and Finance (DAB-080)  | <b>2,518,476</b>          | 5,411,250         |
| Ministry of Agriculture, Irrigation and Livestock (MAIL-173)  | <b>48,184,384</b>         | 11,990,769        |
| Afghanistan National Standards Authority (ANSA-001)           | <b>17,224,124</b>         | -                 |
| IFC - Da Afghanistan Bank (DAB-010)                           | <b>3,975,619</b>          | -                 |
| IFC - Ministry of Commerce and Industry (MoCI-043)            | <b>30,403,650</b>         | -                 |
| IFC - Afghanistan Centre Dispute Resolution (ACDR-077)        | <b>19,180,250</b>         | -                 |
| IFC - Da Afghanistan Bank (DAB-014)                           | <b>1,455,519</b>          | -                 |
| Afghanistan National Standards Authority (ABC-079)            | <b>21,270,562</b>         | -                 |
| American University of Afghanistan (AUAF-023)                 | <b>6,264,652</b>          | -                 |
| MoF - Extractive industries Transparency Initiative (MoF-078) | <b>1,383,660</b>          | -                 |
| Private Sector & Civil Society Enabling Council (PSCSEC)      | <b>976,502</b>            | -                 |
| Small Tax Office Reform (STOR-060)                            | <b>1,704,000</b>          | -                 |
|   | <b><u>154,959,192</u></b> | <u>24,190,574</u> |

**6.1.** These advances have been disbursed to sub-grantees under the terms of grant agreement signed between AICF and sub-grantees. These advances are adjustable on submission of financial reports on utilisation of the grants for the intended objectives as agreed in the grant agreements.

| Note                                | 2010                     | 2009              |
|-------------------------------------|--------------------------|-------------------|
|                                     | Afs                      | Afs               |
| <b>7. Cash and cash equivalents</b> |                          |                   |
| Cash in hand                        | <b>68,412</b>            | 88,874            |
| Cash at bank                        |                          |                   |
| - Afs                               | <b>868,767</b>           | 3,904,193         |
| - USD                               | <b>57,322,168</b>        | 32,673,519        |
|                                     | <b>58,190,935</b>        | 36,577,712        |
|                                     | <b><u>58,259,347</u></b> | <u>36,666,586</u> |

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| Note  | 2010<br>Afs   | 2009<br>Afs  |
|---|---------------|--------------|
| <b>8. Deferred grants</b>                         |               |              |
| Opening balance                                   | 51,763,155    | -            |
| Grant received against expenses                   | 373,694,880   | 126,413,320  |
| Grant received against fixed assets               | 195,645       | 4,763,101    |
|   | 373,890,525   | 131,176,421  |
| Interest on bank deposits                         | 491,721       | 560,186      |
|   | 426,145,401   | 131,736,607  |
| Less: expenses during the year                    | 210,336,441   | 79,339,790   |
| Less: transferred to depreciation on fixed assets | 1,091,010     | 633,662      |
|   | (211,427,451) | (79,973,452) |
|   | 214,717,950   | 51,763,155   |

8.1. This represents grants received from DFID which has committed a maximum amount of GBP 30 million during the period from 2009 to 2013.

**9. Accrued and other liabilities**

|                         |           |            |
|-------------------------|-----------|------------|
| Accrued expenses        | 761,571   | 295,495    |
| Payable to sub-grantees | -         | 2,472,550  |
| Consultants fee payable | -         | 10,241,622 |
| Meeting fee payable     | -         | 500,000    |
| Withholding tax payable | 1,394,177 | -          |
| Others                  | 207,170   | 186,088    |
|                         | 2,362,918 | 13,695,755 |

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| Note                               | 2010<br>Afs | 2009<br>Afs |
|------------------------------------|-------------|-------------|
| <b>10. Administrative expenses</b> |             |             |
| Salaries and benefits              | 36,348,084  | 21,413,942  |
| Meetings expenses                  | 9,162,596   | 8,151,324   |
| Office supplies                    | 518,080     | 733,078     |
| Printing and stationery            | 38,228      | 283,001     |
| Books and subscriptions            | 28,500      | 43,989      |
| Entertainment                      | 66,960      | 71,765      |
| Security expenses                  | 911,040     | 610,490     |
| Repair and maintenance             | 338,543     | 2,204,749   |
| Utilities                          | 498,471     | 240,656     |
| Communication                      | 1,846,095   | 1,277,651   |
| Vehicle running expenses           | 1,123,607   | 610,076     |
| Travelling and conveyance          | 2,554,214   | 173,230     |
| Office Rent                        | 1,459,999   | 1,071,164   |
| Advertisement                      | 1,242,016   | 545,078     |
| Audit fee                          | 1,552,392   | 686,492     |
| Legal and professional charges     | 69,247      | 26,500      |
| Others                             | 451,075     | 987,986     |
|                                    | 58,209,147  | 39,131,171  |

**11. Consultants fee**

|   |           |            |
|---|-----------|------------|
| Adam Smith International Limited            | 7,164,707 | 19,374,148 |
| Afghanistan Financial Services              | -         | 659,175    |
| Afghan Management and Marketing Consultants | 543,400   | -          |
|   | 7,708,107 | 20,033,323 |

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| Note  | 2010<br>Afs        | 2009<br>Afs       |
|---|--------------------|-------------------|
| <b>12. Expenditure against sub-grants</b>                     |                    |                   |
| Export Promotion Agency of Afghanistan (EPPA)                 | 4,761,770          | 2,857,060         |
| PSD Inter-Ministerial Committee (IMC)                         | 1,629,416          | 2,524,822         |
| Afghanistan Chamber of Commerce and Industries (ACCI-020)     | 748,850            | 4,723,000         |
| Afghanistan Land Consulting Organisation (ALCO-095)           | 30,734,702         | 7,361,599         |
| Ministry of Agriculture, Irrigation and Livestock (MAIL-027)  | 31,292,433         | 509,231           |
| Afghanistan National Standards Authority (ANSA-001)           | 4,275,267          | -                 |
| IFC - Da Afghanistan Bank (DAB-010)                           | 4,024,381          | -                 |
| IFC - Ministry of Commerce and Industry (MoCI-043)            | 7,577,758          | -                 |
| IFC - Da Afghanistan Bank (DAB-014)                           | 4,794,481          | -                 |
| High Office of Oversight and Anti-Corruption (HoO)            | 4,000,905          | -                 |
| DAB - Afghanistan Institute of Banking and Finance (DAB-080)  | 12,717,440         | -                 |
| Afghanistan National Standards Authority (ABC-079)            | 301,678            | -                 |
| American University of Afghanistan (AUAF-023)                 | 17,947,937         | -                 |
| MoF - Extractive industries Transparency Initiative (MoF-078) | 2,521,380          | -                 |
| Private Sector & Civil Society Enabling Council (PSCSEC)      | 2,830,490          | -                 |
| Ministry of Agriculture, Irrigation and Livestock (MAIL-173)  | 11,942,660         | -                 |
|   | <b>142,101,548</b> | <b>17,975,712</b> |

These represent expenses incurred by the sub-recipients against sub-grants given to them during the year. These expenses are recorded in the financial statements of H-AICFO on the basis of periodic financial reports submitted by the sub-recipients.

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### 13. Financial instruments

#### 13.1. Credit risk

##### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was Afs 58,190,935 (2009: 36,577,712) in respect of cash and cash equivalents and Afs 154,959,192 (2009: 24,190,574) in respect of advances to sub-grantees. No of the financial assets of H-AICFO were impaired at the reporting date and no allowance for impairment has been booked.

#### 13.2. Liquidity risk.

The following are the contractual maturities of financial liabilities:

|  | Carrying<br>amount | Contractual<br>cash flows | 1 - 6 months      | 7 -12 months |
|--|--------------------|---------------------------|-------------------|--------------|
|  | (Afs)              |                           |                   |              |
| <b>31 December 2010</b>                      |                    |                           |                   |              |
| <b>Non-derivative financial liabilities:</b> |                    |                           |                   |              |
| Accrued and other liabilities                | 2,362,918          | 2,362,918                 | 2,362,918         | -            |
|  | <b>13,695,755</b>  | <b>13,695,755</b>         | <b>13,695,755</b> | -            |
| 31 December 2009                             |                    |                           |                   |              |
| Non-derivative financial liabilities:        |                    |                           |                   |              |
| Accrued and other liabilities                | 13,695,755         | 13,695,755                | 13,695,755        | -            |
|  | <b>13,695,755</b>  | <b>13,695,755</b>         | <b>13,695,755</b> | -            |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

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**13.3. Currency risk****Exposure to currency risk**

H-AICFO's exposure to foreign currency risk was as follows based on notional amounts:

|                               | 31 December 2010  |                  | 31 December 2009 |           |
|-------------------------------|-------------------|------------------|------------------|-----------|
|                               | Afs               | USD              | Afs              | USD       |
| Accrued and other liabilities | (493,668)         | (10,800)         | (10,249,536)     | (210,950) |
|                               | <b>57,322,168</b> | <b>1,254,040</b> | 32,673,519       | 666,807   |
|                               | <b>56,828,500</b> | <b>1,243,240</b> | (10,249,536)     | (210,950) |

The following significant exchange rates applied during the year:

|              | Average rate |       | Reporting date rate |       |
|--------------|--------------|-------|---------------------|-------|
|              | 2010         | 2009  | 2010                | 2009  |
| Afs          |              |       |                     |       |
| <b>USD 1</b> | <b>47.00</b> | 50.00 | <b>45.71</b>        | 49.00 |

**Sensitivity analysis**

A 10 percent strengthening of the Afs against the USD at 31 December would have increased/ (decreased) expenditure for the year with Afs (11,370,205) (2009: Afs 1,120,669).

**13.4. Interest rate risk**

At the reporting date, H-AICFO did not have any interest earning/bearing financial instruments.

**13.5. Fair values**

At the reporting date, the fair values of the financial instruments approximates their carrying amounts.

**14. Related parties**

Related parties comprise of directors and key management employees. Transactions with related parties can be summarized as follows:

**Key management personnel compensation**

Key management personnel compensation comprised:

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|                              | 2010              | 2009       |
|------------------------------|-------------------|------------|
|                              | Afs               | Afs        |
| Short-term employee benefits | <b>8,251,008</b>  | 4,934,395  |
| Meeting fee                  | <b>9,162,596</b>  | 8,151,324  |
|                              | <b>17,413,604</b> | 13,085,719 |

**Key management personnel and director transactions**

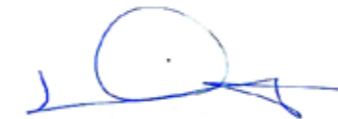
A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

During the year, H-AICFO have not transacted with any such entities.

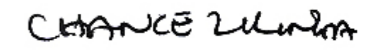
The aggregate value of transactions and outstanding balances relating to directors were as follows:

|             | Transaction value |      | Balance outstanding |         |
|-------------|-------------------|------|---------------------|---------|
|             | 2010              | 2009 | 2010                | 2009    |
|             | Afs               | Afs  | Afs                 | Afs     |
| Meeting fee | <b>9,162,596</b>  | -    | 8,151,324           | 500,000 |

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Chief Executive Officer



Head of Finance

## Acronyms:

|         |  |         |  |
|---------|--|---------|--|
| ABC     | Afghanistan Building Codes                                   | PSD-IMC | Private Sector Development - Inter-Ministerial Sub-Committee |
| ACCI    | Afghanistan Chamber of Commerce and Industries               | PSD     | Private Sector Development                                   |
| ADR     | Alternative Dispute Resolution                               | PSCSEC  | Private Sector and Civil Society Enabling Council            |
| AIBF    | Afghanistan Institute of Banking and Finance                 | PPP     | Public Private Partnership                                   |
| ALA     | Afghanistan Land Authority (Arazi)                           | SOA     | School of Accounting   |
| ALCO    | Afghan Land Consulting Organisation                          | STOR    | Small Taxpayers Office Reform Project                        |
| BLRA    | Business Licensing Reform in Afghanistan                     | TC      | Technical Committees   |
| ANDS    | Afghanistan National Development Strategy                    | UNIDO   | United Nations Industrial Development Organization           |
| ANSA    | Afghan National Standard Authority                           | USAID   | United States Agency for International Development           |
| CEO     | Chief Executive Officer                                      |         |  |
| CIDA    | Canadian International Development Agency                    |         |  |
| DAB     | Da Afghanistan Bank  |         |  |
| DBI     | Doing Business Indicators                                    |         |  |
| DFID    | Department for International Development                     |         |  |
| EITI    | Extractive Industries Transparency Initiative                |         |  |
| EPAA    | Export Promotion Agency of Afghanistan                       |         |  |
| FPASC   | Finance, Procurement and Audit Sub-Committee                 |         |  |
| GOA     | Government of Afghanistan                                    |         |  |
| H-AICFO | Harakat-Afghanistan Investment Climate Facility Organisation |         |  |
| HOO     | High Office of Oversight and Anti-Corruption                 |         |  |
| IFC     | International Finance Corporation                            |         |  |
| IMC     | Inter-Ministerial Committee                                  |         |  |
| IFRS    | International Financial Reporting Standards                  |         |  |
| KPI     | Key Performance Indicators                                   |         |  |
| LRMP    | Land Records Modernisation Project                           |         |  |
| LTERRA  | Land Titling and Economic Restructuring Activity             |         |  |
| MAIL    | Ministry of Agriculture, Irrigation and Livestock            |         |  |
| MOF     | Ministry of Finance  |         |  |
| MOCI    | Ministry of Commerce and Industries                          |         |  |
| MOI     | Ministry of Interior   |         |  |
| MOPW    | Ministry of Public Works                                     |         |  |
| MSG     | Multi Stakeholder Group                                      |         |  |
| MSME    | Micro, Small and Medium Size Enterprises                     |         |  |
| NGO     | Non Governmental Organisations                               |         |  |
| PDU     | Proposal Development Unit                                    |         |  |
| PRSC    | Performance Review Sub-Committee                             |         |  |
| PSC     | Proposal Sub-Committee                                       |         |  |