



This action is funded by the European Union

ANNEX 3

of the Commission Implementing Decision on the Annual Action Programme 2015 Part III and 2016 Part II in favour of the Asia region to be financed from the general budget of the European Union,

Action Document for Trade-Related Assistance for Afghanistan

1. Title/basic act/ CRIS number	Trade-Related Assistance for Afghanistan, CRIS number: DCI-ASIE/2015/38 216, financed under the Development Cooperation Instrument Regulation (EU) N° 233 / 2014			
2. Zone benefiting from the action/location	Afghanistan The action shall be carried out at the following location: Afghanistan			
3. Programming document	Asia Regional Multiannual Indicative Programme 2014-2020			
4. Sector of concentration/thematic area	Trade Related Technical Assistance - Aid for Trade			
5. Amounts concerned	Total estimated cost: EUR 4 700 000 Total amount of EU budget contribution EUR 4 700 000			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Indirect management with the International Trade Centre (ITC)			
7. DAC code(s)	33110 – Trade policy and administrative management			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	NA			

Summary

This proposal aims to harness Afghanistan's potential to benefit more from international trade opportunities. It will improve national capacities to design and implement a coherent export strategy and enact and implement a regulatory framework that will guide the reform agenda of the National Unity Government to enhance connectivity and trade cooperation particularly cross-border trade.

International trade is an important driver of growth, a means to facilitate Afghanistan's path away from aid dependency and to contribute to stability in the country and in the region. The National Unity Government has prioritized trade and transit and regional cooperation as a critical element for its economic development strategy. It is committed to trade reforms aimed at unlocking the potential of the country's export sector. The proposed intervention focuses on strengthening the capacity of the Afghan public administration to formulate, analyse and implement trade strategies and relevant policies, as well as to effectively participate in regional, multilateral and bilateral trade frameworks.

The overall objective of the proposed action is to assist the government of Afghanistan towards improving the conditions for regional economic cooperation and integration ensuring that the country benefits from trade as a lever for growth and poverty reduction; and the specific objective to strengthen the institutional capacity for trade policy and strategy formulation and implementation, including through the promotion of active engagement of the private sector, and further contribute to reduced transaction costs.

It is proposed that the action comprises two components addressing capacity building and capacity development at Government, Afghan trade related institutions and agencies level:

Component 1 (ER 1): The Government of Afghanistan owns and implements a National Export Strategy and action plan that was developed in a consultative process with the private sector, and has started its implementation

Component 2 (ER 2): The institutional capacity of the Ministry of Commerce and Industry and related bodies for trade and trade facilitation policies, regulatory reforms, and negotiation formulation and implementation is strengthened, and the engagement of the private sector in these processes is enhanced.

The proposed action is in line with the National Unity Government's strategy for growth and development through regional cooperation and connectivity. It is further in line with the EU Regional Asia Multiannual Indicative Programme 2014-2020 while ensuring coherence with the EU-Afghanistan Multiannual Indicative Programme 2014-2020.

1. CONTEXT

1.1 Sector context

Since 2001, Afghanistan received substantial donor support to assist the country's recovery from more than 30 years of conflict. Yet security and political uncertainties have hampered institutional development, economic growth and social and human progress. Afghanistan has maintained a relative macroeconomic stability, implemented important structural reforms,

and built policy buffers, but significant vulnerabilities remain. The country remains heavily reliant on foreign donor grants.

With a persistent poverty rate of 36 percent Afghanistan remains one of the poorest countries in the world, despite human development advancements during the last decade. In view of Afghanistan's rapid population growth (around 2.8 percent) and current slowdown of GDP growth, it will take a generation to double current per-capita income (2013 GNI per capita USD 690). Current drivers of growth, i.e., agriculture and mining, are insufficient. Diversification will be required to provide income for the increasing number of young people joining the labour force (400 000-500 000 per year) and lift the existing large number of poor out of poverty.

In 2014, political and security uncertainties slowed down critical reform progress and weakened the performance of public institutions. This caused a slump in investor and consumer confidence and a sharp reduction of new investment commitments. Trade deficit narrowed in 2014 (from 41.9 percent of GDP in 2013 to 37.9 percent in 2014) as exports recorded strong growth and imports declined. Official exports increased for a second consecutive year, likely due to higher agriculture output as well as improved recording.¹

While aid will decline as a share of GDP, a financing gap is expected to persist through to 2025 (the "transformation decade"), given not only considerable security related financial needs but also the costs of sustaining long-term development. Maintaining the levels of growth seen in the last decade will depend on the political will and administration's capacity to implement reforms that will ensure job creation, fiscal stability, revenue collection, service delivery. Aid is important to assist the government in its efforts for continued development and for promoting economic diversification but a stronger growth is conditional upon the government's capacity to improve governance and ease political uncertainties and progress towards peace and stability.

The Government announced it would initiate reforms towards growth built through the promotion of regional integration and an enabling partnership for private sector development; streamlining government and governance. Improving the investment climate will promote diversification and integration of Afghan businesses in regional economic networks while expanding licit cross-border trade. With the regional actors' recognition of the need for enhanced regional connectivity, there is the prospect of real progress being made over the next years on large-scale regional energy/infrastructure projects and trade/transit agreements.

Moreover, the Afghanistan-World Trade Organization (WTO) accession package was finalised in March 2014. The process of ratification has stalled due to multiple and prolonged challenges of political, economic and security nature. Finalization of the WTO accession and the ensuing legislative reform as well as post accession implementation will require Aid for Trade support.

1.1.1. Public Policy Assessment and EU Policy Framework

Afghanistan's regional cooperation strategy is embedded in the Afghanistan National Development Strategy (ANDS) as a cross-cutting dimension but has received little attention. It focuses primarily on trade, connectivity and economic cooperation. Within the 22 National Priority Programmes (NPPs) - clustered in thematic areas - the inclusion of the regional cooperation dimension has only been partially addressed. The 2011-2015 Strategic Plan of the Ministry of Commerce and Industry features regional cooperation as key to boost sector development. The Regional Economic Cooperation Conference on Afghanistan (RECCA)

¹ Source: WB economic update, April 2015

and the Heart of Asia (Istanbul) Process (HoA) Inter-ministerial Conferences have played a significant role in bringing greater attention to the importance of regional cooperation in socio-economic development .

EU bilateral cooperation (Multiannual Indicative Programme (MIP) 2014-2020) focuses on internal “normalization” – the capacity of the state to ensure basic services, a functional society, security and stability for its citizens –, the EU support for Afghanistan regional cooperation aims at contributing to stronger Afghan capacities as a building block of the international systems. In line with Regional Asia MIP 2014-2020 it pursues key priorities in Asia such as fostering peace, intercultural dialogue, business and trade, market access, and regional integration. The European Union Strategy 2014-2016 provides the framework to better coordinate EU and its Member States’ civilian engagement in Afghanistan while assisting the government and its institutions to build a more effective and ultimately sustainable Afghan state. This includes political and economic cooperation within the region. The EU Strategy supports concrete regional trade initiatives such as engagement in regional political and cooperation processes and confidence building measures including the HoA Confidence Building Measure (CBM) "Trade, commerce and investment opportunities (led by India).

Afghanistan is actively involved in the South Asian Association for Regional Cooperation (SAARC) and its South Asian Free Trade Area (SAFTA). The Government foresees negotiations of multiple new agreements such as a bilateral Afghanistan-Uzbekistan and a trilateral Afghanistan-Turkmenistan-Kazakhstan trade and transit agreements and a multilateral (Afghanistan, Turkmenistan, Azerbaijan, Georgia and Turkey) agreement under the recently initiated Lapis Lazuli corridor connecting South Asia with European countries. It aims at reducing transit trade barriers and developing a Custom Procedure Integration in the region.

1.1.2. Stakeholder analysis

The main stakeholder for this action is the Government of Afghanistan, in particular the Ministry of Commerce and Industry in charge of trade policy formulation and trade negotiations. National institutions, contributors to the trade system, such as the Afghanistan's Customs Department, Afghan Chamber of Commerce and Industry (ACCI), Afghanistan National Standards Authority (ANSA), the Export Promotion Agency of Afghanistan (EPAA), the Afghanistan Investment Support Agency (AISA) will be involved.

Other stakeholders include Small and Medium-size Enterprises (SMEs). These will also benefit from capacity building actions maximising public-private sector dialogue and regional collaboration. The Afghanistan National Standards Authority may benefit from improved capacities to negotiate and implement mutual recognition agreements for conformity assessment procedures and other relevant legal frameworks and to develop its portfolio of services. The private sector and civil society organisations will benefit from outreach actions and training activities (raising awareness, participatory processes) aiming at the reduction or removal of technical barriers to trade, contributing to a favourable business environment for investment. In general, Afghan stakeholders may all benefit from lower transaction costs of trade and increased Afghanistan’s competitiveness in the world markets.

Development partners supporting trade-related assistance include the United States Agency for International Development (USAID), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), United Kingdom Department for International Development (DFID), World Bank (WB), Agha Khan Foundation (see also section 3.2). In addition, networks and exchanges between knowledge-based institutions (e.g. academia, local and regional research

organizations) will contribute to the sustainability of capacity building and capacity development.

Chambers of commerce and business intermediaries from Afghanistan and the countries in the region will be involved in the action. Afghanistan Chamber of Commerce and Industry - the main business intermediary in the country which represents SMEs – will be mobilized inclusively in project activities, including capacity building. The proposed action was endorsed by the Ministry of Commerce and Industry, following consultation with relevant stakeholders (referred to above). The areas for support reflect the immediate priorities set by the draft National Trade Policy prepared by Ministry of Commerce and Industry, which is currently in the process of inter-service consultation within the Afghan Government.

Women and youth entrepreneurs are important contributors to overall economic development. The proposed action will promote gender and youth mainstreaming in a cross-cutting manner.

1.1.3. Priority areas for support

Afghanistan requires capacity building and capacity development in multiple trade related areas, at the level of the administrative structure and expertise such as to design and implement trade policies, enact and enforce regulatory frameworks that ultimately would contribute to improved trade performance.

Trade and Export Strategy Development

A comprehensive but targeted approach to export development will contribute to organizing trade-related technical assistance to the country. The proposed focus on National Export Strategy (NES) implementation management aims at its effective utilisation by the Ministry of Commerce and Industry for coherent and strategic trade development. A National Export Strategy will have a particular focus on regional markets, will target key competitiveness constraints and opportunities along specific sector value chains, including selected services sectors, as well as cross-sectoral functional areas such as the institutional infrastructure for export promotion. The action will also contribute to the development of three product specific strategies/plans.

Technical and advisory support, coaching, and process tools will assist the public and private sectors jointly formulating the strategies with the purpose of boosting Afghan export competitiveness.

Trade policy capacity building

In order to institute long-term, sustainable solutions, the Afghan trade administration needs to build capacities to design and implement coherent and well informed trade related policies; negotiate and enforce rights and obligations under multiple and novel legal frameworks; improve analytical and research capacity; guarantee evaluation and impact assessment; and engage in a public-private sector dialogue on policy and regulatory reforms.

Trade Facilitation

The government has requested technical assistance to tackle trade facilitation policy matters crucial to expedite the move, release and clearance of goods; to reduce associated cost burdens and maximise efficiency while safeguarding legitimate regulatory objectives. The proposed action will contribute to ensuring that trade facilitation is improved through strengthened skills, access to international/regional best practices as well as stakeholders' consultations.

The WTO Trade Facilitation Agreement will be a crucial legal framework for cross-border trade and transit relations with neighbour countries, particularly WTO members (Tajikistan

and Pakistan). Implementation of Trade Policy and Facilitation post-WTO accession will be a challenge within the current institutional set-up where capacity is weak and coordinating structure does not exist between different ministers and/or departments in charge of trade related policies and plans.

Export promotion and integration of Afghan businesses in regional and global value chains

A thorough assessment of export promotion support services will assist companies in internationalization, building partnerships, foreign markets intelligence and analysis, marketing, and export opportunities. Established in 2006, the Export Promotion Agency of Afghanistan has been the main trade support institution in the country but quality and sustainability of service delivery is a critical factor in recent years.

Quality management, SPS infrastructure and regional regulatory cooperation

Export development requires the provision of comprehensive quality management, and services to the private sector by the Afghan National Standards Authority (ANSA) and other quality-related institutions. While considering that the quality and Sanitary and Phytosanitary technical infrastructures are vital to link to market access and global trade, ANSA and the Ministries and agencies involved in quality and SPS will ensure the capacities particularly to assess standards, quality assurance, inspection, accreditation and metrology infrastructure, in order to reach operational level of a comprehensive infrastructure and functional system particularly on major export products.

Regional cooperation on education in the field of international trade

Development of regional knowledge sharing platforms in the field of international trade through regional fora and executive roundtables may open opportunities to enhance knowledge and expertise of government officials and private sector representatives and would promote regional integration and cooperation.

Enhancement of trade in services

An efficient services sector can provide vital support to the private sector, for example through advice on standards, market intelligence, logistics, and communications.

2. RISKS AND ASSUMPTIONS

The region exhibits low levels of intra-regional trade and integration mostly due to security volatility, corruption, high regulatory barriers and overall unfavourable environment for cross-border economic activities. A regional approach to trade facilitation will contribute to more trade between the countries and more people to people relations. The promotion of peaceful and mutually beneficial exchanges (generating interdependencies) between the countries will contribute to peace and stability.²

While the security situation in Afghanistan has and may continue to have a negative impact in the trade flows between Afghanistan and its neighbours, it is not likely that it will impede the implementation of the action as this will consist mostly of capacity building actions implemented in urban areas where the insurgency meets with high levels of difficulty to operate.

² "A study undertaken by the Centre for Economic Policy Research on empirical data showed that the probability of disputes escalating to conflict is lower for countries that trade more because of the opportunity cost associated with the loss of trade gains." (DG Trade, "10 Trade benefits of trade for developing countries")

Risks	Risk level (H/M/L)	Mitigating measures
Lack of buy-in from regional actors	H	Regional Confidence building measures successfully advocate that the region has a great deal to gain from trade facilitation contributing to peaceful and prosperous Afghanistan.
Security situation may deteriorate	H	The security situation requires monitoring, including threat and risk assessments. The Afghan government has recently reopened peace and reconciliation talks with the Taliban.
Lack of reliable government data and statistics	H	The action will contribute to building capacities for data recording, collection, research and analysis. Contravening the oftentimes unreliable data mostly due to poor recording.
Corruption	H	Government has pledged to fight the drivers of corruption through reform and specific measures. Particularly customs reform. The action will undertake studies to assess the roots of corruption and awareness campaigns on recommendations on anti-corruption initiatives. TFA implementation will contribute to transparency and good governance in border formalities.
Unilateral customs/border/trade policies randomly implemented by neighbouring countries	H	Monitor the situation and capacitating government structures and mechanisms to address the settlement of pending issues. Current negotiations with neighbour countries on trade and transit agreements.
Assumptions		
<p>Sustained commitment and ownership of a robust regional trade agenda by the Afghan Government. Continued and enhanced buy-in of regional countries to improve regional cooperation and trade relations with Afghanistan. Institutional stakeholders from Afghanistan and the region willingness to be involved and cooperate on joint capacity building activities. Political leadership, wide support for trade reforms and inter-agency coordination and cooperation on statistics.</p> <p>The political and security situation does not deteriorate. Local partners have the internal capacity to absorb capacity building interventions.</p> <p>Relevant regional fora (Trade CBM, regional technical groups, RECCA) generate the necessary synergies and momentum for the promotion and facilitation of regional partnerships, building on project activities.</p>		

3. LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1. Lessons learnt

Moving away from aid dependency. Afghanistan's import-heavy trade balance reflects the large aid flows to the country and its high level of dependency on aid. The Diagnostics Trade Integration Study (DTIS, undertaken by the WB)³ recommendations on policy measures include strengthening the trade policy capacity and rationalizing of institutions and practices, monitoring and elimination of non-tariff measures, development of an export strategy, implementing trade facilitation measures, building negotiating capacity for regional trade agreements, development of intra-regional trade, and implementation of WTO-related legislation. The creation of and support to Afghan public institutions like the Export Promotion Agency of Afghanistan (EPAA) and Afghanistan Investment Support Agency (AISA) by aid agencies underlines the importance of their financial sustainability.

Export potential. The trade deficit, historically significant, has been fully financed by large aid inflows. Afghanistan exports goods to 35 destinations, well below the approximate average of 90 markets for other LDCs. Carpets and dry fruits account for close to three-quarters of total exports.

The unexploited trade potential in South Asia for Afghanistan stands at 62% of potential exports.⁴ Pakistan is the largest trading partner for Afghanistan, accounting for 47% of exports and 14% of imports in 2013 (WTO data). The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) estimates that there is export potential for Afghan products in Central Asia (with highest export potential in Uzbekistan at 71 million USD).⁵

Tariffs and trade costs. Afghanistan is one of the most open economies in the region and its tariff structure is below average among LDCs, with a weighted average tariff rates below 10% for most of the categories except for food products. Some of Afghanistan's top export products face higher than average tariffs in some neighbouring economies (e.g. cotton; fruit; vegetables; and carpets face tariffs between 20% and 80% in Turkmenistan and Uzbekistan), and there are multiple **non-tariff barriers** (NTBs) in neighbouring countries, including Sanitary and Phytosanitary measures (SPS) and Technical Barriers to Trade (TBT); para-tariffs on exports (e.g. licensing fees, export levy); miscellaneous payment requirements (e.g. various fees and guarantees required by customs for transit of goods).

A set of eleven reform priorities by the private sector ("Private Sector Priorities for Reform", London 2014) "where the need for reform is the most urgent and the greatest impact can be achieved" includes integrating the national economy regionally through improved trade and transit processes in trying to ensure neighbouring countries abide by international rules and regulations (i.e. "Afghan traders are forced to overpay 500-700 USD million per year in Iran and Pakistan in demurrage and other unnecessary costs"). Moreover, ESCAP findings estimate that trade costs between Afghanistan and Central Asia, tariff equivalents, are over 150%.⁶

³ The DTIS, undertaken in September 2012 by the World Bank within the framework of the Enhanced Integrated Framework (EIF) trust fund. Though it is perceived as outdated, the DTIS refers to constraints that are still relevant.

⁴ S. Raihan "Moving Towards South Asia Economic Union", 2014

⁵ See "Strengthening Trade and Economic Ties between Afghanistan and Neighbouring Countries in Central Asia", UNESCAP, 2015

⁶ Ibid

The World Bank "Doing business, Trading Across Borders" ranks Afghanistan 184th out of 189 economies under the ease of trading across borders indicator. Afghanistan performs worse in comparison to all its neighbours (with the exception of Tajikistan). Out of 160 countries, Afghanistan ranks 158 in the World Bank Logistics Performance Index including criteria such as customs performance, infrastructure quality and timeliness of shipments.

Different regional integration and trade groupings (e.g. RECCA, SAARC, United Nations Special Programme for the Economies of Central Asia – UNSPECA, Central Asia Regional Economic Cooperation program - CAREC) aim to address some of the above referred NTBs in the region which are often due to lack of political will, entrenched disputes between countries, comparative advantage in similar products, low incomes and abundant labour, as well as tradition of import substitution policies. Other regions (e.g. Africa) in similar socio-economic situations have managed to progress much further in their regional integration processes.

3.2. Complementarity, synergy and donor coordination

The Heart of Asia (HoA) is the main Afghan-centred regional process aiming at enhancing political and economic cooperation. Initiated in 2011 (Istanbul), it has had a clear value in ensuring a comprehensive approach to regional cooperation and as a useful platform to maintain political dialogue between regional countries. The EU supports the process not only politically but also three of its six (6) Confidence Building Measures (CBMs), including the one on Trade, Commerce and Investment promotion (led by India). The proposed action will contribute to reinforcing such trade initiatives and projects as identified by the participating countries (i.e. a regional trade facilitation platform, develop selected sector (export) strategies towards extended market access for goods and services).

Trade Related Assistance in Afghanistan is provided by (i) the United States Agency for International Development (USAID) implements the "Afghan Trade and Revenue" project (ATAR) with three components: "Support to trade policy liberalization" focusing on WTO accession; "Enhanced access to regional markets", focusing on regional trade agreements; "Customs administration and reform". ATAR does not give assistance on trade facilitation bodies (re. Bali 2013); (ii) GIZ Sustainable Economic Development and Employment Promotion (SEDEP) focuses on agro-based value chains development (wheat, cashmere, almonds, poultry, dairy); (iii) The Agha Khan Foundation delivers value chain development activities in the agriculture and manufacturing sector with a strong nationwide coverage of 2,000 staff. (iv) the World Bank/UNCTAD "Customs Reform and Trade Facilitation", implements ASYCUDA integrated customs management system for international trade and transport operations, which current plans are to roll out this management system country wide; (iv) the United Kingdom, Department for International Development (DFID) funds Harakat - Afghanistan Investment Climate Organization Facility - which works on various projects related to private sector development. UNESCAP implements the project "Strengthening Economic Ties Between Afghanistan and Neighbouring Countries". The action will contribute to improved donor co-ordination in the area of aid for trade, currently very limited. Trade related donors and project implementers will be involved and consulted in the framework of the activities of the action, including taking into account past experience and ongoing interventions.

The proposed action will seek synergies and coordination with the above actions as well as with other EU supported regional cooperation interventions:

- EU support for the Central Asia Regional Economic Cooperation (CAREC), Trade Facilitation component (CAREC Corridors) administered by the Asian Development Bank;

- EU BOMNAF (Border Management in Northern Afghanistan) implemented by the UNDP focuses on cross border cooperation and integrated border management;
- Capacity building for the Ministry of Foreign Affairs, Regional Cooperation Directorate to effectively promote and coordinate regional cooperation with a particular focus on the Heart of Asia process and other regional cooperation processes. Implemented by the Asia Foundation;
- Capacity development for the Afghan Railway Authority, administered by the Asian Development Bank.

3.3. Cross-cutting issues

Gender: gender mainstreaming will focus on gender equality in trade policies and strategies as well as women empowerment. It will contribute to gender-responsive trade policies including by involving women organisations in participatory processes and ensuring training activities are gender sensitive, raising awareness and promoting women’s entrepreneurship. The action will further make recommendations on the inclusion of concrete gender-related measures in trade related policies and strategies, the core of trade agreements and trade laws.

Governance: improved governance will be achieved by providing support towards implementation of legal frameworks and more transparency through an increased involvement of the private sector and the civil society in the policy-making and implementation monitoring “processes”.

Environment: environmental issues will be taken into consideration including through capacity building activities. In case relevant, the value of organic products for exports will be assessed.

Anti-corruption: Efforts will be made to better understand the root cause of corruption and the role various government and non-government actors may play in reducing current high levels of corruption in areas relevant for this action. Training activities will raise awareness on how to keep corruption in check.

4. DESCRIPTION OF THE ACTION

4.1. Objectives/results

Global objective: To assist the government of Afghanistan towards improving the conditions for regional cooperation and trade as a lever for growth and poverty reduction.

Specific Objective: Strengthen institutional capacity for trade policy and strategy formulation and implementation, including through the promotion of active engagement with the private sector in these processes and further contribute to reduced transaction costs.

Capacity development is central to the proposed action. Two components will pursue the above objectives:

- Component 1 (**ER 1**). National Export Strategy (NES) and kick off its implementation
- Component 2 (**ER 2**). Trade Policy & Facilitation

4.2. Expected results and main activities

ER 1 The government of Afghanistan owns and implements a National Export Strategy (NES) and action plan developed in a consultative process with the private sector, and has started its implementation

Sub-ER 1.1

A National Export Strategy and action plan are designed and validated in a consultative process with the private sector

Activities include:

- Setting up the strategy design and implementation management structures and continued guidance/support to formalize and operationalize strategy implementation management mechanisms (Public-Private Development Partnership (PPDP), secretariat, etc.);
- Compile findings of previous trade-related strategies/reports and supplement / update where needed; Organize 1-2 workshops at the regional level to mobilize support from Diaspora for the orientation setting of the strategy and exploring investment opportunities;
- Inauguration event and first national stakeholders consultation will determine the national orientation of the strategy;
- Preliminary diagnostic and strategic orientations assessment of Afghan trade and export competitiveness in a Strategic Trade Development Roadmap (STDR); Validate STDR with priority sector selection by national stakeholders and the Government of Afghanistan;
- Map technical requirements (standards, technical regulations, SPS measures) and conformity assessment procedures for selected export priority products;
- Organise second and third national stakeholders consultations on sector and cross-sector strategies with plans of actions; Guide and support sector and cross-sector teams to review/finalise sector/cross-sector plans of action; Develop product specific export strategies/plans for at least 3 products;
- Finalize strategy documents (consolidation, editing, formatting); Organise Launching event for official endorsement of the National Export Strategy by the Government of Afghanistan.
- Enable a regional or national network of trade strategy facilitators to guide the strategy's implementation.

Sub-ER 1.2

National public and private stakeholders are enabled to manage and coordinate the implementation of the National Export Strategy and mobilise support to implement the validated roadmaps

Activities include:

- Provide management support to establish and operationalize an effective implementation management framework for successful implementation, tracking and measurement and mobilisation of support for the implementation of the NES action plans (NES Coordination mechanism)
- Support the Ministry of Commerce and Industry and other stakeholders with capacity-building trainings, direct support and tools on NES implementation planning, management techniques and resource mobilisation, including a particular focus on the implementation of quality & standards related solutions.

Sub-ER 1.3

Priority interventions identified during the National Export Strategy design process are implemented to improve regional integration and international trade competitiveness

Indicative activities that have already been highlighted as priorities (still to be validated during the NES process) include:

- Quality and SPS:
 - o identification of priority standards for agriculture (i.e. sorting/grading, aflatoxin, Good Agriculture Practices -GAP), their development (in line with the Code of Practice of the WTO Agreement) and promotion
 - o support to establish a training centre through: development of curricula, training of trainers (ToT), a directory of tools/materials and delivery of training programmes

- the private and public sector on standards, quality, conformity assessment (jointly with other agencies, such as Export Promotion Agency and regulatory bodies);
- help ANSA implement its ISO certification system through training and building capacity of ANSA auditors (ISO 9001/ISO 22000)
- train relevant ministries staff (MAIL, MoH, MoCI) and other sector stakeholders according to the priorities established in the roadmap of the different strategies

ER 2 The institutional capacity of MoCI and related bodies for trade and trade facilitation policies, regulatory reforms, and negotiation formulation and implementation is strengthened, and the engagement of the private sector in these processes is enhanced

Sub-ER 2.1

Knowledge sharing mechanisms for government's staff on trade policy/negotiation formulation and implementation are established in partnership with a training institute from the Region (South/South-East Asia⁷)

Activities include:

- Identify specific capacity building needs for MoCI as well as other governmental agencies involved in trade policy/negotiation formulation and implementation;
 - Design a training curriculum/plan on trade policy/negotiation in partnership with a training institution from the region;
 - Produce training materials and documents;
 - Training for policy makers through a blended approach (i.e. tutorial followed by on-the-job coaching);
 - Peer-to-peer study tour within the region for exchange of knowledge/confidence building;
- Prepare policy makers to participate in trade policy fora within the region/confidence building (e.g. RECCA, HoA, CAREC related events);

Sub-ER 2.2

Institutional mechanisms to facilitate the implementation of the Trade Facilitation Agreement (TFA) is established in Afghanistan and linked with regional partners

Activities include:

- Strengthening of national entities to fulfil the mandate of the National Trade Facilitation Committee (NTFC) as per article 23 of the WTO TFA: to facilitate the coordination of border regulatory agencies, to support the implementation of the TFA and to contribute to the informed participation of the SMEs in the design, implementation and design of cross-border simplification reforms;
- Awareness and Training to policy makers and private sector representatives on trade facilitation reforms and measures of the TFA to increase their participation in policy reform and definition of priorities in the implementation of the TFA to maximize benefits from the implementation of the TFA;
- Establish a Regional Trade Facilitation Mechanism aiming at a harmonized and coordinated implementation of the TFA in the region and exchange of best-practices among countries (including institutional support to the National Joint Transport and Trade Facilitation Committees (NJC) and the Regional Joint Committee on Transport and Trade Facilitation (RJC)).

⁷ E.g. India and/or Pakistan. Relations with other renowned trade related training institutes in south Asia will be explored.

Sub-ER 2.3

SME knowledge of how to manage national cross-border procedures and compliance with regional and/or global market requirements is built encompassing priority markets (building on NES findings)

Activities include:

- Development, publication and dissemination of a National Trade Procedures Guide for SMEs and entrepreneurs, in print as well as on-line;
- Training of trainers to provide advice to private sector on export procedures and other trade facilitation issues for SMEs;
- Strengthen the capacities of SMEs to manage national cross-border procedures and comply with selected priority regional and or global markets requirements through a blended learning approach (i.e. face-to-face sessions complemented by e-learning curricula) and on-the job coaching.

Sub-ER 2.4

Public-private consultation process on domestic/regional key pressing trade policy/regulatory/negotiation issues is strengthened

Activities include:

- Establish a Public Private Dialogue Steering Committee (if required);
- Identify issues and research/analysis needs for public private consultation (in particular in relation to regional integration);
- Support the production of research/materials/position papers through peer review;
- Organise public-private policy consultations (included at bilateral/ and regional level);
- Produce recommendations to adequate authorities for further action.

4.3. Intervention logic

The proposed intervention is in line with the Regional Asia Multiannual Indicative Programme 2014-2020, is coherent with the EU-Afghanistan Multiannual Indicative Programme 2014-2020 and with the EU Agenda for change in that it will promote regional development and integration (including South-South initiatives) as means to spur trade and investment, contribute to economic development and foster peace and stability. The proposed activities are in line with the recent drive for furthering regional economic cooperation and trade.

Ownership is ensured as the two components of the action, development of national export strategy and trade facilitation, are outlined as immediate priorities in the draft Afghanistan National Trade Policy. The action is further in line with the Ministry of Commerce and Industry's request for donor assistance - on successive occasions since 2008 - to address the requirements for a national export strategy and to allocate resources to address priority trade policy objectives.

Activities under ER1 aim at strengthening the trade related capacity of the Government of Afghanistan – namely the Ministry of Commerce and Industry as well as its subsidiary agencies – and to promote consultative processes and private sector engagement in government policy reforms. The NES design process should provide a roadmap to strengthen Afghanistan's supply and export capacities, identify regional partners and investment, and focus on realistic action planning. Detailed action plans elaborated for priority sectors, existing or emerging, will enable the Ministry of Commerce and other public and/or private related stakeholders, to align interventions and track progress. The implementation of priority activities, including for quality, will facilitate tangible results to improve export performance.

Activities will also address national policy and strategy capacities to further facilitate improved coherent and strategic approach and benefits from the multiple fora (e.g. WTO,

SAARC, Trade and Transit agreements, CAREC, ECO, SCO, UNSPECA, TRACECA) where Afghanistan participates and conducts trade related negotiations, investment promotion and economic cooperation.

Activities under ER 2 will improve knowledge sharing and implementation and consultation mechanisms through strengthened skills, access to international/regional best practices as well as stakeholders' consultation and will contribute to enhancement and modernisation of economic governance.

With the aim to address market requirements, the proposed intervention will contribute to improved competitiveness of Afghan products and services in *selected export sectors* (re findings and recommendations of the National Export Strategy (ER 1.3) and agreed priorities).

In terms of sustainability of the intervention, the two components are interdependent. The focus of the ER 1 is to draft, validate and implement the National Export Strategy and ensure that national structures are in place and capable of implementing it (e.g. NES management Units) as well as that the processes in place are inclusive of the private sector. A step further is to involve relevant stakeholders in the decision making process (inclusive) and, at the end of the project, at least three product specific export strategies are approved and ready for implementation. Major efforts will be on ensuring buy in by all the stakeholders in that these are appropriately made aware of the mutual benefits of the strategy, its implementation and the ensuing regulatory and institutional reforms. In turn, ER2 is expected to strengthen trade-related capacities for public and private sectors in a comprehensive way including through knowledge sharing, institutional capacity development and building regional partnerships with a medium to long-term approach.

The expertise of a specialised International Organisation will ensure transfer of knowledge and expertise to national entities capable of mobilizing sub-networks of trade experts and ensure outreach including to outlying districts. The use of local partners will give additional guarantees of stronger national trade-related capacity, improved ownership and, in addition, will contribute to minimise security risks.

The intervention will build the foundations for development of enterprise level implementation of the national export strategy. This will need additional support in a possible second phase, which may be foreseen for Decision in 2018.

5. IMPLEMENTATION

5.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2) (b) of Regulation (EU, Euratom) No 966/2012.

5.2. Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of the entry into force of the financing agreement. Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3. Implementation modalities

5.3.1. Indirect management with an international organisation.

This action may be implemented in indirect management with the International Trade Centre in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the activities described under 4.2. This implementation is justified because of the experience of the International Trade Centre (ITC) as the joint implementing trade agency of the World Trade Organization and the United Nations Conference for Trade and Development. ITC specializes in trade development and export promotion in developing countries. It has wide experience in the region surrounding Afghanistan and is currently supporting Afghanistan as part of a regional project aimed at fostering business support to the WTO Accession process in LDCs. ITC, as a specialized aid for trade implementing agency will bring added value including through tested assets (e.g. off-the-shelf trainings, diagnostic tools, trade databases, market analysis tools, gender/environment mainstreaming platforms) and thorough experience in promoting public-private interface, regional cooperation and economic integration and South-South initiatives. ITC has wide expertise in the region surrounding Afghanistan, with field offices in Tajikistan and Kyrgyzstan, and involvement in networks that may facilitate regional partnerships under the action components. WTO recognises ITC as the technical assistance agency for implementation of the WTO-Trade Facilitation Agreement with a clear focus on mobilizing private sector's perspective. In addition, the Government of Afghanistan has approached ITC on development of a national export strategy a number of times, most recently in 2014 via the Export Promotion Agency of Afghanistan.

The entrusted entity would carry out the following budget-implementation tasks: launching calls for tenders and for proposals; defining eligibility, selection and award criteria; evaluating tenders and proposals; awarding grants and contracts; acting as contracting authority concluding and managing contracts, carrying out payments, recovering moneys due.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in indirect management with United Nations Industrial Development Organisation (UNIDO). The implementation by this alternative entrusted entity would be justified because of UNIDO's specialized trade assistance expertise and its experience focusing on industrial development, trade capacity-building and quality and compliance infrastructure. UNIDO has implemented technical assistance projects in Afghanistan in the area of quality and compliance infrastructure. The alternative entrusted entity would carry out the following budget-implementation tasks: launching calls for tenders and for proposals; defining eligibility, selection and award criteria; evaluating tenders and proposals; awarding grants and contracts; acting as contracting authority concluding and managing contracts, carrying out payments, recovering moneys due.

The entrusted international organisations and the alternative entrusted international organisation are currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisations can be entrusted with budget-implementation tasks under indirect management.

5.4. Indicative budget

	EU contribution (amount in	Indicative third party contribution, in currency

	EUR)	identified
5.3.2 Indirect management with ITC	4 550 000	N.A.
5.7 Evaluation,	70 000	N.A.
5.8 Audit	30 000	
5.9 Communication and visibility	50 000	N.A.
Total	4 700 000	N.A.

5.5. Organisational set-up and responsibilities

A governance mechanism (e.g. Project Steering Committee) will provide general guidance to and will decide which priority areas to be addressed (including selecting priority interventions under ER 1.3). In addition, it will ensure coordination and synergies with other trade-related interventions implemented in Afghanistan.

The Steering Committee will be composed by representatives of:

- The Ministry of Commerce and Industry (chair)
- The European Union
- The relevant Trade related national agencies
- The private sector
- The Civil Society

The EU Delegation will establish a trade related donor coordination structure that will inform the action, particularly in view of ensuring complementarities and synergies of relevant actions implemented in Afghanistan and in the region.

The **entrusted entity** implementing the action, in charge of project management and responsible for achievement of expected results, will design workplans, provide advice, training and other inputs, including through external resources i.e. identify, contract and guide consultants and companies, undertake monitoring and evaluation, and requested reporting. The entrusted entity would work in tandem with local implementing partners.

Local **implementing partners** will facilitate and organize events, provide expertise/consultancy, outreach to private business, support for implementation of the activities in provinces among other tasks.

5.6. Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.7. Evaluation

Having regard to the nature of the action, a mid-term and final evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out for learning purposes, in particular with respect to the intention to launch a second phase of the action.

A final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this would be the first trade related action implemented by the EU in Afghanistan.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded in 3rd quarter 2017 and 2nd quarter 2019.

5.8. Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded in the 3rd quarter 2019.

5.9. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.4 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

Indicatively, one contract for communication and visibility services shall be concluded in the 1st quarter 2016.

