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COUNTRY PARTNERSHIP FRAMEWORK
FOR
ISLAMIC REPUBLIC OF AFGHANISTAN
FOR THE PERIOD FY 17 to FY 20

2 October, 2016

Afghanistan Country Management Unit
South Asia Region

The International Finance Corporation
Europe Middle East and North Africa Region

The Multilateral Investment Guarantee Agency

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ABBREVIATIONS AND ACRONYMS

AFMIS	Afghanistan Financial Management Information System
ANDMA	Afghanistan National Disaster Management Agency
ANPDF	Afghanistan National Peace and Development Framework
ARAP	Afghanistan Rural Access Project
ARTF	Afghanistan Reconstruction Trust Fund
ASA	Advisory Services and Analytics
CASA	Central Asia-South Asia
CBR	Capacity Building for Results Project
CCAP	Citizens' Charter Afghanistan Project
CDCs	Community Development Councils
CPF	Country Partnership Framework
CSO	Central Statistics Organization
DAB	Da Afghanistan Bank
DABS	Da Afghanistan Brishna Sherkat
DFID	Department for International Development
DPG	Development Policy Grant
DRM	Disaster Risk Management
EITI	Extractive Industries Transparency Initiative
EQUIP	Education Quality Improvement Project
FCS	Fragile and Conflict States
FM	Financial Management
GDP	Gross Domestic Product
HR	Human Resources
ICT	Information and Communication Technologies
ICR	Implementation Completion Report
IDA	International Development Association
IDLG	Independent Directorate of Local Governance
IDP	Internally Displaced Person
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFRS	International Financial Reporting Standard
INDC	Intended Nationally Determined Contribution to Climate Change
IP	Incentive Program
IPP	Independent Power Producer
ISN	Interim Strategy Note
IWRM	Integrated Water Resource Management
IRS	Internationally Recruited Staff
IT	Information technology
MIGA	Multilateral Investment Guarantee Agency
MIS	Management Information System
MEW	Ministry of Energy and Water
MoE	Ministry of Education
MoF	Ministry of Finance
MoPH	Ministry of Public Health
MoPW	Ministry of Public Works
MRRD	Ministry of Rural Rehabilitation and Development
MUDH	Ministry of Urban Development and Housing
MW	Megawatts
NFIS	National Financing Inclusion Strategy
NGO	Nongovernmental Organization
NPA	National Procurement Agency
NPP	National Priority Programs
NSP	National Solidarity Program
NRVA	National Risk and Vulnerability Assessment
NUG	National Unity Government
O&M	Operation and Maintenance
PFM	Public Financial Management
PIU	Project Implementation Unit
PPP	Public-Private Partnership
PV	Present Value
PSW	Private Sector Window
RCW	Recurrent Cost Window
SAFANSI	South Asia Food and Nutrition Security Initiative
SCD	Systematic Country Diagnostic
SMAF	Self-Reliance Mutual Accountability Framework
SME	Small and Medium Enterprise
TA	Technical Assistance
UNAMA	United Nations Assistance Mission in Afghanistan
WBG	World Bank Group
WDR	World Development Report

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COUNTRY PARTNERSHIP FRAMEWORK FOR AFGHANISTAN

I. INTRODUCTION

1. **This Country Partnership Framework (CPF) covers the four-year period**, **from FY 2017 through FY 2020**. The World Bank Group (WBG) has relied up to now on a series of short two-year Interim Strategy Notes (ISNs) to capture its strategic engagement. The CPF sets out a medium-term strategic framework that is intended to be flexible and responsive to the rapidly evolving situation in Afghanistan. It is aligned with country priorities as outlined in the government's "Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership" paper presented to the London Afghanistan Conference in December 2014 and draft National Peace and Development Framework (ANPDF).[1] It is based on the findings and recommendations of the Systematic Country Diagnostic (SCD), which was completed in February 2016. The CPF includes funding from the World Bank Group as well as the Afghanistan Reconstruction Trust Fund (ARTF)[2] and other smaller trust funds.

2. **The CPF comes at a critical juncture as the government seeks to build on important achievements in its first two years, but is faced with a range of challenges from growing insecurity to stagnating growth and rising levels of poverty.** The current violent conflict may evolve in different ways over the next four years, but its impact on the country's economic prospects will be profound. The country has very limited fiscal resources with which to deal with emerging challenges, with expected levels of aid over the next four years almost entirely absorbed in meeting projected expenditure pressures. Just to sustain current levels of service delivery and maintain development outcomes, with a population growing at 3 percent a year, the country will need to increase recurrent expenditures by on average $195 million each year by 2020-even with this level of increase millions of children will still be left out of school and only minimal levels of health coverage will be provided. Expanding service delivery will require significantly higher levels of aid, mostly on budget. In this context the government has only limited choices available to it.

3. **The CPF recognizes the government's ambitious reform program in the midst of the political and economic uncertainty facing Afghanistan over the next four years**, **and the limited fiscal space for maneuver**. Tackling fragility and conflict are long-term endeavors, but selective institutional strengthening focused on key agencies and functions could enable likely drivers of growth, including the agriculture and mining sectors and human capital development. In addition, much more needs to be done to ensure an adequate social safety net system for the poor and vulnerable and supporting firms in managing insecurity related risks. A broad-based social transfer program could help households avoid resorting to negative coping mechanisms, while financial sector development and risk-sharing instruments could support private sector investment. The CPF sets out this core agenda through key interventions to strengthen government capacity, promote economic growth, and support social inclusion. It recognizes the government's strong desire for flexibility in the form and use of aid resources, tied to its own priorities and results. It envisages additional staff and resources from the International Development Association (IDA) to do this, as well as greater use of non-discretionary resources, programmatic and results-based approaches, and support to building core government capacity and use of country systems.

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[1] The government is currently preparing a National Peace and Development Framework, which will be presented to the Brussels Conference on Afghanistan in October, 2016.

[2] ARTF is the largest single source of on-budget financing for Afghanistan's development. It is administered by the World Bank. Since 2002, when it was established, to July 2016 the fund has received a total of $9.1 billion from 34 donors.

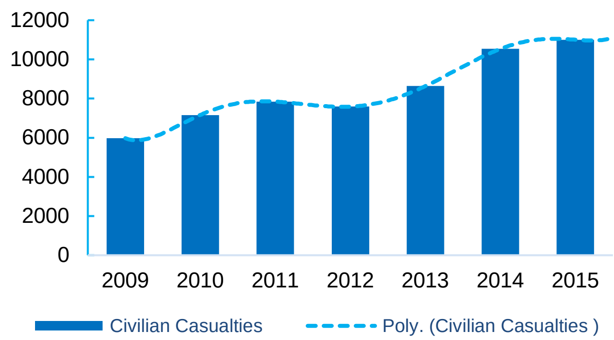
II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Social and Political Context

4. Afghanistan has been in almost constant conflict since 1979 and there has been no meaningful, durable political settlement since the monarchy was overthrown in the early 1970s. In addition to loss of life and insecurity, the conflict has had a destabilizing effect on the social cohesion of the country, exacerbating ethnic divisions and weakening government institutions and rule of law. The change of government in late 2001 gave rise to hopes of stability. With political benchmarks set out in the Bonn Conference in 2001-the drafting of a new constitution, presidential elections, the creation of a legislature-all achieved, there was a large inflow of aid, and impressive human and economic progress. But there was no peace settlement with the Taliban and by 2006 they had re-grouped. Moreover, waste and corruption were emerging as major issues; the 2009 presidential and 2010 parliamentary elections were flawed. The country remained highly dependent on foreign aid, which, including security aid, peaked at an estimated $15.7 billion in 2010-2011, almost equivalent to the country's entire gross domestic product (GDP) that year. The 2012-2014 period was marked by the gradual withdrawal of most international troops and by the holding of presidential elections in April-June 2014.

5. A National Unity Government (NUG) was formed in September 2014 after protracted negotiations between the two leading candidates following the disputed second round of elections. The future, however, remains uncertain and the large losses of life due to the expanding insurgency continue. There were over 3,500 conflict-related civilian deaths and 7,500 injuries in 2015, the highest on record (see Figure 1).[3] While overall civilian casualties increased by 4 percent in 2015, there was a 37 percent increase in women casualties. Casualties so far in 2016 are set to break the 2015 record.[4] Some areas of the country are difficult to access because of insecurity and the political situation remains fragile. Internal divisions within the National Unity Government have made consensus politics very difficult, leading to blockages to some reforms and delays in the appointment of key ministers and officials.

Figure 1: Number of Civilian Casualties, Conflict Related



Source: UN estimates, includes civilian deaths and injuries

[3] "Protection of Civilians in Armed Conflict", United Nations Assistance Mission in Afghanistan (UNAMA), annual report, February 2016.
[4] "Protection of Civilians in Armed Conflict", UNAMA, mid-year report, July 2016.

6. The SCD highlights three key drivers of fragility in Afghanistan.[5] First is the country's weak state and political institutions, which lack clear mandates and depend heavily on decisions driven more by intra-elite bargaining than by effective use of resources or accountability to citizens. This is exacerbated by privileged access by the elite to economic resources—public procurement contracts, revenue sources, land, mining contracts, and proceeds from illicit economic activities. Second, the persistent Taliban insurgency is bolstered both by external forces as well as internally by poor governance. Third, internal ethnic divisions have been exacerbated during the past several decades of conflict. The tendency to distribute government positions and access to resources through patronage-based networks remains well entrenched.

7. Corruption is pervasive, fueled in large part by the illicit narcotics trade and the enormous 'off-budget' aid inflows over the past decade, which have strengthened patronage networks, funded armed groups, **and exacerbated grievances**. The magnitude and pervasiveness of corruption in Afghanistan in recent years have been striking. This is reflected in domestic surveys,[6] international indicators, such as the Transparency International corruption perceptions index, in which Afghanistan ranks as the third most corrupt country in the world in its 2015 survey, and reports by the U.S. Special Inspector-General for Afghanistan Reconstruction, and some egregious individual cases, such as the Kabul Bank crisis in 2010. Moreover, the benefits from corruption and patronage appear to have been narrowly concentrated, exacerbating grievances among those who perceive they are not benefiting from the enormous funds spent on Afghanistan since 2002.

2.2 Recent Economic Developments

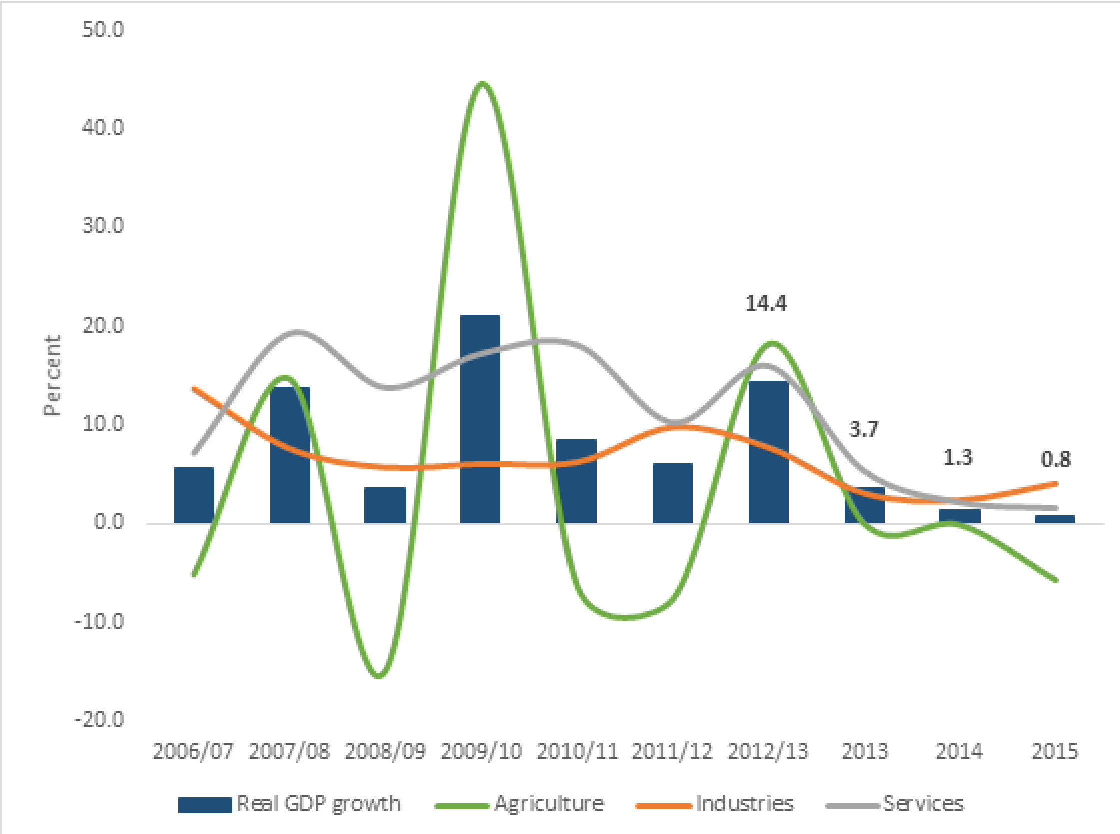
8. Economic growth averaged an impressive 9.4 percent per year between 2003 and 2012 but fell sharply between 2013 and 2015. Growth was driven by investments in reconstruction, expansion of services supported by aid, and periodic surges in agricultural production. Per capita GDP was estimated at $680 in 2014, three times the level in 2003.[7] Figure 2 illustrates trends in GDP growth and sector contributions. These levels of growth were not sustainable; total security and development assistance declined to 59 percent of GDP in 2013 and will likely decline further to about 39 percent by 2020; GDP growth fell to 3.7 percent in 2013, 1.3 percent in 2014, and 0.8 percent in 2015. Growth rates are expected gradually to increase to about 3.8 percent by 2020. With population growth rates of near 3 percent, the most recent economic growth rates and near-term projections are well below the levels needed to create jobs for the large numbers of people entering the labor force and to reduce poverty. (See Annex 2: key macroeconomic indicators.)

[5] Afghanistan Systematic Country Diagnostic, World Bank, February 2016

[6] See the periodic corruption surveys conducted by Integrity Watch Afghanistan (Integrity Watch Afghanistan, 2014, as well as earlier years).

[7] World Development Indicators, World Bank, and SCD 2016

Figure 2: Growth and Sector Contributions to Growth, 2006-2015



Source: Central Statistics Organization (CSO) and Bank staff estimates

9. Afghanistan's formal private sector is extremely narrow. Labor force participation is slightly under 50 percent and domestic credit to the private sector is very low at 3.9 percent of GDP, well below the 28 percent of GDP average for low income countries. The continuing conflict has led private sector credit, firm registration, and private investment to contract sharply.[8] Fewer than 10 percent of Afghans use formal banking products; of those who hold accounts, less than 4 percent are held by women (compared with 37 percent in the South Asia region). The Kabul Bank crisis in 2010 exposed the governance weaknesses in the banking sector. Restoring trust and confidence in the financial sector will take time. Only 8 percent of Afghanistan labor force are salaried workers. Moving forward, private sector development is a priority as Afghanistan attempts to move out of aid dependency to sustainable growth, but this will not be easy. Afghanistan was rated 177th out of 189 in the 2016 Doing Business Survey, down from 175 in 2015.

10. Agriculture was one of the largest contributors to economic growth during 2003-2012, but the sector is highly vulnerable to climate variability and this partly accounts for the volatility in growth. In 2009, for instance, when growth was a remarkably high 21 percent, agriculture directly accounted for 11.3 percent, thanks to favorable weather conditions. A sector that is more resilient to weather extremes would contribute to more stable growth. Other parts of the economy are also indirectly linked to agriculture, with food processing accounting for 96 percent of the manufacturing sector. Agriculture accounts for 56 percent of employment and sector growth plays a key role in poverty reduction. The other main growth drivers identified in the

[8] "Afghanistan Development Update", World Bank, April 2016.

SCD are extractives and, linked to Afghanistan's strategic location between central and southern Asia, regional trade in energy as well as goods.

11. The country faces increasing fiscal constraints as donor financing declines and domestic revenue mobilization remains limited, while security expenditures continue to increase, squeezing funding for social and economic development. Domestic revenues fell to 8.4 percent of GDP in 2014 from a peak of 11.6 percent in 2011 as a result of the economic slowdown and weaknesses in enforcement and compliance. There was a turnaround in 2015, and revenues recovered to 10.3 percent of GDP. This was due largely to major efforts by the Ministry of Finance (MoF), including stronger revenue mobilization and tax collection, some new tax measures, political outreach, and strong measures to tackle corruption.[9] The potential for further increasing revenue is, however, limited in the short term, while security expenditures have increased from 25 percent of total expenditures in 2006 to 48 percent in 2014 (see Figure 3). Afghanistan will need at least $4 billion per year in civilian aid to fund basic social services and development programs over the coming years, equivalent to 17 percent of GDP in 2020. Lower levels of funding, especially when combined with continuing high military spending (see Figure 3), could reverse improvements in social indicators and reduce confidence in government, with further impacts on the stability of the country.

12. Over the medium term, sustained growth will require continued progress with strengthening institutions, improving revenue policies and administration, and establishing a conducive environment for private sector growth. Mobilization of required aid will continue to depend on adequate performance in implementing agreed structural reforms under the Self-Reliance through Mutual Accountability Framework (SMAF).[10]

13. Given the expected levelling off of international aid over the longer-term, new sources of growth will be needed to support government revenues and generate foreign exchange. The ongoing World Bank 'Navigating Risks and Uncertainty" analysis suggests that agriculture has large potential to drive growth through productivity improvements and increased land under cultivation, including through the expansion of irrigation schemes.[11] Mining continues to represent Afghanistan's most important potential source of exports and revenues. Limited progress has so far been achieved in mobilizing mining investment, due to the government's desire to strengthen regulatory capacity and institutions before allowing largescale mining development. Afghanistan also has potential to leverage its geographical location to generate revenues, growth and employment through energy and ICT connectivity.

14. Afghanistan's external debt sustainability is highly sensitive to the availability of donor grants and remains subject to other downside risks (i.e. the fragile security situation, political uncertainty, domestic revenue shortfalls, and exchange rate depreciation). As a result, the July 2016 World Bank/IMF debt sustainability analysis classified Afghanistan at high risk of debt distress despite very low levels of public debt (7 percent of GDP), all of which is external and comprises mostly highly concessional multilateral debt. The baseline debt scenario shows no breaches of any policy thresholds. However, a scenario that replaces 15 percent of grants (included under the baseline scenario) with external borrowing

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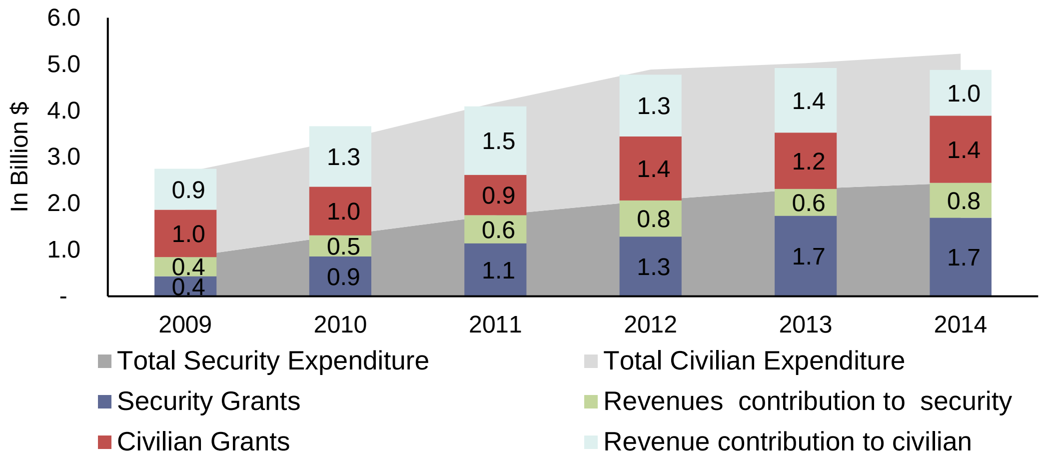
[9] William A. Byrd, M. Khalid Payenda, "Afghanistan's Revenue Turnaround in 2015", United States Institute of Peace, February 2016.

[10] SMAF refers to the partnership framework between the government and the international community around agreed reform benchmarks that was originally defined at the 2012 Tokyo Conference on Afghanistan and recently updated for the Brussels Conference in October, 2016.

[11] See the Bank Group's presentation on 'Navigating Risk and Uncertainty in Afghanistan' presented at the 4th September, 2016, Senior Officials' Meeting on Afghanistan in Kabul. An updated version of the presentation will also be presented in Brussels in October 2016.

from 2019 onwards, leads to a breach in the PV-of-debt-to-exports ratio (more than 150 percent by 2030) and a marginal breach of the PV-of-debt-to-GDP ratio towards the end of the forecast period.

Figure 3 Greater Fiscal Vulnerabilities due to Higher Security Expenditures and Lower Revenues



Source: World Bank staff estimates

2.3 Poverty Profile

15. In spite of rapid growth between 2007 and 2012, poverty levels remained stubbornly high at 36 percent of the population. In 2014, after two years of falling growth, poverty levels had increased to nearly 40 percent. In 2012, about 9 million Afghans, 600,000 more than in 2008, had consumption levels below the minimum necessary to satisfy basic food and non-food needs. Female-headed households are disproportionately affected. Rural poverty rates are about 10 percentage points higher than urban, but the urban-rural poverty gap has remained stable. Rural areas accounted for 76 percent of the population and 81 percent of the poor in 2011-2012, but urbanization has led to an increase in the number of poor people living in urban areas. Inequality has also increased. The poorest 20 percent of the population saw a 2 percent decline in real per capita consumption, the bottom 40 percent little change, and the richest 20 percent a 9 percent increase. Had the country's economic growth been distributed evenly across the population, poverty would have declined by 4.4 percentage points.

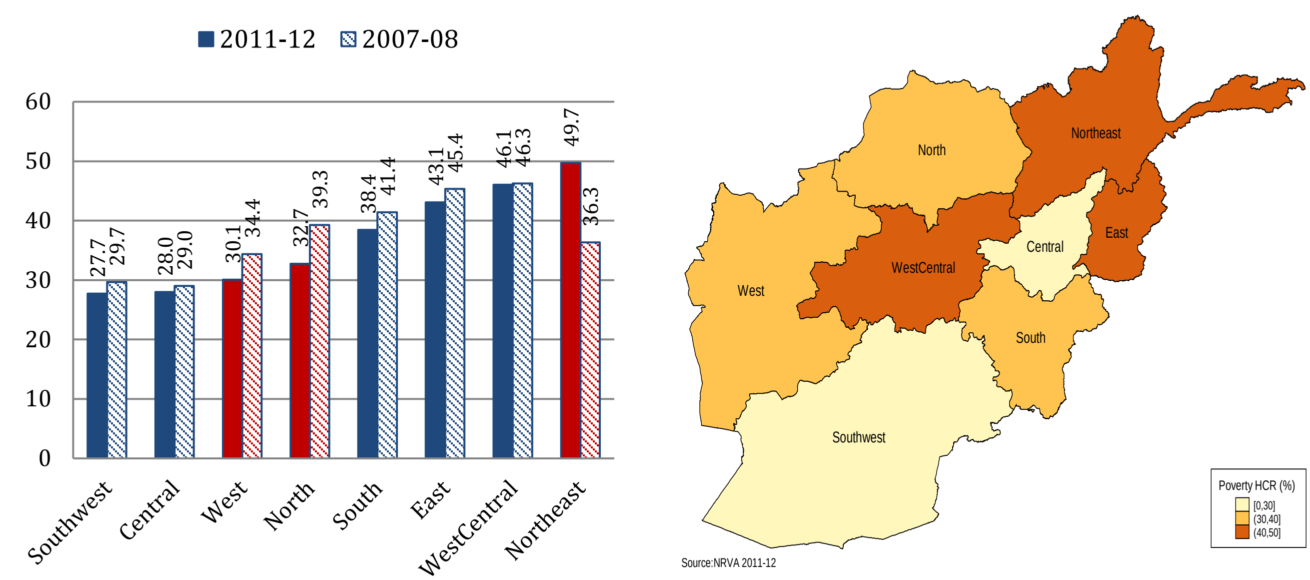
16. Population displacement caused by conflict and poverty is a growing challenge. Historically, Afghanistan has had a long history of displacement, with many Afghans fleeing the country after the Soviet invasion in 1979 and during the civil wars of the 1990s. Currently there are an estimated 3.5 million Afghans living in Pakistan and Iran as both registered and unregistered refugees. There has also been a recent upsurge in the numbers of Afghans fleeing to Europe. According to The Economist,[12] nearly 200,000 Afghans applied for asylum in Europe in 2015, but only 69 percent of them were granted refugee status while the rest have been or are in the process of being repatriated. Internally as well, conflict is causing increasing numbers of Afghans to flee the countryside and move to urban areas, where they make up a large proportion

[12] The Economist, "Europe's migrant crisis in numbers", March 23, 2016.

of those who are poor. The number of internally displaced persons (IDPs) is estimated in excess of 1 million. Increasingly, with potentially large numbers of returning refugees or internally displaced who have lost their livelihoods, government and host community resources are stretched to breaking point.

17. A key factor behind stagnant poverty nationwide is regional disparities, with the highest poverty in the lagging Northeast, West Central, and East regions of the country (see Figure 4). According to the 2011-2012 National Risk and Vulnerability Assessment (NRVA), poverty rates ranged from 27.7 percent in the Southwest to 49.7 percent in the Northeast. Poverty trends either remained flat or declined in most regions. Without the Northeast, nationwide poverty incidence would have fallen by 3 percentage points. The lagging regions were not those which experienced the most conflict. The conflict has had the perverse effect of increasing economic integration and employment in the better off but more conflict-affected regions, while the more remote Northeast, dependent on agriculture and vulnerable to natural disasters, received relatively less attention from government and donors.[13]

Figure 4: Regional Disparities Account for Poverty Trends



Source: Staff calculations using NRVA 2007-2008 and 2011-2012

18. Vulnerability to shocks, including weather-related shocks and natural disasters, is particularly acute in Afghanistan, especially among poorer households, **and climate change is likely to increase these vulnerabilities in the future.**[14] Fifty-nine percent of poor people have experienced water shortage shocks versus 46 percent of those who are not poor, 41 percent have suffered from natural disasters versus 34 percent. More households (51 percent) report facing a (food) price shock than a security-related shock (15 percent). Exposure to shocks has long lasting welfare and poverty implications. Nearly half of all households experiencing

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[13] See paper by Vincent Floreani, Gladys Lopez-Acevido and Martin Rama on “Conflict and Poverty in Afghanistan’s Transition”, World Bank, 2016.

[14] See the Government’s ‘Intended Nationally Determined Contribution’ (INDC) submission to the United Nations Framework Convention on Climate Change, 21 September 2015.

shocks report using at least one harmful coping mechanism, such as selling assets or taking children out of school, trapping them further into poverty. Poor people in the lagging regions, especially in the Northeast and West Central regions, exhibit all these characteristics. There is a case for programs to target poorer regions if these disparities are to be reduced, as well as for greater focus on reducing vulnerability to weather-related disasters.

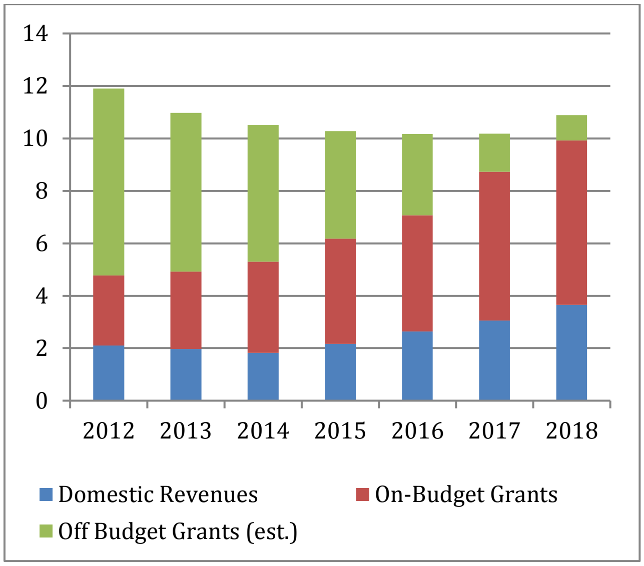
2.4 Drivers of Poverty and Development Challenges

19. The SCD identifies three critical constraints to poverty reduction in Afghanistan: fragility and conflict; demography and geography; and declining aid. Any one of these alone would be difficult enough for any poor country to deal with, but in combination they become potentially overwhelming. Afghanistan is a deeply fragile and conflict-affected country. The long years of war have hollowed out state institutions and led to widespread disenchantment with the ruling elite and have fueled the Taliban insurgency. Internal displacement as a result of conflict has led to over 1 million IDPs (see section 2.3). At the same time the country's difficult topography, vulnerability to climate change, and growing population at 3 percent a year have imposed additional constraints on development. For economic growth to have any impact on poverty, it has to be particularly high and broad based to compensate for the high population growth rate and youth bulge. At nearly 50 percent, Afghanistan's proportion of population aged 15 or below is the second highest in the world.[15] Poor nutrition, especially of children, threatens welfare and education gains. Forty-one percent of Afghan children under the age of five are stunted. Poorly nourished children are more susceptible to disease, have poorer learning outcomes, and are more likely to remain in poverty than well-nourished children. More broadly, reductions in stunting could help increase GDP.

20. If these factors were not enough to contend with, the government faces the risk of a tailing off of international aid and increasing security expenditures that could crowd out civilian expenditures, just at a time when Afghanistan needs increased and more effective development assistance. Total security and development aid is expected to gradually decline as a share of GDP over the medium term, from about 59 percent of GDP in 2013 to about 44 percent by 2018. Sustainability is a serious risk. Internal revenue mobilization is weak (though 2015 saw some improvement), and aid fatigue, particularly after the withdrawal of the bulk of international troops in 2014, is clearly evidenced in donor budget discussions. It will be critical that more aid be channeled through the budget so it can be coordinated and prioritized together, and more goods and services can be procured within Afghanistan to boost the economy. As aid is drawn down going forward, ensuring greater aid effectiveness will be critical.

[15] "Afghanistan State of Youth", United Nations Population Fund, 2014

Figure 5 Revenues and Grants ($ billion), 2012-2018



Source: Word Bank staff estimates based on data from Central Statistics Organization

2.5 Opportunities for Poverty Reduction

21. Without peace there will be limited opportunities to reduce poverty over the next four years. While bringing about a significant reduction in the conflict requires a political process, development interventions tailored to country circumstances may help address some of the underlying causes and help mitigate the consequences of conflict. Social and ethnic drivers of fragility need to be recognized and addressed, especially over the longer term**.** The poverty data also indicate that inequality, internal displacement, and regional disparities are on the increase. Poor female social indicators along with low participation in the labor market are major impediments to development, while lack of opportunities and jobs for youth may increase risks of alienation and violence.

22. Strengthening and improving the legitimacy and accountability of the state is central. The 2011 World Development Report (WDR) illustrated that countries endowed with weak institutions tend to experience repeated cycles of violence.[16] Since 2001, there have been noticeable improvements in some institutions, particularly in the management of public finances. Yet in other areas, such as rule of law and a functioning public administration, progress has been far slower. Reliance on externally contracted civil service capacity remains substantial, and core government functions are vulnerable to fluctuations in donor funding. Overall, there is still a widespread culture of impunity for the elite. Many citizens lack information and feedback channels and feel that the state is remote, that petty corruption is endemic, and that they have to pay bribes to obtain public services.

[16] WDR, World Bank, 2011.

23. **Increasing private sector investment will be important to restoring growth, but is a long-term endeavor.** In the formal private sector at least, confidence has slumped due to the uncertainty associated with fragility and lack of security. Measures to encourage private investment need to reduce perceived risk—through better use of risk insurance instruments and partial guarantees for example, or increase anticipated returns, as well as address key private sector constraints. The weak financial sector, poor investment climate, and insecure land tenure and registration are a serious drag on investor sentiment. Inadequate infrastructure and low levels of human capital and skills are also serious impediments to growth.

24. **With no immediate prospect for an end to the conflict, the selectivity and prioritization of development interventions in the CPF will need to be driven largely by a fragility and conflict lens.**

(i) Interventions with the greatest impact on addressing the principal drivers of conflict. In this context, interventions with an impact on multiple constraints would be particularly valuable. For instance, those interventions that address issues around state capacity to deliver services, poor governance and pervasive corruption, access to basic social services, lack of private sector investments that can generate sustained jobs for youth, and social safety nets for poor and vulnerable people, should be prioritized.

(ii) Interventions that will help mitigate the immediate consequences of the ongoing conflict. These interventions, for example, might address population displacement and the growing informal settlements in urban areas, the lack of access to finance and the need to build business confidence, lagging regions, growing social fragmentation and inequality, and eroding education gains, with primary school attendance rates falling, and large numbers of children out of school.

(iii) Interventions that can help build longer-term stability, and sustained growth and poverty reduction. These interventions might address rebuilding major infrastructure and longer-term economic and transformative investments, such as in the mining, transport, and energy sectors, as well as tackling widespread undernutrition and childhood stunting and adult illiteracy which are important constraints to long-term growth.

25. **In the CPF, the overriding strategic consideration will be to meet immediate needs (that address 1 and 2 above) while investing in select 'foundational' investments (3 above) that can contribute to sustained growth in the longer term**. If there is peace, and security conditions dramatically improve, there may be opportunity—resources allowing—to put greater emphasis on more transformative investments, but this will depend on the evolving security context (see section 3.2.3 for discussion of impact of different security scenarios on selectivity of development interventions).

III. WORLD BANK GROUP PARTNERSHIP STRATEGY

3.1 Government Program and Medium-Term Strategy

26. The strategic vision of the government is outlined in the document "Towards Self-Reliance: Commitments to Reform and Renewed Partnership" presented at the London Afghanistan Conference in December 2014, and the recently circulated draft National Peace and Development Framework (September 2016). This vision is based on greater government ownership of the development process, a more equal government-donor partnership, and a greater proportion of aid provided as non-discretionary budget assistance. The main instruments for implementation of the strategy are the national budget and 12 National Priority Programs (NPPs).[17]

27. The ANPDF recognizes that without peace the prospects for growth in the short run are uncertain. It lays out the main development priorities as:

(i) Improving governance and state effectiveness through public sector reform, rooting out corruption and strengthening subnational governance.
(ii) Building social capital and nation building through reforming the justice sector and building national identity.
(iii) Economic growth and job creation through a comprehensive agriculture development program, private sector–led development program, mineral and resource development, and energy and infrastructure development as well as promoting regional integration, improving human resource skills, and urban development.
(iv) Poverty reduction and social inclusion through improving the quality of health and education programs, implementing the Citizens' Charter program, and national gender strategy, including the women's economic empowerment national program.

28. While WBG priorities are well aligned with the strategic vision in the document, the challenge will be dovetailing the level of ambition with the challenges of both fragility and weak institutions in Afghanistan, low private investor confidence, and an increasingly constrained fiscal environment in the light of potential declines in donor assistance and the need to fund basic programs. The Bank Group's role in Afghanistan is unique, as both the administrator of the ARTF, the main channel of 'on budget' multi-donor development assistance to the country, and its own IDA-funded program, and the synergies it brings with the other members of the Bank group, the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), with their focus on the private sector. Both the government and international community look to the Bank Group for its expertise and knowledge, and the Bank Group's analytical work since 2011 on the drivers of growth and the fiscal implications of transition, which has been regularly updated, has been widely influential and appreciated.

[17] These are: (i) National infrastructure and connectivity program; (ii) Citizens' Charter program; (iii) Rural development; (iv) National economic empowerment; (v) Justice sector reform; (vi) Effective governance program; (vii) Private sector development (banking reform, small and medium enterprises, investment climate, trade and informal sector); (viii) Human capital development; (ix) Urban development program; (x) Revenue enhancement program (tax and non-tax revenue); (xi) Comprehensive agricultural development program; and (xii) National mineral and resource development program.

3.2 Proposed World Bank Group Country Partnership Framework

3.2.1 Lessons from ISN Learning Review, Independent Evaluations, and Stakeholder Consultations

29. The lessons of experience, including those from the ISN Learning Review, Independent Evaluation Group (IEG) Evaluations, and the ARTF External Review, have been taken into account both in determining the areas in which the World Bank Group will work as well as in how the CPF will be implemented. These lessons have also been considered in the design and areas of focus, and identification of the risks to the CPF. In particular:

(i) The strong and growing desire by government for greater flexibility in the use of aid resources, tied to results. The Bank Group has been at the forefront of providing on-budget resources to support national programs. The WBG will build in greater flexibility in the use of ARTF/IDA resources tied to agreed outcomes. This will enable the WBG to provide support that responds to changing government needs including possibly having to absorb large numbers of returning refugees and/or internally displaced persons or devising innovative ways of reaching communities directly.

(ii) The design of development interventions will need to carefully overcome weak capacity and entrenched interests and take into account the needs of local communities. Development interventions need to be finely attuned to address elite capture and rent seeking behavior on the part of officials, and they need to recognize that without strong political support at the highest reaches of government, 'governance' reforms that seek to tackle vested interests head-on are often unsuccessful.

(iii) Work across sectors to achieve development outcomes. Key development issues as varied as governance, nutrition, climate resilience or disaster risk management (DRM) require cross-sectoral cooperation among Bank staff as well as across government. The incentive framework to do this needs to be improved. The government and the Bank Group have increased efforts in taking a programmatic approach and coordinating interventions within and across sectors, as well as between development partners.

(iv) Tensions remain between implementing projects and supporting broader government capacity building. Most donor-financed operations have relied on international and locally recruited contract staff working in project implementation units (PIUs). Over the longer term, however, there needs to be a shift toward building government capacity and working with available skills of local counterparts. The Bank Group will take a lead in adopting such an approach.

(v) Local leadership is important but largely outside the control of the WBG and task teams, as are other key factors such as security. Moving toward greater transparency and accountability is necessary in the long run to enhance the legitimacy of Afghanistan's institutions, but may increase tensions in the short run. Similarly, efforts to decentralize service delivery down to the provincial and district levels need to be considered carefully in the light of transparency at these levels as well as capacity to deliver. There is no easy answer, and each activity will need to be carefully thought through, both in terms of time horizons and real and perceived benefits.

(vi) Trade-offs between short-run stability gains and longer-run development opportunities can influence the selection of interventions. Activities to promote short-run stability, however well intentioned, can often be at the expense of worsened longer-term development opportunities. Conversely, some actions that have the potential to mitigate fragility over the medium- to longer-term could be disruptive and possibly even destabilizing in the short run. These tensions result in dilemmas for policymakers and international partners, which must be factored into decisions on policies, programs, and investments. Lower levels of donor resources are foreseen over the CPF period, reinforcing the need for more focus on prioritization in the portfolio. Increasingly, there will be trade-offs between doing the 'basics,' such as supporting the government's 'core mandate' to protect the vulnerable and weak, deliver basic services, and ensure fiscal stability, and investing in larger scale more transformative economic projects. In such an environment, the CPF will pay greater attention to exploring new sources of development finance.

(vii) Despite the security risks, implementation support can be effective provided there is flexibility and willingness to adopt innovative approaches and accept higher implementation, monitoring and supervision costs. The Bank Group supported implementation effectively, while taking a number of measures to address increasing risks to staff security. Recognizing the increasing security risks, most Bank Group international staff were moved from Kabul to Dubai in 2014. Third party monitoring was undertaken for four important, geographically scattered investment programs during the period and has been continued. The International Finance Corporation (IFC) has leveraged its regional teams based in its Dubai and Pakistan offices to conduct business development and handle investment and advisory transactions, along with the three Kabul based staff.

30. Consultations with a broad range of stakeholders were conducted to inform the preparation of both the SCD and the CPF. International donors urged the Bank to consider political economy factors and support results-based technical assistance. They suggested increased focus on connectivity between regions, labor mobility, and access to infrastructure. While remaining flexible, Bank Group interventions should focus on medium- and-long-term priorities and on sustainability, especially at subnational level. Regarding health and education services, the focus should be on access. Nongovernmental organizations (NGOs) and civil society organizations agreed with the need to provide evidence on the performance of NGO-implemented projects, particularly in insecure areas out of government reach, and stressed the need to improve partnership with government. The private sector emphasized the need to support small and medium enterprises (SMEs), which are most resilient under insecurity but hindered by bureaucracy and corruption. They shared challenges of working with government under donor-funded projects, and in facing corruption and lengthy procedures. Discussions confirmed the need to continue improving the legal and regulatory environment.

3.2. 2 Overview of World Bank Group Strategy

31. The World Bank Group Strategy is organized under three pillars: (i) *building strong and accountable institutions; (ii) supporting inclusive growth; and (iii) expanding and deepening social inclusion,* which are discussed in more detail below. The first pillar is intended to lay the foundation for the subsequent two pillars, since inclusive growth and social cohesion cannot be systematically pursued without stronger institutions. The activities under each pillar seek to respond to the drivers and consequences of fragility set out in the SCD while laying the foundations for longer-term growth. Several proposed activities contribute to more than one pillar and interact with and reinforce one another.

32. Building strong and accountable institutions: This pillar responds directly to the government's state-building objectives and underpins the ability of the state to fulfil its core mandate to deliver basic services to its citizens and create an enabling environment for the private sector. State building and promoting trust in the government are long-term agendas, but also address some of the key fragility drivers and sources of the conflict. The CPF links support for the recurrent budget with measures that strengthen state institutions and improved public expenditure management and fiscal stability. It supports building a professionalized civil service and more capable municipalities and community-based institutions that can hold the state to account. These proposed activities all focus on improving the effectiveness and responsiveness of government, addressing poor governance and pervasive corruption, and strengthening the institutional framework for service delivery and enhanced private sector performance.

33. Supporting inclusive growth: Inclusive growth—which includes women, youth, poor people, and the marginalized and displaced, with a focus on lagging areas and urban informal settlements—is key to sustained poverty reduction. The CPF recognizes that in the short term the public sector will need to drive growth through public investments in labor-intensive infrastructure and job creation. This pillar lays the foundation for private sector development over the medium to longer term, including strengthening the financial sector and more inclusive access to finance for micro, small, and medium enterprises, and improvements in the business investment climate, land markets, and market development. It supports enhanced connectivity and regional integration within and outside the country, especially in roads, information and communication technologies (ICT), energy markets, and trade. The CPF supports the two growth drivers identified in the SCD, agricultural productivity (the livelihood of over half the population) and extractive industries, but recognizes that the latter will have little impact on jobs and will take time to develop. Agricultural programs support improved land and water management, productivity, value chains, and small enterprise development, including in poorer, lagging areas. Support for extractive industries aims to improve governance and increase revenues, and to provide a base for more diversified growth in the longer term along key resource corridors. Public-Private Partnerships (PPPs) could potentially provide a pragmatic approach to scale up the private sector while bridging the infrastructure gap, especially when blended with public financing/donor support.

34. Deepening social inclusion: This pillar responds to the government's objective to create a more socially inclusive society through improved human development outcomes and reduced vulnerability amongst the poorest sections of society. Afghanistan is an increasingly unequal and divided society. Access to quality education and health is largely dependent on geography and household income. Past gains are slipping and it will be increasingly important to ensure greater equity in access to quality services going forward. Much more effort needs to be made to address undernutrition particularly in lagging areas, build resilience to shocks, and improve disaster management and response. At the same time, the establishment of basic social safety nets for poor people protects the weakest members of society and builds trust in government and thus may help address a key conflict driver.

35. A strong and enhanced program of analytical and knowledge services is also proposed, which builds on ongoing work. Much of this will be financed by the ARTF's new Research and Analysis Program established in 2015 and intended to finance analytical work linked to ARTF programs and the CPF agenda. During the CPF period, the Bank will increasingly involve local research organizations and universities to utilize and develop their capacity. Line ministries and government agencies will take a leadership role in overseeing analytical work. Several of the proposed studies continue to explore themes around the economics of transition, a strand of work started in 2011,[18] and address cross-cutting issues. For example, the study 'Navigating Risks and Uncertainty' will examine Afghanistan's growth model, identifying broad drivers of growth consistent with current challenges, while revisiting the role of the state in supporting growth. It includes studies on migration and displacement, service delivery, human capital development and labor mobility as well as on natural resources and regional integration, options for improving private sector investment and measures to mitigate risks faced by firms and households, including food price shocks.

36. The CPF will pay particular attention to the challenge of transitioning from short-term humanitarian support to long-term development. Over the short-run**,** the public sector will need to drive growth by supporting the delivery of a package of key basic services, including through labor intensive work schemes, cash transfers to poor people where appropriate, and facilitating access to credit by micro, small, and medium enterprises. Longer-term building blocks for sustained growth, will require greater private sector investment. Without security and an end to the conflict, however, the prospects of attracting private capital back to the country are slim without additional support and risk guarantees. There will be opportunities for the Bank Group through IFC and MIGA to use the full range of its investment and advisory instruments to support *bona fide* private investors willing to invest in the country. IFC is looking into a *three pronged approach* to facilitate scale up in fragile and conflict-affected states (FCS)/IDA markets like Afghanistan, where it faces significant increased costs and risks to doing business. These include: (i) building capacity through IFC advisory services and technical assistance (TA); (ii) scaling up investments through de-risking instruments; and (iii) leveraging partnerships.

37. Given the uncertainty over the next four years the challenge for the Bank Group will be getting the balance right between protecting the poor and yet also laying the foundations for longer-term growth and productivity gains. Under a scenario of deteriorating security and conflict the best that may be achieved is to preserve the gains and mitigate increases in poverty. On the other hand, as the SCD argues, reduced uncertainty and conflict can usher in a scenario of improving prospects. Under such a stabilizing scenario improved confidence and increased resources to expand infrastructure and social services can accelerate job creation and poverty reduction. This would provide space for broader institution building and further enhancing the inclusiveness of growth.

38. The following set of criteria will underpin the WBG's prioritization of areas of support: (i) Past experience and what is feasible, taking into account increasing security constraints, the trade-offs between long- and short-term building blocks for growth and implementation capacity; (ii) The government's key priorities as set out in its draft National Peace and Development Framework; (iii) The analysis in the SCD of development constraints and opportunities; and (iv) The World Bank Group's comparative advantages in Afghanistan. Past experience of what is feasible given the security situation will be the primary basis for selectivity given the other criteria.

39. Table 1 provides a description of how interventions might be prioritized under alternative scenarios of uncertainty and conflict on the one hand and gradual improvement on the other. This CPF assumes a 'deteriorating scenario' as a basis for planned interventions over the next four years, but the reality in Afghanistan is that circumstances can change rapidly, so there is likely to be a mix of both scenarios as local opportunities allow different types of interventions and the interventions themselves evolve in quickly changing circumstances. The CPF will need to be sufficiently broad and responsive to adjust to this degree of uncertainty. As a

[18] "Afghanistan in Transition: Looking Beyond 2014", World Bank, 2013.

result, the selection of interventions becomes more a matter of emphasis between the scenarios, as well as what is practically feasible to implement on the ground, depending on a rapidly evolving security context.

Table 1 Selectivity of Interventions under Alternative Scenarios

Priority Area	Deteriorating Scenario	Stabilizing Scenario
Strengthening Institutions	Focus on addressing poor governance and improving public financial management and revenue performance, improving accountability and efficiency of key service providers, selective reform of key ministries, strengthening community platform and enhancing citizen-state relations (CCAP).	Deepen institutional reforms, extend to more ministries and to subnational levels; further reduce dependence on contract workers by enhancing core government capacity; enhance oversight and accountability arrangements; expand coverage of use of community platform (CCAP)
Promoting Inclusive Growth	Strengthen agricultural inputs and extension where security allows; improve access to finance for micro, small, and medium enterprises; shore up private sector investment through use of de-risking instruments; improve ease of acquiring business licenses; improve regulatory regime for mining sector; depend largely on public sector to drive growth.	Larger critical infrastructure investments linked to key growth sectors; greater use of public-private partnerships; off-grid electricity generation; deepen regulatory reforms and banking sector; diversify to higher value added agriculture; pursue stronger regional integration and trade.
Deepening Social Inclusion	Preserve basic service delivery gains in education and health; explore incentive-based ways to get children to school and keep them there; provide basic social transfers and labor intensive works through community platform; improve disaster management and support for IDPs and returnees; explore ways to get services to insecure areas.	Extend and improve social service coverage, especially its quality; extend social safety net to more of the vulnerable; more effort on managing migration flows; address childhood stunting and adult illiteracy.
Strategic Priority	**Preserving gains**	**Reducing Poverty**

40. **Increased insecurity in parts of the country will mean changes to the way development is delivered.** According to the latest United Nations Assistance Mission in Afghanistan (UNAMA) (July 2016) report for the period April-June 2016, civil servants had access to only about 60 percent of districts, the lowest figure recorded since 2007**,** when access stood at over 80 percent.[19] Increasingly, local communities will be the arbiters of their own development. Many of them will need to broker development space with insurgent groups to allow services to be delivered. This will be easier in some areas than other areas, depending on the level of ongoing violent contestation between different groups. Understanding these local conflict dynamics and

[19] "Civil Servants District Accessibility Report", UNAMA, July 2016.

how local political settlements impact development will become increasingly important for effective service delivery, and even for allowing development to take place at all.[20] Within this new space, as access by civil servants declines, the role of the intermediary agents, whether NGOs or private contractors, will become increasingly critical in mobilizing communities, monitoring projects and articulating the needs of communities upwards through the different layers of administration.

41. Many of the themes of previous ISNs—particularly in supporting state building, service delivery, and private sector development—remain relevant today, but many past gains are slipping and new challenges are emerging. Basic social service delivery is increasingly under threat. Past social service delivery models which assumed state access to rural areas, such as government teachers in primary schools, may need to be re-evaluated. The new normal may increasingly become how to deliver services to many communities where government control is largely absent. The main change in this CPF compared to the previous ISN is to recognize that with growing insecurity and poverty and inequality on the increase, promoting more inclusive growth that includes women, youth, the displaced, residents of lagging regions, and the bottom 40 percent is a more urgent agenda than ever, and that 'a business as usual' approach to service delivery will be inadequate. Increasingly, the issue of displacement and its impact on economic recovery will also need to be factored into the CPF, either through including such support into ongoing or new programs, such as the CCAP and/or providing additional resources to government to help in its response to any sudden new influx of returning refugees and/or internally displaced persons.

42. In addition, continued attention needs to be given to supporting greater social cohesion across the country, in terms of access to basic health and education services in lagging areas and social protection for poor and vulnerable groups. Primary school attendance rates and the ratio of girls to boys attending school are falling in many areas. Innovative solutions will need to be found to getting more children into school. At the same time, greater efforts need to be made to address the high levels of adult illiteracy that pose an unacceptable drag on development. Cash for work schemes linked to urban upgrading or maintenance of rural infrastructure and innovative conditional cash transfer schemes linked to school attendance and nutritional interventions could be piloted to address the needs of poor people in urban and rural areas. Afghanistan's population is increasingly vulnerable to shocks-economic, security, and natural shocks. This is recognized and highlighted in the CPF.

Pillar 1: Building Strong and Accountable Institutions

43. The overall objective is to contribute toward the government's long-term goals of state building and self-reliance, and tackling the underlying drivers of fragility, by strengthening the institutional and regulatory framework for service delivery by strengthening planning, fiscal and public financial management (PFM). It is acknowledged that building strong institutions takes many years and achieving fiscal self-reliance is a long-term aspiration. Over the CPF period, the Bank Group will phase out its investment in the justice sector, in which progress has proved difficult to achieve in the past, while leaving the door open to re-engagement at a later date if circumstances warrant.[21]

[20] "Beyond Capacity and Technical Inputs: The Politics of Education and Health Service Delivery in Afghanistan", World Bank/Afghanistan Research and Evaluation Unit, 2016.
[21] Justice sector reform is critical to Afghanistan's development but will require clear strategic vision and strong political support to be successful.

Objective 1.1: Improved public financial management and fiscal self-reliance

The objective is to strengthen systems for financial management, and the capacity to raise and manage domestic revenues, to improve fiscal self-reliance. The intended outcomes by the end of the CPF would be improved public financial management performance, including increased domestic revenues, enhanced oversight of the budget, more sustainable pension arrangements, and a strengthened dialogue with the government in key policy areas. All of these can still be delivered in a deteriorating environment, although increasing domestic revenues will become more difficult if security deteriorates further and growth slips back.

44. This is a key area for the government and a long running engagement of the WBG in the country and addresses key reforms highlighted in both the London Self-Reliance document and ANPDF (see section 3.1). Efficient public expenditure management is a core function of the state and key to broader service provision. Improvements in financial management processes and customs administration have been substantial, but from a low base. Afghanistan lacks a medium-term public expenditure management framework and processes for monitoring and ensuring transparency of expenditures.

45. On the revenue side, while 2015 saw improvements, Afghanistan still meets only about one-third of its civilian expenditure needs from domestically generated revenues. More donor expenditures need to be brought on budget and options for raising domestic revenue in the medium term explored. Further improvements are needed in public financial and procurement management, in auditing and in coordination of expenditures across agencies. The auditor general's office lacks adequate oversight capacity.

46. Support under the CPF will cover capacity in four broad areas: (i) revenue and expenditure management, including taxation and domestic revenue mobilization, budget policies, and transition to a medium-term expenditure framework; (ii) public financial management, including budget execution, accounting, transparency, procurement, and development of the Afghanistan Financial Management System (AFMIS), which links procurement and other expenditures to treasury functions; (iii) pension management to improve financial sustainability and nationally rollout a pension management information system; and (iv) improved oversight capacity of the auditor general's office, including audit for line ministries and independent agencies.

47. The CPF will continue to support Afghanistan's recurrent budget through ARTF, and a rising proportion of this support will be performance based. The Bank Group will explore the opportunity to strengthen its policy dialogue with the government through financing a development policy grant. The CPF will address longer-term self-reliance issues through work with the government on broad sources of growth, macroeconomic monitoring, public and financial sector management diagnostics, budget prioritization and development planning, and state-owned enterprise governance.

Objective 1.2: Improved performance of key government ministries and municipalities

The objective is to support greater effectiveness and accountability of key service delivery ministries and municipalities to deliver quality services to clients through key interventions to build capacity. This is a cross-cutting objective in all three pillars. By the end of the CPF the intended outcomes are better performing selected line ministries and municipalities planning and executing their budgets effectively, improved delivery of road services, less dependent on contracted staff *outside the civil service, and with more women at senior levels in the civil service. None of these outcomes are directly affected by deteriorating security in rural areas.*

48 Improving the efficiency and effectiveness of government is a key government platform, but there are serious capacity weaknesses across the government in line ministries that are meant to serve poor communities. For too long donors have by-passed weak institutions by establishing PIUs and building capacity outside the core civil service to deliver projects. Over the next four years, the Bank Group will support the strengthening of key government ministries and independent agencies through developing and implementing reform plans and building core capacity within the civil service.

49. The WBG has been involved in civil service reform efforts with mixed results over many years. A major drawback has been the lack of high-level political commitment to making reforms stick. Under the current Afghan administration, the Bank Group has received strong political support for pursuing real change in the performance of key ministries and civil service. The CPF will support a program to provide incentives to help key ministries and agencies clarify their mandates, improve service delivery and accountability to citizens, and adopt clear human resource (HR) practices, including recruiting staff based on merit. Ministries which produce an accepted Capacity Building for Results Plan will qualify for additional funding under the program. At least 30 percent of recruits to the civil service are to be women under the program.

50. Progress in developing adequate institutions and service delivery at municipal level has been limited. Municipalities are the only legally recognized form of local government in Afghanistan but are extremely limited in their capacity to deliver services to a growing urban population. Many urban migrants living in informal settlements are internally displaced or returning refugees. Urbanization has the potential to be a driver of economic growth, but as the SCD highlights, weak institutions lacking accountability and unable to deliver adequate services bring risks of alienation and violence.

51. Kabul, which accounts for 60 percent of the urban population, has particular management challenges. Under the CPF, the Bank Group will continue to support municipal management in Kabul, with a focus on improving infrastructure and developing financial management capacity. It will also support municipal institutions more broadly through capacity support to the Ministry of Urban Development and Housing (MUDH) and Independent Directorate for Local Governance (IDLG) for technical assistance, training, and systems development at MUDH to promote more effective urban management in the context of rapid urbanization. It will also finance spatial planning at the city level and infrastructure project feasibility/design studies to facilitate investments that promote improved municipal service delivery, including enhancement of the knowledge base for decision-making, and support to provincial cities on financial and land management. The Bank Group will explore through collaboration with IDLG support to urban infrastructure upgrading through provision of grants to community-based institutions in informal settlements, initially in four main cities outside Kabul (see Objective 1.3). The details will depend on the government's own emerging priorities in the sector and the design of the CCAP.

Objective 1.3: Improved service delivery through enhanced citizens' engagement with the state

The objective is to strengthen citizen-state relations and improve service delivery by building the capacity of Community Development Councils (CDCs) to implement, plan, and monitor local *service delivery and hold government and service providers better to account. The intended outcome at the end of the CPF is the enhanced involvement of communities through their CDCs in the implementation and monitoring of key development activities in one-third of districts in the country and in selected urban areas. Deteriorating security may reduce the target coverage area over the CPF period as access becomes more difficult; the extent of this will depend on willingness of communities to negotiate development space with insurgent groups and protect CCAP staff.*

52. Considerable progress has been made in citizens' engagement in service delivery at the community level. Citizens' engagement is key to rebuilding social cohesion and trust in the state. Improved access to services also increases citizens' ability to withstand shocks, contributing to resilience. The National Solidarity Program, ongoing since 2003, has helped establish elected CDCs in almost all of the 35,000 villages of Afghanistan, in addition to financing over $1.6 billion worth of local infrastructure. It has involved women in local governance at CDC level. Other projects and service delivery ministries, such as in education, health, and agriculture, are being encouraged to utilize CDCs as an entry point for engagement. But despite such local participation in NSP, most programs are still centrally driven, with funds and decisions made at central government level.

53. Over the CPF period, the government intends to make CDCs the platform for whole-of-government development at the community level. The Bank Group will support the preparation and implementation of the Citizens' Charter Afghanistan Program, which will replace the National Solidarity Program. The government's vision is to provide small service delivery grants to CDCs in rural areas to fund a basic package of infrastructure from a menu, including electricity, basic road access, potable water, and irrigation. In return, CDCs would provide access and safety to service providers, engage in inclusive planning, and ensure that projects are transparently managed. The CDCs will also continue to ensure strong representation by women, and the CCAP will undertake specific mapping of women's mobility and socio-economic status.

54. Health and education would continue to be the responsibility of the health and education ministries, but the capacity of CDCs would be strengthened to monitor, plan, and hold these ministries to account against agreed service delivery standards. The CDCs would be linked to district and provincial administration. An urban sub-component in a select number of cities (Kandahar, Herat, Mazar-e-Sharif, and Jalalabad) will support service delivery linkages between the CDC, cluster/*gozar*, and urban district and municipal councils, with view to improving urban services, especially in informal settlements and short-term employment through labor-intensive public works and cleaning activities. Urban CDCs would receive a block grant to fund these activities. Over the CPF period, one-third of the country, or a total of 8.5 million people, focused on the poorest districts in each province would be targeted. However, the government recognizes that the rollout of the program will be impacted by security. Only the most secure districts will be selected in the first instance.

Pillar 2: Supporting Inclusive Growth

55. The overall objective of this pillar is to promote inclusive growth that includes women, youth, and poor people, particularly in lagging regions. This will require strong public sector engagement and support to the private sector to improve the enabling environment for business, including access to risk insurance and partial risk guarantees, PPPs, financial sector deepening and improved access to finance by SMEs; more widespread and reliable access to energy, transport, and information and communications technology infrastructure, with a focus on improving connectivity, access to markets, and enhancing integration of lagging areas within the country and regionally; strengthening agricultural productivity, value-added chains, and job creation in both rain-fed and irrigated areas; and supporting the sustainable development of extractive industries. The selectivity of interventions will be guided by a conflict and fragility lens. Urban development is treated under Pillar 1 as part of the Bank Group's support to municipalities and the CCAP.

Objective 2.1: Improved business regulatory environment and access to finance

The objective is to support interventions that aim to strengthen the enabling environment for private sector–led growth, including ease of doing business, assistance to SMEs in accessing finance, including by women. The intended outcomes by the end of the CPF period are an improved investment climate for private sector activity, inclusive financial access by the private sector, especially with more women accessing finance, a more stable and efficient financial system, an improved and better regulated land market, and streamlined license procedures to establish formal businesses. Many of these reforms may be carried out even in a deteriorating security environment, but restoring business confidence will depend on an improving security environment.

56. The constraints to private sector investment are cross cutting and extensive. Key constraints include political instability, insecurity, corruption, and access to land, finance, and electricity. Other constraints include trading across borders and enforcing contracts. Only 2 percent of firms use banks to finance investments, an indication of the poor development of the banking sector.

57. The CPF will support regulatory reforms and capacity building to facilitate business development. The Bank Group is implementing a comprehensive advisory service program on improving the investment climate through construction permit and business licensing reforms and the subnational Doing Business project, aiming at easing bottlenecks for the benefit of the private sector while supporting SME market development in major cities. IFC will continue to enhance the business performance and help increase the revenues of smaller enterprises by developing their managerial capacities through its Business Edge product. Recognizing the importance of transparent land policies, the CPF will initiate engagement in land administration through supporting the Afghanistan Independent Land Authority to deliver transparent, pro-poor land services, including land registration; the activity will also benefit rural and urban communities by facilitating development of land markets.

58. The ability of financial institutions in Afghanistan to deliver both long-term and short-term financing is severely constrained. This has inhibited long-term investments by households and the ability of firms to borrow money to expand. To develop a long-term sustainable financing market will require well-functioning insurance, pension, and bond markets. Afghanistan is still a long way from developing such markets, but much more can be done to strengthen the financial sector by improving the regulatory environment and addressing weaknesses in the credit market. The Insurance Law of 2008 needs to be enhanced and both Islamic and conventional products need to be introduced. The World Bank and IFC will continue to support the Afghan financial sector in SME financing and facilitate the introduction of Sharia compliant financing products. Building on the ongoing World Bank support to the sector's financial infrastructure, more efforts will be directed to scaling up digital finance Furthermore, IFC is working with commercial banks—and other private sector entities—to improve their corporate governance through its advisory services programs.

59. The Bank Group will support increased financial intermediation to deepen the financial sector and support inclusive access to finance through support to capacity building of and investment in micro, small, and medium enterprises. This would include working closely with the central bank, Da Afghanistan Bank (DAB), to strengthen its capacity to supervise and regulate the banking sector and strengthen financial sector infrastructure, including introduction of e-payments. The World Bank and IFC will jointly support the central bank in the areas of automation of credit bureaus, development of Islamic and mobile banking guidelines, development and implementation of laws on foreclosure and mortgage lending and aim at extension of outreach to rural areas and to further improve women's access to finance and enterprise development. IFC will support the introduction of innovative financial instruments, including possibly risk-sharing and partial credit guarantee instruments to facilitate financial intermediation and lengthen the maturities of bank credit to SMEs. The CPF will also support the development of low income housing financial instruments. The Bank Group will partner with the government in developing a National Financial Inclusion Strategy (NFIS) and implement a roadmap for supporting DAB, MoF, the Microfinance Investment Support Facility for Afghanistan, and other financial institutions to enhance financial products and inclusive financial access. This will be augmented by supporting improvements in the operating environment for both private and state-owned banks, as well as non-bank financial institutions, which will include strengthening corporate governance. The Bank Group will ensure that programs use gender disaggregated data wherever possible and provide strong support to greater participation of women in the economy.

Objective 2.2: Improved domestic and regional integration (transport, trade, and ICT connectivity)

The objective is to support improved transport and ICT connectivity both within the country and with regional neighbors to facilitate communication, trade, and access to services. The intended outcomes by the end of the CPF period are improved access to markets, improved regional and local internet connectivity, and reduced trade barriers. Growing insecurity in rural areas may pose a risk to the ability of the government to build and maintain roads—this may be mitigated by hire of labor from local communities and community maintenance contracts. Broader regional integration will be susceptible to fluctuating shifts in Afghanistan's political relations with neighbors.

60. Improving transport and ICT connectivity is key to improving Afghanistan's growth prospects and ensuring greater regional integration. Afghanistan by virtue of its geographical position at the crossroads of Central and South Asia is well placed to become a regional transit hub. Improved road access reduces transport time and costs and facilitates trade and access to basic services. There has been impressive progress in ICT development over the last five years, with dramatic cost reductions for both mobile phone and Internet access, but there is potential for much stronger ICT connectivity.

61. Despite progress over the last 10 years, only 58 percent of Afghan citizens have basic access to an all-weather road. The Bank Group will continue its support to rehabilitate rural roads, but with a greater focus on sustainable maintenance of these roads; use of community monitoring and grievance mechanisms will help ensure local ownership. In addition, the Bank Group will support a large road rehabilitation project across the Hindu Kush range in order to support national and regional connectivity with Central Asia; this road will also improve connectivity for the populations of the Northeast and Central regions, which have the highest poverty rates in Afghanistan.

62. The Bank Group will also support development of a regional approach to improving broadband Internet connectivity in Central Asian countries by catalyzing private sector investment, infrastructure sharing, and modernizing policies and regulatory frameworks. The program will aim to develop Afghanistan as a regional telecommunications connectivity hub but will also improve the connectivity of Afghan citizens and small enterprises, and potentially foster innovation in public services, including in e-government.

63. Improved cross-border trade is an important long-term objective. Afghanistan has a relatively low tariff structure. Under the CPF, the Bank Group will continue to support trade facilitation by supporting dialogue with Central Asia-South Asia (CASA) countries to identify areas for improved trade and investment cooperation. Several important customs and trade agreements have been signed. Afghanistan joined the World Trade Organization in 2015, and its membership will also provide further access and rights to transit. Analytical work on a trade-driven growth model will be undertaken.

Objective 2.3: Increased power generation and access to electricity

The objective is to improve access to electricity for households, businesses, and public services through additional power generation (with a focus on renewable energy). The intended outcomes by the end of the CPF are increased access to both on-grid and off-grid electricity, reduction in distribution losses as well as improved regional energy cooperation. In remote areas of Afghanistan off-grid electricity is more resilient to insecurity than on-grid electricity as transmission lines have been subject to attacks by insurgents since 2015, and as centralized generation plants presents potential targets. Off-grid electricity will, thus, be a particular focus.

64. Afghan citizens have extremely limited access to electricity, impeding economic and human development. Afghanistan currently has one of the lowest rates of electricity usage in the world (154 kilowatt hours per person). While overall electricity access is only about 30 percent, there are substantial geographical differences. About 89 percent of the population have access in the larger towns, while only 11 percent of the population in rural areas are connected to grid electricity. Despite improvements, there are reliability issues and transmission lines are vulnerable to sabotage. About 70 percent of the current supply of 1,450 megawatts (MW) are imported at present. Even those who are currently supplied are subject to frequent power outages and low quality electricity supply. Capacity to manage sector development is weak.

65. The CPF will have two areas of focus. First, it will support increasing energy supply through local power generation and regional cooperation initiatives, such as CASA 1000.[22] This is supplemented by investment support for expanding grid access for electricity. Second new modalities of finance under joint IFC and World Bank partnership will be explored, such as construction of a gas to power plant in Mazar-e-Sharif by an independent power producer (IPP); this would be the first in the country and would create a template for future IPPs as well as demonstrating successful private investment in the country’s power sector. IFC is also exploring opportunities to engage with ‘Scaling Solar’, a ‘one-stop-shop’ for governments to rapidly mobilize competitive privately funded grid connected solar projects, for which the World Bank and MIGA could provide guarantees. Furthermore, IFC aims to expand the off-grid market and facilitate access of 250,000 Afghans to affordable solar lighting solutions. The Bank Group will prioritize support to rural electrification to bring modern energy to more rural families and reduce regional

[22] CASA 1000 supports sustainable electricity trade between Tajikistan, Kyrgyz Republic, Afghanistan, and Pakistan through the construction of a transmission line, and includes a $316 million IDA grant to Afghanistan. It will increase electricity supply to Afghanistan by 300 MW, more than 20 percent of current supply.

gaps. Renewables are becoming least-cost choices to providing electricity to remote communities that cannot be connected to the electricity grid in the near future.

66. A comprehensive assessment of the energy sector is ongoing under the heading of the 'Afghanistan Energy Study', to increase the knowledge base on viable rural and urban connectivity, including for women, and inform future programs. The Bank Group will also help to improve the capacity of the main electricity utility, Da Afghanistan Breshna Sherkat (DABS), in hydropower operations, electricity distribution, investment planning, implementation, and operation and maintenance (O&M).

Objective 2.4: Increased agricultural productivity

The objective is to contribute to improved productivity and resilience in the agricultural sector. By the end of the CPF the intended outcomes are improved access to key inputs and agricultural extension services, enhanced agribusiness opportunities, and improved land and water management, including an expanded area under irrigation. Many of these will be subject to the ability of government or contracted extension workers to access rural areas, but the risks may be mitigated by use of CDCs to support interventions.

67. Agriculture provides 25 percent of GDP but 56 percent of employment and is potentially the most important driver of inclusive growth and job creation in the country. Exports and the manufacturing sector are both predominantly agriculture related. The sector is, however, highly vulnerable to weather variations, especially drought. Two-thirds of agricultural value added is from irrigated agriculture, and agricultural water management is key to sustainable sector growth. There is also scope to increase productivity in more remote rain-fed areas and in the livestock sector.

68. The 2014 Agricultural Sector Review recommended a two-pillar approach: (i) developing prioritized value chains, especially in horticulture, livestock, and irrigated wheat by enhancing marketing potential; and (ii) addressing the needs of poor rural communities through broader agricultural productivity and rural development measures. The CPF will support improved productivity, resilience, and value chains, through continued support to irrigation and community-based small rural enterprise. It will also support agribusiness entrepreneurship development and access to finance and knowledge, through enhanced access to quality agricultural technologies and inputs, including certified seeds, and through productivity and value chain development. In addition, it will provide support to establishing a grain reserve to be utilized in response to unforeseen emergency situations.

69. In recognition of the importance of the sector in job creation, studies are planned on job creation in agriculture and on agribusiness as part of a broader competitiveness review. IFC will continue its support for the agriculture sector through advisory services for leading agribusiness firms, while MIGA will continue its support for existing projects in the dairy and cashmere processing segments, and will consider further guarantees in the agribusiness sector as opportunities emerge.

70. Improved water and land management will contribute to increased productivity and inclusive growth in Afghanistan. The government has identified sound water resource management as critical to sustainable economic development. Afghanistan, with an annual per capita availability of water of more than 2,000 cubic meters, experiences wide regional and seasonal variability. Irrigation has accounted for more than 90 percent of water use but demand from other sectors is increasing. Climate change will impact hydrology and agriculture negatively, as the snowpack in the Hindu Kush is reduced. These challenges highlight the need for Integrated Water Resources Management (IWRM) and improved dialogue with riparian countries.

71. The CPF will support improved water management through (i) better irrigation water and drainage, and increasing water and agricultural productivity; (ii) better resource management of both groundwater and surface water, hydro-meteorological services and monitoring, erosion control, and dam safety; and (iii) trans-boundary dialogue on IWRM. The broader aim is to enhance capacity for increasing productivity and resilience to climate variation and change. The CPF will support a Natural Resources Management and Climate Resilience technical assistance initiative, which will form the basis for a natural resources and disaster risk management program.

72. Although other donors have supported municipal water supply, the CPF will also support rural water and sanitation through the Citizens' Charter Afghanistan Project, and hydro-electric power development. The technical assistance will support updating water and irrigation policies, institutional coordination, and broader IWRM. There will also be more focus on sustainable land management during the CPF period, given its role in resilience and poverty reduction. Rural Afghans, especially in remote areas, depend on natural resources but the productivity of all these activities is weather dependent.

73. Livestock is perhaps the most inclusive production activity in Afghanistan, being widely owned, including by semi-nomadic groups. For small farmers, livestock production also has valuable potential as part of a diversified set of activities to replace opium poppy production. Afghanistan is a large importer of livestock (meat, poultry, egg, and dairy); any increase in local production can gradually replace imports, and help improve the food security/nutritional situation in the country.

Objective 2.5: Improved regulatory environment for extractive industries

The objective is to support improvements in policies, regulatory capacity, and enabling infrastructure for transparent and sustainable development of the extractives sector as a future driver of broader development and growth. The intended outcomes by the end of the CPF are an enhanced governance and transparency regime for the mining sector and the gradual attraction, security allowing, of private investment to key resource corridors linked to the mining sector. Conflict is a particular threat to the mining sector and informs the strategy to start with smaller 'proof of concept' initiatives to test the environment.

74. Afghanistan is richly endowed with a wide range of minerals, including copper, coal, iron ore, gold, oil and gas, and lithium. However, many smaller mining operations have been captured by elites, and while large-scale operations can provide important revenue to the government they do not directly generate many jobs. Enhancing governance and developing large-scale resource extraction are long-term agendas. The Bank Group would continue to assist the Ministry of Mines and Petroleum and the National Environmental Protection Agency to improve regulatory capacity, foster private investment, manage environmental and social issues, and facilitate participation in the Extractive Industries Transparency Initiative (EITI). The strategy would be to focus on smaller 'proof of concept' initiatives that would test the governance and regulatory regime for mining and gas, and from which successful operations could be grown at a later date when the environment is right and the regulatory regime more robust. Support is also planned for a resource corridor approach to enhance private investments and SME linkages in key resource corridors in the country. The program would be developed in close coordination with other development partners.

Pillar 3: Social Inclusion

75. After nearly 40 years of conflict Afghanistan is a deeply divided society. Providing equitable access to education and health services are important ways to mend the social fabric and support growth and build resilience. As past gains risk being eroded, with primary school attendance declining and fewer girls going to school, much more needs to be done to ensure equity of access to quality services for all. Improved performance in human development is a critical priority, particularly to reduce the very high levels of childhood stunting and large numbers of children out of school. Investing in education and skills development will help foster income opportunities and help drive future growth; moreover, access to quality healthcare and improved social protection coverage will reduce the vulnerability of poor people and enhance their ability to participate in and contribute to growth. At the same time, the poorest members of society are increasingly vulnerable to natural disasters and bear the brunt of slow government response. The Bank Group will seek to strengthen capacity to plan for and mitigate the impact of and accelerate recovery from natural disasters.

Objective 3.1: Improved human development

The objective is to support improved access to quality education, skills training, and basic health and nutritional services. The intended outcomes by the end of the CPF in education are improved primary school completion rates, a halt to the slide in ratio of girls to boys attending primary schools, and an improvement in the quality and employability of graduates from higher education and skills training institutes. In health, the outcomes expected are improved skilled birth attendance rates, improved immunization rates, and better access to health services in remote areas, as well as improved nutritional services for under-fives. Most of these outcomes are heavily contingent on a conducive security environment, and will depend on strong community support to negotiate access and/or delivery by non-government entities in areas where government workers cannot access.

76. Following an impressive decade, gains have stagnated in primary school enrollment, especially of girls, and large numbers of children remain out of school. Enrollment growth in religious/Islamic schools has on the other hand grown by more than 10 percent annually. A recent learning assessment of grade 6 students indicated that many failed to meet basic standards of literacy and numeracy; there are widening gaps in attendance between children who are poor and those who are not. While the number of vocational training students has increased from 9,000 in 2009 to 62,000 in 2013, there are quality, relevance, and employability issues concerning the training they receive.

77. The forthcoming National Education Sector Plan (2017-2021) lays out the government's vision over the next five years and will inform CPF engagement. A holistic approach must underpin the education program in Afghanistan. The challenge will be balancing increased access at all levels with improving learning outcomes. In a fiscally constrained environment this will be difficult given that millions of children still do not go to school, and a priority must be to get them into school. The Ministry of Education (MoE) faces management and coordination issues and education policy also struggles to reconcile pressures for modern and traditional education systems and over linguistic differences. Information systems for human resources and school-level data management need improving and gender and broader diversity issues need to be addressed. There are also serious weaknesses in expenditure prioritization and monitoring.

78. **In the CPF, the WBG will take stock of its engagement across the education sector with a view to developing a more focused program of support based on results.** In basic education there will be increased emphasis on quality, governance, and improved efficiency, and the need to better support and target those parts of the country where attendance rates are slipping. These are also often the most insecure areas. In these areas the Bank Group will explore innovative service delivery approaches, including community-based education, support to religious schools that offer the national curriculum, and use of conditional cash transfers when economic factors represent the primary reason for non-enrollment.

79. **Higher Education support will focus on increasing the number of graduates with employable skills and using results-based financing**, which will be the preferred modality for the Bank's new education projects. The Bank Group will support a strategic reassessment of the education sector, including education spending, teacher governance, and classroom practices. Governance-related work will address teacher absenteeism and salaries. This analytical work will inform the new lending program and strengthen policy dialogue. Finally, there is scope for reforms, including improved monitoring and expenditure management, under the ARTF Incentive Program (IP).

80. **Building on the basic education efforts, the Bank Group will explore opportunities to more vigorously tackle malnutrition and early school readiness (see also health section) and also to foster on-the-job skills acquisition**. The Bank Group has initiated a pilot to support nutritional awareness and cognitive stimulation with the support of the South Asia Food and Nutrition Security Initiative (SAFANSI). The results of this pilot will inform the proposed new basic education project. The Bank Group will also reassess its support to skills development to be more market oriented and increase the employability of graduates. The strategy for skills development will further extend to on-the-job skills development, recognizing that the acquisition of cognitive, non-cognitive, and technical skills for better employability is an interconnected process through experiences at home, at school, and at the workplace. Therefore, the Bank Group will support on-the-job skills development through apprenticeship/internship programs. Furthermore, the Bank Group will support tailored pre-departure and on-the-job skills interventions for Afghan jobseekers to take better advantage of managed international labor mobility.

81. **Adult literacy rates in Afghanistan are extremely low, particularly for women (19 percent compared to 49 percent for men) and act as a considerable drag on welfare and growth**. Although the Bank Group does not have an immediate comparative advantage in supporting adult literacy, it can play a convening role to leverage resources from NGOs, the Global Partnership for Education, and other non-traditional partners to this effort.

82. **The Bank Group has supported the health sector since 2002, and progress has been impressive.** There have been reductions in child and maternal mortality (from 255 to 97 per 1,000 and from 1,600 to 327 per 100,000 since 2001, respectively), increases in life expectancy (from 43 in 2001 to 62 in 2014), and greatly improved access to a package of basic health services, focusing on high impact maternal and child preventive and promotive services. But there has been less progress in some key areas, such as child nutrition, family planning, and immunization. Childhood stunting linked to poor nutrition is 41 percent, among the highest rates in the world. The numbers of trained midwives remain insufficient.

83. Afghanistan spends a relatively large share of its GDP (8 percent) on health. The per capita total health expenditure of $55 is also relatively high. However, nearly three-quarters is financed by households, 20.8 percent by donors, and only 5.6 percent from the government budget. The Ministry of Public Health (MoPH) contracts NGOs to deliver an agreed package of health services in most provinces, with independent results monitoring and evaluation arrangements. Over the first two years of the CPF, the Bank Group will assess options for improving the efficiency, equity, and quality of this approach using international as well as Afghan experience. MoPH is developing a strategy to increase the effectiveness and affordability of health delivery systems, with the overall intention of achieving universal health coverage

84. The Bank Group will scale up its engagement on nutrition during the CPF period. The objective is to enable the Government of Afghanistan to address maternal and child chronic malnutrition in a coordinated manner. A cross-sectoral strategy will include actions in health, nutrition and family planning, agricultural development, early childhood education, water and sanitation, and community health service delivery. There is an opportunity to foster awareness and local leadership for addressing malnutrition at community level, especially through the CCAP. The Bank Group will work with other development partners to foster government leadership to tackle undernutrition in a cross-cutting and integrated way. Options to develop a conditional cash transfer system linked to improving nutrition will be explored. The nutrition components of the ongoing Basic Health Program need greater operationalization. Other entry points for different sectors include support to horticulture and livestock development, scaling up the SAFANSI, and supporting the private sector to improve food fortification.

Objective 3.2: Enhanced social protection for poor and vulnerable people

The objective is to increase the coverage of poor people with targeted social protection transfers paid on a regular and predictable basis or cash for work opportunities on labor intensive schemes. The intended outcomes by the end of the CPF are to have established a broad-based social safety net to protect the poor and vulnerable as well as improved targeting and delivery of safety net interventions. Increasing insecurity will mean the program will only be targeted on the more secure districts. This may mean the need to further refine the targeted coverage over the CPF period if conditions continue to deteriorate.

85. Afghanistan's risk and vulnerability profile shows the need for a broad-based social safety net for poor people. Over the past decade, the safety net schemes aiming to address poverty and vulnerability were largely fragmented, and consisted mainly of emergency humanitarian interventions financed off-budget, including short-term food or cash for work programs estimated to reach about 12 percent of poor people. As a result of decreasing funding for humanitarian assistance and increasing needs, the humanitarian response is tightly focused on saving lives. Meanwhile, for safety nets to fulfill their potential to help households manage risk, evidence shows they should be regular, predictable, and effectively targeted at those in need. Under these conditions, safety nets are an efficient and effective policy instrument to increase food security, reduce harmful coping strategies (such as sale of productive assets), and increase consumption among poor people.

86. The Bank Group has assisted the Ministry of Labor, Social Affairs, Martyrs and Disabled to develop targeting and delivery systems for safety net interventions, and to pilot the delivery of cash transfers to the poorest families with children in five districts. Early evidence suggests the safety net pilot successfully introduced a transparent and efficient targeting method, technology-based payments through mobile network operators and banks, and strong monitoring and evaluation mechanisms, laying the foundation for scalable, targeted cash transfers systems to be implemented.

87. **During the CPF period the Bank Group will support the government's efforts to scale up targeted cash transfers where opportunities exist and the risks can be effectively managed.** The objective is to extend the coverage of social protection for poor people, with focus on women and children, and explore opportunities of introducing conditional cash transfers. The scaled-up cash transfer could serve as a delivery platform for demand-side incentives to boost take-up of nutrition linked interventions among poor communities and encourage parents to send their children to school in lagging areas. The Bank Group will coordinate closely with humanitarian and development partners involved in cash transfers programming to ensure the downside risks of poor targeting and potential leakages can be managed. The current increase in the conflict calls for a dual track approach, balancing humanitarian and development needs under different security scenarios. Predictable cash transfers (conditional and unconditional) will be considered in more secure areas, where the program can be rolled out.

Objective 3.3: Improved government and community capacity to manage and respond to natural disasters

The objective is to improve government and local community capacity to prepare for and respond to natural disasters in a timely and effective manner through use of improved multi-hazard risk information, resilient infrastructure designs, and hydro-meteorological services. By the end of the CPF period the outcomes expected are to have strengthened resilience in key government programs and improved community capacity to manage and respond to emergencies. Outreach to communities will be restricted to secure areas, where the CCAP is able to operate effectively.

88. **Afghans are highly exposed to shocks, particularly natural disasters and climate-related shocks, which affect a far greater share of the population (59 percent), especially in the poorer regions, than do security-related shocks (15 percent).** Afghanistan is likely to face longer and more intense droughts, but also floods, as climate changes. Parts of the country are also vulnerable to avalanches and to earthquakes. Instruments to mitigate the impact of shocks increase the ability of families to cope and recover, and could play an important role in poverty reduction strategies. It will be important over the CPF period for the WBG to support the INDC vision to enhance the adaptive capacity and resilience of its agriculture, environment, and population to climate change, while developing and implementing a low emissions development strategy. The Afghanistan National Disaster Management Authority (ANDMA) lacks capacity at central and, in particular, at subnational level; programs have generally been fragmented and small scale, and have focused on post-disaster response rather than on disaster prevention and planning.

89. **The Bank Group engagement in natural disaster risk reduction is recent, but in view of the impact on poverty is being scaled up under the CPF**. The focus will be on strategic engagement and capacity building, working with CDCs through the Citizens' Charter program, ANDMA, and key line ministries, such as the Ministry of Public Works (MoPW), MoE, MEW, MUDH, and Ministry of Rural Rehabilitation and Development (MRRD), on multi-hazard risk assessment, developing a roadmap for an early warning system and strengthened hydro-meteorological services, as well as mainstreaming disaster risk management across World Bank-financed programs to ensure greater resilience of the portfolio.

3.3 Implementing the Afghanistan Country Partnership Framework

3.3.1 Cross-Cutting Issues in CPF Design and Implementation

90. Improving governance and tackling corruption, empowering women, developing institutional capacity, tackling climate change, and building a more socially inclusive society are all cross-cutting themes. Improving governance through building a more responsive, capable, and accountable state is a critical cross-cutting theme of the CPF. Tackling corruption is an important area of governance and is addressed in each pillar of the CPF. IFC will continue to work with its clients to improve corporate governance in the private sector as well. In recognition of the climate-related shocks that affect in particular Afghanistan's poorest citizens, the CPF includes, for the first time, explicit measures to increase resilience to climate variability and change, such as planned energy engagements with a focus on sustainable renewables to tackle climate change, and to develop capacity for early warning and response to natural disasters. Finally, the CPF addresses directly the need for greater social and economic inclusion, in the interests of ensuring a more equal and just society.

Gender

91. The NUG's strategy for women's empowerment is based on three pillars: (i) continuation of Afghanistan's commitments to end discrimination and violence against women; (ii) government leadership to provide increased educational and employment opportunities to women and girls; and (iii) reforming public sector employment to end workplace gender harassment, unjust treatment of female prisoners, and insufficient support to female police officers and other government employees. The country has one of the world's lowest rates of female labor force participation at 19 percent, and only 25 percent of women are engaged in paid employment. Beyond labor markets, women are significantly disadvantaged in other dimensions of economic empowerment, such as ownership and inheritance of land and other family assets. The NUG strategy mandates development of a National Economic Empowerment Plan for Women. Women's economic empowerment has important implications for social inclusion and poverty reduction; it also increases women's self-esteem, sense of dignity, and social cohesion.

92. In 2013, the Bank Group conducted a country gender assessment of Afghanistan.[23] The findings have informed the WBG's gender strategy in Afghanistan, which involves (i) building a knowledge base and improving the collection of gender-disaggregated data; (ii) empowering women economically in key markets, enhancing their roles as producers in the rural economy, and increasing opportunities for employment and entrepreneurial activities; and (iii) strengthening women's involvement in the more socially acceptable sectors (i.e., health, education, and the civil service).

93. The CPF will support development of a platform on gender and social inclusion to help the government promote gender equality and will contribute to achieving the objectives of the government's National Priority Program on Women's Economic Empowerment. It will provide a framework for organizing and consolidating the collection and analysis of gender data, improving the monitoring and evaluation of gender-related activities, and support targeted operational, analytical, and knowledge work. For example, a planned study on linkages between

[23] "Women's Role in Afghanistan's Future—Taking stock of Achievements and Continued Challenges", World Bank, 2013.

gender and the energy sector will inform better design of energy interventions. Furthermore, the CPF will operationalize the Country Gender Action Brief, in which key gender gaps and instruments to address them are identified. Box 1 provides examples of how the Bank Group is addressing women's concerns.

Box 1: Gender Focus in World Bank Group Programs

Programs across the portfolio target women's inclusion. Under Pillar 1, the Capacity Building for Results project (CBR) has a 30 percent quota for recruitment of civil servant positions, while the NSP mandates women's representation on CDCs.

Under Pillar 2, almost 50 percent of the more than 67,000 beneficiaries of the ongoing Afghanistan Rural Enterprise Development Project are women; an impact evaluation focusing on rural women has informed design of the follow-on project and the Women's Economic Empowerment pilot project, which seeks to expand women's financial inclusion. The National Horticulture and Livestock Project has supported more than 34,000 women in establishing 'kitchen garden' production units, and additional financing will expand this program geographically. Additional financing to the New Market Development Project will include training and business support targeting women. The Irrigation Program has appointed women as social inclusion assistants to reach out to women, both as farmers and non-irrigation water users, and encourage their involvement throughout sub-project development. IFC's support to the First Microfinance Bank of Afghanistan has reached out to about 60,000 borrowers, of whom 16 percent are women. In regard to capacity building, IFC's Business Edge program has successfully trained almost 10,000 individuals, of whom 43 percent are women. Follow-up support will expand this**.**

Under Pillar 3, the focus on expanding access to health and education services adapted to women's priorities will be continued, together with programs to increase the numbers of women education and health workers. The increased focus on nutrition will target women and young children. Social safety nets will also target female-headed households. Early warning systems for disaster risk mitigation also include gender-focused actions. Seventy percent of Bank Group projects have gender focal points in related line ministries and are encouraging gender-balanced staffing.

3.3.2 Expected financial envelope, including possible IDA allocations

94. The financial envelope for the overall program will be determined only as IDA 18 is finalized and new ARTF commitments are confirmed. Annual IDA and ARTF commitments to Afghanistan have been around $200 million and $900 million respectively during the IDA17 period. IDA18 allocations are expected to be increased in line with the ongoing replenishment discussions that aim at shifting a larger share of resources to fragile and conflict-affected countries. The exact size of the IDA18 envelope will be determined when the negotiations are concluded in December 2016, but, given the significant unmet needs in the country and large pipeline of projects Afghanistan has developed, even significant increases in IDA allocations can be absorbed. Much of the ARTF allocation is already committed to ongoing or recently agreed new programs up to 2020, so the main flexibility to respond to new initiatives over the CPF period, unless ARTF resources increase, will depend on IDA 18 resources.

95. **IDA resources underpin the Bank Group's long-term engagement and commitment to Afghanistan**. IDA's active portfolio in Afghanistan is about $1 billion. IDA financing allows flexibility to the Bank Group to support innovative and sometimes untried approaches, or to respond to new opportunities, or fill important gaps in the portfolio. With much of ARTF already fully committed to existing or pipeline projects, IDA 18 will provide the necessary flexibility for the program to respond to new government requests fully aligned with this CPF, such as additional support in education and health service delivery, expansion of social safety nets and urban development.

96. Where possible, the Bank Group will tap into IDA18's proposed Private Sector Window to increase private investments in Afghanistan as well as regional IDA resources to finance regional integration initiatives in transport, energy, and trade and ICT connectivity. The Bank Group and government are continually seeking ways to enhance regional cooperation. The Bank will also try to make greater use of internal Bank Group trust funds to support the emerging investment priorities of the government.

97. A key element in the 'how' of operations will be greater emphasis on agreed reform benchmarks, on continued intensive policy dialogue with government and development partners on priorities for ARTF and IDA, and on monitoring results. There is strong complementarity between IDA and ARTF. The special themes in IDA 18 on Climate Change, Gender and Development and Fragility, Conflict and Violence, together with the new proposed themes on Jobs and Economic Transformation and Governance and Institution Building, all have particular resonance for Afghanistan. Together with the proposed scaling up of IDA, the proposed IDA18 IFC-MIGA Private Sector Window (PSW), and the scaled up regional window in IDA18, Afghanistan should be in a strong position to explore eligibility for these proposed new global commitments. Aligned to its existing ARTF-funded program, which has been used to support mostly large, well-tested core programs, such as the National Solidarity Program (and now the Citizens' Charter Afghanistan Program), and education, health, rural road access, and recurrent budget support programs, IDA funds would provide the opportunity to complement and supplement these programs, as well as fund new ones. There may be an opportunity to prepare an IDA-funded development policy grant (DPG) to support key policy reforms as well as, conditions on the ground allowing, selected larger infrastructure investments. The planned DPG will complement the ARTF Recurrent Cost Window (RCW)/ Incentive Program in terms of scope and reform benchmarks. [24] Also, as the Bank Group considers formalizing the IP in the form of a World Bank financing instrument, the IP can become a fully harmonized multi-donor approach to supporting the government's reform agenda.

98. IFC and MIGA will seek to scale up their operations in Afghanistan over the CPF period. IFC's current portfolio in Afghanistan is $53.92 million. Contingent on the security situation, improved investor sentiment, and institutional/policy reforms to support greater private sector investments, IFC will aim to expand its commitments in Afghanistan to a cumulative investment of between $75 and $80 million over the CPF period. Further scaling up could be achieved through proposed IFC-MIGA Private Sector window in IDA18, that would use innovative financing tools/mechanisms, such as blended finance and first loss, and project de-risking, combined with capacity building to leverage private sector investments. This would translate into sustained support to financial institutions and an expansion of IFC's investment and advisory activities in priority areas, such as infrastructure (power), telecommunications, financial markets, and agribusiness sectors, among others.

[24] The ARTF RCW/IP is an innovative, budget support type operation, which finances a significant part of the civilian recurrent costs of the government. The IP window in the RCW is performance based and is intended to support fiscal stability and a reform program. The IP has evolved over the years. Over the CPF period the intention is to regularize the RCW/IP within the Bank Group operational framework as a hybrid 'program for results' and 'development policy' operation.

Box 2: Scaling Up WBG Engagement with Private Sector in Afghanistan

The proposed IFC-MIGA Private Sector Window in IDA18 provides a tool for de-risking project financing to scale up investment and mobilization of private sector capital.

- *Guarantees:* restructured partial risk guarantees accounting for local context/market specific risks and contextualized according to private sector needs
- *First Loss Risk Sharing:* facilitate expansion in critical areas like energy, financial inclusion
- *Blended Finance:*
  - Provide hedge for currency devaluation for equity investments and performance incentive. Reduce local currency pricing by blending IFC's hedged credit lines priced commercially with donor funds priced at a discount.
  - Subsidized pricing for products (senior loans, subordinated loans, partial credit guarantees, etc.) in line with commercial rates available in the market.

Leveraging IFC Advisory Services and IDA Technical Assistance (TA) for Scaled Up Support in Afghanistan:
Systematic capacity/institutional building of government in high potential sectors, and capacity building of private sector sponsors to achieve scale in FCS markets where lack of adequate capacity for project preparation and implementation hamper private sector investment. The following measures, by tapping into IFC Advisory Services/IDA TA, can lead to enhanced outreach:

- *Developing PPP models in key sectors, such as power and infrastructure, etc., to include IFC Advisory Services and World Bank TA*
- *Creating a project preparation and development fund*

99. IFC will continue to maintain a strong and diverse advisory program in Afghanistan, which will pave the way for improvements in the business environment and strengthening of institutions to facilitate sustained private investments in a fragile context. As of April 2016, IFC's active advisory portfolio in Afghanistan amounts to $9 million, and IFC will work closely with other donors to increase its advisory support in existing and new areas that emerge as Afghanistan transitions to the next phase of development during the CPF period.

100. MIGA currently has $117.5 million in gross exposure in Afghanistan, consisting of guarantees supporting projects in the information, communications, and agro-processing sectors. Moving forward, MIGA stands ready to provide additional support as demand arises, particularly as part of a Bank Group approach and with a focus in the finance, manufacturing, agribusiness and services, and infrastructure sectors.

101. Since reconstruction started in 2002, Afghanistan has relied on grant aid to finance development. Although it remains the world's highest recipient of aid, new aid commitments have been in decline since 2012 and, even if maintained at or near current levels, will be insufficient to accelerate growth and reduce poverty. The Bank Group will assist the government to explore new sources of development finance, to reduce risks for private sector capital investment in large infrastructure projects, especially in energy, transport, and urban development. It will encourage use of political risk guarantees via IDA Partial Risk Guarantees and MIGA's Guarantee Program, including the Small Investment Program supporting SMEs; and on attracting foreign direct investment from private sector investors, e.g., increasing the possible participation of private sector investors in public-private partnership projects. The CPF also supports reforms to improve the enabling environment for investment.

102. Figure 6 provides a list of tentative pipeline projects for the 2017-2020 period.

(i) The diagram includes ARTF support for recurrent costs, which is the largest single activity in the CPF and will likely continue at a level of about $400 million per year over the CPF period. An increasing proportion will be subject to progress on reform benchmarks, including revenue collection targets; operation and maintenance spending; and structural reforms in key sectors, such as customs management, tax administration modernization, business licensing, and land governance.

(ii) To enhance quality at entry, the preparation of new projects will be supported by complementary analytics as well as preparation grants. There will be an increased focus on careful program design to take account of the impact of conflict and violence and the ability of the Bank Group to monitor and support implementation.

(iii) The active IDA/ARTF portfolio totals 30 investment operations with an undisbursed balance of $1.5 billion. Managing the existing portfolio is an important part of the CPF going forward and flexibility to adjust and reallocate is important given the uncertainty of the context.

(iv) Pipeline projects have only been defined through FY17. Support after that will depend on progress with ongoing operations and the ARTF Financing Strategy, which is still to be agreed with government for the period 2018-2020. However, there is little fiscal space in ARTF based on the current resource envelope to fund any large new programs. New operations and Advisory Services and Analytics (ASA) interventions will be consistent with the overall strategic direction described in this CPF.

Figure 6 Indicative IDA and ARTF Lending Pipeline, FY17-20

103. The CPF contains an extensive and ambitious ASA program (see Table 2). ARTF funding for research and analytics has helped scale up the level of support that the WBG can offer in this area. This provides an opportunity for introducing innovative ways of working with government, universities, and other Afghan partners to underpin and advocate for key government reform and policy priorities, as well as to inform priority areas for lending under the CPF.

Table 2: Agreed Proposals for Advisory Services and Analytics, 2016-2017

Building strong and accountable institutions	Inclusive growth	Social inclusion
• Long-term pension strategy for security forces • Mapping of service delivery gaps • Fiscal policy & Management (including tax policy notes, wage bill analytics, pension & *sukuk* market and fiscal policy TA). • Navigating Risk & Uncertainty • Afghanistan Financial Sector Development • Review of State-Owned Enterprises • Afghanistan Urbanization Review • Kabul solid waste management review • Fiscal Implications of Civil Service	• Review and Rethink of Transport Infrastructure • AREDP impact evaluation • Agribusiness Review • International labor mobility study • Afghanistan Macroeconomic Analysis • Review of Agribusiness as part of Competitiveness Review • Trade and Regional Integration Study • Mapping of and lessons learned from women's economic empowerment programs in Afghanistan • Subnational Doing Business Report • Lighting Afghanistan • South Asia Water Initiative • Climate Change Impact on Hydrology	• Cost effectiveness of health delivery models • Labor market survey • Climate Change Impact Analysis on Hydrology & Agriculture in Afghanistan • Education & Skills Development Programmatic ASA. Including education public expenditure review • Options to Strengthen the Safety Nets • Optimizing Health Service Delivery Choices • National Multi-Peril Risk Assessment • Poverty, Shared Prosperity & Fragility • Mapping of Service Delivery Gaps • Review of Internally Displaced Persons • Gender-energy linkages

104. The focus will be on programmatic assistance, including in well-established programs, such as macroeconomic monitoring, fiscal policy, and public sector and financial sector management. However, the ASA also addresses areas which have received relatively little focus in the past, such as the 'Navigating Risk and Uncertainty' study, a labor market survey, energy access, urbanization, a transport rethink, education governance, and an examination of options for health delivery systems. In addition, it has proposed studies in areas where the knowledge base is weak and warrant policy attention, such as reviews of options to strengthen safety nets, forced displacement and IDPs, state-owned enterprises, a youth diagnostic, climate change impacts on hydrology and agriculture, and solid waste management.

3.3.3 Implementation Strategies

105. The 'how' of the CPF will be just as important as the 'what'. A critical question will be how the Bank Group will continue to support such a large program covering many different sectors under a continuing challenging security scenario. It will be important that management does not endorse a development strategy it cannot realistically staff or have the means to adequately support and oversee.

106. In a volatile environment such as Afghanistan, ensuring flexibility of response both at a program and strategic level is critical. Afghanistan is not a normal program context, and it is important that this is factored into the design and implementation of project support plans. In such an environment conflict risk assessment will become increasingly important and should be part of every new initiative, but it will be important to go beyond this to ensure there is built-in capacity, where necessary, to scale up and down the level of ambition and geographical focus of projects, and even use different implementation modalities where warranted to reach beneficiaries in different parts of the country. Smaller projects may be more responsive to such an environment, but even larger programs may be phased, geographically targeted or adopt different approaches in different areas depending on the security context.

107. Given these constraints and a likely scale up of IDA resources over the CPF period, a more strategic approach needs to be taken at the program level—curtailing the proliferation of projects across the portfolio where feasible, while not cutting down on the Bank Group's flexibility to respond to emerging opportunities and challenges, and placing much greater emphasis on measuring progress by results and a scaling up of third party monitoring. Ultimately there needs to be a shift toward providing more funds through the ARTF Recurrent Cost Window (RCW/IP) to be measured against agreed results. But this will need all the development partners who support ARTF to agree. Moving forward, therefore, it is expected there will be more focus on:

- Using the ARTF Recurrent Cost Window more extensively to pay for the recurrent cost components of 'investment' type operations, such as the Capacity Building for Results project and planned future investments in the health and education sectors. This should result in a more focused dialogue on policy reforms through the ARTF Incentive Program, and more extensive use of results-based financing instruments rather than traditional investment operations.
- As the policy dialogue with government deepens, there will be a need to recruit more senior staff who are experienced in policy dialogue and results-based programmatic approaches. Over the CPF period the Bank Group will strive to achieve more staff 'face time' with the client, but this will depend on security on the ground.
- There will be greater focus on developing programmatic and sector-wide approaches in a number of sectors, including public administration, health, education, irrigation, rural road access, and agriculture. A comprehensive energy review and rethinks of the education and health delivery models are under way, and the CCAP is expected to provide a framework for local service delivery through Community Development Councils. The Bank Group will continue to bring development partners together around these comprehensive programs.
- There will be improved partnership with local research institutions to undertake research. The Bank Group has traditionally undertaken analytical activities on its own in consultation with the government and outsourcing of specific tasks to contracted agencies. With the ARTF Research and Analytical Program, the Bank Group will increasingly involve local research organizations to improve their capacity, and work will be better aligned to the government's priority policy areas.
- The Bank Group will move away from financing contract staff in PIUs but instead rely on regular civil servants to implement programs. It will also continue its policy of harmonizing project contract staff salaries and allowances in accordance with the government-approved national technical assistance scale.

- Through the CCAP the Bank Group will support the consolidation of community mobilization and resources at the local level by supporting the role of CDCs as platforms for whole-of-government development at local level.
- The Bank Group will seek to scale up the roles of IFC and MIGA over the CPF period. The government attaches priority to stronger private sector development, and welcomes a larger role for both organizations. IFC is committed to expand its investment and advisory program in Afghanistan, especially in the financial and power sectors. In spite of the fragility/security context, IFC will leverage its broad advisory activities as well as financial instruments and institutional arrangements to expand its footprint in Afghanistan. PPPs could provide a new way of engagement to scale up the private sector while bridging the infrastructure gap, in particular in use of solar power generation. MIGA is actively seeking entry points in the country, including working closely with IDA and IFC to identify projects that might benefit from joint participation.

108. To date, Bank Group management has taken a proactive approach, both to the management of staff and supervision of programs. Office and internationally recruited staff (IRS) residential security has been considerably enhanced, the number of IRS in Kabul has been reduced with the majority now based in Dubai but travelling to Kabul on a regular basis, and the level of overall security preparedness through staff training, deployment of well-trained guards, improved communications, as well as use of armored vehicles for all movements, much improved. A satellite office-cum-guest house has been opened in Mazar-e-Sharif to allow staff to travel and visit field sites close to that city, where movement is much safer. The WBG will also build a new purpose built office in Kabul near to the existing office over the CPF period. While these mitigating measures have so far proved workable, much will depend in the future on whether there is further security deterioration. But inevitably, staff are more than ever cut-off from their counterparts and the field, and dependent on third party monitoring of project implementation.

3.3.4 Partnerships and Donor Coordination

109. Donor coordination in Afghanistan is led by the government and United Nations Assistance Mission in Afghanistan. Heads of donor agencies including the Bank Group meet regularly to discuss development issues. The Bank Group also participates in the weekly Heads of UN agency meeting, and collaborates closely with UNAMA and the other specialist UN agencies on development issues. The World Bank Group is working closely with the United Nations High Commission for Refugees on analytical work on forced displacement and with the Asian Development Bank in the infrastructure sector through implementing mutually reinforcing activities.

110. **The World Bank Group plays an important role in convening donors around a common agenda**, through its analytical and knowledge programs on poverty and growth, macro/fiscal implications of security expenditures and declining aid assistance, development planning, and by taking the lead on implementing streamlined approaches in critical areas, such as salary harmonization of national technical assistance, and identifying critical constraints to service delivery of health, education, and agriculture interventions. The Bank Group engages with the ARTF donors at technical level through the ARTF Strategy Group, which is chaired by the WBG, and with the government at the strategic level through the ARTF Steering Committee, which is co-chaired by the WBG and Ministry of Finance. Given the size of ARTF in relation to IDA, the Bank Group program in the country is closely aligned with both government and donor priorities. Maintaining a strong relationship with donors is critical to the success of ARTF and IDA.

111. The main donors to the country by level of disbursement, 2012-2014, are the United States, Japan, Germany, the United Kingdom, Asian Development Bank, the European Union, and Bank Group.[25] A significant and increasing part of this bilateral assistance is channeled through ARTF. This trend is likely to continue and increase over the next four years, as donors seek to provide more 'on budget' resources through the ARTF to support government's national programs. The Bank Group has consistently advocated for such sustained and increased international assistance to Afghanistan to improve aid effectiveness, and, if possible, the front-loading of this assistance to reduce long-term aid needs. Going forward, maintaining high levels of on budget civilian aid to the country will be critical to its future development.

112. For the donor community, IFC is one of the key partners for private sector development. Funded by the United States Agency for International Development, IFC's Advisory program is implementing a four-year investment climate program to facilitate increased market entry by removing regulatory constraints. Furthermore, funding from the United Kingdom Department for International Development (DFID) has enabled IFC to contribute to the development of management capacity in both the public and private sector with its Business Edge management training program since end of 2008, delivering training to 9,990 people, of whom 43 percent are women, and reaching 842 smaller enterprises. Together with the Bank, IFC is also exploring potential funding from DFID to support advisory and TA work for strengthening the financial and private sectors.

3.3.5 Fiduciary Management and Implementation

113. The Bank Group has assisted the government with strengthening its financial management systems since 2002. While there has been considerable progress at the central level there are still major capacity weaknesses. At central level accounting and audit functions are undertaken by the Supreme Audit Office of the Ministry of Finance. Technical assistance provided by the Bank Group helps the Supreme Audit Office to perform its responsibilities and is expected to be downscaled over time. MoF maintains the AFMIS in which project-specific transactions are recorded. As part of the World Bank's broader support to the government, it carried out a PFM review in 2013. It concluded that the government's financial management (FM) systems did not have the capacity to process payments in a timely manner, due to the existence of a large number of procedural bottlenecks. The Bank Group and MoF are engaged in dialogue to streamline processes for funding allotments and payments, through removal of unnecessary steps and increased delegation of authority for payments.

114. At project level FM capacity assessments generally conclude that assistance continues to be needed to perform FM functions. Most operations use internationally and locally recruited consultants to supplement the relevant line ministry financial department staff. Projects also generally provide appropriate accounting software. The CBR project includes support for building capacity in a range of core functions across key line ministries, while the PFM project specifically targets these functions. The objective is to reduce reliance on consultants and to mainstream FM functions within government, but until Afghanistan has a substantial professional cadre of trained specialists, this transition will have to be managed carefully to avoid delays in processing and decisions. The risks to implementation are heightened by weak FM capacity at operational level. However, these risks are recognized by the government and the Bank Group; programs are underway to strengthen FM systems and capacity but this will take time.

[25] "Afghanistan's Development Cooperation Report", 2012-2014, Ministry of Finance, 2015.

115. The government has undertaken a number of important measures to improve the regulatory framework for procurement over the last 10 years, but this started from a very low base. The government has now centralized decision-making for major contracts within the newly established National Procurement Agency (NPA), under the Ministry of Finance. Bank Group programs have been redesigned to facilitate this shift, while continuing to strengthen procurement at the level of the implementing ministries. A procurement management information system exists, procurement notices are published and major procurement decisions are made public. Weak capacity to prepare bids and manage contracts on the part of the contracting ministries has been a concern, and some operations include provisions for capacity building in this area.

116. Operations financed by the Bank Group have generally made provision for procurement specialists contracted under the project. Small-scale contracting has generally been quite successful, with the proviso that technical specifications are kept simple. Ministry of Public Works staff are generally able to handle national competitive bidding contracts, but operations include provision for training and TA, especially where international competitive bidding is involved. Managing the quality of construction in the large, decentralized school construction program under the Education Quality Improvement Project (EQUIP) has been challenging, and the third party monitoring program has provided additional assistance in identifying areas for improvement. The Bank Group supports the government's intention to facilitate mainstreaming of procurement into government systems and reduce dependence on consultants.

117. The CBR project and ARTF Incentive Program are supporting measures to strengthen procurement and integrate procurement planning and monitoring into budgeting. An online procurement management information system (MIS) is being prepared, with payments linked to the financial management systems. Procurement and contracts management handbooks are also being prepared. Strategy support for NPA will facilitate its transition into an independent authority. Procurement and regulatory reforms are to be clarified and uploaded onto the NPA website, and policy documents for new mechanisms, such as use of e-Procurement Regulations, PPP Regulations, and related procedures, are being developed. A system for professionalization of procurement specialists is also in the pipeline. E-procurement systems are being piloted in the three highest spending ministries. Mechanisms for strengthening transparency, anti-corruption, and public outreach are being prepared; the aim is to work together with industry to improve procurement outcomes. There are also proposals to develop provincial-level procurement capacity. While these changes will strengthen procurement management in the long run, and facilitate mainstreaming of decision-making into government, balancing sequencing with capacity building will be challenging. There is a risk that during the transition, decision-making and project implementation may be delayed.

3.3.6 Monitoring and Evaluation

118. Over the CPF period, the Bank Group will extend third party monitoring to IDA-funded programs as well, but will also work with government to enhance government capacity to carry out such monitoring in the future. Growing insecurity has meant less supervision missions to the field and increasing reliance on third party monitoring by contracted agencies. This is likely to be an increasing trend going forward. But there needs to be greater consistency in the monitoring arrangements across the program, as it makes little sense for only ARTF-financed projects to be covered. In this light, the Bank Group will extend third party monitoring arrangements to cover its entire portfolio over the CPF period. It will also work to build government capacity in this area. This will provide greater assurance to Bank Group management, government, and donors that projects are being properly supervised and monitored, both in terms of regular field visits to project sites and use of new technology where feasible, such as mobile phones and use of satellite imagery, to support the monitoring and supervision process. New projects will need to build in the increased costs of supervision through third party monitoring as well as citizen feedback and community monitoring,

119. Since 2013, an ARTF scorecard which monitors program progress annually has been in place. This uses an integrated results and performance framework, which is organized in a four-pillar structure that groups indicators along the results chain. Two of the pillars track elements of development results (country and portfolio outcomes), and the other two pillars capture elements of performance of ARTF and the Bank Group as ARTF Administrator (operational and organizational effectiveness). This scorecard is in addition to the monitoring arrangements of the individual projects and is publicly available. The Bank Group will explore the possibility of integrating the IDA portfolio within this overall scorecard, creating a single unified scorecard for the country program.

120. Despite progress over the last 15 years, Afghanistan's statistical system faces serious shortcomings. Though the World Bank Statistical Capacity Indicator for Afghanistan has increased from 24 score points in 2004 to 51 points in 2016,[26] the country still lags behind most other countries in the region in terms of its statistical capacity. The Central Statistics Organization (CSO) lacks capacity and faces organizational constraints as a civil service body. There is poor coordination and lack of medium-term planning between line ministries. National accounts data use limited data sources and inadequate data collection methods, and large donor-funded surveys may not always be undertaken sufficiently regularly to generate comparable time-series data.

121. The government is committed to the Open Data Development Initiative but data are not always disseminated in a consistent, comprehensive way. There are gaps and inconsistencies in several areas, including on private investment, trade, socio-demographic data, the informal economy and remittances, hydro-meteorological data, and data on access to services. The Bank Group is providing modest TA to the CSO on national accounts, trade and price statistics, data analysis, and the Integrated Business Establishment Survey, and to the Ministry of Economy on the Afghanistan Living Conditions Survey (previously known as the NRVA).

4. MANAGING RISKS TO THE CPF PROGRAM

122. Afghanistan is a high-risk environment for any development agency. As the WDR 2011 points out countries that move away from fragility and conflict often do so not through one decisive break, but through many transition moments, and the slide back to violence may quickly reoccur. In such an environment it is critical to stay engaged and committed for the long term in spite of the risks. Afghanistan's transition moment has proved difficult and destabilizing. The two principal risks to the program are the intensifying conflict and the political instability of the NUG coalition. Managing these risks, which are interrelated, will not be easy as they are both outside the direct control of management. In these circumstances, management will need to strive to mitigate their impact on the program through ensuring, both at a strategic and programmatic level, it can respond flexibly to the deteriorating security and uncertain political environment. This CPF

[26] This is a composite indicator covering adequacy of methodology, data source, and periodicity.

fully acknowledges these risks and the strategy and program it lays out is intended to mitigate their impact.

123. The Bank Group has operated in the country since 2002, so it is not new to operating in a volatile environment, but there are three new factors which need to be taken into account since the latest ISN. Firstly, the withdrawal of most international troops at the end of 2014 has led to a deteriorating security environment. Secondly, and related to the first, there has been a drop in aid assistance levels, which has led to wider repercussions on the economy, and exacerbated underlying fault lines and tension between different groups. Thirdly, the inconclusive and protracted 2014 election has led to a weakened central government that is dependent for its mandate on a political agreement between the two main candidates, which is increasingly subject to internal disagreement.

124. In this environment, the overall risk to the CPF achieving its objectives over the next four years is judged to be high, with five high-level risks (see Table 3). The most important of these are *Political and Governance* and *Conflict and Violence*. The risks are summarized in this chapter.

Table 3: Risks to the CPF Objectives in Afghanistan

Risk category	Rating (H,S,M,L)
1. Political and Governance	H
2. Macroeconomics	H
3. Sector strategies and policies	M
4.Technical design of project	M
5.Institutional capacity for implementation and sustainability	H
6. Fiduciary	S
7. Environment and Social	H
8. Stakeholders	M
9. Conflict and Violence	H
Overall	**H**

Political and governance

125. Risks of political instability are high both within the coalition and from outside. The government is committed to reforms, improving governance, and tackling corruption, but the political context is uncertain. There are three principal risks. The first is that the reform momentum will become increasingly personalized around the president rather than institutionalized across the government. Several key programs, for example, such as the CCAP and the CBR, rely on the president's strong political commitment and support, and without it, it is less likely they would be successful. A future change of government might well roll back many of the reforms and progress achieved to date.

126. The second risk is that as internal and external pressures mount, senior government leadership will become distracted by the need to maintain the unity of the government as well as address the deteriorating security environment, so the pace of reform that the CPF supports would be slowed and senior leadership would fail to make timely strategic decisions on the reform front. The Bank Group has limited ability to mitigate either of these risks directly and will need to maintain a flexible approach, adjusting the level of its ambition to address short-term service delivery if necessary, and downscaling engagement in reform areas where political will or ability to move forward is lacking.

127. The third risk is that the NUG itself collapses and new elections are called, this would usher in a protracted period of uncertainty that would negatively impact all development programs. Additionally, it would bolster the insurgency and potentially heighten the risk of corruption and leakages. Again, there is little the WBG can do about it, but be prepared, at the program level, to maintain fiduciary vigilance over ARTF/IDA expenditures, selectively downscale some interventions, while putting others on hold until the situation improves.

Macroeconomic and fiscal sustainability risks

128. The prospects for more rapid economic growth and substantial increases in domestic revenue generation are limited over the next four years, despite the government's commitments to reform. A ramping up of security expenditures at the same time as a decline in international aid is occurring puts increasing strain on the government budget. The current ARTF funding cycle runs from 2015-2017, and financing beyond that period has yet to be confirmed. Although the CPF is designed conservatively, further reductions in ARTF financing may result in insufficient resources to fund the program. To mitigate these risks, the CPF is designed to support more efficient public expenditure management as well as to increase domestic revenue mobilization capacity. The Bank Group's dialogue with donors and support to major international conferences on Afghanistan will help government make the case for sustained donor assistance. Nevertheless, it will be necessary to design programs flexibly to adjust the level of funding downwards if necessary; program ambition and size will be reassessed as part of the mid-term implementation review.

Institutional capacity for implementation and sustainability

129. Capacity is weak and the government is suffering from talent flight. Reduction in the size of the parallel civil service and integration of fiduciary management in country systems is the right long-term strategy, but it may bring transition costs as government staff lack the confidence or experience to make appropriate decisions quickly. The CPF plans to include flexible programs that support capacity building, reflect the evolving level of government absorptive capacity, are simple to implement and where the level of ambition can be downscaled easily. In fiduciary management, while supporting professionalization and government systems, some programs will also continue to require contracted specialists. For example, IFC investments will require technical and legal expertise to prepare bankable projects and tender documents.

Environmental and social risks

130. The CPF program is designed to mitigate core environmental risks to development through its support for climate resilience and disaster management. However, extreme weather events may impact implementation across sectors. This risk would be addressed by rapid response and reallocation of resources to facilitate disaster recovery. The CPF also includes operations with potentially high environmental risks, covering areas such as extractive industries, energy and large-scale infrastructure development. The programs have been designed to mitigate these risks: operations are designed with grievance mechanisms as well as components to strengthen environmental and social management and mitigation; the CASA 1000 program, for example, provides clean energy and includes targeted programs to benefit affected communities. Project designs include components to enhance technical and management capacity on safeguards, including social and environmental issues, as well as more targeted on-the-job training on safeguards requirements for contractors and community members.

Conflict and violence

131. The insurgency has expanded to encompass much of the country, which raises issues for effective implementation and monitoring of projects. In some areas it is possible through local communities to negotiate access. However, in areas of high contestation this becomes more difficult. There will also be higher risks to NGO and government project staff, who have already suffered frequently from instability and violence. The Bank Group has already taken measures to improve the security of its offices and residences in Kabul, reduce the exposure of its staff by restricting movements, and lower its footprint in Kabul by moving many IRS to Dubai. At a program level, new or restructured programs need to be designed to (i) ensure they can respond flexibly to rapidly evolving circumstances; (ii) build in the increased costs of supervision through third party monitoring as well as citizen feedback and community monitoring; and (iii) reflect on how to reach end users in areas that may be conflict affected and where government civil servants are unable to access. At the end of the day, however, there is only so much the Bank Group can do to insulate its programs from a deteriorating security situation.

132. This CPF acknowledges that the Government of Afghanistan has an ambitious reform and development agenda but the high-risk environment threatens many of its objectives. The CPF is framed with this in mind, and has in–built flexibility to respond to the pressures and opportunities as they occur. Adopting a low-risk strategy would be to disengage altogether, but that would carry extremely high costs for Afghanistan, not least due to the Bank's role in mobilizing other donors' funds through ARTF and sending out a signal about its ability to operate in such difficult environments. The international community increasingly looks to the WBG to take on the risks of operating in fragile and conflict-affected environments like Afghanistan, and even if many smaller donors were to withdraw from the country over the CPF period, the Bank Group needs to ensure it has the resources and committed staff to continue to stay engaged. The path to long-term resilience and stability will contain many protracted periods of instability and it will be important that the Bank Group can stay the course. Internally, this will require a willingness to effectively manage the risks, while ensuring its own project and human resource procedures are sufficiently flexible and streamlined and incentive structures aligned to the level of difficulty and risk entailed.

ANNEXES

Annex 1: CPF Results Monitoring Matrix—FY 2017 – FY 2020

Pillar 1: Building strong and accountable institutions Strong and resilient institutions are key to moving out of conflict. The overall objective is to contribute toward government's goals of state building and self-reliance through strengthened planning, fiscal and public financial management, professionalization of the civil service and key ministries and municipalities, and building the capacity and accountability of community institutions to deliver core services to citizens while strengthening their engagement in decision-making.[27] It is acknowledged that building strong institutions takes many years. The CPF will build on past efforts while continuing to lay the foundation for more robust institutions in the future.		
CPF Objective 1.1: Improved public financial management and fiscal self-reliance **Intervention Logic:** More transparent, effective financial management and domestic revenue raising capacity are a core element of functioning states. Support under the CPF will cover capacity in four broad areas: (i) revenue and expenditure management, including taxation and domestic revenue mobilization, budget policies and transition to a medium-term expenditure framework; (ii) public financial management, including budget execution, accounting, transparency, procurement and development of AFMIS (the Afghanistan Financial Management system); (iii) pension management to improve financial sustainability and nationally rollout a pension management information system; and (iv) improved oversight capacity of the auditor general's office, including audit for line ministries and independent agencies.		
CPF Objective Indicators	**Supplementary Progress Indicators/Milestone**	**World Bank Group Program**
1.1.1 Open Budget Index Score Baseline (2015): 42 Target (2020): 55		**Lending-Ongoing** • ARTF Recurrent Cost Window • Public Finance Management Reform Project Phase II additional financing

[27] Implementation of the Public Financial Management Roadmap II - Inaugural 5-Year Rolling Plan: Ministry of Finance: Delivering: Efficient and effective public services; Strong fiscal discipline; and Strategic fiscal policy; February 2016.

1.1.2 Domestic revenue-to-GDP ratio Baseline (2016): 10.7 percent Target (2020): 13 percent 1.1.3 Ratio of operating and maintenance expenditures as a percentage of total recurrent civilian expenditures Baseline (2015): 18.8 percent Target (2020): no deterioration 1.1.4 Number of provinces where the Pension Management Information System is fully utilized, including the associated biometric identification Baseline (2016): 0 Target (2020): 25 (out of total of 34)		• Customs Reform and Trade Facilitation Project additional financing • Safety Nets and Pension Support Project **Lending–Pipeline** • PFM Reform Project Phase III • Customs & Trade facilitation project Phase III • Technical Assistance Facility • Safety Nets Scale-Up and Social Benefits Administration Project • Kabul Solid Waste Management TA **ASA** • Navigating Risk and Uncertainty (cross-pillar) –Stimulating Demand Through Public Spending –Growth Analysis and Macro-modeling –Saving and Demand Under Uncertainty –Fiscal Implications of Civil Service –Political Economy of Fiscal Institutions • Macroeconomic monitoring • Afghanistan Development Updates • Review of State-Owned Enterprises

CPF Objective 1.2: Improved performance of key government institutions and municipalities **Intervention Logic:** Enhanced financial and service delivery performance of selected ministries, municipalities, and agencies to plan and manage their budgets, and deliver services is critical to building a more efficient and effective government. For too long donors have by-passed weak institutions by establishing PIUs and building capacity outside the core civil service to deliver projects. The World Bank will support the strengthening of key government ministries and independent agencies through developing and implementing reforms and building core capacity within the civil service. The CPF will support a program to provide incentives to help key ministries and agencies clarify their mandate, improve service delivery and accountability to citizens, and adopt clear HR practices, including recruiting staff on merit. The World Bank Group will also encourage recruitment of women at decision-making levels in the civil service sector.		
CPF Objective Indicators	**Supplementary Progress Indicators/Milestone**	**World Bank Group Program**
Ministries 1.2.1 Selected line ministries development budget execution rate improved Baseline: (2015): 55 percent Target: (2020): 80 percent 1.2.2 Selected line ministry reliance on externally-funded national technical assistance reduced Baseline: (2016): 10,000 contract staff Target: (2020): 5,000 **Municipalities** 1.2.3 Selected municipalities demonstrating improved revenue	Civil Service positions recruited by CBR (percent of which filled by women) Baseline: (2016): 210 (2 percent) Milestone: (2017): 1,500 (30 percent) Target: (2020): 2,400 (30 percent)	**Lending-Ongoing** • Capacity Building for Results Project • ARTF Recurrent Cost Window • Kabul Municipal Development Project **Lending–Pipeline** • Afghanistan Municipal Development Program • Urban Policy TA project **ASA** • Afghanistan Urbanization Review • Kabul Solid Waste Management Review • Fiscal Implications of Civil Service

performance and delivery of services in informal settlements. Baseline (2017): TBD[28] Target (2020): 5 municipalities (Herat, Jalalabad, Mazar, Kandahar, and Kabul) 1.2.4 Number of beneficiaries in Kabul benefiting from improved infrastructure (roads, drains and street lighting) Baseline (2016): 209,000 Target (2020): 775,000		

[28] To be measured by independent monitoring agent assessment of performance against these two dimensions over the course of CPF. Baselines will be set in each municipality by early 2017 and measured at two-yearly intervals.

CPF Objective 1.3: Improved service delivery through enhanced citizens' engagement with the state Intervention Logic: Ensuring strong citizen engagement with the state is a prerequisite to rebuilding social cohesion and trust in the state. Improved access to services also increases citizens' ability to withstand shocks, contributing to resilience. For most citizens the state is remote and they do not connect it with their lives. The objective is to improve service delivery, social cohesion, and trust in the state by enhancing the capacity of Community Development Councils in rural and urban areas to plan and monitor local service delivery and hold central ministries and other service providers better to account. Projects and programs supported by the World Bank Group will integrate suitable arrangements for grievance redress mechanism, providing citizens with information on service standards, and participation of communities in implementation and monitoring.		
CPF Objective Indicator	**Supplementary Progress Indicators/ Milestone**	**World Bank Group Program**
1.3.1 Number of CDCs in rural and urban areas able to plan and manage their own development projects under Citizens' Charter Afghanistan Project Baseline (2016): 0 Target (2020): 10,500 (rural and urban) 1.3.2 Number of beneficiaries with access to basic package of services in rural/urban areas as a result of Citizens' Charter interventions Baseline (2016): 0 Target (2020): 8.5 million 1.3.3 Percent of CDC members in rural and urban areas who are women Baseline (2016): 0 Target: Rural: 35%, Urban: 40%		**Lending-Ongoing** • National Solidarity Program **Lending–Pipeline** • National Solidarity Program (additional financing) • Citizens' Charter Afghanistan Project (CCAP) **ASA** • Review of IDPs (internally displaced persons) • Mapping of service delivery gaps • Afghanistan Poverty, Shared Prosperity and Fragility PA

<table>
<tr><td colspan="3">Pillar 2: Inclusive Growth

Putting Afghanistan on the path to sustained and inclusive growth is critical to poverty reduction. There are many obstacles to achieving this, including the ongoing conflict and insecurity, weak and poorly developed financial sector, lack of infrastructure, and cumbersome and bureaucratic business processes. The overall objective is to support broad-based growth, through improving the enabling environment for private sector–led development, financial sector deepening, and improved access to finance, including by women; through more widespread and reliable access to energy, transport, and information and communications technology infrastructure, with a focus on improving connectivity, access to markets and enhancing regional integration; through strengthening agricultural productivity, value-added chains, and job creation in both rain-fed and irrigated areas; and through supporting the enabling environment for sustainable development of extractive industries.</td></tr>
<tr><td colspan="3">CPF Objective 2.1: Improved business regulatory environment and access to finance

Intervention Logic: Afghanistan is third from the bottom in the most recent Doing Business Survey, with regulatory constraints highlighted, while only 2 percent of businesses currently use financial sector instruments to manage and expand their businesses. In line with the government's Promoting the Private Sector National Priority Program, the World Bank Group interventions under this objective will aim at strengthening the enabling environment for inclusive private sector–led growth through ease of doing business, deepening the financial sector and improving its regulation, providing assistance to smaller enterprises in market development and facilitating access to land, and supporting other regulatory initiatives. World Bank Group interventions will also contribute to the government's newly introduced Women's Economic Empowerment Program.</td></tr>
<tr><th>CPF Objective Indicators</th><th>Supplementary Progress Indicators/Milestone</th><th>World Bank Group Program</th></tr>
<tr><td>2.1.1 Reduced number of days to register and obtain a business license at subnational level
Baseline (2016): 45 days
Target (2020): 20 days

2.1.2 Number of days required to obtain a construction permit in Kabul City
Baseline: (2016): 284 days
Target (2020): 60 days</td><td>Ministry of Commerce and Industries, Afghanistan Investment Support Agency, MoF, Afghanistan Revenue Department, Ministry of Interior and Passport Office create an electronic interface for unified business services
Baseline (2016): None
Target (2020): Interface created and operational</td><td>Lending–Ongoing
• New Market Development Project
• Afghanistan Rural Enterprise Development Project (see also pillar 2.5 agriculture)
• Access to Finance Project
• Financial Sector Rapid Response Project
• Business Licensing & Registration Project (IFC)
• Equity investment in Microfinance Bank of Afghanistan (IFC)
• Trade facility line to the Afghanistan International Bank (IFC)</td></tr>
</table>

2.1.3 Number of active microfinance loan accounts: Baseline (2016): 228,563 Target (2020): 450,000 (of which percent to women) Baseline (2016): 25 percent Target (2020): 40 percent 2.1.4 Approval by Da Afghanistan Bank (Afghanistan Central Bank) of financial sector regulations consistent with international standards Baseline (2016): No regulation Target (2020): regulation issued and under implementation	Average weeks required for land acquisition/resettlement process for development projects (cadastral survey, land clearance, implementation, and settlement) Baseline (2016):120 weeks Target (2020): 60 weeks DAB to adopt IFRS, risk-based internal audit and operationalize a new Core Banking System to minimize operational risks Baseline (2016): IFRS not adopted and use of outdated internal system Target (2020): adoption of IFRS and Da Afghanistan Bank's Core Banking System is operational	• Construction Permits Reform Project (IFC) **Lending–Pipeline** • Financial Sector Rapid Response Project (additional financing) • New Market Development Project AF • International Labor Migration TA • Investment Policy and Promotion Project (IFC) • Land Management & Administration Support Project • Modernization of State-Owned Banks Equity Investment in Commercial Bank to Support Growth and Outreach to MSMEs (IFC) • AREDP additional finance (see also 2.4) • Women's Economic Empowerment Project **ASA** • Financial Sector Development PA • Evaluation of AREDP • Afghanistan Agribusiness Study • Jobs from Agriculture in Afghanistan • Mapping of and Lessons Learned from Women Economic Empowerment Programs in Afghanistan • Support to Business Establishment Survey • Afghanistan Conflict and Private Sector • Sub National Doing Business Report • Saving and Investment under Uncertainty • IFC Business Edge
CPF Objective 2.2: Improved domestic and regional integration (Transport, ICT Connectivity, and Trade) **Intervention Logic:** The objective is to support improved trade, transport, and ICT connectivity both within the country as well as with regional neighbors. The CPF will facilitate sustainable access to all-weather motorable roads in rural Afghanistan and over the Hindu Kush mountain range, improving connectivity also for the north-eastern and central regions, which have the highest poverty incidence. There has been impressive progress in ICT development over the last five years, with dramatic cost reductions for both mobile phone and Internet access, but there is potential for much stronger ICT connectivity. The World Bank Group will		

continue to improve access to digital services, including development of e-government, and support trade facilitation with Central and South Asian countries to identify areas for improved trade and investment.		
CPF Objective Indicators	**Supplementary Progress Indicators/Milestone**	**World Bank Group Program**
2.2.1 Percent rural population with access to an all-season road Baseline (2014): 58 percent Target (2020): 70 percent 2.2.2 Improved access to Internet and telephone services: a) Number of Internet subscribers per 100 people Baseline (2016): 20 Target (2020): 30 b) Number of people with access to telephone services Baseline (2016): 85 percent Target (2020): 90 percent 2.2.3 New trade portal and single window established to enhance transparency and reduce time at borders Baseline (2016): None Target (2020): New trade portal and single window established and operational	Kilometers of roads constructed or rehabilitated Baseline (2016): 1,190 km Target (2020) 2,900 km International Internet band width per capita (kilobytes per second, kbps) Baseline (2015): 0.5 Target (2020): 1.0 Retail price of Internet services (per Mbit/s per month in $) Baseline (2016): $37 Target (2020): $25	**Lending–Ongoing** • Afghanistan Rural Access Project (ARAP) • Trans-Hindu Kush Road Connectivity Project • Kabul Urban Transport Efficiency project (see 1.3) • Afghanistan ICT Development Project • Roshan: Telecommunications development company Afghanistan (IFC) • MTN (with MIGA guarantee) • Second Customs Reform and Trade Facilitation Project (see also pillar 1) **Lending–Pipeline** • ARAP additional financing project • Digital CASA (IFC/IDA) **ASA** • Review and Rethink of Transport Infrastructure study • Trade and Regional Integration Study

CPF Objective 2.3: Increased power generation capacity and access to electricity

Intervention Logic: The CPF aims at increasing access to electricity for households, businesses, and public services through additional power generation. Afghanistan has one of the lowest rates of electricity usage in the world (154 kWh person). While overall access to grid-powered electricity is 30 percent, there are wide disparities, with rural access rates averaging only 11 percent; lack of electricity access for schools, health facilities, and homes impedes human development and welfare. There has been some progress in development of off-grid energy, but much more is needed. The Doing Business Survey identified lack of electricity as a critical constraint to business development; nearly half of all businesses are dependent on diesel generators. Afghanistan needs to generate more power from domestic as well as regional sources of energy, and expand access to a wider share of the population. The CPF supports increased household and business access to affordable, sustainable, and reliable energy supply by increasing energy production, strengthening management capacity, and improving regional integration. The program will promote renewable energy and will ensure reduction in distribution losses.

CPF Objective Indicators	Supplementary Progress Indicators/Milestone	World Bank Program
2.3.1 Generation of additional electricity through hydropower, gas, and renewable energy from domestic sources Baseline (2016): 210 MW Target (2020): 335 MW 2.3.2 Increase in supply of grid connected electricity Baseline (2016): 1,085 MW Target (2020): 1,800 MW (65 percent) 2.3.3 Increase in number of households with access to on-grid electricity Baseline (2016): 1.2 million Target (2020): 1.68 million	Transmission losses (percent) Baseline (2016): 30-40 percent Target (2020): 25 percent	**Lending–Ongoing** • Naghlu Hydropower Rehabilitation Project • Power System Development Project Additional Financing • DABS (Afghanistan power utility) capacity support project • CASA 1000 Project • CASA 1000 Community Support Program **Lending–Pipeline** • IFC Mazar-e-Sharif IPP Gas to Power Project • Renewable Energy Support • Salma Dam transmission line rehabilitation **ASA** • Afghanistan Energy Study (Energy Demand Survey, Least Cost Distribution Expansion, Gender-Energy Linkages) • Energy-Security Trade-offs under High Uncertainty

2.3.4 By the end of 2020, a total of 20 MW of renewable off-grid systems to supply a minimum service standard of 100 Watts per household. Year 1 baseline: 3MW		• IFC Lighting Afghanistan Program (affiliated with Lighting Global) • IFC PPsaction Advisory • IFC Scaling Solar • Infrastructure financing diagnostic (from financial sector programmatic assistance) • Renewable Energy Options Review.

CPF Objective 2.4: Increased agricultural productivity

Intervention Logic: Agriculture provides 25 percent of GDP growth but 56 percent of employment and is potentially the most important driver of inclusive growth and job creation in the country. According to the recently completed *Agriculture Sector Review*, developing agriculture calls for a two-pronged strategy: (i) commercial development of prioritized value chains with greatest potential to scale up (wheat, horticulture, livestock); and (ii) improving productivity of rain-fed farming and small-scale livestock, which provide subsistence for many of the poor. World Bank Group interventions would aim to contribute to improved productivity and resilience in the agricultural sector through improved land and water management, supporting inclusive growth, and employment creation, by encouraging the development of prioritized value chains and rural enterprises adapted to local geography and marketing potential in both rain-fed and irrigated farm systems, and supporting provision of improved agricultural inputs and technologies.

CPF Objective Indicators	Supplementary Progress Indicators/Milestone	World Bank Group Program
2.4.1 Increase in agricultural productivity (Irrigated wheat yields) tons/hectare (t/ha) Baseline (2017): 2.88 t/ha Target (2020): 3 t/ha 2.4.2 Increase in the number of farmers with regular access to extension workers and/or irrigation services (percent female) Baseline (2016): 1.7 million Target (2020): 1.87 million (at least 35 percent female)	Production of certified wheat seed Baseline (2015): 10,000 tons Target (2018): 30,000 tons Percent target farmers adopting key technology practices for horticulture and livestock, of which percent female farmers: a) Horticulture baseline (2015): 53 percent Target (2018): 70 percent Female: baseline (2015): 53%; Target (2018): 75	**Lending–Ongoing** • Agricultural Inputs Project • Irrigation Restoration and Development Project • On-Farm Water Management Project • National Horticulture and Livestock Project • Afghanistan Rural Enterprise Development Program (AREDP) AF • MIGA Guarantees (Dairy Processing and Cashmere Scouring & Disinfecting)

2.4.3 Area provided with irrigation and drainage service (hectare, ha) Baseline (2015): 120,000 ha Beneficiaries (2015): 200,000 Target (2020): 215,000 ha Beneficiaries (2020): 385,000	b) Livestock baseline (2015): 58 percent Target (2018): 65 percent Female: baseline (2015): 44 %; Target (2018): 70% Transboundary Waters Policy adopted Baseline (2016): None Target (2020): Policy adopted River basin disaster risk management plans prepared Baseline (2015): 0 Target (2020): 3	**Lending–Pipeline** • Strategic Grain Reserves project **ASA** • The South Asia Water Initiative, a regional initiative to support transboundary dialogue with neighboring countries • Climate Change Impact on Hydrology • Capacity Assessment of the Ministry of Agriculture, Irrigation and Livestock for policy formulation, development of a National Natural Resources Development Strategy • Natural Resource Management/Climate resilience TA • Jobs from Agriculture in Afghanistan • Evaluation of AREDP • Agribusiness study

CPF Objective 2.5: Improved regulatory environment for extractive industries

Intervention Logic: Although Afghanistan is endowed with a wide range of minerals and hydrocarbons, the sector currently makes a limited contribution to growth, revenue generation, or employment despite past support. Governance challenges remain, and the recent commodity price slump has dampened private sector investment. There is a need over a medium-term framework to improve the policy and regulatory capacity and provide ‘proof of concept’ investments that would test the governance and regulatory regime for mining and gas, and from which successful operations would then be incrementally grown. The World Bank Group will support creation of an enabling environment by supporting improvement in policies, regulatory capacity, and infrastructure for transparent and sustainable development of the extractive sector as a future driver of broader development and growth.

CPF Objective Indicators	Supplementary Progress Indicators/Milestone	World Bank Group Program

2.5.1 Regulatory regime for extractive industries developed and being implemented by 2020. 2016: In preparation 2020 Agreed and operational 2.5.2 Value of resource corridor related PPP/private investments transactions developed Baseline (2016): 0 Target (2020): $10 million	EITI on track to be fully implemented by 2020	**Lending–Ongoing** • Afghanistan Sustainable Development of Natural Resources II • Extractive Industries Transparency Initiative **Lending–Pipeline** • Resource Corridor Development Project • Gas for Energy Access and Development Project **ASA** • Hydrocarbons Project: 3D Seismic Assessment, Geo-data management • Understanding drivers of resilience and conflict in Extractive Industries Sector
Pillar 3: Social Inclusion Afghanistan has become an increasingly unequal and socially fragmented society. Ensuring greater social cohesion is a priority if the root causes of conflict are to be addressed. The objective is to improve performance in human development and reduce the vulnerability of the poorest members of society. Access to quality education and health is largely dependent on geography and income. Past gains are slipping and it will be increasingly important to ensure greater equity in access to quality services going forward. At the same time poor people are increasingly vulnerable to natural disasters and bear the brunt of slow government response. Afghanistan's risk and vulnerability profile also shows the need for a broad-based social safety net for poor and vulnerable groups.		
CPF Objective 3.1: Improved human development **Intervention Logic**: Afghanistan has made significant progress in improving access to education and health, but some of these gains are slipping. Both services face significant challenges, which are compounded by insecurity, diminishing resources, weak government implementation capacity, and weak links between the central and subnational level. It is important that the country is able to invest in its human capital and ensure the quality of educational and health outcomes. While there has been considerable progress in some key areas, e.g., child and maternal mortality, there has been less progress particularly in child nutrition, family and reproductive health, and immunization of children. At the same time in education, primary school enrollment in parts of the country is slipping and large numbers of children do not go to school. World Bank Group interventions aim to support improved access to quality education, skills training, and basic health and nutritional services.		

CPF Objective Indicators	Supplementary Progress Indicators/Milestone	World Bank Group Program
Education 3.1.1 Primary school completion rate Baseline (2015): 45 percent (of whom 37 percent are girls) Target (2020): 59 percent (of whom 45 percent are girls) 3.1.2 Share of graduates from supported vocational institutions who find employment within a year of graduation Baseline (2016): 56 percent (of whom 19 percent are girls) Target (2018): 62 percent (of whom 20 percent are girls) 3.1.3 Student enrollment in university education in priority degree programs Baseline (2015): 64,200 (of whom 12,000 are female) Target (2020): 82,000 (of whom 18,000 are female)	National Education Sector Strategy endorsed and being implemented Baseline (2016): being prepared 2017: endorsed by government 2020: being implemented	**Lending–Ongoing** • Education Quality Improvement Project • Higher Education Development Project II • Second Skills Development Project • Non-formal Approach to Training, Education and Jobs in Afghanistan (NATEJA) • SEHAT: System Enhancement for Health • Nutrition and Early Cognitive Stimulation in Early Childhood Development (pilot) **Lending–Pipeline** • New Basic Education Project to follow on from EQUIP II • NATEJA Additional financing • Higher Education System Improvement Project II Additional Financing • SEHAT II **ASA** • Education expenditure review and teacher governance
Health 3.1.4 Birth (deliveries) attended by skilled healthcare personnel (# and percent) Baseline (2014): 628,014 Target (2020): +35 percent 3.1.5 PENTA 3 (basic immunization) coverage among children aged	Birth (deliveries) attended by skilled healthcare personnel (percentage) Milestone (2018): +32 percent PENTA 3 (basic immunization) coverage among children aged	

between 12-23 months in lowest income quintile (5) Baseline: (2011): 28.9 percent Target (2020): 65 percent 3.1.6 Proportion of children aged under five years with severe acute malnutrition who are treated (percent) Baseline (2014): 32 percent Target (2020): +55 percent	between 12-23 months in lowest income quintile (5) Baseline (2011): 28.9 percent Milestone (2018): 60 percent Health care quality score (Balanced Score Card) in health facilities delivering Basic Package of Health Services Baseline (2015): 60.4 percent Milestone (2018): 70 percent	• Education and Skills Development Programmatic, including Education PER • Labor Market Survey • International Labor Mobility Study • Human Capital Development in Afghanistan • Optimizing Health Service Delivery Choices • Cross sectoral strategy for nutrition improvements • Youth Diagnostic

CPF Objective 3.2 Enhanced coverage of social protection transfers for the poor and vulnerable

Intervention Logic: Social Safety nets to protect the most vulnerable are poorly developed in Afghanistan. The objective is to increase the coverage of vulnerable groups with targeted social protection transfers paid on a regular and predictable basis. Adequate targeting and delivery mechanisms do not exist and the fiscal implications of developing such schemes have still to be worked out. Cash transfers pose one of the most viable risk mitigation instruments for poor people, and opportunities for scaling up current pilot approaches will be explored in the CPF. At the same time, the World Bank will support measures to improve transparency and efficiency through incentivizing sustainable policy reforms and introducing leakage and fraud reducing measures, such as MIS, bank-based payment mechanism, and biometric identification

CPF Objective Indicators	Supplementary Progress Indicators/Milestone	World Bank Group Program
3.2.1 Number of families covered by targeted cash transfers paid on a regular basis Baseline (2016): 12,000 Target (2020): 200,000	Percent of safety net beneficiaries coming from the poorest 40 percent of the population Baseline (2016): 55 percent Target (2020): 65 percent	**Lending–Ongoing** • Safety Nets and Pension Support Project • National Solidarity Program (O&M/cash for work grants)

		Lending–Pipeline **ASA** • Options to Strengthen Safety Nets Study • Poverty Analysis-Afghanistan • Targeting the Ultra-Poor Impact Evaluation • Mainstreaming gender across portfolio • Afghanistan Safety Net Evaluation

CPF Objective 3.3 Improved government and community capacity to manage and respond to natural disasters

Intervention Logic: Poor people are increasingly subject to natural shocks. More households (51 percent) report facing a (food) price shock than a security-related shock (15 percent). Exposure to shocks has long lasting welfare and poverty implications. Exposure may impoverish families who have to sell needed assets to survive. Improving government and local communities' ability to respond to disasters in a timely manner is critical and may partly prevent the slide into poverty.

CPF Objective Indicators	Supplementary Progress Indicators/Milestone	World Bank Group Program
3.3.1 Select line ministries, focusing on Citizens' Charter ministries, MRRD, MoE, MEW, and MoPW, and key agencies, particularly ANDMA and Afghanistan Meteorological Department, to collect, analyze, and use information on disaster risk and climate change for evidence-based decision making Baseline (2016): 0 Target (2020): 5 ministries 3.3.2 Capacity of CDCs to respond to early warning information enhanced Baseline (2016): Training and information material currently being prepared Target (2020): 25 percent of CDCs or 3,000 CDCs received training in DRM.	National multi-hazard risk assessment launched in online open data platform by January 2017 National Risk Profile developed by June 2017 Early Warning System (EWS) roadmap developed by January 2018 Under the Citizens' Charter Project select CDCs in high risk areas develop community-based risk maps and DRM action plans by 2019.	**Lending–Ongoing** None **Lending–Pipeline** Citizens' Charter Afghanistan Project **ASA** • Establishing Critical Risk Information • Mainstreaming Natural Hazard and Climate Risk Information and Community Driven Development in Afghanistan • Natural Resources Management and Climate Resilience TA

<table>
<tr><td colspan="3">Cross-Cutting Issues: Gender</td></tr>
<tr><td colspan="3">CPF Objective 4: Improved capacity of line ministries to collect and analyze gender data

Intervention Logic: The SCD identified the low level of women participating in Afghanistan’s workforce and generally low levels of female human capital as one of the strongest underlying constraints to poverty reduction. Also, the gender stocking carried out by the Bank in 2014 identified the need for building a knowledge base and improving the collection of gender-disaggregated data. This objective aims to build capacity to integrate gender, and collect and analyze gender data by strengthening monitoring and evaluation capacity of line ministries to analyze, track, and report on gender issues.</td></tr>
<tr><th>CPF Objective Indicators</th><th>Supplementary Progress Indicators/Milestone</th><th>World Bank Group Program</th></tr>
<tr><td>3.4.1 Percentage of line ministries collecting, analyzing, and reporting on gender data as part of their annual plans.
Baseline (2016): 50 percent
Target (2020): 80 percent

3.4.2 Number of projects with gender tag (projects that have integrated gender concerns)
Baseline (2015): 40 percent
Target (2020): 100 percent</td><td>Percent of portfolio that collect gender-disaggregated data
Baseline (2016): 57 percent
Target (2020): 80 percent</td><td>Lending–Ongoing
• Afghanistan Gender Action Plan
• Gender and Social Action Platform

Lending–Pipeline
• Women’s Economic Empowerment Program
• Additional financing to NATEJA focusing on training for women

ASA
• Gender-Energy Linkages
• Gender and Social Inclusion</td></tr>
</table>

Annex 2: Selected Economic Indicators

	2012	2013	2014	2015	2016p	2017p	2018p
Real economy							
Nominal GDP (billion Af) /1	1,070	1,136	1,161	1,199	1,291	1,393	1,508
Nominal GDP (billion US$) /1	20.7	20.5	20.2	19.6	18.9	20.0	21.2
GDP per capita (US$)	697	668	640	602	565	584	620
Population (million)	29.7	30.7	31.6	32.5	33.4	34.2	34.2
Real GDP growth /1	14.4	2.0	1.3	0.8	0.5	1.8	3.0
Prices							
CPI inflation (period average)	7.2	7.7	4.6	(1.5)	6.0	5.0	5.0
Fiscal							
Total Revenue and Grants	69.8	68.4	60.6	55.5	59.8	57.8	56.2
Domestic revenues	10.3	9.7	8.7	10.2	10.9	11.6	12.0
Grants	59.2	58.6	51.8	45.2	48.8	46.0	43.6
Security grants	37.1	34.2	29.3	22.1	24.7	25.6	24.2
On-budget	6.3	7.7	8.2	8.0	10.0	11.5	11.2
Off-budget	30.8	26.5	21.1	14.1	14.7	14.1	13.1
Civilian grants	22.1	24.4	22.5	23.1	24.1	20.5	19.4
On-budget	6.5	8.1	7.3	7.1	8.3	7.9	8.2
Off-budget	15.7	16.4	15.1	16.0	15.8	12.6	11.2
Total Expenditures	70.3	68.1	62.4	56.8	59.8	57.8	56.2
Security spending	40.9	37.8	33.3	26.2	29.2	30.1	30.3
Off-budget security	30.8	26.5	21.1	14.1	14.7	14.1	13.1
On-budget security	10.0	11.3	12.2	12.1	14.5	16.0	17.3
Civilian spending	29.4	30.3	29.1	30.6	30.6	27.7	25.9
Off-budget civilian	15.7	16.4	15.1	16.0	15.8	12.6	11.2
On-budget civilian	13.7	13.9	14.0	14.6	14.8	15.1	14.7
Budget deficit	-0.8	0.2	-1.9	-1.4	-0.1	-0.1	-0.6
Budget deficit excl. grants	-13.5	-15.6	-17.5	-16.5	-18.4	-19.5	-20.0
External Sector							
Exports of goods (million US$) /2	640	729	783	667	687	769	888
Imports of goods (million US$) /3	10054	9244	8711	7867	7986	8262	8566
Trade balance	-45.5	-41.5	-39.2	-36.8	-38.7	-37.5	-36.2
Net current transfers	51.7	48.9	47.2	41.8	42.3	41.1	39.0
Current account balance	6.2	7.4	8.0	5.0	3.7	3.6	2.8
Gross foreign exchange reserves (million. US$)	6771	7447	7360	6864	7150	7400	7800
Gross foreign exch. res. (months of imports)	7.2	7.8	9.1	8.3	8.3	8.2	8.0
External debt	6.6	6.7	6.0	5.2	5.0	4.2	1.9
Exchange rate (AFN/USD, period average)	51.7	55.4	57.4	61.4	..	..	..
Real effective exchange rate (decrease=depreciation)	127.0	125.5	121.1	126.6	115.7	114.8	114.3
Monetary							
Broad money (M2)	32.0	33.0	34.9	35.2	36.1	37.0	37.9
Total deposits	17.6	17.6	17.7	17.8	18.0	18.6	19.5
Credit to private sector, commercial banks	4.1	4.2	3.8	4.0	4.2	5.0	6.8

1/ National Accounts data exclude opium value added.
2/ Exclude sales of goods to nonresidents in the country.
3/ Include estimated unofficial trade or smuggling.

Annex 3: Summary Review of Afghanistan Interim Strategy Note, FY 2012 – FY 2014[29]

Introduction

A review of the 2012-2014 Interim Strategy Note was completed in September 2015.[30] The ISN was prepared in a time of transition and uncertainty, given the forthcoming withdrawal of United States forces and elections in 2014. Despite economic growth rates of over 9 percent per year 2003-2011, progress in poverty reduction was disappointing, though there was progress in service delivery in many areas and improvements in key social indicators.

The Interim Strategy for 2012-2014 had three pillars. These included (i) Building the Legitimacy and Capacity of Institutions; (ii) Equitable Service Delivery; (iii) and Inclusive Growth and Jobs, with financial and technical assistance and analytical work to support each pillar. There was continuity with previous ISNs. MIGA and IFC continued to have a positive though modest role. In addition to IDA commitments of $430 million, ARTF contributions were $2.6 billion, for both recurrent and investment financing. A key element was cooperation with other development partners. The document also discussed implementation modalities and risks.

Overall there was reasonable progress under pillars 2 and 3, **but progress under pillar 1 was more limited despite its strategic importance, though with continuing improvements in village-level governance**. The operations with the most difficulty concerned building core government institutions and functions within line ministries, the judiciary, pension reform, or statistical capacity. The mining and regional integration programs also faced delays. There continues to be a tension between delivering services in the short term and building sustainable, accountable institutions with the reforms important for sustainable growth in the long term. The following paragraphs provide more details.

Pillar 1: Building the Legitimacy and Capacity of Institutions

Pillar 1 had three desired outcomes, regarding institutional and budget sustainability and transparency, performance of line ministries, and village-level governance. All three areas have been supported since 2003. Total new commitments were $50 million from IDA, and $1,106 million from ARTF, of which $956 million were for recurrent cost financing.

Outcome 1: Achieve greater fiscal sustainability while continuing to improve public financial management. New investments included additional budget support through the ARTF recurrent cost window; and a Development Policy Grant, which also supported sector policy reforms under pillar 3. Ongoing investments included Public Financial Management Reform II and the Financial Sector Rapid Response Project. Progress was reasonable with financial sector infrastructure supervision, mixed regarding public expenditure management and procurement, and limited in the reforms supported by the DPG and on fiscal self-reliance. Furthermore, while the focus was on strengthening procurement capacity in line ministries, the new government in

[29] The review was completed by a WBG consultant.

[30] Formal reviews are not a requirement for ISNs. This informal review, a document for internal circulation was entitled “Afghanistan: Review of 2012-14 Interim Strategy Note” and dated September 28, 2015. In 2012, the Independent Evaluation Group published an assessment of World Bank Group engagement covering the 2003-2012 period.

2014 made a decision to centralize major procurement, leading to delays in the transition. Due to fiscal constraints, it is likely to be necessary in the future to allocate an increasing proportion of ARTF financing to recurrent budget financing; there are opportunities to link this support to reforms but there needs to be realism about what can be achieved through use of this instrument.

Outcome 2: Strengthen the performance of key line ministries in delivering core services. There was one 'flagship' new investment, the Capacity Building for Results Facility with estimated costs of $350 million, supporting ministries in reforms in public administration; and ongoing investments in statistics strengthening. Progress was limited with civil service capacity building, improved budget prioritization, strengthening subnational institutions and with statistics, with implementation problems and limited ownership. Yet without these reforms, Afghanistan will not move toward the "self-reliance" goal articulated by the new government. Two Implementation Completion Reports (ICRs) on civil service reform rated outcomes moderately unsatisfactory (MU) and highlighted the need for thorough political economy and institutional assessment, simple design and simple implementation procedures. The CBR could usefully have taken closer account of these lessons. It was eventually restructured and simplified in late 2015.

Outcome 3: Lock in village-level governance. The main instrument was the National Solidarity Program, initiated in 2003. NSP uses facilitating partners at provincial level, which work with local communities to establish Community Development Councils and receive block grants for local infrastructure. Commitments under the third phase include IDA $40 million and ARTF $1.05 billion. Most villages in Afghanistan now have functioning CDCs, over 50,000 sub-projects have been financed in local infrastructure and community facilities. There is more focus on maintenance, and CDCs score well on gender inclusiveness and equitable access to services. The model has begun to be used for other operations. However, as the security situation has deteriorated facilitating partners in some areas have had to withdraw. There has been a long debate on how to integrate CDCs with subnational government structures (district and provincial administrations), which, however, continue to face capacity and governance issues. The current government has built on these lessons in formulation of its new Citizens' Charter program.

Pillar 2: Improved Service Delivery

This pillar encompassed six groups of services: rural development, urban and water institutions and services (focusing on Kabul), education, health, social protection, and judicial services. Several programs relied heavily on contracted technical assistance, and some deliver services to citizens through facilitating partners. The health program and NSP are examples. New commitments for rural and urban services totaled IDA $125 million and ARTF $407 million, and for health, education, social protection, and judicial services IDA $155 million and ARTF $460 million. Most continue previous programs, though their focus has evolved. The program has been quite successful, especially in rural development, urban development, and health, much less successful for social protection and judicial services, and mixed in education with the flagship program facing fiduciary issues. There have been concerns about the safety of Afghan staff and contractors implementing these widely geographically scattered programs, with a number of deaths of government and NGO staff.

Outcome 1: Improve rural and community services, including NSP (see also above), the rural access roads projects, and irrigation projects. Community grants under NSP include support for village roads, mini-hydro, small-scale irrigation, community centers, schools, and health centers. The ISN also supported substantial new investments in rural roads through a separate project; this operation has easy-to measure indicators and clear design standards, and is performing well. The ISN supported improved water resource management, increased water availability, and agricultural productivity through two operations.[31] Progress was good regarding irrigation and hydro-meteorological services but the dam component was scaled down to focus on safety of the dam structures. Operations built on previous lessons and were restructured as needed. There was increased focus on maintenance, with some institutional rationalization.

Outcome 2: Improve urban and water institutions and services. Urban areas are growing rapidly and the choice of location for many returned refugees, internally displaced and ex-combatants. Kabul has a current population of about 5 million; the ISN focused on Kabul and this approach was largely successful. There were two new operations, in urban transport and urban reconstruction, which despite difficulties are improving transport, drainage, the urban landscape, and municipal management. A broad review of municipal finance highlighted misalignment between responsibilities and capacity to raise revenues and weak accountability, and had recommendations to address these.

Outcome 3: Increase basic and higher education coverage. The ISN continued support for the government's basic education program, EQUIP, while expanding support for technical, vocational, and higher level education. EQUIP 2, implemented through the Ministry of Education, has supported school construction and teacher training; there is good progress at outcome level but fiduciary and HR management issues are widespread. Two operations aim respectively to improve employment for vocational training graduates and job prospects for the lower skilled**.** Both faced delays. A second higher education project aims to increase access, quality, and relevance of higher education, and includes disbursement-linked indicators and builds on an earlier operation. Lessons in the education sector emphasize vulnerability to political interference, need for strong local leadership, flexibility in implementation, and simple design with clear monitoring.

Outcome 4: Improve basic health services and systems. The flagship program, SEHAT, supports a basic package of health services and was approved in March 2013 for a total cost of $413 million from ARTF and IDA. It relies on the successful approach of outsourcing delivery to contracted health service providers, mostly NGOs operating at provincial level, and relies on an independent third party monitor to verify progress towards outcomes. There have been administrative delays and emerging differences between provinces, but despite some unevenness in quality of service providers, the contracting out method and evidence-based approach to prioritizing interventions have allowed for flexibility in delivery, with interventions such as child nutrition and mental health now an increasing area of focus.

Outcome 5: Strengthen social assistance institutions and pension programs. These are not well developed, but implementation of initial programs has been problematic, with difficulties in targeting and in rolling out new information technology, changes in management, and mixed government commitment.

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[31] Agriculture is discussed mostly under pillar 3.

Outcome 6: Strengthen judicial services. Lack of rule of law and a poorly functioning judicial sector is a major problem in Afghanistan and earlier interventions have struggled to find traction. A second Judicial Reform Project has faced implementation problems. Reasons include lack of high level political support, lack of leadership in all three implementing agencies,[32] weakened implementation capacity, compromised security (offices have been attacked and staff and consultants killed and injured), and a lack of strategic direction. An earlier operation closed in December 2011 after two extensions and a partial cancellation. Lessons learnt include the need for understanding of the broader political economy and for strong ownership, for a differentiated approach to support to the three justice agencies (Supreme Court, Ministry of Justice, and Attorney General), and for realistic implementation targets and simple monitoring arrangements. A goal of the ISN was to build the accountability and legitimacy of the state; in the important justice area it has been difficult to make progress.

Pillar 3: Inclusive Growth and Jobs

The ISN emphasizes that building domestic sources of growth and jobs to replace donor/military assistance is one of the government's greatest priorities. It supports agricultural growth, development of non-renewable resources and related resource corridors, improved ICT connectivity, power supply, and improvements to the business environment. New commitments totaled IDA $177 million and ARTF $220 million. The ISN emphasizes the strong links between pillars: an accountable state helps to provide the foundation for a strong business environment, while the DPG under pillar 1 supported sector reforms in mining transparency and property rights. The ISN also supported a long-term vision for Afghanistan as a land bridge between Central and South Asia. While support to agriculture, connectivity, and private sector development has been relatively successful, power, mineral resource development, and resource corridors have faced many more difficulties.

Outcome 1: Agriculture growth. Agricultural growth is the core of poverty reduction and inclusive growth: Afghanistan's population is over 75 percent rural and most poor people live in rural areas. The IEG review recommended increased focus on the sector. In addition to irrigation infrastructure (pillar 2), the ISN supported one ongoing and two new operations and a sector study. An operation supporting community-based and small enterprise development was restructured successfully in 2014, with substantial outsourcing to service providers. The Agricultural Inputs Project aims to strengthen safety and reliability of agricultural inputs and sustainable production of certified wheat seed. The National Horticulture and Livestock Project aims to improve production practices and agricultural services and promote technical innovations, decentralizing much local procurement to CDCs. Progress under the ISN has been largely positive. The 'implementing partner' approach works well and support to irrigation is successful.

Outcome 2: Support to mining and resource corridors. Mining, while it creates fewer jobs than agriculture, can contribute to domestic revenues and to exports and form a basis of resource development corridors. IDA is the leading development partner. The sector has faced challenges related to insecurity and the transition, and recent falls in global commodity prices. The ongoing operation, which aims to improve governance and foster private sector development, is facing major delays, the DPG to support sector reforms was not processed and a Resource Corridor

[32] The Ministry of Justice, the Supreme Court, and the Attorney General's Office.

Project concept has been delayed. Nonetheless, the IEG review emphasizes that long-term engagement is important and the new government is committed to the extractives sector.

Outcome 3: Increased connectivity. ICT and customs clearance are key to economic development and trade. The ISN included ongoing investments through IDA and IFC, and policy reforms through the DPG series. The ICT Development project aims to expand connectivity, mainstream mobile applications in government, and support the local IT industry; access to telephones was 83 percent and to Internet 17 percent in late 2015, and growing fast, with connectivity prices dramatically decreasing. The Second Customs and Trade Facilitation project has facilitated progress on tax collection rates at borders, user satisfaction, computerization of customs clearance, and regional cooperation. An IFC loan of $65 million was approved to the Telecom Development Company Afghanistan Limited (Roshan) in 2013. Results in ICT have been positive, facilitated by the cooperation between IDA and IFC, rapid technology developments, and high levels of demand. Furthermore, there has been flexibility in implementation with, for example, the fiber optic backbone network being realigned when the original route proved difficult for security reasons.

Outcome 4: Developing power supply. The ISN emphasized lack of reliable electricity access as a constraint to growth. It supported three ongoing projects and a new regional and related national project. Overall the sector continued to face implementation challenges. Lessons learnt include the importance of simple design, accurate costing, acknowledging the difficulties of attracting high quality contractors, allowing time for spin-off of utilities, and adequate O&M, as well as World Bank Group in-country presence and strong implementation support. The region has also supported the preparation of the CASA 1000 project, which aims to create the conditions for sustainable electricity trade in Central Asia. The companion CASA1000 community support project aims to provide off-grid electricity or other infrastructure to communities in the project area. The 2012-2014 ISN regarded power as a necessary condition for growth and private sector development. It did not explicitly address the importance of electricity access to citizen well-being or trust in institutions. Future support could usefully emphasize these dimensions.

Outcome 5: Improve the business environment. IDA supported one ongoing and one new operation, while IFC provided investment finance and advisory services. The New Market Development project assists private firms in four cities with market knowledge, product quality, and processing technologies. Despite delays, over 400 agreements have been signed with SMEs and business associations. The Access to Finance project aims to improve access to credit of micro, small, and medium enterprises. Despite delays in the SME component, the Microfinance Investment Support Facility for Afghanistan has launched support programs for three microfinance institutions and the ultra-poor facility. IFC provided new advisory services in utilities management and construction permits. It has four ongoing investments, in microfinance, trade, telecommunications, and for a hotel, and six ongoing advisory services projects, in business licenses, a collateral registry, management training, and grape and pomegranate harvesting. MIGA provided an investment guarantee to a dairy processor. Overall, Bank Group engagement to private sector development has been quite successful in ICT, power, small and medium enterprise development, and in some key enabling activities. Flexibility and ‘staying the course’ have been important factors in success.

The ISN was well aligned with most cross-cutting filters and strategic documents. These included the government 2010-2014 National Priority Program, the 2011 WDR on Conflict and Transition, the 2012 Afghanistan in Transition report and the IDA 16 cross-cutting filters of conflict, gender, and climate change. The WDR itself drew on lessons of experience from Afghanistan. The ISN continued to mainstream gender into programs while recognizing the specific challenges in Afghanistan. There were no specific targets on environment, climate change or related risks though individual operations have addressed climate resilience issues while support to mining has helped strengthen environment and social management capacity. Given Afghanistan's vulnerability to natural disasters, this area could receive more attention in future support strategies.

Financing and Implementation

The ISN includes both IDA and ARTF financing. Table A2.1 summarizes new IDA and ARTF commitments over the FY12-15 period and compares the actual allocations with the planned ones. It should be noted, however, that the ISN was intended to coincide with the World Bank 2012-2014 fiscal years (IDA 16), but was extended for one year, to allow time for the new government to set its own priorities.[33] Furthermore, the ARTF financing cycles cover calendar years not fiscal years. So the 'actuals' and 'estimated' numbers do not directly compare 'like with like.' Table A2.1 lists new commitments by project and their source of financing.

The Table indicates partial alignment between intentions and implementation. New IDA commitments were 90 percent of what was intended, but focused relatively more on pillar 3 and less on pillar 1 than intended, in part because the second DPG did not materialize. ARTF funding overall was about 75 percent of what was intended, mostly because donor funding was less than anticipated. Some of the largest programs were continued in their current phase (NSP 3 and EQUIP), while next-phase programs had been anticipated to start during this period. The largest new investments were for health, roads and regional power (not included in the country allocation in the ISN), while the largest single new commitment was to recurrent cost financing. Recurrent cost financing constituted half of ARTF financing and to some extent 'crowded out' some potential investment financing.

[33] Approvals during FY16 have also been made under the 2012-2014 ISN but are not included in the informal review, which was completed in September 2015 when an earlier preparation of the next CPF was envisaged.

Table A2.1: Estimated Allocations over ISN Period and Actual Commitments ($ million)

	IDA Estimate *(IDA)* *(actual)*	ARTF (*ARTF)* Estimate (*actual)*
Legitimacy and Capacity of Institutions		
Recurrent Cost and Policy Support, Public Financial Management, Capacity Building, Statistics, Village Governance (*includes recurrent cost financing)*	130 (*50)*	1000-1500 *(1106)* *(956)*
Equitable Service Delivery		
Water and Roads, Urban Services, Rural and Community Services (NSP 3)	100 *(125)*	600-1000 *(407.5)*
Human Development Services (education, health, safety nets, skills), Judicial Services	100 *(155)*	300-500 (*460)*
Inclusive Growth and Jobs		
Power, Infrastructure, Private Sector, Agriculture, Mining, Connectivity, Power, Business Environment	100 (*176.5)*	200-500 (*219.75)*
Total ***(of which recurrent cost financing)***	**430**[34] ***(413.4)***	**2400**[35] ***(1833)*** ***(956)***

The Implementation Strategy was to focus IDA resources on innovative operations and ARTF resources on larger scale 'well-tested' programs: **the balance of financing followed this strategy only to some extent.** Innovative IDA programs included the DPG and the Social Safety Nets project, but also two 'tried and true' operations, ARAP for rural roads and SEHAT for the health sector. The ISN did not discuss specifics on the largest IDA commitment to Afghanistan, over $300 million to CASA 1000. Sixty percent of ARTF commitments were for the recurrent cost window, while of the remainder, over half, were for the health and rural roads sectors. However, substantial ARTF funding was provided to the innovative Capacity Building for Results program and for judicial reform, neither of which were able to disburse.

The ISN emphasizes the importance of community participation in programs and most operations incorporate this strategy. The approach is best developed in NSP, and has been adapted to the CASA 1000 Communities program. The mining programs also emphasize community and social benefits. Local interest groups are important in the Irrigation, Horticulture/Livestock, Agricultural enterprise, Access to Finance and Municipal Development programs. Community feedback has been important for the health and education programs. There is still debate about integrating the CDCs into subnational government structures.

[34] Indicative, subject to annual calculations, depending on such factors as the size of IDA resources, country performance, and exchange rates.
[35] Indicative only. ARTF levels and allocation subject to donor contributions, the ARTF three-year strategy, and allocation decisions by the ARTF Management Committee.

As of August 2015, there were 28 operations under implementation,[36] including 14 that were approved between 2012 and 2015. Table A2.2 provides details. Out of the eight operations classified as problem projects, five were concerned primarily with government institution building. An analysis of the 17 implementation completion reports completed during the ISN period (see Table A2.3) confirms this pattern of difficulties. While analytical work has emphasized the importance of creating accountable, competent, sustainable institutions, in practice this has proved very difficult to do. Nevertheless, there have been some successes, especially where there has been a focus on one department, as in Public Financial Reform or Customs and Trade. Development Objectives for all nine ICRs under pillar 2 are rated S or MS, except for the Water Sector TA. Two of the five ICRs under pillar 3 were rated MU.

All completed operations were extended or restructured during implementation, and 10 out of 17 were both restructured and extended. Due to the ARTF funding cycles, extensions, as additional funding become available, are a very common feature in the Afghanistan portfolio. Restructuring is also relatively non-controversial since funds can quickly be reallocated to other projects. In general, projects in Afghanistan face fewer disbursement delays than in many other countries, in part because of the ‘implementing partner’ model. However, there have been start-up delays in several new operations related to a leadership vacuum during the political transition.

The completed ICRs contain a number of key lessons. These include:

For project design: Keeping project design and monitoring arrangements simple; providing for strong community ownership in design and implementation; carrying out thorough institutional capacity assessments; using the facilitating partner approach rather than building large public sector structures to implement programs; avoiding overdependence on international consultants where implementing agencies are weak; developing design standards up-front but allowing for large contingencies; adapting procurement methods to local realities; ensuring that analytical work is adapted to country realities.

For implementation: Moving forward incrementally and opportunistically; having a strong country presence and country knowledge (global best practice goes only so far), with continuity in task team leadership; ensuring strong country ownership at middle management as well as at senior leadership level; timely and flexible restructuring; adapting maintenance procedures to local realities. These lessons from ‘how’ are as important strategically as the ‘what’ of the ISN.

The experience of the ISN suggests that lessons have mostly but not entirely been incorporated in new project design. Under pillar 1, CBR was processed using emergency procedures, did not include a thorough capacity assessment, and was highly dependent both on recruiting high quality technical assistance and on strong country leadership, lacking in the transition period. One key element of pillar 3, development of the resource corridor, would have required broad-based commitment from many agencies in a transitional period. On the other hand, the On-Farm Water Management Project and Rural Enterprise Project were successfully restructured and provide useful models for future interventions, and the ICT operation has partnered with private sector operators and shown flexibility in implementation. Operations such as the National Horticulture and Livestock Project and the New Markets Development Project are

[36] The Tables for Afghanistan include the CASA1000 Community support project, but exclude the Afghanistan portion of the CASA1000 project (Central Asia South Asia Electricity Transmission and Trade Project).

designed to adapt to different local circumstances. Some operations tightly targeted at particular government departments, such as Customs and Trade Facilitation and Public Financial Management Reform, are progressing well.

Implementation Support and Security Constraints

The evolving operational model has sought to balance long-term sustainability and commitment and staff safety and security, making best use of global knowledge and talent. There were some changes over the 2012-2014 period. The number of IRS in Kabul was reduced and greater use made of staff based in Dubai, allowing also for greater access to global knowledge; all Kabul-based staff now have home-based connectivity, and capacity is being enhanced, the aim being to increase the level of responsibility of locally recruited staff; however, task team leader responsibility was still mostly with IRS during the period.

As of mid-2014, there were 85 office staff, 160 local guards, and 42 Gurkha guards. Recognizing the difficulties with effective implementation support of widely geographically scattered programs, a Third Party Monitoring program was instituted in 2011, covering four large projects. A consulting firm uses the global positioning system and field monitoring systems to track project progress. Focusing initially on physical asset monitoring, the program has been expanded to include capacity building and social and environmental management; it will be continued with a new contractor and may be extended to the whole portfolio. Client ministries are now equipped with video and audio conference facilities to ensure real-time connectivity.

Staffing will continue to be driven by the need to work with the World Bank Group's Afghan clients, with 'face time' remaining the highest of any of the fragile and conflict-affected states. A guest house has been opened in Mazar-e-Sharif in the more stable north-west of the country, with accommodation for six people. In Kabul, land has been purchased for construction of a new country office. The ARTF fee was increased to help ensure the financial sustainability of the Bank/ARTF program. An ARTF monitoring agent will continue to ensure high quality administration and strong fiduciary controls of the recurrent budget. Development partner cooperation, especially through the ARTF mechanism, remains a high priority.

While adapting to security constraints has been challenging for Bank staff, there have been more direct threats to government staff and consultants directly involved in program implementation. There have been several deaths of government staff, facilitating partners, and consultants in recent years. Security has affected achieving outcomes. The ICR of SHARP (the health program preceding SEHAT) provides some useful illustrations: (a) in districts with frequent insurgencies, it was difficult to maintain personnel (especially female workers), and the hours of operation were often reduced; (b) monitoring of service providers was restricted in insecure localities; (c) outreach services, especially immunization, were often constrained; (d) disruptions occurred in the distribution of medicines and supplies; and (e) the population, especially women, feared to seek services in times of higher insecurity.

Some operations have adapted implementation modalities to security challenged environments and there are useful lessons to be drawn. NSP, for example, monitors and classifies geographic areas by degree of insecurity, and has developed an operational manual for these areas. It includes provision for security payment premiums, but also provides guidelines in areas such as sub-contracting to local NGOs, adapted provisions for ensuring participation of women, adapted approval and contracting procedures, and adapted fiduciary procedures, including the use of *Hawalla*[37] for transfer of funds. EQUIP has provided for school construction adapted to girls' needs (with privacy fences and well separated toilet facilities for girls and boys) and has consulted on curricula with local religious leaders, and in some cases with the Taliban. Rises in female school enrollment have been impressive but dangers to teachers remain and in some cases girls are not sent to school because of concerns by parents about their safety.

The Bank will need to remain sensitive to the dangers faced by government staff and consultants responsible for direct project implementation, as well as to the impact on results. Given the long experience in Afghanistan, it would be useful to share experience under different projects. The experience of NSP and the health programs indicate that there are safety issues even where projects have very good community outreach and direct community benefits. It would be helpful for the Afghanistan program to share experience across sectors on the different ways in which safety has been addressed.

Development partner cooperation remains a priority, especially given the importance of the ARTF program and the government commitment to move more development finance on budget. The role of the ARTF Administrator in the Kabul office has been key in this regard. There are regular communication tools, including quarterly and annual reports and publications on results, and monthly meetings with development partner representatives.

Conclusions: Moving Forward

This review concludes that priorities and operational modalities in the 2012-2014 ISN have been broadly the right ones. Given the uncertainties of the period, embarking on the ambitious Capacity Building for Results Project might have been premature, while more attention could perhaps have been paid to disaster mitigation as well as to program consolidation in some sectors such as education. The power sector could have focused on modalities for household access as a goal as well as private sector development. Priorities must continue to be driven by government and country needs within an operationally pragmatic lens. Suggestions moving forward focus more on the 'how' than the 'what':

(i) In a fragile and conflict-affected environment, adapting implementation modalities to improve the safety of those involved in direct service delivery and project implementation will be important (much has been done already for Bank staff).

(ii) The trade-offs between short-term service delivery and longer-term institution building and sustainability will continue. There will need to be pragmatism about what can be achieved, taking advantage of opportunities to move forward, and focusing on shorter-term service delivery in times of conflict and fragility. There will be failures and delays, especially in institution and state building; strong local leadership is essential but largely outside World Bank Group control during implementation. The decision on whether to withdraw from a key agenda will remain highly challenging.

[37] *Hawalla* is a traditional system for the transfer of value, including funds, based on the performance and honor of brokers.

(iii) Simple program design, with easily monitorable results and straightforward implementation mechanisms, will continue to have more chance of success than more complex operations which, while strategically important, are likely to face difficulties in implementation.

(iv) Operations with a high level of community ownership and participation, and which deliver benefits to communities in an inclusive way, are more likely to succeed.

(v) New operations need to have thorough capacity assessments of implementing agencies; design needs to be adapted to the level of capacity, avoiding over-reliance on international consultants who are often difficult to recruit and maintain. The facilitating partner approach has worked well in several instances.

(vi) There needs to be a flexible approach to implementation, restructuring, and modifying components, implementation modalities, and procurement arrangements if those planned at appraisal do not work in practice.

Table A2.2: Portfolio Summary: Key Ratings and Disbursements, August 2015

Project ID	Project	Approval FY	Commitment Amount ($M)	Project Ratings			Closing Date	Undisb. Bal. ($M)
				PDO	IP	Overall Risk		
P091258	ARTF - Recurrent and Capital Costs	2002	1473.00	S	S	M	06/30/2018	206.85
P106259	Second Education Quality Improvement Program	2008	29.24	MS	MU	S	09/01/2012	0.00
P110407	Rural Enterprise Development Program	2010	30.00	S	S	M	12/31/2015	2.22
P111943	Power System Development Project	2011	35.00	MS	MU	H	05/31/2017	17.54
P112872	Second Customs Reform and Trade Facilitation Project	2010	71.98	S	S	H	12/31/2016	21.52
P113421	Pension Administration and Safety Net Project	2010	20.00	MU	MU	S	06/30/2016	8.43
P117103	National Solidarity Program III	2010	40.00	S	S	S	09/30/2015	0.01
P118028	ARTF - 2nd Judicial Reform Project	2012	40.00	U	U	H	06/01/2017	28.91
P118053	New Market Development	2011	22.00	S	MS	S	02/29/2016	7.33
P118925	Sustainable Development of Natural Resources Project	2011	43.03	MU	MU	S	06/30/2016	15.75
P119047	Financial Sector Rapid Response Project	2012	25.70	MS	MS	H	06/30/2016	13.06
P120397	Agricultural Inputs Project (AAIP)	2013	74.75	MU	MU	S	06/30/2018	64.33
P120398	On-Farm Water Management (OFWM)	2011	25.00	S	S	S	12/31/2015	0.00
P120427	Public Financial Management Reform II	2011	73.00	MS	MS	M	12/31/2015	12.02
P121755	ICT Sector Development Project	2011	50.00	S	MS	M	06/30/2017	15.73
P121883	Strengthening the National Statistical System	2011	14.00	U	U	H	02/29/2016	9.36
P122235	Irrigation Restoration and Development Project	2011	97.80	S	MS	S	12/31/2017	32.98
P123845	Capacity Building for Results Facility (CBR)	2012	100.00	MU	MU	H	12/31/2017	57.92
P125597	Kabul Municipal Development Program	2014	110.00	S	S	H	12/31/2019	94.79
P125961	Rural Access Project (ARAP)	2012	125.00	S	S	H	03/31/2018	18.47
P128048	Afghanistan Access to Finance	2014	50.00	S	MS	H	12/31/2018	48.29
P129663	System Enhancement for Health Action in Transition	2013	100.00	MS	MS	S	06/30/2018	25.49
P131864	Kabul Urban Transport Efficiency Improvement Project	2014	90.50	S	MS	S	12/31/2019	77.02
P132742	Second Skills Development Project	2013	55.00	S	S	M	06/30/2018	32.41
P143841	National Horticulture and Livestock Project	2013	50.00	S	S	S	12/31/2018	59.89
P146015	Non-Formal Approach to Training Education and Jobs	2014	15.00	MS	MS	M	12/30/2018	13.15
P146184	Higher Education Development Project	2016	4.90					0.00
P149410	CASA-1000 Community Support Program	2014	40.00	S	S	S	05/30/2017	40.00

Table A2.3 Implementation Completion Reports: Project Ratings

Project ID	Project Name	Approval date	Closing date	Restructured or extended	Committed at approval	Disbursed at closing	outcome	Bank perfor mance	Borrower performance
P110644 Pillar 1	**Financial Sector Strengthening**	04/30/2009	06/30/2014	Restructured	XDR 5.50M	XDR 1.50M	U	MU	MU
P099980 Pillar 1	**Public Financial Management Reform**	5/29/2007	12/31/2011	Extended	SDR 22m	SDR 22m	S	S	S
P106170 Pillar 1	**Management Capacity Building**	10/27/2006	12/31/2011	Extended	US$ 10m	US$ 11.5m	MU	MS	MU
P078936 Pillar 2	**Emergency Irrigation Rehabilitation**	12/23/2003	9/30/2011	Both	US$ 28mm	US$ 12m	MS	MU	
P103343 Pillar 2	**National Emergency Rural Access**	12.31.2007	12/31/2013	Extended	US$ 137m	US$ 229m	MS	S	S
P083919 Pillar 2	**Kabul Urban Reconstruction**	7/29/200	04/30/20101	Both	SDR 17m	SDR 15m	MS	MS	MS
P095919 Pillar 2	**Water Sector Capacity Building**	3/23/2009	3/13/2013	Both	SDR 5.5m	SDR 3.6m	MU	MU	MU
P087860 Pillar 2	**Urban Water Supply**	3/3/2005	6/30/2014	Both	SDR 28m	SDR 11.9m	MS	MU	MS
P102573 Pillar 2	**Skills Development**	1/31/2008	6/20/2014	Both	US$ 38m	US$ 34m	MS	MS	MS
P089040 Pillar 2	**Strengthening Higher Education**	5/19/2005	6/30/2013	Both	US$ 40m	US$ 56m	S	MS	S
P112446 Pillar 2 (JSDF TF095195)	**Strengthening Health Activities for the Poor**	3/24/2009 (same)	9/30/2013 (12/31/2014)	Extended Extended	US$ 126 (US$ 17.65m)	US$ 145 (US$ 17.65)	S	S	MS
P10152 Pillar 2	**HIV/Aids Prevention**	07/31/2007	11/30/2012	Extended	SDR 6.6m	SDR 6.4 m	MS	MS	MS
P106654 Pillar 3	**Kabul, Aybak, Mazar-e-Sharif Power**	10/04/2007	9/30/2013	Both	SDR 57m	SDR 50m	U	U	U
P083908 Pillar 3	**Emergency Power Rehabilitation**	6/22/2004	3/13/2013	Both	US$ 105m	US$ 110m	MS	MU	U
P104301 Pillar 3	**Expanding Microfinance and Sustainability**	1/08/2008	6/30/2012	Both	SDR 19.2m	SDR 10.4	MU	MS	MS
P088719 Pillar 3	**Investment Guarantee Facility**	7/29/2004	9/30/2011	Extended	SDR 3.5m	SDR 3.5m	S	MS	S
P098118 Pillar 3	**Sustainable Natural Resource Development**	5/25/2005	5/31/2013	Both	SDR 21m	SDR 27m	MS	MS	MS

Annex 4: Summary of Consultations on Afghanistan CPF

1. Consultations with the Country Team

The CPF preparation process has ensured extensive participation and consultations within the WBG. A series of sector and country team meetings were held in Kabul, Dubai, and Washington DC to receive feedback from various teams including the CPF core group, GPs, Gender and FCV CCSAs, and at different levels including practice managers, TTLs, and operations staff.

At the launch of the CPF in March 2016, a core group composed of representatives from practice groups and CCSAs was established. The group provided close support and advice throughout the preparation process. Following this, the CPF team held one-on-one consultation with each GP both in Kabul and in Dubai to develop an understanding of the WBG's past and present engagement in the country, and future directions and plans. Following this, the sustainable development team and IFC held internal meetings to discuss sector strategies over the next four years and provided the CPF team with inputs on gender, social development, transport, energy and infrastructure. Based on these preliminary consultations, a first draft was developed and shared with the CPF core group.

In the first draft, three pillars and several objectives had emerged and the discussions guided where the various interventions should be plotted and how to ensure complementarity between instruments, GPs and institutions of the WBG. The team then held a series of meetings focused on each pillar, connecting the country team by VC from different locations. These meetings helped to sharpen the focus of the pillars, define the context and storyline around each pillar, and to consolidate several of the objectives. A second draft was then produced based on this feedback.

In May 2016, the PCN review provided guidance on the overall strategy and context, including fragility and conflict, prioritization, private sector engagement, financing sources, and sectoral directions. The team agreed to better articulate the issues raised and to apply a fragility and conflict lens to how selectivity and prioritization is done. A fourth draft was produced along with the results framework for circulation and discussion with the CPF core team.

The CMU retreat in early June also provided the opportunity to engage the Dubai-based TTLs, the VP who was visiting at the time, and the CMU team including program leaders. These discussions highlighted the need to maintain a focus on the poor, bottom 40 percent of the population, and to define how the WBG will provide support to more urgent needs of youth, women, IDPs and residents of lagging regions. Based on this feedback, the team brought together PMs and TTLs in the agriculture, trade and customs, and social protection and labor GPs as well as IFC and MIGA, to explore how WBG can use its full range of investment and advisory instruments to support SMEs, provide jobs and support the poor through cash transfers.

During June 2016, the team held individual meetings in Washington with practice managers, IFC, and MIGA followed by country team meetings in Washington and in Kabul (connecting Dubai). This round of consultations provided input on more specific issues such as statistical capacity of the government, the role of public and private sector in driving short-term jobs and growth, the government's development agenda, and balancing short-term vs. long-term priorities given financing restrictions. The team worked with the core team and those who have provided comments to revise and ensure that all feedback was incorporated and addressed. A fifth version was developed by the end of June.

2. Consultations with Government

The CPF team consulted the Ministry of Finance at two stages during early preparation and after the concept note review. The client appreciated the commitment to working through and improving the civil service rather than parallel donor mechanisms (i.e., PIUs and consultants), as well as the focus on sector-wide approaches and women's economic empowerment in line with government's priority programs.

Detailed discussions were held on sectoral interventions. The client emphasized the need for a greater level of engagement by the World Bank Group particularly in supporting micro, small and medium enterprises, and in helping government play a better facilitation role through streamlining processes and reducing bureaucracy. The government also acknowledged the need for cash transfers to poor and female-headed households, but stressed the importance of complementing these efforts with measures to reduce leakage and misuse.

3. Consultations with External Stakeholders

Consultations with a broad range of stakeholders were conducted to inform the preparation of the CPF. These included development partners, civil society, and the private sector. Development partners urged the Bank to consider political economy factors and support results-based technical assistance. They suggested increased focus on connectivity between regions, labor mobility, and access to infrastructure. While remaining flexible, the World Bank Group interventions should focus on medium- and long-term priorities and on sustainability, especially at subnational level. Regarding health and education services, the focus should be on access.

Nongovernmental organizations and civil society organizations agreed with the need to provide evidence on the performance of NGO-implemented projects, particularly in insecure areas out of government reach, and stressed the need to improve partnership with government.

The private sector emphasized the need to support small and medium enterprises, which are most resilient under insecurity but hindered by bureaucracy and corruption. They shared challenges of working with government under donor-funded projects, and in facing corruption and lengthy procedures. Discussions confirmed the need to continue improving the legal and regulatory environment.

Annex 5: Selected Indicators* of Bank Portfolio Performance and Management

As of Date 08/22/2016

Indicator	FY14	FY15	FY16	FY17
Portfolio Assessment				
Number of Projects Under Implementation [a]	14.0	14.0	15.0	15.0
Average Implementation Period (years) [b]	2.8	4.2	4.9	5.0
Percent of Problem Projects by Number [a,c]	0.0	21.4	20.0	20.0
Percent of Problem Projects by Amount [a,c]	0.0	12.1	12.3	12.3
Percent of Projects at Risk by Number [a,d]	14.3	28.6	26.7	26.7
Percent of Projects at Risk by Amount [a,d]	19.8	25.3	14.3	14.3
Disbursement Ratio (%) [e]	32.0	36.5	41.6	4.1
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	53	12
Proj Eval by OED by Amt (US$ millions)	1,927.3	470.8
% of OED Projects Rated U or HU by Number	22.0	25.0
% of OED Projects Rated U or HU by Amt	4.4	0.5

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.

Annex 6: Afghanistan Operations Portfolio (IDA)

As of 07/31/2016

Closed Projects	66

IBRD/IDA*

Total Disbursed (Active)	587.94
of which has been repaid	0.00
Total Disbursed (Closed)	1,977.43
of which has been repaid	59.27
Total Disbursed (Active + Closed)	2,565.37
of which has been repaid	59.27
Total Undisbursed (Active)	378.55
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	378.5539155

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements[a]	
Project ID	Project Name	Development Objectiv	Implementation Progress	Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P125961	AF: Afghanistan Rural Access Project	S	S	2012	0.0	125.0		0.0	0.0	-20.3	142.5
P112872	AF: Customs Reform & Trade Facilitatic	MS	MS	2010	0.0	72.0		0.0	19.3	-2.8	0.0
P106259	AF: Edu. Qlty. Improvement Program II	MS	MU	2008	0.0	30.0		0.8	0.0	1.1	159.9
P128048	Afghanistan Access to Finance	MS	MS	2014	0.0	50.0		0.0	41.3	28.6	0.0
P121755	Afghanistan ICT Sector Development Pı	S	S	2011	0.0	50.0		0.0	9.1	12.4	0.0
P118925	Afghanistan SDNRP II	MU	MU	2011	0.0	52.0		12.0	4.4	19.8	-0.3
P122235	AF: Irrigation Restoration &Developmer	MS	MS	2011	0.0	97.8		0.0	20.0	0.0	0.0
P117103	AF: National Solidarity Program III	S	S	2010	0.0	40.0		0.0	0.0	0.0	0.0
P118053	AF: New Market Development	S	MS	2011	0.0	22.0		0.0	3.4	5.2	0.0
P113421	AF: Pension Admin and Safety Net	MS	MS	2010	0.0	20.0		0.0	6.5	-5.3	6.7
P110407	AF: Rural Enterprise Devt Program	S	S	2010	0.0	30.0		0.0	0.0	1.6	7.1
P119047	Financial Sector Rapid Response Proje	MS	S	2012	0.0	25.7		0.0	10.1	5.7	0.0
P132742	Second Skills Development Project	MS	MU	2013	0.0	55.0		0.0	24.3	13.2	0.0
P129663	System Enhancement for Health (SEH/	MS	MS	2013	0.0	100.0		0.0	5.7	125.8	0.0
P145347	Trans-Hindukush Road Connectivty Prc	S	S	2016	0.0	250.0		0.0	234.4	1.5	0.0
Overall Result					**0.0**	**1,019.5**		**12.7**	**378.6**	**186.7**	**315.9**

* Disbursement data is updated at the end of the first w eek of the month.

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

Annex 7: IFC Statement of Committed and Outstanding Portfolio

Statement of IFC's Committed and Outstanding Portfolio

Amounts in US Dollar Millions

Accounting Date as of : 08/31/2016

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Region(s):Middle East and North Africa

Country(s) : Afghanistan

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2009/ 2010/ 2013/ 2011/ 2015/ 2016/ 2012	AIBank	0	0	3.43	0	0	0	3.43	0	0	0	0	0	0	0	0.00
2006/ 2004/ 2008/ 2012	FMBA	0	0	1.96	0	0	0	1.96	0	0	1.96	0	0	0	1.96	0.00
2013	Roshan	45.88	19.12	0	0	0	0	45.88	0	45.88	0	0	0	0	45.88	0.00
2004	TPS (A)	0	0	0	0.38	0	0	0.38	0	0	0	0.38	0	0	0.38	0.00
Total Portfolio		**45.88**	**19.12**	**5.39**	**0.38**	**0**	**0**	**51.65**	0	**45.88**	**1.96**	**0.38**	**0**	**0**	**48.22**	**0.00**

Annex 8: IFC Historical Country Summary

MIS

International Finance Corporation

Report Run Date: 08/22/2016

Historical Country Summary

Amounts in US Dollar Millions

Accounting Data As Of: 08/31/2016

Country: Afghanistan

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Approval Fiscal Year	Institution Short Name - Primary Sector	LN Orig Amt-IFC	ET Orig Amt-IFC	QL+QE Orig Amt-IFC	GT Orig Amt-IFC	RM Orig Amt-IFC	Orig Cmt Bal-Part	Cmtd Bal -IFC	Cmtd Bal-Part	Undisb Bal -Total
2013	ACOMET - Health Care	0	0	4.50	0	0	0	0	0	0
2016/ 2009	AIBank - Finance & Insurance	0	3.43	0	10.64	0	0	3.43	0	3.43
2009/ 2010/ 2006	Areeba Afg. LTD - Information	105.00	21.40	0	0	0	0	0	0	0
2008/ 2007	BRAC Bank Inc - Finance & Insurance	0	1.36	0	0	0	0	0	0	0
2003/ 2008/ 2012/ 2006	FMBA - Finance & Insurance	4.50	2.20	0	0	0	0	1.96	0	0
1973	IDBA - Finance & Insurance	0	0.32	0	0	0	0	0	0	0
2013	Roshan - Information	65.00	0	0	0	0	0	45.88	0	0
2004	TPS (A) - Accommodation & Tourism Services	0	0	7.00	0	0	0	0.38	0	0
Protfolio Total :		**174.50**	**28.71**	**11.50**	**10.64**	**0**	**0**	**51.65**	**0**	**3.43**