

Towards a Self-Sustaining Afghanistan

An Economic Transition Strategy

The Government of the Islamic Republic of Afghanistan

November 29th, 2011

Objective

This paper has been prepared by the Afghan Government for submission to the Joint Coordination and Monitoring Board to put forward its analysis of the anticipated economic impact of Transition, and its strategy to address the implications.

Many challenges will need to be addressed in the coming years, and a continuing strong partnership between the Afghan Government and the International Community will be required. By endorsing in principle the process put forward in this paper the members of the JCMB:

- acknowledge Government analysis of the economic impact of transition as well as the analysis in the World Bank study “Transition in Afghanistan looking beyond 2014”, and the resulting fiscal pressures it will face;
- support the Government's intention of increasing fiscal sustainability through a commitment to an aggressive program of efficiency and reform and efforts to encourage economic growth, improve human development and public service delivery;
- agree to work with Government through *The Kabul Process* to implement the prioritized National Priority Programs in a sustainable and fiscally responsible manner.

The means to address the fiscal gap will be further discussed through *The Kabul Process*, and specific modalities for support of the Government plan will be determined in consultation with donors as set out in this paper.

It is the Government desire that this paper will form a key milestone in *The Kabul Process* and that it will inform discussion and decision-making to take place at the International Conference on Afghanistan held in Bonn on December 5th, 2011.

Introduction

The ten-year partnership between Afghanistan and the International Community has produced tremendous accomplishments for the Afghan people, with significant benefit for the region. The Government of the Islamic Republic of Afghanistan's goal is to build upon this partnership to develop a sustainable economy for Afghanistan that depends less and less on international donor assistance. This remains a formidable task, given the damage caused by decades of war and lack of development.

The Government of Afghanistan is committed to building a secure, prosperous, democratic Afghanistan based on fiscally sustainable private sector-led economic growth, well-governed and transparent government institutions, and mutually beneficial regional economic

cooperation. We will set priorities and take difficult decisions to embrace reform and make effective use of international assistance, in accordance with the following objectives:

- Increasing Government capacity and building on structural reforms to improve public service delivery;
- Strengthening public financial management systems, improving budget execution, and increasing revenue collection, including phased implementation of a value-added tax;
- Increasing transparency and accountability to prevent corruption;
- Creating a strong enabling environment for private sector investment, including public-private partnerships in social and economic development, supported by adequate regulatory and institutional reforms and a robust financial sector; and
- Working closely with the International Community to develop strategies to reduce overall security costs.

Progress towards the achievement of these objectives is vital. They will help us to reach shared goals for improved security, governance, and development. The Government believes that clear, mutually agreed targets, pursued with the International Community, are the best means for monitoring our joint performance. For these reasons, and with the support of the International Community, the Government commits to:

- Improve Afghanistan's ranking in the Transparency International's Corruption Perception Index, moving from a current rank of 176 to a rank of 150 within three years¹,
- Improve by 15 positions on the IFC's Doing Business Survey within three years, and maintain or improve our ranking on each of the ten indicators,
- Grow the ratio of revenue collection to GDP from 11% to 15% within four years, and to 20% by 2025,
- Within five years: to improve the management of public funds as measured by the PEFA assessment by 20%, to improve transparent accountable use of public funds measured by the Open Budget Index to 40% and to improve budget execution to 75%, and
- Improve our score in the UNDP human development index by 25% in the next three years; and by 50% in the next ten years.

The Government of Afghanistan believes that with the support of the International Community these commitments are realistic and achievable.

The Kabul Process, initiated at the London Conference January 2010 and formalized at the Kabul Conference July 2010, provides the framework for partnership and mutual accountability for the Afghan Government to assume full responsibility for security, development and governance and the realisation of a secure country with a sustainable economy.

The Government will continue to employ the Kabul Process including increased donor engagement to channel international support for the specific activities that can further these

¹ The absolute increase in component scores will be the indicator. In 2015 success will be measured against improvements in these scores sufficient to increase Afghanistan's relative ranking by 26 positions on the 2011 index.

over-arching objectives. These activities will support the Government of Afghanistan to develop policies and undertake programmes aimed at: (a) achieving financial sustainability through future revenue streams by creating critical infrastructure that is sustainable and can be supported by Afghanistan's budget, (b) reforming and creating critical institutions for effective governance, (c) increasing productivity in agriculture and rural areas for growth, poverty reduction and increased food security, (d) strengthening rule of law, and continuing improvement to Afghanistan's legal framework, (e) establishing an enabling environment for private sector-led growth and private investment, including a strong financial sector, secure access to capital and transparent responsible regulatory environments, (f) building skilled human capital, (g) achieving economic and social stability through increased access to improved job opportunities, (h) strengthening regional economic integration through initiatives such the New Silk Road vision and the Central Asia Regional Economic Cooperation (CAREC) Program to promote trade, facilitate transit, expand market access and support economic growth.

Successful implementation of this strategy will be a gradual process and the Government of Afghanistan seeks continued support from the International Community – in both security and non-security assistance – to achieve shared objectives in governance and development. This will involve implementing existing commitments and directing diminishing international resources towards the most effective and efficient channels for expenditure of aid funds. The Government, therefore, urges the International Community to fully implement best practices in aid effectiveness as agreed at the London and Kabul Conferences.

Your support will assist us to achieve the following shared objectives:

By 2015 Afghanistan will have taken over full responsibility for its own security, and will be leading development initiatives and processes with the confidence to make critical foundational investments that will lead to economic growth and fiscal sustainability.

By 2025 Afghanistan will have eliminated its dependency on international assistance for funding to non-security sectors and will only receive support consistent with all other least developed nations. A robust and growing extractive industries sector will have developed. Through effective development and, improved delivery of Government services, the root causes of insurgency will be reduced and, in consultation with international partners, plans will have been put in place to reduce the size of the ANSF.

By 2030 Afghanistan will be funding a professional, highly effective ANSF. Achievements in development and governance will see Afghanistan emerge as a model of a democratic, developing Islamic nations.

Accomplishments

In the face of continuing great need it is easy to overlook the tremendous accomplishments of our partnership with the International Community. Over the past 10 years we have: increased access to primary health care from 8% of our population to more than 60%; we have brought education to 8,000,000 youth and will graduate more than 157,000 students from high school in 2011; we have created nearly 2,000 kilometers of road cutting travel times between centers by 75% and we expect to complete the Afghan ring road in 2014, once again making Afghanistan the bridge of Asia; we have increased access to electricity by 250% and our

national power utility has grown into a more efficient, well-managed corporation; we have grown access to telecommunication services to 80% of the population; our flagship National Solidarity Program has brought governance to the smallest villages in Afghanistan, empowering local communities to make decisions to allocate \$1.2 billion in support of local priorities; we have emerged as a new democracy, holding successive elections under challenging circumstances for both the legislative and executive branches of government; our economy has grown, driving per capita GDP from \$180 in 2001 to more than \$530 today; we have an emerging vocal and vibrant civil society, and an open media where a range of views are publicly debated; the role of women in our society has grown, girls make up 39% of pupils in our school and successful women have emerged as political, business and civil society leaders and role models.

Over the past year the Government has progressed toward establishing Afghan ownership and leadership: seven provinces have transitioned to Afghan security control. The second round of transition has been announced, and responsibility for the security of around 50% of Afghans will pass to our national security forces. We have continued to build our systems for revenue mobilization and public financial management, achieving a 27% increase in domestic revenue collection over last year (2010), and a 150% increase since 2009. Our economy remains strong, growing over 8% this fiscal year despite a global economic downturn and continuing the trend of an average of 9% growth per year since 2002. We have laid ground-work for foreign investment in our extractive industries, and taken steps to improve the business climate, and applied transparent processes to award several minerals contracts including the Hajigak (iron deposit)². This contract alone is expected to result in approximately US\$10 billion in foreign direct investment. Perhaps most importantly, Ministries, led by Cluster Coordinators, have prepared detailed National Priority Programs (NPPs) that were mandated at the Kabul Conference last year, and fifteen NPPs have been endorsed by the JCMB October 2011, prior to the this Bonn Conference.

Development Strategy

Preparing for The London Conference (January 2010), the Government of Afghanistan endorsed an Afghan-led approach to development intended to simplify, focus and make coherent the often unruly array of development activities that have persisted in Afghanistan. The Afghanistan National Development Strategy (ANDS), launched in mid-2008, laid-out the national development priorities. At the Kabul Conference (July 2010), coordinating Ministers then took responsibility for translating these development priorities into focused implementation plans in the form of 22 National Priority Programs.

The Government's economic development strategy is embedded within the NPPs. When the concept was originally conceived in late 2009 they focused exclusively on economic growth and job creation. Subsequently, additional NPP were developed to address critical social and governance objectives. However, the original focus was not lost. The NPPs address a broad range of priorities, including but not limited to: improvement of the Afghan business climate; promotion of responsible extractive industries; encouraging efficient and effective land use; strengthening the financial sector, improving service delivery for current and ensuring access

² Hajigak contracts are currently in the final phase of evaluation and hopes to announce the successful candidates soon.

to capital for legitimate investors; and, most importantly, promoting improved security and the rule of law nationwide.

Implementing the NPPs is critical to ensuring continued economic growth in Afghanistan. We created the NPPs to consolidate hundreds of Afghan, bi-lateral and multi-lateral development projects into a coherent suite of programs that could be absorbed in an ordered manner into responsible Ministries and agencies, and the Afghan budget ensuring their sustainability. The NPPs build on and harmonise successful programmes currently being implemented in Afghanistan, while increasing local ownership and content. They bring essential reform while building Afghan institutions and enhancing service delivery. More than 60% of development activities in the NPPs are currently underway. They are 35% funded with existing, programmed money. The unfunded portions of the NPPs are aligned with donor priorities, reflect the experience of the donor community shared with us in extensive consultations and are already being considered for funding by our partners. The NPPs are our national priorities and will form the basis of government programming well beyond transition, implemented in a way that is sustainable with available resources.

Analysis of the long-term costs of continuing implementation of these programs is ongoing. We anticipate a gradual reduction in capital spending and a shift toward increased program operation costs, but with only small decreases in funding requirements over time. The exception to this trend is the creation of physical infrastructure. Here, capital costs are anticipated to rise once program planning phases are complete and construction begins. This corresponds to the phased completion of transport corridors envisioned in the National Resource Corridor Program and the New Silk Road vision.

The Government is willing to look at a range of financing strategies for the creation of this infrastructure, including successful models for private sector development employed by other developing countries. The use of the Asian Development Bank's Afghanistan Infrastructure Trust Fund (AITF), which supports NPPs for infrastructure development, and the close partnership of Afghanistan's participation in the Central Asia Regional Economic Cooperation (CAREC) program, should figure prominently in future plans.

The companion document *The Kabul Process: Building Afghanistan from Within* discusses in more detail the Government plan for successful implementation of the NPPs³.

Fiscal Gap

Afghanistan's fiscal gap is significant, and unless it is addressed the good work of the past ten years will come undone. The Government and the World Bank have examined the financial position of Afghanistan as it moves beyond Transition and the results, shared in the joint World Bank - Government report, show that even under ideal conditions the Government will not be able to cover spending pressures⁴. In the preparation of this document Government closely examined the costs associated with delivery of its planned strategy. It used the same economic models as the World Bank, but made slight modifications in the fiscal assumptions. Government chose to exercise additional restraint on forecast spending on recurrent costs,

³ Not formally presented to the JCMB

⁴ Transition in Afghanistan: Looking Beyond 2014; World Bank 2011.

incorporated modest increases in minerals related revenue and invested the proceeds in development. The primary difference between World Bank and MoF models is that the MoF forecasts continued projections to the future, to understand what would be required to achieve sustainability.

This internal analysis has not been independently reviewed by donors, but calculates the estimated cost of continued non-security related on-budget development through the NPP framework is equal to 14% of GDP in 2015, with an estimated 9% of GDP coming through off-budget channels. The total cost of security is 26% of GDP. The civilian wage bill, O&M and other recurrent non-security Government costs is equal to 13% of GDP.⁵ The total forecast for required on budget spending is therefore equal to 53% of GDP in 2015 and 62% when projected off-budget development spending is considered. Substantial funding cuts in any of these areas undermine our ability to achieve our shared goal of a secure, sustainable Afghanistan.

Included in these estimates are the costs of absorbing the results of more than ten years of generous external budget assistance programs. Of the estimated \$57 billion⁶ spent on Afghan reconstruction only \$6 billion has been channeled through the national development budget, with the full ownership of Government. In spite of this, the Government will ultimately need to absorb, utilize and maintain much of this infrastructure. It realizes that it must face difficult decisions about which assets can be accepted. Further, Government will inherit funding responsibility for externally funded technical advisors that are essential to the delivery of donor funded programs. Long-term success in Afghanistan requires that the anticipated shortfall in security and development spending be met.

Strategy to Address the Fiscal Gap

The Government's strategy to address this involves a re-commitment by the Afghan Government to economic growth, key reforms and increased efficiency in revenue mobilization. The IMF forecasts that Afghanistan will collect \$2.0 billion in revenue in fiscal 2011–12, corresponding to just over 11% of GDP. By fiscal 2016 we believe that a 15% revenue to GDP ratio is achievable. This is comparable to Nepal (15.7%), the Philippines (13.4%), and Sri Lanka (14.6%) and well above many other post-conflict, least developed nations where data is collected⁷. Succeeding would mean that the Government would collect \$4.4 billion in 2016, and would reflect an average revenue growth rate from 2009 of more than 30%.

⁵ Figures shown are government forecasts that are broadly consistent with WB estimates. Government estimates for security O&M costs are slightly higher than those of the World Bank. Conversely, Government intends to hold growth of wages to a lower level than those predicted by the WB. In both cases the difference amounts to less than 2% of GDP. The total fiscal gap in 2015 is consistent with WB estimates.

⁶ Development spending only. Military funds spent in support of development are not reflected.

⁷ Cambodia 11.8%, Central African Republic 11.5%, Haiti 11.9%, Madagascar 11.6%, Rwanda 13.3%, Uganda 12.4%. Source World Economic Outlook (WEO), IMF 2011.

To achieve this, the Government has committed to an aggressive program of efficiency and reform, agreed with the IMF on November 14th, 2011. The key elements of this program include

- measures to increase the efficiency of our customs and revenue departments,
- expanding the Government's ability to enforce the Afghan tax law,
- improved governance of our state-owned enterprises and corporations, including strong measures for the elimination of subsidies, and clear time-bound plans to turn over non-essential functions to the private sector,
- increase capacity and an improved institutional framework to respond to economic crime,
- implementation of a series of reforms to strengthen the financial sector, ensuring access to capital for legitimate investors, and
- a phased implementation of a value-added tax providing for tax efficiency and a more progressive, pro-poor taxation.

The impact of private sector investment in Afghanistan's extractive industries is forecast to have a substantial impact on government revenues. Though the challenges of producing an accurate forecast of mineral related revenue cannot be overstated, optimistic scenarios predict that from 2016 annual receipts could reach more than \$1.5 billion per year and grow to more than \$3 billion by 2026. Though Government will continue to aggressively pursue this potential revenue, it has taken a more conservative approach to revenue planning.

Beginning in 2016, internal estimates forecast revenue contribution of \$500 million per year and grow steadily afterwards. This combined with increases in efficiency in tax and customs would push our revenue to GDP ratio to an estimated 21% by 2030. These estimates forecast minerals-related revenues to grow at an annualized rate of 17% per year between 2016 and 2030. Achieving this scenario would require a significant positive change in security and the Afghan business climate leading to increases in direct local investment. In addition to the measures described in this paper the Government re-commits itself to the principle of transparent, responsible use of mineral sector revenues. We expect to achieve EITI member status by end 2012.

While long term prospects for Afghanistan are promising, Government is unable to address the fiscal gap in the medium term. Based on our initial analysis we must look to donors to finance approximately 47% of GDP or approximately \$10 billion in 2015. At first glance, this figure may look enormous. However, it reflects a 40% reduction from current aid levels, and it is expected to decline over time. The Government takes the challenge donors will face in maintaining this level of assistance seriously, but notes that when compared to the current spending of the International Community it is small. The current estimated cost of the international military presence in Afghanistan is \$140 billion per year; 7% of total 2011 security costs is sufficient to fund the entire gap. This cost savings can facilitate Afghanistan's passage to a future that is not aid-dependent. A long-term funding commitment by the International Community, declining over time and ending in 2030, would provide the necessary stability in financing to allow Afghanistan to arrive at a stable and prosperous future. This approach allows Afghanistan to take full responsibility for its own security, continue to implement reform to improve critical development and governance indicators, and grow its economy, gradually assuming the full burden of these financial obligations. The total cost to finance this plan to 2030 will be lower than the costs of single year of current military expenditure.

To be successful, this financial support should be defined in two categories: security assistance and non-security assistance.

Security assistance. Based on current analysis the Government of Afghanistan believes it will be necessary for the donor community to fund the cost of the Afghan security forces through 2025. The Government will continue to contribute to the recurrent cost of maintaining the security forces. The Government commits to work closely with the International Community to develop strategies to reduce the number of troops, and their recurrent maintenance costs.

Non-Security assistance. We ask the International Community to work with Government to implement the NPPs in a manner that creates conditions where strong economic growth is enabled and the root causes of insurgency are diminished. Donor funds will be used to achieve the commitments laid-out in this document and to achieve our shared goals of improved public financial management, reduced vulnerability to corruption, broad political and institutional reform, improved public service delivery, a strong enabling environment for growth, and direct poverty reduction.

The companion document titled *Afghanistan's Public Financial Framework* provides additional analysis of the Government Fiscal plan⁸.

Mutual Accountability

The Kabul Process is built on a framework of mutual accountability and transparency. The Government has succeeded in implementing 38 of 50 of the reforms agreed in London and Kabul. The Government remains committed to completing implementation of the outstanding 12 measures. The London Conference saw the International Community agree to two major commitments: to channel 50% of development assistance through the national budget within two years, and to align 80% of total assistance with Afghan priorities defined by the NPPs. In spite of this, development assistance delivered through the budget has declined and the NPPs endorsed by the JCMB remain underfunded. The Government acknowledges that the failure of the Kabul Bank and the subsequent delay to agreement with the IMF complicated the achievement of these goals. It is very pleased to be back on track within a program and is confident that these goals can be met within two years.

When this principled commitment was made, donors recognized the difficulty posed by implementing major projects in the capacity-challenged environment of Afghan line Ministries. At the policy level, a commitment by our partners was made in a sincere desire to assist Afghanistan to build the capacity for transparent, effective implementation recognizing that without utilizing Afghan systems Afghan capacity would not grow. In spite of this, at the technical level the implementation of this policy has been frustrated by calls for increased capacity before funds can be released. Together, Government and donors must devise mechanisms that enable funding of Afghan institutions while their capacity grows.

Increasing on-budget assistance is critical to the long-term sustainability of donor investments in Afghanistan. The economic impact of on-budget assistance is estimated to be more than three times higher than off-budget support in Afghanistan. Our analysis with the World Bank shows that the impact of moving funds to the budget early pays strong dividends,

⁸ Not formally presented to the JCMB.

increasing the base upon which future period economic growth builds, leading to higher net GDP in all scenarios. Sustainability, economic growth and effective use of funds all require progress toward better utilization of government systems.

The Government recognizes that transition to the use of on-budget systems to deliver 50% of assistance will take time. It is working to improve the absorptive capacity of its systems to enable it to achieve its eventual goal that all NPPs should be delivered through the national budget. The implementation of the reforms set-out in the National Public Financial Management Roadmap that focuses on strengthening the budget process, achieving substantial improvements in its execution, and increasing accountability and transparency in Government spending will allow significant progress to be made in this regard.

In addition, the National Efficient and Effective Government Program, and its component World Bank funded Capacity Building for Results Facility will work directly with Ministries implementing programmes to increase their effectiveness. In spite of these efforts, Government recognizes that in the near-term, external budget funding of some programs may be inevitable. For this reason the Government has prepared an operational guide to ensure that off-budget assistance is delivered in a manner consistent with best practices of aid effectiveness.

At the Kabul Conference another critical step toward Afghan sustainability was the donors' commitment to align 80% of their development spending behind government priorities. The National Priority Programs were endorsed in principle and the Afghan Government was charged with bringing back "bankable" program designs for donor investment. We have done this and the designs have been endorsed. To move to the next step, financing mechanisms for programs must be agreed with donors. A critical component to the implementation of these programs will be aid predictability. The government cannot undertake multi-year programming on a series of a one-year commitments. The Government will enter into a dialogue with development partners to identify the appropriate funding modality for each NPP and increases in aligned donor funding alignment.

The Government of Afghanistan and its people understand that donor aid can be made even more effective through smart conditionality. This is particularly the case where desired outcomes are agreed, and Afghans take the lead in designing the appropriate interventions necessary to achieve them. Funding mechanisms that are built on these principles, like the ARTF Incentive Program⁹, give government needed flexible on-budget funds while giving the donor community assurance that critical objectives are met. Afghanistan has an outstanding track record on fulfilling conditionality associated with financing. Afghanistan completed 72 of 76 agreed benchmarks as part of our HIPC debt relief, IMF PRGF program, and the World Bank DPG programs. Even where we have not been successful in winning the release of funds, as was the case with the ARTF Incentive Program last fiscal year, all of the agreed benchmarks were completed.

A more detailed description of Government's plan to strengthen mutual accountability and its proposed path forward can be found in the companion document *Mutual Accountability and Our Path Forward, Looking beyond the Bonn International Conference on Afghanistan*.¹⁰

⁹ The ARTF Incentive program is a WB led conditionality program that provides discretionary, on-budget funds to governments on completion of agreed benchmarks.

¹⁰ Not formally presented to the JCMB

Path Forward

Success in Afghanistan demands that we continue our partnership to fulfill the goals of the Kabul Process. To do this the Government must continue its efforts to implement the NPPs, and in so doing deliver the necessary reform to our national institutions to improve governance, transparency, the economy and the conditions of the Afghan people. The donors must re-commit to engagement with Afghan authorities, and through this partnership find ways to support the long-term implementation of the NPPs.

Looking ahead, the Government proposes that the long-term mutual commitments stated here be explored in more detail. The Government is pleased that the state of our security will be discussed in detail in Chicago in May 2012. It is here that Government will ask donors to signal their long-term commitment to fund the security sector. Once this critical question has been resolved it will allow the government, with the support of the International Community, to focus on strengthening its cooperation to achieve shared governance and development goals.

Regarding the future path to governance reform and improved socio-economic development, the Government will hold meetings in Kabul that would closely examine implementation of measures designed to address the governance needs for the country, and conclude with an agreed, funded road-map for sequenced implementation of the reform measures identified in the Governance NPPs.

On socio-economic development, the Government is pleased that the Government of Japan has indicated that it would host a conference in Tokyo in July of 2012. The scope and agenda of a conference in Tokyo will be shaped through consultations between the Government and the International Community. It is the desire of the Afghan Government that the conference in Tokyo would address the implementation of the socio-economic development NPPs.

The Government, while recognizing that governance and development are closely linked, believes it is necessary to separate discussion on governance and development because the urgency associated with Governance reform often constrains the time available to focus on long-term development.

The Government hopes that the key outcome of these discussions would be agreed road-maps to achieve shared goals through the sequenced implementation of key elements within the NPPs. For this purpose, between Bonn and the proposed Tokyo conference, the Government intends to enter into a collaborative process where donor representatives come together with cluster coordinators, Ministry of Finance officials, and representatives of the line Ministries to closely examine the existing phased implementation plans of the NPPs and design bankable “packages” within specific programs that can be sequenced for funding. At this time agreement should be reached on the appropriate funding modality for each agreed “package.”

Government recognizes the importance of multi-lateral trust funds as a proven means to channel funds through the budget and encourages the World Bank, ADB and UNDP to consider how their existing vehicles could be expanded to support Government to deliver increasing aid flows. The Government recognizes that donor fiscal constraints may prevent immediate funding of all proposed activities of the endorsed NPPS and believes that by working together from existing implementation plans available funds can be used to maximum effect without compromising the integrity of proposed programming.

At these events, donors and Afghans will examine the progress made against mutually agreed commitments, and agree on suitable future benchmarks to guide their partnership. As has been the case, the JCMB process will continue to form the key bridge between Kabul and national capitals in preparation for these events, and as the key point of dialogue and mutual accountability in the implementation of our plans. The Ministry of Finance will work closely with the Line Ministries and donor partners, continuing the process of consultation and collaboration under the mandate of the JCMB.

The Bonn Conference is the ideal opportunity for the Afghan Government and the International Community to signal a renewed commitment to move forward under Afghan leadership to the creation of a secure, self-reliant Afghanistan. We ask the International Community to signal its willingness to work with us through the coming six months to design mutually agreeable means to fund, implement and monitor the success of the plan put forward in this paper. We recognize that in this challenging fiscal period that donor resources will be constrained, and we believe that this plan forms a sound basis for discussion on how currently spending levels can be substantially reduced in a manner that does not undermine the progress that has been made.