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INTERIM STRATEGY NOTE

FOR

ISLAMIC REPUBLIC OF AFGHANISTAN

FOR THE PERIOD FY12-FY14

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Afghanistan Country Management Unit
South Asia Region

Middle East and North Africa Department
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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Services
ADB	Asian Development Bank
ANA	Afghanistan National Army
ANP	Afghanistan National Police
ARDS	Afghanistan Reconstruction and Development Services
AREDP	Afghanistan Rural Enterprise Development Program
ARTF	Afghanistan Reconstruction Trust Fund
AWARD	Afghanistan Water Resources Development Project
CAFÉ	Conflict Affected and Fragile Economies
CAS	Country Assistance Strategy
CDCs	Community Development Councils
DABS	Afghanistan Power Utilities
EITI	Extractive Industry Transparency Initiative
EPHS	Essential Package for Hospital Services
EQUIP	Education Quality Improvement Project
GDP	Gross Domestic Product
GoA	Government of Afghanistan
HLP	Horticulture and Livestock Project
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ISAF	International Security Assistance Force
ISN	Interim Strategy Note
JSDF	Japan Social Development Fund
KURP	Kabul Urban Roads Improvement Project
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MRRD	Ministry of Rural Rehabilitation and Development
NPP	National Priority Programs
NSP	National Solidarity Program
O&M	Operation and Maintenance
PFM	Public Financial Management
PFMRP	Public Finance Management Reform Project
PRT	Provincial Reconstruction Teams
SHARP	Strengthening Health Activities for Rural Poor
TA	Technical Assistance
TSS	Transitional Support Strategy
WDR	World Development Report

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TABLE OF CONTENTS

Executive Summary

Afghanistan is a country in conflict with improving, but still extremely fragile, state and civil society institutions. Despite the ongoing conflict and insecurity, there have been significant political achievements including 2 rounds of presidential and legislative elections (albeit with concerns about legitimacy) and the creation of an emerging media and NGO community. In terms of the economy and creation of institutions, there are visible gains including the development and roll-out of basic national programs in health, education and village level governance and service delivery, a functioning and credible public financial management system that has increased revenues from some $130 million in 2002 to $1.5 billion currently, a doubling of per capita GDP and significant improvements in human development indicators. These achievements, coming from an extraordinarily low base, are often overlooked in the face of more negative aspects -- insurgency and conflict, a constant opium trade, economic and political corruption, and inequity.

The World Bank's 2011 World Development Report (WDR) on Conflict, Security and Development looks at a range of countries that were once unstable, violent and poor and are today doing better. What did they do right? What can others learn from them? How should governments and aid agencies support promising national initiatives? Many of the WDR's findings are relevant for Afghanistan:

- *Overcoming a history of violence takes a long time, and usually involves setbacks along the way.*
- *Reliability and continuity of development activities and funding resources are critical.*
- *Reducing tensions, often stemming from injustice, is fundamental - development will not flourish in high tension environments.*
- *Institutions are, by definition, mediating structures; it follows that it is essential to build institutions that can address deeply-felt injustices and support inclusion and legitimacy.*
- *Creating capable, legitimate institutions can take a generation or more – not 5 or even 10 years.*
- *Creating jobs will be crucial to stability both in the short and long term.*

In 2010, the Government and donors initiated a transition process whereby leadership in security and development choices would move from the international community to the Government of Afghanistan by the end of 2014. On the development side, the Government has set out 22 National Priority Programs (NPPs) and reached agreement with donors that at least 80% of assistance would be in line with these priorities even while accepting that not all the NPPs would be fully financed. Even so, the economic picture over these next three years contains significant uncertainties as Afghanistan will need both high levels of international assistance and to create new domestic sources of revenues and growth. How well GoA performs during this transition will determine the confidence that the Afghan people will have in their leaders and the country's ability to stand on its own. At the same time, the size and shape of international military and development assistance during this period, and commitments beyond, will strongly influence the political and economic outcomes over the next 10-15 years. Because of the ongoing conflict and uncertainty, the Bank's strategy is set out as an ISN rather than a CPS in order to maintain flexibility to adjust to events.

The Bank's work on Transition Economics paints a challenging picture of the issues that Afghanistan faces in 2014 and beyond. An economy that has been growing strongly at 9% per annum on the back of huge military and donor spending may slow by half to some 5-6% even under relatively optimistic scenarios. Even more worrying, a sizeable financing gap, which can only be filled by donor assistance, will need to be addressed throughout the coming 10 years, despite projections of healthy growth in domestic revenue collection. This gap (estimated at 25% of GDP in 2021) will need to drive the choices and strategy of the Government and donors in the coming years in terms of development, recurrent and security spending. At the same time, the prospects from the extractive sector hold the potential to begin to provide a fiscal cushion and the basis for sustainable growth in the medium term and beyond.

How then should the World Bank seek to support Afghanistan during this critical period? The importance of supporting the Government in implementing elements of the most important NPPs, the lessons of the WDR, and the work that the Bank has done on the economic impacts of the transition suggest a way forward. This strategy encompasses not only areas in which we will work in partnership with Government and other stakeholders, but sets out the principles of how this work should be approached recognizing the limitations and risks. It has further been informed by consultations with the Government, donors, civil society and the private sector. The Bank's program for FY12-14 will therefore be built around the following three interlocking themes:

- ***Building the Legitimacy and Capacity of Institutions:*** *The Government recognizes the long-term importance of institution building in its priority programs,, and to support it the Bank will continue and expand its work in supporting some key institutions that will, ultimately, provide legitimacy to the State at both central and local levels. This will be a long term endeavor with uneven progress -- some service delivery institutions such as education, health and NSP, have made huge strides while in other areas, for example in delivering justice and in creating an environment conducive for private sector growth , there is much farther to go. The Bank will focus on three institutional areas – (i) strengthening institutions and processes associated with transparent and competent financial and economic management, (ii) improving the sustainability and performance of line ministries in providing essential services country-wide and (iii) continuing to build the social capital and inclusive governance structures formed at the village level through a key NPP program—the National Solidarity Program (NSP)—which will be an essential element of rural stability. Within this, the Bank will support GoA's commitment to the EITI initiative and efforts to increase PFM transparency.*

- ***Equitable Service Delivery**: The key to sustained stability is the Government's effort to develop legitimate national institutions and programs which are nationally focused, particularly those that target injustice and concerns likely to provoke violence. Within Afghanistan, an enduring driver of conflict is a sense of inequity between and amongst regions, ethnic groups, cities and towns, and villages. The Bank's work on poverty across Afghanistan shows that over the past 10 years, aid flows have often predominated in the south and east, areas which have relatively less poverty than other parts of Afghanistan but which have borne the brunt of the violence. This suggests that a continuation and strengthening of the Bank's focus on institutions and national programs that can sustainably ensure equitable access to basic services <u>across the country</u> will be necessary. These efforts should be structured to help minimize corruption and exploitation and be as broad-based as possible. Sustaining and expanding as possible developed national programs supported by IDA and ARTF are the key to the Bank's engagement under this theme and include amongst them healthcare, education, rural connectivity, irrigation, micro and SME finance.*

- ***Inclusive Growth and Jobs**: Building domestic sources of growth and jobs to replace donor/military assistance is one of GoA's greatest priorities and it is expected that GoA's sequencing of NPPs will concentrate on foundational investments for growth. To help Afghanistan, the Bank will continue to support irrigation and agriculture, which provides a living to the majority of rural Afghans, rural infrastructure, and private sector development. However this will not be enough to sustain long term growth. Afghanistan's huge natural resources provide hope, but require development in a way that is transparent, inclusive and supports other sectors that will create jobs and help lift the nearly 50 percent of the population that is below or near the poverty line. This argues for focusing the Bank's engagement around the concept of "Resource Corridors" which link up mineral resources, infrastructure, communities and employment-creating sectors (agriculture, construction, enterprise development) in a way that provides growth and jobs beyond the borders of the mines, and potentially paves the way in the longer term for Afghanistan to become an important land bridge between international markets. It will also be important to give local communities a stake in natural resource development which, in turn, promotes equity and security in an environmentally sustainable manner.*

It speaks to addressing the constraints to enterprise development including a weak financial sector, insufficient energy, and a regulatory environment that is uncertain and often corrupt. And we will support promising areas for regional cooperation, building on Afghanistan's traditional connection to its neighbors in trade and transit, energy, and water management.

*Within this framework, "**conflict and transition**" will act as a cross-cutting filter through which our choices in both what we do and how we do it will be made. Recognizing that transition presents a particular risk for women and girls in Afghanistan not only if insecurity increases but if political solutions lead to a slowdown in progress, **gender** issues will continue to be mainstreamed in our portfolio. Within each activity we will assess how it can be designed to most effectively help in the transition, particularly along the dimensions of legitimacy, jobs, and gender. The decisions by GoA and the international community on the speed and depth of transition will impact the financing for development overall and the resources that flow through the ARTF. Even in an increasingly tight aid environment, there is a strong potential for significant additional flows into the ARTF as donors look to meet transition commitments and channel assistance through the budget. This will need to be balanced against maintaining rigorous standards and managing our security "footprint" and level of risk. This will require flexibility and good communications amongst the Bank, GoA and donors.*

The Bank Group will continue to deliver its program through a combination of instruments:

- *Afghanistan is an **IDA-only grant** recipient with an allocation of about $430 million over FY12-14. This is a decline from past levels due to the gradual phase-out of the post-conflict premium. A portion of IDA may be provided as policy support, dependent on a continued satisfactory macroeconomic framework The rest of IDA will be project grants and continue to be used in close coordination with much larger ARTF funding, allowing the Bank to leverage IDA to finance a considerably larger portfolio.*

- *The Bank-managed **Afghanistan Reconstruction Trust Fund (ARTF)**, under fairly optimistic scenarios for donor funding and Government capacity, could provide some $800 million per year or more in grants during the period of the ISN, making it some four to six times larger than IDA. The ARTF funding would be used in accordance with the 3-year financing strategy (planned allocation) provisionally agreed by the GoA and ARTF donors. The ARTF has two windows – a recurrent cost window, and an investment window (project grant financing). A growing part of the recurrent cost window is structured as an Incentive Program, providing support on the basis of GoA fulfillment of reform indicators. All ARTF operations follow the same technical, fiduciary and supervisory requirements of IDA. In addition, through the ARTF, the Bank plays a preeminent role, with the Ministry of Finance, in coordinating and channeling donor funding through the budget to priority programs.*

- *In an environment where policy advice and assistance is essential, our **analytic work** provides support for Government and donor decision making. It is expected that the Bank will continue to play a leading role in terms of policy advice to Government through targeted, often cross-sectoral, analytic work. The Bank's work on Transition Economics and Resource Corridors, together with its poverty analysis, is expected to be instrumental in decisions of Government and the donor community. A hallmark of this work is the ability of the Country Team to work across sectors and produce outputs that are aimed at and appropriate for policy makers. Impact evaluations of core donor programs funded through IDA/ARTF, including NSP, EQUIP, SHARP (health), NRAP (rural access) will be used to continually refine and improve delivery of essential services and to give donors confidence in government implemented programs.*

- *To date, **IFC** has provided modest support through investments (totaling about $90 million) and advisory assistance. Insecurity and the low level of investment and private sector activity within Afghanistan overall has limited the ability of IFC to expands its engagements. Nevertheless, IFC intends to continue its presence in country with an integrated approach in both investment and advisory and to look for opportunities, particularly in concert with the Bank's PSD program, to support improvements in the financial sector and the business climate. **MIGA** has offered a limited number of guarantees but there is interest by Government and the private sector to see additional guarantees going forward, particularly to support infrastructure investment.*

*Paying attention to **how the Bank operates** and the conditions under which we operate will continue to be essential. Heavy emphasis on financial management, supervision of projects, and supporting the build-up of Afghan capacity will continue to influence decisions on our program. The need to keep safe our relatively large presence in country will remain paramount with additional resources going towards secure office and housing and providing support for field visits within the prevailing **security environment.** In addition, the Bank will look for innovative ways to provide supervision and oversight including a program with an international NGO with dozens of Afghan engineers across Afghanistan that are visiting some 1500 sub-projects a year in even some of the most inaccessible parts of the country.*

***Partnerships are critical** as The Bank Group is only one player in an environment where there are many extremely important bilateral, multilateral and civil society players. For many countries, including the US, UK and Australia; Afghanistan is one of their largest recipients of aid and is among their biggest diplomatic missions. ISAF plays an enormous role even outside the security sector. The UN keeps an extremely large and diverse presence in country covering political, humanitarian and development objectives. The Bank also coordinates closely with the IMF, which has an active and on-track Program with Afghanistan. CSOs, including the Aga Khan Development Network and a number of other international and national NGOs, play an absolutely essential role in delivering services on the ground (including for IDA/ARTF financing programs), often in extremely dangerous conditions.*

*The **high risks** associated with the Bank Group's engagement needs to be acknowledged and managed. Significant threats to security will continue as insurgents seek to position themselves for 2014 and beyond. The Bank program assumes no further deterioration in the security situation and that the ARTF remains well funded by donors. Should this not be the case, we would move to a considerably scaled down program that would aim to maintain depth in a few key areas of national priority, rather than breadth. Political risks during this period are likewise high as both the people of Afghanistan and the international community look to see how the Government will respond to the governance, fiscal, security and economic challenges ahead. Closely associated with this is the risk of corruption and fraud which will influence not only how the Afghan people judge the legitimacy of their Government, but also the size and shape of donor flows (including from the Bank).*

Overall then, our approach is to support the Government in implementing elements of the most important NPPs in a way that is deeply embedded in building inclusive legitimate structures. Given the long term nature of development in a fragile environment, we must be realistic as to what can be achieved, and yet hopeful that we will contribute to the substantial benefits that a peaceful, stable and prosperous Afghanistan can deliver to its people.

I. Introduction and Context

1. **In 2001, the new Government of Afghanistan offered the promise of a fresh start for the country**. The Bonn Agreement of December 2001 re-imaged the future of Afghanistan as a democratic state, to be governed by inclusive social and modern economic principles, and assuming a place in the global mainstream. Early political benchmarks—the drafting of a new constitution, Presidential elections, the creation of a legislature—were achieved, and the first few years of this period were marked by significant progress in stabilizing the economy, beginning the reconstruction of ruined capital assets and developing programs and institutions (such as the National Solidarity Program) with a national reach never before witnessed in the country.

2. **Yet by 2005-6 some of this early momentum was dissipated.** The insurgency began to regroup. Waste and corruption received prominent international media attention. The 2009 Presidential election was embroiled in controversy, reducing legitimacy in the eyes of many. The 2010 Parliamentary elections further revealed problems with democratic processes and it took a full year to seat the parliamentarians. Although the international community responded to rising insecurity with major troop deployments and boosted aid to an estimated US$15.7 billion by 2010-11 (roughly the same dollar amount as GDP), the Afghanistan 'narrative' in the press and in western capitals was much more negative.

3. **While it is true that the balance sheet for the last decade is mixed, the state of the Afghan nation and people is clearly far better than it was during most of the 1978-2001 period – an achievement that is often overlooked.** The data that would allow highly accurate comparisons is poor, but development progress in Afghanistan and improvement in the quality of life has been substantial. Real per capita GDP has almost doubled since 2001, after a significant decline over the previous 23 years. Public financial/revenue management has improved significantly, and inflation remains relatively low. The PFM framework for on-budget spending is strong for a country of Afghanistan's per capita income showing that real results are achievable. Basic public services such as health and education exist, often for the first time. Though data is difficult to verify, there is some indication that social indicators such as life expectancy, maternal mortality and under-5 mortality are improving significantly. Today's generation of Afghan girls has greater prospects to escape the appalling illiteracy of their mothers.

4. **Yet the country's problems are still daunting.**

- ***Security*** has deteriorated over the past few years particularly in terms of attacks on civilian targets. While ISAF and the Afghan National Army (ANA) have made battlefield progress and some 1/3 of the country has now transferred to largely Afghan-led security arrangements, the sense of civilian insecurity has grown even in areas that were relatively peaceful only a year or two ago. Urban areas such as Mazar, Herat and Jalalabad are troubled by new levels of criminality and insurgent related violence. This has a chilling effect on private investment and donor activity necessary for improving economic growth and prosperity. Attacks on civilians also impact the mobility of women and the willingness of families to send girls to school. Traditionally, when citizens feel their government cannot provide security in their daily existence, they are willing to turn to local power brokers and others who promise them "security" even if it means giving up cherished liberties. While a reconciliation process with the Taliban could get underway, it is too soon to determine whether this will progress or yield results.

- ***Leadership and governance.*** As measured by standard international indicators, political stability, the rule of law, the control of corruption and government effectiveness remain daunting challenges. Although significant progress has been made at the federal and village level in terms of building the institutions of government, at the province and district level, institutions remain extremely fractured and weak. Afghanistan's legal and judicial framework is poor, and enforcement often lacking. Inadequate and corrupt judicial institutions are barriers to individuals who try to obtain their legal rights. Governance is further undermined by poor oversight and by interference by power-brokers at both the national and local levels. Building an effective legal and justice system will take a long time and will only gain legitimacy if embedded in local customs and norms, rather than imported mechanisms. On corruption, ratings from TI, Doing Business, Competitiveness, the ICA and local surveys, as well as media reports, all indicate that corruption remains a major problem. Government itself acknowledges deep problems with corruption – but is also hampered by the need to use political appointments and other means to keep a balance amongst the country's diverse population and power centers. As in other conflict affected countries, progress will take time. It is important to note that the Government is committed to increasing transparency and accountability as part of its PFM roadmap. [1]

- ***Aid dependency.*** The impressive growth in Afghan GDP cited earlier is based on a volatile agriculture sector and on consumption fueled by military and civilian aid related spending. Job creation in the private sector has been heavily dominated by these flows with work in construction and other service sectors leading the way. Overall, however, the private sector has been constrained even during this period of aid-fueled economic growth by violence (including criminality), corruption and insufficient infrastructure (particularly power). As discussed in the section below, Afghanistan's aid dependency is unsustainable given the inevitable declines that will accompany transition. For Afghanistan, a decrease in aid will have a particularly deleterious impact on the ability of government to provide security, essential services and build government capacity. International experience demonstrates that sharp fluctuations or abrupt cut-offs of aid can have a disastrous effect on political stability and security. Finding the means of supporting inclusive growth in a period of declining aid and fiscal constraint is a major challenge.

- ***Large illicit economy.*** Afghanistan produces more than 90 percent of the world's illicit opium supply on a very small portion of its agricultural land. Although not included in official GDP calculations, the farm gate value of opium is estimated at 8 percent of GDP in 2011/12, and contribution to overall GDP is even higher. As such, opium remains Afghanistan's most important agricultural crop in terms of value and jobs for significant segments of the rural population in the short run. At the same time, it distorts the incentives for developing a sustainable, formal agricultural sector in the long run. Large criminal profits associated with the drug industry seriously undermine governance and fuel corruption, dysfunctional politics, and ultimately conflict. Moving away from reliance on opium will remain, therefore, an important development objective. But given opium's characteristics as a high-value, storable commodity, this will be no easy task and hinges predominantly on the development of value chains for alternative crops which would give farmers the assurance that they can compete in a global market and earn a living for their families.

5. Donors share responsibility for some of these shortcomings and a hallmark of recent international conferences, including in Kabul in 2010 and Bonn in 2011, is as sense of shared purpose in helping Afghanistan through transition and beyond.

[1] Transparency of Afghanistan's budget process improved from a score of 8 out of 100 in 2008 to 21 in 2010 under the Open Budget Index.

6. **The World Bank's 2011 World Development Report (WDR) on Conflict, Security and Development looks at a range of countries that were once unstable, violent and poor and are today doing better. What did they do right?** What can others learn from them? How should governments and aid agencies support promising national initiatives? Many of the WDR's findings are relevant for Afghanistan:

- Overcoming a history of violence takes a long time, and usually involves setbacks along the way. The WDR shows it has taken a generation or more for countries like Colombia, Ghana or Mozambique to stabilize and to develop credible institutions.
- Reliability and continuity of development activities and funding resources are critical. This is all the more essential now as we enter the period of transition with uncertain levels of donor funding. The Presidential elections at the end of the ISN period, and the nascent reconciliation process, bring further uncertainties.
- Reducing tensions often stemming from injustice, is fundamental - development will not flourish in high tension environments.
- Institutions are, by definition, mediating structures; it follows that it is essential to build institutions that can address deeply-felt injustices and support inclusion and legitimacy.
- Creating capable, legitimate institutions and improving governance to provide citizen security can take a generation or more – certainly not 3, 5, even 10 years. The WDR shows that institutions and governance in the three countries mentioned above remain a work in progress, subject to the risk of backsliding and the re-emergence of instability.
- Creating jobs will be crucial to stability both in the short and long terms.

7. The Bank's program in Afghanistan builds on the lessons from the WDR taking into full account the period of uncertainty that we are entering. This ISN sets out the areas where the Bank has been and will remain engaged in helping the Government implement national priorities, but in full knowledge that in a fragile and highly politicized arena, the Bank will need to stay flexible in its engagements and realistic in terms of outcomes.

II. The Economics of Transition

8. **Over the past decade, the country has experienced exceptionally high economic growth,** mainly driven by capital investments for reconstruction activities, security and ancillary activities, large aid flows and occasional spikes in agriculture production. Afghanistan is currently on-track with an IMF Program. Real GDP has been growing at an average rate of 9.1 percent between 2003/04 and 2010/11. This strong growth masks considerable year-to-year fluctuations caused by the performance of the agricultural sector which reflects climatic conditions. Fiscal revenues have been strong at about 11 percent of GDP and the overall fiscal account is in balance. This balance has been achieved largely because external grants have covered much of both security and civilian salaries and most reconstruction and development spending. Without this, government could not have afforded its expenditures since these are more than double domestic revenues. Debt levels remain relatively low at less than 10 percent of GDP but in fact Afghanistan is and will remain at a high risk of debt distress due to insufficient fiscal space to absorb higher debt service.

9. Because growth has been largely driven by security and aid flows, and these are expected to decline after the period of "transition", projections suggest that, under even favorable assumptions, real

GDP growth may fall to 5-6 percent during 2011–18. Even this level depends on donors continuing to finance a large portion of security costs and development assistance, and continued improvement in budget execution by Government. (see Annex 9 for details).

Table 1: Selected Macro-Economic Indicators (% of GDP unless otherwise indicated)					
	-------Actual-------		-------Projected--------		
	2009/10	2010/11	2011/12	2012/13	2013/14
Real GDP Growth (%)	21	8.4	5.7	7.1	5.8
GDP per capita ($m)		528	591	612	637
Inflation (%)	-12.7	7.7	10.5	4.6	5.0
Government Financing					
Domestic Revenue (% of GDP)	10.3	11.0	11.5	11.3	11.6
Government Expenditures (% GDP)	22.1	21.1	23.8	25.3	25.7
Overall Balance (including grants)	-1.6	0.9	0	-1.6	-1.7
External Sector					
Current Account (excluding grants)	-51.3	-39.8	-34.3	-33.2	-31.5
Gross Reserves (months of imports)	6.0	7.4	8.4	9.0	9.5
Foreign Direct Investment (% of GDP)	2.4	2.1	2.1	2.3	2.9
Debt to GDP ratio	9	8	8.2	8.7	9.2
Source: IMF/WB Projections					

10. **This ISN covers the period during which Afghanistan will "transition" and will be shaped by a significantly different reality.** This includes both a security environment that shifts responsibility from the international military community (ISAF) to one that is Afghan-led, as well as an economic future that will have to depend much more heavily on domestic sources of revenue and growth and priorities set by the Government of Afghanistan rather than donors. While 2014 is meant to mark the "end" of the security transition, in reality it will not be a fixed moment in time. Rather, the remainder of this 3 year period should be seen as a critical time for Afghanistan which aims, with the support of the international community, to position itself to handle the future beyond 2014. It can be expected that the next 3 years will be particularly uncertain as the political economy changes radically: foreign troops leave, the amount of donor aid comes down, negotiations potentially begin to end the insurgency and Presidential elections are held. Because of this, the Bank's strategy is set out as an ISN with a shorter term outlook rather than a CPS. The Bank's strategy and expectations of results will need to adjust to a very fluid situation.

11. **In FY11-12, the Bank conducted a study – "Transition in Afghanistan: Looking Beyond 2014" - to assess the medium to longer term impacts of declining aid and military spending on economic growth, poverty, fiscal management, service delivery and government capacity.** GoA, the Bank and the larger donor community concluded that the findings of this analysis would have to heavily influence development policy choices of Government and donors if Afghanistan is going to successfully navigate this difficult period. The following summarizes the main findings of this work and sets the context for the Bank's engagement going forward.

12. **The extremely high level of current annual aid (estimated at $15.7 billion in 2010) is roughly the same dollar amount as Afghanistan's GDP and cannot be sustained.** As discussed in the introduction and further in Annex 9, aid has funded the delivery of essential services including education and health, infrastructure investments as well as government administration. But these inflows, most outside the Afghan budget, have been so high that inevitable waste and corruption, aid dependency, and use of parallel systems to circumvent limited Government absorptive capacity have impeded aid

effectiveness and the building of a more effective Afghan state. The level of public spending—both on and off budget—that has been financed by such high aid flows will be financially unsustainable for Afghanistan if donor funds decline. But even lesser amounts, matched by more effective, on-budget aid delivery and improved prioritization, could, in the end, lead to more positive outcomes in some areas. The key issue is how to manage this change and mitigate the adverse impacts and put aid and spending on a more sustainable path for the longer-term.

13. **Large financial inflows outside the Afghan budget and fragmented aid in a situation of weak governance have been major sources of rents, patronage, and political power.** This has inadvertently exacerbated grievances and conflicts as the relative strength of elite groups in Afghan society shifted. As aid declines, reliance on the opium economy and other illicit activities could increase. The need to ensure that increasingly constrained public funds are well-used reinforces the importance of building on the significant progress made by the Finance Ministry in establishing public financial management systems and a robust Afghan budget process.

14. **Projections suggest that, under even favorable assumptions, real GDP growth may fall from 9 percent a year over the past decade to 5-6 percent during 2011–18** (see Annex 9 for details). Given an estimated population growth of 2.8 percent per year, this would mean only limited improvement in average per capita income, continuing high rates of underemployment and little progress in reducing poverty. Only growth at the very maximum of the range of plausible scenarios, e.g. with further investment in mining and agriculture, would enable Afghanistan to achieve meaningful reductions in poverty and higher average per capita incomes. For example, with real GDP growth of 6 percent a year, average per capita income—currently one of the world's lowest at $528 dollars—would take some 22 years or about a generation to double. Moreover, the economic growth will continue to be the subject of large fluctuations due to volatility in agricultural output (weather conditions) and price shocks on international markets which will affect both imports (e.g. food) and exports (e.g. copper).

15. **Economic growth would be even lower under less favorable scenarios.** The growth projections are based on a set of assumptions (scenarios) related mainly to security, sources of growth, aid levels, and changes in investment climate. If the assumptions in the less favorable scenarios come to pass —for example, if agriculture performance is poor, if major mining investments (Aynak for copper and Hajigak for iron ore) do not materialize, or if aid declines precipitously over the period – then growth could drop to 3-4 percent or less, barely keeping pace with population growth. Deteriorating security and governance would lead to further economic decline. The underdeveloped financial sector and low rates of financial intermediation leave little scope for helping Afghan businesses adjust to slowing growth. Conversely, the decline could be partly mitigated by reducing aid in a gradual, planned manner and by increasing the amount of aid that is actually spent within Afghanistan. This would result if more aid is channeled through the Afghan budget (only 12% of aid is currently delivered on-budget).

16. **Underemployment will increase because the activities affected by declining financial inflows (services, construction) are relatively labor-intensive.** Unemployment and especially underemployment in Afghanistan—respectively estimated at 8 percent and 48 percent—are already high, even with today's rapid growth. Roughly 6–10 percent of the working population has benefited from aid-financed job opportunities, most of these in short-term employment. Declining aid, therefore, can be expected to exacerbate underemployment levels (with fewer casual labor opportunities and lower pay for skilled employees).

17. **The impact of the decline will affect some groups more than others.** Aid has not been evenly spread across the country. Because of the choices made by donors, and the predominant role of stabilization and military spending, the conflict-affected provinces have had significantly higher per capita aid than the more peaceful (and often poorer) provinces. As a result, the slowdown in aid will be

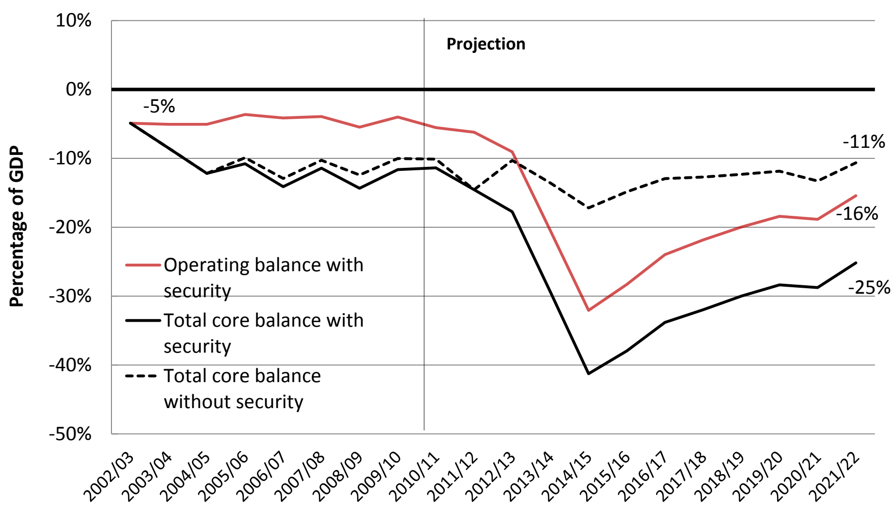
felt more acutely in the conflict-affected areas and in urban centers. If aid declines gradually so that it can be partly offset by growth of the security, mining, and civilian public sectors, the impact could be softened and spread over time. This would allow labor markets more time to adjust.

18. **The direct poverty impact of international spending would be improved if aid becomes more closely linked to indicators of economic need across provinces rather than short-run stabilization activities.** Aid disproportionately devoted to the more conflict-affected provinces has had only a modest impact on poverty. Households in the conflict-affected provinces were less poor on average to begin with, so this concentration of aid has likely exacerbated inequality amongst provinces and between groups. National programs delivered through Government, such as NSP, have benefitted Afghans more equitably.

19. **The worst impact of transition will be on the fiscal financing situation.** Investments almost entirely funded by donors over the past decade have significantly increased access to basic services and infrastructure including in basic health and education, rural access, power and irrigation. Nevertheless, Afghanistan's development indicators still remain among the lowest in the world. Afghanistan's public finances will not be able to absorb both the cost of operating and maintaining all of the infrastructure assets created in an often fragmented manner over the past 10 years and delivering the range of social and other services to the Afghan people currently financed through donor-funded programs.

20. **The financing gap could be as large as 25 percent of GDP by 2021/22.** After peaking at more than 40 percent of GDP in 2014/15, the financing gap is projected to gradually decline when expected mining revenues materialize, reaching around 25 percent of GDP in 2021/22 (figure 1). Thus, even assuming ambitious targets for growth in domestic revenue are met (with an expected rise from 10 percent of GDP to more than 16 percent of GDP a decade from now), there will be a significant financing gap. The security sector would account for somewhat more than half the overall financing gap (equivalent to 14.5 percent of GDP) and the civilian budget the rest (11 percent of GDP).

Fig 1. Projected Financing Gap with and without Security



Source: World Bank. *Note:* Projections assume that domestic revenue equivalent to 3 percent of GDP is devoted to security costs, and the rest to civilian expenditure.

21. **To close this financing gap, Afghanistan must rely on continuing international funding to pay for most security costs (salary and non-salary) and the size of the security sector (ANA and ANP) will need to be reconsidered.** In addition, civilian aid will need to be spent more selectively for development and O&M. Various combinations of aid and domestic resources for different spending categories are possible. But a reasonable approach could be for domestic revenues to cover the full civilian operating budget and a portion of the security costs (at the current level of 3 percent of GDP). Donors would finance the remaining bulk of security costs plus a more highly prioritized core development budget. Other low-income countries receive, on average, around 9 percent of Gross National Income in non-security development assistance. Afghanistan would require close to three times this level in total aid (security + civilian). If these levels of foreign assistance for security and civilian expenditures are not forthcoming, or if the security budget is not adjusted significantly, then GoA will need to make extremely difficult and possibly destabilizing tradeoffs – either underfunding Afghan security forces or crowding out essential civilian spending, or both.

22. **Public resources will need to be focused on ensuring regular delivery of key basic services and essential infrastructure.** This will require difficult decisions requiring cutting or shrinking some programs, not maintaining all assets, and managing expectations accordingly. Better outcomes would result if sustainable institutions for maintaining key infrastructure are developed and operate transparently with open communication and dialogue. Strict priorities among the many demands for O&M and services will also be necessary to provide fiscal space for public investments that will be critical to maintain and increase growth. As a large part of the O&M expenditures arise from donor funded investments, they too bear some responsibility for addressing the issue.

23. **Increasing on-budget aid and managing O&M through government systems would greatly improve aid effectiveness.** The impact of declining aid on economic growth may be less than might be expected, if aid can be re-channeled in ways that are on-budget and through government systems. Why? Because most international spending "on" Afghanistan is not spent "in" Afghanistan, and much of what is spent in Afghanistan leaves the economy through imports, expatriated profits and outward remittances.

24. **But the government will need to overcome serious absorptive capacity constraints if it is to be in a position to receive additional donor money on budget.** After core development spending more than doubled in absolute terms between 2005/06 and 2007/08, disbursement levels have remained at just under $1 billion annually over the past four years. This is a result mainly of unrealistic budget formulation, large budget carryovers from previous years, budget rigidity resulting from earmarked donor funding and limited government capacity to implement projects on time. The execution of the operational budget has been historically high (96 percent in 2010/11), but this has been almost entirely wage spending. In the future, managing O&M—expected to increase from only $335 million now to $4.8 billion by 2015/16 (of which $1.3 billion is for civilian O&M) -- will be a major challenge.

25. **Improving the capacity of the core civil service, with an emphasis on strengthening budget execution and service delivery, will be critical for government functioning and service delivery.** Today's extremely heavy reliance on a "second civil service" of externally funded Afghan staff needs to be transformed into core government capacity. Transition provides an opportunity to rationalize the terms and conditions of externally funded staff, gradually bringing them into a coherent framework of government capacity development, and over the longer term, integrating them with the regular civil service. This will put government functioning and service delivery on an affordable and sustainable path. Even then, GoA will not have sufficient resources of its own to absorb the costs of these externally funded staff, estimated at about $125 million annually. Moreover, some level of foreign-provided technical assistance will need to remain. Across government, improved statistical capacity and monitoring and evaluation improvements will be essential for getting better outcomes. Therefore, donor financing for externally funded staff and TA will be required, but in a way that better aligns with the

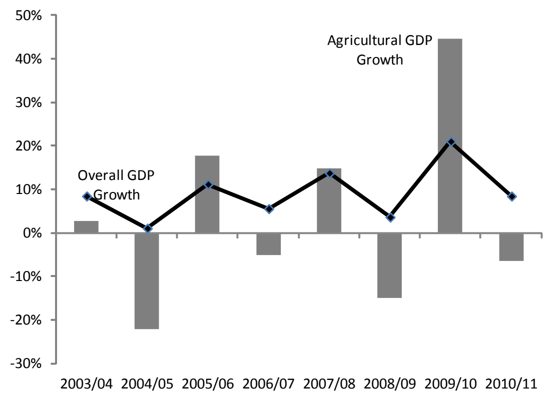
government's own planned rationalization and that will increasingly strengthen its ability to deliver on its own.

26. **Ensuring the delivery of services to the Afghan people requires delegating much more responsibility in this regard to the provincial level.** To date only a tiny fraction of the total O&M budget goes outside the line ministries in Kabul. Enhancing the capacity of provincial offices to participate in budget formulation and of key spending ministries to execute their budgets at the sub-national level will need to be an important focus of the transition period moving forward. Without this, it could be difficult for GoA to absorb a greater proportion of aid on budget and deliver results to the Afghan people. At the same, however, it must be acknowledged that provincial and district level government is, on the whole, extremely weak and often seen as corrupt and inefficient. Overlapping and competing donor programs and uncertainty in GoA on the role and responsibilities of sub-national Government has, in many cases, made the situation worse. Therefore, designing and implementing meaningful interventions will remain challenging throughout the transition period.

27. **Finally, even with the best efforts of GoA and donors, successfully managing transition will also require a level of political and security stability sufficient to encourage private investment.** Without this, reaching revenue targets from investments in natural resources and the ability to create jobs will be threatened.

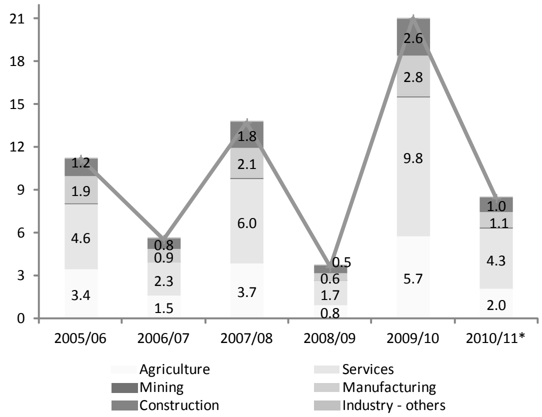
Table 2: The Afghan Economy at a Glance

Strong, but volatile real GDP growth...
Figure A



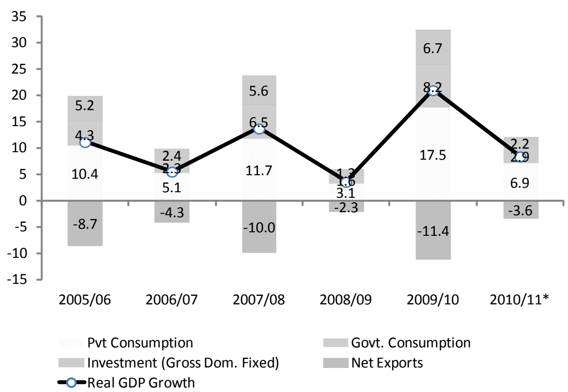
Source: IMF

... driven by the services sector and fluctuating agriculture output.
Figure B: Contribution to Real GDP Growth(%)



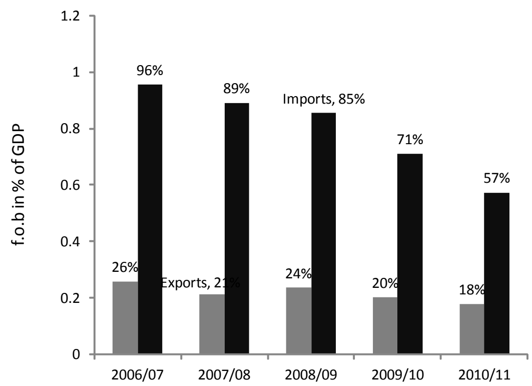
Source: IMF

Private consumption is the motor of growth from donor inflows and the security economy...
Figure C



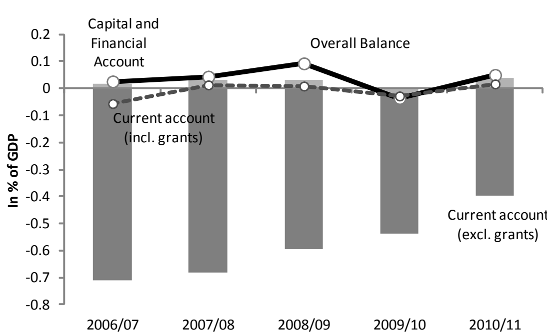
Source:IMF

... but trade is declining,
Figure D



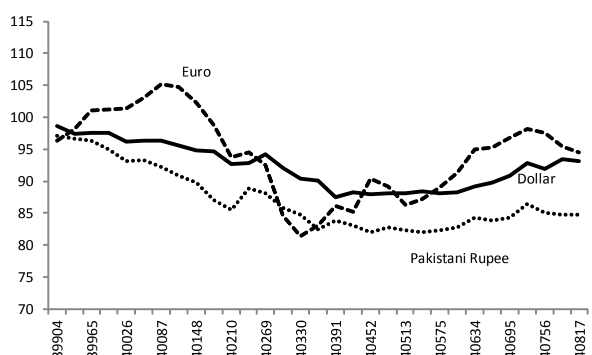
Source: IMF

... the current account deficit reduced, which is financed by donor grants.
Figure E



Source: IMF

The Afghani is depreciating.
Figure F: Nominal Exchange Rates, to Afs (Index Mar,22, 2009=100)



Source:DAB

Note: The symbol * refers to initial estimates

III. The Poverty Dimension

28. **Poverty affects between one-third to one-half of the population**: The EU, DFID, WFP, and the Bank provided support to the Government of Afghanistan to conduct a detailed household survey from September 2007 – August 2008. The first results were reviewed and published in July 2010.[2] Results indicate that 36 percent of the population falls below the poverty line. However, it also reveals that most people are clustered around the poverty line so a 10 percent upward adjustment in the poverty line would bring the level of poverty to over 50 percent. The data also reveals a great deal of seasonality, with poverty rising significantly during spring and summer before the main harvest.

Table 3: Poverty Rate by Season

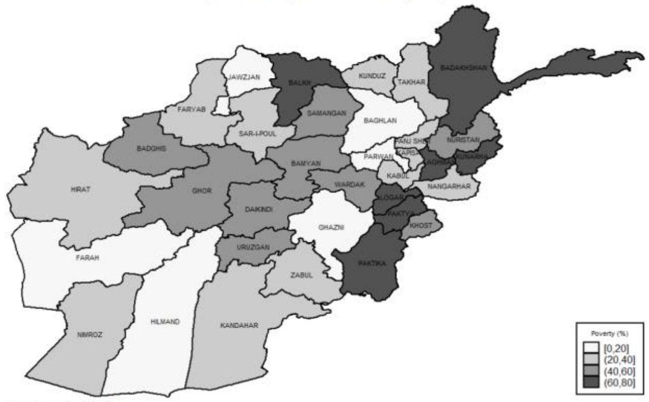
	Poverty Rate
Fall – Harvest 07	23.1
Winter – 07/08	31.8
Spring – 08	43.6
Summer - 08	46.0
Annual	**36**

29. **Poverty is most significant in rural areas and among nomadic groups:** National poverty estimates are mainly driven by people living in rural areas who represent the majority of the Afghan population. As a result, the poverty level in the rural population is close to the average (36) while urban poverty is somewhat lower (29 percent) and nomadic (Kuchi) poverty is higher (54 percent). Poverty also varies greatly by region and tends to be higher in mountainous and plateau areas. Development of the agriculture sector, therefore, pays an essential role in both economic development and poverty reduction.

30. **Aid has disproportionally flowed to provinces that are conflict-ridden but less poor**. Donor assistance has had little connection with poverty targeting, but rather has been directed towards areas where insurgency, and thus ISAF and Provincial Reconstruction Teams' (PRTs) involvement, has been the greatest. (See Figure 2 below)

[2] Poverty Status in Afghanistan – A Profile published in July 2010 based on National Risk and Vulnerability Assessment (NRVA) data of 2007/2008. More recent data is expected to be available in Spring 2013.

Figure 2: Poverty Rate by Province
(darker colors are poorer)



Source: NRVA 2007/08
Notes: Estimates based on population weights

31. **Internally displaced people are an often overlooked subset of the poor.** Various estimates (Government, UNHCR) put the number of IDPs in Afghanistan at between 300,000 and 500,000, not including refugees and migrants in neighboring countries. Of the IDPs, 36 per cent are children, 12 percent are under the age of five, while only one per cent is older than 60 years of age. Most returnees do not choose to go back to rural areas due to difficulties in reclaiming their land rights and where employment prospects and essential services are lacking. Many have settled in spontaneous collective camps or have moved to the larger towns including Kabul, in makeshift settlements. The poverty and conditions of these settlements, highlighted during the recent extreme winter, is one of the reasons that we propose to remain engaged in the urban sector.

Box 1: Remarkable Progress in the Health Sector, But Much Remains to be Done

The health sector in Afghanistan has made considerable progress during the last 10 years. The number of functioning health facilities has increased from 496 in 2002 to more than 2,000 in 2011. The proportion of facilities with skilled female health workers has increased from 25 percent to 72% percent. The health management information system indicates a five-fold increase in the number of outpatients' visits from 0.23 visits per capita per year in 2004 to 1.29 in 2011.

Results of household surveys conducted between 2003 and 2010 show significant improvement in the coverage of reproductive and child health services. At the outcome level, a nation-wide survey conducted in 2010 found an infant mortality rate of 77 per 1,000 live births and an under-five mortality rate of 97 per 1,000 live births, representing significant declines from 2003 estimates of 257 and 169 respectively. Similarly the recent data indicates a maternal mortality ratio of 327/100,000 live births, much lower than previous estimates, even when taking into account that the most recent and previous data sets cannot be directly compared.

Much of the progress can be attributed to sound policies by the Ministry of Public Health including delivery of a basic package of health services with the Ministry contracting NGOs to deliver these health services, while carefully monitoring and evaluating their performance. While the development of the health sector is encouraging, many challenges including on the nutrition front remain. But as the Afghan proverb says: "there is a path to the top of even the highest mountain."

32. **Millennium Development Goals**: The overall picture on MDGs for Afghanistan is that there has been steady progress over the past decade but starting from such a low base that Afghanistan remains one of the most challenged countries in the world on human development indicators. The Government of Afghanistan is closely tracking progress on the MDGs, with the support of the donors and in particular the U.N. (see Annex 10 for MDG details). Afghanistan added an additional country specific MDG which relates to security which is highly appropriate in the Afghan context.

33. Though the difficulties in both collecting and verifying data must be acknowledged upfront, there is a strong indication that **health indicators,** as noted in Box 1, have improved significantly, particularly on child and maternal mortality, life expectancy, immunization rates and communicable diseases (Malaria, TB, HIV/AIDS. Polio).[3] Nevertheless, with 29 percent of the population estimated to be below the minimum level of dietary energy consumption at 2100 Cal/Day, and with one of the highest rates of stunting in the world, **malnutrition** remains one of Afghanistan's biggest health challenges (Box 2.)

Box 2: Malnutrition in Afghanistan

Under-nutrition of children in Afghanistan is a huge issue. Of the children under five, 55 percent are chronically malnourished (stunting) and 18 percent suffer from acute malnutrition (wasting) (MICS 2010). These stunting levels are among the highest in the world. Maternal under-nutrition is also a significant problem. The 2004 National Nutrition Survey reported a high prevalence of 21 percent of non-pregnant women of reproductive age having chronic energy deficiency (Body Mass Index <18.5).

Improved nutrition would contribute to increased productivity and increased work capacity which would lead to higher earnings potential, improved cognitive development, improved school performance, lower drop-out rates, and improved health from reduced disease and mortality *(Source: Malnutrition in Afghanistan: Scale, Scope, Causes and Potential Responses. World Bank 2011)*. A comprehensive and sustainable response to malnutrition in Afghanistan will require a combination of direct nutrition interventions (generally through the health sector) as well as nutrition-sensitive interventions in key sectors such as social protection, water and sanitation, agriculture, private sector development, and education. The Government of Afghanistan, with assistance from the Bank, is at advanced stages of developing an intersectoral, inter-ministerial plan of action that includes priority actions in these sectors.

34. **Water and sanitation** issues also remain a substantial concern. Only 27 percent of the population has access to safe drinking water and only 5 percent to improved sanitation. Steady progress is being made on the quantity side of **education** with an increase in school enrollment for children age 7 – 12 from 37 percent to 52 percent. Still, these levels remain well below acceptable levels. Also, the quality of education is a major issue (the literacy rate is only 36 percent). The level of girls' enrollment is only about half that of boys illustrating that a significant gender gap remains despite significant progress.

[3] Life expectancy is reported to have risen from 42 years in 2002-4 to 62 years in 2010. However, while promising, this data has not yet been fully vetted.

IV. The Government's Development Plans

35. **The "Kabul Process" in 2010 laid out a phased transition plan towards transferring full responsibility for the security and development of Afghanistan to GoA by the end of 2014.** The ongoing Kabul Process is based on three key principles: i) the transition should be Afghan-owned; ii) it must be planned and implemented in a sustainable manner; and iii) the rights of all Afghans must be protected and promoted. The phased transfer of responsibility is envisioned to ensure sustainability and overall aid effectiveness. The GoA and the international community committed to provide the support and the resources necessary for Afghans to gradually take on full responsibility for the future of their country and the international community agreed to align military and civilian resources behind an Afghan-led strategy. But 2014 will, in fact, not mark the end of the process. GoA expects that Afghanistan will need high levels of international assistance to continue for a decade (2015-2025).

36. **The Government's development plans under the Kabul Process come from the 2008 Afghanistan Development Strategy (ANDS) and subsequently from the National Priority Programs (NPPs)**. The NPPs provide a foundation for GoA plans for allocating resources to areas of importance in terms of growth, governance and service delivery. At the Kabul Conference in July 2010, the GoA presented a three year Prioritization and Implementation Plan, based on a number of National Priority Programs (NPPs). Over the past year, in discussions with donors, line Ministries have improved and refined the NPPs to better reflect financial realities and to make the NPPs more program/project oriented. Although NPPs vary in quality and realism, and include a far greater universe of needs then can realistically be funded, they do represent significant progress by GoA in designing and setting out the programs that Government would like to see financed. The 22 NPPs are clustered around 6 areas, each led by a "Cluster Minister":

(i) *Security Cluster*: Peace and Reintegration Program (APRP)
(ii) *Governance Cluster*: (i) Financial and economic reforms, (ii) national transparency and accountability, (iii) Efficient and Effective Government, (iv) Local Governance, (v) law and justice, and (vi) human rights and civic responsibilities.
(iii) *Human Resource Development Cluster*: (i) skills development and labor regulation, (ii) education for all, (iii) expanding opportunities for higher education, (iv) development of the National Action Plan for Women (NAPWA), and (v) Human Resources for Health
(iv) *Agriculture and Rural Development Cluster*: (i) Water and Natural Resource Development, (ii) Agriculture production and market development, iii) National Rural Access, and (iv) Strengthening Local Institutions (NSP).
(v) *Infrastructure Development Cluster*: (i)National Regional Resource Corridor Initiative, (ii) National Extractive Industry Excellence, (iii) National Energy Supply, and (iv) Urban Planning Technical Assistance Facility.
(vi) *Private Sector Development Cluster* : (i) Integrated Trade and SME Support Facility and (ii) E-Afghanistan Program.

37. **The Government recognizes the many challenges in funding and implementing this ambitious agenda and the need to further prioritize within it.** At the Kabul conference, participants committed to improving donor coordination and aid effectiveness by aligning aid with the NPPs. They also pledged to channel at least 50 percent of aid through the Afghan budget and ensure that 80 percent of spending was aligned with the NPPs. The Government has also recognized the need to ensure strong public financial management capacity both nationally and in line ministries to improve program implementation and also build donor confidence. This compact between the Government and donors to continue assistance for both security and civilian, while improving its focus and effectiveness will be

critical during the transition period where overall financial flows to the country may decrease. Despite projections for relatively strong growth in internal revenue collection, continued donor support for the delivery of basic services, some operations and maintenance expenditures and development assistance will be required over the next decade if Afghanistan is not to slip backwards from the gains made since 2002. Equally important will be to support sources of sustainable growth including agriculture (which currently provides nearly 60 percent of rural employment) and mining – particularly leveraging up the very large infrastructure investments of the private sector around mining through the concept of resource corridors which will support other job creating sectors and help connect Afghanistan with its neighbors.

V. The World Bank Group's Interim Strategy

A. Bank Support Under Previous ISN and Lessons Learned

38. The Bank played an early role in supporting Afghanistan, operating under two Transitional Support Strategies (TSS) beginning in 2001. In 2006, The Bank prepared a two year Interim Strategy Note (ISN) covering FY07-08 (35794-AF). The Bank Group most recently prepared a three year ISN covering FY09-FY11 (Report No. 47939-AF) in May 2009. Bank Group interventions were centered around three strategic pillars: (i) building the capacity of the state and its accountability to its citizens; (ii) promoting growth of the rural economy and improving rural livelihoods; and, (iii) supporting growth of the formal private sector. The indicative lending for IDA was about $600 million over three years, supplemented by a significant ARTF portfolio (about $1.5 billion inclusive of both investments and recurrent cost windows).

39. **Overall, good progress has been made across the various strands of the Bank's ISN priorities, despite the difficult security and political environment.** The Bank's program did well in providing and channeling core budget resources to provide essential services across the country. In this context, the ARTF has proved to be an excellent mechanism for donor coordination and a highly effective means to support and strengthen government – donor coherence around reform priorities and national programs. Progress has been slower in improving basic state capacity, particularly in civil service capacity building, as well as supporting the private sector. Long term sustainability issues, raised over the past ISN period, will need to have an enhanced focus in the next period in the face of transition challenges.

Pillar 1: Building the Capacity of the State and its accountability to its citizens

40. **A key goal and achievement of this pillar was to improve the management and accountability of on-budget expenditures.** This was supported through several public financial management (PFM) projects, the policy dialogue and oversight inherent in the Bank's administration of the ARTF recurrent window, and through the Development Policy Grant series and the ARTF Incentive Program (IP). As a result of these efforts, Government put in place a PFM framework that is better than the average of low income countries as measured by the PEFA assessment. These efforts have also contributed to significant success in meeting revenue targets, driven by improvements in tax structures and customs administration. Revenue collection as a percentage of GDP is amongst the best in the South Asia Region. Just as importantly, this PFM framework provides a foundation for confidence that funds provided through the budget for national priority programs are utilized effectively.

41. **Less progress was made in extending these core reforms to line ministries and sub-national levels of government, although efforts in this regard have begun.** Budget execution, after rising from a very low base, flattened out over the last three years. This reflects a range of factors including unrealistic budget formulation, late disbursement of donors' funds, a significant unspent carryover, and limited capacity within line ministries to interpret and implement new laws. Government, with support by the Bank, is addressing these constraints and it is expected that budget execution rates will, as a result, begin to rise over time. Progress has been slow on civil service reform, although by October 2011, a total of about 325,000 positions, including teachers, have been regraded across government, and 25 Ministries and Agencies have completed the pay and grading process.

42. **Significant progress was made in service delivery, particularly in the education and health sectors.** The Government has broadly met its five year strategic benchmarks including increasing net enrolment in primary schools for girls and boys by at least 60 percent and 75 percent respectively; implementing a new curriculum in all secondary schools; increasing the number of female teachers by 50 percent; and ensuring that 70 percent of Afghanistan's teachers will have passed a competency test. Though data can be difficult to verify, good results appear to have also been achieved in the health sector, particularly in reducing infant and under five mortality rates. Health service centers have more than quadrupled over the last eight years so that about 57 percent of the population live within one hour walking distance from a health facility. The health program has made good use of NGOs as service providers by building contracting capacity in the public sector, increasing access and coverage of essential services and enhancing the availability of health care workers particularly female health care workers. This has also allowed a rapid roll-out of a basic package of health services across the country even where local government is itself very weak.

Pillar 2: Promoting Growth of the Rural Economy and Improving Rural Livelihoods

43. **The flagship program – The National Solidarity Program (NSP) has delivered very important achievements:** Since its inception in 2003, NSP has disbursed over $1.2 billion. Out of this, about $900 million has gone to communities through block grants to finance over 59,000 sub-projects, with an average economic rate of return of about 30 percent. Some 28,363 villages have elected Community Development Councils (CDCs) and about 27,700 villages in 396 districts have prioritized Community Development Plans (CDPs). NSP has improved the structure of village governance: stimulating participation in local governance, particularly of women, and decentralizing decision making to the village level. A survey of 500 randomly selected villages in 2010 found indications of strengthened village governance, improved perceptions of well-being, and improved perceptions of government. It also recorded that NSP improved the engagement of women across community life and acceptance by men of the improved role for women. [4]

44. **Other rural programs have also performed well.** An additional 138,000 hectares of land area are now under irrigation as a result of the Emergency Irrigation Rehabilitation program (EIRP) with crop yields having increased substantially (e.g. 25 percent for wheat) along with net farm incomes from agriculture. More than 500,000 households (36 percent of villages) have benefited from rehabilitation of medium and large irrigation schemes. Over 10,000 km of rural access roads have been constructed or repaired under the National Rural Access Program (NRAP), providing for 13 million labor days in rural areas and enhanced access to markets, employment and social services. Rehabilitation of these village roads has given some 9000 villages access to all-season roads. In addition, the Horticulture and Livestock project (HLP) is about to complete the establishment of 3,500 hectares of new orchards, has trained new

[4] *Randomized Impact Evaluation of Phase-II of Afghanistan's National Solidarity Programme (NSP)*

operators for 165 government-run veterinary clinics and provided 25,000 families with backyard poultry units. Although a key indicator of programs under this pillar was to be poverty reduction, measurement was not possible over the period because of a lack of comparable base-line data. This will be addressed in the next round of the household survey.

Pillar 3: Supporting Growth of the Private Sector

45. **Progress under this pillar was seriously overshadowed by the security situation which made it difficult to attract investment and then by the Kabul Bank crisis which impacted the financial sector last year.** These externalities contributed to the mixed success of projects under this pillar. Nevertheless, there were some successes particularly in areas where strong Ministerial capacity existed along with a commitment to a good policy framework.

46. **Very solid progress was made in the communications sector and in supporting the sustainable development of Afghanistan's sizeable mineral resources.** The availability and use of cell phones and internet connectivity has increased dramatically. IFC's investment in MTN, one of the leading telecom operators, has contributed to this growth. Transparent and advantageous contracts have been let on two major mining operations despite the difficult operating environment. The absence of power, even in Kabul, that followed the years of conflict, began to be addressed through the laying of power lines and bringing in electricity from Uzbekistan.

47. **Interventions in the financial sector were mixed.** The microfinance project, after some delay, was restructured and is now satisfactory, having provided micro-finance to over 340,000 clients, 66 percent of them women. The Kabul Bank crisis delayed dialogue on financial sector development, limiting the impact of the Bank's first financial sector project. However, the Bank Group played a constructive role with the Government and donors in resolving the crisis and has provided a follow-on project that addresses several short-comings exposed as a result of the fraud and mismanagement that led to this crisis. IFC provided financial support to several banks, including equity investments in two microfinance banks, First Microfinance Bank of Afghanistan and BRAC Bank. IFC also supported capacity development through the Central Bank to improve regulatory frameworks and corporate governance.

48. **Progress was significantly weaker in some of the other private sector support activities.** Private sector support operations (the Afghanistan Investment Guarantee Facility, the Private Sector Development Support Project) have struggled because of a decrease in private investment due to rising insecurity and over-ambitious expectations. Progress stalled on the development of the industrial park near Jalalabad mostly because of the inability to find a satisfactory solution to bring power supply to the park. Experience with these operations points to the need for: (i) simple and realistic project design; and (ii) a strong degree of realism and quick corrective actions in project supervision.

Key Lessons Learned:

49. **The Bank has a key leadership role to play in Afghanistan.** Within a highly politicized environment, the Bank has positioned itself as a central development partner not only through IDA/ARTF financing of essential national programs, but in being an "honest broker" in terms of policy advice, analytics and coordination of Government-donor efforts. High quality analytical and coordination work has made a significant contribution to the direction of development efforts in Afghanistan. Two excellent examples of this are the recent work on transition and the policy reforms supported by the ARTF Incentive Program. The ARTF, and the national programs it supports, has been a particularly effective mechanism in building partnerships around a shared agenda.

50. **Because Afghanistan remains a particularly challenging environment, intensive supervision and simplicity in project design is essential.** The Bank has been successful when it has put in sufficient time, staff and resources for project design and supervision and expanding programs as/when the impact improves. Where we have not been able to make this level of commitment, projects have faltered, for example in the three ongoing power projects (which we are now in the process of rectifying with the appointment of a senior power engineer in the Kabul office). In this environment, flexibility and simplicity of project/program design work best. Devoting larger than normal resources in supervision and implementation support has generally paid off. Operational progress is most likely to be achieved with the strong engagement of Task Team Leaders who are experienced, reside or spend considerable time in Kabul, and who are persistent in their hands-on engagement with the counterparts and stakeholders. Working effectively in conflict affected countries requires a greater tolerance for risk. This is particularly true since the development effectiveness risks of inaction are often greater than the particular risks of action.

51. **The Bank's approach to selectivity has been a difficult balancing act.** Given the weakness of most Government Ministries involved in implementation, and the demand from donors through the ARTF for Bank involvement in key sectors, the Bank has found it difficult to be as selective as would be the case if IDA were the only source of available financing. But IDA is not the main source of financing for World Bank programs and in the upcoming ISN period, ARTF funding will likely be some four to six times larger than IDA. We propose to use IDA resources largely for policy support through a series of development policy grants, for piloting new operations, and remaining at the core of service delivery. The government has been keen that the Bank stay engaged in financing the national priority programs using both IDA and ARTF resources. They see the Bank's leadership as important to coalesce donors around a common program and to provide a level of technical expertise and implementation support that is not available from bilateral donors.

52. **At the same time, the donors see the Bank as a vehicle for helping them coordinate efforts even in sectors where others might have taken the lead.** For example, in the area of legal and judicial reform, donors insisted that the Bank continue with investment projects even where the Bank indicated that we would be inclined to defer to others. In the same vein, a key donor in the water sector said they would move out of the sector unless the Bank stayed involved to provide the policy dialogue and framework for investments in the sector. This tension between donor and Government demands and the Bank's desire to be selective is made all the more real because of the predominant role of the ARTF where donors obviously have a strong voice on the use of funds. Overall, this dialogue has led to better outcomes in terms of joined-up donor assistance and better alignment with GoA priorities. This is true both on the project front and with policy reforms supported by the ARTF Incentive Program. Nevertheless there are areas where we have chosen not to be involved and where we will rely on the comparative advantage of others (see paras 54-57).

53. **Building not just capacity but institutional legitimacy is extremely important**. In light of the low level of institutional depth both in line Ministries and at the local level, considerable technical assistance has been provided to build capacity. In providing such capacity, what has succeeded is when Bank support has helped the Government build institutions, systems and social capital that are seen as legitimate because they are inclusive and provide services. One lesson from our intervention in NSP and health, is that, while Government should assume responsibility for provision of services, services need not be delivered by the government itself but rather can be contracted out. NGOs have a proven record in service delivery and we will look for ways to involve them further. These efforts need to be re-enforced by attention to transparency, accountability and communication to the public. It must be acknowledged, however, that this is a very long process and difficult to measure within a short period.

54. **Providing stability in financing is critical**. Donor funding can have high volatility in these situations, but development, particularly in fragile states, is a long term endeavor. The cut-off of many donors' contributions to the ARTF during 2011 because of the long time it took to resolve the Kabul Bank crisis, highlighted the sensitivity of development spending in Afghanistan to donor commitments. At the recommendation of an independent review of the ARTF, the Bank with MoF and donors have been developing a rolling 3-year financing strategy which sets out broadly those sectors/projects that will be funded over the coming period. This is intended as a guide to help remove volatility in development spending and improve budget execution rates. But it depends heavily on GoA's ability to design and implement programs with Bank support and on donors keeping to their funding commitments which can be difficult with domestic spending under significant pressure and overall donor fatigue.

B. **Proposed Bank Support for FY12-14**

55. How then should the World Bank seek to support Afghanistan during this critical 3-year transition period? The importance of supporting the Government in implementing elements of the most important NPPs, the lessons of the WDR, and the work that the Bank has done on the economic impacts of the transition suggest a way forward. This strategy encompasses not only areas in which we will work in partnership with Government and other stakeholders, but sets out the principles of how this work should be approached recognizing the limitations and risks. It has further been informed by consultations with the Government, donors, civil society and the private sector. The Bank's program for FY12-14 will therefore be built around the following three interlocking themes:

1. ***Building the Legitimacy and Capacity of Institutions:*** The Government recognizes the long-term importance of institution building in its priority programs, and to support it the Bank will continue and expand its work of the past 10 years in supporting some of the key institutions that will, ultimately, provide legitimacy to the State at both central and local levels. There is still a long way to go in Afghanistan where Government institutions, including those involved in issuing licenses and in delivery of some services, are often seen as predatory toward the population and private sectors. We will focus on those areas where we have comparative advantage, and leave to others institutions of a more political nature such as those dealing with narcotics, the police, elections, and provinces. We will focus in particular on the civil service in key development ministries. The rules for civil service have been created and modest capacity has been injected through prior programs. The next phase will focus on deepening of capacity and creation of platforms for larger scale interventions that can be sustained over a longer time frame. In large part, the Bank will focus on three institutional areas – (i) strengthening institutions and processes associated with transparent and competent financial and economic management, (ii) improving the sustainability and performance of line ministries in providing essential services country-wide and (iii) continuing to build the social capital and inclusive governance structures formed at the village level through the National Solidarity Program (NSP) which will be an essential element of rural stability.

2. ***Equitable Service Delivery***: The Bank will focus its work on improving service delivery to the Afghan population by continuing with, and expanding as appropriate, national priority programs in education, health, irrigation, and NSP. This is in line with the WDR which argues that the key to *sustained* stability is the development of legitimate national institutions and programs, particularly those that address concerns most likely to provoke violence. Within Afghanistan, an enduring driver of conflict is a sense of inequity between and amongst regions, ethnic groups, within cities, villages and even families. This suggests that a continuation and strengthening of the Bank's focus on institutions, systems and programs that can sustainably ensure equitable delivery of basic services across the country will be necessary. This does not

necessarily mean that we will be reaching all areas, but will be supporting programs that are national in scope and potentially available to all Afghans. This is different from the way that some bilateral donors have worked in Afghanistan where aid has been concentrated in specific provinces or districts supported by Provincial Reconstruction Teams (PRTs). By designing programs where facilitating partners and NGOs help support the service delivery, these programs can have a much wider geographic reach even in an insecure environment. Some project designs are also modified for delivery in more insecure areas. For example, NSP has still not reached all villages particularly where there is so much insecurity that it is not possible for Facilitating Partners to work. Therefore, NSP III will begin with the second round of block grants while waiting for conditions that will allow NSP to reach for the first time the most insecure areas. Ongoing and newly developed national programs supported by IDA and ARTF are the key to the Bank's engagement under this theme and include amongst them healthcare, education, rural connectivity, irrigation, micro and SME finance and access to justice services.

3. Inclusive Growth and Jobs: Building domestic sources of growth and jobs to replace donor/military assistance is one of GoA's greatest priorities and it is expected that GoA's sequencing of NPPs will concentrate on foundational investments for growth. In support of this, the Bank will continue to focus on programs that support jobs including through agriculture and building the private sector. At the same time, Afghanistan needs to develop its potentially huge natural resources sector if it is to increase growth. This should be done in a way that is transparent, inclusive and supports other sectors that will create jobs and help lift the nearly 50% of the population that is below or near the poverty line. This argues for focusing Bank engagement around the concept of "Resource Corridors" which link up mineral resources, infrastructure, communities and employment-creating sectors (agriculture, construction, enterprise development) in a way that provides growth and jobs beyond the borders of the mines. It will also be important to provide local communities a stake in natural resource development which, in turn, promotes equity and security in an environmentally sustainable manner. It speaks to addressing the constraints to enterprise development including an extremely weak financial sector, insufficient energy, and a regulatory environment that is, at best, uncertain and often corrupt. In the longer run, a platform for inclusive growth and jobs with the country will help build the confidence of parties outside Afghanistan that it can become a viable land bridge between the considerable natural resources to the north and west, and the large and vibrant markets to the south and east.

56. **Before discussing each of these pillars in more depth (beginning Para. 58), it is important to mention where the Bank will not directly engage and how selectivity will be shown**. By starting small and with projects that are rather modest in scope and then expanding them when they take root, we are able to have a program that is fairly wide because we are only introducing very new elements a bit at a time while continuing to support (usually with ARTF funding) well functioning national programs. Despite requests to do so, we are deferring to others in areas such as large infrastructure and rural water, limiting activities where there is less consensus on the basic operational framework such as at the provincial level, avoiding geographic specific operations, and leaving others to take the lead on activities that are political/security related (see Box 3).

Box 3: The Bank's Framework for Selectivity in Afghanistan

While the proposed scope of the Bank's engagement is wide, it is manageable under the current program and footprint. A further expansion, however, under existing conditions would be difficult without compromising our supervisory capacity and security requirements. Overall our approach for keeping our focus manageable given the operating constraints in Afghanistan is as follows:

First, we generally look to start small by starting with pilot operations, usually financed by IDA, and then scaling up with the ARTF for those programs which show promising signs of success. This helps avoid locking up large sums of financing on projects which may be slow to disburse.

Second, the Bank has tended to select out of the financing of most large infrastructure projects such as highways, railways, large dams and direct mining operations. Here, bilateral donors (particularly USAID), the Asian Development Bank, and the private sector (especially in mining) are taking the lead in many cases. The ADB has just established an Infrastructure Trust Fund that will allow smaller donors to help finance these larger investments. For its part, the Bank, while not financing most large infrastructure activities, is playing a role in supporting good policy and regulatory frameworks. In addition, despite multiple requests, we will not get involved in rural water and sanitation sectors despite their importance. In our view, the Government and the Bank have limited capacity to do this at this time.

Third, the Bank will remain focused on broad service delivery by key ministries such as education and health where there is agreement on goals and means. The same is true with our village level involvement through NSP where there is an emerging consensus on their role as village councils even as the details are yet to be worked out by GoA. There is, however, little agreement on the roles, responsibilities and functions of provincial and district governments, despite significant analytic work and donor support to a range of projects including those by the US, UNDP, UK and others including the Bank. In the interests of selectivity, we will keep our work on the provincial/district government nexus limited until there is further clarity, except with respect to development of provincial budgeting, if possible, that would help improve budget execution and be linked to our broader work on public financial management and the ARTF recurrent cost window. We will also focus on national service delivery, while avoiding projects with a specific geographical focus. The one exception to this will be our work on resource corridors.

Fourth while we play a very strong role in donor coordination through the ARTF, UNAMA is charged by the Security Council with overall responsibility for donor coordination. We will continue to work closely with UNAMA leaving them, for example, to focus on building inclusive political coalitions to enhance the confidence and trust that the WDR highlights (this will remain an integral part of our work of building coalitions at the local level through NSP). UNAMA has comparative advantage in this area at the political level. We will continue to build coalitions through our work on transition and development.

Fifth, we will not be playing an active role on counter-narcotics despite the drug economy accounting for a significant share of GDP. Bilaterals and ISAF have a comparative advantage in this area given the political and security nature of the engagement. That said, by working on issues of governance, resource corridors, irrigation and support for the private sector, the Bank is helping to build the institutions and open the economy that will help give the rural population other options to illicit activities.

57. **Finally, the program outlined in this ISN is built on the assumption that there is no serious deterioration in the security situation and that the ARTF remains well funded by donors.** Should that not be the case, we would move to a scaled down program that would aim to achieve depth rather than breadth. By this we mean concentrating on a smaller portfolio made up of core, ongoing national programs (likely basic education and health, irrigation, rural access and NSP) where we could continue to focus on PFM and procurement (depth), as well as core analytic work on transition and resource

corridors. Sectors we would consider moving out of include: urban including urban water, power, parts of agriculture, the financial sector, governance areas (except PFM), higher and vocational education.

Pillar 1 – Building the Legitimacy and Capacity of Institutions

58. **Supporting institutions and processes associated with transparent and competent financial and economic management.** Over the next few years, the Government will need to attract more donor funding on budget and improve their ability to efficiently manage expenditures. The Bank launched a follow-up project to its successful Public Financial Management Reform Project—*PFMRP II*—in June 2011. The goal of this 3-year project is to continue to build robust public financial management in central control agencies (MoF, Control and Audit Office) and extend support to executing agencies both in Kabul and provinces. This includes training of accountants, improving financial information systems and strengthening the legal framework. Key outcomes would be (i) providing the confidence for donors to channel an increased portion of resources through the budget, (ii) extending audit coverage to 75 percent of budget operations and (iii) having at least 50 percent of procurement under the budget done by line ministries. In short, we will continue with a strategy of working within, rather than outside government systems. This might increase risks for the Bank but it is the only way to build capacity within Government.

59. **This core financial management activity will be extended by supporting improved fiscal sustainability through several other instruments over the ISN period;** this is increasingly important now as many donors are considering channeling additional funds through the ARTF as part of the transition process particularly in support of on-budget financing. The *ARTF Incentive Program* seeks to achieve this objective with agreed targets which promote revenue mobilization, improve fiscal management and increase overall spending efficiency at the central, sector, and selective municipal and sub-national levels. The Bank will be working with Government and donors to find the means for increasing the attention to and financing of Operations and Maintenance. The *ARTF Recurrent Cost Window* provides a mechanism to review and monitor budget execution and transparency, supported by an external monitoring agent. The Bank will complement this through analytic work and potentially a DPG on supporting fiscal sustainability.

Box 4: The Importance of Public Financial Management

In developing a fiduciary framework, we recognize that corruption is pervasive in Afghanistan, that there is an attitude of tolerance and that enforcement capacity is very low. In looking at the forms of corruption driving various perception indices, these are principally bribery, extortion and grand corruption and patronage which are often linked to private wealth and off-budget activities, areas the Bank has less influence over. Procurement corruption and financial leakages are two forms of corruption that do pose threats to Bank funded activities, both projects and recurrent cost funding, as well as Government development spending more generally.

To deal with these risks we have:

- Established a robust system of internal controls for project operations which aims to prevent abuse in the first place and reduce the opportunity for loss. Because of the size of the Bank's share of funding of the annual budget, and our close cooperation with MOF, it was both economic and effective to implement our fiduciary arrangements through strengthening government-wide systems.
- Worked with the Government to improve transparency in all phases of public finance including: (i) timely reporting on budget execution including the posting of reliable, comprehensive in-year budget execution statements on the Treasury web-site within 25 days of each month end and (ii) annual external reporting to donors and Parliament which is verified by independent audit
- Provided additional oversight by the ARTF Monitoring Agent of all civil recurrent costs.
- Intensified Bank project supervision with low prior review thresholds and frequent supervision missions.

These efforts have resulted in enhanced PFM, as confirmed in two PEFA studies on Afghanistan that indicate better than average performance of Afghanistan's PFM compared to other low income countries.

60. **Improving data is a particularly important focus.** There is wide recognition of the difficulty in obtaining reliable data on which to make operational decisions. To some extent this is to be expected in a fragile environment and it will take time to improve. However, all projects are building in improved monitoring and data collections. These efforts are complemented by the *Strengthening National Statistics Project* and further analytic work on poverty and other key data points with the national statistics agency.

61. **The Bank and IFC will also be supporting improvements in the financial sector** including the *Financial Sector Strengthening Project* (and the follow-up *Financial Sector Rapid Response Project*) which seeks to help the central bank improve its banking supervision functions (critical given the recent Kabul Bank crisis), establish a credit and collateral registry to support improving access to finance, and help to develop a modernized national payment system to allow for efficient payments within the country. This will be complemented by analytic support *on financial sector monitoring*, as well as targets on Anti-Money Laundering and regulatory oversight under *the ARTF Incentive Program*. In this, the Bank Group will be working closely with the IMF.

62. **Improving the sustainability and performance of line ministries in providing essential service delivery country-wide:** The Bank has been playing a role in supporting capacity building at the Ministerial level but with mixed success. The Management Capacity Program (MCP), which funded skilled Afghans in senior government positions, has been able to establish small scale achievements in strategic areas through effective leadership in some ministries, particularly in the Ministry of Finance. However, the added value of MCPs to the achievement of a ministry's overall reform plan has been limited. Other donors, including the US, UK and EU, as well as UN organizations such as UNDP, have

also supported a range of capacity building initiatives. These programs have faced substantial challenges and, in fact, the multitude of programs may have contributed to certain governance problems as line Ministries compete for funding and programs, and in some cases, the power of patronage that comes with providing jobs and financing. Overall, it has led to the creation of a "second civil service" of well paid Afghan professionals that are helping deliver many core government programs, but whom are outside the civil service. In light of this, the Bank is working intensively with the Government, led by the Ministry of Finance and the Civil Service Commission, and donors to reshape support for civil service capacity building into a new program—*Capacity Building for Results (CBR) Program*—which was launched in FY12 through the ARTF. The essence of the new program will be to link the level of capacity support provided to Ministries with the development and implementation of policies and strategies within those Ministries aimed at improved service delivery and budget execution. It is intended that over time, well performing Ministries will have policies for attracting and retaining talented staff which will substitute, in the medium and long-term, for the donor driven "second civil service".

63. **Locking in Village level Governance -** One of the greatest success stories since 2001 has been the *National Solidarity Program (NSP)* -- the flagship of the Bank's program in the rural areas. NSP, which has become a household word amongst Afghans, is a nationwide program that creates Community Development Councils (CDCs) which then implement small scale subprojects supported by the men and women of the community. NSP is often the first (and sometimes the only) contact that Afghanistan's rural communities (some 70-80 percent of the population) have with the national level Government. It may well be one of the reasons that Afghans perceive that corruption in their local neighborhoods is less than at higher levels of government[5]. In its third phase which covers the ISN period, NSP aims to reach the vast majority of rural communities (to date it has supported 27,000 communities and over the ISN period the Bank aims to reach an additional 16,000, many of which are in insecure areas). But even more importantly, NSP III will aim to lock in the local governance structures represented by CDCs. The aim across the Bank's portfolio is to look for opportunities to engage with the CDCs as the entry point to communities to support them in taking on roles beyond NSP. This is already happening in several Bank projects, as well as those delivered by other donors and GoA. This will both strengthen transparent, effective village governance and provide a mechanism for sustaining the investments in schools, irrigation and other small infrastructure even as funding declines. Examples include engaging with the CDCs on issues of resettlement and compensation in mining projects, using CDCs for identification of the poorest to deliver social assistance, and engaging clusters of CDCs as water user groups in irrigation reconstruction.

Pillar 2 – *Equitable Service Delivery*

64. **The need to provide basic services and build inclusive institutions are intertwined.** If services are provided in a manner that is not seen as inclusive, fair and impartial it can increase, rather than reduce tensions, particularly in fragile states. This is why the Bank has consistently supported national programs rather than being drawn into provincial programs which have been associated with Provincial Reconstruction Teams (PRTs). The Bank has achieved significant success in supporting national programs in health, water, education, rural and urban services (NSP, EQUIP, SHARP, NRAP, EIRP etc) and will build on this in the coming period, including in Kabul, and to better integrate informal settlements, to the extent possible, into the formal fabric of the city.

65. **Efforts to provide services in a fair and transparent manner are best built over the long-term**. The WDR stresses that legitimacy takes time. The Bank's experience in Afghanistan bears this out and we have had our best success when we have worked with Government to pilot approaches to see

[5] A Survey of the Afghan People. Afghanistan, 2011. The Asia Foundation.

what works, adapt them, and then scale them up. Care must be taken to ensure that programs and the processes used to deliver them resonate with the population they are meant to serve. This process of piloting and then expanding support to the national programs allows: (i) gains to date to be internalized and locked in; (ii) programs to be improved further; and (iii) services to be expanded with wider geographic coverage and expanding institutions (for example, CDCs will federate up, health clinics will be complemented by hospitals, IRDP will build on EIRP to begin to support small dams etc.) As noted above, ARTF financing provides the avenue for leveraging up significantly smaller amounts of IDA financing. Designing programs with a national scope but phasing in coverage over time based on experience has generally proved more effective and equitable than other approaches that are geographically targeted.

Figure 3: Framework for Developing National Program Services

66. **Rural and Community Services**: Expanding support to the rural population at the community level will remain a major focus of our program. As mentioned above, *NSP* mobilizes communities and then channels small grants through Community Development Councils (CDCs). About 80 percent of the community subprojects involve infrastructure such as irrigation, rural roads, electrification, and drinking water supply, all critical for the recovery of the rural economy, stability, and governance. But more importantly, NSP is about mobilizing communities to organize themselves to receive direct government assistance to meet their most pressing needs. NSP is seen as an ***equitable program*** following the same guidelines across the country and ensuring that all communities which are willing to adopt the NSP principles, even those in the conflict areas, are eventually reached. NSP III, which will be implemented during the ISN period, pays particular attention to the equity aspect with greater emphasis on substantive engagement of women not only in having elected seats, but in swaying the decisions on how the community grants are used. It also introduces the flexibility necessary to help NSP reach communities in a timely manner and in the more insecure areas. A second program which will be scaling up during the ISN period is the *National Rural Access Project (NRAP)* which supports access of rural communities to markets and essential services, often for the first time. Over ten years, the program has supported the construction or rehabilitation of over 10,000 Km of local roads; in its next phase it will increase basic access, some secondary roads and improved capacity for O&M. The result sought is a reduction in time for rural citizens to reach main service centers over rehabilitated roads by about 20 percent. A series of IDA *Development Policy Grants* may be considered to support the Land Authority to improve land titling and acquisition.

67. As regards **water resources use and development**, the Bank is supporting irrigation rehabilitation through a second phase irrigation project (*Irrigation Restoration and Development Project (IRDP)).* Planned results are irrigation systems covering about 300,000 ha, and supporting the design and construction of a limited number of multi-purpose small dams to enhance water availability and build local water management capacity. Key outcomes would include an increase of about 10-15 percent in the irrigated area and about a 10-15 percent increase in crop yields in rehabilitated areas. [6] The *pilot On-Farm Water Management Project* will build the link between the irrigation channels, bringing the water more efficiently to the farms themselves to improve yields. The World Bank is also helping the Government review options for development of the Kabul River basin through Afghanistan Water

[6] Other key rural programs to be supported by the Bank – Horticulture, Rural Enterprises, Agriculture Inputs – are discussed under the growth pillar.

Resources Development Project (AWARD). Rehabilitation of hydro-meteorological network and services will continue under IRDP.

68. **Urban and Water Supply Services:** The World Bank has been involved in the urban and water supply sectors in Kabul and in twelve provincial towns. This has proven to be one of the most difficult engagements because of weak Government capacity and overlapping lines of responsibility amongst national, provincial and municipal authorities. However, urban areas have and will continue to grow significantly as Afghans leave the countryside and migrate to the cities. While exact figures are unknown, some estimates put the population of Kabul at around 5 million people, up from about 1.8 million in 2000. Programs that seek to reintegrate returnees and former combatants have found that the majority want to return not to their rural communities, but resettle in the cities. Therefore, the Bank proposes to refresh its commitment to the urban sector through an improved second phase of the Kabul Urban Reconstruction Project (KURP), a restructured or new *Urban Water Project* to extend further assistance to AUWSSC and investments in urban water systems in Kabul and a scale up of the ongoing operation- *Kabul Urban Roads Improvement Project (KURIP*). Over this ISN period, the Bank will support a review of Bank and donor supported initiatives to improve municipal finance.

69. **Education Services:** Current World Bank support to the Education Sector consists of three programs (financed by IDA and ARTF): *the Education Quality Improvement Project* (EQUIP) which is in its second phase; the Afghanistan Skills Development Project (ASDP), and the Strengthening Higher Education Project (SHEP). The flagship program is EQUIP II, which aims to help increase equitable access to basic education. Results sought are a 10-20 percent increase in enrollment (from a base of about 7 million) and an increase in the numbers of trained teachers (from 100,000 to 150,000). Based on the results of EQUIP II and an *ongoing education review*, EQUIP III will be proposed for FY13-14. The project will also seek to reduce the gender gap in enrollment, and measure and track progress on education quality as the emphasis shifts from quantity to quality. The success of basic education and a young population (some 50 percent of the population is under the age of 15) means that the Government and donors will need to focus more intensely on higher level and technical and vocational education over the coming period. The Bank will do this through ASDP (which will seek to increase the number of graduates from such institutions from 8,500 to 10,000) and higher education through SHEP (which will increase the number of higher education institutions supported from 6 to 10, providing them with funding but also management training and quality assurance systems). Additional Financing or follow-on projects in all three projects are foreseen during the ISN period. In addition, The Global Facility for Disaster Reduction and Recovery (GFDRR) will support a School Safety Initiative through the Agha Khan Development Network (AKDN) in close partnership with national and provincial government authorities[7].

70. **Health Services and Systems:** The World Bank seeks to strengthen health service delivery through the *Strengthening Health Activities for the Rural Poor project* (SHARP). SHARP finances the provision of basic health services with a focus on women and children in rural and underserved areas of the country. The project also supports policy development and service delivery to strengthen the delivery of the Essential Package of Hospital Services (EPHS). The Bank plans Additional Financing for *SHARP*, as well as a possible scaling up program (together with other donors including the EC). This will build upon the ongoing support but will move from an emergency response to a systems building approach, potentially including hospital services. Results targets include increasing the number of pregnant women who receive health care from 80,000 to 120,000 per year, increasing the number of children receiving immunization from 90,000 to 120,000 per year and the number of consultations per person per year from

[7] Afghanistan is prone to a wide range of hydro-meteorological and geophysical hazards. School vulnerability assessments for the country highlight the need for a comprehensive initiative that enhances the capacity of education stakeholders to improve school safety using cost-effective and sustainable techniques.

1.2 to 1.4. A second program, the *Afghanistan HIV/AIDS Prevention Project* (AHAPP), which addresses the HIV epidemic, will be folded into the overall SHARP project. The Bank will support these efforts through analytical work on hospitals, out of pocket expenditures, nutrition and mental health.

71. **Social Safety Net**: Despite extremely high aid flows and deep poverty, there has been little attention to establishing targeted safety net programs. The Bank is currently supporting the piloting of a framework for safety nets and public pensions through the ongoing *Afghanistan Pension Administration and Safety Net Project.* The project aims to develop capacity in the Ministry of Labor and Social Affairs to plan and administer programs in safety nets, including the development of an MIS system to automate enrollment, verification, and payments. As part of a pilot, cash benefits were provided to around four thousand poor families through CDCs in four districts of three different provinces. This pilot takes advantage of the capacity and sustainability of the local/village institutions. This pilot is complemented by an *analytic review of the Social Protection systems in Afghanistan* now underway which will be completed in FY12. The results of the first operation and the analytic work (which will be based, in part, on beneficiary satisfaction and improved FM and monitoring systems) will feed into proposed improvements in design. Based on this, a *new second phase social protection operation* in FY13 may be considered to scale up the program. Given the high levels of malnutrition, the possibility of conditioning the cash benefits on participation of the communities in nutrition programs is also being considered.

72. **New Directions in Judicial Services**: The Justice deficit is a major stress factor in Afghanistan and the formal system has serious shortcomings. The Bank, along with other donors, has struggled to find traction with conventional justice reform programs which focus on formal systems, rehabilitating structures and training justices. To date there has been very modest impact – perhaps not surprising given the very long timeframe required for real impact, particularly in countries that have been long in conflict. With strong encouragement by Government and donors to stay in the sector despite the enormous challenges, the Bank will work with the Government and other partners to initiate a revised *Justice Sector Delivery Project* for Afghanistan which will strive to increase access to and use of legal services. While this second justice project builds on the first, it will introduce substantial changes learning the lessons from Phase 1 and taking into account the developments, political processes and the current realities of Afghanistan. Its approach will be more holistic and seek to provide access to legal services in a variety of ways that will empower individuals to resolve their disputes satisfactorily and at minimal costs to themselves or the state.

Pillar 3 – *Inclusive Growth and Jobs*

73. **The Bank's support to rural services and infrastructure will help to support growth and jobs.** Many of the activities noted in Pillar 2 will provide near term state-supported employment (for example, teachers under the education projects, local road construction under NRAP, water and irrigation local work programs). But this will not be enough. The Afghan economy must find new sources of growth and jobs for the transition and stability to succeed. As noted earlier, projections suggest that, under even favorable assumptions, real GDP growth is projected to fall from 9 percent a year over the past decade to 5-6 percent during 2011–18. Given Afghanistan's annual population growth of 2.8 percent, this would mean only limited improvement in average per capita income, continuing high rates of underemployment and little progress in reducing poverty. Only growth at the high end of the range of plausible scenarios would enable Afghanistan to achieve meaningful reductions in poverty and higher average per capita incomes.

74. **Agriculture will remain a critical source of growth and employment.** Agriculture currently provides 31 percent of GDP but 59 percent of employment. The Bank has been and will continue to invest significant resources in the rural and agriculture sectors. In addition to improving basic rural and irrigation infrastructure which will help increase crop yields, the Bank supports several other

interventions to support growth in rural communities. The ongoing *Afghanistan Rural Enterprise Development Program (AREDP)* seeks to empower rural entrepreneurs by providing livelihood grants, promoting group savings, and building technical and business skills at the community level in a sustainable way. If successful, AREDP presents tremendous potential for scaling up. The ongoing *Horticulture and Livestock Project* (HLP) is improving horticulture and livestock productivity through training and extension support, direct investment support for new orchards, improved delivery of animal health services and the establishment of backyard poultry units which are almost exclusively helping women. Both these projects use the CDCs as their entry to local communities. The IFC will complement this through a *Horticulture Export Cluster Development Project* targeting pomegranate and raisin farmers and traders. The proposed *Improving Agricultural Inputs Delivery System (IAIDS)* project will seek to help improve crop and seed technologies and farmers' access to fertilizers and other reliable agricultural inputs. It will also seek to strengthen the regulatory framework for quality control.

75. **A second cornerstone of the Bank's efforts to support growth is the natural resources sector.** Afghanistan has substantial untapped mineral resources but only in very recent years have the first steps in decades been taken to realize them. *The Sustainable Development of Natural Resources Project II (SDNRP II)* focuses on improving internal regulatory capacities and stimulating private investments in the mining sector involving transparent international tendering of some of the largest copper and iron ore deposits in the world. Successful development of these mines and the oil and gas blocks will bring not only significant revenue an*d* growth, but would create a demonstration effect that would help unlock much broader potential if security stabilizes. The project focuses heavily in helping Government implement appropriate social and environmental regulatory frameworks, as well as a mechanism for ensuring community benefit sharing. For example, the Ministry of Culture, the Ministry of Mines, the Kabul Museum and the Bank are collaborating in supporting archeologists to undertake the assessment, excavation and salvage recovery of Mes Aynak antiquites.

76. **However, mining is only a part of the story and will not, on its own, create jobs or equitable growth. Moreover, the development of mining brings risks particularly to poor countries, if not well managed.** Therefore the Bank is launching a *resource corridors technical assistance* activity – the largest "new" activity anticipated over this ISN period. A 'resource growth corridor' is a sequence of investments and actions to leverage a large extractive industry investment, in infrastructure, goods and services, into viable economic development and diversification in a defined geographic area. It helps leverage the investment to make for inclusive job creation. Government has already awarded contracts for two major mines, Aynak and Hajigak, following open, transparent tendering processes supported by the Bank. An additional ten mid-sized deposits will be tendered in coming months and years. If the resource sector's fiscal effects, infrastructure and demand for goods and services can be leveraged, it has the capacity to transform the Afghan economy and to create jobs.

77. **Without attention to these efforts to broaden the focus, mines are likely to remain 'enclaves' with little or no impact on the wider economy and little or no impact on job creation.** Worse, it could trigger negative growth, in the so-called 'resource curse'.[8] In a country still in conflict, such an outcome could also be politically destabilizing. In this context, issues of governance are particularly important including management of mining revenues and elite capture. Government has signed onto the principles of EITI to improve and ensure transparency. Afghanistan will need to adopt a set of actions and reforms to foster overall economic development and diversification rather than pure consumption to trigger the expected inclusive growth. Some of this is already happening under the Bank's ongoing

[8] The 'resource curse' refers to the phenomenon of economies' long-term growth falling after the discovery and extraction of large minerals or energy deposits. This effect can operate through multiple channels. One is exchange rate effects ("Dutch Disease") which could make traditional sectors such as agriculture less competitive. Another channel, more common and relevant here, is the destabilizing effects of large fiscal revenues on governance, macroeconomic stability and public investment.

operations in the mining sector including Afghanistan to become an EITI candidate country in 2010 with expected validation within the ISN period.

78. Under the resource corridors approach, the following benefits would be sought:

1. **Fiscal effects:** Afghanistan's large mining projects will have a material effect on the government's fiscal sustainability. It is projected that Aynak could generate around US$500 million annually in direct and indirect government revenue by 2015 and Hajigak about US$400-500 million by around 2020.

2. **Infrastructure:** As significant as the fiscal effects will be, growth will be more associated with the infrastructure supported by these mining investments. For Aynak, for example, the concessionaire is building a 400 MW thermal power plant with 50 percent of this power contractually to be provided to the grid at cost. The mines will also require or motivate large investments in transport infrastructure and regional trade which could be leveraged to create public goods that support other sectors.

3. **Livelihoods:** If the mining infrastructure investments are buttressed by incremental catalytic investments in feeder and rural roads, agriculture and the agribusiness industry could benefit and become a more substantial source of income and jobs for rural communities and urban areas. The mines will also be a source of demand for the manufacturing and services sectors. If local firms can upgrade to supply competitive goods and services, they could capture a portion of the US$4-10 billion of private investment (depending on the infrastructure built). Once operational, the mines might also lead to downstream activity. For example, AFISCO (the consortium developing three of the four Hajigak deposits) has indicated it may build a large-scale steel mill if it can secure sovereign guarantees.

79. **Support under a Development Policy Grant series may be considered to help develop the growth process in resource-based sectors by a series of reforms at policy and institutional level.** In the mining sector, reform targets will aim at improving the regulatory and policy environment in mining sectors and increasing market efficiency by restructuring mining enterprises. In addition, it will help remove constraints in the development of resource corridors by supporting land management reform and institutionalizing a resettlement and compensation policy which are also vital for supporting rural productivity gains**.** The DPG series also supports the fiscal sustainability objective under pillar 1 in that it promotes revenue mobilization and expenditure efficiency in the telecommunication sector as well as the development of transparent and effective fiscal regime for the management of mining revenues.

80. **Connectivity will be the third key element for supporting the private sector, both internal connectivity within the country and external connectivity with its neighbors (e.g. power, roads, ITC, trade, finance etc).** While larger scale investments will be driven by the private sector investors, they will need to be supported in a way that is re-enforcing of agriculture and growth corridors.

81. **Regional Integration:** Our work on regional integration will continue with promising areas for further regional cooperation in transport, trade and transit, energy, water resource management, and labor migration. For example, reduction in transport costs requires actions by partner countries as well as Afghanistan. It is expected that some ongoing initiatives described in this ISN, such as *the Industrial and Customs Trade Facilitation Project,* will also help address impediments in the border clearances and transport times. The Bank is working with partners such as ADB to further specific investments. The Bank and IFC, with other donors, are exploring the potential to support a *regional power transmission line (CASA 1000*) that would connect Central Asia, Afghanistan and Pakistan. The Bank will continue to

keep in close contact with ADB who is taking the lead on TAPI (the Turkmenistan, Afghanistan, Pakistan, India pipeline). We will continue to participate regularly in RECCA meetings with other countries in the region. However, the major thrust of our efforts will be through our work on resource corridors looking at how Afghanistan (through its mineral potential) can benefit from road, rail and transport links that will serve the country and also build land bridges between countries of the region. The work on resource corridors includes a number of major studies including on rail, road and power all of which will need to connect Afghanistan to its neighbours in order to reach international markets.

82. The growth of **telecommunication** in Afghanistan has already played an important role for both farmers and industries and the new *ICT Sector Development Project* (approved in 2011) will seek to further expand connectivity, mainstream the use of mobile applications in strategic sectors in the Government, and further support the development of the local IT industry. The *Development Policy Grant Series* will facilitate infrastructure sharing and open access policies to increase the reach and reduce the costs of telecommunication services. Simultaneously, the Bank is looking to assist the Government to mainstream the strategic use of ICT in Government programs in the agriculture, rural development and education. IFC is already supporting a private telecommunications operator and will look to increase its investment in this field. The key outcomes would include an increase in access to Internet and mobile telephone services; adoption of mobile applications by at least ten Government agencies or programs; and training of about 1,500 Afghans through IT skills development programs.

83. A sufficient and reliable **power supply** will be necessary to support private sector growth. The Bank's Investment Climate Assessment completed in early 2010, identified the shortage of power as one of the most important constraints to business. The Bank has three ongoing power projects in Afghanistan – the *Emergency Power Rehabilitation Project*, the *Kabul, Aybak and Mazar-e-Sharif Power Project*, and the *Afghanistan Power Sector Development Project*. These projects are working to provide improved and more reliable electricity to the residents of Kabul and other centers through the rehabilitation of distribution networks, transmission lines and selected power plants. While essential, these projects have been slow to implement and may need to be restructured. Additional Finance for these projects or other priority power projects including distribution projects may be considered during the ISN period. Key results to be achieved by 2014 include (i) reliable power distributed to 200,000 households in Kabul, (ii) the completion of the rehabilitation of Naghlu hydro power plant, (iii) rehabilitation of distribution systems in targeted secondary cities, and (iv) improvement in the cost and collections of the Afghan Power Utility (DABS). Increased power availability will enable the IFC to more aggressively look into *supporting industrial and processing companies* in areas such as cement, agro-processing and logistic support. The growth of such industries is expected to play a role in helping to build the resource corridors.

84. **Strengthening the Business Environment:** In addition to the activities already noted that will help build the infrastructure that the private sector desperately needs (ICT, power, rural roads, improved financial sector), the Bank will increase its direct support to the private sector and improving the business environment. The pilot *New Market Development Project* aims to help revitalize the private sector in four urban areas -- Kabul, Mazar-e-Sharif, Jalalabad and Herat -- through provision of business development technical assistance to help firms gain market knowledge, improve product quality and increase their market presence. Taking into account the successes and failures of previous private sector intervention; this was designed as a simple pilot project. *The Second Customs Reform and Trade Facilitation Project* will continue to facilitate the growth of trade by consolidating the customs modernization process with countrywide computerization of customs clearance operations. The full roll out of the ASYCUDA clearance system will help to streamline and reduce corruption in the export and import process. This will be complemented by a *Trade Diagnostic*. Support will also be considered to increase *access to financial services*, building on the lessons from the previous microfinance projects. The IFC will continue to

provide *direct support for private firms*, particularly in the financial sector, and provide *capacity building for financial sector institutions and private entrepreneurs*. This includes increasing *trade finance lines* through banks and support through *microfinance* institutions to underserved communities, and strengthening the *framework for leasing and housing sector* lending. IFC will also ramp up its *advisory services* in support of SMEs and the business environment, including its *licensing reform project and doing business reform initiatives, in coordination with IDA*. Technical assistance is being provided to the Central Bank to establish the Public Credit Registry and Collateral Registry, in collaboration with the Financial Sector Strengthening Project.

85. **Environment and Climate Change**: In the process of supporting inclusive growth, the Bank will pay increasing attention to the impact on environment and climate change, as the latter exacerbates the risk profiles of natural hazards – climate change scenarios project less and less precipitation in already dry areas of Afghanistan, potentially increasing the frequency and duration of droughts. Higher and more variable rainfall, as well as increased glacier runoff, is expected to increase the frequency and intensity of floods, affecting already monsoon-dependent areas[9]. These issues, while difficult to address at the national policy level given the challenging security and capacity situation, are to be tackled with support from GFDRR to achieve the following outcomes over the ISN period: (i) Increase and manage knowledge about disaster risks; (ii) Increase emergency preparedness capacity; (iii) strengthen institutional capacity of select institutions; and (iv) increase public awareness and community capacity. These issues will also be tackled in the Afghan context at the level of specific operations. For example, growth in Agriculture is significantly affected by the volatility in water supply. As a result, the Bank will look to understand the impact of investments on scarce water resources. Particularly in the mining sector, the Bank is helping the Government to develop appropriate social and environmental safeguards policies and regulations. Inefficient power supply is another area where Bank activities can help reduce losses that harm the environment.

Cross-Cutting Filter – Conflict and Transition

86. **It is unavoidable that everything we do in Afghanistan is shaped by the conflict and therefore the framework of the WDR is helpful in defining the three pillars of Bank activities.** This reality, and the additional challenges that will accompany the next few years of transition, is the "filter" by which the Bank's strategy is drawn. How the Bank operates will continue to be essential to our ability to deliver on our programs and play a leading role in terms of reform and policy dialogue. Heavy emphasis on financial management, supervision of projects, supporting the build-up of Afghan capacity will continue to dominate decisions on our program. The need to keep our relatively large presence in country safe will remain paramount with additional resources going towards secure office and housing and providing support for field visits as the security situation allows. Building flexibility into project designs and policies are also critical, as the Presidential elections towards the end of the ISN period and attempts at reconciliations may bring changes in policy and approach.

87. **The Bank is supporting the use of CSOs to help implement operations effectively in a fragile environment, for example in health where service delivery by NGOs is an integral part of Government services.** To improve our ability to provide supervision and oversight even in the face of insecurity, the Bank has engaged an international NGO that is supporting the Bank with Afghan engineers across the country, visiting some 1500 sub-projects a year, in even some of the most inaccessible parts of the country. The Bank is also supportive of efforts by international and local NGOs to work with

[9] Half of Afghanistan's population lives at risk from at least two natural hazards. While floods have affected over half a million people over the last 40 years, droughts have affected four times as many people.

Government to find ways that CSOs and the private sector can help implement essential programs even as donors move to put more funding through Government ministries and systems.

88. **Within each activity we will assess how it can be designed to most effectively help in the transition, particularly in terms of legitimacy and jobs.** Inclusion, communication and accountability will be built in to the programs to the extent possible. Sustainability of programs, especially in terms of O&M, will now need to be considered in the design of all Bank/ARTF financed operations. Another driver of conflict is long-standing land disputes, which cut across most projects in the portfolio. The Bank is working with the Afghan Land Authority to strengthen the framework for land management in a fair and transparent manner. Consistent with the WDR, result targets will need to be flexibly designed and monitored given the inherent difficulty in data collection. This will be supplemented through analytic work on lessons on working in security and violence prone areas. To help guide program designs, the Bank is investing in project specific impact evaluations.

89. **The need to ensure that the Bank can properly supervise implementation in a potentially more insecure environment is extremely important.** The approaches that we have taken have worked fairly well under the circumstances. . Supervision planning needs to take into account staff safety as well as the safety of those implementing the project. Dozens of staff from the Government, facilitating partners and contractors have been killed or injured over the course of the past 10 years implementing Bank/ARTF funded programs. Innovative techniques for supervision using ICT as well as third party monitoring is part of most project designs. (See paragraph 106 and Annex 6 for innovations in supervision.)

90. **A special dimension of this cross-cutting agenda is gender.** Women face particular cultural and social difficulties in accessing services and in participating in the work force in Afghanistan. However, it is not just a question of fairness. Experience in other countries has shown that the economic empowerment of women can have a powerful impact on building a sustainable society. Gender equity is embedded in Afghanistan's Constitution (2004) and subsequent national strategies and plans. Women are guaranteed 25 percent of seats in Parliament—currently the Wolesi Jirga has 69 women—making Afghanistan one of the top countries in terms of female representation. Nevertheless, development gains for women have come gradually at best. Constitutionally guaranteed equality is not yet reflected in many laws and practices, and there are great differences across Afghanistan -- for example, the over-15 female literacy rate is 30 percent in Kabul, but may be as low as 1 percent in Khost Province.[10]

Box 5: Key Gender Achievements in Bank Projects

-- Under the *Skills Development Project*, the number of female students enrolled in training institutes increased by one-third, from 3000 to 4,100 from 2008 to 2010.

-- Under the *Rural Enterprise Project*, 45 percent of the savings and enterprise groups, formed in the first year of implementation, are women's groups.

-- Under the *Health Services Project*, the proportion of health facilities with women staff increased from 25% in 2003 to 72% in 2010

-- Under *NSP*, 29,224 women were members of mixed Community Development Councils as of March 2009

-- Under the *Education Quality Project*, 37% of enrollment (nearly 2.5 million) were girls.

91. **Transition poses particular risks for women and girls.** Insecurity restricts the movement of women significantly more than men.

[10] Islamic Republic of Afghanistan and the World Bank, Economic Policy and Poverty Sector. *Afghanistan Provincial Briefs*. Kabul: June 2011.

But even more, many fear that a negotiated solution to the conflict could jeopardize the fragile gains made by women over the past 10 years. Therefore, an awareness of the gender aspects of the Bank's engagement in Afghanistan is all the more important in this critical transition period.

92. **The Bank's gender agenda will continue to be mainstreamed across projects.** Significant impacts have already been achieved (see Box 5 – and further details in Annex 2). Looking forward, Gender efforts supported by Bank projects will continue to receive focused attention. Within the key Bank programs, opportunities will be sought to re-enforce and increase gains for women (for example ensuring increased access to health facilities and education for women) and expand women's access to economic activity (for example under *AREDP and the Horticulture project)*. The Bank will also use specific gender studies and poverty household analysis to help strengthen our understanding of gender issues within the cultural context of Afghanistan. Finally, we will look to develop strategies for how to engage more women within Bank-funded programs at the national and local level.

93. **It is essential that the Bank's gender activities continue to be tempered by reality and the need to resonate with the population.** Conflict, violence and social customs, will continue to influence the speed of progress. The transition period could potentially be a period of setback, and such risks can only be mitigated to a limited extent. Nevertheless, the Bank's commitment to continue to mainstream gender components and targets across our portfolio, and the successes to date, provide some assurance that gender issues will remain an essential part of our engagement.

C. Instruments

94. **IDA:** Afghanistan will remain eligible to receive IDA funding for the ISN period. The terms of IDA are grant, as Afghanistan is both IDA-only and has high debt risk. IDA funding for Afghanistan is determined through IDA's performance based allocation plus a post-conflict premium, which has been declining. The indicative IDA-16 resource envelope is about SDR 273 million (about $430 million) during the ISN period.[11] Given IDA's limited size in comparison with the much larger ARTF, IDA resources will be used strategically particularly in piloting programs and new approaches. A portion of IDA may be provided in the form of Development Policy Grants in order to support further improvements in governance and an improved environment for effective investment, but this will continue to be dependent on a satisfactory macroeconomic framework, appropriate fiduciary controls and commitment to a reform program. Significant improvements in the Government's own public financial management and budget processes provide further comfort regarding the effectiveness of DPGs (see earlier Box 4).

95. **ARTF:** The ARTF is the single largest contributor of on-budget donor assistance in Afghanistan. Indeed, it is the largest single recipient country trust fund in the Bank and its size, in relation to IDA, presents both opportunities and challenges. In addition to the financing of recurrent costs and development projects, the ARTF has a central role in coordinating and channeling donor resources through the budget for priority programs of the Government. Because of this role, the ARTF has been particularly effective not only in coordinating a strategic dialogue between the Government and donors but also in leveraging improvements in public financial management.

[11] The actual allocation will depend, among others, on: (i) the country's own performance; (ii) its performance relative to that of other IDA recipients; (iii) the amount of overall resources available to IDA; (iv) changes in the list of active IDA-eligible countries; and (v) the amount of compensatory resources received for MDRI.

96. **The ARTF contains two main windows, a Recurrent Cost Window and an Investment Window.** When first established, the primary objective of the ARTF was to provide funding for the Government's recurrent budget, primarily wages of teachers and other civil servants. Over time, the Investment Window became predominant as the capacity of Government to generate its own revenues improved. Currently there are 17 active investment projects, totaling about $1 billion, with approximately $455 million undisbursed (see Annex Table B8). Over the ISN period, the Recurrent Cost Window is expected to stabilize at about $300 million per year, including the incentive program, while some $500 million or more annually could flow through the investment window if Government has the necessary capacity to implement and if donors meet their funding plans.

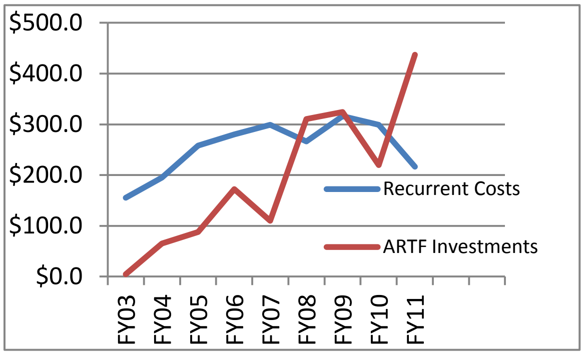
97. **Within the Recurrent Cost Window, the basis by which disbursements are made is evolving.** In 2008, the ARTF Incentive Program (IP) was established. The IP is designed to support Government's reform agenda, in particular progress toward fiscal sustainability. For example the last IP was disbursed based on progress made by GoA in three areas: enhancing domestic revenue generation, improving public sector governance, and enabling private sector development. Government generally has a strong record of meeting agreed indicators which has substantially strengthened the agenda of the Ministry of Finance. The IP allocation will gradually increase each year with IP funding rising and straight recurrent cost financing continuing to decline. As it increases and evolves, the IP may move to a multi-year programmatic approach to support reforms in agreed areas, with the flexibility to adjust indicators annually. The IP will be designed to complement but not duplicate the DPG – IP indicators will focus on issues of improving public sector management and budget efficiency, while the DPG will focus on strengthening the growth process by a series of reforms at the policy and institutional level, including in natural resources and IT sectors. Because of the importance of the ARTF as more donors provide on-budget funding as part of transition, a number of donors have proposed an independent review of the trust fund going forward. The Bank is working closely with donors in this context.

Box 6: ARTF: A Successful Business Model

The ARTF has to date received more than $4.6 billion from 32 donors. Its success can be traced to a few key features:

- The ARTF has shown itself to be a flexible funding mechanism, adjusting to a changing context. It started with fast disbursing recurrent cost financing, added on investment financing and finally the Incentive Program has been added to support fiscal management reforms.
- The ARTF provides a single mechanism for providing predictable on-budget financing for key services within a robust fiduciary and monitoring framework.
- The ARTF provides a unique platform for policy dialogue between the international community and Government on key reforms as a result of the IP. The ARTF Strategy Group provides a forum for donors to be involved in setting strategic directions.
- The Government is a full partner including membership of the Management Committee, which approves specific project allocations. The ARTF has introduced a rolling 3-year Financing Strategy which sets out the broad allocations over the coming period in order to provide better predictability in the financing of projects and recurrent budget.
- The ARTF maintains a wide range of communications (web, annual/mid-term reports, meetings etc). This is key to building support and managing expectations.

Table 4: Changes in total ARTF **Table 5: Changes in Recurrent Cost**



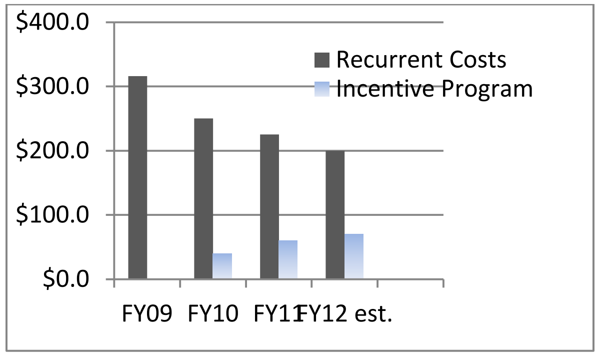


Table 6: Estimated Allocations over FY12-14 ($M)		
	IDA[a/]	ARTF[b/]
Institutions and Capacity		
Recurrent Cost and Policy Support, Capacity Building and other	130	1000-1500
Equitable Service Delivery		
Rural and Urban Services -- (NSPIII, Agric Inputs, NERAP II, AREDP, Horticulture, Irrigation, Urban Water and Roads etc.)	100	600-1000
HD Services – (Ed, Health, Safety Nets, Skills etc)	100	300-500
Growth and Jobs		
Power, Infrastructure, Private sector	100	200-500
Total	430[a/]	2400[b/]

[a/]Amount of IDA is subject to annual calculations, depending on such factors as the size of IDA resources, country performance and exchange rates
[b/]This amount is indicative only. ARTF levels and allocation are provisional subject to donor contributions, the ARTF three year strategy, and allocation decisions by the ARTF Management Committee.

98. **Other Trust Funds:** By far the largest Trust Fund managed by the Bank is the ARTF. However there are several other trust funds that support the program in Afghanistan [*See Annex 5 on other main Trust Fund activities*]. The JSDF Special Window for Afghanistan has been open since 2002 and has played a particularly catalytic role in piloting innovative approaches including the clustering of Community Development Councils under NSP. JSDF Disbursements have been rapid to date. DFID and Ausaid have also provided trust funds, enabling the Bank to extend its capacity in key areas of statistics, governance and justice, community mobilization and resource corridors. GFDRR has also begun to support disaster risk management activities in Afghanistan.

99. **Analytic Work:** As discussed throughout this ISN, the Bank's analytic work during the ISN period will be focused on key policy issues and supporting operations. While selectivity in analytic work is important for all countries, it is particularly important for Afghanistan given security limits on staff

missions. Because of this security driven necessity, the Afghanistan program has been relatively successful in ensuring that AAA is all demand driven and supportive of the program strategy overall. Four programmatic activities will likely dominate analytic activities – sources of growth, fiscal sustainability of the state, poverty analysis, and resource corridors. In addition, the Bank will make use of impact evaluations in order to improve the functioning of the programs it supports. The Bank's policy work is disseminated widely – through workshops, the media and by availability on the web; often translated into both Dari and Pashto (See Annex 7 for a table on planned main AAA over the period.)

100. **IFC:** IFC currently has a modest portfolio in Afghanistan, totaling about $90 million in investments. This is concentrated in the banking sector (among smaller banks, including microfinance banks), telecommunications and a few health and hospitality companies. Through its Advisory Services, IFC also provides capacity building support in three areas: (i) *capacity building in the financial markets*, working with both financial institutions and the Central Bank to improve regulatory frameworks, both for basic banking as well as for leasing and MSME banking, (ii) *Capacity building for entrepreneurs*, through its Business Edge program providing training for 5,000 individuals in business skills and through its support to Agribusiness by helping farmers scale up gains in productivity, and (iii) *improving the business enabling environment*, helping the government to improve its licensing regime.

101. **Looking to the future, IFC will continue to seek investments opportunities**, even though Afghanistan's business environment remains weak. Given security governance and sponsor issues, IFC will be selective on the investment side. In the *manufacturing* sector, IFC will help complement the Bank's focus on resource corridors by looking at industrial and processing sector opportunities such as cement, agro-processing and logistic support companies. In the *banking sector,* IFC will continue to support financing to SMEs and the development of mortgage finance. IFC *Advisory Services program* is seeking to increase its presence, especially in the areas of financial sector development, SME support through Business Edge, and business enabling environment improvements. To support its Advisory program, IFC has increased its presence in Afghanistan. In addition to a Country officer, a full time Advisory specialist has been assigned to the Kabul office.

102. **MIGA: MIGA has been administering the Afghanistan Investment Guarantee Facility (AIGF).** The uptake has been modest, with the Facility having extended five guarantees, three of them on-going. The Facility is currently providing coverage to BRAC Bank, MTN and IHFD (brick manufacturing). MIGA guarantees were particularly helpful in supporting the growth of mobile telecoms in Afghanistan. The AIGF closed in September 2011. Both Government and private sector actors would like to see a more active role for MIGA in providing third-party guarantee for large scale investments.

D. Supervision and Portfolio Management

103. **Portfolio Status:** The status of the portfolio is quite good, particularly given the challenges in working in an insecure environment. Of the 28 ongoing operations, five are in problem status. These are the three power projects and two in the water area: On-Farm Water Management and the small Water Sector Capacity Building Project. The three power projects have suffered from early design problems and inadequate attention, but the Bank has now placed a lead power specialist in Kabul and is actively working with the Government to restructure the projects. The Water Sector Capacity Building Project and On-Farm Water Management Project have been slow to start-up and put the necessary policies and staffing in place, but there is an action plan to address these issues. Disbursement rates are also satisfactory, at 28 percent for IDA projects and about 70 percent for ARTF resources in FY11. These figures compare favorably with those for other countries, despite the more difficult operating conditions faced in Afghanistan.

Table 7: Projects Under Supervision	
IDA (including ARTF cofinancing)	19
ARTF Stand-Alone	9
Total	28

104. **Local Community Participation and Voice**: A central element in supporting effective project implementation in Afghanistan is strong involvement of local communities in the design and implementation of operations. As discussed earlier, making use of CDCs throughout Afghanistan is particularly useful across the Bank program. CDCs are the entry point for the National Emergency Rural Access Project (NERAP) in both the selection of road construction and repair and selection of those employed in road works. In the pilot safety net project, CDCs are involved in both beneficiary identification and benefit distribution. The horticulture project uses CDCs to monitor and inform stakeholders of complaints and to identify producer groups. AREDP piggy-backs on the community mobilization already undertaken by its sister project, NSP. Beyond the CDCs, both the health (SHARP) and education (EQUIP) projects provide support and feedback through local Shuras, and the irrigation Project works through *Mirabs* (traditional community water managers). Similar community groups are part of the design of upcoming urban projects.

105. **Central Accounting and Oversight**: ARTF and IDA projects are managed with precisely the same attention. All projects are eligible for processing under the Bank's Rapid Response to Emergencies policies (OP 8.0). In practice this has proved most useful in streamlining procurement procedures, but in many cases new operations are processed under regular review procedures in order to ensure quality at entry. All Bank (IDA and ARTF) funds are channeled through the budget and thus subject to the overall transparency and accountability associated with the budget framework. Further project accounting and reporting also occurs at the federal level. The Bank deploys a monitoring agent to help provide central oversight over the ARTF Recurrent Cost Window both in Kabul and the provinces. The Bank's activities under the ARTF have been reviewed under several donor audits, with satisfactory results.

106. **Innovation in Supervision:** The Bank is using innovative supervision techniques to operate more effectively in a volatile security situation. A particular focus is the application of the widely distributed mobile telephone networks for service delivery and program monitoring; by end 2010, over half of Afghan households owned one or more mobile telephones and mobile telephone networks covered over 80 percent of the population. Building on earlier pilots with the use of geo-referencing cameras, Bank teams are now exploring the use of ICT for M&E, improving the flow of information between geographically distributed program staff and beneficiaries. With support from AusAid's Community-Level Service Delivery Trust Fund, a Bank team is evaluating how anonymous reporting by citizens through text messaging and interactive voice response might improve the performance of schoolteachers. Most notably, the Bank has engaged an international NGO (IRD) which using a large number of local engineers, smart phone technology and GPS mapping are visiting 1500 sub-project sites across the country, even in some of the most insecure areas. (See Annex 6).

107. **Regular Feedback**: Feedback loops are built into many projects through community involvement and social audits, and for the large national programs, there are regular discussions with donors and stakeholders on how to make them more effective. Key donors often participate in Bank supervision missions. Furthermore, in order to stay relevant and responsive in a situation of constantly changing circumstances and high risk, the Bank is placing increasing attention to the use of Impact Evaluations. These have been done for NSP and Health, and we expect to continue this regularly for other programs through written reports, surveys and workshops. The Bank is also helping to strengthen the Governments own impact evaluation efforts through an IDF grant aimed in this direction. Looking to

the future we will be developing an overall approach to impact evaluations, aimed at bringing cohesion to these efforts and drawing out shared lessons learned.

108. **Office Management**: The management of operations is particularly challenging in Afghanistan. Given the international attention to Afghanistan, limited Government capacity and the Bank's role in managing large amounts of donor funds particularly through the ARTF, a strong and experienced staff based in Kabul is needed to help the Government make progress on the many development challenges it faces and to ensure adequate fiduciary oversight of funds. To this end, the Bank maintains a sizeable office of just under 100 staff of which just over 20 are international. This level of intensive activity is supported by donor fees on the ARTF which supplement the Bank's own administrative budget. The security requirements act as a constraint both for staff stationed in Kabul as well as the number of visiting missions that can be accommodated at any particular time. Afghanistan is a non-family posting for international staff; living conditions (for both residents and visiting missions) are sparse with highly restricted mobility both in Kabul and for travelling in the country. In some circumstances, the Bank depends on the assistance of donors with military presence (the US, UK, Canada, Australia) to travel and stay in insecure provinces including Uruzgun, Kandahar and Helmand. Implementation support in less kinetic provinces is also challenging given the lack of security compliant accommodation and the difficulty and costs of travelling in armored vehicles and maintaining a suitably low profile needed to keep Bank staff safe. Over the period, we expect to carefully balance the need for on-the ground expert staff against security risks, and accept that this balance will result in a cost of business that is higher in Afghanistan than elsewhere.

E. Donor Coordination

109. **The Bank Group is only one player of many** in an environment where there are many extremely important bilateral, multilateral and civil society players. For many countries, including the US, UK, Japan and Australia, Afghanistan is one of their largest recipients of aid and for some represent their biggest diplomatic missions. ISAF plays an enormous role even outside the security sector. The UN keeps an extremely large and diverse presence in country covering political, humanitarian and development objectives. UNDP, for example, operates a trust fund that finances the salaries of Afghanistan's police and army. CSOs, including the Aga Khan Development Network and a number of other international and national NGOs, play an absolutely essential role in delivering services on the ground (including for IDA/ARTF financing programs), often in extremely dangerous conditions.

110. **Working with other donors will, therefore, continue to expand during the transition period.** As discussed throughout this ISN, donor funding is essential for the operation of Government and the financing of development. The donor community in Afghanistan extends beyond what is normally seen with typically large bilateral donors like USAID, DFID and the EU joined by the international military and a number of countries (such as Pakistan, India and Egypt) who are themselves aid recipients. This scenario is likely to continue well into the future -- despite steady increases, domestic revenues still account for under 10 percent of GDP and do not cover even the non-security operating budget. As mentioned above, donors committed at the July 2010 Kabul Conference to channel up to 50 percent of their assistance through the government's budget, and to ensure that 80 percent of assistance is aligned with NPPs. The Bank is expected to play a key role helping Government and donors reach these aspirational targets. Partly, this will be through our role in supporting implementation of the PFM Roadmap and capacity building across Government to help line ministries improve their absorptive capabilities and manage donor funds transparently. It may also come through increased flows to the ARTF as an all on-budget financing mechanism The US contribution could reach up to $700 million this fiscal year. Other donors such as the UK, Australia and EU are all increasing their contributions. Japan has significantly increased its contribution from $20 million to some $138 million.

111. In addition to the ARTF, the Government has established a process to ensure that donor support for each of the National Priority Programs (NPPs) is well coordinated under sector groups led by the Government in tandem with a lead donor (see Annex 4 for an indication of which donors are leading in which areas). The Bank, along with other major donors, participates actively in both the overall NPP coordination process and relevant sector groups. The Bank also coordinates with donors at a technical level on sector investments, both within and outside the ARTF. Intensive dialogue is underway for example in public financial management, civil service reform, justice and human development, with the Bank playing both a convening and technical role. Donors also actively share information on an almost daily basis under the overall leadership of UNAMA. The level and intensity of coordination among donors and the Government is one of the highest in the world, though this sometimes strains the capacity of Bank staff

112. The Bank has collaborated closely with the IMF particularly during the Kabul Bank crisis and more recently on transition economics including issues of fiscal sustainability, banking sector reform, and banking supervision. Over the ISN period, it is expected that both institutions will continue close cooperation on structural reform issues in areas such as banking, PFM, payment systems, anti-money laundering, transparency of natural resource revenues, and restructuring of state-owned enterprises. Both institutions are also in close cooperation on the macroeconomic framework and Joint Debt Sustainability Analysis (DSA).

113. The Bank has also been working closely with civil society and the private sector and, as underlined during consultations on the ISN, we will intensify discussions with both during the ISN period – with civil society and NGOs on the role they can play in implementing activities and projects, and with the private sector on issues of corruption and regulatory frameworks.

VI. Risks

114. **The risks associated with the Bank Group's engagement are substantial.** Transition poses threats to both military and civilian security as insurgents seek to position themselves for 2014. Political risks during this period are likewise high as both the people of Afghanistan and the international community look to see how the Government will respond to the governance, fiscal, security and economic challenges ahead. Closely associated with this is the risk of corruption which will influence not only how the Afghan people judge the legitimacy of their Government, but will influence the size and shape of donor flows. This in turn underscores the significant economic risk that exists should donor and investment flows dry up.

115. **The Bank acknowledges the high level of risk, but also the need to manage risk rather than shy away from it**. In determining the depth of our involvement, we need to consider the risk of not engaging as much as in getting involved. In everything we do, we need to keep expectations realistic. And, as the WDR points out, the best approach is to ensure that all of our work is deeply embedded into building inclusive, legitimate structures. Nevertheless, the Bank program is built on the assumption that there is no further deterioration in the security situation and that the ARTF remains well funded by donors. Should this not be the case, we would move to a considerably scaled down program that would aim to retain depth rather than breadth.

116. **Security risk remains by far the largest.** The security situation has deteriorated over the past several years and may become even more challenging during the ISN period, particularly as the country

transitions from international military to Afghan local forces. The ISN recognizes this risk up front, and we will take it into consideration in everything we do operationally. The Bank and Government rely on firms of international consultants, for example, to oversee and vet financial management of our projects. Should the security situation deteriorate and these consultants feel it no longer safe to have on-the-ground physical presence within key ministries, this could have implications for our portfolio unless they can be replaced with consultants of equal quality.

117. **With regard to the Bank's physical presence,** we have significantly strengthened our security arrangements and office space on the ground. The Bank has active contingency planning in case there is a sustained security deterioration. The Bank's commitment to Afghanistan for the long term is evidenced through its plans to secure land for the building a new custom-designed office building. That said, should the security situation deteriorate and there be a need to reduce the number of Kabul-based staff, there would need to be a parallel reduction in the size of the overall work program.

118. **There is political risk associated with a fragile and fragmented government.** This has led to important policy decisions being put off and difficulty in enacting the kind of reform necessary to tackle the biggest issues of corruption. The existence of a "second-civil service" which is largely responsible for the delivery of donor funded programs provides its own set of risks as GoA and donors seek to move more funds on budget and to reduce the parallel systems that have grown up over the past 10 years. The Bank-supported Capacity for Results program is one way to help bring this expertise more sustainably into the Government structure. However, it can be expected that success will not be easy and setbacks will occur along the way. Presidential elections which coincide with the end of "transition", add additional elements of the unknown. And finally, the potential reconciliation with the insurgents adds significant uncertainty to the political and security landscape – if successful, it could decrease conflict, but could also shift policy directions and potentially stoke regional divisions and gender setbacks. All this argues for keeping a flexible approach to the Bank's strategy over the coming period.

119. **It is unlikely that the risks of corruption and fraud will abate during this period.** Corruption is widespread and prevalent at all levels of Government and within other parts of society. The Bank has worked with Government to strengthen significantly fiduciary oversight of development funds that are provided on-budget, including both World Bank/ARTF funds and other sources of on-budget spending. The Government's remarkable achievements in procurement and financial management of these on-budget funds stand out against a background of poor overall governance. On the other hand, grand corruption by some political leaders and power brokers remains well outside the tools available to the Bank and will influence strongly the willingness of legislatures and the citizens of donor countries to provide assistance to Afghanistan. It is also beyond the reach of the Bank to address the corruption of low level officials and police that blight the daily existence of the people of Afghanistan. Without a major and sustained effort by GoA, perceptions of both grand and petty corruption will remain fixed in the minds of Afghans and the world. The Bank, for its part, aims to focus on those areas and activities where we know we can have an impact such as PFM and service delivery by key ministries. Even there, however, we have no control over political appointments which could present a risk to projects and programs that are delivered through line ministries. In such cases, we have to rely on close supervision particularly on the fiduciary and procurement fronts.

120. **On the economic side,** should donor funding and investor funding dry up due to deteriorating security and/or governance issues, Afghanistan would face a significant economic shock, including the potential for negative growth. Economic risks also exist in managing and prioritizing expenditures (amongst security spending, basic services, O&M funding and long term infrastructure), and in the corporate governance of key state-owned and private enterprises (as with Kabul Bank) The Bank is actively working with the Government to strengthen its growth prospects, including in the agriculture and natural resource areas and to reduce tensions associated with this through efforts to ensure that such

growth is more equitable and widespread. Through its analytic work, the Bank is assisting Government in its efforts to prioritize and sequence fiscal spending, and strengthen its governance particularly in terms of public financial management. The Bank and IFC are also involved in strengthening the regulatory and corporate governance environment. Nevertheless, and as noted, the Bank would, in the event of a significant deterioration, also need to downscale its own activities.

121. **Operational risk is also substantial**. In addition to pervasive security and corruption issues, there is limited capacity in some key line ministries to implement projects and policies effectively. The Bank has recognized this by embedding capacity building into our programs, as well as by deploying experienced staff in Kabul that can provide hands-on day-to-day guidance on implementation. Starting small and expanding based on a proven track-record also helps put fewer funds at risk. Nevertheless, it will be a challenge for Government and the Bank to scale up support in areas which are very much priorities for Government and donors – including agriculture, vocational and higher education and justice – without significant improvements in the capability of line Ministries tasked with program implementation.

Annex 1: Afghanistan -- FY 12-14 ISN Results Matrix

Note: ISNs do not normally contain a detailed results matrix given the inherent difficulties in measuring results in a fragile environment. This matrix is provided given the extensive activities of the Bank. but should be used for general monitoring purposes only rather than as a strict evaluation tool.

Strategic Objective 1: Building Legitimacy and Capacity of Institutions

Outcome 1: Improving Institutional and Budget Sustainability and Transparency

Outcome 2: Strengthening Performance of Line Ministries

Outcome 3: Locking in Village Level Governance

Strategic Objective 2: Equitable Service Delivery

Outcome 1: Improved rural and community services

Outcome 2: Improved Urban and Water Services

Outcome 3: Improved Education Services

Outcome 4: Improved Health Services and Systems

Outcome 5: Strengthened Social Safety Nets

Outcome 6: Strengthened Judicial Services

Strategic Objective 3: Inclusive Growth and Jobs

Outcome 1: Agriculture Growth

Outcome 2: Support Mining and Resource Corridors

Outcome 3: Increase Connectivity

Outcome 4: Develop power supply

Outcome 5: Improvements in business environment

ISN Objective 1: Legitimacy and Capacity of Institutions		
Key Government Goals: • Channeling 50 percent of donor funds through the core budget; • Improving management and accountability of on-budget expenditures; • Build systems for improving stability and planning in budgeting; • Strengthen community involvement and buy-in; • Developing a sustainable approach to civil service reform; **Key Issues and Obstacles**: • Capacity in both state- and private-owned enterprises is limited, particularly in regards accounting, procurement and auditing skills; • Capacity building efforts are dependent on strong ownership and leadership; • Corruption is pervasive and the and enforcement often lacking; • Budget projections are inflated and low budget execution, both linked to limited capacity in key ministries; • Limited PFM capacity outside MoF and weaknesses in internal and external audit functions; • The administrative structure remains highly centralized and sub-national institutions lack clarity on functions;		
CPS RESULT AREAS AND BASELINES	**RESULTS TARGET**	**WORLD BANK GROUP INSTRUMENTS**
Outcome 1: Improving Institutional and Budget Sustainability and Transparency Providing Confidence to donors in treasury and revenue systems and budget priorities. Baseline: donors provide less than 20% of funding through budget Extend audit coverage Improved PFM at line ministry and subnational level Improved capacity to make electronic payments within the country	Target: Clear progress towards increasing donor financing through the budget via the ARTF or other mechanisms(Kabul Process commitment) Target: 75 percent of budget operations Target: At least 50 percent of procurement through line ministries according to basic standards Introduction of basic PFM standards at the subnational level (from a close to non-existent level) Improved national payment system closer to international norms	**New Investments:** -- ARTF Recurrent cost window and Incentive Program -- DPG series **AAA:** -- Transition economics -- Growth and fiscal analysis **Ongoing investments:** -Public Financial Management Reform II -- Financial Sector Rapid Response Project

Outcome 2: Strengthening Performance of Line Ministries Improved delivery of core services Baseline: no improved delivery Re-grading of civil service posts according to the provisions of the Civil Servants Law and related regulations Number of restructured and functional HR Departments in Line Ministries. Baseline: 0	Target: at least 2 core services measurably improved in priority ministries Target: Re-grading exercise underway Target: 3	**New investments**: -Capacity Building for Results Facility **Ongoing investments:** -Public Financial Management Reform II -Civil Service Reform
Outcome 3: Locking in Village Level Governance Strengthen role of CDCs. Baseline: about 50% of communities utilize CDCs in performance of NSP grants.	Target – Increase use of CDCs to 70% of communities and strengthen recognition of CDCs as legitimate local governance institution beyond role of implementing NSP.	**Ongoing investments**: - NSP III **AAA:** - NSP II, III Evaluation

ISN Objective 2: Equitable Service Delivery

Key Government Goals:

- Supporting the rural economy as a central aspect of poverty reduction;
- Provide rural areas with access to health and education and provide recovery support to rural communities;
- Developing sub-national governance policy and clarify functions and resource allocations for local government entities;
- Developing water supply, water treatment and sanitation systems;
- Expanding the basic health package and develop a strategy for tertiary hospitals;
- Improving education quality, developing a National Qualification Framework to regulate all sub-sectors of education and increase school enrolment rates and the number of teachers trained.

Key Issues and Obstacles:

- Lack of access and implementation challenges caused by a fragile security environment;
- Operation and maintenance of the piped water infrastructure need huge improvement to increase access;
- Key services including water and sanitation are lacking for a growing urban population and municipal

authorities lack capacity to address issues;

- Precarious sanitary conditions in the cities are a result of infrequent piped service, inadequate water treatment and contamination of groundwater;
- Enrolment rates, particular in higher grades, and quality of education are still low.

CPS Result Areas and Baselines	Results Target	World Bank Group Instruments
Outcome 1: Improved rural and community services		**Ongoing investments** National Solidarity Program III (NSP)
New communities having successfully implemented NSP subprojects. Baseline: 27,700	Target: An additional New Rollout of 16,000, plus 12,000 Repeater Block Grants	National Rural Access II (NERAP) Afghanistan Rural Enterprise Development (AREDP)
Reduction in travel time to school, health facility, and administrative services. Baseline: 1 hr if motorized	Target: Reduction in Time by 20%	Emergency Irrigation Project On-Farm Water Management
Increase in Irrigated areas. Baseline: 300,000 ha	Target : Increase by 10-15% in irrigated areas	**New investments** Irrigation Restoration and Development Project
Increase in crop yields in rehabilitated areas. Baseline: 1,915 kg/ha for wheat	Target: Increase by 10-20% in crop yields	
Outcome 2: Improved Urban and Water Institutions and Services		**Ongoing investments:** -Kabul Urban Roads Improvement -Kabul Urban Reconstruction Project
Number of people in Kabul who receive improved urban services Baseline: 0	Target: 92,000	-Urban Water Sector **New investments:** -- Second Kabul Urban Reconstruction Project
Length of roads rehabilitated in Kabul Baseline: 0 km	Target: 12 Km	-- Second Urban Water Sector **AAA:** **--** Municipal Finance

Outcome 3: Increase Basic and higher Educational Institutions and Coverage		
Increase girls' enrollment Baseline: 2.66 million	Target: 15-20% increase	**Ongoing investments:** - EQUIP III - Higher Education - Skills Development
Increase boys' enrollment Baseline: 4.6 million	Target: 10% increase	
Number of additional qualified teachers Baseline: 100,000	Target: 150,000	**AAA:** - Education sector review
Number of graduates from vocational schools. Baseline: 8,500	Target: 10,000	
Double the number of higher education institutions supported. Baseline = 6	Target: 10	
Outcome 4: Improve Basic Health Services and Systems		
-- Increase number of pregnant women with at least one ante-natal care visit Baseline: 80,000	Target: 120,000	**Ongoing investments:** -Strengthening Health Activities for Rural Poor -HIV/AIDS Prevention
Increase immunization among children Baseline: 90,000	Target: 120,000	**New investments:** -SHARP II
: Increase Scorecard score examining quality of care. Baseline: 70%	Target: 75%	**AAA:** -- Action Plan for Nutrition -- Study on Mental Health -- Hospital Policy Review
HIV Prevalence in the general population. Baseline: < 0.5%	Target: < 0.5%	

Outcome 5: Strengthen Social Assistance Institutions and Program Improved services to the beneficiaries Baseline: poor services provided by the legacy administration system Improved revenue and financial management MIS. Baseline: poor accounting and monitoring of pension scheme revenues **Outcome 6: Strengthened Judicial Services** Improved Skill of sitting judges and prosecutors reviewed and gaps partially filled.	Target: Improved beneficiary satisfaction Target: financial management and compliance monitoring systems in place Target: training of legal professionals and other staff increased	**Ongoing investments:** -Pension Administration and Safety Net Project **New investments:** - Follow up Social Assistance project **AAA:** -- Review of Social Protection -- Poverty Assessment **Ongoing investments:** - Judicial Reform Project **New investments:** - Follow up Judicial Services project

CPS Objective 3: Inclusive Growth and Jobs		
Key Government Goals: • Improve basic rural and irrigation infrastructure to increase crop yields; • Develop the private sector, including mining and employment generating activities; • Increase electricity supply to 65 % of households and 90 % of non-residential establishments in major urban areas and at least 25 % of households in rural areas. • Expand share of population connected to 75 % for telephones, 25 % using internet, and completing 4,000 km of national backbone network; • EITI certification, improving internal regulatory capacities and stimulate private investments in mining sector; **Key Issues and Obstacles:** • A challenging security environment and a lack of capacity in key institutions; • Unreliable water supply for irrigation and key inputs (fertilizer, seed etc.) are major constraints in agriculture; • Power supply is spotty and domestic capacity for electricity generation and transmission needs expansion; • Unlocking the potential of mining sector will depend on adequate infrastructure, including transportation and power, as well as "soft" intervention (such as, enterprise development, trade facilitation, communities involvement). Policies and programs must be put in place to build resource corridors. • Poor business environment: security, lack of policy predictability, corruption, underdeveloped financial sector, and poor provision of electricity.		
CPS Result Areas and Baselines	**Results Target**	**World Bank Group Instruments**
Outcome 1: Agriculture Growth		**Ongoing investments:**
Increased irrigated area under agricultural production. Baseline: 300,000 ha	Target: Increase in irrigated area by 10-15%	-- Horticulture and Livestock Project -- JSDF Strategic Grain Reserves
Percentage increase in agricultural production in irrigated areas. Baseline: 2.5 metric ton/ha	Target: Increase in crop yields in rehabilitated area by 10-20%	-- Irrigation Restoration and Development Project **New investments:** -- AREDP II
Increase in revenues by agriculture industries	Target: 70% of supported groups to increase net income substantially	-- Improving Agriculture Inputs -- Annual DPG
Hectares of new orchards established	Target: Over 500	**AAA:**
Outcome 2: Support Mining and Resource Corridors		**Ongoing investments:** -- Sustainable Natural Resource Management II
Improved transparency in licensing contracts and payments	Target: Progress towards EITI compliance certification	**New investments:** -- Annual DPG **AAA:**
Strengthened regulatory framework for social and environmental issues	Target: Compliance with environmental regulations and successful implementation of RAPs	-- Resource Corridor Analytic and TA work

Outcome 3: Increase Connectivity Increased adoption of mobile application by Government agencies Improvement in Customs lorry release time improves	Target: At least 10 agencies adopt such applications Target: at major Border Crossing Points (BCPs) to less than 60 minutes	**Ongoing investments:** -- ITC Sector Development Project -- HLP, AREDP and NSP (field monitoring, data collection) **New investments:** -- Annual DPG
Outcome 4: Develop Power Supply Increase in power supply in Kabul Baseline: 427 million kWh Increase in power supply to consumers in Mazar-e-Sharif Baseline: 94.24 million kWh	Target: 482 million KWh. Reliable power delivered to 200,000 households in Kabul. And completion of Naghlu Power Plant Target – 25% increase	**Ongoing investments:** -- Emergency Power Rehabilitation Project -- Kabul Aybak and Mazar-e-Sharif Power Project -- Afghanistan Power Sector Development Project **New investments:** -- Additional Power Projects -- CASA 1000
Outcome 5: Improve the Business Environment Improve reforms in Doing Business Number of enterprises supported under the NMDP. Baseline: 0 Number of loans guaranteed by Partial Risk Guarantee Facility (PRGF) under AREDP	Target – At least two positive reforms (as recorded in Doing Business Report). Target – 750 Target: 300	**Ongoing investments**: -- New Market Development Project -- Expanding Microfinance Project -- Second Customs Reform and Trade Facilitation Project -- AREDP **New investments:** -- -- IFC and MIGA Projects **AAA**: IFC Capacity building for entrepreneurs and advisory services on business environment

Annex 2: Gender in World Bank Activities

Afghanistan – Gender at a Glance
Ratio of female to male primary enrollment: 66%
Ratio of female to male secondary enrollment: 38.%
Proportion of seats held by women in national parliaments: 28%
Labor participation rate, female (% of female population ages 15+): 33%
Adolescent fertility rate (births per 1,000 women ages 15-19): 120
Life expectancy at birth, female (years): 62 years (AMS 2010)
Life expectancy at birth, male (years): 62 years (AMS 2010)
Maternal mortality ratio - Lifetime risk of maternal death: 1 in 11

The Afghanistan National Development Strategy (ANDS) identifies gender equality as a cross-cutting issue. ANDS clearly outlines that a significant number of government entities should embrace and implement gender equity through gender-sensitive polices, strategies, budgets and programs; increased expenditures on gender equity; and hiring technically capable gender experts.

The World Bank has funded, co-funded or provided technical assistance to a large number of gender studies and has made considerable efforts to incorporate gender across its portfolio of projects in Afghanistan, including lending operations and analytical work. In mainstreaming gender across the portfolio, the Bank has focused on building opportunities where tangible gains can be made, and by strengthening women's involvement in the sectors where they already have an acceptable presence. Consequently, there have been considerable improvements in mainstreaming gender across projects, particularly in the sectors of agriculture/rural development and human development (health, education, employment and vocational training, agriculture, rural development). The following highlights some key results on gender in selected programs.

1. Afghanistan Skills Development Project (ASDP)

With support from the World Bank, the Afghanistan Skills Development Project (ASDP) was launched in 2008 to increase the number of immediately-employable graduates by building, in stages, a high quality TVET system that is equitable, market responsive, and cost-effective. The following are some major achievements of the ASDP in gender:

- Between 2008 and 2010, the total number of female students enrolled in TVET/schools institutes increased from 3,000 to 4,100;
- The total number of women in NIMA throughout all school terms on average remained 400, and in ANIM rose from 2 to 15 students;
- Efforts also were made to eliminate gender disparities among the ASDP staff, and the number of women recruited doubled during the 2008-2010 period;
- The National Skills Development Program (NSDP), the ASDP component implemented by the Ministry of Labor and Social Affairs, has under ASDP given special attention to the problem of chronically poor women. While NSDP has always required that at least 35 percent of trainees universally are women, under ASDP it has trained 2,500 women in marketable skills in

Badakhshan, Samangan, Ghazni, Bamyan and Paktika provinces. Of the women trained by NSDP (38 percent of all trainees, 77 percent have found employment in trades with a reasonable average income.

2. **Afghanistan Rural Enterprise Development Program (AREDP)**

Early in the project cycle, AREDP developed its Gender Equality Strategy (GES), which identifies three main areas of intervention: (i) key principles; (ii) gender mainstreaming in project management; and (ii) gender-specific considerations for program implementation, including:

- Mobilize equal numbers men- and women-only Savings Groups (SGs) and Enterprise Groups (EGs); employ equal numbers (as men) of female Village Facilitators to train women-only SGs and EGs

- Create a 'common space' where women can regularly come together to discuss issues related to SGs and EGs development

- Employ female-only monitoring and evaluation officers at the provincial level

- Make extra efforts to 'find' or 'flush out' women-owned SMEs and facilitated access to business skills and finance; conduct enterprise development training for women entrepreneurs

- Ensure that project outcome indicators are disaggregated by gender

3. **Strengthening Health Services for the Rural Poor (SHARP)**

The Ministry of Public Health (MOPH) has prioritized maternal and child health in its Health and Nutrition Sector Strategy (HNSS) and identified a reduction in the maternal mortality ratio (MMR) as a key indicator of success, in line with the MDGs. Both the Basic Package of Health Services (BPHS) and Essential Package of Hospital Services (EPHS) as tools to implement HNSS have prioritized service provision for women, as well as for children for whom women are the primary caregivers.

Community education, especially on women's health, has been an important component of the package. The health workers in health facilities and community health workers in villages are responsible for conducting health education sessions about women and child health. SHARP focuses on improving cultural accessibility of health services to women by increasing the number of female health workers in the health work force. SHARP also finances community midwifery education in project areas, the training of female Community Health Workers (CHWs) in the villages, and the training of female community nurses (which has recently started in Parwan province and will soon be expanded to other project areas). So far, the following has been achieved:

- The proportion of health facilities with female staff has increased from 24.8% in 2003 to 72% in mid-2010.

- In 2004, 54.7 percentof new outpatients were female, and this increased to 62.5% in 2009.

- The number of women visiting the health facilities has increased from 3,974,611 in 2008 to 4,206,990 in 2009 in the project areas.

- 361 midwives have been trained and currently another 150 women are in training.

- More than 2700 female CHWs have been trained so far, and they are providing preventive care in the project areas.

- Currently 30 students from Parwan, Panjsher and Kapisa provinces are taking the 26-month training for female community nurses.

4. National Solidarity Program (NSP)

Since its inauguration in 2003, NSP has established about 28,000 Community Development Councils (CDCs) across more than 390 districts in all of Afghanistan's 34 provinces, and has financed over 59,000 development projects. However, ensuring equitable access to and control over NSP resources for men and women in each community is a considerable challenge. Substantial efforts were made by NSP Facilitating Partners (FPs) at each stage of NSP implementation to ensure that women are adequately represented in elected bodies formed under NSP, that women's voices are reflected in the Community Development Plans (CDPs), and that women benefit from the NSP sub-projects. There is substantial regional variation within the country, with certain areas being more open to women's participation in development projects than others.

There are various options for female representation in NSP. In Provinces that are less conservative and where women are actively involved in farming (e.g. Bamyan province) mixed CDCs are formed. In other regions, however, women form a separate women's sub-committee and hold meetings separately from the formal CDC. Unfortunately, there are currently no statistics for the actual number of female beneficiaries from NSP sub- projects. Under NSP III, gender-disaggregated data is available for 27,846 communities. NSP III target is to have at least: (i) 70 percent of women representatives in the CDCs participating in decision-making related to community development; (ii) 50 percent of total beneficiaries of NSP outputs being female; and (iii) 35 percent of CDC members nation-wide being women. What can be estimated at this point, statistically speaking, is the following:

- Approximately 35 percent of CDC members are female (122,123 members);

- An additional 59,403 women are part of separate women's committees;

- Approximately 4 percent of CDC office bearers are female (4,034 in total);

- Given that estimates for total beneficiaries of sub-projects are 19.4 million, and assuming that men and women benefit equally from these public goods, there are approximately 9.7 million female beneficiaries of NSP sub-projects;

- The specific category of human capital development (HCD) sub-projects (mainly literacy training, tailoring, public hygiene, etc) benefit women predominantly;

- HCD sub-projects represent 15 percent of sub-projects and benefit close to 3 million women (HCD projects are no longer implemented under NSP, however, mainly because: (i) they were serving to marginalize women; (ii) neither NSP nor the FPs had the capacity to provide women the required support on HCD projects;

- According to the first follow-up survey (2009) for the NSP Impact Evaluation, NSP has had a positive impact on the role of women in rural communities in that it has increased: (i) their participation in local governance; (ii) the responsiveness of village institutions to women's needs by establishing clear avenues for women to express these needs; (iii) women's cognizance of village leadership and local governance services; (iv) women's attendance at meetings of a village assembly; (v) provision of services for women by village authorities and, perhaps as a result, makes women more likely to hold a positive image of local leaders and to believe in their responsiveness to the needs of women.

5. Education Quality Improvement Program (EQUIP)

Launched in 2004, the Bank-supported Education Quality Improvement Project (EQUIP) is established to improve the quality of educational inputs and processes as a foundation for a long-term strategy to improve the quality of educational outcomes. The project also promotes education for girls by emphasizing the priority of female teachers and students in each component activity. Below are some indicators related to increased female participation in the education sector, as of January 2010:

- Nearly 7 million children are enrolled in schools , around 37 percent or 2.5 million of them girls;
- Since 2004, there has been a more than eight-fold increase in the number of teachers, to 170,000 (30 percent of all teachers are female);
- Teacher Training Centers (TTCs) have increased from four to 42 – at least one per province with male and female boarding facilities;
- There are 73 active District Teacher Training Resource Centers (DTTRCs) to train new and existing teachers;
- There are 42,000 students enrolled in TTCs and DTTRCs (38% female enrollment). This figure is expected to reach 54,000 by the end of 1388;
- The number of TVET schools increased to 60 with 20,000 students (3,000 girls) - and is expected to reach 26,000 in 1388;
- Over 79,000 students graduated from grade 12 in 1387 (26 percent female) – 100,000 expected by the end of 1388;
- 250,000 adults (62 percent female) attended a nine-month literacy courses every year since 1381; expected to reach 500,000 this year;
- There are 42 Centers of Educational Excellence with about 485 registered Madrasas.

6. Horticulture and Livestock Project (HLP)

The HLP aims to assist producer households in adopting improved practices so as to increase horticulture and livestock productivity and production in focus areas. HLP has made deliberate efforts to mainstream gender in all project components, adopting a "household-focused approach" covering both men and women. The gender mainstreaming strategy developed by HLP covers recruitment and retention of female staff and emphasizes equal opportunities for men and women as contributors to, and beneficiaries of, the project. Key achievements of the strategy and HLP's gender-sensitive interventions include the following:

- Within the Implementation Management Support Team, increased numbers of female staff at all levels: 44 percent of FP staff are women; 28 percent of staff at HLP headquarters are women.

- Within the Livestock Component, promotion of backyard poultry production is a key pro-poor activity focused on women, who comprise all beneficiaries and implementing staff, which has:
  - Established 25,000 women owned and operated backyard poultry units, which:
  - resulted in the production of over 20 million eggs since July 2009, destined for household consumption and marketing of excess production at competitive prices through female Village Group Leaders (VGLs), and;
  - achieved a 66 percent rate of independently transitioning to a second cycle, as a result of the adoption of improved poultry rearing practices.
- Within the Horticulture Component, which is about to complete the establishment of 3,500 ha of new orchards and provides extension services focused on orchard management –typically male oriented activities–, has achieved a significant engagement of females in the activity, with the participation of over 600 women farmers in orchard management-related training delivered through women extension workers.
- Within Farmers' Organization Development (FOD), a capacity building cross-cutting activity, achievements include:
  - Mobilization of over 9,000 women, resulting in the creation of 361 women producer groups —a 46 percent of all groups established—all of which received training in improved horticulture and livestock practices;
  - Training of female producer groups, in parallel to male producer groups, in savings and credit-bookkeeping, savings box management, inter-loaning, etc., with women's groups achieving savings of US$38,000, inter-loaning of US$ 70,000 and access to and additional US$75,000 in credits from formal Micro Finance Institutions (MFIs) with a 100 percent repayment.

7. Female Youth Employment Initiative

In addition to the above ongoing programs, the Bank has recently launched a $2 million Afghanistan Female Youth Employment Initiative which will provide job skills training to adolescent girls and young women aged 18-30 with a view to improving their access to income earning opportunities in Mazar-e-Sharif, the capital of Balkh province. Most of the estimated 1300 beneficiaries will be trained in skills for employment in private sector offices of Balkh; a small number of beneficiaries will be trained in midwifery and other health service skills to enable them to return to their local communities which have underserved areas in terms of health. The Minister of Education has already expressed a keen interest in scaling up the initiative to other provinces.

8. Sustainable Development of Natural Resources II

Also of note is the inclusion of gender in the new Sustainable Development of Natural Resources II which seeks to support Afghanistan's emerging mining industry and build resource corridors around it. As part of this, local women will be engaged in production of "Mes Aynak" artisan crafts and in gemstones / jewelry work associated with the artisanal gem mines, for which a scoping report has already been prepared by an external consultant. The work on artisan crafts relates to the Aynak copper mine and the adjacent Mes Aynak Buddhist monastery complex, where the French archaeological delegation (DAFA) is particularly interested in the production of replica Mes Aynak artifacts (water jugs and plates) which were manufactured onsite 2,000 years ago.

9. Equity Investments in Microfinance Sector

IFC's direct support to two microfinance banks, Brac Bank (2006) and First Microfinance Bank (2002), has benefitted women across both rural and urban areas in Afghanistan. As of 2011, the two institutions combined reached an estimated 147,000 women borrowers.

Annex 3: Key Sector Development Challenges

1. Within each of the priority areas, notable progress has been achieved, while significant challenges remain. The Government, with donor support, has helped to provide basic services necessary for both human welfare and the business environment. Nevertheless, the remaining needs are vast and there is a continuing need to strengthen equity and fairness in their delivery.

2. **Agriculture and Rural Development**: Agriculture (defined as annual crops, perennial horticulture and livestock) represents the dominant form of economic activity for the 70-80 percent of the population of Afghanistan who live in rural areas. Together these activities account for approximately 40 percent of the total GDP. Most rural households engage in subsistence farming activities, producing mainly food staples and owning a few heads of livestock. The predominant farming system is anchored in cereal production (primarily wheat) for household food security, with most households having food self-sufficiency for only a few months of the year. Agriculture was badly affected by three decades of war and violence to the extent that the irrigated cropped area decreased by almost 70 percent and crop productivity plummeted, to less than 50 percent of the pre-war levels. The Government recognizes that support to the rural economy is central to poverty reduction, building better governance structures, and social-political stability. This is expressed in the Afghanistan National Development Strategy (ANDS), the Agriculture Master Plan (2005), the National Agricultural Development Framework (NADF), the Comprehensive Agriculture and Rural Development Program (CARD) and, more recently, in the Agriculture and Rural Development Cluster paper prepared for the Kabul Conference. While about 12–15 percent of total land area is suitable for crop production, water constraints inhibit cultivation of up to one third of irrigated land. Therefore, major investments are needed to improve water for agriculture. One of the major constraints to increasing sustainable agricultural production in Afghanistan is the unreliable and untimely supply of water for irrigation, thus improved regulation and storage of water is essential both to improving agriculture and to minimize recurrent flood damages. Shortages and poor quality of key inputs (water, seed, fertilizer, agrochemicals) are considered as important limiting factors for agricultural production. There is also a need to strengthen agriculture production through commercialization and expanding off-farm employment opportunities, as the basis for increasing incomes and food security of the rural population. Finally, informal and unclear land ownership and land disputes remain major impediments to agriculture development.

3. **Urban Development:** At present, Afghanistan has about 153 municipalities (estimated) with an urban population that continues to grow faster than the overall population growth. The population of Kabul alone has increased from about 1.5 million in 2001 to some 5 million in 2007. And it is estimated that the urban population will continue to increase. The overall administrative structure in Afghanistan remains highly centralized and municipalities which are in principle autonomous, lack clarity on their roles and functions and are, therefore, often non-responsive to community needs. The trend towards rapid urban population growth may exacerbate the current lack of basic, municipal services. Urban areas and municipalities have great potential to serve as economic engines for the country. However, if left unattended, further destabilization may ensue. The growth of informal settlements with unclear land rights is a further challenge. The Government has committed to develop its sub-national governance policy and clarify rules, procedures, functions and resource allocations for local government entities (provinces, districts, municipalities, and villages). To help develop the institutional framework and build local capacity, the government created the Independent Directorate for Local Governance (IDLG) in August 2007. However, the framework has been slow to develop and many of the benchmarks IDLG has set remain unmet.

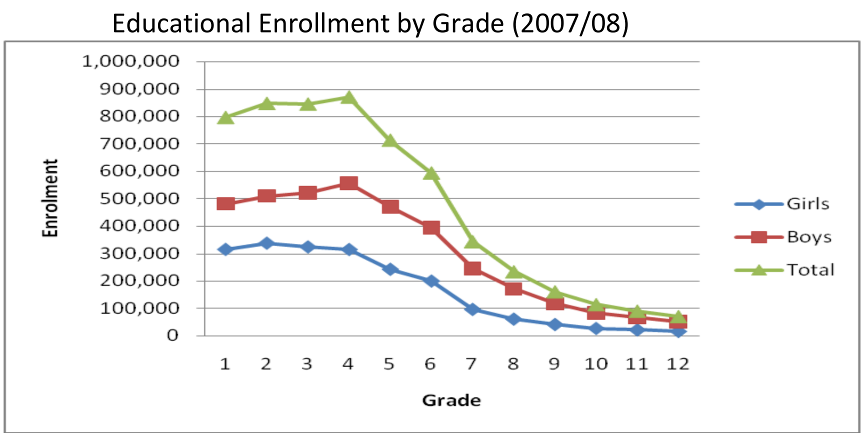
4. **Water Supply**: Water supply service in Afghan cities is inadequate in quantity and of particularly poor quality. Only Kabul and a few provincial towns have piped water supply systems. Access to piped water infrastructure is among the lowest in the world at around 18 percent (in 2006), and the operation and maintenance need huge improvement even to cater to the existing customers. The sewerage system exists only in Kabul for a very small part of the city where wastewater is partially treated and discharged into the Kabul River. The vast majority of households rely on pit latrines. Intermittence of piped service, inadequate water treatment and contamination of groundwater have resulted in precarious sanitary condition in the cities. The Government has attached priority to water supply but improvement will take time.

5. **Health System:** Starting from a very weak base, health services have improved in recent years. Afghanistan currently provides citizens with a Basic Package of Health Services (BPHS), and an Essential Package of Hospital Services (EPHS). Coverage has been facilitated by contracting NGOs to deliver health services, while carefully monitoring and evaluating their performance. As a result, the number of functioning primary health care facilities has increased from 496 in 2002 to more than 2000 in 2011, while the proportion of facilities with skilled female health workers has increased from 25 percent to 72 percent. Almost 85 percent of the population live in districts which now have service providers, although it should be noted that only 60 percent of the population lives within 1 hour walking distance from a health facility. Household survey data also shows a very large increase in use of services and an independent evaluation has shown a 21 percent increase in a broad index of quality of care between 2004 and 2008. There have been major declines in the infant, under-5 mortality rates and maternal mortality ratios. In terms of future challenges, continuing to expand the basic health package is needed as is the development of a strategy for tertiary hospitals. Guidelines for BPHS have also recently been revised and include now more focus on nutrition and mental health. Recent data shows that out of pocket expenditures by households constitutes more than three quarters of the total expenditure on health. Streamlining out of pocket expenditures is thus one of the options the government is exploring. The TB control program is now being implemented in every province of the country, and the quality of services is improving. Malaria remains a significant threat in the low and warmer areas of Afghanistan.

6. **Malnutrition** continues to be a particularly critical health issue. Of the children under five, 55% are chronically malnourished (stunting) and 18% suffer from acute malnutrition (wasting) (MICS 2010). These stunting levels are among the highest in the world. Maternal under-nutrition is also a significant problem in Afghanistan. The 2004 National Nutrition Survey reported a high prevalence of 21 percent of non-pregnant women of reproductive age having chronic energy deficiency (Body Mass Index <18.5).
The economic costs of malnutrition are very high – an estimated US$ 235 million of GDP is lost every year in Afghanistan on account of vitamin and mineral deficiencies alone. Scaling-up key interventions to address these deficiencies is estimated to cost less than 10% of this amount. But the window of opportunity for improving nutrition is small – from the first day of pregnancy through the first two years of life. A comprehensive and sustainable response to malnutrition in Afghanistan will require a combination of direct nutrition interventions (generally through the health sector) as well as nutrition-sensitive interventions in key sectors such as social protection, water and sanitation, agriculture, private sector development, education. The Government of Afghanistan is at advanced stages of development of a plan of action than includes priority actions in these sectors.

7. **Education:** The sector has made significant progress in the last 10 years, admittedly from a very low base. Over 4,500 schools have been constructed with active community involvement and school enrollment has increased from 1 million students in 2001 to 7.6 million students in 2010 (which nevertheless is estimated to bring the net enrollment rate only up to 50%). There has also been a 100 percent increase in girls' enrollment just in the past five years for a total of 2.5 million girls, improved curriculum and strengthened teacher training. But while enrollment for both boys and girls has grown,

the gender gap remains large and there continue to be large disparities in enrollment across the country. At the tertiary level (consisting of 45 public and private universities) students have also increased dramatically from 23,000 in 2002 to more than 70,000 in 2010 including over 12,000 women. Nevertheless only 2 percent of the adult population has some level of higher education attainment, among the lowest in the world. A key issue is the sharp drop off in school enrollment after the 4th grade (see Figure G below) which greatly inhibits reading comprehension and math learning. The challenge is to continue to increase enrollment rates, particularly in later grades, to increase resources and capacity at the school level, and to increase the quality of the education. An important element in the latter will be the development of a National Qualification Framework to regulate all sub-sectors of education. Improvements are difficult, however, amid a worsening security situation which increases the risk of school destruction and violence against students and staff.



8. **Social Protection**. Afghanistan is one of the poorest nations in the world, with poverty estimated at 36 percent of the total population. Seasonal and weather related shocks pose a significant risk to the population. Due to the recent food price crisis and lack of coping mechanisms, there are many more people who are highly susceptible to becoming poor. There are currently a few publicly provided social protection arrangements: direct cash transfers (e.g., pensions for families of martyrs and disabled); public works (the National Solidarity Program (NSP) and the National Rural Access Program (NRAP) have elements of the cash for work programs, the food-for-work program is largely carried out with the assistance of the World Food Program) and a number of donor operated schemes. However, most of these programs remain narrow, and while most recipients are indeed likely to be poor, none are specifically poverty targeted. With multiple stakeholders and multiple ministries involved in the sector, programs are typically not well coordinated with duplicated efforts. Given the huge needs and scarce resource envelope, better coordination and targeting will be required with program interventions focused on identifying the poorest among the poor through mechanisms for greater selectivity as well as higher levels of support to the most isolated and remote areas. In 2010, the Government designed a new *Program to Support Poor Families in Afghanistan*, as an unconditional cash transfer intervention focused primarily on the rural population. The general objective of this new Program will be to smooth seasonal food consumption variation of the most needy in Afghanistan and bridge the food shortage gap between end of winter and first harvest period.

9. **Transportation:** The Afghan transport sector is characterized by an expanding network provided through multiple actors with varying degrees of coordination. Currently, the major roads, railways and civil aviation sub sectors are taken care of by EID while rural roads are included in ARD. The EID infrastructure strategy is to link corridors of high export potential for extractive industry, and to regional trade corridors. This will be realized through the National Regional Resource Corridor Initiative (NRRCI), the signature program among the six EID programs. The NRRCI program will, in the first

strategic period of five years, focus on coordinating and consolidating work around major roads, railways and civil aviation sub programs. The initial rough estimate of needed investments for 5 years will be \$5.65 billion. The ARD cluster will focus on scaling up rural roads through the ongoing successful National Rural Access Program (NRAP), one of the NPPs. By the end of the program about 3,400 km of rural access road are expected to be rehabilitated/constructed. A notable challenge will be land ownership verification and acquisition. Beyond the need to scale up both national and rural transport activities, the Government recognizes the need to strengthen routine road maintenance for the wider network (about 7000 Km) of roods though funding remains a constraint. Capacity building will remain an important component of the program to enable the agencies deliver the end targets. The estimated budget outlay is about \$500 million. On Urban Roads, the Kabul Municipality plans to further rehabilitate the road network and to strengthen traffic management systems.

10. **Power:** The ANDS target over the medium-term is for electricity supply to reach at least 65 percent of households and 90 percent of non-residential establishments in major urban areas and at least 25 percent of households in rural areas. To achieve these targets, the Government is seeking to both expand domestic capacity for electricity generation (including greater private sector participation) as well as increasing transmission imports from Central Asia (Uzbekistan, Tajikistan and Turkmenistan). As regards distribution, there are four distinct grid systems in the different parts of Afghanistan, none of them interconnected. Electricity distribution in Kabul and major cities is patchy and seldom provides 24 hour power. Electricity reaches only a few percent of the population in rural areas. The Afghan power utility - DABS (Da Afghanistan Brishna Shirkat) is improving the power supply in Kabul, as well as computerizing billing and collection. The Ministry of Energy and Water (MEW) retains a significant role in planning, developing and implementing power projects, before handing them over to DABS for operations. A considerable amount of urban and rural electrification work (perhaps about half) appears to be done off-grid at the community level. Results of a recent survey show that respondents are willing to pay more for better quality electricity, and there is awareness of energy saving and alternate energy measures.

11. **Mining:** Beyond agriculture, a key sector of potential growth is mining. According to various surveys, Afghanistan has billions of dollars worth of potential ore (iron, copper, gemstones etc). The Government has put in place good governance policies, laws, and regulations for the sector, including developing sector capacity to manage tendering and other award of licenses. However, unlocking this potential in a manner that provides effective benefits for the country has proven difficult, not just because of security concerns but also due to the need for adequate infrastructure (particularly transportation, transportation and power) and to tender these activities in a transparent manner to ensure effective use of revenues. As with other sectors, informal and unclear land ownership is another critical challenge. In 2008 mining rights at Aynak, a large-scale copper mine in Logar province, were awarded to a consortium led by MCC (China Metallurgical Group Corporation). In November 2011 three blocks of mining rights at Hajigak, a large iron-ore deposit, were awarded to AFISCO (Afghan Iron and Steel Consortium), a consortium led by the Steel Authority of India (SAIL), and one block to Kilo Goldmines of Canada. Oil in Amu Darya and gas in Sheberghan are expected to start production within five years. Aynak and Hajigak are expected to make a significant contribution to fiscal revenues. Estimates—excluding the income or consumption taxes paid by mine workers and suppliers—are between US\$250 million and US\$300 million per year, with indirect benefits estimated at US\$700 million per year. Nevertheless, if Afghanistan is going to fully benefit from the mining sector rather than just as a source of fiscal revenues, further advances are required. It will be necessary to undertake policies and programs to build "resource corridors" that can: (i) increase the participation of Afghan communities, workers and businesses in the sector; (ii) establish a clear vision for the provision of transport and energy infrastructure in relevant areas that can serve the communities beyond just mining and (iii) minimize possible negative environmental and socio-cultural externalities. It will be equally important to integrate principles of transparency, accountability, and inclusion in all sector interventions.

12. **Financial Sector**: There are currently 17 banks operating in Afghanistan, which include: (i) 3 State-owned Commercial Banks, including the newly created New Kabul Bank; (ii) 9 Private Commercial Banks; and (iii) 5 Branches of Foreign Commercial Banks. Assets have grown very rapidly over the past few years from a very low base, with total assets of the banking system amounting to about $5 billion and gross loans standing at $1.74 billion, including Kabul Bank's bad loans of about $900 million (with 73 percent of total loans in US$). Domestic credit provided by the banking sector stood at 2.1 percent of GDP in 2010, which is extremely low (this figure stood at 67 percent for South Asia). The banking system is highly concentrated with three banks (New Kabul Bank, Azizi Bank and AIB) representing about 50 percent of total banking sector assets, and 89 percent of loans originate from Kabul province. Despite rapid growth, financial sector penetration remains low. According to the 2008 Investment Climate Assessment in Afghanistan, only 3.4 percent of Afghan firms report having a loan with a financial institution. The level of microfinance is also growing from a small base. Fourteen microfinance institutions (MFIs) are active in 26 provinces. As of February 2011, the microfinance sector had 428,000 clients, with 60 percent being female clients.

13. The Afghan financial sector has been deeply affected by the collapse of Kabul Bank, Afghanistan's largest bank, due to massive fraud perpetrated by its shareholders. A run on the bank in September 2010 caused a decline of about half of its deposits. In response, the authorities announced a full guarantee of its deposits, extended lender of last resort assistance totaling US$825 million, and, subsequently, the bank was split into good and bad banks and the good bank – renamed "New Kabul Bank" – will continue limited operations under the ownership of Ministry of Finance, and will eventually be put up for sale. The balance sheets of other banks are also being examined. Appropriate resolution of the Kabul Bank crisis enabled Afghanistan to proceed with a new IMF program. The Kabul Bank crisis has highlighted weaknesses in banking supervision and has cast a doubt over the health of the Afghanistan's entire financial sector.

14. **Private Sector**: The 2008 Investment Climate Assessment confirmed many of the key characteristics of the private sector in Afghanistan. It is small, and it includes few foreign firms (less than 2 percent of the sample), few exporters (7 percent of the sample), and few firms owned by women (3% of the sample). Nevertheless, the private sector has been growing from a small base: national accounts data suggests that the industrial and service sector has doubled in size since 2005. 77 percent of the surveyed firms plan to expand in the near future. Businesses are particularly restrained by security and crime issues, red tape, lack of policy predictability, poor provision of electricity, and corruption. Other issues include access to land and access to finance. These findings are also confirmed by the National Business Agenda elaborated in March 2011 by the Afghanistan Chamber of Commerce and Industries. As regards the business environment, according to the World Bank's 2012 Doing Business Report, the country ranks 160 out of 183. In December 2010, the Ministry of Commerce and Industries launched an initiative to enhance Afghanistan's ranking in the Doing Business Report, with a focus on five indicators: starting a business, registering property, protecting investors, trading across borders, and closing a business.

15. **Trade and Customs**: In 2008, Afghanistan's neighbors and the immediate region (India, China, Kazakhstan, Kyrgyzstan, Russian Federation and Turkey) accounted for 62 percent of Afghanistan's entire trade. Afghanistan's exports are even more concentrated in this region; the neighbors and the region buy up 91 percent of all Afghan exports. Given the security situation, difficult domestic transport links and absence of agricultural surpluses and manufacturing and industry, it is debatable if exports (with the exception of future mining operations) will really be the driving growth in the near term, although foreign markets will be essential to provide sustainable alternatives to illicit cash crops. Improving trade and transit agreements with neighbors (like the recent one with Pakistan) can help to reduce the transport costs for Afghan trade. Improving the efficiency of border management is even more important. The Afghan Customs Department (ACD) has adopted an internationally recognized system to record transit

declaration data (ASYCUDA) but remains structurally weak. Fundamental weaknesses remain including internal administration, operational systems, processes and procedures, its governance structure, and human resources capacity.

16. **Information Technology**: Afghanistan's ICT sector has seen significant growth since 2002, in part based on Government support for private sector participation. From fewer than 60,000 telephones at that time, Afghanistan now has over 15 million mobile telephone subscriptions and half of rural households own a mobile telephone. Intercity and international connectivity has also improved. The national fiber optic backbone network already connects 20 provinces and links with four neighboring countries. Much of this growth is led by the private sector. Private investments have crossed US$1.6 billion and 60,000 direct or indirect jobs have been created. Four mobile telephone companies and several Internet Service providers (ISPs) compete among each other and with state-owned Afghan Telecom. Sectors such as agriculture, rural development, and financial services are seeing the introduction of transformative mobile applications for price information, data collection, and money transfer services. However, much remains to be done. Internet services remain limited in their reach, with only about 3 percent of the population subscribing. Afghanistan ranks poorly on international e-Government rankings and IT use in public service delivery is rudimentary at best. The Government is committed to expand the national backbone network to reach uncovered areas. It has also recently initiated a National eID program which will when rolled out help to improve service delivery while simplifying citizen-government interactions. The Government also plans to set up an e-Government Resource Center that will coordinate the deployment of ICT in the public sector. Afghanistan's goals include having 75 percent of the population connected through telephones, 25 percent of the population using the internet, and completing 4,000 km of the national backbone network by 2013.

Information Technology Award

In January 2011, Afghanistan received the GSMA annual Government Leadership Award. The award recognizes the immense achievements made by the Afghan government in its commitment to the widespread expansion of mobile communications, and the creation of an environment of healthy, transparent competition leading to low-cost and broad accessibility.

Annex 4: Lead Donors in Various Development Activities

	Donor Lead
NPP 1: Peace and Integration	Japan and the UK
NPP2: Financial and Economic Reforms	The World Bank
NPP3: National Transparency and Accountability	The US
NPP4: Efficient and Effective Government	World Bank and the European Union
NPP5: Local Governance	The UK and UNAMA
NPP6: Law and Justice	Canada and UNAMA
NPP7: Human Rights and Civic Responsibilities	Canada
NPP8: Skills Development and Labor Regulations	The UK
NPP9: Education For All	The US
NPP10: Expanding Opportunities for Higher Education	Norway and the US
NPP11: National Action Plan for Women	UN Women
NPP12: Human Resources for Health	The US
NPP13: Water and Natural Resource Development	ADB and European Union
NPP14: Agriculture Production and Market Dvlpmt	The UK and Australia
NPP15: National Rural Access	World Bank and Japan
NPP16: Strengthening Local Institutions (NSP)	World Bank
NPP17: National Regional Resource Corridor	ADB and the US
NPP 18: National Extractive Industry Excellence	World Bank and the UK
NPP19: National Energy Supply	ADB and the US
NPP20: Urban Planning TA Facility	Japan and the US
NPP21: Integrated Trade and SME Support	Germany
NPP22: E-Afghanistan Program	France

ARTF Incentive Program SY1390 –
Donor Leads on Policy Reform Areas

IP Policy Reform Area	Donor
Fiscal Policy and Management	USA
Public Financial Management and Governance	UK
Sectoral Financial Governance	Canada
Private Sector Development and Rule of Law	Germany
Sub-national Finance	Netherlands and EC

Annex 5: Main Non-ARTF Trust Funds

Japan Social Development Fund

In 2002 the Government of Japan and the Bank agreed to set up a special window within the JSDF to support activities in Afghanistan in support of the country's reconstruction and transition toward political, economic and social stability. Afghanistan has so far received a total of US$86.8 million from the Special Window for Afghanistan under the Japan Social Development Fund (JSDF). This equals about 20 percent of the overall value of JSDF since its inception in 2000.

The Special Window for Afghanistan has supported a total of 11 projects, including Strengthening Health Activities for Rural Poor and the National Solidarity Program (NSP). Latest support has gone towards a pilot project under the larger NSP III aimed at promoting the clustering of Community Development Councils (CDCs) in priority provinces to further enhance the capacity and sustainability of CDCs; and promoting greater coordination between CDCs and local authorities. The project will also help link CDCs to District Development Assemblies (DDAs) and facilitate the preparation of more efficient and effective District Development Plans.

AusAID TF

In November 2010 a new trust fund for technical assistance was established with funding from Australia. The overall objective of the AusAID TF is to provide technical assistance to Bank task teams in charge of on-going activities, financed from IDA, the ARTF or other sources, to adapt modalities in program delivery and evaluation to strengthen program implementation, monitoring and evaluation in Afghanistan’s continuously changing circumstances. AusAID has pledged a total of US$7.9 million to the trust fund of which US$4.2 million has been disbursed.

Since January 2011, 13 projects have been funded for a total of US$3,236,564. The proposals represent a mix of smaller, separate activities which either support operations or analytical work. The trust fund has so far disbursed US$829,054. Based on experiences from the first year of implementation the work program has been slightly revised to focus on larger, more comprehensive proposals which would lead to more rational processing, quicker disbursement and larger impacts. Two areas have been identified for support over the next 12-18 months:

(i) National-Regional Resource Corridor Initiative (US$3 million): TA will be directed towards development of innovative approaches in support of community benefit sharing/social policies/linkages to local economic opportunities and employment creation, social accountability and transparency;

(ii) Community Level Service Delivery (US$2 million): TA will focus on governance, social accountability and impact evaluation in relation to CDCs (rural and urban), service delivery aspects in health, education and other priority sectors, pilot models for community level natural resource management and disaster risk reduction.

DfID Externally financed Outputs

In December 2010 the World Bank and DFID agreed an umbrella program of support to strengthen the Bank's ability to implement the ARTF Financing Strategy. The program was designed to strengthen Bank capacity on the ground in Kabul in order to work on new program preparation and critical policy dialogue. The financial support was provided through Externally Financed Outputs (EFOs). Since December 2010 five separate EFO agreements have been signed worth a total of $1,58,999. These EFOs cover the following thematic areas:

i. **Growth & reform:** This EFO support the Bank's work on transitional economics. This work fed into the Bonn Conference as well as the upcoming Chicago and Tokyo conferences in May and July 2012.

ii. **Legal & judicial reform:** This EFO support the ongoing preparation of a second phase of the Judicial Services Development Project (JSDP), which will be financed by ARTF. The project should be ready for approval by June 2012.

iii. **Sub-national governance:** These EFO-funded activities have assisted in the development of proposals to involve provincial-level staff in budget determination and execution, and the further training of provincial-level people in budget procedures.

iv. **Social Safety Nets & Skills Development:** This area supports the Social Safety Nets project as well as the Skills Development project.

DfID has also provided significant support for preparation of the newly approved ARTF-financed Capacity Building for Results Facility project (CBR) (US$350 million). US$320,000 has been provided as of January 31, 2012. The Bank and DfID is currently negotiating a longer-term EFO arrangement in support of the implementation of both the CBR and JSDP.

Annex 6: ARTF Investment Supervisory Agent

Since the Bank's re-engagement in Afghanistan, the Bank's portfolio supervision strategy for the country portfolio has evolved greatly in order to effectively execute the Bank's mandate, address the unique challenges in the country environment, and report to the donor community on results of development aid.

Overall, the Bank's supervision frameworks are working. Nevertheless, several continuing and emerging trends are calling for additional efforts to address the portfolio on-site supervision & monitoring requirements. First, the prevailing security situation renders a large portion of the country not accessible to Bank staff. Second, with the increase in ARTF funding support for priority programs/projects, the ARTF supported investment portfolio has grown significantly in terms of size, sectoral composition and geographic coverage. Several national programs including the NSP, the rural roads, and primary education, feature construction of a very large number of scattered physical investments; on-site monitoring of physical progress, quality of works, and usage of investments poses a daunting task given the security and logistics constraints.

In order to address this critical need for a systematized and strategic solution to on-site supervision/monitoring a new ARTF Supervisory Agent (SA) has been contracted. The new SA for the Investment Window is tasked to carry out on-site monitoring of physical progress, quality of construction and usage of physical investments for selected projects supported by the ARTF in order to enhance portfolio monitoring and reporting. The larger objective of the work will be to ensure projects are delivering in terms of physical progress, quality of construction and usage of physical investments.

International Relief and Development (IRD) was selected through a competitive tender process as the new SA. IRD has a strong proven track record within the area of monitoring and can draw on solid experience working in Afghanistan.

Scope of work: During the first year of the contract, the pilot phase, the SA will carry out a total of 1500 site visits. The SA is focusing on three programs: the National Solidarity Program (NSP III); the Education Quality Improvement Program II (EQUIP II; and the National Emergency Rural Access Program (NERAP). The pilot phase will serve to develop an effective third party monitoring model with tested interface arrangements among the selected firm, the World Bank, and government implementing entities. After the 12-month pilot phase, if successful, the scope of work will be expanded to include additional ARTF-financed investment programs.

Work method: In service of the program’s objectives the SA employs methodologies and tools to accurately capture, verify, catalogue and visualize ARTF-funded infrastructure projects across Afghanistan. The SA makes use of a set of geospatial applications to collect, verify, catalogue and dynamically publish relevant information to the Bank and government ministries.

The SA has developed forms to easily capture project data on smart phones. Afghan field engineers working in remote areas use these forms to geo-tag infrastructure, including buildings, roads, hydro-power etc., as well as input structured data, attach photos and other information. Infrastructure data is collected daily across Afghanistan by the supervisory agent’s field engineers and the captured data is sent over the cellular network or via WiFi directly to the server.

A critical aspect of the program is the accuracy and completeness of all data. Subject Matter Experts from each infrastructure sector review all incoming data, including reports, spreadsheets, photos, etc., for completeness and accuracy. Only after an infrastructure project’s location and content, including supporting documents, is confirmed or adjusted, is the project catalogued in the online database.

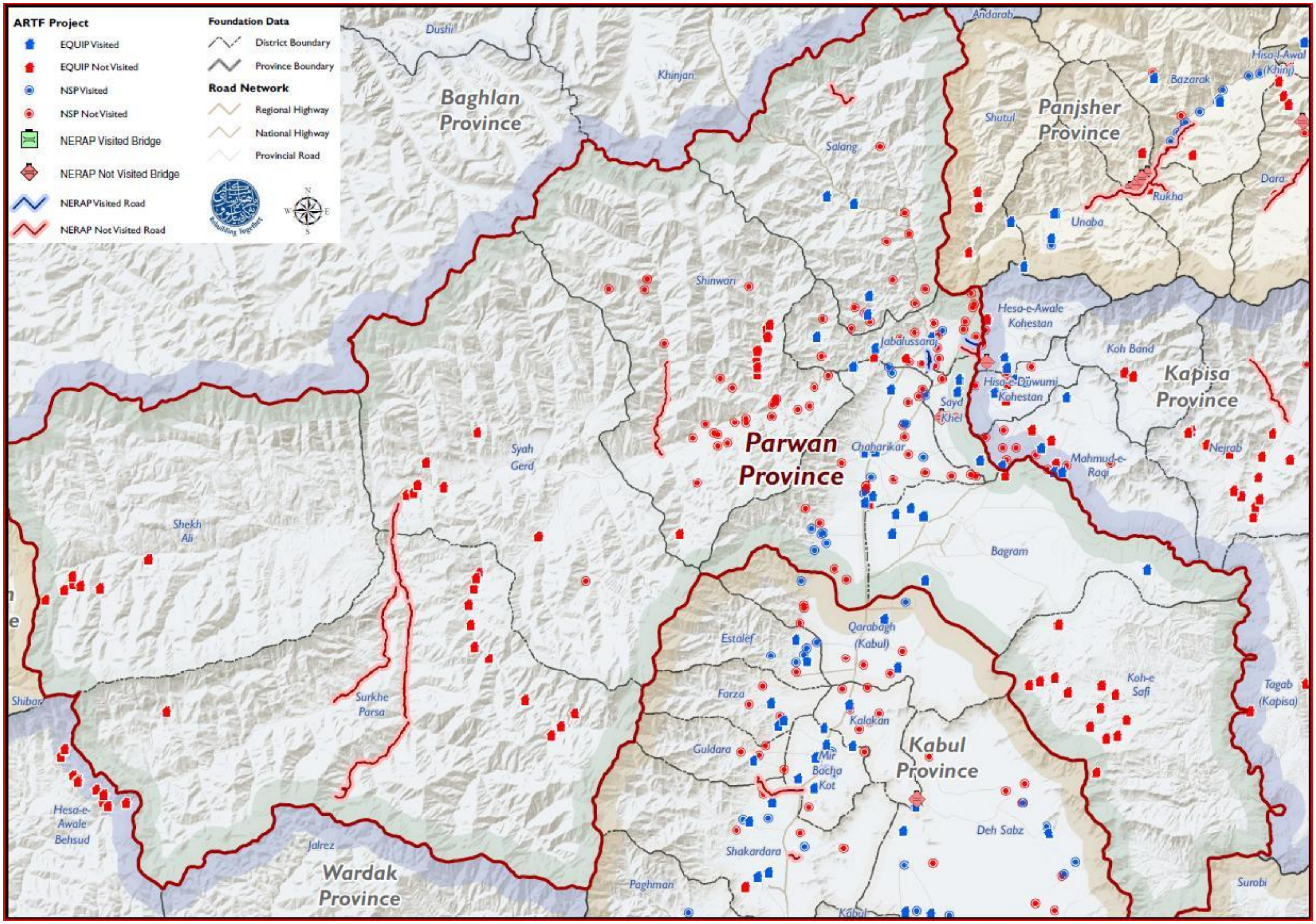
Progress to Date: The SA began monitoring activities in September 2011 with inspection of EQUIP projects in Kabul City. During October and November monitoring was expanded to NERAP and NSP projects and was rolled out to the rest of the country. During this period, project information and specifications were collected from ministries an initial monitoring plan was developed, inspection checklists prepared and field engineers trained on inspection standards. In consultation with World Bank project teams and the respective line ministries, the data collection plans and inspection checklists were revised to include environmental and social safeguards and to focus on historically problematic issues.

As of December 31, 2011, the SA had performed a total of 375 site visits across the three projects. Between January 1 and August 31, 2012, another 1125 site visits will be carried out.

Table 1: Status on deliverables as of December 31, 2011:

Site visits to:	EQUIP	NERAP	NSP
September	24	0	0
October	59	4	23
November	92	6	44
December	85	6	34
Total no. of site visits:	260	14	101

Please find below an example of the mapping capability of the SA. This map shows the project sites in Parwan Province of EQUIP, NSP and NERAP and highlights the sites that have already been visited by the SA. The activities of the SA are Afghan-wide and the map below is only an example in one province of its activities.


ARTF Project
EQUIP Visited
EQUIP Not Visited
NSP Visited
NSP Not Visited
NERAP Visited Bridge
NERAP Not Visited Bridge
NERAP Visited Road
NERAP Not Visited Road
Foundation Data
District Boundary
Province Boundary
Road Network
Regional Highway
National Highway
Provincial Road
Baghlan Province
Panjsher Province
Parwan Province
Kapisa Province
Kabul Province
Wardak Province
Dushi
Khinjan
Andarab
Salang
Shutul
Bazarak
Hisa-I-Awal (Khinj)
Rukha
Dara
Unaba
Shinwari
Hesa-e-Awale Kohestan
Jabalussaraj
Koh Band
Hisa-e-Duwumi Kohestan
Sayd Khel
Charikar
Mahmud-e-Raqi
Nejrab
Syah Gerd
Shekh Ali
Bagram
Surkhe Parsa
Estalef
Qarabagh (Kabul)
Farza
Kalakan
Koh-e Safi
Tagab (Kapisa)
Guldara
Mir Bacha Kot
Shibar
Hesa-e-Awale Behsud
Jalrez
Shakardara
Deh Sabz
Paghman
Surobi
Kabul

Annex 7: Main AAA During FY12-14

Key Areas of Programmatic Analytic Work	
Poverty Assessment and Updates	FY12-14
Transition Economics (Growth, Fiscal)	FY12-14
Gov & Accountability Program	FY12-14
Resource Corridor	FY12-14
Key Areas of Sector Analysis	
Diagnostic Trade Integration Study	FY12
Support for Statistics Data Collection	FY12-14
Energy Infrastructure	FY12
Social and Env Sustainable Mining	FY12-13
Social Protection Review	FY12
Education Review	FY12
Hospital Sector Review	FY13
Financial Sector Monitoring and Review	FY12-14
Key Impact Evaluations	
Impact Evaluation Monitoring and Approach	FY12-14
Impact Evaluation of Kabul Urban Project	FY12
Impact Evaluation for NSP II	FY12
Impact Evaluation of Social Safety Net Targeting Mechinisms	FY13

ANNEX 8

CONSULTATIONS WITH DONORS, CIVIL SOCIETY, AND THE PRIVATE SECTOR

The World Bank Group met separately with representatives of the major donors, civil society, and the private sector in early February 2012 to discuss the proposed World Bank interim strategy and the broader environment for development activities in Afghanistan.

ISN: Donor Consultations

IDA & the ARTF: Donors commented on the fragility of the Afghan context, agreeing with the Bank's approach to frame a short-term strategy within a flexible framework (i.e. to present an ISN rather than a CPS at this time). Donors noted with concern the declining IDA envelope over time caused by the phasing-out of the exceptional post-conflict IDA allocations for Afghanistan. They noted that this alters the relative importance of IDA, at some $150 million a year, against the ARTF, which may be as large as $800 million a year over the next three years. This represents a real change from the past.

Given the size of the ARTF, donors thought that the ISN needed to emphasize the scope and relative importance of the ARTF (the largest single recipient country trust fund in the Bank) and how it may adapt during the period of transition. In this context, and as more donors provide on-budget funding as part of transition, they noted the upcoming review of the ARTF being led by donors in close collaboration with the Bank.

Donors also discussed the growing importance of the ARTF in the context of selectivity noting that clearly the Bank, through IDA, has the freedom, in collaboration with the Ministry of Finance, to decide precisely what and where to invest its own funds. They noted however that decisions on the use of ARTF funds have to be responsive to the directives and policies of the ARTF Strategy Group, and that decisions needed to be consistent with the agreed ARTF financing strategy that was endorsed by the Group. It was recognized that this presented challenges to the Bank, as some donors earmarked funding and did want the Bank to be involved in "their" sectors to complement their own investments or priorities. The Bank was seen as a vehicle to help implement projects and policies where donors lacked capacity or where collective action was more likely to have impact such as through the Incentive Program. This did make it difficult for the Bank to be truly "selective".

In this context, some donors emphasized that the ISN needed to reflect that the Bank is one of many players – some much bigger than the Bank, and others with different roles such as ISAF, and the UN which has both a development and political/humanitarian role. Others such as the Aga Khan Development Network, and international and national NGOs play a crucial role, often in extremely dangerous conditions.

National Priority Programs (NPPs) and the three ISN Pillars: Several donors felt that ISN needed to give adequate play to the NPPs which had been put together by Government under the leadership of the Ministry of Finance. The ISN should explain how Bank programs fit within the context of these programs where the demand for funds greatly exceeded funding available. The donors broadly endorsed the three pillars selected in the ISN but noted that all are interlinked. For example, NSP was not just about capacity building at the community level but was also about governance. They noted that it would be helpful if the ISN could bring out these linkages.

Operational Risk: Donors urged the Bank to recognize very explicitly in the strategy, the risks of doing business in Afghanistan at the present time, and to spell out different scenarios including potential cuts in the portfolio should, say, the security situation deteriorate.

National Solidarity Program & Sustainability: Several donors commented on the large amount of funding allocated for NSP. They wanted to know more about how NSP contributed to growth and to building social capital recognizing that NSP is one of the programs that show that Government is providing services to the rural population – that Government is "present". The Bank was urged to think more about the long term sustainability of the program vis-à-vis continuing large but infrequent block grants versus more of a focus on use of CDC's as village councils.

ISN: Civil Society Consultations

With the support of ACBAR (the Agency Coordinating Body for Afghanistan Relief) – a key coordinating body for civil society – the World Bank consulted with NGOs on the evolving development context, the role of the Bank to date and some areas where the Bank should focus greater attention going forward. The consultations reflected the deep knowledge that civil society organizations have on what works and what does not work in the rural areas and the very strong stake that that they have in the Bank's core areas of community development, financial management, national programs and the accountability of the government for service delivery. They expressed considerable concern about the deteriorating security situation and about the number of NGO staff who have been killed by insurgents.

Many of those who participated were actively involved as Facilitating Partners (FPs) in the **National Solidarity Program** (NSP) or as Implementing Partners in the **Strengthening Health Activities for the Rural Poor Project** (SHARP). On the former, there was a sense from some that there was not enough funding for projects. As with the donors, there was concern expressed about the sustainability and future of NSP. The noted that NSP really is at the core of what Government is doing in the rural areas. In this regard, they wanted to remind the Bank that Afghanistan is a predominantly rural country and that rural development should be given high priority in our strategy to bring services to the people.

While there was broad agreement that NSP was having a positive impact on the lives of Afghans, there was equally strong concern voiced about the need to focus attention on critical bottlenecks the program faces, in particular, in channeling funds to FPs which often happens with long delays. FPs were frequently forced to front their own funds to continue operations. Participants urged the Bank to continue its engagement but to use that engagement to further improve aspects of the program.

Transition: There was broad consensus that the Bank's analytical work on transition was immensely useful as it highlighted the major issues that donors and the Government needed to address. They urged the Bank to address issues of (a) security as it affects them so much, and (b) how transition will impact on the strategy for alldonors and Government – in short, how donors and others should change direction where necessary to accommodate the new paradigm brought about by transition. Many felt that the present way forward was unsustainable and that there needed to be a shift in direction if gains made to date (e.g. with NSP, education and health) were to be locked in. There was a sense that events were moving much faster than expected with the pull out of troops, negotiations with the Taliban, and events in neighboring countries, which could lead to more stability or indeed more instability. They wanted to know if the ISN would provide for a larger role for civil society. In this vein, they pointed out that it would be very helpful if the Bank could share more widely the results of its analytical work through **improved outreach and communications**. We explained the dilemma we face in keeping a low profile in Afghanistan for security reasons versus going public and risking become more visible. It was agreed that we would follow up and would call on ACBAR to play a larger role in helping us reach the NGO community.

Perhaps the most significant "new" element of the ISN is our proposed work on **resource corridors.** The NGOs were fully supportive of this work but wanted to be sure that we would be involved in accountability and oversight as part of longer term efforts to build Government capacity (and to prevent predatory behavior by local power brokers).

As part of our work on transition, the Bank has emphasized the benefits of the donors providing **on-budget funding.** The NGOs expressed concern that the on-budget, off budget pendulum may have swung too far. Government lacked capacity and they felt there were real governance and corruption risks if too much money was put on-budget too quickly. They suggested the Bank to consider some middle way/intermediate model during the transition period.

NGOs stressed the undervalued benefits of **civil society engagement** in Afghanistan. NGOs know the rural areas well and noted that there were huge advantages of outsourcing to NGOs as is done with NSP and SHARP. They felt they could play a much greater role in **building capacity in Ministries and at the provincial and district levels.** In this context, they felt that not enough had been done to build a functioning legal and judicial system in Afghanistan; they felt that without this, there cannot be peace. The Bank team explained what we are doing in this area with more efforts focused on understanding grass root activities since it was difficult to impact at the national level without increased support from the political level to build an effective legal system.

Gender: NGOs emphasized the need for the Bank to do even more on the gender front including on women's' voice. They also touched on the issue of human rights.

ISN: Private Sector Consultations

The Afghanistan Investment Support Agency (AISA) helped organize a private sector consultation for the new Interim Strategy Note. Representatives of the Afghan and international business community were invited from a range of sectors including services, banking & insurance, construction, media, and commercial trading. Participants were asked for their views on where improvements had been made in the business environment, what key constraints remained and where the World Bank Group could assist most constructively going forward.

In general, the consultations highlighted that Afghanistan's business environment had not improved markedly: many constraints raised in previous Bank consultations remain unresolved particularly those related to lack of finance, need for a fund for SMEs, need for more public private partnerships, corruption, lack of transparency, taxes, poor services to the sector from the Government (especially from the civil service), and the regulatory framework. They noted that the public announcement of transition by 2014 and what seemed like an accelerated troop withdrawal now (by end 2013) had created great uncertainty and undermined confidence of the private sector.

Corruption was highlighted by many participants as endemic, exacting a high cost of doing business in Afghanistan. Of particular concern were public procurement processes in which bribery had become a matter of course. It was also noted that corruption was intertwined with many other constraints including the weak capacity of government. They highlighted the need to look at the root causes of corruption and systems. For example, sometimes 12 or more different signatures are needed to move some process through Government and it was necessary to pay for each step of the way. They wanted the Bank with other donors to do more to address this form of petty corruption.

Industrial Development and Access to finance: The private sector would like to have heard more on industrial development in the ISN particularly measures to support and subsidize the private sector, including through the establishment of a trust fund that entrepreneurs could access. In this context, they wanted to hear less from the IFIs on the need for a "market economy" and more on support to the sector to help overcome the huge obstacles and costs that they face such as security. They noted, for example, that if the private sector were to play a meaningful role in the mining sector and ancillary development (as part of our work on resource corridors), they would need support. The Bank and IFC team explained what we are doing in the sector through support for **micro finance**, the **New Market Development Project,** and a number of interventions by **IFC**, but noted that with the large projected fiscal financing gap, the scope for subsidies to the sector was limited.

Afghanistan's poor urban infrastructure, in particular power/hydro, was mentioned by many as an important issue that donors should prioritize in their aid programs. It was noted that the capacity of public institutions currently inhibited progress despite considerable investment.

The private sector noted that the World Bank should continue to leverage its dialogue with the government to encourage a **more predictable policy environment** for business and to help **follow-up on important policy commitments**. Participants stressed the need for government to consult with the private sector before implementing policies, and for the Bank to work more closely with the private sector in the design of its projects and policy dialogue with Government. It was agreed at the conclusion of the meeting that we would work with AISA to set up some focus groups in selected areas of mutual interest.

Annex 9: Recent Economic Developments and Outlook

Over the past decade, the country has experienced exceptionally high economic growth. Real GDP has been growing at an average rate of 9.1 percent between 2003/04 and 2010/11, mainly driven by capital investments for reconstruction activities, large aid flows and occasional spikes in agriculture production. However economic growth in 2010/11 and 2011/12 has been more modest at rates of 8.4 and 5.7 percent respectively, mainly in result of a contraction in agriculture output by nearly 16%. Weather conditions permitting, economic growth could pick up 2012/13 but declining aid levels will pressure economic growth in the years to come.

Afghanistan is highly aid dependent with foreign aid disbursements equivalent to nearly 100 percent of GDP in 2010/11, including both expenditures for military-supported and civilian aid[12]. Official development aid and military assistance to Afghanistan has been on the rise since 2002 and has grown from 404 million dollars in 2002/3 to more than $15.7 billion in 2010 (see table 1). Typically aid translates into a higher demand for services and construction in the domestic market through the local procurement of goods and services by donor and military agencies.

Table 1: Donor Assistance in US$ millions

Donor Assistance (in US$)	1384	1385	1386	1387	1388	1389
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Civilian Aid	2,416	1,350	2,188	2,675	3,942	5,262
Security Related Aid	988	1,905	7,028	2,750	5,470	8,594
On-Budget Support	720	717	1,069	1,024	1,275	1,886
Total	**4,124**	**3,972**	**10,284**	**6,449**	**10,686**	**15,742**
in % of GDP	**0.66**	**0.56**	**1.18**	**0.61**	**0.86**	**0.99**

Source: World Bank Note: The figures reflect actual disbursements for the respective year and are based on self-reporting by the largest donors. Civilian aid includes expenditures of the US financed Commanders Emergency Response Program (CERP). These data should be seen as indicative of orders of magnitude rather than as point estimates.

It is therefore not surprising that over the last decade services have been a strong driver of the economy. In 2010/11 services constituted 51 percent of GDP (Table 2), and contributed 9 percentage points of the 8.4 percent real growth (Figure 1). Agriculture, the second largest sector, shrunk in 2010/11 due to bad weather and reduced overall growth by 1.5 percent. Overall, agriculture value added has been fairly constant in absolute terms but declining as a share of GDP. The industrial sector currently accounts for 26 percent of GDP. The construction sector is still growing strongly (6.3 percent of GDP in 2010/11) and feeding growth in manufacturing through demand for building material. Current contributions from the mining sector are almost negligible but this is expected to drastically change over the next decade.

[12] Aid refers here to normal civilian aid as well as to support to the Afghan security sector, but excludes money spent on international military forces.

Fig 1: Growth of valued added by Sector (2003/04-2010/11).

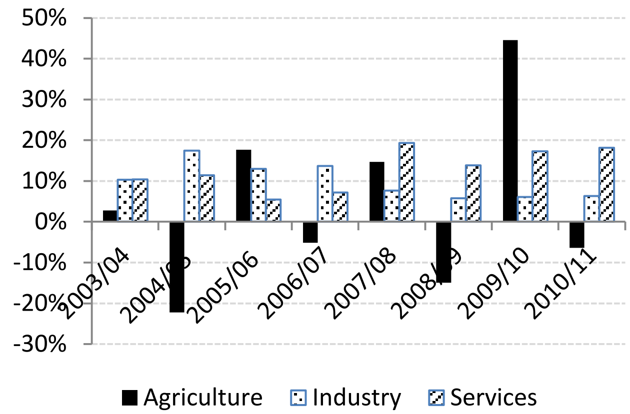
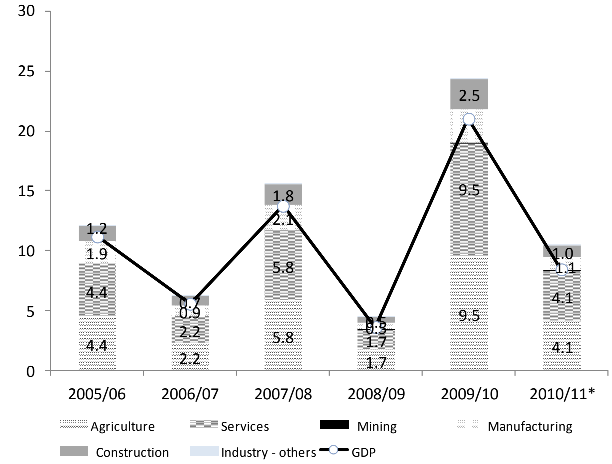


Fig 2: Sector contribution to GDP growth (in %)



Source: IMF and CSO, WB staff calculations

Table 2: Sector shares in GDP

	2002/03	2003/04	2004/05	2005/06	2006/07	2007-08	2008-09	2009-10	2010/11
Agriculture	38.5%	36.8%	28.5%	30.2%	27.2%	27.3%	22.4%	27.0%	23.3%
Mining	0.1%	0.1%	0.2%	0.3%	0.3%	0.5%	0.5%	0.4%	0.6%
Manufacturing	18.7%	18.1%	18.8%	17.4%	17.1%	15.6%	15.4%	13.5%	13.0%
Construction	4.8%	6.0%	9.4%	11.2%	13.8%	13.2%	14.0%	12.5%	12.4%
Industry - others	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Services	37.8%	38.8%	43.1%	40.9%	41.6%	43.4%	47.6%	46.5%	50.7%

Source: IMF and CSO, WB staff calculations

Growth in Afghanistan is extremely volatile mainly because of its heavy reliance on agriculture. Agriculture is – after services – the most important economic sector in Afghanistan. During the period 2003/04-2010/11 real agriculture growth ranged from -22 percent to 45 percent and accounted for nearly a third of GDP. Moreover, accounting for 60 percent of the working population, agriculture is by far and away the largest employer, which means that rural development will continue to play a crucial role for the sustainability of growth. In 2010/11 the sector contributed 23.3 percent of total value added. But agriculture production is particularly susceptible to weather-related changes in output.

The illicit production of opium[13] continues to play a significant role in agriculture as it produces nearly half of overall agriculture production but on a much smaller portion of arable land. According to recent UNODC estimates the farm gate value of opium is estimated at 8 percent of GDP in 2011/12; overall contribution to GDP is believed around one third of the country's GDP.

The present mining sector's contribution to GDP is marginal, at less than 0.5 percent during the 2000s, but this is set to increase in the future. Two decades of war, chronic neglect, and severe under-funding have limited the development of this sector. The two recent large scale investments into Aynak and Hajigak in 2010 and 2011 could mark a fundamental shift in the future of the country. It is estimated that Afghanistan has substantial, untapped mineral deposits, which have the potential to make Afghanistan into a leading exporter of minerals. Over the next ten years, mining is expected to contribute between 2 and 3 percent to economic growth.

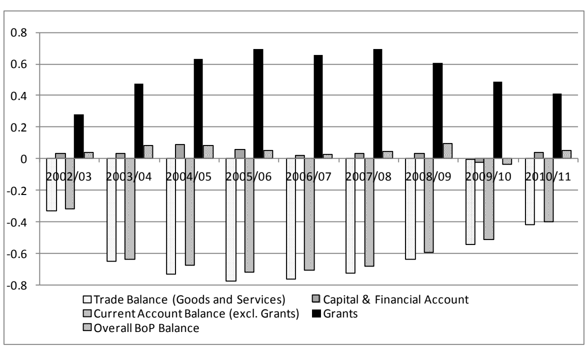
[13] Opium production is not included in the GDP figures above.

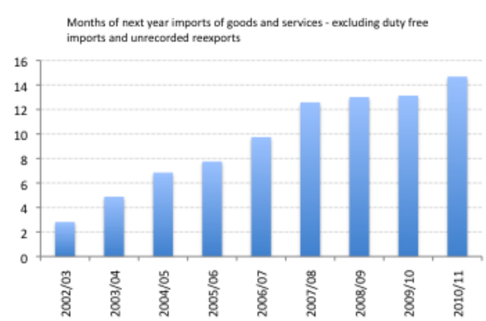
In comparison with many other post-conflict countries, Afghanistan has managed to keep its macroeconomic environment relatively stable. In 2001 Afghanistan was faced with weak or absent institutions, low domestic revenues, volatile aid flows and high import needs due to a lack of domestic production. In light of these challenges, Afghanistan's macroeconomic performance over the last decade has been solid albeit with the exception of the contingent fiscal liabilities caused by the Kabul Bank crisis. This crisis caused the IMF program that was in place in late 2010 to fall "off track". Following an extended period while Government addressed issues related to weaknesses in the financial sector (during which time there was no IMF Program in place), a new program was agreed with the IMF in November 2011. Afghanistan is currently on-track withthe existing IMF Program.

Inflation has been volatile. Avoiding very high inflation is a prerequisite for a sound economy with good growth and employment prospects. Afghanistan made good progress in managing inflation despite global food and energy price shocks and supply blockages in neighboring countries, which inevitably exacerbated the volatility of inflation in the country. The past two years, in particular, prices of food and oil have increased substantively. In 2011/12 prices are expected to remain high and increase by 8.1 percent on average. In the medium term prices may soften, if the Central Bank succeeds in constraining money growth.

However, to large extent macroeconomic stability relied heavily on large aid flows. Not surprisingly for a country in a period of reconstruction and recovery, the large material needs of the reconstruction period skewed Afghanistan's trade balance heavily towards imports. After an initial sharp increase in imports, the trade gap has stayed more or less constant with imports about four times exports**.** This has resulted in a substantial trade deficit, of 64 percent of GDP on average between 2005/06-2010/11. In 2010/11 the current account deficit (excluding grants) has narrowed to 34.3 percent of GDP, partly because blockages at the Pakistani border reduced overall trade activities. As in previous years the current account deficit was financed by grants (Figure 3 and 4).

Fig 3 and 4: Balance of Payment and Money Reserves, 2002/03-2009/11.





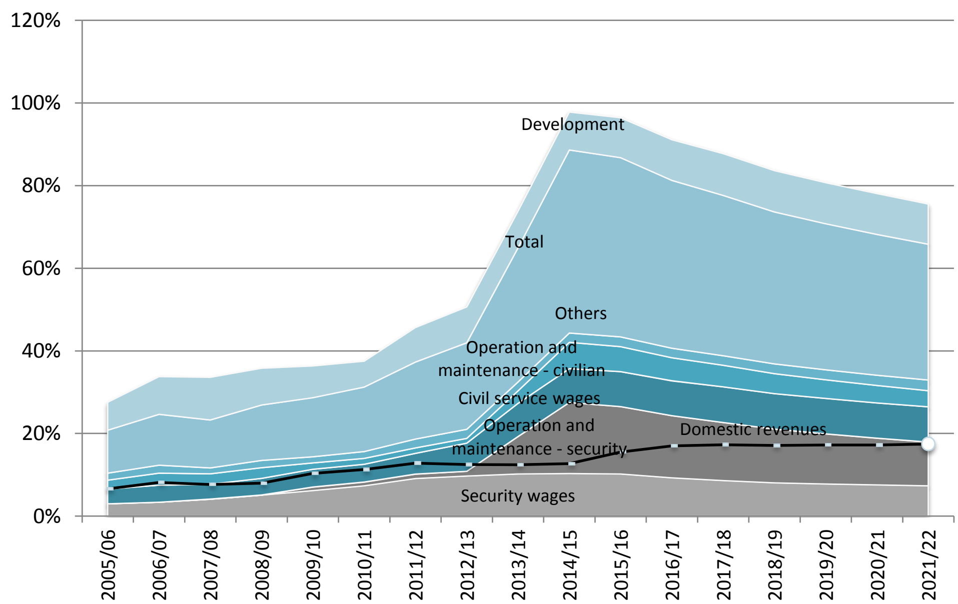
Source: IMF data.

The risks to fiscal sustainability will remain high and will potentially increase. Afghanistan's fiscal performance of the past decade has generally been impressive. The public financial management system has undergone a structural transformation which has allowed the budget to grow from US$346 million in 2002/3 to US$4.4 billion in 2011/12, demonstrating rising absorption capacity for funding channeled through the budget. That said, the level of public expenditures by Government has stabilized around $1b over the past few years showing that absorptive capacity needs to be expanded. Domestic revenues increased by 40 percent nominally per year over the same period, and grew from a low base of 3 percent of GDP in 2002/3 to a projected 11.5 percent in 2011/12, thanks to reforms in tax and customs administration. And even though domestic revenues repeatedly exceeded fiscal targets, fiscal consolidation has relied heavily on donor financing. Over the medium term, expenditures are expected to grow much faster than in the past and much faster than any growth in domestic revenues, which will increase the risks to the stability of the fiscal and macroeconomic framework.

In the future, Afghanistan is expected to further increase the revenue-to-GDP ratio. Ongoing analysis projects revenues to reach more than 16 percent of GDP in 2021/22. This outlook assumes that the Aynak copper mine and the Hajigak iron mine start to produce as envisaged. In an international perspective, this projected growth of revenue—rising by more than half a percentage point of GDP a year over an extended period—would be impressive and above that of most comparable countries at similar incomes.

However, fiscal management risks may arise on the expenditure side—with total government spending projected to expand rapidly beyond its current level of about 40 percent of GDP over the next ten years (figure 5). The increase in expenditure is largely a result of rising security spending for both O&M and wages for the army and police. But it will also be driven by non-security spending, which will increase on additional O&M liabilities associated with the handover of donor-built assets and with a rising government payroll, as the pay and grading (P&G) reform is completed and some additional expenditure is taken on to develop a senior civil service cadre at higher wages. Security spending is projected at more than 17.5 percent of GDP in 2021/22 (about equal to the total projected domestic revenue in that year), the civilian wage bill at 9 percent, the civilian nonwage O&M bill at 4 percent, the core development budget at 10 percent, and other spending at 2.5 percent.[14]

Fig 5. Government expenditure projections, 2021/22 (percentage of GDP)



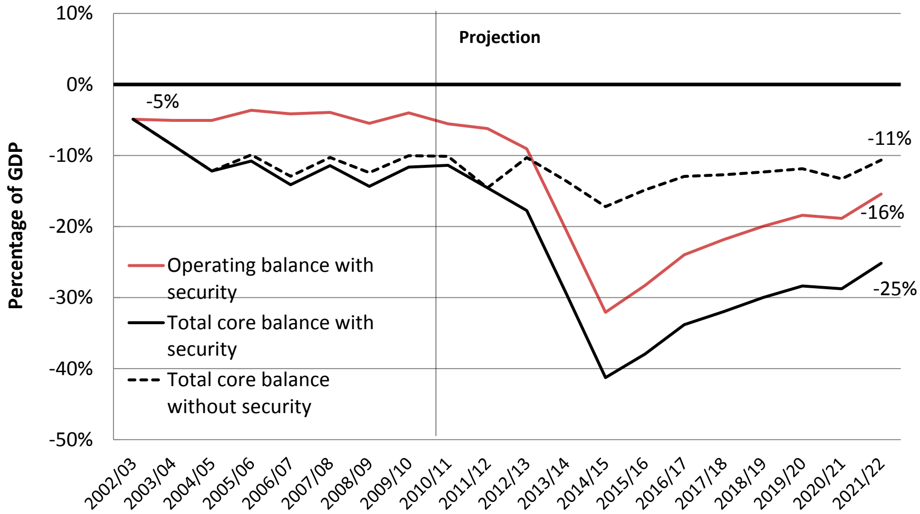
Source: World Bank.

The overall financing gap (before donor grants) is projected to increase significantly in the coming years. After peaking at more than 40 percent of GDP in 2014/15, the financing gap is projected to gradually decline when expected mining revenues materialize, reaching around a quarter of GDP in 2021/22 (figure 6). This represents $7.2 billion in 2011 prices by 2021/22 and roughly $7.8 billion annually on average from 2014/15 to 2021/22. If domestic funding for security remains at 3 percent of

[14] Other operating expenditures include pensions, transfers, interest payments, and liabilities associated with Kabul Bank.

GDP, the sector would account for somewhat more than half the overall financing gap (equivalent to 14.5 percent of GDP) and the civilian budget the rest (11 percent of GDP).

Fig 6. Financing gaps with and without security



Source: World Bank.
Note: Projections assume that domestic revenue equivalent to 3 percent of GDP is devoted to security costs, and the rest to civilian expenditure.

On the debt side, Afghanistan reached the HIPC completion point in 2010 and thus received debt relief under the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). The debt relief brought down public external debt from $11.9 billion in 2006 to $1.17 billion by end-March after Paris Club creditors agreed to provide 100 percent debt relief beyond HIPC. Correspondingly, the debt-to-GDP ratio declined from 19.8 percent in 2008/09 to 8.2 percent in 2011/12. Nevertheless, as reflected in the Debt Sustainability Analysis (DSA) (IMF and IDA, October 2011), Afghanistan is and will remain at a high risk of debt distress due to insufficient fiscal space to absorb higher debt service and the general vulnerability of the macroeconomic framework to changes in the security situation and external price shocks. Consequently, the Government has incurred very little new debt since 2008. This underscores the importance of substantial and long-term grant financing.

Donor financing will therefore remain crucial to sustain the fiscal and macroeconomic stability due to the current absence of alternative financing mechanisms. The decline of aid, associated with the transition process, is expected to lower Afghanistan's growth prospects. A dynamic Computable General Equilibrium (CGE) model which mimics the characteristics of Afghanistan's economy demonstrates the impact of a decline of aid on the economy, The model used projections based on different assumptions including security, aid volumes and modalities, sources of growth, and the investment climate.

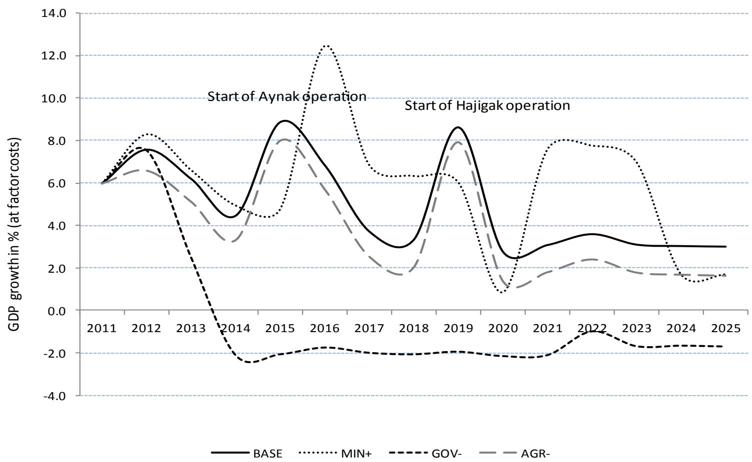
Baseline projections see GDP growth falling to around 6 percent a year during 2011–18 and further to 4 percent a year over the longer term (see figure 7). This projection assumes that the Aynak and Hajigak mines start producing as envisaged, the investment climate improves moderately, agricultural productivity increases, there is no further deterioration in the security situation, and aid declines only gradually, to no less than 23 percent of GDP by 2018.

The most optimistic scenario is MIN+. It assumes the ambitious development of another 11 mines—as well as two already being built at Aynak (copper) and Hajigak (iron)—and further improvements in the investment climate and infrastructure development. This scenario gives average annual growth of

7 percent in 2011–18. On the downside, poor agriculture performance would reduce growth somewhat, but the most serious impact would be a serious deterioration in security and governance (GOV-) where growth could turn negative.

Even the two relative optimistic scenarios point to slower gains in average per capita incomes than in the last decade, continued high rates of underemployment and limited progress in reducing poverty. Given rapid population growth (estimated at 2.8 percent a year), only growth somewhere around these two scenarios would enable the country to meaningfully reduce poverty and increase average per capita incomes in a generation. For example, with real GDP growth of 6 percent a year (the base scenario through 2018), average per capita incomes would double in 22 years. This underlines the importance of sustaining robust economic growth over the long run—a difficult challenge.

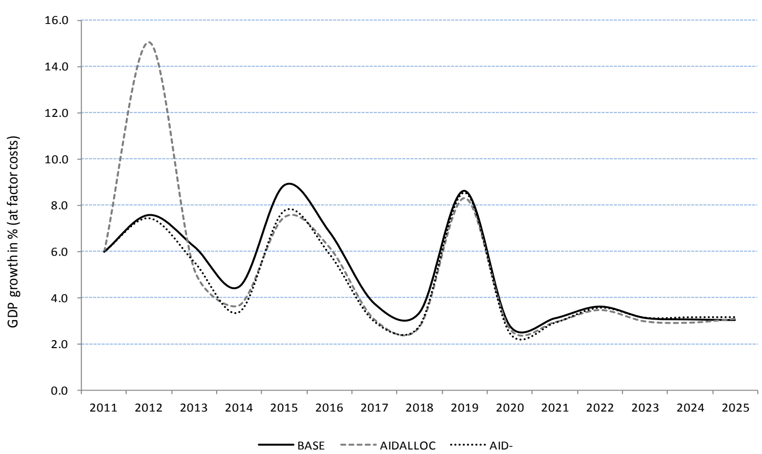
Fig 7. Four growth scenarios (percentage GDP growth at factor costs)



Source: World Bank.

As noted, maintaining adequate international funding and channeling more of it on-budget and through Afghan institutions would also provide an immediate benefit. Rapidly falling aid would further reduce growth relative to these two scenarios. The AID- scenario (figure 8), which reflects a rapid decline in aid (to 14 percent by 2018 and 10 percent by 2025), would take growth down to 5.2 percent a year during 2011–18, reflecting lower consumption and investment. By contrast, putting 50 percent of total aid on budget (which raises its economic impact) and immediately fully executing it, as in AIDALLOC, could lead to a rapid growth spurt, as the local content of aid increased. More likely, however, absorptive capacity constraints would greatly dampen the projected growth spurt.

Fig 8. Three growth scenarios with varying aid assumptions (percentage GDP growth at factor costs)



Source: World Bank.

In summation: Overall therefore the transition presents serious threats to growth and economic stability, but they do not directly stem from declining aid itself as long as this is gradual and channeled through effective channels. Key vulnerabilities of the economy are due to drought, worsening insecurity, spreading violence, uncertainty over Afghanistan's political future, falling business confidence, and worsening corruption and governance—some of these would undoubtedly be exacerbated by a sudden, steep fall in aid.

Note: The financing gap analysis is being updated further in advance of international conferences on Afghanistan in Chicago in May and Tokyo in July

Annex 10: Islamic Republic of Afghanistan: Millennium Development Goals 1/

	Baseline value	Latest available	Target 2/ 2015	Target 2/ 2020	Sources and years for baseline and latest 3/
	(In percent; unless otherwise indicated)				
Goal 1: Eradicate extreme poverty and hunger					
Population below US$1 (PPP) a day	...	...	...	...	...
Population below national poverty line 4/ 5/ 6/	33.0	36.0	24.0	21.0	NRVA (2005, 2007/08)
Prevalence of underweight children under 5 years of age	41.0	...	15.0	...	CDC (2002)
Population below minimum level of dietary energy consumption 5/ 7/	30.0	39.0	11.0	9.0	NRVA (2005, 2007/08)
Goal 2: Achieve universal primary education					
School enrolment rate (age 7-12) 6/	37.0	52.0	...	100	NRVA (2005, 2007/08)
Literacy rate of 15 to 24 year olds	34.0	36.5	...	100	MICS (2003), NRVA (2007/08)
Goal 3: Promote gender equality and empower women					
Ratio of girls to boys in primary education	60.0	59.0	100	...	MICS (2003), MoEd (2007)
Ratio of girls to boys in secondary education	33.0	42.0	100	...	MICS (2003), MoEd (2007)
Proportion of seats held by women in national, provincial and district representative bodies	25.0	24.9	...	30.0	Constitution (2004), MoWA (2007)
Goal 4: Reduce child mortality					
Under 5 mortality rate (per 1000 live births)	257	191	115	76	MoPH (2002, 2004)
Infant mortality rate (per 1000 live births)	165	129	70	46	MoPH (2002, 2004)
Immunization, measles, children under 12 months	35.0	68.0	90.0	100	MoPH (2002, 2006)
Goal 5: Improve maternal health					
Maternal mortality ratio (per 100,000 births)	1600	…	800	400	CDC (2002)
Proportion of births attended by skilled personnel	6.0	18.9	50.0	75.0	MoPH (2003), AHS (2006)
Fertility rate (live births per woman) 5/ 8/	6.3	7.2	4.7	3.1	UNICEF (2002, 2006)
Goal 6: Combat HIV/AIDS, malaria, TB and other diseases					
Contraceptive prevalence rate, national	6.4	15.4	50.0	60.0	MICS (2003), AHS (2006)
Incidence rates associated with malaria	2.7	1.2	1.0	0.6	WHO (2003), MoPH (2007)
Prevalence rates associated with tuberculosis (per 100,000 population)	440	231	224	143	WHO (2000, 2008)
Goal 7: Ensure environmental sustainability					
Proportion of total area protected to maintain biological diversity 5/	0.34	0.30	0.50	...	CSO (2004), UN (2006)
Energy use (kg oil equivalent per US$1,000 GDP, PPP)	...	...	...	...	...
Population with access to safe drinking water 6/	...	27.0	...	61.5	NRVA (2007/08)
Population with access to improved sanitation 6/	...	5.2	...	66.0	NRVA (2007/08)
Goal 8: Develop a Global Partnership for Development					
ODA received as a proportion of GDP	49.0	28.0	...	...	...
Export to countries having a preferential trade agreement with Afghanistan	6.0	13.4	...	100	CSO (2003), MoCI (2007)
Goal 9: Enhance security 8/					
Professional training of the ANA (% of personnel having undergone a full training)	42.0	60.0	100	100	MoD (2005, 2008)
Afghans directly affected by emplaced antipersonnel mines (in millions)	4.2	3.5	0	...	UNMACA (2005), ANDMA (2008)
Afghans dependent on opium for their livelihoods (in millions)	2.30	2.24	0.60	0.20	UNODC (2004, 2008)

Source: UNDP *Millennium Development Goals, Islamic Republic of Afghanistan, Annual Progress Report 2008*

1/ Only selected indicators within selected targets have been reported.

2/ Recognizing the capacity constraints, and acknowledging that for Afghanistan the 1990s was a "lost decade" for development, the Technical Working Groups recommended that the Government extend the time period for meeting the MDG targets from 2015 to 2020 so as to have a realistic chance of meeting the targets.

3/ For baseline value and lates available value, respectively. Sources as reported by UNDP. Where sources for baseline value and latest available value differ reported figures may not be comparable. Additionally, figures based on 2005 and 2007/08 rounds of NRVA survey may not be directly comparable due to seasonality and methodological changes. Years may sometimes refer to a time of publication of the data rather than data itself. AHS: Afghanistan Health Survey; ANDMA: Afghanistan National Disaster Management Authority; CDC: UNICEF / Centers for Disease Control; Constitution: The Afghan constitution, approved in 2004, guarantees that at least a quarter of all elected representatives should be female; CSO: Central Statistical Office; MICS: Multiindicator Cluster Survey; MoCI: Ministry of Culture and Information; MoD: Ministry of Defence; MoEd: Ministry of Education; MoPH: Ministry of Public Health; MoWA: Ministry of Women Affairs; NRVA: National Risk and Vulnerability Assessment; UN: United Nations; UNICEF: United Nation International Children's Emergency Fund; UNMACA: United Nations Mine Action Centre for Afghanistan; UNODC: United Nations Office for Drugs and Crime; WHO: World Health Organization.

4/ National poverty line calculated with Cost of Basic Needs method.

5/ Figures may not be directly comparable.

6/ Data is from World Bank (2010) *Poverty in Afghanistan* and *NRVA 2007/8 assessment*, rather than the UNDP MDG *Progress Report*.

7/ Minimum level of dietary energy consumption at 2100 Cal./day.

8/ Afghanistan-specific, additional goal/indicator.

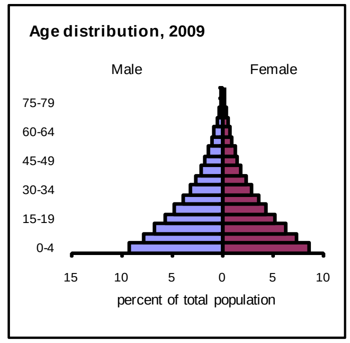
ANNEX 11: STANDARD TABLES

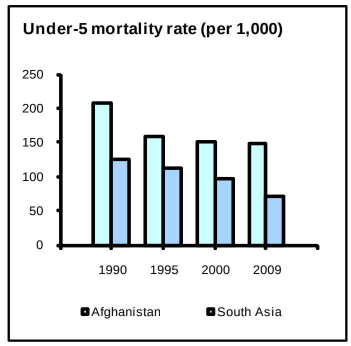
Annex Table A2:

Afghanistan at a glance

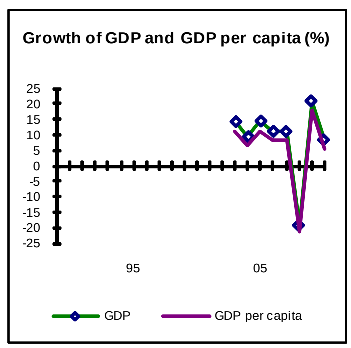
2/15/12

Key Development Indicators	Afghanistan	South Asia	Low income
(2010)			
Population, mid-year (millions)	34.4	1,568	846
Surface area (thousand sq. km)	*652*	5,131	17,838
Population growth (%)	2.8	1.5	2.2
Urban population (% of total population)	25	30	29
GNI (Atlas method, US$ billions)	13.9	1,735	431
GNI per capita (Atlas method, US$)	400	1,107	509
GNI per capita (PPP, international $)	*860*	2,972	1,220
GDP growth (%)	8.4	8.1	4.6
GDP per capita growth (%)	5.4	6.5	2.4
(most recent estimate, 2004–2010)			
Poverty headcount ratio at $1.25 a day (PPP, %)	..	40	..
Poverty headcount ratio at $2.00 a day (PPP, %)	..	74	..
Life expectancy at birth (years)	48	64	57
Infant mortality (per 1,000 live births)	103	55	76
Child malnutrition (% of children under 5)	33	42	28
Adult literacy, male (% of ages 15 and older)	..	73	69
Adult literacy, female (% of ages 15 and older)	..	50	55
Gross primary enrollment, male (% of age group)	123	110	107
Gross primary enrollment, female (% of age group)	83	105	100
Access to an improved water source (% of population)	48	87	64
Access to improved sanitation facilities (% of population)	37	36	35





Net Aid Flows	1980	1990	2000	2010 [a]
(US$ millions)				
Net ODA and official aid	32	122	136	6,070
Top 3 donors (in 2008):				
United States	2	56	2	2,980
European Union Institutions	0	2	18	395
Germany	1	8	11	337
Aid (% of GNI)	0.9	..	*16.4*	48.3
Aid per capita (US$)	2	6	5	182



Long-Term Economic Trends	1980	1990	2000	2010	1980–90	1990–2000	2000–10
Consumer prices (annual % change)	..	..	..	6.5			
GDP implicit deflator (annual % change)	..	..	*3.8*	9.4			
Exchange rate (annual average, local per US$)	44.1	50.6	67.7	46.5			
Terms of trade index (2000 = 100)	..	..	..	..			
					(average annual growth %)		
Population, mid-year (millions)	15.3	19.0	26.0	34.4	2.2	3.1	2.8
GDP (US$ millions)	3,642	..	*2,462*	15,713	..	..	*7.3*
		(% of GDP)					
Agriculture	..	..	*45.2*	27.1	..	..	*-2.3*
Industry	..	..	*19.7*	219	..	..	*12.3*
Manufacturing	..	..	*15.0*	12.9	..	..	*6.4*
Services	..	..	*35.1*	510	..	..	*12.2*
Household final consumption expenditure	..	..	*1115*	83.1	..	..	*6.6*
General gov't final consumption expenditure	..	..	*7.9*	33.8	..	..	*-319*
Gross capital formation	*13.9*	..	*116*	26.3	..	..	*-45.5*
Exports of goods and services	*10.8*	..	*30.6*	214	..	..	*-42.8*
Imports of goods and services	*13.9*	..	*616*	64.5	..	..	*-44.3*
Gross savings	..	..	..	..			

Note: Figures in italics are for years other than those specified. 2010 data are preliminary. Group data are for 2009. .. indicates data are not available.
a. Aid data are for 2009.

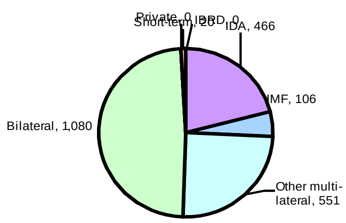
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2010
(US$ millions)		
Total merchandise exports (fob)	*1,291*	*1,835*
Total merchandise imports (cif)	1,697	*3,280*
Net trade in goods and services	*-1,363*	-6,656
Current account balance	*-150*	0
as a % of GDP	*-3.5*	0.0
Workers' remittances and compensation of employees (receipts)	..	..
Reserves, including gold	*425*	*1,662*

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	*7.8*	22.1
Tax revenue	..	..
Current expenditure	*7.9*	15.1
Overall surplus/deficit	*-0.1*	0.8
Highest marginal tax rate (%)		
Individual	..	..
Corporate	*20*	*20*

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	169	2,297
Total debt service	*8*	9
Debt relief (HIPC, MDRI)	654	20
Total debt (% of GDP)	*7.1*	14.6
Total debt service (% of exports)	*0.6*	*0.3*
Foreign direct investment (net inflows)	0	..
Portfolio equity (net inflows)	0	..

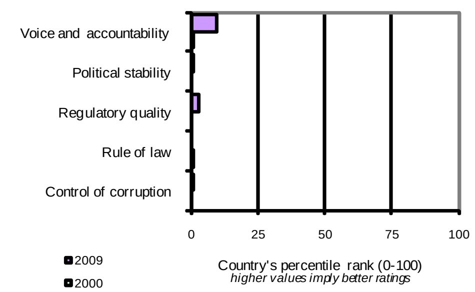
Composition of total external debt, 2009



US$ millions

Private Sector Development	2000	2010
Time required to start a business (days)	–	7
Cost to start a business (% of GNI per capita)	–	26.7
Time required to register property (days)	–	250
Ranked as a major constraint to business	**2000**	**2010**
(% of managers surveyed who agreed)		
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2009



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2009
Paved roads (% of total)	..	*29.3*
Fixed line and mobile phone subscribers (per 100 people)	0	41
High technology exports (% of manufactured exports)	..	..

Environment	2000	2009
Agricultural land (% of land area)	58	*58*
Forest area (% of land area)	2.1	*2.1*
Terrestrial protected areas (% of land area)	..	..
Freshwater resources per capita (cu. meters)	*2,213*	*1,946*
Freshwater withdrawal (billion cubic meters)	23.1	..
CO2 emissions per capita (mt)	0.03	*0.03*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	2000	2009
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	–	–
Disbursements	–	–
Principal repayments	–	–
Interest payments	–	–
IDA		
Total debt outstanding and disbursed	0	466
Disbursements	*35*	27
Total debt service	*31*	2
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	0	12
of which IFC own account	0	12
Disbursements for IFC own account	0	3
Portfolio sales, prepayments and repayments for IFC own account	0	0
MIGA		
Gross exposure	0	77
New guarantees	0	0

Note: Figures in italics are for years other than those specified. 2010 data are preliminary. 2/15/12
.. indicates data are not available. – indicates observation is not applicable.

Development Economics, Development Data Group (DECDG).

Table B2 - Afghanistan

Selected indicators* of Bank Portfolio Performance and Management

(as of Date 2/15/2012)

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation[a]	24	23	23	19
Average Implementation period (years)[b]	2.7	3.4	3.2	3.1
Percent of Problem projects by Number[a,c]	16.7	30.4	26.1	5.3
Percent of Problem projects by Amount [a,c]	8.6	20.9	19.7	11.8
Percent of projects at Risk by Number [a,d]	29.2	43.5	39.1	42.1
Percent of projects at Risk by Amount [a,d]	23.9	38.8	25.6	36.0
Disbursement Ratio (%) [a]	34.0	46.0	28.5	15.1
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	26	14
Proj Eval by OED by Amt (US$ millions)	927.5	481.1
% of OED Projects Rated U or HU by Number	13.0	21.4
% of OED Projects Rated U or HU by Amt	3.4	6.5

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year. Investment projects only.

*All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Table B5: Afghanistan - Key Social Indicators

	Latest Single Year			Same region/ income group	
	1980-95	**1990-95**	**2004-10**	**South Asia**	**Low Income**
POPULATION					
Total Population, mid-year (millions)	17.2	22.5	30.2	1,567.7	846.1
Growth rate (% annual average for period)	2.3	3.3	2.8	1.5	2.2
Urban population (% of population)	17.0	19.8	24.8	29.8	28.7
Total fertility rate (births per woman)	7.9	8.1	6.4	2.8	4.2
POVERTY					
(% of population)					
National headcount index			36.0		
Urban headcount index			29.0		
Rural headcount index			37.5		
INCOME					
GNI per capita (US$)			400	1,107	509
Consumer price index (2005 =100)			145	135	141
Food price index (2000=100)					
INCOME CONSUMPTION/DISTRIBUTION					
Share of income on consumption					
Gini Index			29.4		
Lowest quinite (% of income or consumption)			9.0		
Highest quinite (% of income or consumption)			38.7		
SOCIAL INDICATORS					
Public Expenditure					
Health (% of GDP)			1.6	1.3	2.2
Education (% of GNI)				2.9	3.5
Social Security and Welfare (%of GDP)					
Net primary school enrollment rate					
(% of age group)					
Total		28		86	80
Male		41		88	82
Female		14		83	79
Access to an improved water source					
(% of population)					
Total		3	48	87	64
Urban		12	78	95	85
Rural		1	39	83	56
Immunization Rate					
(% of children age 12-23 months)					
Measles	14	41	76	75	78
DPT	15	20	83	72	80
Child malnutrition (% under 5 years)			33	43	28
Life expectancy at birth					
(years)					
Total	41	44	48	64	57
Male	41	44	48	63	56
Female	41	44	48	66	59
Mortality					
Infant (per 1,000 live births)	168	109	103	55	76
Under 5 (per 1,0000)	252	159	149	71	118
Adult (15-59)					
Male (per 1,000 population)			412	242	312
Female (per 1,000 population)			377	169	275
Maternal (per 1,000 live births)		1,800	1,400	290	580
Births attended by skilled health staff (%)			24	47	41

Table was produced from CMU LDB system

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

Table B6: Afghanistan - Key Economic Indicators (Actual and Projected)

in % of GDP unless otherwise indicated	2007/08	2008/09	2009/10	2010/11	proj. 2011/12	proj. 2012/13	proj. 2013/14
Real Sector							
Nominal GDP (in billion Afghanis)	436	534	615	730	862	968	1,074
GDP (in billion US$)	8.7	10.5	12.5	15.9	18.4	19.6	21.0
Real GDP growth (%)	13.7	3.6	21	8.4	5.7	7.1	5.8
GDP per capita				528	591	612	637
Money and Prices							
CPI inflation (average, %)	13	26.8	-12.2	7.7	10.5	4.6	5
Broad money (M2) (in billions Afghani)	119.6	162.5	226.4	277.5	328.4	…	…
Investment and Saving							
Gross Domestic Investment	40.6	36.4	31.7	26.3	22.6	21.9	21.6
o/w: private	8.6	9	8.7	8.5	8.6	8.9	9.5
Foreign Direct Investment	2.8	2.9	2.4	2.1	2.1	2.3	2.9
Government finance							
Domestic Revenue	7.7	7.8	10.3	11	11.5	11.3	11.6
Total Core expenditure (Gov Expenditure)	22	21.7	22.1	21.1	23.8	25.3	25.7
Overal balance (incl. grants)	-2	-4.1	-1.6	0.9	0	-1.6	-1.7
External Sector							
Current account (excl. grants)	-68.1	-59.6	-51.3	-39.8	-34.3	-33.2	-31.5
Exports FOB (in million US$) 1/	1,854	2,465	2,517	2,836	2,908	2,651	2,560
Imports FOB(in million US$)	7,794	8,945	8,872	9,139	9,174	9,174	9,232
Gross reserves (months of imports)		5.3	6.0	7.4	8.4	9.0	9.5
Total External debt							
Total debt stock(in million US$)	2,012	2,061	1,147	1,280	1,454	1,678	1,908
Debt-to-GDP Ratio (%)	23	19.7	9	8	8.2	8.7	9.2
Memorandum items							
Population (in millions)	27.41	28.36	29.27	30.18	…	…	…
Exchange rate, average (Afs/US$)	50	51	49	47	46	45	45

Table B8 – Afghanistan - Operations Portfolio (IBRD/IDA)
(as of 01/26/2012)

Closed Projects	**53**
<u>IBRD/IDA</u> *	
Total Disbursed (Active)	415.28
of which has been repaid	0.00
Total Disbursed (Closed)	1,448.83
of which has been repaid	40.22
Total Disbursed (Active + Closed)	1,864.12
of which has been repaid	40.22
Total Undisbursed (Active)	480.01
Total Undisbursed (Closed)	31.74
Total Undisbursed (Active + Closed)	511.74

Active Projects		Supervision Rating – Last PSR			Original Amount in US$M				Disbursements [a/]	
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IBRD	IDA	Cancel.	IDA Undisb.	Orig.	Frm Rev'd
P102573	AF: Skills Development Project	MS	MS	2008		20		7.21	5.77	
P112872	AF: Customs Reform & Trade Facilitation	MS	MS	2010		50.48		39.86		
P106259	AF: Edu. Qlty. Improvement Program II	MS	MS	2008		30		1.17	-1.45	77.50
P083908	AF: Emergency Power Rehabilitation Proj	S	U	2004		105		14.22	8.28	8.28
P110644	AF: Financial Sector Strengthening Proj	MS	MS	2009		8		7.58	3.07	
P101502	AF: HIV/AIDS Prevention Project	S	MS	2008		10		1.41	1.20	
P122235	AF: Irrigation Restoration &Development	S	S	2011		97.8		95.29		
P103343	AF: National Emergency Rural Access	MS	MS	2008		152		41.47	3.75	16.32
P117103	AF: National Solidarity Program III	S	S	2010		40		26.25		
P118053	AF: New Market Development	S	S	2011		22		20.77	-0.48	
P113421	AF: Pension Admin and Safety Net	MS	MS	2010		7.5		4.57	2.92	
P110407	AF: Rural Enterprise Devt Program	S	S	2010		30		21.39		
P112446	AF: Strengthening Health Activities	S	MS	2009		79		34.80	-25.11	
P089040	AF: Strengthening Higher Educ. Program	MS	MS	2005		60		20.06	-0.63	5.70
P087860	AF: Urban Water Sector	MS	MS	2006		40	23.09	17.72	38.75	10.28
P121755	Afghanistan ICT Sector Development	S	S	2011		50		45.35		
P118925	Afghanistan SDNRP II	#	#	2011		52		49.47		
P098118	Afghanistan: Natural Resources Devt	S	S	2006		40		14.83	2.45	
P119047	Financial Sector Rapid Response Project	S	S	2012		19		16.58	1.50	
Overall Result						912.78	23.09	480.01	-5.34	118.08

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Table B8.1 – Afghanistan - Operations Portfolio (ARTF/JSDF)
(as of 01/25/2012)

Project ID	Trust Fund No.	Project Name	Supervision Rating[1/] PDO	IP	Fiscal Year [2/]	Grant Closing Date	Grant (US$ million)	Undisb. ($US million)
Active Operations								
P091258	TF050577	ARTF-Recurrent and Capital Costs			2002	02/28/13	2447.3	52.1
Investment Projects								
P120427	TF010024	Second Public Financial Management Reform	S	S	2012	12/31/14	60.0	53.0
P120398	TF099074	On-Farm Water Management	MS	MU	2011	06/30/14	41.0	36.5
P117103	TF098459	NSP III - ARTF Cofinancing	S	S	2011	09/30/15	350.0	145.0
P110407	TF098045	AF Rural Enterprise Development Program - ARTF Cofinancing	S	S	2011	01/01/15	16.0	14.0
P098256	TF091885	Horticulture and Livestock Productivity Project - ARTF Cofinancing	S	S	2008	12/31/12	49.3	18.0
P083908	TF054718	Emergency Power Rehabilitation Project - ARTF Cofinancing	S	U	2005	09/30/12	20.0	7.6
P106654	TF091120	ARTF-Kabul-Aybak/Mazar-e-Sharif Power	MS	U	2008	06/30/12	57.0	18.6
P111943	TF093513	Power System Development Project	U	MU	2009	07/31/13	60.0	50.8
P112097	TF093637	TA for Water-sector Capacity Building	MU	MU	2009	03/31/13	5.5	4.3
P103343	TF095297	National Emergency Rural Access Project - ARTF Cofinancing	MS	MS	2010	12/31/13	80.0	27.2
P111825	TF092073	Kabul Urban Reconstruction - ARTF Cofinancing to P083919	MS	MS	2008	04/30/12	5.6	1.1
P116036	TF010236	Adolescent Girls Initiative	n/a	n/a	2012	08/30/14	2.1	1.8
P121883	TF098001	Strengthening National Statistical Systems	MS	MS	2011	02/29/16	14.0	13.1
P112446	TF096362	Strengthening Health Activities for Rural Poor - ARTF Cofinancing	S	MS	2010	09/30/13	46.0	24.0
P112446	TF095691	Strengthening Health Activities for Rural Poor - HRBF Cofinancing	S	MS	2010	09/30/13	12.0	9.5
P120565	TF095919	Support to Basic Package of Health Services (Strengthening Health Services for Rural Poor) - JSDF Cofinancing to P112446	S	MS	2010	03/14/13	17.7	3.1
P089040	TF092544	Strengthening Higher Education Program - ARTF Cofinancing	MS	MS	2009	06/30/13	5.0	1.5
P106259	TF093962	Second Education Quality Improvement Program - ARTF Cofinancing	MS	MS	2009	09/01/12	135.0	25.2
P102573	TF093854	Skills Development - ARTF Cofinancing	MS	MS	2009	02/28/13	9.0	0.6
Total for Investment Projects							**985.2**	**455.1**

Note:

1/ PDO = Progress Towards Achieving of Project Development Objectives; IP = Overall Implementation Progress

2/ "Fiscal Year" refers to the fiscal year of the "Effective Date" (Grant Signing Date) per the Client Connection

Table B8.2 – IFC Investment Portfolio ($M))
(as of February 29, 2012)

Afghanistan IFC Portfolio (US$ million)	**EQUITY**	**LOAN/Guarantee**	**TOTAL**
Financial Markets			
Afghan International Bank	**-**	**0.91**	**0.91**
BRAC Bank Inc	**0.3**	**-**	**0.3**
FMBA	**0.82**	**-**	**0.82**
Manufacturing, Agribusiness, & Services			
ACOMET	**-**	**4.3**	**4.3**
TPS	**-**	**4.0**	**4.0**
Infrastructure & Natural Resources			
Areeba Afg. LTD	**16.4**	**62.0**	**78.4**
TOTAL COMMITTED	**17.52**	**71.2**	**88.7**
Total Outstanding	**3.0**	**17.6**	**20.6**