

Better Business Better Future

HARAKAT



Annual Report

2011



+93 (0) 752 044 000
info@harakat.af
www.harakat.af

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

In Partnership with:



اقتصاد بهتر آینده بهتر | به اقتصاد به راتلونکی

Making Afghanistan a better place to do business

CONTENTS

- From the Board Chairman..... 1
- From the CEO..... 2
- 1. Harakat Overview..... 3
 - 1.1 About Harakat..... 3
 - 1.2 Harakat’s Application & Approval Process..... 4
- 2. Two years on – challenges & opportunities..... 5
- 3. Harakat Governance..... 7
 - 3.1 Governance and management structure..... 7
 - 3.2 Governance charter..... 8
 - 3.3 Board member profiles..... 9
 - 3.4 Harakat’s partners..... 10
- 4. Harakat Activity Overview..... 11
 - 4.1 Projects’ fit with Harakat outcomes and objectives..... 13
- 5. Harakat Funded Projects..... 14
 - 5.1 Completed Projects..... 14
 - 5.2 Projects Currently Being Implemented..... 18
- 6. Harakat’s Communication Activities..... 28
- 7. Financial Overview..... 29
- 8. Auditor’s Report..... 31

Hard copies of this report can be obtained from the Harakat Communication Department at info@harakat.af or can be downloaded from the Harakat website www.harakat.af.

FROM THE BOARD CHAIRMAN



2011 was a successful year for Harakat Afghanistan Investment Climate Facility Organisation, and is particularly notable for the rapid acceleration of progress in a number of projects underway. Harakat signed a total of seven new projects, bringing to 26 our portfolio of active projects across our

eight priority outcome areas. The new projects, including the development of a National Trade Policy, Strengthening Fair Competition, Strengthening Consumer Protection, Institutionalizing the Economic Journalism, Strengthening the Association of Afghanistan Freight Forwarders Companies (AAFFCO), Institutional Capacity Development for NSDP & DMTVET for Demand Driven Labour Market and the Harakat Research Projects, are in line with our mission to improve the business environment in Afghanistan.

“Harakat’s input – although modest – is crucial in helping re-establish Afghanistan as a politically and economically viable state.”

Harakat has continued to fund and monitor effective projects to facilitate improving the ‘doing business’ climate in Afghanistan. We are encouraged not just by the response to the projects we are developing in partnership with the Government of Afghanistan and the Afghan private sector, but also by the real benefits we are seeing through established projects.

Harakat’s input – although modest – is crucial in helping re-establish Afghanistan as a politically and economically viable state. Economic growth, which has received far less international attention than has Afghanistan’s political process and security situation, has been growing positively and steadily over recent years, and Harakat is pleased to play a supporting role. It has always been Harakat’s commitment to pursue projects that

remove the barriers that currently exist to doing business – namely red tape, excessive bureaucracy, poor infrastructure, and limited access to credit. This is the only sustainable way to create a fertile investment climate in which enterprise can flourish. As long as these barriers remain, foreign and domestic investors will continue to look elsewhere and sustained equitable economic growth will remain elusive.

Despite such challenges as a risky security environment and a need to expand existing human resources, we firmly believe an improved investment climate is an achievable reality, not least because we know it costs less to deliver institutional and regulatory improvements than to mobilise funding for investments. The improvements we advocate for and support across the Government of Afghanistan and the Afghan private sector alike depend on a commitment to change, to improved structures, and to a collaborative approach among all stakeholders. When we succeed, Harakat believes the impact in transforming the investment climate will be enormous and the benefits enduring.

It is an honour to have been asked to serve as Chairman for Harakat’s very capable Board of Directors, and to be part of the positive changes now underway. I also want to thank our staff for their professionalism and their dedication, and offer my appreciation for their continued support.

I look forward to the year ahead, confident that we have the people, the resources, and the commitment to succeed in our mission to improve the investment climate in Afghanistan and make a lasting and beneficial difference.

Karim Khoja
Chairman, Harakat Board

FROM THE CEO



As we look back at 2011, Harakat - Afghanistan Investment Climate Facility Organisation can reflect with pride on the significant impacts our funded projects are making in helping create a better investment climate in Afghanistan. Our

project portfolio continues to mature and expand thanks to the ongoing trust, commitment, and active involvement of our partners and stakeholders. We are particularly pleased to report that many of these projects are already delivering improvements to businesses and investors across Afghanistan. Along with others outlined in this report, projects such as the Arazi (phase 1 and 2) which is making decent progress towards its objectives is expected to significantly increase private sector access to Land and the Land Record Modernization Project which after successful completion of the first phase Harakat is currently in the verge of initiating its second phase, has already produced tangible impacts on reducing the time and cost for accessing land title deeds and streamlining the land registration process.

Since our inception in 2008, we have seen a steady increase in national and international recognition of the value of a healthy investment climate in Afghanistan. Our ongoing strategy is to learn from established projects to stimulate progress and improvement across the project portfolio. Lessons from established projects, such as the Traders’ Information and Complaint Call Centre started in March 2009, which reduces transportation costs by identifying and addressing corruption, are increasingly being integrated and applied to other new projects with new implementing partners, leading to real benefits for business owners across Afghanistan.

2012 promises to be an exciting and challenging year for Afghanistan, particularly as the initial withdrawal of US and international forces will occur, no doubt prompting fresh concerns about the wisdom of investing here. Harakat also faces challenges: there is still a great deal of work to be done, keeping our projects on track and ensuring

that our impact is both visible and relevant. We urge our partners – both current project implementers, would-be investors, and potential funding partners – to consider that now is exactly the right time to be serious about supporting broad-based economic growth in Afghanistan: there is too much at stake. We want to make sure that gains made in recent years are irreversible. Now is the time to build on the success and opportunities Harakat is creating and contribute to the growing business potential of Afghanistan. Mindful of both the challenging external environment and the need to continue to improve our in-house processes, I am confident that Harakat, along with our partners and stakeholders, will build on our current momentum for change and continue to successfully address constraints hampering economic development in Afghanistan. Harakat’s unique position – as a bridge between the private sector and the Government of Afghanistan – presents a tremendous opportunity to raise awareness of the importance and benefits of an improved investment climate and of the noticeable improvements now being made. The business community can expect to see Harakat leverage its unique position further during 2012.

“Now is the time to build on the success and opportunities Harakat is creating and contribute to the growing business potential of Afghanistan.”

I want to thank the dedicated and highly accomplished staff at Harakat for their hard work and continued commitment in these demanding times. I also want to express my appreciation to our partners and stakeholders without whom we would not be able to help Afghanistan become a better place to do business.

Chance Zilinga
Acting Chief Executive Officer

THE CASE FOR HAKAKAT

Afghanistan is home to 30 million people who want the same things as people the world over: peace, security, access to education and healthcare, and the opportunity to have a decent job that provides enough money on which to comfortably live. It is home to entrepreneurs who are prepared to work hard to achieve their ambitions and who seek to rejuvenate and restore Afghanistan's private sector. There is enormous appetite for positive, long-lasting change.

This is not to deny that alongside the energy and desire for change, there are particular challenges and barriers Afghanistan faces. Issues of security, corruption, bureaucracy and weak regulation are real threats to economic growth.

Harakat- the Afghanistan Investment Climate Facility Organisation (Harakat) was established in May 2008, in the face of these twin realities: a real desire for a better business environment, and complex issues to fix. With an initial capital of £30 million (approximately US\$50 million), Harakat is an independent, not-for-profit, Afghan-managed organisation that provides grant funds to organisations and businesses that have solid ideas to tackle these issues whilst creating a flourishing investment environment.

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 four years (Harakat will cease operations in

“Afghanistan is a country with significant potential for economic development. It has substantial water, agricultural and mineral resources and is well positioned to become a trade and business hub linking the markets of Central Asia, the Middle East, South Asia and China. The potential exists for sustainable economic growth in the future.” (Afghanistan National Development Strategy, 2008-2013)

2015), we will use our 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.

It is our plan too that our capital fund will grow to US\$100 million as it attracts private sector and donor contributions to fund practical, rapid-result projects that promote achieving eight priority outcomes:

HARAKAT'S 8 PRIORITY OUTCOME AREAS

1. Financial markets that provide greater access to finance and affordable credit to all sizes of business, especially Small and Medium Sized Enterprises (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.

ACHIEVEMENT CASE STUDIES

Land Records Modernization Project (LRMP)

- Average number of days needed to verify a title deed reduced from as many as 7-8 days to one day and there be instances when it hardly takes an hour to access and verify an archived title deed.
- Average number of days required to register/transfer a land property reduced from 250 days to maximum 30 days.
- 2,420,488 Afghan citizens (calculated at seven family members per family) were assisted and protected against competing claims, fraudulent transactions, and arbitrary evictions
- 54% of the banks and financial institutions are improving and making their systems compatible to modernized land records

Harakat supported the streamlining of the land property registration and transfer system in Afghanistan because it recognized that business was being hampered by the complex and often bureaucratic property registration procedures required for property registration and transfer. The objective of the project was to improve tenure security and avoid fraudulent land transactions by computerizing 345,784 land/property titles in 12 provinces. The computerization further extended to 25,544 mortgage deeds in Kabul province to avoid duplicate use of property pledged as collateral. In order to sustain the trend and best practice, the project trained 50 relevant government employees and equipped them with databases and tools to continue the digitalization effort. The project applicant was

the Supreme Court of Afghanistan, while the implementer of the project was the Afghanistan Land Consulting Organization (ALCO).

The beneficiaries of the project were the Afghan society at large – including in particular local entrepreneurs, investors and landowners, while at the same time benefiting the Supreme Court and 10 targeted provincial courts. Computerization of deeds was aimed to simplify daily administration of land records and to reduce the administrative burden significantly.

Property registration is of critical importance to all areas of the private sector including but not limited to the banking sector, real estate development sector, and legal sector. The project was intended to benefit the private sector by creating private sector savings through streamlined systems and improved government capacity, increased tenure security via reduced risk of fraudulent property transactions, and increased land investments due to reduced risk of competing claims/fraudulent transactions.

Afghanistan National Standards Authority (ANSA)

- 121 standards developed among which 81 standards have been approved by the Supreme Council of Standards (SCS)
- 8 standards shared with 9 government and non-government agencies for voluntary implementation
- ANSA basic website developed and launched, and awareness activities are in process and many private sector workshops completed

Harakat Overview

- Harakat was established as an initiative of the UK Government's Department of International Development (DFID) with seed funding of £30million (approximately US\$50 million);
- Harakat's goal is to advance economic growth and investment in Afghanistan and contribute to employment generation and poverty reduction. 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; responding practically and quickly, by funding business climate improvement activities across the whole of Afghanistan focusing specifically on eight priority outcome areas; and
- Harakat seeks to identify and engage with key stakeholders within the Government of Afghanistan (GoA), civil society organisations, and the private sector.

Developing nationally accepted standards and qualifications for products and their development is an essential step in ensuring the competitiveness of Afghanistan's nascent production and export industry. With Harakat support, this project is aimed at developing at least 30 standards in the first year and another 14 mandatory standards in the second year. ANSA has committed together with the collaboration of the relevant stakeholders to enforce 14 standards. The enforcement of sound standards is expected to limit the import of sub-standard quality products and encourage quality national production and exports, while also contributing to the creation of a level playing field in the market, with eventual pricing and performance benefits to consumers. The project is developing the capacity of ANSA and the technical committees in petroleum products, construction, food, pharmaceuticals and cosmetics, metrology and other sectors, and also in the fields of textiles and electronic goods for a sustainable national standard development and standards enforcement purpose. To maintain the pace of standards development over a 24-month period, Harakat is funding equipment, services and supplies, and technical consultants.

Afghanistan Land Authority (ALA) – Arazi (Phases-1 and II)

- ALA approved and Board of Directors established and approved by the Cabinet, which also endorsed the merger of MAIL's pre-existing land authority department with the newly established ALA
- Efficient and effective systems put in place allowing existing land lease procedures to be condensed by 80%

- Time required for land lease-related activities reduced from 180 to 45 days, and required procedures reduced from 45 to 7

Access to land poses a major obstacle to productive investment in Afghanistan for both foreign and local investors. The ALA project was a reform initiative to establish an autonomous land authority within the Ministry of Agriculture, Irrigation and Livestock (MAIL) and develop standardised, efficient, and transparent land lease management procedures and services. Arazi was intended to serve as a single reference point for both domestic and international investors interested in becoming involved in land-related activities in Afghanistan. The first phase of this project was completed and the second phase is scheduled for completion in June 2012.

The project made significant progress in the last quarter of 2011, and as per the recent extended work plan, the project is on track. The Ministry of Agriculture, Irrigation and Livestock (MAIL) recruited a new CEO through the MCP process to fill the ARAZI leadership gap. The work on developing the Land Management Information System (LIS) is almost complete and procurement of a data centre is underway. The team has also been working on completion of the remaining procedures to be developed. In the last quarter of 2011, ARAZI made significant progress in developing support concepts with other donors. The second phase of ARAZI is scheduled for completion in June 2012.

"I learned a lot from dealing with Harakat employees in terms of project management, and flow of various processes and bottle necks and how to deal with them. War has really affected the institutions of Afghanistan and now what Harakat is doing is institutional building, which for me is of utmost importance. My thinking throughout the implementation of this project has become more positive about the future of reform in Afghanistan."

Mr. Najeeb Ahmadzai
Head of Kabul Revenue Department
Afghanistan Revenue Department

HARAKAT CHALLENGES & OPPORTUNITIES

Amidst the evident progress achieved by Harakat during the reporting period, there were several challenges and also opportunities. Many of these opportunities and challenges are not unlike those faced by organizations working for positive change in otherwise difficult circumstances.

Some of these challenges included:

- Lack of capacity and commitment from implementing partners, especially during the implementation stage.
- Difficulties in finding and hiring qualified staff and consultancy services as well as high staff turnover have contributed to delays in project implementation and completion.
- Maintaining the financial sustainability of projects completed or in an advanced stage is a challenge arising from a lack of coordination between donors and changes to initial commitments partners made to the projects.
- Continued concerns over national security particularly given the 2012-2014 staged troop

withdrawal and the ensuing transition process.

- The ongoing need for strong political and policy support at all levels across the GoA, and a proactive, collaborative approach to removing the constraints and barriers for private sector development.

Opportunities were also evident, suggesting positive prospects for Harakat can respond in 2012. Among opportunities presented in 2011 are:

- Stronger project implementation that created opportunities for Harakat-supported projects to gain ground and create a sustainable foundation for future success.
- Increased private sector interest in business opportunities that indicates collaboration with donors is having positive effects on the investment climate in Afghanistan.
- Development of a new Harakat project strategy that will guide prioritization of activities in different outcome areas, and

will also improve selection of viable implementing partners, and encourage a more proactive approach to selecting demand-driven projects.

- Developing a revised project unit structure and the planned establishment of a project management unit will allow Harakat to effectively address the capacity of implementing partners.
- The emphasis on opportunities for institutionalising gains made in recent years that will be created by the transitional process initiated by the staged troop withdrawal.
- Opportunities for Harakat to encourage partnerships in areas of mutual interest with existing and potential donors flowing from a need for increased project financial stability.

Harakat Overview

- Harakat was established as an initiative of the UK Government's Department of International Development (DFID) with seed funding of £30million (approximately US\$50 million);
- Harakat's goal is to advance economic growth and investment in Afghanistan and contribute to employment generation and poverty reduction. 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; responding practically and quickly, by funding business climate improvement activities across the whole of Afghanistan focusing specifically on eight priority outcome areas; and
- Harakat seeks to identify and engage with key stakeholders within the Government of Afghanistan (GoA), civil society organisations, and the private sector.

HARAKAT 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 determine whether they fit Harakat's mandate.

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's strategic priorities and its set of standard project selection criteria, the applicant is invited to submit a more detailed Full Application.

Full application submission

Project finally approved or rejected

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

Due diligence and final project design

Grant agreement award

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

Project implementation

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

Monitoring and evaluation

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

- **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 organisation's day-to-day management. The units comprise: 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 of the CEO.

HARAKAT GOVERNANCE

Management Structure

Harakat was established by the United Kingdom's (UK) Department of International Development (DFID) to be funded by multiple donors and private sector investors, governed by a Board of Directors, and managed directly by operational management units. The Board meets quarterly and has three standing sub-committees composed of selected Board members who support the Board in its on-going responsibilities.

The Board is currently composed of six members: four Founding Board Members from the private sector and two Members appointed by the Donor Investor.

The 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

GOVERNANCE CHARTER

Harakat's Governance Charter sets out the roles and code of conduct for its employees and partners as well as its relationships with investors, the Board, and the management team. The Governance Charter was 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 or ethnic background or gender. It commits to integrating and tracking the dimensions of gender and socially excluded groups in the design and impact of its activities where possible.

The Environment

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

Bribery and Corruption

Harakat maintains the highest standards of integrity in fulfilling its role as an effective change agent and credible advocate for business reform. Harakat does not support any activities or projects involving money laundering, bribery, or corruption in any form. Any 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, are immediately actionable.

Compliance with the Law

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

Transparency and Objectivity of Reporting

Harakat reports on its activities transparently and takes all steps necessary to ensure that statements and reports are honest, accurate, and timely. An external auditor reviews financial and performance information on an annual basis to ensure the sustained accuracy and objectivity of reporting. The CEO and Board Chairman are made aware of any sensitive disclosure before it is made. Harakat, through its website and through its published annual report and accounts and other statements, at all times endeavours to provide appropriate information to enable investors to accurately assess its performance.

BOARD MEMBER PROFILES

Karim Khoja – Board Chairman (Founding Board Member 2009 - current)

Karim Khoja has more than 20 years' 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 industry 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.

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 Seddiq – Board Member (2009 - current)

Khalil Seddiq is a banking and business professional with more than 30 years' 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 Seddiq 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 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

HARAKAT PARTNERS

During 2011, Harakat continued to work in close partnership with the GoA, the private sector, civil society organisations, and donor agencies to identify, fund, and implement projects that create an enabling environment for private

to the telecommunications 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

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 to ensure growth flourishes. To help create such an environment, Harakat works closely with the GoA, strengthening the role of government in this important reform, reconstruction, and

Simon White – Board Member (2011 - current)

Dr. Simon White is a development specialist with expertise in business environment reform, private sector development, entrepreneurship, and regional and local economic development. He has worked at local, national, and international levels in policy design and evaluation, programme development and management, as well as in strategic planning and organisational development. He has worked as a self-employed consultant since 1990 in more than 25 countries across Africa, Australia, Asia, as well as parts of Europe and the Pacific. He has worked with a wide range of donor and development agencies, governments and business membership organisations in the design and assessment of business environment reform programmes.

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.

stabilisation phase of Afghanistan's development.

Harakat is supporting or has supported projects under development or implementation with the following Afghan 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), the Afghanistan National Standards Authority (ANSA), Ministry of Economics, Ministry of Labour, Social Affairs and Martyrs (MoLSAMD) and Ministry of Education (MoE), the Private Sector and Civil Society Enabling Council (PSCSEC), the Afghanistan Land Authority, and the Supreme Court of Afghanistan.

The Afghan Private Sector

In 2011, Harakat continued its collaborative relationship with the private sector by working directly with business membership organisations in a variety of areas. Among other activities, this positive relationship involves receiving suggestions and comments from businesses on improving Afghanistan's business environment, providing funding to projects with business associations, such as the Afghanistan Chamber of Commerce and Industry, and involving the private sector as stakeholders in project consultation and implementation. The private sector also has an important stake in the Harakat project portfolio as demonstrated by its membership in various projects' decision making forums, such as, the Board of Directors for the Afghanistan Land Authority (ALA), the Multi Stakeholders Group (MSG) of the

Extractive Industries Transparency Initiative (EITI), the Advisory Board and Technical Committees for the Development of the Afghanistan Building Codes (ABC), the Supreme Council of Standards and Technical Committees for the Development of National Standards for Afghanistan and the board of directors for Afghanistan Institute of Banking and Finance. Similarly, the private sector is represented in the Board of directors for the Economic Journalist Association for Afghanistan and the Advisory Board for School of Accounting projects.

In addition to working with the ACCI, Harakat has collaborated directly with a number of Business Membership Organizations (BMO) on a variety of projects, including: helping strengthen the capacities of the AAFCCO through the development of training materials, stimulating BMO involvement in helping media to address business issues, and helping BMOs and private sector organizations to advocate for regulatory reforms. Harakat has also helped to support more Private Sector demand driven investment climate reforms by initiating targeted research studies on SMEs, on women's entrepreneurship, informal businesses and other relevant subjects to identify and address barriers to commerce.

It is well known that a clear sign of market maturity is the private sector's ability and willingness to reinvest in its self. While the Afghan private sector has been actively involved with Harakat and its projects, investors are encouraged to increase this involvement and encourage other supporters to join them in contributing to the growth of the Afghan economy. To this end, in

2012, Harakat will, as in previous years, continue to work with the private sector to encourage and affirm their involvement in building the economy of Afghanistan.

Civil Society Partners

The involvement of Civil Society is essential for building transparency, and broad-based demand for reform and service delivery. It is thus an important partner for identifying and implementing Harakat-funded projects. Civil Society plays a practical role. As confirmation of this, Harakat has three projects in various states of project readiness generated by our civil society partners.

Development Partners

Harakat was established with the intent that donors and the private sector fund it. To date, DFID – the founder of Harakat – is its only investor. Other development agencies either co-finance and collaborate with Harakat projects (e.g., World Bank, USAID) or support Harakat as implementing partners, as does the International Finance Corporation (IFC).

“Harakat plays a vital role in improving the business environment in Afghanistan; because it's Afghan-managed and knows the particular challenges and barriers that businesses encounter while trying to maximise income-generating opportunities and returns on investment in Afghanistan.”

HARAKAT ACTIVITY OVERVIEW

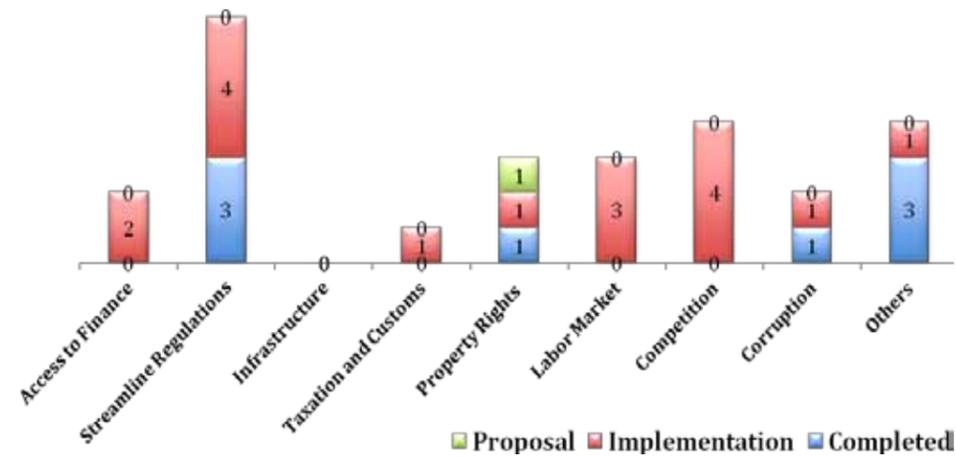


Figure 1: Number of Projects in Various Stages in Each Outcome Area:

During 2011, Harakat initiated a number of evaluations of its operations including a full-scale mid-term review. As a result, Harakat will be making changes to its operational policies and procedures beginning in 2012 to ensure improved efficiency. Additionally, Harakat also critically reviewed its funded

projects. As a result of this review, Harakat terminated five active projects due to weak performance or unacceptable project related risks. These actions ensure that projects funded by Harakat are in line with the organization's Governance Charter and contribute to meeting Harakat's overarching goal of

stimulating the business environment in Afghanistan. By the end of 2011, Harakat's portfolio consisted of 26 active projects (excluding five cancelled projects). Of the active projects, eight projects were completed, 17 projects are now in the implementation stage, and one project is in the proposal stage.

Committed Amount

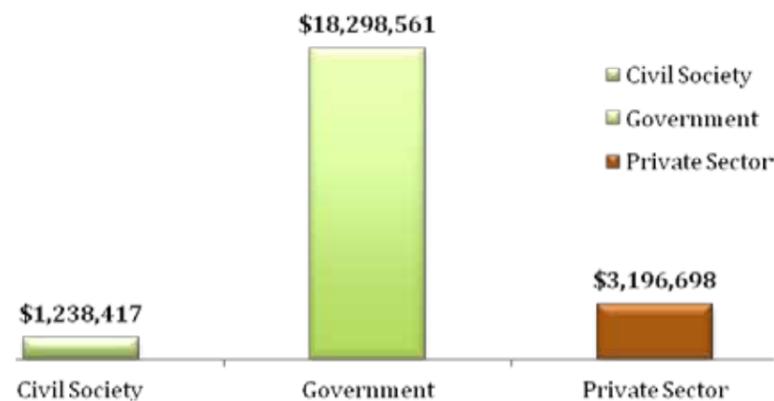


Figure 2: Amount Allocated by Type of Partner

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

The 26 active projects had a total estimated value of US\$22,733,676 at the end of 2011. This includes US\$2,345,512 expended on completed projects, US\$18,296,511 allocated for projects in the implementation stage and, US\$2,091,653 planned for allocation to the project in the proposal stage.

During 2011, Harakat signed grant agreements for nine new projects. However, two of these projects were later terminated due to weak performance and project-related risks. The total value of the remaining grant contracts signed in 2011 was US\$3,474,570.

In addition, Harakat has eight other potential projects in the idea/concept note stage with an estimated value of US\$4,000,000. Harakat completed three projects in 2011, with a total value of US\$529,119. Of these three completed projects, one is currently being reviewed for a potential next phase.

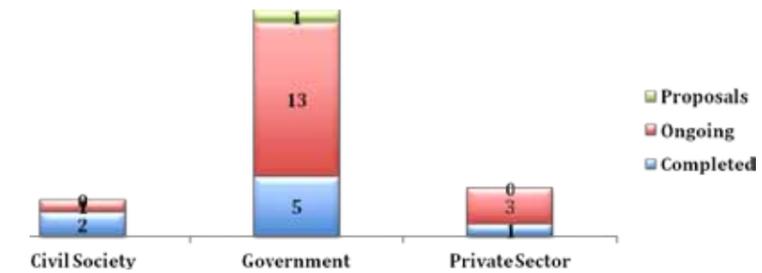


Figure 3: Number of Projects by Type of Partner

Based on current progress, Harakat has funded at least one project in seven of the eight Priority Outcome areas. Harakat is yet to fund any project under Priority Outcome #3: Increased Private Sector

Investment in Infrastructure. A total of nine projects are funded under Priority Outcome #2, which is the maximum number of projects associated with one Priority Outcome area. Furthermore,

there are four projects with crosscutting impacts touching most of the Priority Outcome areas.

Harakat Commitments Per Outcome Area

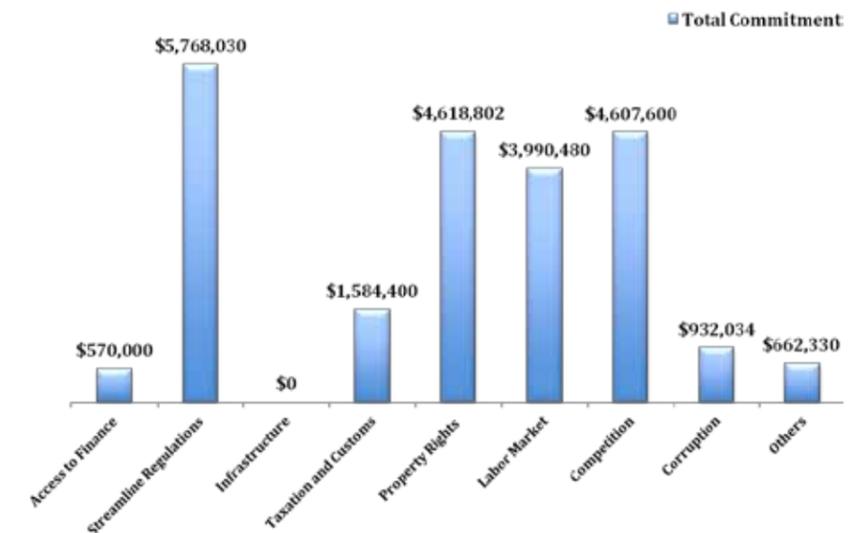


Figure 4: Amount Allocated by Outcome Area

4.1 PROJECTS PER PRIORITY OUTCOMES AND OBJECTIVES

A summary of projects completed with Harakat's priority outcome areas and associated objectives and expected results is illustrated in the table below.

#	Harakat Priority Outcome Area	Harakat Objectives	Contributions To Improved Investment Climate	Harakat Funded Projects A - Completed B - Underway C - Proposal
1	Improved financial markets with greater access to finance	<ul style="list-style-type: none"> Improve Afghanistan's legal and regulatory framework to increase access to finance for SMEs Improve information sharing in the financial market Contribute to increased knowledge on how to expand access to finance 	<ul style="list-style-type: none"> Improves access to credit, particularly for SMEs Improves access to information on borrowers and reduces related credit risk 	Afghanistan Public Credit and Collateral Registry - B Afghanistan Secured Lending Project - B
2	Streamlined and more effective regulations	<ul style="list-style-type: none"> Simplify and streamline registration and licensing process and other business regulations to reduce costs and delays Increase private sector awareness of and compliance with regulations Increase government capacity to enact and implement effective regulations 	<ul style="list-style-type: none"> Reduces costs for private sector and increases regulatory compliance Formalises economy by increasing the number of businesses formally registered and licensed (with important benefits to government & civil society) 	The Afghanistan Land Authority (Arazi) (Phase 1 - A and Phase 2 - B) Commercial Laws Awareness Program - A Reforming Construction Permits Process - A Business Licensing Reform Project - B Development of National Trade Policy - B Technical Assistance for AAFFCO - B
3	Increased private sector investment in infrastructure	<ul style="list-style-type: none"> Facilitate private sector investment in infrastructure, energy, water, and agriculture via Public-Private Partnership (PPP) establishment 	<ul style="list-style-type: none"> Increased investment in better infrastructure Improved PPPs in the infrastructure sector 	NA
4	More equitable and efficient taxation & customs systems	<ul style="list-style-type: none"> Simplify processes Reduce costs and delays Increase transparency 	<ul style="list-style-type: none"> Formalises economy Greater compliance Encourages international trade 	<ul style="list-style-type: none"> Small Taxpayers Office Reform - B
5	Strengthened property rights	<ul style="list-style-type: none"> Streamline the property registration process Increase the proportion of formal property registration 	<ul style="list-style-type: none"> Improves security of tenure for investors Increases access to finance for SMEs Reduces costs of property registration and contract enforcement 	Land Records Modernization Project (LRMP) - A Afghanistan Centre for Dispute Resolution - B Land Records Modernization Project (LRMP) - Phase 2 - C
6	Higher workforce productivity & improved labour market regulation	<ul style="list-style-type: none"> Equip different sectors with qualified professionals to produce effective and efficient services Improve and enforce labour market regulations 	<ul style="list-style-type: none"> Reduces cost and time for doing business by accessing locally available professionals Private sector delivers better quality goods and services Better working conditions 	Afghanistan Institute of Banking and Finance - B School of Accounting - B Institutional Capacity Development for NSDP and DMTVET for Demand Driven Labour Market - B
7	Strengthened competition policy	<ul style="list-style-type: none"> Encourage more companies to invest in different sectors Reduce anti-competitive practices Improve product standards 	<ul style="list-style-type: none"> Establishes equitable opportunities for doing business in Afghanistan Improves quality of goods and services, and reduces prices Increases market trust 	National Standards Development and Capacity Development of Technical Committees - B Development of the Afghanistan National Building Codes - B Strengthening Consumer Protection Policy - B Strengthening Fair Competition Policy - B
8	Improved capacity of government and institutions to tackle corruption	<ul style="list-style-type: none"> Equip government with human and institutional capacities to tackle corruption 	<ul style="list-style-type: none"> Reduces business costs Builds trust between government and the public 	Traders' Information and Complaint Call Centre - A Extractive Industry Transparency Initiative - B
	Cross Cutting			Institutionalizing Business Advocacy and Business Journalism in Afghanistan (EJAA) - B PSD-IMC Secretariat Support - A Leadership and Vision for PSCSEC - A Harakat Research Project - A

A= Completed projects

B= Projects currently being implemented

C= Projects in the proposal stage

COMPLETED PROJECTS - 2011

#	Priority Outcome #	Project Name	Implementing Agency	Budget (USD)	Duration
1	2	Reforming Construction Permits Process	High Office of Oversight and Anti-Corruption (HOO)	\$89,247	Jan 2010 - Nov 2010
2	2	Awareness Programme about Commercial Laws (APCL)	Afghanistan Chamber of Commerce and Industries (ACCI)	\$111,026	July 2009 - Feb 2010
3	2	Afghanistan Land Authority - Arazi (Phase 1)	Ministry of Agriculture, Irrigation and Livestock (MAIL)/ Afghanistan Land Authority (Arazi)	\$702,429	Sep 2009 - Aug 2010
4	5	Land Records Modernization Project (LRMP)	Afghan Land Consulting Organisation (ALCO)	\$827,149	Oct 2009 - Sep 2010
5	8	Traders' Information and Complaint Call Centre	Export Promotion Agency of Afghanistan (EPA)/ Ministry of Commerce & Industries (MoCI)	\$187,481	Mar 2009 - Feb, 2011
6	Cross Cutting	Leadership and Vision for PSCSEC	Private Sector and Civil Society Enabling Council (PSCSEC)	\$164,520	June 2010 - May 2011
7	Cross Cutting	PSD-IMC Secretariat Support	Ministry of Commerce & Industries (MoCI)	\$86,542	June 2009 - June 2010
8	Cross Cutting	Harakat Research Project	Harakat	\$177,118	Jan 2011 - Dec 2011

Reforming Construction Permits Process - Outcome# 2

The objective of this project was to assess the current process of issuing construction permits and develop a realistic action plan for reform. Working with the Higher Office of Oversight and Anti Corruption (HOO), the project's objectives were to collect and analyse relevant data and develop an action plan for reform and reduction of challenges associated with securing government construction permits.

Achievements Following a detailed assessment of regulatory and non regulatory environment, number of case studies at the Kabul Municipality, regular working sessions with the relevant stakeholders and survey of beneficiaries, the project mapped the processes of issuing construction permits at Kabul Municipality, and identified legal, technical and institutional

barriers and recommendations for reforms. The project also provided recommendations for reform implementation by the Kabul Municipality as part of its follow-on activities.

Awareness Programme about Commercial Laws (APCL) - Outcome# 2

This project was intended to contribute to addressing the business community's general lack of

I believe the best way to sum up Harakat's contribution is through its own vision statement: "Better Business Better Future". This statement expresses the importance of the organization in the current business environment in Afghanistan. Very few government entities in Afghanistan are able to fund their own projects, and with the funds it is able to make available and the fact it is Afghan-managed, Harakat-AICFO is very attractive for us to partner with. This is backed up by its flexibility, and commitment to carrying out its mandate with full competence: effectively and efficiently. Over the past three years, Harakat-AICFO has supported MOCI through several significant projects, such as the development of the National Trade Policy and Strengthening Fair Competition project, which we hope will play a vital role in improving the economic situation, social welfare and prosperity of Afghanistan.

H.E. Mozamil Shinwari
Deputy Minister
Ministry of Commerce and Industry

awareness about commercial laws, which pose a major constraint for the private sector in complying with business regulations. The project allowed for 49 awareness seminars to be organized in the provinces of Kabul, Balkh, Herat, Jalalabad, Kandahar, Kundoz, and Khost.

Achievements - 220 business entrepreneurs were trained on Taxation law, Customs law, Tariff legislation, Arbitration law, Anti-Hoarding law, Anti-Monopoly law, and Contract law during the training seminars. 10,000 copies of an educational DVD and 10,000 copies of an educational booklet on the seven commercial laws were produced and distributed among business entrepreneurs in the seven provinces. Additionally, information about commercial law was produced and distributed, and a round table discussion involving members of the GoA, private sector, and donor communities was held to discuss law-related issues. During the project, the Ministry of Finance (MoF), Ministry of Justice (MoJ), MoCI and ACCI agreed on a mechanism to address private sector challenges arising from commercial laws and regulations.

Afghanistan Land Authority (ALA) – Arazi (Phase-1)- Outcome # 2

Access to land poses a major obstacle to productive investment in Afghanistan for both foreign and local investors. The ALA project was a reform initiative to establish an autonomous land authority within the Ministry of Agriculture, Irrigation and Livestock (MAIL) and develop standardised, efficient, and transparent land lease management procedures and services. Arazi was intended to serve as a single reference point for both domestic and international investors interested in becoming involved in land-related activities in Afghanistan. The first phase of this project was completed and the second phase will be completed by end of June 2012.

Achievements - ALA was approved as an executive agency through a Presidential decree and the ALA Board of Directors was established and approved by the Cabinet, which also endorsed the merger of MAIL's pre-existing land authority department with the newly established ALA. A five-year strategic plan for land lease and lease management was developed. Efficient and effective systems were

put in place allowing existing land lease procedures to be condensed by 80%. This reduces the time required for land lease-related activities from 180 to 45 days, and reduces required procedures from 45 to seven.

Land Records Modernization Project (LRMP) Outcome # 5

To address complex/bureaucratic property registration procedures involved with property registration/transfer systems, Harakat funded a one-year project aimed at streamlining the land property registration and transfer system in Afghanistan. The project applicant was the Supreme Court of Afghanistan, while the implementer of the project was the Afghanistan Land Consulting Organization (ALCO). The objective of the project was to improve tenure security and avoid fraudulent land transactions by computerizing land/property titles in 12 provinces. The computerization further extended to 25,544 mortgage deeds in Kabul province to avoid duplicate use of property pledged as collateral.

Achievements - The LRMP project completed the indexing and

computerization of some 345,784 title deeds in 12 provinces, representing 98.79 % of the total number of deeds planned. About 25,000 mortgage deeds were computerized, representing 27% more than planned. As a result of this project, 2,420,488 Afghan citizens (calculated at seven family members per family) were assisted and protected against competing claims, fraudulent transactions, and arbitrary evictions. A final evaluation study of the project confirmed the success of the process improvements: the average number of days required to verify a title deed was reduced from as many as 7-8 days to two days, and the average number of days required to register/transfer a land property was reduced from 250 days to maximum 30 days. 54% of the banks and financial institutions are improving and making their systems compatible to modernized land records.

Traders' Information and Complaint Call Centre – Outcome #8

The Traders' Information and Complaint Call Centre was a two-year project started in March 2009 and completed in February 2011 to

help government and stakeholders identify major highway areas that have been subject to illegal fees and bribes that pose a major challenge for import and export businesses in Afghanistan. The project was implemented by the Ministry of Commerce and Industries (MoCI) with three major components: the establishment of a 24/7 Call Centre, a promotional campaign, and investigation of complaints.

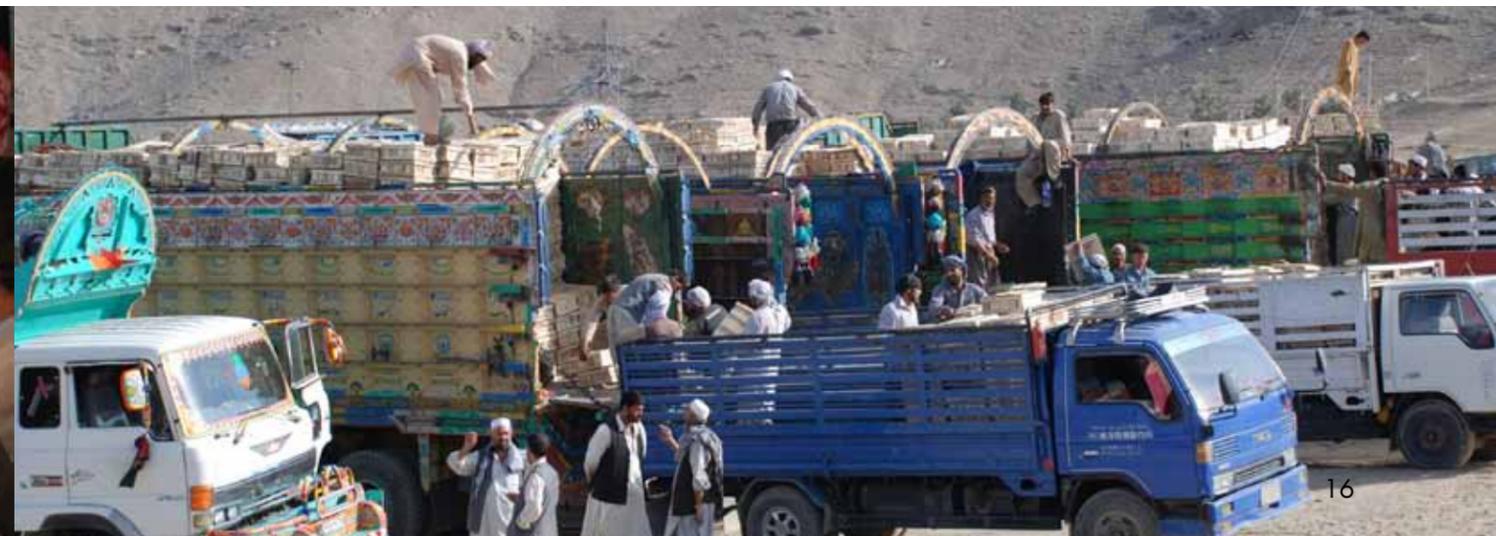
Achievements – The project completed 5,086 radio spots through four different radio networks, 26,000 print outs including stickers and posters of different sizes, and eight billboards on major highways. Of the 1,280 legitimate complaints received, 995 (78%) of them were shared with relevant government officials for follow-up and 224 were resolved by the project. A total of 52 discussion sessions were held among the relevant stakeholders to discuss trader complaints. The project also helped build the capacities of government and relevant institutions to tackle corruption related to informal fees and bribes on highways. And, the project served to identify inconsistencies in Municipality Tax Guidelines that

posed major problems for traders and transporters. Following this, the project revised the Municipality Tax Guidelines and received its approval from the Council of Ministers.

Leadership and Vision for Private Sector and Civil Society Enabling Council (PSCSEC) – Cross Cutting Outcome

PSCSEC was established through Presidential Decree in June 2008 to improve the environment for private sector and civil society by acting as a consultative group for the GoA, Parliament, private sector, civil society, donors, and other organizations. Harakat funded this project for one year to provide a dynamic and creative Secretariat to assist PSCSEC in achieving its purpose. The project began operations in June 2010 and ended in June 2011.

Project Achievements - The project established a coordination mechanism by organizing working sessions with relevant stakeholders among private sector and civil society groups. PSCSEC presented bi-annual progress reports on the subject. PSCSEC identified a



number of regulatory and non-regulatory barriers that were shared with stakeholders for the purpose of seeing if methods to reduce them could be decided and implemented.

PSD-IMC Secretariat Support – Cross Cutting Outcome

The objective of this project was to assist implementation of the Afghanistan National Development Strategy (ANDS) by providing Secretariat support to its Private Sector Development Inter-Ministerial Committee (PSD-IMC) within MoCI. The project started in June 2009 and was completed in June 2010. The two-person Secretariat team was responsible for coordination of ANDS-PSD implementation, monitoring the implementation of ANDS-PSD, and capacity building within MoCI.

Achievements - The secretariat team facilitated regular PSD-IMC meetings during the one year life of the project to discuss the progress and challenges for the implementation of ANDS / PSD. The secretariat was able to engage other stakeholders such as EPAA, ACCI, ANSA, and PSCSEC in dialogues. The secretariat also reviewed and

commented on important strategic documents including UNIDO's five-year country program and MoCI's business plan at that time. The project also helped establish and improve working relations with the Private Sector and Civil Society Enabling Council (PSCSEC) as the key actor for the implementation and monitoring of investment climate reform agenda. The project also helped identify opportunities for Harakat to fund new projects to improve the investment climate in Afghanistan.

Harakat Research Project – Crosscutting Outcome

Although a significant amount of economic and market-related research has been undertaken in Afghanistan over the last five, much of this is research, such as the World Bank's Investment Climate Survey and Doing Business Indicators, has been at a macro level. However, in order to gain insights needed to affect real change, there remains a need for research related to the enabling environment and bottom-up analysis.

The Harakat Research Project addresses this need by conducting targeted researches on challenges

and opportunities for doing business in Afghanistan. The research results will also be used to help bolster a demand driven investment climate reform agenda in Afghanistan.

Project Achievements – Following a detailed review process, five research projects were conducted under the following topics:

- Informal Business and Business development in Kabul
- Understanding Gender in Local Enterprise Development in the Context of Afghanistan
- Corruption and Private Sector Development
- Overview and Critical Assessment of the Customs System
- Facilitating Inclusive Local Business Development in Afghanistan

The research results were shared and discussed with relevant stakeholders through consultative workshops. Furthermore, the final reports are being used to support revision of the Harakat strategic approach to project development, which will be completed in 2012. Harakat is currently reviewing options for continuing this research project in 2012.

PROJECTS UNDER IMPLEMENTATION – 2010 - 2014

#	Priority Outcome #	Project Name	Implementing Agency	Budget (USD)	Duration
1	1	Afghanistan Public Credit and Collateral Registry	IFC	\$320,000	Jan 2010 - Dec 2012
2	1	Afghanistan Secured Lending	IFC	\$ 241,766	July 2009 - June 2012
3	2	Business Licensing Reform	IFC	\$1,262,500	Nov 2010 - Feb 2012
4	2	Development of National Trade Policy	MoCI	\$369,000	April 2011 - Mar 2012
5	2	Afghanistan Land Authority – Arazi Phase II)	ARAZI	\$3,155,806	Sep 2010 - June 2012
6	3	Technical Assistance for AAFFCO	AAFFCO	\$78,022	36 months (Dec 2009 – Nov 2012)
7	4	Small Taxpayers Office Reform (STO)	MoF	\$1,584,400	Dec 2010 - Nov 2013
8	5	Afghanistan Centre for Dispute Resolution	IFC	\$2,161,000	Nov 2010 - June 2014
9	6	Afghanistan Institute of Banking and Finance	DAB	\$1,298,700	Dec 2009 - Dec 2012
10	6	School of Accounting	AUAF	\$1,307,650	May 2010 - May 2014
11	6	Institutional Capacity Development for NSDP and DM-TVET	NSDP & DM-TVET	\$1,384,130	Nov 2011 - June 2014
12	7	Afghanistan National Standards Authority	ANSA	\$1,263,360	May 2010 - May 2012
13	7	Afghanistan National Building Codes	ANSA	\$2,112,090	July 2010 - Oct 2012
14	7	Strengthening Fair Competition	MoCI	\$659,421	April 2011 - April 2013
15	7	Consumer Protection Policy	MoCI	\$572,729	April 2011 - April 2013
16	8	Extractive Industry Transparency Initiative	MoF	\$744,553	Mar 2010 - Feb 2013
17	Cross Cutting	Institutionalizing Business Advocacy and Business Journalism in Afghanistan – EJAA	EJAA	\$ 234,150	July 2011 - Jan 2013

Priority Outcome Area # 1 - Improved financial markets with greater access to finance

Business Licensing Reform

The Business Licensing Reform project was developed to create a transparent, comprehensive, and inter-connected licensing administration in Afghanistan. Licenses are important tools for safeguarding the public. However, current licensing procedures and practices in Afghanistan are

excessively bureaucratic and expensive in terms of both time and cost of compliance. The project's main objectives are to address regulatory and administrative procedures, develop mechanisms that encourage entrepreneurs to adopt formal processes, simplify current licensing procedures under MoCI, develop guidance for a

better filing and documentation, develop a system to connect trade licenses and business registration, and to stimulate public awareness of licensing reform. In addition, the project is expected to assess other trade licences and will provide recommendations for reforms.

“Harakat is essential to the growth of formal and legitimate businesses in an environment where informal and most often illicit commerce dominates. Given the huge scale of the informal market in Afghanistan, traditional and non-traditional investors often doubt the wisdom of joining the formal economy. In our view, Harakat is reducing the barriers to business in the formal economy, and as a result it is enabling more legitimate entrepreneurship. Also, through supporting practical projects and funding result and policy oriented research, Harakat is uniquely placed to tackle both practical and policy barriers to business. Harakat's non-traditional approach and its focus on efficiency and quality rather than inefficient bureaucracy is refreshing and enabling.”

Haseeb Humayoon
CEO, Qara Consulting, Inc.

Major activities to date - Activities related to the assessment phase (mapping of the licenses, development of the regulatory framework, and assessment of the automation system) and surveying of the six trade licenses were completed and the Interim Mapping Report issued. The survey activities were closely coordinated with MoCI, and a final survey report was released. Public/Private Dialogue and Coordination (PPD) with stakeholders was undertaken to help identify trade licensing bottlenecks and prioritize addressing the biggest barriers to sector specific investment. The installation of the automation system, capacity building of the MoCI licensing department and review of laws, procedures, guidelines and licensing manuals are in progress.

Development of National Trade Policy

Domestic producers face multiple challenges in trying to increase efficiency, reduce trade transaction costs, and achieve greater market penetration and adequate market information. To increase their competitiveness, more emphasis must be given to creating a positive trade-enabling environment with the GoA acting as facilitator for financial and technical assistance to exporting

firms. The Development of National Trade Policy project addresses this need through development of a targeted and evidence-based trade policy that will create a clear and actionable vision for trade in Afghanistan.

Major activities to date - The development of a trade database for MoCI is in progress, and specifications are under review by MoCI. Recruitment has been completed for a consultancy firm to conduct a review of the current trade related documents. A review of existing trade literature is in progress and data collection is underway. The project is also working to develop a trade database which will help MoCI to collect and process trade related data.

Afghanistan Land Authority (ALA) – Arazi (Phase II)

Access to land remains a major obstacle for productive investment in Afghanistan for both foreign and local investors. To address this problem, Harakat supported the establishment of the Afghanistan Land Authority (Arazi) to standardize efficient and transparent land lease management services and act as a single point of entry for financiers interested in investing in public land activities in Afghanistan. The private

sector will be the primary beneficiary through improved access to 2,500 hectares of land on lease at the end of Phase 2 and 10 times more land leasing opportunities annually at the peak of Arazi implementation. Reduced administrative costs related to accessing land will increase private sector savings and facilitate investment financing.

Major activities to date – The Renovation of Arazi’s permanent building is completed, providing desirable working station and offices for 200 staff. The building is equipped with a large scale generator to serve as an alternative source of power. The Land Management Information System consisting of GIS software, LIS Multi-cadastre, LIS Back-file, Data Capture Equipment and comprehensive training, in addition to the purchasing satellite imagery for 25000 hectares of land was completed and is currently under evaluation of Arazi and Harakat with support from MOCIT. The procurement of Data Centre is completed and the firm is finalizing the installation of the system. The procedures, manuals and guidelines for this phase are completed and a few are scheduled to be completed by the end of June 2012. To date 5490.4 hectares of land is leased in Herat, Kabul, Balkh, Kunduz,

Nengarhar, Ghazni, Kandahar, Faryab, Parwan, and Helmand provinces, representing 219.6% against target.

Technical Assistance to Association of Afghanistan Freight Forwarding Companies (AAFFCO)

The Association of Afghanistan Freight Forwarding Companies assistance project is designed to address the

lack of access to international transit manuals, agreements and customs procedures to local transporters and drivers. The aim is to translate these documents into Dari and Pashto and develop both a hard copy manual and a DVD manual. The project will also provide the drivers with recorded audiocassettes describing customs, highway, and other related procedures.

Major activities to date: Development of visual training manuals and audiocassettes on trade/transit-related processes and procedures (e.g., customs procedures, passport control, acquiring visa, incentives, responsibilities, duties) is in process and expected to be completed by the second quarter of 2012.

Priority Outcome # 3 - Increased private sector investment in infrastructure

As yet, no specific projects have been funded in 2011 that fit with Priority Outcome # 3. Instead, a number of other funded projects, such as the

Strengthened Property Rights project and the Afghan National Standards Authority project feature objectives that will have flow-through benefits

for the infrastructure environment, as will projects identified as having Cross Cutting outcomes.

Priority Outcome # 4 - More equitable and efficient taxation & customs systems

Small Taxpayers Office Reform (STO)

The purpose of the STO Reform project is to introduce an efficient and effective taxation system, procedures, and processes in this crucial department of the Afghanistan Revenue Department. The project will enable the STO to adopt and implement systems and procedures that address current needs, such as reforming out-dated

procedures that are ill equipped to fully address issues of corruption and violations of rules and regulations. Based on the success of the project’s implementation in Kabul, this project will be expanded to other provinces. **Major activities to date** - Inception phase completed, including an assessment of the current small taxpayer system, administrative and other business processes. With

the assessment report submitted, activities for the implementation of the actual reforms can be agreed upon between Harakat and the STO. The design of reform implementation is currently in progress in consultation with relevant stakeholders and in light of the assessment report from the inception phase.



Priority Outcome # 5 - Strengthened property rights

Afghanistan Centre for Dispute Resolution (ACDR)

The Afghanistan Centre for Dispute Resolution project proposes to institutionalize a commercial Alternate Dispute Resolution (ADR) and mediation mechanism to allow the private sector to efficiently resolve business-related disagreements. The project is well placed to complement efforts of the GoA in achieving its National Justice

Strategic Framework – “Justice for All”. By institutionalizing commercial mediation practices to reduce time and costs for accessing justice, the project will facilitate doing business in Afghanistan. Major activities to date – The project organized discussions with all relevant stakeholders to conclude the diagnostic study for the establishment of the ADR centre in Afghanistan. IFC has identified ACCI as the house for the

project and is currently in the process of developing a cooperation agreement. The review of regulatory environment around the project is in progress. training and capacity building of mediators, including the mediators in the current mediation centres, students of the Law faculty of Kabul University and other voluntary mediators is on track to commence soon.

Priority Outcome # 6 - Higher workforce productivity & improved labour market regulation

Afghanistan Institute of Banking and Finance (AIBF)

The AIBF has been created as a public-private partnership initiative, led by private management. In addition to Harakat funding, the AIBF received a grant of US\$1 million from the WB to support the project over the next three years. AIBF is currently working with the WB to develop a project budget. AIBF also obtained a grant of US\$95,000 from Financial Access for Investing in the Development of Afghanistan (FAIDA) to launch a distance-learning programme (offering three diplomas), a Microfinance Department, and an Islamic Finance Department.

Major activities to date - Six months

of curriculum has been prepared and reviewed by Bangladesh Institute of Bank Management (BIBM), the Afghanistan Banks Association (ABA), and other commercial banks. Capacity development is well underway; 22 individuals completed training as AIBF and ABA trainers, and 1,537 students from banks and Micro-Finance Institutions (MFIs) have received AIBF training. Key linkages with commercial banks and other financial institutions are being established through AIBF monthly meetings with ABA and other commercial banks, and through AIBF faculty visits with commercial banks and MFI. The knowledge transfer from international trainers to national team

is in progress and the director position is taken over by a national qualified expert. AIBF initiated distance learning programs and currently tutorials classes are being conducted at AIBF once a week for students from Kabul for the three Distance Learning Programs. The examinations of first semester is expected to be conducted during the first quarter of 2012. Furthermore, professional capacity building of AIBF staff is conducted on regular basis.

School of Accounting (SOA)

By addressing the need for qualified accountants in Afghanistan, the SOA project provides broad-based support to help improve financial reporting

and decision-making in both the public and private sector. The SOA will develop close relationships with recognized international accounting institutions to ensure the implementation of high standards not only in accounting technical skills, but in helping companies develop ethical codes of conduct. The SOA will improve the integrity and reliability of financial statements and business processes in private sector organisation by developing auditing skills and introducing international accounting standards.

Major activities to date - A School Advisory Council was formed and official links established with the Association of Chartered Certified Accountants (ACC) UK and ACCA South Asia. Curriculum preparation has commenced. Curriculum for all programmes will be IFAC and ACCA-based and the

ACCA and Certified Accounting Technician (CAT) classes have started. The School had 100 ACCA students (75% are new and 25% are previous) enrolled for classes with a high potential of increasing. Furthermore, number of events were conducted by the project for professional capacity building of SoA instructors.

Institutional Capacity Development for the National Skills Development Programme (NSDP) and the Deputy Ministry - Technical and Vocational Education and Training (DM-TVET)

Business sectors such as mining, railways, food processing-packaging and storage, and hotel management and tourism will soon need a skilled and semi-skilled labour force. Importing labour from regional and international markets is expensive and reduces em-

ployment opportunities for local candidates. This project aims to reduce labour costs for businesses in these and other business sectors, increase labour efficiency and productivity, increase employment in Afghanistan, and support emerging market growth. Working with the GoA, NSDP will conduct labour market intelligence surveys to identify important fields and occupations and develop the necessary National Occupational Skills Standards (NOSS).

Major activities to date – The project has recently started its operations in November, 2011. almost 80% of project recruitment has been completed, and the procurement of office equipment is on track in preparation for the commencement of market research.

Priority Outcome # 7 - Strengthened competition policy

Afghanistan National Standards Authority (ANSA)

This project is developing the capacity of ANSA and technical committees (TCs) to develop and enforce sustainable national standards in petroleum production, and the construction, food, pharmaceuticals and cosmetics, me-

trology, textiles and electronic goods sectors. The enforcement of sound standards is expected to limit the importation of sub-standard products and encourage national production and export of quality goods. The project will develop at least 30 standards in the first year and another 14 manda-

tory standards in the second year. ANSA has committed, together with relevant stakeholders, to enforce these standards.

Major activities to date - 81 national standards have now been approved. A MoU was signed with the United Nations Mine Action Centre for Af-



ghanistan (UNMACA) to establish a Mine Action National Standards technical committee begin developing standards. The ANSA website is online and awareness activities are underway, with some private sector workshops already completed. UNIDO has been recruited to provide technical support and further develop the capacities of technical committees and ANSA to develop national standards. ANSA is currently working to incorporate the approved standards into technical regulations which will be presented for final approval to become legally binding.

Afghanistan National Building Codes (ABC)

The lack of harmonized national building codes has been identified as a major barrier in designing, bidding, and implementing infrastructure projects in Afghanistan. Thus, ANSA initiated the Afghanistan National Building Code (ABC) project to develop national Architectural, Structural, Urban Development, and Highways and Bridge Design codes. Development of national building codes for Afghanistan will lay the foundation for modern, safe and sustainable building design and construction practices. The project will also improve competition in the construction sector through the development of a series of building codes compatible with Afghanistan's environment.

Major activities to date - The project has established an Advisory Board and National Technical Committees (NTCs) in all four building code areas, composed of stakeholders from various backgrounds, including the private sector and academia. The project also established an advisory board which is chaired by a Senior advisor to the president. The project has recruited a Turkish firm TPCU to provide technical support for the development of National Building Codes. ANSA collected inputs from the relevant stakeholders during the first year of implementation, allowing for code revisions after one year to accommodate changes and ensure they meet requirements. TPCU in coordination with ANSA and the project team has identified and selected the reference codes. The reference codes are purchased by the project and are currently being reviewed and adopted to Afghanistan environment in order to develop Afghanistan National Building Codes. The project is expected to develop draft code by March 2012 and final codes by June, 2012. Furthermore, the recruitment of professional translation services, trainings and awareness activities are in progress.

Strengthening Fair Competition

The Strengthening Fair Competition project aims at supporting the development of the Competition policy,

completion of the Competition law, and implementation of related regulations. Under this project, the infrastructure and the required process for the smooth implementation of the Competition law will be developed and the mechanism for carrying out investigations into alleged anti-competitive practices in the market places will be put in place. Outreach and awareness-raising activities will be undertaken at the beginning of the second year of implementation and a central database for recording the market data will also be developed.

Major activities to date - A competition expert has been contracted to provide technical assistance to the Fair Competition and Consumer Protection Directorate (CPCPD) department of Ministry of Commerce and Industries (MoCI) in areas such as capacity building, development of administrative policies and procedures, development of a database, and investigation of anti-competitive practices.

Consumer Protection Policy

This project will lead to the development of a Consumer Protection Law and the standard operating procedures and administrative systems needed to support its enforcement. The policy will enable the Consumer Protection Department of the Competition Promotion and Consumer Protection

Directorate (CPCPD) to launch investigations and enforce the law.

Major activities to date - A draft Consumer Protection Law has been devel-

oped, and reviewed by the MoCI and sent to the MoJ for final review and approval by Parliament, with the law finalized and legally in force by the end of 2012. The recruitment of consumer

protection expert and capacity building activities are in progress.

Priority Outcome # 8 - Improved capacity of government and institutions to tackle corruption

Extractive Industry Transparency Initiative (EITI)

The extractive industry sector has been slow to take advantage of Afghanistan wealth in mineral resources. In 2011, Harakat, the World Bank and the MoF met to address issues preventing the industry's growth and expansion and to develop means for improving transparency and building trust among investors for mining industry in Afghanistan, which will contribute to increased investment in the mining sector. Achieving improved transparency

and reducing corruption in the mining sector is expected to contribute to the increased value of and better quality investment in the Afghan mining sector as a whole.

Major activities to date - The EITI National Secretariat was appointed, an inaugural workshop held. The Multi Stakeholders Group, comprising from Private Sector, Civil Society and Government representatives has been established and they conducting regular MSG meetings, a baseline study on extractive industries launched, and a

Country Work Plan established and publically available. Capacity building and community awareness activities are underway as is the preparation and dissemination of the first EITI report. Number of firms are identified for the re-conciliation process and the development of the EITI first annual report is in progress.

Cross Cutting Outcome

Institutionalizing Business Advocacy and Business Journalism in Afghanistan – [EJAA]

This project is aimed at institutionalizing economic journalism and business advocacy in Afghanistan by developing EJAA's human and material capacities through training economic journalists in business reporting, economic analysis, evidence-based reporting, investigative journalism, and

advocacy journalism. EJAA will organize advocacy meetings and conferences with business member organizations (BMOs), the non-profit sector and government; undertake research and economic analysis of study primary and secondary data to develop techniques to support private sector advocacy through the media and highlight the findings using the media: TV, radio and magazines.

Major activities to date - National consultants were hired, training plans developed, and space and equipment prepared for the capacity building of EJAA. The recruitment of the international consultant to train the BMOs about investment climate reform advocacy is underway.

HARAKAT COMMUNICATION ACTIVITIES

Harakat recognizes the essential role communication plays both within and outside Afghanistan in building trust and credibility amongst our stakeholders and the public at large. Proactive communications, in which opportunities for public dialogue are nurtured and developed, help ensure that issues relevant to the growth of the business environment in Afghanistan are brought to the forefront of public debate. To this end, Harakat engaged in numerous communication activities in 2011 that were designed to increase awareness, understanding, and support for improvements in the Afghan business environment. A stakeholder survey was conducted to better understand the effectiveness of Harakat-AICFO operations and to analyse and address gaps in stakeholder satisfaction. Approximately 100 interviews were conducted among five target audiences (i.e., GoA, private sector, civil society, media, and donors) in three categories (i.e., accepted applicants, rejected applicants, and general audience).

Among the results were suggestions for greater transparency in decision-making and fund-utilisation activities and increased stakeholder consultation in all parts of the country. There were also calls for reducing time lags between project stages and for a more personal approach and follow up with unsuccessful applicants. Generally, all stakeholders said they were proud that Harakat-AICFO is Afghan-managed entity, and agreed that its activities are helping improve the business climate and attract foreign investors. To further engage stakeholders, Harakat established the first-ever Resource Centre for Academia at Kabul University, and also held meetings with the Association of Kabul University Students. Among major stakeholder meetings held in 2011, were consultations with Integrity Watch Afghanistan, AWBC, AWTDO, the Afghanistan Civil Society Forum, the senior advisor of Ghazanfar Bank, and key departments of such ministries as MAIL, MoCI, Ministry of

Environment and Water (MoEW), Ministry of Rural Rehabilitation and Development (MRRD), and the Ministry of Economy (MoEC). The general objective of these meetings and related gatherings was to facilitate dialogue on the investment climate in Afghanistan. The Harakat 2010 annual report was published and distributed in Pashto, Dari, and English. Copies were made available via the Harakat website (www.harakat.af). Copies of the Harakat 2011-2012 calendar were also distributed. Regular circulation of Harakat project information, including summaries and achievements, was conducted via email to target audiences. During 2011, Harakat sponsored a workshop on Doing Business Indicators with MoCI, and USAID to share information about projects related to the World Bank's "Doing Business Indicator" report and to discuss sustainable reforms that could impact Afghanistan's overall ranking. Fruitful meetings were also held with such organizations as the Afghanistan Marble and Granite Association.

A fact-finding visit undertaken in cooperation with the ACCI was conducted to Mazar-e Sharif (involving representatives from Jawzjan, Faryab, Takhar and Kunduz) and Herat (with representatives from Nimroz, Badghis and Farah) to develop a fuller, more engaged business community, to identify potential projects, and to follow up on findings and commitments of earlier discussions.

Finally, to help ensure the Afghan media has the business and economic reporting skills needed to fully assume this responsibility, Harakat is supporting the Institutionalizing Business Advocacy and Business Journalism in Afghanistan (EJAA) project to train journalists in business reporting, economic analysis, evidence-based reporting. In response to the survey results, and as a continuation of its 2011

activities, in 2012 Harakat will continue its proactive communication initiatives, helping prepare journalists to report on business in Afghanistan and working actively with all stakeholders to identify and address challenges and opportunities.



Harakat-Afghanistan Investment
Climate Facility Organisation

Financial Statements
For the year ended 31 December, 2011



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.



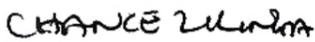
KPMG Afghanistan Limited

Kabul

Harakat-Afghanistan Investment Climate Facility Organisation
Statement of financial position
As at 31 December 2011

	Note	2011 Afs	2010 Afs
Assets			
Property and equipment	5	2,376,620	3,234,074
Total non-current assets		2,376,620	3,234,074
Advances to sub-grantees	6	20,907,672	154,959,192
Prepayments, advances and others		2,649,155	628,255
Cash and cash equivalents	7	118,853,250	58,259,347
Total current assets		142,410,077	213,846,794
Total assets		144,786,697	217,080,868
Liabilities			
Deferred grants	8	142,952,278	214,717,950
Total non-current liabilities		142,952,278	214,717,950
Accrued and other liabilities	9	1,834,419	2,362,918
Total current liabilities		1,834,419	2,362,918
Total liabilities		144,786,697	217,080,868

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

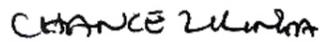

Chief Executive Officer


Head of Finance

Harakat-Afghanistan Investment Climate Facility Organisation
Statement of Comprehensive income
For the year ended 31 December 2011

	Note	2011 Afs	2010 Afs
Income			
Grant income	8	286,926,606	79,973,452
Total income		286,926,606	79,973,452
Expenditure			
Administrative expenses	10	(54,286,486)	(58,209,147)
Consultants fee	11	(2,378,456)	(7,708,107)
Sub-grantee Expenditure	12	(229,838,322)	(142,101,548)
Depreciation		(1,177,504)	(1,091,010)
Bank charges		(143,342)	(245,124)
Exchange loss		897,504	(2,072,515)
Total expenditure		(286,926,606)	(211,427,451)
Surplus for the year		-	-

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

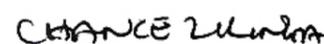

Chief Executive Officer


Head of Finance

Harakat-Afghanistan Investment Climate Facility Organisation
Statement of cash flows
For the year ended 31 December 2011

	Note	2011 Afs	2010 Afs
Cash flows from operating activities			
Surplus for the year		-	-
Adjustments for:			
Depreciation	5	1,177,504	1,091,010
		1,177,504	1,091,010
Change in advances to sub-grantees	6	134,051,520	(130,768,618)
Change in prepayments		(2,020,900)	(155,944)
Change in accrued and other liabilities	9	(528,499)	(11,332,837)
Net cash from operating activities		132,679,625	(141,166,389)
Cash flows from investing activities			
Acquisition of property and equipment	5	(320,050)	(195,645)
Interest on bank deposits		1,832,858	491,721
Net cash used in investing activities		1,512,808	296,076
Cash flows from financing activities			
Grants received less expenses	8	(73,598,530)	162,463,074
Net increase in cash and cash equivalents		60,593,903	21,592,761
Cash and cash equivalents at 01 January		58,259,347	36,666,586
Cash and cash equivalents at 31 December	7	118,853,250	58,259,347

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 2011

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 £ 9.9 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 _____.

(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 2011

(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 2011

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 2011

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.

llpny

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

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 2011

(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 H-AICFO.

(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, amendments to standards and interpretations are not yet effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the H-AICFO.

U.P.M.G.

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

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 2011

5. Property and Equipment	Vehicles	Computer Equipment	Office Equipment	Furniture and fixtures	Total
	(Afs)				
Cost					
Balance at 1 January 2010	2,125,000	898,071	1,442,880	297,150	4,763,101
Additions during the year	-	156,205	11,040	28,400	195,645
Balance at 31 December 2010	<u>2,125,000</u>	<u>1,054,276</u>	<u>1,453,920</u>	<u>325,550</u>	<u>4,958,746</u>
Balance at 1 January 2011	2,125,000	1,054,276	1,453,920	325,550	4,958,746
Additions during the year	-	174,340	110,710	35,000	320,050
Balance at 31 December 2011	<u>2,125,000</u>	<u>1,228,616</u>	<u>1,564,630</u>	<u>360,550</u>	<u>5,278,796</u>
Depreciation					
Balance at 1 January 2010	271,528	171,272	179,042	11,820	633,662
Depreciation for the year	425,000	314,792	289,912	61,306	1,091,010
Balance at 31 December 2010	<u>696,528</u>	<u>486,064</u>	<u>468,954</u>	<u>73,126</u>	<u>1,724,672</u>
Balance at 1 January 2010	696,528	486,064	468,954	73,126	1,724,672
Depreciation during the year	425,250	381,111	301,601	69,542	1,177,504
Balance at 31 December 2011	<u>1,121,778</u>	<u>867,175</u>	<u>770,555</u>	<u>142,668</u>	<u>2,902,176</u>
Carrying amounts					
At 1 January 2010	1,853,472	726,799	1,263,838	285,330	4,129,439
At 31 December 2010	<u>1,428,472</u>	<u>568,212</u>	<u>984,966</u>	<u>252,424</u>	<u>3,234,074</u>
At 1 January 2011	1,428,472	568,212	984,966	252,424	3,234,074
At 31 December 2011	<u>1,003,222</u>	<u>361,441</u>	<u>794,075</u>	<u>217,882</u>	<u>2,376,620</u>

U. P. M. G.

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

Note	2011	2010
	Afs	Afs
6. Advances to sub-grantees		
Export Promotion Agency of Afghanistan (EPAA-005)	-	193,670
High Office of Oversight and Anti-Corruption (HoO)	-	34,095
Afghanistan Land Consulting Organisation (ALCO-095)	-	190,029
DAB - Afghanistan Institute of Banking and Finance (DAB-080)	(3,104,403)	2,518,476
Ministry of Agriculture, Irrigation and Livestock (MAIL-173)	701,134	48,184,384
Afghanistan National Standards Authority (ANSA-001)	72,168	17,224,124
IFC - Da Afghanistan Bank (DAB-010)	(722,997)	3,975,619
IFC - Ministry of Commerce and Industry (MoCI-043)	14,654,009	30,403,650
IFC - Afghanistan Centre Dispute Resolution (ACDR-077)	11,102,844	19,180,250
IFC - Da Afghanistan Bank (DAB-014)	(98,907)	1,455,519
Afghanistan National Standards Authority (ABC-079)	2,180,233	21,270,562
American University of Afghanistan (AUAF-023)	(4,628,852)	6,264,652
MoF - Extractive industries Transparency Initiative (MoF-078)	527,883	1,383,660
Private Sector & Civil Society Enabling Council (PSCSEC)	-	976,502
Small Tax Office Reform (STOR-060)	224,560	1,704,000
	<u>20,907,672</u>	<u>154,959,192</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	2011	2010
	Afs	Afs
7. Cash and cash equivalents		
Cash in hand	30,890	68,412
Cash at bank		
- Current accounts		
- Afs	5,534,804	25,000
- Deposit accounts		
- Afs	7,725,684	843,767
- USD	105,561,872	57,322,168
	<u>118,822,360</u>	<u>58,190,935</u>
	<u>118,853,250</u>	<u>58,259,347</u>

U. P. M. G.

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

Note	2011 Afs	2010 Afs
Deferred grants		
Opening balance	214,717,950	51,763,155
Grant received against expenses	213,008,026	373,694,880
Grant received against fixed assets	320,050	195,645
	213,328,076	373,890,525
Interest on bank deposits	1,832,858	491,721
	429,878,884	426,145,401
Less: expenses during the year	285,749,102	210,336,441
Less: transferred to depreciation on fixed assets	1,177,504	1,091,010
	(286,926,606)	(211,427,451)
	142,952,278	214,717,950

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	998,028	761,571
Withholding tax payable	638,271	1,394,177
Others	198,120	207,170
	1,834,419	2,362,918

U. Pring

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

Note	2010 Afs	2009 Afs
10. Administrative expenses		
Salaries and benefits	36,157,171	36,348,084
Meetings expenses	3,732,385	9,162,596
Office supplies	462,996	518,080
Printing and stationery	34,000	38,228
Books and subscriptions	66,452	28,500
Entertainment	174,195	66,960
Security expenses	941,040	911,040
Repair and maintenance	485,983	338,543
Utilities	549,169	498,471
Communication	1,436,862	1,846,095
Vehicle running expenses	843,528	1,123,607
Travelling and conveyance	2,429,042	2,554,214
Office rent	1,772,652	1,459,999
Advertisement	2,820,268	1,242,016
Audit fee	1,244,432	1,552,392
Legal and professional charges	7,610	69,247
Study and exposure tours	889,614	400,287
Others	239,087	50,788
	54,286,486	58,209,147
11. Consultants fee		
Adam Smith International Limited	1,121,966	7,164,707
Afghan Management and Marketing Consultants	1,256,490	543,400
	2,378,456	7,708,107

U. Pring

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

Note	2011 Afs	2010 Afs
12. Sub-grantees expenditure		
Export Promotion Agency of Afghanistan (EPPA)	1,130,035	4,761,770
PSD Inter-Ministerial Committee (IMC)	-	1,629,416
Afghanistan Chamber of Commerce and Industries (ACCI-020)	-	748,850
Afghanistan Land Consulting Organisation (ALCO-095)	-	30,734,702
Ministry of Agriculture, Irrigation and Livestock (MAIL-027)	-	31,292,433
Afghanistan National Standards Authority (ANSA-001)	39,612,617	4,275,267
IFC - Da Afghanistan Bank (DAB-010)	8,495,416	4,024,381
IFC - Ministry of Commerce and Industry (MoCI-043)	16,500,204	7,577,758
IFC - Da Afghanistan Bank (DAB-014)	4,380,676	4,794,481
High Office of Oversight and Anti-Corruption (HoO)	-	4,000,905
DAB - Afghanistan Institute of Banking and Finance (DAB-080)	22,120,178	12,717,440
Afghanistan National Standards Authority (ABC-079)	22,361,839	301,678
American University of Afghanistan (AUAF-023)	15,182,764	17,947,937
MoF - Extractive industries Transparency Initiative (MoF-078)	8,784,064	2,521,380
Private Sector & Civil Society Enabling Council (PSCSEC)	3,172,858	2,830,490
Ministry of Agriculture, Irrigation and Livestock (MAIL-173)	67,796,011	11,942,660
IFC-Afghanistan Centre Dispute Resolution (ACDR-077)	8,077,406	-
Small Tax Office Reforms (STOR-060)	1,479,440	-
Harakat Research (HR-109)	7,086,799	-
MoCI-Development of Afghanistan National Trade (MoCI-084)	1,167,872	-
MoCI-Competition Promotion & Consumer Protection Directorate (MoCI-180 & 198)	970,278	-
Economic Journalist Association of Afghanistan (EJAA-0167)	1,519,865	-
	229,838,322	142,101,548

12.1. 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.

12.2. Administrative and other expenses are separately disclosed in note 10.

U. P. M. G.

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

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 118,822,360 (2010: 58,190,935) in respect of cash and cash equivalents and Afs 20,907,672 (2010: 154,959,192) in respect of advances to sub-grantees. None 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 amount	Contractual cash flows	1 - 6 months	7 - 12 months
	(Afs)			
31 December 2011				
Non-derivative financial liabilities:				
Accrued and other liabilities	1,834,419	1,834,419	1,834,419	-
	1,834,419	1,834,419	1,834,419	-
31 December 2010				
Non-derivative financial liabilities:				
Accrued and other liabilities	2,362,918	2,362,918	2,362,918	-
	2,362,918	2,362,918	2,362,918	-

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

U. P. M. G.

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

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 2011		31 December 2010	
	Afs	USD	Afs	USD
Accrued and other liabilities	(532,008)	(10,800)	(493,668)	(10,800)
Cash and cash equivalents	105,561,872	2,142,949	57,322,168	1,254,040
	<u>105,029,864</u>	<u>2,132,149</u>	<u>56,828,500</u>	<u>1,243,240</u>

The following significant exchange rates applied during the year:

	Average rate		Reporting date rate	
	2010	2009	2010	2009
Afs				
USD 1	48.00	47.00	49.27	45.71

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 (10,511,290) (2010: Afs (5,681,607)).

13.4. Interest rate risk

At the reporting date, H-AICFO did not have any interest bearing financial instruments. H-AICFO has cash in deposit accounts (Note 7)

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:

U.P.M.G.

Harakat-Afghanistan Investment Climate Facility Organisation
Notes to the financial statements
For the year ended 31 December 2011

	2011	2010
	Afs	Afs
Short-term employee benefits	6,627,092	8,251,008
Meeting fee	3,732,385	9,162,596
	<u>10,359,477</u>	<u>17,413,604</u>

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	Transaction value	Balance outstanding
	2010		2009	
	Afs		Afs	
Meeting fee	3,732,385	186,200	9,162,596	-

CHANCE ZULIMA

Chief Executive Officer



Head of Finance

Acronyms:

AAFFCO	Association of Afghanistan Freight Forwarding Companies	MFI	Micro-Finance Institutions
ABA	Afghanistan Banks Association	MOCI	Ministry of Commerce and Industries
ABC	Afghanistan Building Codes	MOE	Ministry of Education
ACCA	Association of Chartered Certified Accountants	MOF	Ministry of Finance
ACCI	Afghanistan Chamber of Commerce and Industries	MOI	Ministry of Interior
ADR	Alternative Dispute Resolution	MoLSAMD	Ministry of Labour, Social Affairs and Martyrs
AGCHO	Afghan Geodesy and Cartography Head Office	MOPW	Ministry of Public Works
AIBF	Afghanistan Institute of Banking and Finance	MSG	Multi Stakeholder Group
ALA	Afghanistan Land Authority (Arazi)	MSG	Multi Stakeholder Group
ALCO	Afghan Land Consulting Organisation	MSME	Micro, Small and Medium Size Enterprises
ANDS	Afghanistan National Development Strategy	NGO	Non Governmental Organisations
ANSA	Afghan National Standard Authority	PDU	Proposal Development Unit
AUAF	American University of Afghanistan Foundation (AUAF)	PRSC	Performance Review Sub-Committee
BIBM	Bangladesh Institute of Bank Management	PSC	Proposal Sub-Committee
BLRA	Business Licensing Reform in Afghanistan	PSD-IMC	Private Sector Development - Inter-Ministerial Sub-Committee
CAT	Certified Accounting Technician (CAT)	PSD	Private Sector Development
CEO	Chief Executive Officer	PSCSEC	Private Sector and Civil Society Enabling Council
CIDA	Canadian International Development Agency	PPP	Public Private Partnership
CPCPD	Competition Promotion and Consumer Protection Directorate	SOA	School of Accounting
DAB	Da Afghanistan Bank	STOR	Small Taxpayers Office Reform Project
DBI	Doing Business Indicator	TC	Technical Committees
DFID	Department for International Development	UNIDO	United Nations Industrial Development Organization
DLP	Distance Learning Programme	USAID	United States Agency for International Development
EITI	Extractive Industries Transparency Initiative		
EJAA	Economic Journalists Association of Afghanistan		
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		
IFRS	International Financial Reporting Standards		
IMC	Inter-Ministerial Committee		
KPI	Key Performance Indicators		
LRMP	Land Records Modernisation Project		
LTERA	Land Titling and Economic Restructuring Activity		
MAIL	Ministry of Agriculture, Irrigation and Livestock		