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**INTERIM STRATEGY NOTE
FOR
ISLAMIC REPUBLIC OF AFGHANISTAN

FOR THE PERIOD FY07-FY08**

April 12, 2006

**Afghanistan Country Management Unit
South Asia Region**

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CURRENCY AND EQUIVALENTS

Currency Unit = Afghani
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Afghanistan uses a calendar based on the Persian or Islamic Solar Year (SY) which traditionally begins on or about 21st March

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	IDA	International Development Association
ADB	Asian Development Bank	IDP	Internally Displaced Person
AFMIS	Afghan Financial Management Information System	IFC	International Finance Corporation
AMF	Afghan Military Forces	IFIs	International Financial Institutions
ANA	Afghan National Army	IMF	International Monetary Fund
ANBP	Afghan New Beginnings Program	JSDF	Japan Social Development Fund
ANP	Afghan National Police	MDGs	Millennium Development Goals
ARTF	Afghanistan Reconstruction Trust Fund	MIGA	Multilateral Investment Guarantee Agency
BPHS	Basic Package of Health Services	MOF	Ministry of Finance
CAS	Country Assistance Strategy	MOPH	Ministry of Public Health
CDC	Community Development Council	MTFF	Medium Term Fiscal Framework
CG	Consultative Group	NEEP	National Emergency Employment Program
CGA	Country Gender Assessment	NGO	Non-Governmental Organization
CSO	Central Statistics Office	NSP	National Solidarity Program
DAB	Da Afghanistan Bank (Central Bank)	NRVA	National Risk and Vulnerability Assessment
DDR	Disarmament, Demobilization and Reintegration	O & M	Operations and Maintenance
DFID	Department for International Development (United Kingdom)	PAR	Public Administration Reform
EPAP	Emergency Public Administration Project	PEP-MENA	Private Enterprise Partnership – Middle East and North Africa
HIPC	Heavily Indebted Poor Countries	PRGF	Poverty Reduction Growth Facility
IANDS	Interim Afghan National Development Strategy	PRR	Priority Reform and Restructuring
IARCSC	Independent Administrative Reform and Civil Service Commission	SMP	Staff Monitored Program
		SOE	State Owned Enterprise
		TSS	Transitional Support Strategy
		UN	United Nations
		UNDP	United Nations Development Programme

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Executive Summary

i. Afghanistan's political transformation, implemented according to the 2001 Bonn Agreement was successfully concluded in late 2005. As a result of that historic process, Afghanistan has developed a Constitution, conducted nationwide elections for a President and most recently has elected a Parliament and Provincial Councils. Notwithstanding these timely and commendable achievements, the normalization of political culture still has a long way to go.

ii. While the political process has met the exacting "Bonn" targets, there has not been a parallel improvement in security. Sources of insecurity are complex ranging from anti-government groups linked to the former Taliban regime, groups linked to Al-Qaeda, remnants of militias allied to commanders and criminal groups often associated with the narcotics trade. The capacity of the official state security forces is improving but the need for external support for the provision of security remains high.

iii. In many parts of the country, and despite the unmet expectations of some of the population, it is clear that progress in some sectors has been impressive – development of road networks has reduced travel times and improved rural access; school enrollments have reached historic highs; health facilities are gaining outreach; thousands of rural communities have been mobilized for development; commercial banks have opened up for business and microfinance programs have extended services to thousands, predominantly women. Real GDP, excluding opium production, is projected to grow by 14 percent in 2005/06 (SY1384), following increases of 29 percent in 2002/03, 16 percent in 2003/04, and 8 percent in 2004/05. These, as well as many less tangible, but equally important, achievements, such as in public financial management and budget formulation, are truly commendable. However the situation is far from normalized and the country has not yet fully emerged from its state of conflict. For every success, there remain numerous challenges which will take a number of years to address.

iv. The need for an ongoing long-term engagement has been recognized by the international community and was endorsed at a high-level conference held in London in January 2006 which provided a forum to launch the "post-Bonn" agenda for Afghanistan. A significant feature of this agenda is the Compact which provides twenty seven benchmarks to be achieved within the next five years. The benchmarks for the Compact were drawn from the Government's Interim Afghan National Development Strategy (IANDS).

v. The IANDS, completed in January 2006, is built around three pillars: (i) Security; (ii) Governance, Rule of Law and Human Rights; and, (iii) Economic and Social Development. The strategy provides a vision of development based on private-sector-led growth supported by a lean state, which uses the budget as its key policy instrument and aid coordination tool. The Government has formally submitted the IANDS to the World Bank and IMF as its Interim Poverty Reduction Strategy (IPRSP) and aims to produce a PRSP by mid-2007.

vi. Buoyed by the early gains in Afghanistan, the Bank's 2003 Transitional Support Strategy (TSS) anticipated a more rapid transition from its emergency post-conflict status to a more 'normalized' situation. Time has demonstrated however that despite the progress made many elements of that post-conflict situation remain – capacity is uneven and weak overall, systems and procedures are rudimentary, though improving, and many areas of the country are seriously affected by conflict. These issues, along with the poor security situation and the limited capacity of the state to demonstrate its presence around the country, highlight the fact that peace remains fragile.

vii. Given the ongoing transitional situation in the country, the Bank has developed this Interim Strategy Note (ISN) anticipated to guide the Bank's engagement over a two-year period. By that time the government plans to have developed its full PRSP, paving the way for preparation of a Country Assistance Strategy. Bank support under this ISN is anticipated to shift slightly from the previous TSS, notably to provide greater emphasis on development of the rural economy. The pillars of the new strategy are:

- **Building the capacity of the state and its accountability to its citizens to ensure the provision of services that are affordable, accessible and of adequate quality.**
- **Promoting growth of the rural economy and improving rural livelihoods.**
- **Supporting growth of a formal, modern and competitive private sector.**

viii. IDA resources, currently entirely grants, will support activities within each pillar, while analytical support will be directed at priority policy inputs. Major reports will focus on key topics emerging as challenges – public administration and corruption. Progress on implementation of existing operations will be a key determinant in providing additional resources to sectors within which the Bank is already involved. The program will take a more focused approach to capacity building – which is a critical constraint to the development program.

ix. The risks of operating in Afghanistan should not be underestimated. Despite the considerable progress achieved through the Bonn process, daily events remind us that security remains a major constraint and there are no immediate indications of it improving. Contingency plans for the country office are in place to deal with increased security problems. Other risks, such as corruption and fiduciary concerns are mitigated to some extent through the proposed program.

I. Country Context

Political and Security Developments

1. Late 2005 saw the culmination of the political transformation established for Afghanistan by the Bonn Agreement in 2001. That historic process, facilitated by the United Nations and endorsed by Afghan representatives and the international community, followed the end of Taliban rule and the cessation of major hostilities in Afghanistan. The agenda outlined in the Bonn process was widely regarded as highly ambitious and its completion, largely on time and without the violent disruption that some had predicted, is a significant achievement for Afghanistan. From the outset the process was designed to put an Afghan administration in the lead, with the international community in a strong supporting role. The important steps of the Bonn Agreement which have been taken in the last few years form the basis for state-building and development in this country emerging from nearly three decades of conflict and political turmoil.

2. Among the major achievements of the Bonn process was the transition from a Transitional Administration to the creation of a representative government. Nationwide consultations and a constitutional Loya Jirga produced a new constitution for the state and paved the way for presidential elections in 2004. The final stage in the political process, highly contested Parliamentary and Provincial Council elections, concluded the Bonn Process in November 2005. Despite the timely achievement of Bonn targets, (the main exception being the indefinite delay in holding District Council elections), normalization of political culture still has a long way to go.

3. One of the first responsibilities of the Parliament is to ratify the Cabinet. As a result, in March 2006 President Karzai presented for Parliamentary consideration a proposed Cabinet of twenty five ministers (which represents some consolidation within ministries). Under the proposed Cabinet fourteen ministers would retain their portfolio, four would be moved to new portfolios and eight were proposed as new appointments. Only one woman was proposed for Cabinet. Following Parliamentary debate most cabinet members were approved, but five were rejected (including the one female candidate) and three are still under review pending clarification of constitutional issues regarding the majority vote. At the time of writing, decisions regarding the vacant positions had not yet been taken.

4. Afghanistan is a unitary state with a strong degree of centralization, both administratively and fiscally. However during the war years, while the formal structure remained, the absence of a strong central government allowed for the rise of regional power structures. Moves made since the fall of the Taliban are once again altering the situation through the appointment of provincial governors more loyal to the central government. However, clarity on roles and responsibilities of different levels of government, as well efforts at reform, still have a long way to go particularly at the sub-national level.

5. In many parts of the country, and despite the unmet expectations of some of the population, it is clear that progress in some sectors has been impressive when one considers the situation that existed a little over four years ago. However, the situation is far from normalized and the country has not yet fully emerged from its state of conflict. For every success, there remain numerous challenges which, as have recently been recognized by the international community, will take a number of years to address.

6. Security difficulties, political realities, climatic uncertainties and regional geopolitics all highlight the fragility of the situation. The recent show of support in London, where the government and representatives from around 60 countries endorsed the 5-year Compact for Afghanistan, (see Attachment 1) bears testimony to the recognition by the international community of the enormous and ongoing needs of Afghanistan. The situation requires continued attention to this “post-conflict” nation which has not yet entirely moved on from an emergency phase, or indeed from conflict.

7. A unique feature of the engagement of the international community with Afghanistan has been the recognition that helping Afghans rebuild their state is the overarching objective of its assistance. This requires the holistic approach set out in the Compact that brings together security, governance and economic development. Economic and social development cannot progress without simultaneous improvements in the security and political/governance spheres, and each is interlinked with the other.

8. Despite the generally positive implementation of key political steps, the security situation in the country has deteriorated since April 2004 (see Box 1). Sources of insecurity are complex ranging from anti-government groups consisting of local and foreign elements of the Taliban regime with a predominantly domestic agenda, international groups linked to al-Qaeda aimed at both government and its international supporters, remnants of militias allied to political figures and commanders who have become marginalized, narcotics traders, conventional criminal gangs and rogue elements linked to security forces. While there are frequent reports of violence from around the country—both criminal and political—the most serious is the insurgency and military operations in southern/eastern areas, as well as the disturbing appearance of newer suicide attacks, including in Kabul. Additionally, insecurity for Afghans is reportedly poor with crime and gangster operations commonplace, fuelled in part by the often lucrative opium poppy business.

9. Clearly the long term aim is to have security fully under the control of the Afghan government, through its own military and police forces. Yet the prospect of providing such support in the near future remains highly unlikely. Furthermore, there are strong concerns regarding the fiscal implications of supporting the Afghan National Army (ANA) and police structures that have been developed outside of normal budget planning processes. Although the ANA is now a credible fighting force, more needs to be done to strengthen the police and judicial systems and international military forces will be needed for many years to come. The Bonn Agreement provided for the International Security Assistance Force (ISAF) which is now under NATO command and deploying throughout

Afghanistan. The US-led coalition forces are reducing their presence in the south as ISAF takes over, although substantial troop presence will remain.

BOX 1: THE THREAT OF DETERIORATING SECURITY

Widespread concern has arisen over the deteriorating security situation in Afghanistan. A recent testimony by a senior U.S intelligence official to the US Senate Armed Services Committee highlights this point, noting that attacks in Afghanistan by remnants of the ousted Taliban government and other anti-coalition groups had surged 20 percent in the past year. His analysis of the situation led him to conclude that insurgents represent a greater threat to the expansion of Afghan government authority than at any point since late 2001 (*Source: The Standard, March 02, 2006*). In other recent press statements NATO command appears less pessimistic. But even their more optimistic outlook cautions that attacks are likely to be on the rise at least in the near future (*Source: Washington Post, March 7, 2006*).

In a progress report to the Security Council, the UN Secretary General reported that there were 17 suicide bombings in Afghanistan in the first two months of 2006, compared to five in the previous three years. Other UN analysis of the situation indicates 19 suicide bombings since May 2005, an exponential rise since a previous high of 4 incidents in 2004 (82 percent of suicide bombings took place in Kandahar). In addition there have been increases in kidnappings, which appear to be connected to criminal gangs, and strong evidence of orchestrated attacks against government institutions.

The US Institute of Peace reports of the insurgency "The year 2005 proved to be the country's deadliest since the U.S invasion of 2001. In that year alone, violent confrontations produced approximately 1,500 casualties...". Furthermore they note that "The NGO casualty rate in Afghanistan is estimated to be greater than that of almost any conflict or post conflict setting, surpassing those of Angola, Somalia and Liberia." A situation that has caused some NGOs to pull back international staff to Kabul, or even to withdraw completely from the country. (*Source: USIP Briefing – Afghan Insurgency Still a Potent Force, February 2006*)

10. The Afghan New Beginnings Program (ANBP), Afghanistan's Disarmament, Demobilization and Reintegration (DDR) program, has reached impressive targets after a slow start, with over 63,000 individuals of the Afghanistan Military Forces (AMF) having been processed through the program by mid 2005. Efforts have now evolved to addressing other armed groups, whose membership could total up to 125,000, through a follow-on program -- the Disbandment of Illegal Armed Groups (DIAG) program.

11. Afghanistan's ***broader role within the region*** is also an essential ingredient of the development challenge. The country has faced many geographical disadvantages in its development, most notably because it is a landlocked country which lies along the "fault lines" between major powers and spheres of influence, often resulting in severe restrictions on trade and people movement to the detriment of economic activity and development. On the other hand, the country's vibrant informal sector, which developed strong economic ties with some neighboring countries, most notably Pakistan and Iran, during the conflict, has helped the population cope with conflict and other shocks and is building up regional economic relations even in the face of restricted (or in some cases absent) formal economic interactions.

12. The end of major conflict in late 2001, combined with earlier developments like the break-up of the Soviet Union as well as ongoing globalization and liberalization trends, has created an opportunity for Afghanistan to exploit its location at the heart of

Central Asia and promote its own and regional development through enhanced regional cooperation. Progress so far has been modest, however, reflecting the legacy of conflict, concerns among some countries about insecurity and the narcotics trade, differing economic policy regimes, and caution about initiatives where the distribution of benefits across countries is likely to be uneven. In this context, building trust, a track record of regional cooperation, and momentum through modest “win-win” activities would appear to be the best approach. This could be supplemented by “breakthrough” projects whose benefits are sufficiently large to influence political choices. Beyond trade and transit, promising areas for regional cooperation include energy, water resources management and labor.

Recent Economic Performance

13. The dismal state of the Afghan economy in late 2001—when the Bank and other members of the international community re-engaged with the country—is well known. Years of conflict had left millions of the population displaced and infrastructure destroyed. The human resource base was depleted through loss and flight of educated people, as well as lack of access to education and health during the conflict. Agriculture was moribund, a situation compounded by the negative effects of drought.

14. The economy has strongly rebounded since late 2001 reflecting the end of major conflict, recovery of agriculture, and a reconstruction boom fueled by inflows of aid, remittances, and opium revenues. Real GDP, excluding opium production, is projected to grow by 14 percent in 2005/06, following increases of 29 percent in 2002/03, 16 percent in 2003/04, and 8 percent in 2004/05 (lower due to poor precipitation in that year), resulting in a cumulative increase of 84 percent during the past four years (see Table 1). Over the same period, GDP per capita has increased by 139 percent to reach US\$294 in 2005/06. While growth has been strong, the sources of recent growth are to a large extent one-time or temporary. Hence, they need to be replaced over time by more dynamic and sustainable growth drivers.

15. The macroeconomic environment has been stable, reflecting a successful currency reform and prudent macroeconomic and fiscal policies. Inflation remains moderate (in the 10 percent to 15 percent range), with no recourse to the central bank to finance the deficit. The nominal exchange rate has been stable. Consequently, the Afghani has appreciated somewhat in real terms against the country’s main trade partners. This long-term appreciation of the real exchange rate is driven by significant inflows of foreign exchange (through external assistance and opium exports) and increased monetization of the economy.

Table 1: Macroeconomic Indicators

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Estimates					Projections	
A. Output							
GDP (US\$ million, excluding opium production)	2,463	4,084	4,585	5,971	7,282	8,885	10,363
GDP (millions of new Afghani)	133,987	182,862	225,108	284,504	355,829	429,014	498,353
Real GDP growth rate	...	28.6	15.7	8.0	14	12	11
GDP per capita (in US dollars)	123	182	199	253	299	355	402
Opium production (metric tons)	185	3,400	3,600	4,200	4,100	...	...
Opium value (millions of US dollars)	56	1,300	2,300	2,200	...	...	...
B. Prices							
CPI (% year-on-year change)	(43.4)	52.1	10.2	16.3	12	9	5
C. Exchange rates							
Afghani/US dollars (average during solar year)	54.4	44.8	49.0	47.7	49.6	...	...
Afghani/US dollars (end-solar year)	31.0	52.6	50.3	48.7	49.8	...	...
D. Monetary indicators							
Domestic currency in circulation (percentage change)	...	20.1	40.9	37.5	16	18	...
Gross foreign exchange reserves (US\$ million)	...	426	816	1,261	1,726	1,898	...

Source: GoA, UNODC, IMF.

16. The opium economy remains a daunting challenge (see Box 2). At US\$2.8 billion in 2004/05, estimated gross drug industry revenues were equivalent to around 46 percent of non-opium GDP. In the following year, drug revenue stayed almost constant, reflecting a 21 percent decrease in area planted with opium and a slight decline in prices, almost entirely offset by an increase in yields. As a result drug revenues declined relative to non-opium GDP, to around 27 percent. The lion's share of drug revenues goes to drug traffickers and processors, with only around a fifth to a quarter going to the farm level.

17. Unreconciled debts from former administrations also threaten fiscal discipline. Debt contracted with the former Soviet Union could have a nominal value of some 200 percent of GDP. However, very recent announcements seem to indicate an agreement with Russia, the U.S. and Germany for major debt forgiveness through the Paris Club (see Attachment 2). If it materializes, the Paris Club deal might make Afghanistan potentially eligible for relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Implementation of this agreement will be contingent on Afghanistan embarking upon an IMF-supported Poverty Reduction and Growth Facility (PRGF), building on the good track record achieved in the Staff Monitored Program (SMP) with the IMF. The SMP program started in March 2004 and seven fully satisfactory quarterly reviews have been completed since.

BOX 2: THE OPIUM POPPY ECONOMY

The cultivation of opium has spread very rapidly over the last ten years in Afghanistan, and now is practiced in nearly all of the country's 34 provinces. Afghanistan has become the world's leading source of opiates, supplying three quarters of the market, reaching ten million abusers worldwide. Opium farm gate income, which was three percent of Afghanistan's GDP as recently as 1990, is now one sixth of total GDP. Most opium is now processed into heroin and morphine within Afghanistan, and the trafficking and trade accounts for another one sixth of the country's GDP.

The conditions propitious to the spread of opium are inimical to combating it – weak governance, local warlordism, twenty-four years of war and the pronounced misery of much of the population. The government suffers conflicting stresses in selecting policy options. Experience in eliminating opium production in other countries suggests that a long time is needed, and also the weakness of the state suggests that there will be no quick fixes. Yet other factors push for quick solutions: opium is undermining both the economy and the polity, in a vicious circle of drugs and arms, supporting centrifugal warlordism.

There is no track record for dealing with a problem like this – successful eradication models do not provide easy lessons for a country like Afghanistan where the state has been gravely weakened by debilitating long-term conflict. An approach endorsed by the UN, is to provide poor farmers with alternative choices before conducting eradication campaigns, on the humane and practical reasoning that very poor people must have alternatives if elimination of poppy production is to be sustainable. Yet the implications in terms of time and money are enormous. Ultimately only sustained, equitable economic growth and the development of institutions can deliver the political, security, social and economic environment in which the sustainable elimination of poppy production can be achieved.

The Afghan government, with its very limited capacity, has adopted an Afghan National Drug Control Strategy which sets the target of reducing poppy production by 70 percent in five years and eliminating it in ten years. The strategy leaves open the question of how exactly this can be achieved including deciding on the respective roles and phasing of eradication and alternative livelihoods, and on the respective roles of action to reduce production and of action to interdict trafficking and processing. Thought needs also to be given to how at the macro and household levels, Afghanistan will be able to “replace” opium income as elimination proceeds. Effective implementation of a sound counter-narcotics strategy cannot be separated from the broader security sector reform agenda.

The Bank has engaged in the debate with analytical work and is now moving towards developing an operational agenda that will mainstream a counter-narcotics approach into operations. In addition, the increased focus on development of the rural economy is intended to assist in providing a basis for rural employment alternatives.

Source: Afghanistan's Opium Drug Economy, World Bank, December 2004.

Fiscal Developments

18. A major achievement of the government has been its emphasis on using the budget as the central policy tool of government. For the first time in SY1384 (March 2005 - March 2006), the Cabinet adopted a consolidated budget combining what had previously been separate ordinary and development budgets. Revenue and operating expenditure projections are generally realistic and are appropriately adjusted in the mid-year review process. The development budget remains ambitious, despite the low implementation rate. The commitment to the “no-overdraft policy” (expenditures fully financed by domestic revenues and external assistance, with no borrowing from the central bank) has been reiterated. There have also been improvements in fiduciary controls (see para. 59).

19. The Government has recently adopted an initial Medium-Term Fiscal Framework (MTFF). Key priorities for the near-term include progressively strengthening and refining the MTFF over time, linking it with the annual budget cycle and national development strategy, and enhancing political buy-in and ownership of the MTFF.

20. The implementation of the 2005/06 Budget shows positive developments with continuing adherence to fiscal discipline and structural improvements. Afghanistan's own revenues are expected to well exceed the original budget target, due to strong performance of Customs receipts (Table 2). Recurrent expenditures remain within budget ceilings. However, actual development spending in the Core Budget is expected to fall far short of the budget target, by a margin of more than half. This nevertheless represents an improvement over the 2004/05 outcome.

21. Fiscal developments raise the key challenge of fiscal sustainability. First, revenue mobilization remains low at 4.5 percent of GDP in 2004/05, one of the lowest ratios in the world, and domestic revenues cover only half of total operating expenditures in the Core Budget. The Government is committed to progressively increase revenues over the next several years with the objective of reaching over eight percent of GDP by 2010.

22. However, there are many operating expenditures currently in the Core Development Budget, and even more directly paid by donors through the External Budget. Examples of the former include public health services and transfers to communities, examples of the latter—security sector costs and technical assistance. The Government estimates that domestic revenue has been equivalent to only 28 percent of this broader concept of recurrent expenditures, a figure which is expected to rise to 58 percent over the next five years. There are growing pressures from donors to shift recurrent expenditures currently financed through the External Budget to the Core Budget, sometimes without compensating increases in external assistance to the Core Budget. Such trends, already evident in the shift of all ANA salary costs onto the Core Budget in 2006/07, have to be managed carefully so as not to excessively squeeze other spending.

23. A second risk to fiscal sustainability is the pressures to increase civil service salaries. Although wages have eroded in real terms over the past several years, pay increases unrelated to restructuring and performance improvements do not improve the quality and effectiveness of public expenditures and reduce the fiscal space for civil service reforms.

Table 2: Fiscal Indicators (US\$ million)

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Estimates				Projections	
Domestic Revenues	131	208	269	405	548	725
Grants	210	299	487	589	744	719
Expenditures	346	645	829	1,059	1,428	1,657
Ordinary Expenditures	346	452	560	678	811	886
Wages		299	396	437	514	573
Goods and Services		95	88	150	193	202
Capital Expenditures		41	41	48	25	30
Others		17	35	42	78	81
Development Expenditures	-	193	269	382	617	771
Fiscal Deficit After Grants	5	139	73	65	136	214
Float and Adjustments	(15)	35	5	21	-	-
Sales of Non-financial Assets	-	-	-	40	-	118
Financing	20	104	68	4	136	95
External Loans (net)	-	100	309	147	114	109
Domestic Financing a/	20	4	(241)	(143)	22	(14)
Memo: External Budget	503	2,182	2,503	2,076	2,193	1,896

a/ Change in currency deposits.

Note: the exchange rate for 2006/07 and beyond is AF48.5 per US\$.

Source: GoA, IMF.

24. A third source of expenditure pressures is the growing need for non-salary spending for operations and maintenance (O&M) of new investments such as roads. It is estimated that non-salary recurrent expenditures in 2006/07 are remaining roughly constant in nominal terms. Given sharp price increases for fuel and some other commodities, this most likely represents a decline in real terms, whereas substantial increases are called for.

25. A fourth source of fiscal risk is pensions of government employees which will need to be carefully managed to avoid their ballooning into major fiscal liabilities. And finally, massive capital expenditures, many of which should be shifted to the Core Budget in the interest of Government ownership, strategic prioritization, and cost-effectiveness, will continue to be needed to further Afghanistan's development agenda.

26. All of these considerations highlight that external support for Afghanistan's development will need to remain high in coming years, requiring pro-active management on the part of the Government to maintain high levels of support, as well as improved coordination and greater attention to aid effectiveness on the part of donors. In this regard the Government has endorsed the Paris Declaration on Aid Effectiveness.

Poverty Profile

27. Data limitations preclude an accurate assessment of the poverty situation in Afghanistan but some information is gradually becoming available. The first round of the National Risk and Vulnerability Assessment (NRVA) has helped to inform in certain dimensions (see Box 3), and a second round in 2005/06 has been completed and will soon

provide consumption data in both urban and rural areas. Work is being done to assess the uses and limitations of NRVA to help in designing a robust and sustainable household survey program. These surveys which have either been undertaken or planned are expected to provide a more comprehensive picture of poverty and other social indicators at the national level.

BOX 3: WHAT DO WE KNOW ABOUT THE RURAL POOR?

As one of the approaches used to measure poverty in rural Afghanistan, the 2003 NRVA collected data on food consumption over a recall period of seven days. It should be stressed that no methodology is totally accurate in assessing poverty and that the overall pattern is more significant than any precise figure.

The data suggest that around half of the rural sample had experienced some food insecurity and the poorest segment of the sample report food insecurity year round. The bulk of the rural population is living on the edge of poverty, and the onset of a large shock—another wide-spread drought, for example—could send many more people into poverty. In terms of numbers of people, an estimated 3.5 million rural Afghans are extremely poor, another 10.5 million are vulnerable to extreme poverty, and the balance, 3.5 million, are less poor, but still vulnerable to poverty.

Poverty in Afghanistan is multidimensional, involving a complex interplay between low assets (physical, financial and human), years of insecurity and drought, indebtedness, poor infrastructure and public services, traditional roles and other factors. In summary, the main determinants of rural poverty emerge:

Location—some parts of Afghanistan may have overall poverty levels that are higher than others, particularly the West, North and West Central. By contrast, the data indicate that the North East may have relatively lower levels of poverty.

Number of children—analysis suggests that the better-off households have fewer children and more adults, suggesting a possible link between income generation capacity and dependency, although children are a source of income as well as being dependents.

Gender of household head—there is a strong relationship between the sex of the household head and household welfare: female headed households are more concentrated in the lowest food consumption quintiles.

Disability—About 14 percent of rural households have a disabled family member, and some of these households are among the very poorest. It is important to distinguish, however, among households with a disabled member: not all are equally poor.

Migration—Households who have migrated domestically (including IDPs) tend to be poorer, but those who have returned from abroad are relatively better off. Remittances play an important role in alleviating poverty.

Human Capital—Illiteracy is high in rural Afghanistan, and only about 30 percent of household heads can read and write: literacy among women is only 10 percent. Levels of education are very low, on average only 1–2 years of schooling. Nonetheless, household heads who can read and write have a lower incidence of food consumption poverty.

Land—One quarter of the households in the sample was landless, and some of these households are extremely vulnerable. Among those with land, ownership of irrigated land has a more positive relationship with higher food consumption than those deriving their livelihood from rainfed land.

Opium Poppy—the cultivation of opium poppy leads to higher levels of income. In addition, households residing in communities where poppy is produced are also less likely to be poor. This is most likely due to the labor intensive nature of poppy cultivation, involving large numbers of workers, especially during the harvest, as well as the general effect of opium on the local economy.

Source: Poverty, Vulnerability and Social Protection: An Initial Assessment, World Bank, 2005.

28. Although economic growth is the cornerstone of the Government's strategy to reduce poverty, as indicated in the IANDS (See Section III, p. 24) complementary efforts need to be made to monitor the impact of growth on poverty and social indicators. A major challenge will be to alleviate the data constraints that inhibit accurate measurement

measurement of poverty and its trends. The Bank is collaborating with the Central Statistics Office as well as with the IMF, ADB and DFID on a statistical master plan and is providing technical assistance for poverty analysis and monitoring which is designed to combine capacity building and analysis.

Structural and Sectoral Developments and Challenges

29. From the very low base encountered in late 2001, it is clear that progress has been achieved, albeit in varying degrees, in a number of sectors. Specifically there are noticeable improvements in the environment for private sector development; great strides have been made in the provision of health and education services, and Afghans are benefiting from the rapid development of some major infrastructure and telecommunication networks. However, the ingredient which is key to longer term sustainability—the capacity of the state itself to design, supervise and/or deliver services—is still missing, and the minimal capacity that has been developed over the last four years is clearly overwhelmed by the tasks at hand and remains heavily reliant on outsourcing, often at high cost. Moreover, the capacity of the state is constrained by the lack of government revenues and the shortage of skilled labor.

30. Achievements *in private sector development* include the gazetting of the Da Afghanistan Bank (DAB) and Banking Laws, the licensing of twelve private commercial banks and three state-owned banks. Progress has also been made in developing the microfinance sector through the Microfinance Investment Support Facility (MISFA). Further, the government has established the Afghanistan Investment Support Agency (AISA) with the mandate of promoting and facilitating investment. Private investment grew from one percent of GDP in 2002/03 to four percent in 2004/05. Major challenges include access to land, lack of security, corruption and rule of law. A recent Investment Climate Assessment (ICA) demonstrated the very high cost to business of security in Afghanistan. Other constraints are infrastructure (except the strong development of telecoms), and skilled labor, as well as a weak legal and regulatory framework. Lack of progress in justice sector reform and ensuring the rule of law is increasingly an issue. The Government's strategy with regard to its State-Owned Enterprises, including banks, needs to be clarified.

31. *Power supply* remains very weak and only 16 percent of the population has access to grid-supplied power, with 25 percent having access to some form of power supply. Despite poverty, numerous Afghans are willingly paying high prices for power in areas not served by the country's inadequate electricity grids. The majority of reconstruction funds to the sector were initially used to begin rehabilitation of hydro plants, related key transmission links, re-commissioning the Kabul NW power plant—which effectively doubled the amount of electricity delivered to Kabul in the winter—and rehabilitate part of the Kabul distribution network. Afghanistan is importing electricity from Iran and its Central Asian neighbors at prices competitive with new generation, and construction of a major transmission line from Central Asia to Kabul has started, which should lead to major improvements in supply in 2008. Going forward the country faces large challenges to rehabilitate distribution systems and expand access to grid-based power, as well as expanding rural access to electricity. The issues are not all technical and financial

however, as attention to pricing, regulations and restructuring of the power utility are equally important for sustainable improvements in quality and access to electricity supply.

32. *The roads sector* has received a large amount of international assistance with investments in reconstruction of the core national highway network as well as for rural access roads. Gaps in the main network have been progressively filled over time, and the investment program for the ring road and key connections to neighboring countries is basically fully funded, with most of it under implementation. Further investment is needed to link provincial centers to the ring road system thus improving access of farmers to markets as well as to the growing problem of urban traffic management. Difficulties encountered include security problems, government capacity limitations and lack of financing for maintenance.

33. The *health status* of Afghans, particularly women and children, remains among the worst in the world. Until the end of 2003, the performance of the public health system was generally poor, with the exception of mass campaigns (e.g. measles immunization and Vitamin A coverage). Subsequently the government implemented a new health program (Box 4) providing a Basic Package of Health Services (BPHS).

34. Delivering the BPHS costs about \$3.50 per capita per year. Together with reasonable recurrent hospital expenditures, the Government should aim to spend about \$5.80 per capita per year or about \$140 million annually which should be affordable in the medium term with reasonable GDP growth, adequate revenue collection, and an increase in expenditure to about 1.5 percent of GDP, in keeping with levels seen in other low income countries.

35. In *education*, a huge increase in student enrollment has brought levels to the highest enrollment in the history of Afghanistan. Female enrollment in primary schools far exceeds that in the pre-Taliban period, although it remains well below the figure for boys. In 2003, the net enrollment rate for boys in primary schools was 67 percent; for girls 40 percent. Furthermore, regional disparities are troubling – girls represent less than 15 percent of total enrollment in southern provinces where schools have been burned and teachers intimidated.

36. Higher education, critical to capacity building in both public administration and the private sector, has also seen a substantial increase in the number of students, with enrollment jumping from 4,000 students in 2001 to 38,000 in 2004. Moving forward, overall spending levels in education must be sustained, and budget allocations within the sector should be more targeted and strategic.

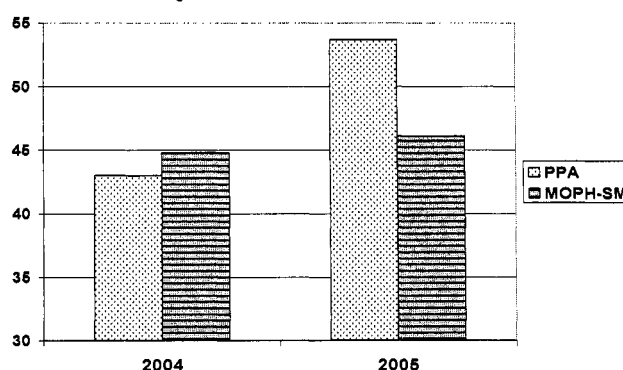
37. The government's flagship program for *community development* supports small-scale reconstruction and development activities identified by locally-elected Community Development Councils (CDCs) across the country. In two and a half years the program has reached about 8.5 million Afghans, (around 45 percent of Afghanistan's estimated 18.8 million rural inhabitants), established 10,000 CDCs, and financed over 14,000

community projects. About 88 percent of the community projects involve infrastructure such as irrigation, rural roads, electrification and drinking water supply.

BOX 4: CONTRACTING OUT HEALTH SERVICE DELIVERY – INITIAL RESULTS

At the time of re-engagement 80 percent of the limited health facilities that existed in Afghanistan were managed or supported by NGOs. Health facilities were predominantly situated in urban areas and accessible and more secure rural areas, leaving large parts of the population un-served. The Government had a very limited capacity to deliver services and the few Government facilities that existed in rural areas, had been all but abandoned. Since the beginning of 2004, the Ministry of Public Health (MOPH) has been able to assert its stewardship over the sector through performance-based partnership agreements (PPAs). Using IDA financing, MOPH contracted NGOs, using a competitive selection process, to provide services in 8 provinces. The initial results have been quite encouraging. An independent assessment carried out by Johns Hopkins University demonstrated that the quality of care improved significantly more in the PPA provinces than in three provinces near Kabul implementing through direct government provision (MOPH-SM).

Quality of Care Scores in PPA and MOPH-SM Provinces
From Independent Assessments in 2004 and 2005



While household survey data is not yet available, data from the clinic-based health information system appears to indicate that there has been a large increase in the provision of services in the provinces served by the project. This approach has been picked up by other donors, particularly USAID and the EU, the other large donors in the sector. Now more than 77 percent of the population of Afghanistan has access to basic services and coverage will soon increase to more than 90 percent.

Data on Key Indicators in
8 PPA Provinces: March to June 2004 vs. March to June 2005

Indicator	March to June, 2004	March to June, 2005	% Change
Prenatal care (%)	32.4	59.2	26.8
Skilled birth attendance (%)	2.9	7.5	4.6
Vaccination (DPT3) Coverage (%)	49.4	102.1	52.7
Family planning acceptors (#)	27,180	68,940	+153%

Public Administration, Capacity and Governance

38. The above achievements notwithstanding, there is a widespread recognition that *lack of capacity* is probably the greatest constraint (apart from security concerns) to achieving results in Afghanistan. Public administration reform (PAR) is critical for creating capacity in the Afghan administration to develop and implement national development strategies and programs. Unfortunately, despite some specific progress under the Priority Reform and Restructuring (PRR) program, which allowed ministries to

implement reforms in key departments and agencies to jump-start the PAR process, the implementation experience of PAR has clearly demonstrated that capacity building will be a long slow process that will require tough decisions by the authorities. The issue of how to deal with the many public employees lacking requisite skills remains to be addressed.

39. Some successes have been achieved through processes to contract in capacity, for example in the Ministries of Finance and Economy, and the Auditor General, to handle or advise on important fiduciary functions (audit, procurement and financial management), in the Ministry of Rural Reconstruction and Development, to provide project oversight and implementation, and in the Ministry of Health to provide basic health services. Although contracting out delivery of services provided by the state has proven successful and is supported by the government's own strategy, there is some parliamentary and public opposition to NGOs and international firms, partly due to perceptions of waste.

40. Public administration reform is fundamental to rebuilding the state; institutionalizing improved governance and combating the growing corruption problem (see Box 5). However greater efforts must now be focused on the PAR agenda if the aims of the IANDS are to be achieved. In this uncertain environment where progress has been limited, allegations of corruption are spreading above the petty graft of low-level officials. The Independent Administrative Reform and Civil Service Commission (IARCSC) has made a credible start in civil service reform and now needs considerable strengthening and political support to carry this complex process forward.

41. Coupled with the problems of public administration reform are the difficulties encountered with technical assistance (TA). Experiences learned from the past four years indicate that TA has generally been provided through an *ad hoc*, project-based and donor supply-driven approach resulting in a fragmented, uncoordinated and expensive provision of assistance with the absence of regular monitoring and reporting mechanisms. Salary top-ups and hiring government staff to work on donor programs have further undermined PAR.

42. The nature of the problem has become widely recognized and now requires a clear plan by government, to which donors must adhere, that will reform the way that technical assistance is assessed, provided, managed and monitored. Program implementation and capacity building technical assistance must be anchored within the responsible line ministries and must go hand in hand with ministry-wide reform. Furthermore there is a need to clarify the roles and relations with line ministries of various apex type service providers that have been established within government such as the Afghan Reconstruction and Development Services, Technical Assistance and Feasibility Studies Unit and the proposed National Project Support Office.

BOX 5: COUNTERING CORRUPTION

Allegations of corruption in Afghanistan, which one increasingly hears about from the media, in surveys of the private sector, and through anecdotal exchanges, are widespread and on the increase. In the 2005 Transparency Corruption Perceptions Index, Afghanistan ranked 117th out of 158, which places it among the world's most corrupt countries (though despite this ranking it still does better than its closest neighbors including Pakistan and Tajikistan which tie for 144th). In surveys for an Investment Climate Assessment firms reported that on average they paid an amount in bribes equivalent to over eight percent of sales, more than four times the average reported in neighboring Pakistan. Moreover, when firms obtain a government contract they have to pay almost eight percent of the contract value in bribes (*Source: The Investment Climate in Afghanistan, World Bank, December 2005*). And while allegations are rife and increasing, many specific details of the problem remain imprecise. The Bank has received a request from the Government to broaden and deepen the Government's anti-corruption efforts.

In the near term, the Bank intends to follow two main courses of action. The first is to continue to implement, and strengthen, the measures already in place to ensure the appropriate use of IDA resources, as well as resources administered by the Bank on behalf of donors (e.g. ARTF and JSDF). The second is to conduct analysis of the nature and scope of the corruption problem and to bring to bear global best practice and advice for the Government to pursue an anti corruption agenda.

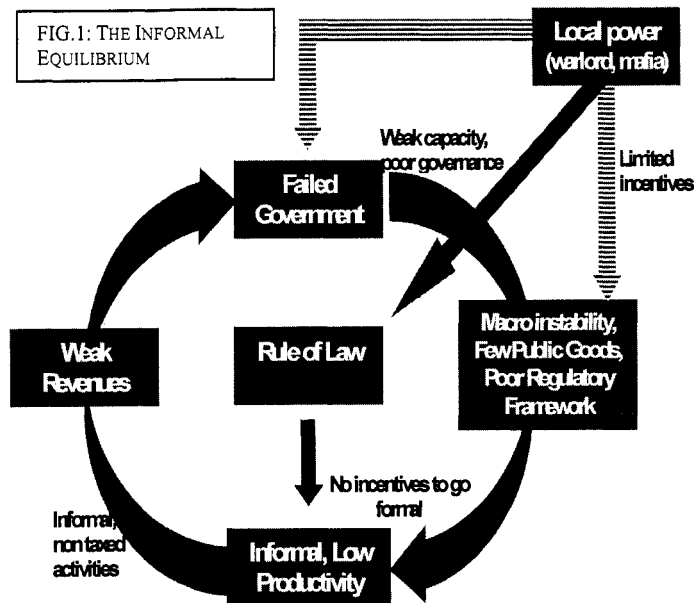
The Bank has endeavored to ensure the good stewardship both of IDA resources being provided to the government, as well as other funds managed on behalf of donors, including the ARTF and JSDF. The very first operation funded by IDA in 2002 put in place emergency fiduciary arrangements for procurement, financial management and audit. This early operation has been built on in two subsequent projects which continue to support and develop this critical capacity, although the capacity has not necessarily been developed as quickly as originally envisioned. For the ARTF, there are additional layers of control to ensure appropriate use of donor funds supporting the recurrent costs of government. A Monitoring Agent is retained and implements a carefully developed risk-based monitoring process to track expenditures and ensure compliance in meeting fiduciary standards. The results of this process are measurable improvements in reducing ineligible expenditures and improving the quality and management of payroll and O&M expenditures.

To address the broader development challenge posed by corruption and its causes, the Bank will focus analytic efforts on examining the nature of the corruption problem and providing policy advice to address this serious issue (see para.93). A particular area for attention is Afghanistan's significant mineral and hydrocarbon potential. Good sector governance is essential to avoid the "resource curse" that has plagued many countries, where mineral development has led to great waste and corruption. While measures taken to safeguard IDA and other resources flowing through government channels are robust and under constant scrutiny, it needs to be recognized that given the lack of knowledge about the pervasiveness of the corruption problem, a high degree of uncertainty regarding the broader corruption problem in the country is likely to surround the Bank's work at least for the period covered by this ISN.

II. IMPLEMENTATION OF THE TRANSITIONAL SUPPORT STRATEGY (TSS) (2003)

43. The March 2003 TSS focused on four areas for Bank support (improving livelihoods; fiscal strategy, institutions and management; governance and public administration reform; and enabling private sector development) which have achieved varying degrees of success (specific results against indicative benchmarks are noted in Attachment 3). One of the major risks noted in the TSS—that of capacity constraints and a lack of qualified government staff—remains. Moreover the need for a strong reform program to deal with the legacy of statist, public sector based development, remains equally pertinent today as three years ago.

44. Buoyed by the early gains in Afghanistan, the 2003 TSS anticipated a more rapid transition from its emergency post-conflict status to a more ‘normalized’ situation. Time has demonstrated however that despite the progress made many elements of that post-conflict situation remain – capacity is uneven and weak overall, systems and procedures are



Source: *State Building, Sustaining Growth and Reducing Poverty*, WB, Feb 2005

security situation and the difficulties of demonstrating state presence around the country highlight the fact that peace remains fragile.

45. Within this difficult environment, and despite the strong note of caution, there have been achievements under each pillar of the 2003 TSS.

- **Improving Livelihoods:** with outreach to over 10,000 communities around the country through the National Solidarity Program (NSP), and 8.8 million person

¹ For analysis of state building and development see Afghanistan – *State Building, Sustaining Growth, and Reducing Poverty*, World Bank, February 2005

days of employment generated through the National Emergency Employment Program, and microfinance programs reaching 119,000 people of whom 85 percent are women, the relatively short term gains of this pillar have been realized. Beyond livelihood support these programs have served to demonstrate government credibility across the country. Challenges going forward will be to develop more permanent job prospects particularly in agriculture and off-farm employment. Also key will be helping government realize the longer term potential for the strong community governance structure established under the NSP which, through enhancing government presence nationwide, has implicitly reduced the legitimacy of some less legitimate actors and power brokers. Furthermore linkages need to be developed among different programs operating in rural Afghanistan to develop a broader-based rural development strategy.

- ***Fiscal Strategy, Institutions and Management:*** the government has maintained a central role for the budget as a policy tool, has improved revenue collection (in 2005/6 revenue collection was 46 percent higher than the previous year) and is gradually improving processes within the Ministry of Finance supported by Public Administration Projects and the series of single-tranche budget support operations. While commendable, these achievements need to not only be maintained but rapidly built upon to meet the fiscal challenges as the government takes on responsibility for covering costs previously supported by donors, such as in the security sector.
- ***Governance and Public Administration Reform:*** emergency measures adopted by government for financial management, audit and procurement capacity have been positive contributions to enabling the government to manage its own and donor resources. However the development of government capacity remains limited and special measures to buy such capacity will be essential for some time to come. In the broader realm of public administration the groundbreaking immediate steps taken under the PRR process allowed for immediate reforms on a limited scale (16 ministries, and 8,000 civil servants, have undergone reform through this asymmetric process) which are now being revisited to achieve broader and more far reaching results.
- ***Enabling Private Sector Development:*** infrastructure gains, while still a source of frustration to many Afghans, have in fact been commendable. The rehabilitation of large parts of the national road network have been completed (including 406 kms of IDA funded road rehabilitation completed and a further 228kms to be completed by mid-2007) resulting in greatly reduced travel times as well as opening up routes previously impassable in winter months. Coupled with improvements in rural roads, which are improving access for rural communities, and the rapid development of telecommunications networks, the successes are not insignificant. However, improvements in power supply, urban services, and establishing and protecting property and land rights have lagged behind. Greater oversight is needed to ensure compliance with legal requirements for contracts awarded to exploit the country's mineral and hydrocarbon resources (see Box 6). Despite a rationalization

of taxes, the establishment of a one-stop-shop for business licensing, and the opening of commercial banks, the private sector still finds itself mired in red-tape (see Attachment 4). Of concern are the complaints of 'nuisance taxes' which, while anecdotal, appear to be on the increase.

BOX 6: BETTER GOVERNANCE FOR MINERAL RESOURCES: THE PARADOX OF PLENTY

The Afghan mineral sector offers a source of economic growth, employment, and export earnings with abundant mineral resources that include base and precious metals, construction materials, gemstones, coal, oil, and natural gas. However, war and chronic neglect has led to plummeting production, stagnation, downstream industries short of essential materials, unlicensed operations and smuggling, inferior materials going to reconstruction projects, and energy resources remaining largely in the ground.

Investment requirements are large and cannot be spearheaded by the public sector alone; substantial new private sector participation is needed. To be effective requires an enabling environment to attract and retain qualified local and international investors, by strengthening public institutions to administer the laws and regulations in a transparent manner. Good governance is essential to avoid the misallocation of national resources that could lead to increased poverty, corruption, and renewed conflict – the resource curse.

To avoid unwanted outcomes, the government has prepared a policy to direct orderly development of national resources based on transparent, competitive processes. The private sector is responding by expressing early interest in an array of mineral resources, including the initial competitive tender of the Aynak copper deposit. However, there is a danger that lower quality investors are seeking to circumvent such processes for both solid minerals and hydrocarbons, by exploiting capacity deficiencies in order to secure exclusivity to resources through non-competitive, non-transparent and possibly corrupt means.

Anti-corruption instruments being employed by the government include developing a strong licensing system through a new solid minerals and hydrocarbons cadastre to be strengthened under the proposed IDA project for the Sustainable Development of Natural Resources. Also, the government's interim sector development strategy is guided by the principles endorsed by the World Bank in response to the Extractive Industries Review (EIR). The Bank is encouraging the government to endorse and implement the Extractive Industries Transparency Initiative (EITI) to support improved governance through the full publication and verification of company payments and government revenues from oil, gas and mining. Additionally, international observer assistance could be sought for minerals title issuance and maintenance for a transitory period. Afghanistan has an opportunity to put in place systems to reap the benefits of its natural resources for the nation as a whole. However this requires a concerted approach to prevent corruption by strengthening institutions and implementing competitive, transparent processes that encourage quality investors who can sustain sector growth.

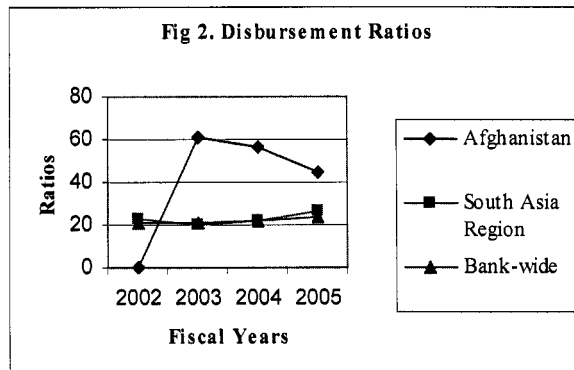
The IDA Program

46. The IDA program in Afghanistan has grown rapidly since the last TSS. At that time Afghanistan had already received US\$100 million in grant financing to cover four emergency operations, as a special post-conflict allocation. The previous TSS coincided with Board approval of the first IDA credit to Afghanistan since the 1970s. Since that time eighteen additional operations have been approved by the Board, including two supplemental grants and two budget support operations (Annex B3).

47. Total commitments to Afghanistan since re-engagement have reached US\$1043.2 million, comprising US\$606.8 million in IDA grants and US\$436.4 million in IDA credits. Out of the total commitments, US\$646.7 million (or 62 percent) have been disbursed to date, which includes US\$160 million disbursed under two budget support

operations. For FY06, the first year of IDA14, Afghanistan is receiving its entire IDA allocation as grants. This is expected to be maintained throughout IDA14. As of March 15, 2006, the active portfolio comprises 16 investment projects, with combined net commitments of US\$708.2 million (at the exchange rates when commitments were approved), of which US\$ 304.4 million (or 43 percent) have been disbursed (Fig. 2). The disbursement ratio for the first nine months of FY06 was 25.9 percent, compared with the Bank-wide average of 15.1 percent.

48. The portfolio has performed relatively well despite the difficult operating environment--weak capacity, recurring security problems, and lack of a formal contracting sector. Particularly noteworthy are the operations supporting the installation and operation of a public finance management framework and system that enables the budget execution by the Treasury, the National Solidarity Program, the National Emergency Employment Program, the Emergency Transport Rehabilitation Project, the Emergency Communications Development Project and the Health Sector Emergency Reconstruction and Development Project. These projects have delivered visible outputs/results on the ground. However, serious implementation delays are being experienced in some sectors, specifically power, education and urban development, primarily due to lack of commitment and weak capacity. The Bank is working with the government in these sectors to focus on removing the implementation bottlenecks.



Analytical and Advisory Activities (AAA)

49. The Bank's AAA has been well received by the Government and international community. In addition to producing 'just-in-time' policy inputs, the team has also produced some flagship reports that have helped guide policy choices and are being widely disseminated (see Box 7).

- Most recently the five-volume Public Finance Management (PFM) Review helped demonstrate the value of supporting government efforts to maintain the centrality of the budget as a policy tool and urge harmonization of donors around this agenda. The PFM Review, in particular, was able to elevate issues of aid effectiveness so as to influence the recent meeting of the international community in London. As a result Afghanistan's partners increasingly understand the need, if one is to seriously address the state-building challenge, of channeling greater amounts of their support through the government budget, while strengthening implementation and fiduciary capacity.
- An Investment Climate Assessment, which surveyed 338 firms in five major cities, highlights the key constraints to private sector development. The ICA helped identify private sector reform priorities.

- A Country Gender Assessment, prepared jointly with the government, takes a pragmatic approach to the plight of women focusing on health, education and employment opportunities. The Risk and Vulnerability report was an important first step in beginning to assess the nature and extent of poverty in Afghanistan.
- Other reports that have helped guide policy include the first country economic report in over twenty-five years, analysis of Afghanistan's prospects for mining and natural resource development, and analysis on the economic aspects of opium poppy. The Bank has also produced work on regional trade.

BOX 7: REACHING OUT IN AFGHANISTAN

Broadening understanding of the role of development and economic reform in Afghanistan is an important part of the Bank's strategic approach. To this end the Bank engages in an ongoing dialogue with civil society, government, the media, the international community and political players. Translation into Dari and Pashto has proved critical for both simple and more detailed communications.

Early interventions to support communications included establishing *internet connectivity and email* for a number of government agencies for the first time. In addition the Kabul Distance Learning Centre established state-of-the-art videoconferencing facilities used for training and seminars. The Bank has a Public Information Center located in the Kabul Office. This resource was expanded in 2004 to include a Development Information Center in Kabul University library equipped with computers and internet connections. More than 100 students use the facility daily and the Center has become a popular space for hosting round-table discussion between development experts and university students and lecturers. There are plans to develop similar centers in Mazar-e-Sharif and Jalalabad.

Women have been a special target of some initiatives and the Women's Leadership Class in Kabul University received a grant to establish an internet café in April 2005. It is run by women, accommodates up to 25 people at a time and is financially self-sufficient.

Outreach to the media is a natural focus and the Bank tries to assist Afghan reporters in accessing development stories. Training needs for Afghan reporters are enormous. The Bank has assisted by providing a course focused on economic issues. So far 25 journalists have received beginner training with follow-up planned soon. To help build capacity of the government communicators, the Bank plans to organize a week-long training for spokespersons at several ministries.

Effective *dissemination of research findings* is a vital part the Bank's development assistance to reach opinion and decision-makers and create a chorus of support behind recommendations for action. For example, in January 2006, the Bank released its flagship report "Managing Public Finances for Development". The targeted communications strategy that accompanied this release had a wide impact and helped set the stage for the London Conference on Afghanistan.

Civil society and the Parliament are also important constituencies for Bank outreach. Apart from routine information communication, and engagement in projects the Bank has engaged civil society in preparing country strategy and other relevant publications. Plans are underway to examine how best the Bank team can assist the nascent parliament and has already provided a Budget "101" to some members as they engage in budget discussions for the first time.

50. Close collaboration has ensured that the WBI capacity building programs are now fully aligned and integrated with projects and AAA. Priority programs have been selected for WBI engagement, to complement areas in which IDA is active and to maximize benefits from the limited resources available. WBI has provided training and technical assistance in the areas of urban development, health, education, poverty reduction, private sector development, and anti-money laundering.

51. The Global Distance Learning Network Centre (GDLN), established early after re-engagement in Afghanistan, provides videoconferencing and distance learning equipment which is frequently used for learning activities and programs.

The Multilateral Investment Guarantee Agency (MIGA)

52. MIGA is active in Afghanistan through the Afghanistan Investment Guarantee Facility (AIGF) established in December 2004. The facility, administered by MIGA, is jointly funded by Afghanistan, the Asian Development Bank (ADB), IDA, and the UK Department for International Development (DFID), and Germany is supporting the administration costs of the facility. In early 2006, MIGA, using its own resources and those of the AIGF approved its first guarantees. Requests for guarantees from a number of other investors are being examined.

The International Finance Corporation (IFC)

53. IFC is focusing on selective, catalytic investments, with an initial focus on strengthening the financial sector and supporting small and medium enterprises (SMEs) and other key industries important for the country. IFC's program includes investments as well as technical assistance through the regional PEP-MENA facility. IFC and IDA are sharing a full-time international staff, based in Kabul, which is helping to more closely align Bank and IFC strategies.

54. IFC has two investments in Afghanistan – the First Microfinance Bank of Afghanistan (FMBA) where IFC made an equity investment of US\$1.0m in January 2004, coupled with TA to the newly created bank. The other IFC investment in the country is a US\$7.0m loan to the newly established Kabul Serena Hotel in June 2004, which opened in November 2005. Both of these investments were made in partnership with the Aga Khan Fund for Economic Development (AKFED).

55. IFC is considering investment participation in a number of institutions and sectors (telecom, microbanking, agribusiness, etc.). IFC investments in many cases will be coupled with technical assistance since capacity is a constraint for the modern private sector. More specifically, for FY06, plans are underway to provide support to FMBA, the new BRAC Bank, and an investment in the third cellular license company.

56. The IFC's PEP-MENA is active in a number of areas including providing technical assistance to the Afghanistan Finance Company to develop credit procedures, and train staff regarding credit appraisal and marketing. It is also establishing a sustainable, practical business skills training program with Kabul University and has finalized the design of a project, working with the Bank, to enhance the performance of a group of local firms in the green raisin and pomegranate clusters in terms of product quality, productivity, sales and export growth. IFC has had preliminary meetings with the Ministry of Housing. In cooperation with the World Bank, PEP-MENA has offered to explore avenues for the development of housing finance.

The Afghanistan Reconstruction Trust Fund (ARTF)

57. The ARTF, administered by the Bank on behalf of 24 donors (see Attachment 6), and managed in conjunction with ADB, IsDB, UNAMA and UNDP, remains the main mechanism for providing coordinated funding support to Afghanistan's recurrent budget and investments in line with agreed budget priorities of the Government (see Box 8).

BOX 8: THE AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)

The Afghanistan Reconstruction Trust Fund was established in May 2002 to

- support the recurrent costs of the government,
- provide coordinated funding for priority investments identified by government and,
- finance and place returning expatriate Afghan professionals in key positions.

Pledged contributions to date total over US\$ 1.3 billion, of which US\$380 million were paid in SY1383 (21 March 2004 – 20 March 2005), and US\$471 million (pledged and paid in) for SY1384 (21 March 2005-20 March 2006). Pledges for SY1385 are expected to continue at similar levels.

Once established the ARTF rapidly became one of the main instruments for financing Afghanistan's recurrent budget. The ARTF provides a coordinated financing mechanism, bringing together funds from twenty four donors. The key principle guiding ARTF financing is that the development program is country-led; thus it responds to country requirements as articulated by the Government. The ARTF is governed by a Management Committee, consisting of representatives of the Asian Development Bank (ADB), Islamic Development Bank, UNDP and World Bank, and a representative of the Ministry of Finance as an observer, and with day-to-day administration of the fund performed by the World Bank. A Monitoring Agent has been appointed by the World Bank to ensure proper fiduciary management. A Donor Committee is regularly convened to discuss the management and administration of ARTF and provides policy guidance.

The majority of funds from the ARTF support recurrent costs of government – civil servants salaries and operations and maintenance expenditures. The ARTF has served as a tool to allow the donor community to assist the government in putting in place systems to improve fiduciary controls and gradually build capacity in public finance management, as well as addressing issues of civil service reform. While measurable improvements in fiduciary assurance have been achieved, challenges remain in continuing the positive progress achieved to date. The Bank has recently enhanced its own fiduciary staff capacity in response to the growing importance of the public financial management and fiduciary issues.

An external evaluation of the ARTF rated its operation highly satisfactory and raised issues of the future direction of the fund – notably ***the scope for enhancing policy coordination into the management of the recurrent window of the fund, and also to find ways to more strategically target investments.*** Building on this interest the Bank is in the process of developing a Performance Assessment Matrix (PAM) which will help monitor specific benchmarks for reform. These benchmarks will form a subset drawn from the Compact and IANDS to provide a complementary monitoring process for priority results that need to be achieved. ***In this way the ARTF is demonstrating itself to be a valuable tool for harmonization among the international community.***

The Japan Social Development Fund (JSDF)

58. The Japan Social Development Fund has provided a special window for Afghanistan which operates in a harmonized manner to support national programs of the government. This successful approach has resulted in combined commitments of \$34.6 million, to five operations, of which US\$21.9 million (63 percent) has been disbursed. Two projects have closed.

Managing Fiduciary Risk

59. The Bank's first operation in Afghanistan – the Emergency Public Administration Project (EPAP) – was designed to assist the Afghanistan Interim Administration (AIA) and its successor in putting in place emergency capacity in key public administration areas to facilitate better use of public resources, including donor funds, for urgent reconstruction and development efforts. In addition, a secondary objective was to support a few initial steps toward laying the foundation for a transparent, well-functioning public administration. Subsequent projects (EPAP II and Public Administration Capacity Building I) have continued to build upon these objectives and have provided adequate confidence in the fiduciary controls for the use of public funds though there remains a high level of reliance on external advisors and agents to perform the key fiduciary functions. The impact of improved fiduciary controls goes beyond the use of IDA funds and includes controls for the contributions of twenty-four donors through the ARTF as well as funds contributed through the JSDF. In addition the benefits of fiduciary controls adopted by government also apply to the government's own resources and other funds provided by donors directly to government. For its own part the Bank has considerably strengthened staff capacity in core fiduciary functions with senior staff based in Kabul.

60. The Government has achieved significant improvements in the area of Public Finance Management. It has maintained its commitment to transparency and an increasing number of reports and budget decrees are publicly available. On budget execution and fiduciary controls, the Government has implemented a centralized computerized system, the Afghanistan Financial Management Information System (AFMIS), to issue checks and record revenues and expenditures of the budgets. Parallel improvements have been made in the central bank (DAB) payment systems. The system of Treasury Single Account (TSA) ensures strong fiduciary controls (including regular sweeping of revenues to the center and regular bank reconciliations). The ARTF has set fiduciary standards for the Government to be reimbursed and, over time, the Government has been improving its performance relative to these standards.

61. On external audit, financial statements for all IDA and ARTF projects including ARTF support to recurrent costs of government for 2003/04 (SY1382) and 2004/05 (SY1383) have been audited to international standards. The audit report of the Auditor General was presented on the 2003/04 state budget but is not supported by sufficient audit evidence.

62. In the absence of adequate capacity to manage procurement, the government has established a central facility for procurement. A strategy for procurement reform and capacity building to transition to decentralized procurement services, in line with the new Public Procurement Law, has been agreed but its implementation has not advanced due to a lack of coordination and delays in decision making. The government should consider providing due priority and attention to implement reforms. For its part the Bank is taking a number of steps to strengthen procurement oversight. These steps include enhancing support for procurement processes including ensuring competitive selection procedures for consultancy contracts and reducing single-source selection. Going beyond the normal requirements of project supervision, the Bank will conduct in-depth implementation performance reviews for large programs.

63. While improvements have been made in budget execution and in systems and legislative development, effective implementation of a broad civil service reform holds the key to establishing good governance and a transparent and accountable public administration. Capacity building in Afghanistan is particularly challenging and will take longer than in other countries. It is a high risk environment and the fiduciary risks facing the Bank and ARTF funded operations should not be underestimated.

64. The Bank will continue to engage with the government through a combination of instruments to address the governance issue. Governance is a fundamental development issue that requires high level interventions that include realignment, role definition and restructuring of ministries, revision of government business processes, especially those susceptible to rent seeking, deep civil service reform, and improving transparency and accountability.

65. The TSS of 2003 saw three risks associated with the strategy: a disruption to the peace process, eroding donor interest and capacity constraints and the lack of qualified staff in government. Only the last risks have materialized -- lack of capacity has translated into low execution and an ongoing dependence on advisors except in some areas where services are contracted out and government has developed capacity for supervision and oversight of service delivery. Even if a credible PAR strategy is implemented in the short-term, it will be essential for the government to continue to buy in capacity and monitor the effectiveness and efficiency of these measures. Furthermore there are constant challenges to maintain the progress made to date on fiduciary issues and due to the lack of capacity and effective oversight, caution will be required on any decentralization of fiduciary functions to line ministries or other government entities.

Bank Group Country Presence

66. The Bank's strong on the ground presence has been key in implementation of the strategy. The Bank now has a relatively large office and has significantly strengthened staffing with all sectors represented. The Kabul team includes 9 higher level international staff, 13 higher level national staff and 48 ACS staff (including logistics and maintenance) as well as 13 international or regional staff under other arrangements (e.g., consultants). The weak capacity of the government has required a stronger Bank presence and more day-to-day involvement with counterparts than might be the case in other countries. Further additions to the team are planned to strengthen fiduciary oversight functions. The Bank hopes to soon begin construction of a country office in Kabul.

Donor Coordination

67. Donor coordination has remained under government leadership since the early days of re-engagement. A key feature of donor coordination was the establishment of a Consultative Group (CG) structure, which organized donors around specific areas of support under the leadership of a ministry. The experience of the CGs has been varied with some coordinating well, while others have lacked focus and credibility. Difficulties can be attributed to weaknesses and lack of capacity both within the ministries concerned and within the donor partners, as well as the absence of sectoral strategies with which to align support. The government reviewed the donor coordination approach in 2005 and has recently revised the structure to build on lessons learned and better align donor coordination mechanisms with the newly developed Interim Afghan National Development Strategy (see Attachment 7). As noted earlier, the ARTF also provides a very useful mechanism for donor coordination.

68. Going forward the government envisages continuing the operation of CGs led by relevant ministries, with a higher level Joint Compact Monitoring Board (JCMB), jointly chaired by the Government and the United Nations, which will oversee implementation of the Compact and achievement of its benchmarks (see Attachment 1). While day to day coordination and problem-solving will probably continue to take place in the CGs, higher level issues, or major constraints, will be brought to the attention of the JCMB (the representation of which is still being finalized but will include a mixture of government ministers and representatives from the international community including the military).

69. Key factors in determining the effectiveness of the donor coordination process and improving aid effectiveness will be:

- a clear articulation of national priorities and sequencing by government;
- donor alignment with the IANDS, government priorities and national programs (three quarters of development assistance continues to flow outside official government channels);
- capacity of ministries sufficient to manage the coordination process;

- establishing and implementing procedures for technical assistance and capacity building to maximize the outputs from investments and develop a basis for long-term sustainability.

70. The Bank's strong presence in Kabul has allowed it to coordinate well with development partners and ensure IDA assistance is complementary to other donor interests, while also responding to government demands. The Bank has sought to be involved in areas where financing gaps exist. Where unexpected shifts have occurred in other donors' priorities for financing, or where knowledge gaps have emerged, the Bank has been able to respond quickly.

III. The Government's Strategy

71. The government's strategy to guide the reconstruction and development process incorporating security and political developments has evolved since re-engagement. Initial efforts produced a National Development Framework and a number of National Priority Programs. A re-thinking of Afghanistan's needs was then undertaken by the government, with support from the international community, to assess longer term prospects and needs. This vision and program was presented in "Securing Afghanistan's Future" which formed the basis for renewed commitments by the international community at a high-level conference in Berlin in 2004.

72. Progress in Afghanistan also provided the momentum to launch a process to clarify plans to achieve the Millennium Development Goals (MDGs), which were presented in a report in September 2005. The MDGs for Afghanistan are uniquely "Afghanised" providing targets to be reached by 2020 from baselines of 2002 to 2005 representing its delay in beginning this process due to the legacy of conflict (see Attachment 5). Building on these targets the government subsequently launched a process to develop a poverty reduction strategy, the first step of which was the preparation of the Interim Afghan National Development Strategy (IANDS), which has been presented to the World Bank and IMF as the government's Interim Poverty Reduction Strategy Paper (IPRSP).

73. The IANDS was completed in January 2006 and presented to a major international gathering of donors in London. The London Conference was held to launch the "post-Bonn" agenda for Afghanistan. The Compact, endorsed at the Conference, provides 27 benchmarks drawn from the IANDS, to be achieved within the next 5 years.

The Interim Afghanistan National Development Strategy (IANDS)

74. The Government's strategy aims to transform the economy to enable the private sector to be the engine of growth and empower the poor to participate fully in that growth (Box 9). The government sees that for growth in economic and social development to be equitable, progress must also be made in security, and governance, the rule of law and human rights. In essence, the cornerstone of the government's strategy is to embrace economic growth, security and governance as connected preconditions for poverty reduction.

75. **Security:** The government aims to provide security with the direct support of the international community, though the ANA and ANP will increasingly take on this responsibility. It aims to establish a legitimate monopoly on force to enforce the law, providing a secure environment for the protection of the rights of all Afghans and ensuring freedom of movement for people, commodities, and ideas. The government hopes to establish fiscally sustainable security force sizes and will disband all illegal armed groups and work towards eliminating all mines and unexploded ordinances.

76. ***Governance, Rule of Law and Human Rights:*** Under this program government will establish and strengthen public institutions at the central and sub-national levels to achieve measurable improvements in the delivery of services and the protection of rights of all Afghans. Corruption in government will be addressed through improved accountability, strengthened public sector management, independent audit and oversight, transparency in the operations of government, simplification of government machinery and procedures in its interactions with the people, and a strengthened legal framework and judicial system. The justice system will be reformed, and government will invest in its capacity and infrastructure, including prisons and corrections services. The strategy also looks to strengthen protection of human rights for all, especially women and children, and assure redress for violations. The role of the public sector will be strengthened to deliver the public goods needed for the strategy, including basic services, rather than engaging in production or trade directly. The strategy notes that the state may assume the roles of policy making and monitoring rather than direct provision of basic services, which may be contracted out.

77. ***Economic and Social Development:*** The government aims to achieve pro-poor, private sector-led growth while eliminating the narcotics economy. The government's core aims are to: (i) maintain high GDP growth rates; (ii) eliminate the criminalized economy; (iii) make strategic public investments to remove the binding constraints to growth of the formal private sector; (iv) enhance access to productive infrastructure; (v) enhance non opium agricultural production; (vi) enhance mining and other extractive industries; (vii) enhance trade and transit; (viii) develop human capital; (ix) protect the rights of the poor through social protection; and, (x) mainstream the cross cutting issues in gender, corruption, the environment, counter narcotics and regional cooperation.

78. Key issues to the attainment of the strategic goals include more effective management of aid and the establishment of a robust and unified outcome monitoring system. In both cases, aligning donors to the new strategy and tracking expenditures will take time to achieve. The Joint Staff Advisory Note (JSAN) prepared with the IMF, and being presented to the Board of Executive Directors concurrently with this ISN, provides input to government on the IANDS. The JSAN recognizes the good start that has been made with the IANDS which provides an initial comprehensive framework for Afghanistan to build institutions, sustain growth and reduce poverty. In developing the full ANDS/PRSP, the JSAN advises that four main challenges need to be addressed: (i) to set priorities and ensure fiscal sustainability; (ii) to reform public administration, tighten public finance management, and combat corruption; (iii) to develop monitoring mechanisms and the analytic base for the ANDS; and, (iv) to strengthen aid effectiveness.

BOX 9: PILLARS, SECTORS AND THEMES OF IANDS							
Pillar 1 Security	Pillar 2 Governance, Rule of Law and Human Rights	Pillar 3 Economic and Social Development					
Sector 1 Security	Sector 2 Governance, Rule of Law and Human Rights	Sector 3 Infrastructure and Natural Resources	Sector 4 Education	Sector 5 Health	Sector 6 Agriculture and Rural Development	Sector 7 Social Protection	Sector 8 Economic Governance and Private Sector Development
Gender Equity (cross cutting theme 1)							
Counter Narcotics (cross cutting theme 2)							
Regional Cooperation (cross cutting theme 3)							
Anti-Corruption (cross cutting theme 4)							
Environment (cross cutting theme 5)							

IV. The World Bank's Interim Strategy

Key Objectives and Strategic Focus

79. While the Bank remains cautiously optimistic for Afghanistan's development prospects, the situation has not yet reached a 'normal' situation and remains hampered by a legacy of decades of conflict, severe capacity constraints, a deterioration in security and uncertainty regarding implementation of the reform agenda.

80. The international community has focused on a broad base of activities to support the state-building goal in Afghanistan. It was around this goal – which combines political, security and economic agendas – that the international community pledged their support to Afghanistan in Tokyo in 2002, in Berlin in 2004 and in London in 2006. The Bank, as a partner with other members of the international community, will support part of this same agenda, as detailed in the Compact and IANDS. This two-year strategy, anticipated to run through FY08, is designed to coincide with the completion of the Government's full Afghan National Development Strategy, which will serve as its PRSP and hopefully provide the basis for a full Bank Country Assistance Strategy.

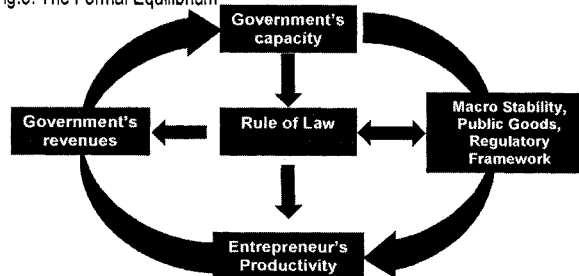
81. The Bank's strategy for the next two years will therefore remain a transitional one that will continue to emphasize two broad, overlapping objectives—both to develop the capacity of the state and also to deliver results—that support state-building in Afghanistan:

- Developing the capacity of the state. This includes specific attention to developing both human (education, civil service etc) and financial (public finance management, revenue generation etc) capacity. The latter will require, in addition to ongoing regulatory and procedural improvements on customs and taxation, development of a vibrant and legitimate private sector. A key theme will be developing interventions to counter corruption.
- Providing tangible benefits to the population. In the short to medium-term this will continue to require a two-pronged approach that institutionalizes processes to contract out service delivery and also builds state capacity to deliver (as appropriate), a fundamental component of longer term sustainability.

Support to Afghanistan must focus on mutually reinforcing elements (Fig. 3) - good policies/investments leading to improved private sector growth which in turn generates revenues and provides the government the ability to provide more services thus furthering private sector growth.

82. The Bank's institutional strength of having a broad base of global expertise available in economic and social development means it has been called to assist the government on a wide range of issues. In addition the Bank has strategically used its analytical and financial resources to

Fig.3: The Formal Equilibrium



Source: State Building, Sustaining Growth, and Reducing Poverty, WB, Feb. 2005

national programs. This approach, which has been welcomed by donors and government, has helped the government design national programs and mobilize support for them.

83. Within its focus on state-building, the Bank intends to shift slightly the focus of the new ISN so as to be fully aligned with the government's development strategy set out in the IANDS and, more specifically, to respond to needs that have emerged as priorities – notably a need for a greater Bank role in rural development and a broader approach to anti-corruption measures.

84. Despite ongoing support to rural roads and the significant outreach achieved through the NSP, progress in rural areas remains limited. Rural Afghanistan is home to nearly 80 percent of the population, and, based on preliminary data, the incidence of rural poverty is high. Moreover, any progress in tackling the opium poppy problem, itself a threat to state-building, must include growth in the rural economy providing viable alternatives to farmers and increased off-farm employment. The Government has recognized the importance of rural growth as reflected in the large number of benchmarks in the Compact related to progress in rural areas. A significant part of the Government's counter-narcotics strategy is to develop the rural economy and provide credible alternatives for farmers. A good start has been made with communities mobilized to direct their own development, but there is scope for increasing linkages and thinking strategically about how to continue and enhance the role of communities in development.

85. The Bank's current portfolio reflects a strategy that balances responsiveness to government needs with an assessment of comparative advantage vis-à-vis other donors. The flexibility afforded by the TSS has allowed the Bank to respond quickly in important areas where donor support did not materialize (e.g. health and education) and to provide analytical underpinnings and program design support for areas which lacked a strategic overview (e.g. agriculture). The Bank intends to maintain a broad approach to its engagement in Afghanistan recognizing that:

- the Bank's global knowledge base means the international community will continue to look to the institution for assessment of development progress in the country and strategic advice at the regional, national, thematic and sectoral levels;
- flexibility will continue to be a characteristic of the Bank's activities which will need to respond in real time to assist with emerging policy issues;
- there may be a need to respond with funding for reasons of urgency, continuity, impact and where financing gaps emerge in critical programs.

86. However, to ensure that the program remains focused on the state-building agenda, is targeted to priority areas, takes into account the Bank's comparative advantage, and ensures maximum results with limited resources, all requests for either further support to existing areas of engagement, or the addition of new activities, will be assessed in relation to criteria which include:

- clear government ownership and a defined priority and strategy;
- credible performance to date or satisfactory commitment and institutional arrangements from government (for new areas of support);

- alignment with partners in the international community, meeting a financing gap and supporting a national programmatic approach;
- fiduciary risk, operational sustainability and national impact.

87. As the Government develops its full PRSP (ANDS), implements its revised donor coordination mechanism, clarifies budget priorities through engagement with the citizenry (via the parliament), and as donor funding priorities or amounts shift, it is anticipated future activities for the Bank may shift further to respond to the new environment. Furthermore the Bank will continuously review the potential for achieving sustained development impact and consider its alternatives, in discussion with government and donors, if circumstances change.

88. Under the broad state-building theme, the Bank's work will focus on assistance to achieve results under three strategic pillars which reflect, to a large extent, an evolution of the strategy presented in the TSS and alignment with the IANDS.

➤ **Building the capacity of the state and its accountability to its citizens to ensure the provision of services that are affordable, accessible and of adequate quality.**

Activities will include continued attention to public administration reform (including pensions), public financial management and fiscal sustainability including customs reform, where the Bank is already engaged in customs modernization and trade facilitation, and anti-corruption. Specific areas of service delivery will include education and health.

➤ **Promoting growth of the rural economy and improving rural livelihoods.**

Activities under this pillar will build on earlier interventions that deliver community infrastructure, rural access roads and irrigation to also include access to markets and improved services that support employment in agriculture and off-farm. The team is also developing cross sectoral linkages to ensure that activities in rural areas are better coordinated at both the central and local level. Efforts are underway to examine how community level governance structures, as developed under the NSP, can occupy a central role in the development of a new model of demand-driven rural development and, by increasing legitimate government interaction, can reduce the role of groups that have become used to usurping power.

➤ **Supporting growth of a formal, modern and competitive private sector.**

The Bank will continue to support the provision of national infrastructure which remains in high demand. Support to power, infrastructure maintenance, urban development, and urban water supply will continue. Direct support to enhancing the private sector will be through microfinance, industrial estates development, investment guarantees, and natural resources (mining). Good sector governance for latter will be of particular importance. In addition the Bank will provide assistance in complementary areas including higher education and vocational training. Given success in the sector, the Bank anticipates a reduced role in telecommunications support. Indicative benchmarks for progress under each of these pillars are provided in Box 10.

The IDA Program

89. Details of the funding program are still under discussion as the government works with the donors to program resources (Annex B3). IDA funding is likely to include additional support to infrastructure, public administration reform, and rural development. Investments may also support HIV/AIDS (related to intravenous drug users), microfinance and statistical capacity building. Continued provision of single-tranche budget support operations are anticipated but will depend on adherence to an increasingly challenging reform program, and maintenance of credible fiduciary safeguards. The team anticipates maintaining an effort to have a broad program that addresses human development needs in addition to infrastructure, for which there is a strong demand. Responding to the difficult environment in Afghanistan, and to ensure continued quick response in delivering investment programs, the Bank intends to continue to process operations under OP8.50, while ensuring that sound environmental and social safeguards are in place as required under the policy and appropriate to the operation.

BOX 10: BENCHMARKS FOR PROGRESS UNDER ISN PILLARS BY FY08

<p><i>Building the capacity of the state and its accountability to its citizens to ensure the provision of services that are affordable, accessible and of adequate quality</i></p> <ul style="list-style-type: none"> • IARCSC able to process 1000 merit-based appointments each year in Grades 1 and 2, and able to supervise appointments in Grades 3 and below • Functions and structures defined for 6 ministries. • Anti-corruption strategy adopted by government and regulations on civil servants conduct passed • Procurement Policy Unit created and functioning. • Finalization of procurement regulations in compliance with the new Public Procurement Law. • 10% net enrollment increase (yearly) in primary education and an increase in the enrollment of girls from 40% net to 50%. • 70% DPT3 coverage among children 12-23 months of age. • 90% of rural population with access to basic package of health services. • Average quality of care in publicly financed health facilities as measured by balanced score card reaches 60%. • Revenue reaches 6.5 % of GDP or above. • Implementation of core development budget (actual expenditures as % of original budget) 65%. • Public access is granted to budget documents, monthly financial reports, annual financial statements, external audit reports and contract awards and bids.
<p><i>Promoting growth of the rural economy and improving rural livelihoods.</i></p> <ul style="list-style-type: none"> • NSP reaching 70% of the rural population • Incremental milk value from dairy processing of \$23 million • Incremental value from semi-intensive poultry of \$10 million • 3,600 ha of orchards rehabilitated, 1,500ha of new orchards established • Horticultural exports increased by 30% • 3,650 kms of new and rehabilitated rural roads
<p><i>Supporting growth of a formal, modern and competitive private sector.</i></p> <ul style="list-style-type: none"> • Connection of provincial centers to the ring road by all season roads. • Road maintenance program in place, operational and routinely included in budget • 94 MW of hydropower capacity rehabilitated • 25,000 new connections in Kabul city and medium voltage network in Kabul and Mazar-e-Sharif rehabilitated • Two industrial parks operational. • Regulatory environment for minerals/natural resources established. • 15,000 new water connections in Kabul and 20,000 in 15 provincial towns. • Transit times at borders reduced. • Issuance of regulations for the licensing and supervision of insurance, and other non-banking financial institutions such as leasing and microfinance. • Reduction in time taken and cost incurred (official and unofficial) to obtain all licenses and permits to open a business.

90. For FY06 (July 1 2005-30 June 2006) IDA is providing US\$267m equivalent entirely as grants. This figure is anticipated to be maintained for the remainder of the IDA14 period through FY08. This is in line with the 5 year pledge of US\$1.2 billion made by the Bank at the recent London Conference. The pledge is divided into US\$800 million for FY06-08 and an additional US\$400m for the following two years (assuming unchanged IDA allocation rules for post-conflict countries under IDA15), which implies that annual allocations would decline by 25 percent as Afghanistan transitions to “normal” IDA allocations. The pledge is subject to government performance as well as continued donor support for IDA.

Analytical and Advisory Activities (AAA)

91. The AAA program will continue to have a two-pronged approach – most of the work will be of the brief, ‘just-in-time’ policy assistance, with a limited number of flagship reports. AAA work will:

- help government define sector strategies and facilitate aid coordination;
- address complex and controversial development issues;
- underpin financing operations.

92. The government’s advisory needs continue to rely on shorter-term policy advice and analytical work built into program preparation, which has been well received in the past. As the government develops its IANDS into a full development strategy – which will serve as its PRSP – the Bank will support work focused on the poverty reduction aspects of proposed sector approaches to build on complementary activities supporting poverty data improvement. More in-depth analysis will be carried out on two areas that have grown in importance.

93. One of the areas for a more detailed report will be to look at the problems around the increase in *corruption* and how to tackle it. The pervasiveness of this problem is apparent from consultations with Afghans, the Investment Climate Assessment and the media, but to date there has been little analysis on the scale and nature of the problem and its causes, nor the options available to address this complex issue at the heart of good governance, efficient public administration and an enabling environment for private sector development. A further issue is how to improve transparency and mobilize public participation.

94. Efficient and effective public service delivery is a challenge in any nation and in a country like Afghanistan which is so constrained in terms of resources—both human and financial—even more so. While building government capacity in core functions is imperative, many options exist to deliver public services. The Bank will conduct analysis to assess *service delivery and systems of accountability*. This will include areas such as public administration reform at central government, provincial and district levels, analysis of the appropriate roles for government in the delivery of services (e.g. the pros and cons of acting as supervisor and regulation setter or actually as provider), the role of communities, and governance approaches at different levels to ensure efficient delivery of services while also strengthening accountability to citizens.

Cross Cutting Themes

95. A major cross-cutting theme of the ISN will be on *capacity building* which, as already discussed, presents itself as one of the major constraints to development. Coupled with reluctance by government to support technical assistance, this will require a greater focus. Under the new ISN the team plans to help government unbundle the capacity building issue – looking at defining roles of government, ministries and the private sector, short-term technical needs, medium-term needs to ensure strategy development and program implementation, and longer-term capacity building of nationals. The team will draw from the lessons of experience in successful ongoing operations, and will also pay attention to the appropriate mechanisms for coordination and oversight so that greater effectiveness can be achieved from both the resources devoted to capacity building, as well as the resources to deliver services and implement programs.

96. An area of support that warrants greater attention relates to *land issues* which the ICA identified as the greatest constraint to private sector development, and which underlie the crisis in urban housing. Land conflicts are an emerging constraint to public investment as rehabilitation work is increasingly replaced by new investments.

97. Technical assistance is being provided to build the capacity of the recently established Land Commission and communities to formulate policies and adopt practices that address land-related conflict and vulnerability. Technical assistance is also anticipated to review the current legal and regulatory framework guiding land acquisition, identify gaps in relation to the World Bank's safeguards requirements, and in consultation with relevant stakeholders develop specific guidelines and standards for how land acquisition should be managed in IDA funded projects, setting a standard to be extended to other donor and government funded projects.

98. Other cross cutting themes are *gender equity and environmental safeguards*. The Bank has followed a pragmatic approach to incorporating environmental and social safeguards in the program since re-engagement. Keeping in view the lack of social and environmental management capacity in implementing agencies a framework approach was adopted for emergency operations. The objective of the framework was to help ensure that activities under emergency projects protect human health; prevent or compensate any loss of livelihood; prevent environmental degradation; enhance positive environmental and social outcomes; and, ensure compliance with World Bank safeguard policies. The Bank supported in 2004-2005 an initial program of training and capacity building for social and environment management in key sectors (water, power, urban, rural, oil and gas and mining, roads/transport). The Bank also initiated activities on inter-sectoral water and environmental management using decision-support tools.

99. The recent creation of the National Environmental Protection Agency (NEPA) has filled an important institutional gap. The IANDS has a benchmark for Environment and a clear sector strategy and program. The challenge is now to enable NEPA to fulfill its newly assigned mandate and harmonize policies and programs to move from a donor-driven to a Government-driven agenda for environmental management.

100. Social safeguards efforts also focused on mainstreaming notions of ethnic equity and gender inclusion in projects, the latter being further facilitated by the preparation of the Country Gender Assessment. The Country Gender Assessment for Afghanistan, prepared jointly with the government, was launched in early 2006. This report used as its starting point issues of health, education and employment to illustrate the enormous challenges within the country and put forward policy advice. The Bank's strategy is to lend support to the government's policy of gender mainstreaming, continuing to pursue the least confrontational lines and build opportunities into the Bank's portfolio where tangible gains can be made. This will involve strengthening women's involvement in the sectors where they already have an acceptable presence including health, education, and the civil service - which would aim to improve women's economic situation as well as contribute to improved service delivery, i.e. in targeting women and children.

101. Another area of emphasis for economic empowerment will be to strengthen women's roles as producers in the rural economy, particularly horticulture and livestock as well as building linkages to ongoing programs such as NSP and MISFA. In the urban economy, the focus will be on job creation through industrial sectors where women already have a foothold through a link with upcoming Bank support to industrial parks, but supported through exploratory work on how to increase/facilitate women's employment (e.g., transport, creche facilities etc.).

102. Finally the issue of *regional integration*, as noted earlier, will continue to be an important theme cutting across different sectors. The most promising areas for furthering regional integration include transport, trade and transit, energy, water resources management and labor migration. The three Bank regional offices – Europe and Central Asia, Middle East and North Africa, and South Asia – are working together in each of these areas and prepared a strategy paper on the Wider Central Asia Region for the regional cooperation conference in Kabul in December 2005. The approach has been to facilitate agreements among regional countries on development issues, strategies and programs, realizing that this is a long term process. In parallel, the Bank is working with coalitions of like-minded countries and other partners such as ADB to further specific investments, such as international power trade.

V. Prospects and Risks

103. Afghanistan's achievements in the last four years have in many ways been impressive. Political and economic developments have exceeded the expectations of many and some tangible results are evident for example in community infrastructure, schooling, health, telecommunications and transport. Nevertheless, the fruits of economic development have been distributed unevenly, the quality of public services is often poor, and public expectations raised by major donor meetings, remain unfulfilled. Progress on providing day-to-day security for the Afghan population and creating a peaceful society where individuals and communities can thrive and prosper remains disappointing. Moreover, despite evidence of improvements, it is not clear that tangible benefits of peace and the post-Taliban period are being fully perceived by the population at large.

104. Such an environment places high demands on the government, which is already coping with the challenges of new democratic institutions. Prospects for state-building and economic recovery require the government to stay the course on the reform agenda, implementation of which has, for the most part, been commendable to date. Slippages on reform, possibly to appease populist demands, risk losing the positive outcomes of gains made to date and undermining support from the international community, which has until now remained very strong.

105. A priority of government at this stage must be a more focused effort on prioritization and sequencing of interventions within budget constraints, while simultaneously collecting more revenues and improving the effectiveness of aid to expand the envelope of opportunities. In addition, donors and government must work more closely to improve the capacity of the government to design and oversee implementation of programs which will be fundamental for long-term sustainability. This would involve a transition from donors implementing activities off-budget, in response to government strengthening budget management and fiduciary controls. Infrastructure needs notwithstanding, economic development also depends on human capital created through education and health. Development also needs to be balanced between cities where much incremental economic growth will materialize, and rural areas where most Afghans live. Moreover, a clear and effective strategy to improve governance and accountability at all levels is essential to ensure the state can be strengthened and overcome the negative influences of corruption and the drug economy.

106. The risks of operating in Afghanistan should not be underestimated. Despite the considerable progress achieved through the Bonn process, daily events remind us that security remains a major constraint and there are no immediate indications of it improving. Risks fall into two main categories – there are a number of broader risks which could impact the Bank's work but which cannot be addressed through Bank interventions or directly mitigated -- and a second category where the Bank has measures in place to minimize the possible downside effects on the program. Those falling in the former category include:

- the continued threat to the state of the opium/criminal economy;

- geo-strategic competition for natural resources;
- backsliding on reforms particularly given populist/nationalist pressures from parliament and other interests;
- security difficulties (either continued or worsening situation) affecting the Bank's ability to operate in all areas of the country, including perhaps in Kabul;
- lack of donor follow-through on recent commitments of support and lack of action to improve aid coordination and effectiveness;
- lack of progress in justice sector reform and in cementing the rule of law.

In these areas the Bank will continue to monitor developments and, where appropriate, raise its concerns with the government and the international community. It is also likely that some of the issues would be raised in the Joint Monitoring Board, co-chaired by the Government and UNAMA. Measures are in place, and updated routinely, to deal with a possible deterioration in security conditions to ensure staff safety.

107. The Bank's program is designed to mitigate the risks falling in the second group – both through direct interventions and policy dialogue. These risks include:

- corruption of government, fiduciary risks and a lack of oversight for contracts governing extraction of natural resources and other private investments;
- continued inadequacy of implementation capacity (including a possible growing intolerance to pay for external support to build capacity and a continued negative perception of the role for NGOs);
- lack of progress on developing public administration reform at all levels;
- dysfunctional land markets, with increasing risks particularly regarding land and resettlement issues which could also start to impact program implementation.

108. The Bank has a number of mitigation measures which include finding workable and affordable approaches to provide the necessary capacity to implement programs, addressing public administration reform through analytical work and program design that also engages with the broader donor community, as well as additional measures to deepen fiduciary controls. The experience of the past four years has shown that capacity constraints in government can be mitigated by contracting out service delivery (e.g. health), financing implementing partners (e.g. community development), or more traditional methods appropriate to large infrastructure projects such as government contracting out design, engineering supervision and construction (e.g. roads). Essentially this will involve further defining the role of government, sector by sector, to assess the most effective approach that also takes into account the human and institutional capacity that exists within and outside government.

109. Specific support to the management of natural resources will attempt to mitigate the potential problems highlighted earlier. Public administration and budget support operations continue to build public finance management capacity that supports fiduciary improvements. If deemed necessary fiduciary oversight will be further strengthened so

that confidence that IDA and other resources flowing through government channels are used for their intended purposes is maintained.

110. Regarding land markets the Bank is providing direct analytical assistance in this area, in close cooperation with donor partners. The Afghanistan Compact contains benchmarks on land management. Bank operations will minimize involuntary resettlement, given the lack of clarity on land ownership in Afghanistan, and will apply the Bank policies, recognizing the risks.

111. A further important element determining the success of the program will be the Bank's ability to maintain a strong team in Kabul. Given the difficult working and living conditions and the need for intensive support to the government to deliver programs and aid coordination, South Asia management is continually reviewing its options for staffing. However a downside risk in this difficult environment is recruiting experienced staff and their replacements at adequate levels to oversee the program. In addition to staffing difficulties, the operating environment is costly compared to other locations, a problem which is further amplified by the dearth of highly qualified national staff. The need to continually strengthen security arrangements and the distorted real estate market in Kabul, also add to operating costs.

112. In this environment it is important to recognize that a downside scenario is possible that would be in response to one or more factors which could include considerable deterioration in the policy or security environments, weakening of governance and broad or sector specific problems in program implementation. Depending on the extent and nature of the problems the Bank would conduct a careful review of operations to decide how to proceed. Actions taken would depend on the specific difficulties encountered and decisions would be taken in consultation with government and its partners.

113. For serious security related difficulties the South Asia region maintains a contingency plan which will continue to be regularly reviewed and updated to ensure staff safety. The plan includes options for maintaining Bank support to Afghanistan while managing risks to staff and providing them with adequate protection.

ATTACHMENT 1

THE LONDON CONFERENCE ON AFGHANISTAN 31 January - 1 February 2006

THE AFGHANISTAN COMPACT

The Islamic Republic of Afghanistan and the international community:

Determined to strengthen their partnership to improve the lives of Afghan people, and to contribute to national, regional, and global peace and security;

Affirming their shared commitment to continue, in the spirit of the Bonn, Tokyo and Berlin conferences, to work toward a stable and prosperous Afghanistan, with good governance and human rights protection for all under the rule of law, and to maintain and strengthen that commitment over the term of this Compact and beyond;

Recognising the courage and determination of Afghans who, by defying violent extremism and hardship, have laid the foundations for a democratic, peaceful, pluralistic and prosperous state based on the principles of Islam;

Noting the full implementation of the Bonn Agreement through the adoption of a new constitution in January 2004, the holding of presidential elections in October 2004 and National Assembly and Provincial Council elections in September 2005, which have enabled Afghanistan to regain its rightful place in the international community;

Mindful that Afghanistan's transition to peace and stability is not yet assured, and that strong international engagement will continue to be required to address remaining challenges;

Resolved to overcome the legacy of conflict in Afghanistan by setting conditions for sustainable economic growth and development; strengthening state institutions and civil society; removing remaining terrorist threats; meeting the challenge of counter-narcotics; rebuilding capacity and infrastructure; reducing poverty; and meeting basic human needs;

Have agreed to this Afghanistan Compact.

PURPOSE

The Afghan Government has articulated its overarching goals for the well-being of its people in the *Afghanistan Millennium Development Goals Country Report 2005, Vision 2020*. Consistent with those goals, this Compact identifies three critical and interdependent areas or pillars of activity for the five years from the adoption of this Compact:

1. Security;
2. Governance, Rule of Law and Human Rights; and
3. Economic and Social Development.

A further vital and cross-cutting area of work is eliminating the narcotics industry, which remains a formidable threat to the people and state of Afghanistan, the region and beyond.

The Afghan Government hereby commits itself to realising this shared vision of the future; the international community, in turn, commits itself to provide resources and support to realise that vision. Annex I of this Compact sets out detailed outcomes, benchmarks and timelines for delivery, consistent with the high-level goals set by the Afghanistan National Development Strategy (ANDS). The Government and international community also commit themselves to improve the effectiveness and accountability of international assistance as set forth in Annex II.

PRINCIPLES OF COOPERATION

As the Afghan Government and the international community embark on the implementation of this Compact, they will:

1. Respect the pluralistic culture, values and history of Afghanistan, based on Islam;
2. Work on the basis of partnership between the Afghan Government, with its sovereign responsibilities, and the international community, with a central and impartial coordinating role for the United Nations;
3. Engage further the deep-seated traditions of participation and aspiration to ownership of the Afghan people;
4. Pursue fiscal, institutional and environmental sustainability;
5. Build lasting Afghan capacity and effective state and civil society institutions, with particular emphasis on building up human capacities of men and women alike;
6. Ensure balanced and fair allocation of domestic and international resources in order to offer all parts of the country tangible prospects of well-being;
7. Recognise in all policies and programmes that men and women have equal rights and responsibilities;
8. Promote regional cooperation; and
9. Combat corruption and ensure public transparency and accountability.

SECURITY

Genuine security remains a fundamental prerequisite for achieving stability and development in Afghanistan. Security cannot be provided by military means alone. It requires good governance, justice and the rule of law, reinforced by reconstruction and development. With the support of the international community, the Afghan Government will consolidate peace by disbanding all illegal armed groups. The Afghan Government and the international community will create a secure environment by strengthening Afghan institutions to meet the security needs of the country in a fiscally sustainable manner.

To that end, the NATO-led International Security Assistance Force (ISAF), the US-led Operation Enduring Freedom (OEF) and partner nations involved in security sector reform will continue to provide strong support to the Afghan Government in establishing and sustaining security and stability in Afghanistan, subject to participating states' national approval procedures. They will continue to strengthen and develop the capacity of the national security forces to ensure that they become fully functional. All OEF counter-terrorism operations will be conducted in close coordination with the Afghan Government and ISAF. ISAF will continue to expand its presence throughout Afghanistan, including through Provincial Reconstruction Teams (PRTs), and will continue to promote stability and support security sector reforms in its areas of operation.

Full respect for Afghanistan's sovereignty and strengthening dialogue and cooperation between Afghanistan and its neighbours constitute an essential guarantee of stability in Afghanistan and the region. The international community will support concrete confidence-building measures to this end.

GOVERNANCE, RULE OF LAW AND HUMAN RIGHTS

Democratic governance and the protection of human rights constitute the cornerstone of sustainable political progress in Afghanistan. The Afghan Government will rapidly expand its capacity to provide basic services to the population throughout the country. It will recruit competent and credible professionals to public service on the basis of merit; establish a more effective, accountable and transparent administration at all levels of Government; and implement measurable improvements in fighting corruption, upholding justice and the rule of law and promoting respect for the human rights of all Afghans.

The Afghan Government will give priority to the coordinated establishment in each province of functional institutions including civil administration, police, prisons and judiciary. These institutions will have appropriate legal frameworks and appointment procedures; trained staff; and adequate remuneration, infrastructure and auditing capacity. The Government will establish a fiscally and institutionally sustainable administration for future elections under the supervision of the Afghanistan Independent Electoral Commission.

Reforming the justice system will be a priority for the Afghan Government and the international community. The aim will be to ensure equal, fair and transparent access to justice for all based upon written codes with fair trials and enforceable verdicts. Measures will include: completing legislative reforms for the public as well as the private sector; building the capacity

of judicial institutions and personnel; promoting human rights and legal awareness; and rehabilitating judicial infrastructure.

The Afghan Government and the international community reaffirm their commitment to the protection and promotion of rights provided for in the Afghan constitution and under applicable international law, including the international human rights covenants and other instruments to which Afghanistan is party. With a view to rebuilding trust among those whose lives were shattered by war, reinforcing a shared sense of citizenship and a culture of tolerance, pluralism and observance of the rule of law, the Afghan Government with the support of the international community will implement the Action Plan on Peace, Justice and Reconciliation.

ECONOMIC AND SOCIAL DEVELOPMENT

The Afghan Government with the support of the international community will pursue high rates of sustainable economic growth with the aim of reducing hunger, poverty and unemployment. It will promote the role and potential of the private sector, alongside those of the public and non-profit sectors; curb the narcotics industry; ensure macroeconomic stability; restore and promote the development of the country's human, social and physical capital, thereby establishing a sound basis for a new generation of leaders and professionals; strengthen civil society; and complete the reintegration of returnees, internally displaced persons and ex-combatants.

Public investments will be structured around the six sectors of the pillar on economic and social development of the Afghanistan National Development Strategy:

1. Infrastructure and natural resources;
2. Education;
3. Health;
4. Agriculture and rural development;
5. Social protection; and
6. Economic governance and private sector development.

In each of these areas, the objective will be to achieve measurable results towards the goal of equitable economic growth that reduces poverty, expands employment and enterprise creation, enhances opportunities in the region and improves the well-being of all Afghans.

COUNTER-NARCOTICS ACROSS-CUTTING PRIORITY

Meeting the threat that the narcotics industry poses to national, regional and international security as well as the development and governance of the country and the well-being of Afghans will be a priority for the Government and the international community. The aim will be to achieve a sustained and significant reduction in the production and trafficking of narcotics with a view to complete elimination. Essential elements include improved interdiction, law enforcement and judicial capacity building; enhanced cooperation among

Afghanistan, neighbouring countries and the international community on disrupting the drugs trade; wider provision of economic alternatives for farmers and labourers in the context of comprehensive rural development; and building national and provincial counter-narcotics institutions. It will also be crucial to enforce a zero-tolerance policy towards official corruption; to pursue eradication as appropriate; to reinforce the message that producing or trading opiates is both immoral and a violation of Islamic law; and to reduce the demand for the illicit use of opiates.

COORDINATION AND MONITORING

The Afghan Government and the international community are establishing a Joint Coordination and Monitoring Board for the implementation of the political commitments that comprise this Compact. As detailed in Annex III, this Board will be co-chaired by the Afghan Government and the United Nations and will be supported by a small secretariat. It will ensure greater coherence of efforts by the Afghan Government and international community to implement the Compact and provide regular and timely public reports on its execution.

The London Conference on Afghanistan
London, 31 January and 1 February 2006

ANNEX I BENCHMARKS AND TIMELINES

The Afghan Government, with the support of the international community, is committed to achieving the following benchmarks in accordance with the timelines specified.

SECURITY

International Security Forces

Through end-2010, with the support of and in close coordination with the Afghan Government, the NATO-led International Security Assistance Force (ISAF), Operation Enduring Freedom (OEF) and their respective Provincial Reconstruction Teams (PRTs) will promote security and stability in all regions of Afghanistan, including by strengthening Afghan capabilities.

Afghan National Army

By end-2010: A nationally respected, professional, ethnically balanced Afghan National Army will be fully established that is democratically accountable, organized, trained and equipped to meet the security needs of the country and increasingly funded from Government revenue, commensurate with the nation's economic capacity; the international community will continue to support Afghanistan in expanding the ANA towards the ceiling of 70,000 personnel articulated in the Bonn talks; and the pace of expansion is to be adjusted on the basis of periodic joint quality assessments by the Afghan Government and the international community against agreed criteria which take into account prevailing conditions.

Afghan National and Border Police

By end-2010, a fully constituted, professional, functional and ethnically balanced Afghan National Police and Afghan Border Police with a combined force of up to 62,000 will be able to meet the security needs of the country effectively and will be increasingly fiscally sustainable.

Disbandment of Illegal Armed Groups

All illegal armed groups will be disbanded by end-2007 in all provinces.

Counter-Narcotics

By end-2010, the Government will strengthen its law enforcement capacity at both central and provincial levels, resulting in a substantial annual increase in the amount of drugs seized or destroyed and processing facilities dismantled, and in effective measures, including targeted eradication as appropriate, that contribute to the elimination of poppy cultivation.

By end-2010, the Government and neighbouring and regional governments will work together to increase coordination and mutual sharing of intelligence, with the goal of an increase in the seizure and destruction of drugs being smuggled across Afghanistan's borders and effective action against drug traffickers.

Mine Action and Ammunition

By end-2010, in line with Afghanistan's Millennium Development Goals (MDGs) and Afghanistan's Ottawa Convention obligations, the land area contaminated by mines and unexploded ordnance will be reduced by 70%; all stockpiled anti-personnel mines will be located and destroyed by end-2007; and by end-2010, all unsafe, unserviceable and surplus ammunition will be destroyed.



GOVERNANCE, RULE OF LAW AND HUMAN RIGHTS

Public Administrative Reform

By end-2010: Government machinery (including the number of ministries) will be restructured and rationalised to ensure a fiscally sustainable public administration; the civil service commission will be strengthened; and civil service functions will be reformed to reflect core functions and responsibilities.

A clear and transparent national appointments mechanism will be established within 6 months, applied within 12 months and fully implemented within 24 months for all senior level appointments *to the central government and the judiciary*, as well as for provincial governors, chiefs of police, district administrators and provincial heads of security.

By end-2006 a review of the number of administrative units and their boundaries will be undertaken with the aim of contributing to fiscal sustainability.

By end-2010, in furtherance of the work of the civil service commission, merit-based appointments, vetting procedures and performance-based reviews will be undertaken for civil service positions at all levels of government, including central government, the judiciary and police, and requisite support will be provided to build the capacity of the civil service to function effectively. Annual performance-based reviews will be undertaken for all senior staff (grade 2 and above) starting by end-2007.

Anti-Corruption

The UN Convention against Corruption will be ratified by end-2006, national legislation adapted accordingly by end-2007 and a monitoring mechanism to oversee implementation will be in place by end-2008.

The Census and Statistics

The census enumeration will be completed by end-2008 and the complete results published.

Reliable statistical baselines will be established for all quantitative benchmarks by mid-2007 and statistical capacity built to track progress against them.

National Assembly

The National Assembly will be provided with technical and administrative support by mid-2006 to fulfil effectively its constitutionally mandated roles.

Elections

The Afghanistan Independent Electoral Commission will have the high integrity, capacity and resources to undertake elections in an increasingly fiscally sustainable manner by end-2008, with the Government of Afghanistan contributing to the extent possible to the cost of future elections from its own resources. A permanent civil and voter registry with a single national identity document will be established by end-2009.

Gender

By end-2010: the National Action Plan for Women in Afghanistan will be fully implemented; and, in line with Afghanistan's MDGs, female participation in all Afghan governance institutions, including elected and appointed bodies and the civil service, will be strengthened.

Rule of Law

By end-2010, the legal framework required under the constitution, including civil, criminal and commercial law, will be put in place, distributed to all judicial and legislative institutions and made available to the public.

By end-2010, functioning institutions of justice will be fully operational in each province of Afghanistan, and the average time to resolve contract disputes will be reduced as much as possible.

A review and reform of oversight procedures relating to corruption, lack of due process and miscarriage of justice will be initiated by end-2006 and fully implemented by end-2010; by end-2010, reforms will strengthen the professionalism, credibility and integrity of key institutions of the justice system (the Ministry of Justice, the Judiciary, the Attorney-General's office, the Ministry of Interior and the National Directorate of Security).

By end-2010, justice infrastructure will be rehabilitated; and prisons will have separate facilities for women and juveniles.

Land Registration

A process for registration of land in all administrative units and the registration of titles will be started for all major urban areas by end-2006 and all other areas by end-2008. A fair system for settlement of land disputes will be in place by end-2007. Registration for rural land will be under way by end-2007.

Counter-Narcotics

By end-2010, the Government will increase the number of arrests and prosecutions of traffickers and corrupt officials and will improve its information base concerning those involved in the drugs trade, with a view to enhancing the selection system for national and sub-national public appointments, as part of the appointments mechanism mentioned earlier in this annex.

Human Rights

By end-2010: The Government's capacity to comply with and report on its human rights treaty obligations will be strengthened; Government security and law enforcement agencies will adopt corrective measures including codes of conduct and procedures aimed at preventing arbitrary arrest and detention, torture, extortion and illegal expropriation of property with a view to the elimination of these practices; the exercise of freedom of expression, including freedom of media, will be strengthened; human rights awareness will be included in education curricula and promoted among legislators, judicial personnel and other Government agencies, communities and the public; human rights monitoring will be carried out by the Government and independently by the Afghan Independent Human Rights Commission (AIHRC), and the UN will track the effectiveness of measures aimed at the protection of human rights; the AIHRC will be supported in the fulfilment of its objectives with regard to monitoring, investigation, protection and promotion of human rights.

The implementation of the Action Plan on Peace, Justice and Reconciliation will be completed by end-2008.

ECONOMIC AND SOCIAL DEVELOPMENT

INFRASTRUCTURE AND NATURAL RESOURCES

Roads

Afghanistan will have a fully upgraded and maintained ring road, as well as roads connecting the ring road to neighbouring countries by end-2008 and a fiscally sustainable system for road maintenance by end-2007.

Air Transport

By end-2010: Kabul International Airport and Herat Airport will achieve full International Civil Aviation Organisation compliance; Mazar-i-Sharif, Jalalabad and Kandahar will be upgraded with runway repairs, air navigation, fire and rescue and communications equipment; seven other domestic airports will be upgraded to facilitate domestic air transportation; and air transport services and costs will be increasingly competitive with international market standards and rates.

Energy

By end-2010: electricity will reach at least 65% of households and 90% of non-residential establishments in major urban areas and at least 25% of households in rural areas; at least 75% of the costs will be recovered from users connected to the national power grid. A strategy for the development and the use of renewable energies will be developed by end-2007.

Mining and Natural Resources

An enabling regulatory environment for profitable extraction of Afghanistan's mineral and natural resources will be created by end-2006, and by end-2010 the investment environment and infrastructure will be enhanced in order to attract domestic and foreign direct investment in this area.

Water Resource Management

Sustainable water resource management strategies and plans covering irrigation and drinking water supply will be developed by end-2006, and irrigation investments will result in at least 30% of water coming from large waterworks by end-2010.

Urban Development

By end-2010: Municipal governments will have strengthened capacity to manage urban development and to ensure that municipal services are delivered effectively, efficiently and transparently; in line with Afghanistan's MDGs, investment in water supply and sanitation will ensure that 50% of households in Kabul and 30% of households in other major urban areas will have access to piped water.

Environment

In line with Afghanistan's MDGs, environmental regulatory frameworks and management services will be established for the protection of air and water quality, waste management and pollution control, and natural resource policies will be developed and implementation started at all levels of government as well as the community level, by end-2007.

EDUCATION

Primary and Secondary Education

By end-2010: in line with Afghanistan's MDGs, net enrolment in primary school for girls and boys will be at least 60% and 75% respectively; a new curriculum will be operational in all secondary schools; female teachers will be increased by 50%; 70% of Afghanistan's teachers will have passed a competency test; and a system for assessing learning achievement such as a national testing system for students will be in place.

Higher Education

By end 2010: enrolment of students to universities will be 100,000 with at least 35% female students; and the curriculum in Afghanistan's public universities will be revised to meet the development needs of the country and private sector growth.

Skills Development

A human resource study will be completed by end-2006, and 150,000 men and women will be trained in marketable skills through public and private means by end-2010.

Afghan Cultural Heritage

A comprehensive inventory of Afghan cultural treasures will be compiled by end-2007. Measures will be taken to revive the Afghan cultural heritage, to stop the illegal removal of cultural material and to restore damaged monuments and artefacts by end-2010.

HEALTH

Health and Nutrition

By end-2010, in line with Afghanistan's MDGs, the Basic Package of Health Services will be extended to cover at least 90% of the population; maternal mortality will be reduced by 15%; and full immunisation coverage for infants under-5 for vaccine-preventable diseases will be achieved and their mortality rates reduced by 20%.

AGRICULTURE AND RURAL DEVELOPMENT

Agriculture and Livestock

By end-2010: The necessary institutional, regulatory and incentive framework to increase production and productivity will be established to create an enabling environment for legal agriculture and agriculture-based rural industries, and public investment in agriculture will increase by 30 percent; particular consideration will be given to perennial horticulture, animal health and food security by instituting specialised support agencies and financial service delivery mechanisms, supporting farmers' associations, branding national products, disseminating timely price and weather-related information and statistics, providing strategic research and technical assistance and securing access to irrigation and water management systems.

Comprehensive Rural Development

By end-2010: Rural development will be enhanced comprehensively for the benefit of 19 million people in over 38,000 villages; this will be achieved through the election of at least a further 14,000 voluntary community development councils in all remaining villages, promoting

local governance and community empowerment; access to safe drinking water will be extended to 90% of villages and sanitation to 50%; road connectivity will reach 40% of all villages, increasing access to markets, employment and social services; 47% of villages will benefit from small-scale irrigation; 800,000 households (22% of all Afghanistan's households) will benefit from improved access to financial services; and livelihoods of at least 15% of the rural population will be supported through the provision of 91 million labour days.

Counter-Narcotics

By end-2010, the Government will design and implement programmes to achieve a sustained annual reduction in the amount of land under poppy and other drug cultivation by the strengthening and diversification of licit livelihoods and other counter-narcotics measures, as part of the overall goal of a decrease in the absolute and relative size of the drug economy in line with the Government's MDG target.

SOCIAL PROTECTION

Poverty Reduction

By end-2010, in line with Afghanistan's MDGs, the proportion of people living on less than US\$1 a day will decrease by 3% per year and the proportion of people who suffer from hunger will decrease by 5% per year.

Humanitarian and Disaster Response

By end-2010, an effective system of disaster preparedness and response will be in place.

Disabled

By end-2010, increased assistance will be provided to meet the special needs of all disabled people, including their integration in society through opportunities for education and gainful employment.

Employment of Youth and Demobilised Soldiers

By end-2010, employment opportunities for youth and demobilised soldiers will be increased through special programmes.

Refugees and IDPs

By end-2010, all refugees opting to return and internally displaced persons will be provided assistance for rehabilitation and integration in their local communities; their integration will be supported by national development programmes, particularly in key areas of return.

Vulnerable Women

By end-2010, the number of female-headed households that are chronically poor will be reduced by 20%, and their employment rates will be increased by 20%.

Counter-Narcotics

By end-2010, the Government will implement programmes to reduce the demand for narcotics and provide improved treatment for drug users.

ECONOMIC GOVERNANCE AND PRIVATE SECTOR DEVELOPMENT

Financial Management

By end-2007, the Government will ensure improved transparent financial management at the central and provincial levels through establishing and meeting benchmarks for financial management agreed with and monitored by the international community, including those in the anticipated Poverty Reduction Growth Facility (PRGF). In turn, and in line with improved government accountability, donors will make more effort to increase the share of total external assistance to Afghanistan that goes to the core budget.

Domestic Revenues

Afghanistan's total domestic budgetary revenue equivalent to 4.5% of estimated legal GDP in 1383 (2004/05) will steadily increase and reach 8% of GDP by 1389 (2010/11). The ratio of revenue to estimated total recurrent expenditures, including estimated recurrent expenditures in the core and external development budgets, is projected to rise from 28% in 1383 (2004/05) to an estimated 58% in 1389, resulting in a continuing need, in accord with the principles in Annex II, for (1) external assistance to the core budget and (2) increasing cost-effectiveness of assistance that funds recurrent expenditure through the external development budget.

Private Sector Development and Trade

All legislation, regulations and procedures related to investment will be simplified and harmonised by end-2006 and implemented by end-2007. New business organisation laws will be tabled in the National Assembly by end-2006. The Government's strategy for divestment of state-owned enterprises will be implemented by end-2009.

Financial Services and Markets

Internationally accepted prudential regulations will be developed for all core sectors of banking and non-bank financial institutions by end-2007. The banking supervision function of Da Afghanistan Bank will be further strengthened by end-2007. Re-structuring of state-owned commercial banks will be complete by end-2007. State-owned banks that have not been re-licensed will be liquidated by end-2006.

Regional Cooperation

By end-2010: Afghanistan and its neighbours will achieve lower transit times through Afghanistan by means of cooperative border management and other multilateral or bilateral trade and transit agreements; Afghanistan will increase the amount of electricity available through bilateral power purchase; and Afghanistan, its neighbours and countries in the region will reach agreements to enable Afghanistan to import skilled labour, and to enable Afghans to seek work in the region and send remittances home.

ANNEX II

IMPROVING THE EFFECTIVENESS OF AID TO AFGHANISTAN

The international community has made a significant investment in the future of a democratic state of Afghanistan since December 2001. This Compact is an affirmation of that commitment. The Afghan Government and the international community are further committed to improving the effectiveness of the aid being provided to Afghanistan in accordance with the *Paris Declaration on Aid Effectiveness* (2005), recognising the special needs of Afghanistan and their implications for donor support.

Consistent with the Paris Declaration and the principles of cooperation of this Compact, the Government and the international community providing assistance to Afghanistan agree that the principles for improving the effectiveness of aid to Afghanistan under this Compact are:

1. Leadership of the Afghan Government in setting its development priorities and strategies and, within them, the support needs of the country and the coordination of donor assistance;
2. Transparency and accountability on the part of both the Government and the donors of the international assistance being provided to Afghanistan.

Under these principles and towards the goal of improving the effectiveness of aid to Afghanistan, **the Government will:**

- Provide a prioritised and detailed Afghanistan National Development Strategy (ANDS) with indicators for monitoring results, including those for Afghanistan's Millennium Development Goals (MDGs);
- Improve its abilities to generate domestic revenues through, *inter alia*, customs duties and taxes; and to achieve cost recovery from public utilities and transportation;
- Agree with donors, international financial institutions and United Nations agencies on the benchmarks for aid channelled through the Government's core budget and for the utilisation of such aid; and monitor performance against those benchmarks; and
- Provide regular reporting on the use of donor assistance and performance against the benchmarks of this compact to the National Assembly, the donor community through the Afghanistan Development Forum and the public at large.

The Donors will:

- Provide assistance within the framework of the Afghanistan National Development Strategy; programmes and projects will be coordinated with Government in order to focus on priorities, eliminate duplication and rationalise donor activities to maximise cost-effectiveness;

- Increasingly provide more predictable and multiyear funding commitments or indications of multiyear support to Afghanistan to enable the Government to plan better the implementation of its National Development Strategy and provide untied aid whenever possible;
- Increase the proportion of donor assistance channelled directly through the core budget, as agreed bilaterally between the Government and each donor, as well as through other more predictable core budget funding modalities in which the Afghan Government participates, such as the Afghanistan Reconstruction Trust Fund (ARTF), the Law and Order Trust Fund for Afghanistan (LOITF) and the Counter-Narcotics Trust Fund (CNTF);
- Provide assistance for the development of public expenditure management systems that are essential for improving transparency and accountability in the utilisation of donor resources and countering corruption;
- Recognise that, because of the need to build Afghan capacity, donor assistance provided through the external budget will be designed in such a manner as to build this capacity in the Government as well as the private sector and non-profit sector;
- Ensure that development policies, including salary policies, strengthen national institutions that are sustainable in the medium to long term for delivery of programmes by the Government;
- For aid not channelled through the core budget, endeavour to:
 - Harmonise the delivery of technical assistance in line with Government needs to focus on priority areas and reduce duplication and transaction costs;
 - Reduce the external management and overhead costs of projects by promoting the Afghan private sector in their management and delivery;
 - Increasingly use Afghan national implementation partners and equally qualified local and expatriate Afghans;
 - Increase procurement within Afghanistan of supplies for civilian and military activities; and
 - Use Afghan materials in the implementation of projects, in particular for infrastructure;
- Within the principles of international competitive bidding, promote the participation in the bidding process of the Afghan private sector and South-South cooperation in order to overcome capacity constraints and to lower costs of delivery;
- Provide timely, transparent and comprehensive information on foreign aid flows, including levels of pledges, commitments and disbursements in a format that will enable the Afghan Government to plan its own activities and present comprehensive budget reports to the National Assembly; this covers the nature and amount of assistance being provided to Afghanistan through the core and external budgets; and
- For external budget assistance, also report to the Government on: the utilisation of funds; its efficiency, quality and effectiveness; and the results achieved.

These mutual commitments are intended to ensure that the donor assistance being provided to Afghanistan is used efficiently and effectively, that there is increased transparency and accountability, and that both Afghans and the taxpayers in donor countries are receiving value for money.

ATTACHMENT 2

DEBT SUSTAINABILITY ANALYSIS

1. This annex assesses Afghanistan's external debt sustainability (DSA) using the joint World Bank—Fund's DSA template for Low Income Countries. Data limitations notwithstanding, a sound debt management strategy remains central to the overall growth dynamics of Afghanistan, which is currently heavily dependent on external financing.¹ Based on the current medium-term macroeconomic framework and outstanding stock of debt, this DSA examines Afghanistan's annual borrowing capacity under two scenarios: one that assumes future borrowing under highly concessional terms, and another that assumes limited access to concessional borrowing. The analysis concludes that Afghanistan has relatively little scope for non-concessional borrowing. Furthermore, Afghanistan is subject to an elevated risk of debt distress owing to the weakness of exports, the low revenue base and the country's large reconstruction financing requirements.²

Islamic Republic of Afghanistan: External Debt, 2004/05	
(In millions of U.S. dollars)	
Total external debt	749
Multilateral debt	455
World Bank	233
Asian Development Bank	222
Bilateral debt 1/	294
Verified claims	137
United States	82
USAID	57
USDA	25
Former GDR	40
OPEC Fund	2
Kuwait Development Fund	13
Unverified claims	157
Bulgaria	47
Saudi Arabia	30
Iraq	6
Former Czechoslovakia	75
Memorandum items:	
(In percent of GDP)	
Total external debt	13
Total multilateral debt	8
Total verified bilateral debt	2
Total unverified bilateral debt	3

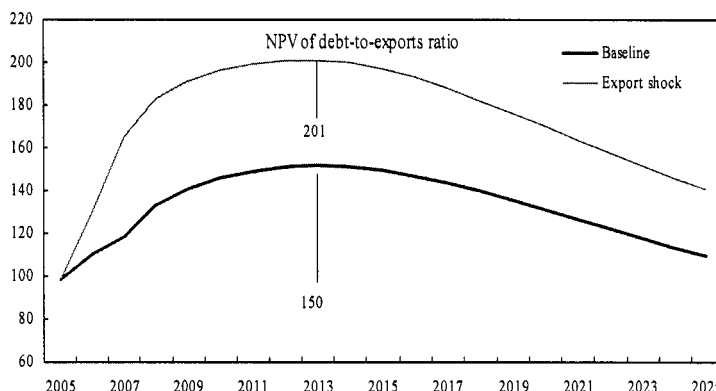
Source: Data provided by the Afghan authorities; and Fund staff estimates.
1/ Excludes Russian claims. Staff estimates these claims to be over US\$ 10 billion.

¹ While the DSA template uses 10-year averages of key macroeconomic variables to generate alternative scenarios for analytical purposes, this was not possible in the case of Afghanistan as reliable economic data exist only for the last three years. As a consequence, the present DSA does not employ the full set of stress tests typically presented in low-income country DSAs.

² A number of caveats must be noted. The World Bank has not yet assessed Afghanistan against its Country Policy and Institutional Assessment (CPIA) framework, which makes it impossible to identify a policy-dependent sustainability threshold as identified in "Operational Framework for Debt Sustainability Assessments in Low Income Countries—Further Considerations" (SM/05/109, 3/29/05). For the purposes of this exercise, it is assumed that Afghanistan is evaluated as a medium performer in the CPIA. Thus, the sustainable ratio for the NPV of debt-to-exports is assumed to be 150 percent. It is possible that the indicative sustainability thresholds for Afghanistan may be revised following its evaluation under the CPIA. This would affect the results of the DSA. Owing to these caveats, this exercise cannot propose a definitive rating of debt distress for Afghanistan.

2. **The main economic assumptions are the same in both scenarios.** The scenarios are based on an end-2004/05 external debt stock of US\$749 million (see table above), which includes all currently acknowledged, verified or unverified debts,³ but excludes disputed Russian claims. If included, the Russian claims—preliminarily estimated at around \$10.8 billion—would dramatically increase the NPV of debt-to-export ratio and the need for debt relief (possibly in the context of the HIPC Initiative). Real economic activity is projected to expand rapidly over the next ten years, as the reconstruction effort boosts all sectors of the economy. Real GDP growth is projected to be around 10 percent a year during this period of accelerated growth, before moderating to approximately 6 percent thereafter. Assuming annual export growth of about 15 percent a year in the medium term, the trade deficit diminishes but remains significant throughout the projection period. The current account (including grants) is nevertheless generally in surplus, as transfers are expected to remain substantial.

3. **The first scenario assumes that all future borrowing is contracted under highly concessional terms (i.e. with a grant element of at least 60 percent). On this basis, Afghanistan could borrow up to \$380 million annually without breaching the indicative NPV of debt-to-exports threshold.⁴** While this level of borrowing represents a significant increase over current levels, it may be useful to contrast it against the projected gap between total recurrent spending requirements and revenue excluding grants, estimated at around \$900 million per year over the medium-term.⁵ This highlights the need for continued grant financing for several years. Debt sustainability is maintained only in the absence of shocks affecting the economy (e.g., lower export growth of about 9 percent would raise the NPV of debt-to-exports ratio to well above the indicative sustainability threshold).

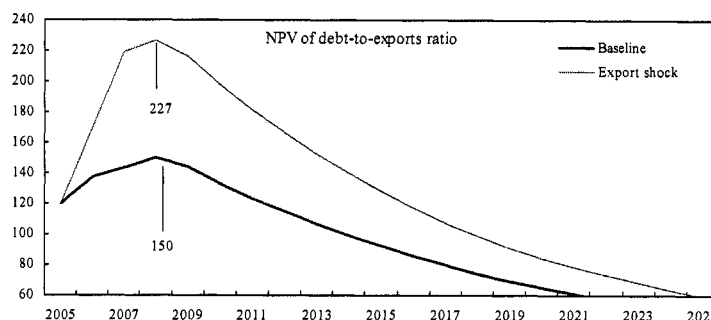


³ Unverified claims amount to roughly \$157 million, which the authorities are in the process of reconciling.

⁴ This implies that most new borrowings would need to come from concessional creditors, such as IDA and/or the Asian Development Bank.

⁵ See Box 1 of the staff report for a full explanation. The definition of 'total recurrent spending' includes a number of items, such as recurrent military costs, currently in the external budget, which is funded directly by donors outside of the government controlled operating budget.

4. **The second scenario assumes that Afghanistan has limited access (up to \$75 million annually) to concessional borrowing and borrows all additional funds on nonconcessional terms.**⁶ In this case, Afghanistan could borrow about \$250 million annually, net of debt service, without breaching the 150 percent indicative sustainability



threshold. This scenario illustrates both the sensitivity of debt sustainability to export growth assumptions and the importance of continued access to highly concessional resources in meeting Afghanistan's development needs. Although not shown in the tables and figures, the debt service-to-revenue ratio reaches nearly 24 percent under this scenario (compared to 1¼ percent under the baseline and less than 3 percent in the first scenario), which is another indication of sustainability problems that would ensure if Afghanistan were to borrow on non-concessional terms. Also, assuming export growth of only 9 percent a year, Afghanistan's sustainable borrowing capacity would be limited to about \$150 million annually. Given the geopolitical risks in the region, lower foreign direct investment could also hinder the country's capacity to service debt and thus would warrant a re-evaluation of the appropriate debt sustainability threshold.

Policy Implications

5. **The availability of external borrowing to fund development spending will depend critically on the authorities meeting their fiscal targets.** Although revenue mobilization has increased rapidly in the last few years, it remains very low, amounting to 4.5 percent of GDP in 2004/05, equivalent to about 50 percent of operating expenditures and only 28 percent of total recurrent expenditures. The medium-term framework projects revenue to cover operating expenditures by 2010 where the revenue to GDP ratio is expected to reach 8 percent. Meeting the proposed fiscal target will require both a sustained increase in revenue and expenditure restraint. Any underperformance in these two areas, or any reduction in donor grants, will require additional borrowing to fund recurrent expenditures, thereby reducing by an equivalent amount the financing available for development spending.

6. **In view of the uncertainty surrounding the medium-term macroeconomic framework, the medium-term debt strategy should continue to rely primarily on grant financing and highly concessional borrowing.** The DSA indicates that, even

⁶ This scenario is presented to underscore the importance of highly concessional resources in maintaining external sustainability. Afghanistan currently has no commercial market access, nor is it likely to have it in the near future. Nevertheless, this scenario assumes that additional debt is contracted at terms similar to those obtained in commercial markets (8 percent coupon, 1-year grace period and 6 years of maturity; the principal is to be repaid in six equal installments).

under the conservative debt stock assumptions, external shocks may severely limit new borrowings, corroborating the results of the previous DSA exercise. Afghanistan's reliance on grants and donor support may also be tested under an uncertain and changing political landscape.

7. **Also, the resolution of the Russian claims—not currently reconciled or acknowledged formally by Afghanistan—will have a significant impact on debt sustainability.** Preliminary calculations suggest that anything short of a full write-off of these claims could result in an explosive debt dynamics, impeding any future borrowing. However, given the uncertainty regarding the resolution of this issue, it would be premature to evaluate specific debt relief options.

Table 1. Country: External Debt Sustainability Framework, Baseline Scenario, 2002-2025 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/ Standard Deviation 6/	Estimate	Projections						2011-25 Average	
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2015	2025
External debt (nominal) 1/	13.1	12.3	11.8		10.7	10.0	9.9	9.8	9.7	9.5		7.8	4.1
o/w public and publicly guaranteed (PPG)	13.1	12.3	11.8		10.7	10.0	9.9	9.8	9.7	9.5		7.8	4.1
Change in external debt	13.1	-0.8	-0.5		-1.1	-0.7	-0.1	-0.1	-0.1	-0.2		-0.4	-0.3
Identified net debt-creating flows	...	-6.6	-7.4		-6.2	-4.1	-2.1	-1.8	-2.3	-2.7		0.9	2.9
Non-interest current account deficit	3.4	-3.1	-2.1		-1.6	0.7	2.1	3.0	2.4	1.7		4.3	5.1
Deficit in balance of goods and services	54.6	67.8	53.5	2.9	48.4	43.3	34.0	30.5	29.0	27.6		21.5	13.6
Exports	6.8	7.5	7.4		7.1	7.1	7.2	6.7	6.5	6.3		5.6	4.7
Imports	61.4	75.3	60.9		55.5	50.4	41.1	37.1	35.5	34.0		27.1	18.3
Net current transfers (negative = inflow)	-29.9	-49.3	-43.9	-30.8	-39.6	-35.1	-28.2	-23.8	-23.8	-23.8		-11.9	-2.5
Other current account flows (negative = net inflow)	-21.3	-21.7	-11.6		-10.4	-7.5	-3.7	-3.6	-2.9	-2.1		-5.3	-6.0
Net FDI (negative = inflow)	-1.2	-1.1	-2.9	-1.3	-3.3	-3.8	-3.4	-4.1	-3.9	-3.7		-3.0	-2.0
Endogenous debt dynamics 2/	...	-2.3	-2.4	1.2	-1.3	-1.0	-0.9	-0.8	-0.8	-0.8		-0.5	-0.2
Contribution from nominal interest rate	...	0.2	0.2		0.0	0.0	0.0	0.0	0.0	0.0		0.1	0.0
Contribution from real GDP growth	0.0	-1.7	-0.8		-1.3	-1.0	-0.9	-0.8	-0.8	-0.8		-0.6	-0.2
Contribution from price and exchange rate changes	0.0	-0.8	-1.8		...	...	...	...	...	...		...	...
Residual (3-4) 3/	...	5.8	6.9		5.1	3.4	2.1	1.7	2.2	2.6		-1.3	-3.2
o/w exceptional financing	...	-0.2	-0.2		-0.1	-0.1	-0.1	0.0	0.0	0.0		0.0	0.0
Key macroeconomic assumptions													
NPV of external debt 4/	...	...	5.8		5.4	5.1	5.1	5.0	5.0	4.9		4.2	2.1
In percent of exports	...	...	78.6		75.4	71.2	71.0	75.3	77.1	77.9		74.4	44.4
NPV of PPG external debt	...	...	5.8		5.4	5.1	5.1	5.0	5.0	4.9		4.2	2.1
In percent of exports	...	...	78.6		75.4	71.2	71.0	75.3	77.1	77.9		74.4	44.4
Debt service-to-exports ratio (in percent)	2.6	3.8	3.4		1.2	1.1	0.9	0.9	1.0	1.1		2.1	2.7
PPPG debt service-to-exports ratio (in percent)	2.6	3.8	3.4		1.2	1.1	0.9	0.9	1.0	1.1		2.1	2.7
Total gross financing need (billions of U.S. dollars)	0.1	-0.2	-0.3		-0.4	-0.3	-0.1	-0.1	-0.2	-0.3		0.5	2.9
Non-interest current account deficit that stabilizes debt ratio	-9.6	-2.4	-1.6		-0.5	1.4	2.2	3.1	2.4	1.9		4.7	5.4
Key macroeconomic assumptions													
Real GDP growth (in percent)	28.6	15.7	8.0	17.4	13.8	11.7	10.6	9.9	9.6	9.4		8.1	5.2
GDP deflator in US dollar terms (change in percent)	4.0	6.4	17.0	9.2	6.9	8.0	5.0	5.0	4.6	4.6		6.2	3.8
Effective interest rate (percent) 5/	...	1.6	1.6	1.6	0.5	0.5	0.4	0.4	0.5	0.6		0.5	1.0
Growth of exports of G&S (US dollar terms, in percent)	...	36.1	25.0	30.6	7.9	20.1	20.6	17.0	7.4	11.3		14.6	10.5
Growth of imports of G&S (US dollar terms, in percent)	...	50.9	2.1	26.5	34.5	14.0	9.6	-5.2	4.1	9.6		9.4	7.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	55.2	56.3	55.0	54.5	55.2	55.2		55.2	55.2
Memorandum item:													
Nominal GDP (billions of US dollars)	4.1	5.0	6.4		7.9	9.6	11.1	12.8	14.7	16.8		31.8	88.5

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)]/(1+g-p^*g)$ times previous period debt ratio, with r = nominal interest rate, g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief), changes in gross foreign assets, and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

ATTACHMENT 3

RESULTS OF TSS BENCHMARKS OF OUTPUTS

TSS 2003 Benchmark	Results by early 2006
<p>Enhancing government effectiveness:</p> <ul style="list-style-type: none"> • Organizational improvements (e.g. streamlining number of ministries). • Improvements in the skills level of the civil service. • Level of domestic revenue mobilized by the national government. • Separation of core government functions and employees from public enterprises. • Accurate and timely payment of government payrolls. • Level of non-salary O&M expenditures, especially outside of Kabul. 	<ul style="list-style-type: none"> • Some progress with number of ministries reduced from 29 to 25. Further streamlining would be useful but is not anticipated. • Skill levels remain very low. Some improvements achieved through special programs attracting expatriates and professionals from outside of government. • Revenue collection in SY1384 is 46% above previous year. However domestic revenues remain among the lowest levels in the world. • Little progress on State-Owned Enterprises. • ARTF monitoring demonstrates regular salary payments of government officials. • Non-salary O&M has increased from 22.9% to 24.3% in provinces as percentage of total O&M.
<p>Strengthening communities:</p> <ul style="list-style-type: none"> • Number of communities successfully mobilized under NSP. • Number of communities receiving block grants under NSP. • Outcomes achieved by block grants. 	<ul style="list-style-type: none"> • NSP has reached over half of Afghanistan's estimated 22,500 rural communities, benefited about 8.5 million people and established 10,000 CDCs. • NSP has financed 14,000 community projects. • About 88% of the community projects involve infrastructure such as irrigation, rural roads, electrification, and drinking water supply.
<p>Enabling private sector dynamism:</p> <ul style="list-style-type: none"> • Size of quality infrastructure networks (e.g. roads, telecommunications, power, airports). 	<ul style="list-style-type: none"> • Major national roads rehabilitation completed or underway. • IDA funded 406 km of arterial road rehabilitation. An additional 228 km national road rehabilitation in progress, to be completed by mid 2007. • Kabul Airport runway rehabilitation completed.

TSS 2003 Benchmark	Results by early 2006
<ul style="list-style-type: none"> • Quality and functioning of enabling regulations for domestic and foreign investment. • Development of financial sector (regulatory framework, domestic and international payments system operational). • Level/growth of exports. 	<ul style="list-style-type: none"> • 3 licensed private mobile operators; Afghan Telecom corporatized and preparations for future privatization ongoing; licensing of new local fixed service providers underway. • Power supply remains limited and noticeable improvements in Kabul not expected for 3 years. • Banking law approved, one stop shop for investment support established, liberal trade regime established. • Eight commercial banks established business, international payments systems operational. • Domestic exports have grown from approximately US\$277m in 2002/3 to US\$471m in 2004/5 and are projected to be US\$566m in 2005/6. As percent of GDP exports have grown from 6.8% in 2002 to 7.4% in 2004.
<p>Generating incomes for the poor:</p> <ul style="list-style-type: none"> • Level of agricultural and livestock production. • Number of person-days of employment provided through public works programs (including number for women). • Number of people reached by quality micro-credit programs. 	<ul style="list-style-type: none"> • Limited information available but probably minimal progress made though agriculture productivity increased with good rainfall. • 8.8 million person days of employment – of this 1-2% paid to women. • More than 119,000 participants in microfinance operations, 85% are women.
<p>Providing basic social services to the population:</p> <ul style="list-style-type: none"> • Number of children in school, disaggregated by gender. • Number of children immunized. • Number of people with access to/reached by basic public health services. • Number of people with access to safe drinking water in urban and rural areas. 	<ul style="list-style-type: none"> • Approximately 5 million in primary school. Girls net enrollment at 40% and lower than 15% in some parts of the country. • 19% children age 12-23 months with DPT3 vaccination coverage (Source: MICS 2003) new data expected from 2005 NRVA. • 77% of population with access to health services. • Preliminary data indicate that 24% of the rural population, 18% of the urban population and 13% of the Kuchi population, have access to 'safe' water.

ATTACHMENT 4

PRIVATE SECTOR CONSULTATIONS

1. The Afghanistan Investment Support Agency (AISA) helped organize a private sector consultation meeting on the new Interim Strategy Note for Afghanistan in February 2006. Over 20 participants from the private sector took part representing the carpet industry, dry fruit exporters, industrial parks association, telecommunications, food, banking and the handicraft sector.

2. A number of important issues were raised to increase domestic and foreign investment, improve competitiveness and expand exports. It was important to note that the participants did not look to the World Bank to help them with financial resources; rather participants appreciated the role of the Bank to influence the Government to initiate and implement reforms.

3. **Assistance to Farmers:** Support to farmers was identified as an important area for Government intervention to improve quality, enhance productivity and increase export of fresh and dry fruits. Afghanistan is currently exporting low quality products and is captive to India for 40 percent of its market. Government support to farmers is essential to produce high value added products to increase value and diversify exports. For example, the high quality variety of dried grapes –Sindhurkhani (green raisins) can earn US\$20/kg, while the traditional Aftabi (brown raisins) only raise US\$2-3/kg. The importance of packaging and processing was identified as an essential ingredient to increasing exports. It was argued that Afghan produce is competitive in quality, but because of the poor quality of packaging, it cannot compete in the international market.

4. **Land:** The need for land in establishing manufacturing enterprises was emphasized by many participants. It has been argued that the industrial progress of Afghanistan is severely constrained by the lack of availability of land. Land scarcity is impeding the establishment of good packaging and processing plants, causing a negative impact on exports. Regarding the carpet industry it was noted that of a group of 42 carpet manufacturers, who returned from Pakistan to invest in Afghanistan, about 15 of them are returning to Pakistan because they could not find suitable land to establish businesses in Afghanistan.

5. **Standards:** The Government should establish a Standard Testing Institute to ensure quality standards for processes and products. It was argued that although there has been lot of construction work in progress in Kabul and around the country, the quality of work is in general poor which could be disastrous in the case of an earthquake or other natural calamity. There is no regulatory or oversight body to ensure quality standards of construction, products or processes. The quality of products and services has strong linkages with competition in domestic and export markets. The Bank is engaged in this area and has had a role in establishing the Afghan National Standards Authority.

6. **Access to finance:** There is a consensus among investors and private sector associations that the banking sector is not doing much to finance investment in the country. Two issues emerged as important: (a) from the investor's perspective, there is lack of access, short tenure of loans and the high cost of borrowing. There was concern that commercial banks disregard small and medium producers. Moreover, the loans are for short periods and the cost of borrowing is high, and (b) from the commercial banks point of view, the Government is not supportive of the development of commercial banking. Participants noted that there should be a five-year tax

holiday to help the growth of the financial sector. The accounting profession should be developed to help better assessment of clients, and the Government should have Mortgage Law, to facilitate better enforcing of collateral.

7. **Power:** The lack of power is costing Afghanistan affecting the pace of industrialization. Access to power is one of the major problems that businesses are facing. It was argued that Afghanistan's dependence on imported power should be reduced and the Government should actively pursue the increase of its own generation capacity, mainly through hydropower. In this, the donors' role is important, and especially the World Bank's assistance to remove infrastructure constraints will be essential.

8. **Predictability of Policy Environment and Regulatory Regime:** The unpredictable business environment is one of the deterrents for foreign direct investment (FDI) in Afghanistan. Investors need to have a longer term perspective; however, this is not possible in Afghanistan. Businesses are faced with new taxes of which they were not aware at the time of setting up business. For example, many foreign businesses were promised a tax holiday, but now they are subjected to 20 percent income tax. A framework for foreign investment should be in place, so that investors are assured of their obligations.

9. **Security:** An increase in FDI will largely depend on the security situation which is, unfortunately, deteriorating. Security comes at a high price for business – both financial and even in terms of lives. To maintain security has severe cost implications (e.g. 15 percent of sales revenue was spent on maintaining security according to the Investment climate Assessment (ICA) of Afghanistan).

10. **Corruption:** Illegal payments to do business in Afghanistan are increasing. Some foreign investors defined these payments as “nuisance taxes”. For example, one percent of revenue as Municipal Tax has been demanded although there is no legal basis for such a tax. Businesses are harassed for such kind of taxes and receive demands for informal payments to stop harassment. Other common illegal payments are for licensing and various approvals. There is a need for the Government to identify such illegal payments and take measures to eliminate them.

11. **Access to Government:** There should be adequate consultations among the private sector, the Government and the donors particularly for formulating policies and drafting laws. A lack of access to the Government and the absence of dialogue between the Government and the public sector was identified as a constraint. In general, investors found it difficult to access the Government and there has been little public-private dialogue on policy issues or enacting laws so far. It was suggested that Parliamentarian should also be involved in such dialogue to make the Government more accountable.

12. **The Bank's role in influencing the government for pro-private sector policy:** It was quite revealing that the private sector's expectations from the World Bank were primarily to use its position to help create an enabling environment for business development rather than strictly providing financial assistance. However, there was demand for providing soft loans to the private sector to increase private investment and create employment. Participants see the Bank as an important development partner to the government and therefore in a position to influence policy formulation.

ATTACHMENT 5

“AFGHANISATION” OF GLOBAL MDGs, TARGETS AND INDICATORS

Global MDGs, targets and indicators	Afghanised MDGs, targets and indicators
<p>Halve, between 1990 and 2015, the proportion of people whose income is less than US\$1 a day</p> <ul style="list-style-type: none"> ♦ Proportion of population below US\$1 per day (1993 PPP values) ♦ Poverty gap ratio (incidence x depth of poverty) ♦ Share of poorest quintile in national consumption 	<p>The proportion of people whose income is less than US\$1 a day decreases by 3% per annum until the year 2020</p> <ul style="list-style-type: none"> ♦ Proportion of population below US\$1 per day (1993 PPP values) ♦ Poverty gap ratio (incidence x depth of poverty) ♦ Share of poorest quintile in national consumption
<p>Halve, between 1990 and 2015, the proportion of people who suffer from hunger</p> <ul style="list-style-type: none"> ♦ Prevalence of underweight children under 5 years of age ♦ Proportion of population below minimum level of dietary energy consumption 	<p>The proportion of people who suffer from hunger decreases by 5% per annum until the year 2020</p> <ul style="list-style-type: none"> ♦ Prevalence of underweight children under 5 years of age ♦ Proportion of population below minimum level of dietary energy consumption
<p>Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a fully course of primary schooling</p> <ul style="list-style-type: none"> ♦ Net enrolment ratio in primary education ♦ Proportion of pupils starting Grade 1 who reach Grade 5 ♦ Literacy rate of 15 to 24 year olds 	<p>Ensure that, by 2020, children everywhere, boys and girls alike, will be able to complete a fully course of primary schooling</p> <ul style="list-style-type: none"> ♦ Net enrolment ratio in primary education ♦ Proportion of pupils starting Grade 1 who reach Grade 5 ♦ Literacy rate of 15 to 24 year olds
<p>Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015</p> <ul style="list-style-type: none"> ♦ Ratio of girls to boys in primary, secondary and tertiary education ♦ Ratio of literate females to males (15 to 24 year olds) ♦ Share of women in wage employment in non-agricultural sector ♦ Proportion of seats held by women in national parliament 	<p>Eliminate gender disparity in all levels of education no later than 2020</p> <ul style="list-style-type: none"> ♦ Ratio of girls to boys in primary, secondary and tertiary education ♦ Ratio of literate females to males (15 to 24 year olds)
	<p>Reduce gender disparity in economic areas by 2020</p> <ul style="list-style-type: none"> ♦ Ratio of female to male government employees
	<p>Increase female participation in elected and appointed bodies at all levels of governance to 30% by 2020</p> <ul style="list-style-type: none"> ♦ Proportion of seats held by women in national, provincial and district representative bodies
	<p>Reduce gender disparity in access to justice by 50% by 2015 and completely (100%) by 2020</p> <ul style="list-style-type: none"> ♦ Adoption, review and amendment of legislation that protects the rights of women, particularly in employment, family rights, property and inheritance and in accordance with the Constitution of the Islamic Republic of Afghanistan ♦ Adoption of legislation that criminalizes all forms of gender and sexual-based violence

Global MDGs, targets and indicators	Afghanised MDGs, targets and indicators
<p>Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate</p> <ul style="list-style-type: none"> ♦ Under-5 mortality rate ♦ Infant mortality rate ♦ Proportion of 1-year-old children immunized against measles 	<p>Reduce by 50%, between 2003 and 2015, the under-five mortality rate, and further reduce the USMR to 1/3 of the 2003 USMR by 2020</p> <ul style="list-style-type: none"> ♦ Under-5 mortality rate ♦ Infant mortality rate ♦ Proportion of 1-year old children immunized against measles
<p>Develop further an open, rule-based, predictable, non-discriminatory trading and financial system</p> <p>Address the special needs of the Least Developed Countries</p> <p>Address the special needs of landlocked developing countries and Small Island Developing States</p> <p>Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term</p> <ul style="list-style-type: none"> ♦ Net ODA, total and to LDCs, as percentage of OECD/DAC donors' Gross National Income [targets of 0.7% in total and 0.15% for LDCs] ♦ Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) ♦ Proportion of bilateral ODA of OECD/DAC donors that is untied ♦ ODA received as proportion of its GNI ♦ Proportion of ODA provided to help build trade capacity <p>Develop an open, rule-based predictable, non-discriminatory trading and financial system including a commitment to good governance, development and poverty reduction</p> <ul style="list-style-type: none"> ♦ Percentage of total export to countries with which Afghanistan has a preferential trade agreement 	<p>Deal comprehensively and influence the provision of foreign aid through appropriate measures to enable Afghanistan develop sustainably in long-term</p> <ul style="list-style-type: none"> ♦ Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) ♦ Proportion of bilateral ODA of OECD/DAC donors that is untied ♦ ODA received as proportion of its GNI ♦ Proportion of ODA provided to help build trade capacity <p>Develop an open, rule-based predictable, non-discriminatory trading and financial system including a commitment to good governance, development and poverty reduction</p> <ul style="list-style-type: none"> ♦ Percentage of total export to countries with which Afghanistan has a preferential trade agreement
<p>In cooperation with developing countries, develop and implement strategies for decent and productive work for youth</p> <ul style="list-style-type: none"> ♦ Unemployment rate of young people aged 15-24 years, each sex and total 	<p>In cooperation with developing countries, develop and implement strategies for decent and productive work for youth</p> <ul style="list-style-type: none"> ♦ Unemployment rate of young people aged 15-24 years, each sex and total

Global MDGs, targets and indicators	Afghanised MDGs, targets and indicators
<p>In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries</p> <ul style="list-style-type: none"> ♦ Proportion of population with access to affordable essential drugs on a sustainable basis 	<p>In cooperation with developing companies, provide access to affordable essential drugs in developing countries</p> <ul style="list-style-type: none"> ♦ Proportion of population with access to affordable essential drugs on a sustainable basis
<p>In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</p> <ul style="list-style-type: none"> ♦ Telephone lines and cellular subscribers per 1000 population ♦ Personal computers in use per 1000 population and internet users per 100 population 	<p>In cooperation with the private sector, make available the benefits of new technologies, especially information and communications</p> <ul style="list-style-type: none"> ♦ Telephone lines and cellular subscribers per 1000 population ♦ Personal computers in use per 1000 population and internet users per 100 population
<p>Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio</p> <ul style="list-style-type: none"> ♦ Maternal mortality ratio ♦ Proportion of births attended by skilled health personnel 	<p>Reduce by 50%, between 2002 and 2015, the maternal mortality ratio, and further reduce the MMR to 25% of the 2002 level by 2020</p> <ul style="list-style-type: none"> ♦ Maternal mortality ratio ♦ Proportion of births attended by skilled health personnel ♦ Reduce total fertility rate (births per woman) by 30% by 2020 ♦ Proportion of women receiving professional ante-natal care
<p>Have halted by 2015 and begun to reverse the spread of HIV/AIDS</p> <ul style="list-style-type: none"> ♦ HIV prevalence among 15 to 24 year old pregnant women ♦ Condom use rate of the contraceptive prevalence rate ♦ Contraceptive prevalence rate ♦ Ratio of school attendance by orphans to school attendance of non-orphans aged 10 to 14 years 	<p>Have halted by 2020 and begun to reverse the spread of HIV/AIDS</p> <ul style="list-style-type: none"> ♦ HIV prevalence among blood donors ♦ Condom use rate of the contraceptive prevalence rate ♦ % of population aged 15-49 with comprehensive correct knowledge of HIV/AIDS ♦ Contraceptive prevalence rate ♦ Proportion of blood samples screened for HIV/AIDS and STDs <p>Proportion of women's unmet needs for family planning met</p> <p>Proportion of IV drug users are in treatment by 2015</p>
<p>Integrate the principles of sustainable development into policies and programmes and reverse the loss of the environmental resources</p> <ul style="list-style-type: none"> ♦ Proportion of land area covered by forest ♦ Ratio of area protected to maintain biological diversity to surface area ♦ Energy use (kg. oil equivalent) per US\$1,000 GDP ♦ Carbon dioxide emissions (per capita) and consumption of ozone-depleting CFCs ♦ Proportion of population using solid fuels 	<p>Integrate the principles of sustainable development into policies and programmes and reverse the loss of the environmental resources</p> <ul style="list-style-type: none"> ♦ Proportion of land area covered by forest ♦ Ratio of area protected to maintain biological diversity to surface area ♦ Energy use (kg. oil equivalent) per US\$1,000 GDP ♦ Carbon dioxide emissions (per capita) and consumption of ozone-depleting CFCs ♦ Proportion of population using solid fuels
<p>Halve, by 2015, the proportion of people without sustainable access to safe drinking water and sanitation</p> <ul style="list-style-type: none"> ♦ Proportion of population with sustainable access to an improved water source, urban and rural ♦ Proportion of population with access to improved sanitation, urban and rural 	<p>Halve, by 2020, the proportion of people without sustainable access to safe drinking water and sanitation</p> <ul style="list-style-type: none"> ♦ Proportion of population with sustainable access to an improved water source, urban and rural ♦ Proportion of population with access to improved sanitation, urban and rural

Global MDGs, targets and indicators	Afghanised MDGs, targets and indicators
<p>By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers</p> <ul style="list-style-type: none"> ♦ Proportion of households with access to secure tenure 	<p>By 2020, to have achieved a significant improvement in the lives of all slum dwellers</p> <ul style="list-style-type: none"> ♦ Proportion of households with access to secure tenure
	<p>Reform and professionalise the Afghan National Army by 2010</p> <ul style="list-style-type: none"> ♦ Military expenditure as a percentage of GDP ♦ Professionally trained ANA ♦ Nationwide fielding of the ANA ♦ Operational capability of the ANA and ability to operate independently or with less support from Coalition/ISAF forces
	<p>Reduce the misuse of weapons and the proportion of illegally-held weapons by 2010</p> <ul style="list-style-type: none"> ♦ Number of weapons licensed under the gun law ♦ Gun-related crime as a proportion of total crime
	<p>Reform, restructure and professionalize the Afghan National Police by 2010</p> <ul style="list-style-type: none"> ♦ Citizen's confidence in ANP's ability to provide security and access to justice comparable to other countries coming out of conflict ♦ Reported crime to conviction ratio
	<p>All emplaced antipersonnel mines destroyed by 2013. All other explosive contaminants destroyed by 2015</p> <ul style="list-style-type: none"> ♦ Number of high impacted communities ♦ Total number of impacted communities ♦ Number of Afghans directly impacted ♦ Number of mine/UXO victims (injured or dead)
	<p>All stockpiled antipersonnel mines destroyed by 2007. All other abandoned or unwanted explosive stocks destroyed by 2020</p> <ul style="list-style-type: none"> ♦ Number of stockpiled antipersonnel mines destroyed ♦ Number of ERW stockpiles remaining to be destroyed
	<p>Reduce the contribution of opium to the total economy to less than 5% by 2015, and to less than 1% by 2020</p> <ul style="list-style-type: none"> ♦ Eliminate poppy cultivation by 202 ♦ Reduce the number of Afghans dependent on opium for their livelihoods by 75% by 2015 and by 90% by 2020 from the 2004 level.

ATTACHMENT 6
Afghanistan Reconstruction Trust Fund
As of March 20, 2006
Paid-In, Committed, Pledged
US\$ Million

Donor	SY 1381 Total Paid-In	SY 1382 Total Paid-In	SY 1383 Total Paid-In	Total Paid-In	Signed Pledges	Un-signed Pledges	Total SY1384	% of Total SY 1384	TOTAL SY1381-84	% of TOTAL	Total paid- in SY1381- 84	% of total paid-in
Australia	0.00	2.63	6.27	7.65	0.00	0.00	7.65	1.6%	16.56	1.3%	16.56	1.3%
Bahrain	0.00	0.50	0.00	0.00	0.00	0.00	0.00	0.0%	0.50	0.0%	0.50	0.0%
Canada	12.00	50.09	5.49	72.34	0.00	0.00	72.34	15.5%	139.92	10.6%	139.92	11.1%
Denmark	5.00	5.00	3.16	3.92	0.00	0.00	3.92	0.8%	17.08	1.3%	17.08	1.4%
EC	15.87	52.69	47.60	58.77	0.00	0.00	58.77	12.6%	174.92	13.3%	174.92	13.9%
Finland	2.79	2.45	5.95	0.00	2.39	0.00	2.39	0.5%	13.58	1.0%	11.19	0.9%
Germany	10.07	11.44	15.94	1.23	0.00	17.90	19.13	4.1%	56.58	4.3%	38.68	3.1%
India	0.20	0.20	0.00	0.40	0.00	0.00	0.40	0.1%	0.80	0.1%	0.80	0.1%
Iran	0.00	0.99	0.00	0.00	0.00	0.00	0.00	0.0%	0.99	0.1%	0.99	0.1%
Ireland	1.00	1.73	1.81	0.61	0.00	0.00	0.61	0.1%	5.16	0.4%	5.16	0.4%
Italy	17.00	0.00	6.54	0.00	0.00	0.00	0.00	0.0%	23.54	1.8%	23.54	1.9%
Japan	5.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0%	5.00	0.4%	5.00	0.4%
Korea	2.00	2.00	2.00	0.00	0.00	0.00	0.00	0.0%	6.00	0.5%	6.00	0.5%
Kuwait	5.00	5.00	5.00	0.00	0.00	0.00	0.00	0.0%	15.00	1.1%	15.00	1.2%
Luxembourg	1.02	0.00	0.00	0.61	0.00	0.00	0.61	0.1%	1.62	0.1%	1.62	0.1%
Netherlands	33.67	41.15	46.41	29.66	0.00	0.00	29.66	6.3%	150.90	11.4%	150.90	12.0%
Norway	6.82	29.63	9.91	22.54	0.00	0.00	22.54	4.8%	68.91	5.2%	68.91	5.5%
Portugal	0.00	0.46	0.73	0.00	0.00	0.00	0.00	0.0%	1.18	0.1%	1.18	0.1%
Saudi Arabia	10.00	5.00	5.00	0.00	0.00	0.00	0.00	0.0%	20.00	1.5%	20.00	1.6%
Sweden	3.10	5.98	25.90	12.84	0.00	0.00	12.84	2.7%	47.83	3.6%	47.83	3.8%
Switzerland	0.67	0.00	0.00	0.00	0.00	0.00	0.00	0.0%	0.67	0.1%	0.67	0.1%
Turkey	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.0%	0.50	0.0%	0.50	0.0%
UK	15.08	47.10	103.06	131.47	13.97	0.00	145.44	31.1%	310.68	23.6%	296.71	23.6%
USA	38.00	20.00	89.59	62.00	0.00	29.00	91.00	19.5%	238.59	18.1%	209.59	16.7%
UNDP	0.00	2.41	0.00	0.00	0.00	0.00	0.00	0.0%	2.41	0.2%	2.41	0.2%
TOTAL	184.79	286.46	380.37	404.05	16.35	46.90	467.31	100.0%	1318.92	100.0%	1255.67	100.0%

Attachment 7

Consultative Groups - Proposed Working Group Structure - Ver 5

Consultative Groups	CG Coordination Committee		Afghanistan Compact Benchmark (Headings only)	Working Group	Ministry Members (+OSC members TBD)
	(Co-Chairs)	Donor Rep (Chair TBD)			
Sector 1 - Security					
CG1 Security	Dr. Zalmay Rassoul, Dr. Ahady		International Security Forces Afghan National Army	1.1 Defence	NSC Ministry of Foreign Affairs, ISAF, CFC-A, DDR/DIAG, Ministry of Interior, Ministry of Defence, NSD
			Afghan National and Border Police	1.2. Police	Ministry of Interior (C), NSC, Ministry of Defence, Ministry of Justice, NSD
			Counter-Narcotics	1.3 Security and Counter Narcotics	Ministry of Counter Narcotics Ministry of Interior, MRRD, NSC.
			Disbandment of Illegal Armed Groups	1.4 DIAG	DDR/DIAG ISAF, CFC-A, Ministry of Interior, Ministry of Defence
			Mine Action and Ammunition	1.5 Security and Counter Narcotics	Ministry of Foreign Affairs (C), ISAF, CFC-A, DDR/DIAG, Ministry of Interior, Ministry of Defence
Sector 2 - Governance, Rule of Law and Human Rights					
CG2 Governance, Rule of Law and Human Rights	Dr. Danish, Dr. Ahady		- Public Administrative Reform	2.1 Public Administrative Reform	Civil Service Commission, MOF, OOP
			The Census and Statistics	2.2. Census and Statistics	MOE, Central Statistics Office,
			National Assembly Elections	2.3 National Assembly and Elections	OOP Central Statistics Office, Independent Electoral Commission, Ministry of State for Parliamentary Affairs
			Rule of Law Land Registration Human Rights Religious Affairs (From ANDS)	2.4 Justice and Human Rights	Ministry of Interior, Independent Human Rights Commission, Supreme Court, Ministry of Justice, Ministry of Hajj and Endowment
			Roads	3.1 Roads	Ministry of Public Works, MRRD, Urban Development, Municipality representatives
CG 3 Infrastructure and Natural Resources	Prof. Nadiri, Dr. Ahady		Air Transport	3.2. Air transport	Ministry of Transport Ministry of Public Works
			Telecommunication (From ANDS)	3.3. Telecomm's	MO Telecommunications, Ministry of Public Works,
			Energy Water Resource Management	3.4 Energy and Water	Ministry of Energy and Water Mines and Industry, Agriculture
			Urban Development	3.5 Urban Development	Ministry of Urban Development, Kabul Municipality

Consultative Groups	CG Coordination Committee		Afghanistan Compact Benchmark (Headings only)	Working Group	Ministry Members (+OSC members TBD)
	(Co-Chairs)	Donor Rep (Chair TBD)			
			Mining and Natural Resources	24 CGs and 6 CCGs 3.6 Mines, Natural Resources and the Environment	Ministry of Mines and Industry, Ministry of Energy and Water, Ministry of Agriculture
Sector 4 - Education					
CG 4 Education	Dr. Farhang, Dr. Ahady,		Primary and Secondary Education Higher Education Skills Development Afghan Cultural Heritage Media and Sports (From ANDS)	4.1 Education and Training 4.2 Culture	Ministry of Higher Education, Ministry of Labour and Social Affairs, Ministry of Education Ministry of Information, Culture and Tourism, National Olympic Committee
Sector 5 - Health					
CG 5 Health	Dr. Farhang, Dr. Ahady		Health and Nutrition	5.1 Health	Ministry of Public Health, MRRD, Ministry of Women's Affairs,
Sector 6 - Agriculture and Rural Development					
CG 6 Agriculture and Rural Development	H.E. Atmar, Dr. Ahady		Agriculture and Livestock Comprehensive Rural Development	6.1 Agriculture 6.2 Rural Development	Ministry of Agriculture MRRD, Ministry of Energy and Water Ministry of Rural Rehabilitation and Development Ministry of Agriculture, Ministry of Counter Narcotics
Sector 7 - Social Protection					
CG 7 Social Protection	H.E. Atmar, Dr. Ahady		Humanitarian and Disaster Response Poverty Reduction Disabled Employment of Youth and Demob Soldiers Refugees and IDPs Vulnerable Women	7.1 Humanitarian and Disaster Response 7.2 Support to Vulnerable Groups	Office of Disaster Preparedness, MRRD Ministry of Youth, Ministry of Refugees and Returnees, Ministry of Public Health, Ministry of Martyrs and Disabled, Ministry of Women's Affairs, MRRD
Sector 8 - Economic Governance and Private Sector Development					
CG 8 Economic Governance and Private Sector Development	Dr. Ahady, Prof. Nadiri		Financial Management Putting in Place a Medium Term Fiscal - Framework (From ANDS) Domestic Revenues Private Sector Development and Trade Financial Services and Markets	8.1 Government Finance and Revenue 8.2 Private Sector Development and Trade	Ministry of Finance, Ministry of Economy Ministry of Commerce, Ministry of Finance, Da Afghanistan Bank
Cross-Cutting Consultative Groups					
CCG1 Gender Equity	Dr. Masouda Jalal, Prof. Nadiri, Dr. Ahadi		Gender		MoWA, MoE, MoLSA, MoY, MoHE, MoBTA, National Olympic Committee, MoMD, MoPH

Consultative Groups	CG Coordination Committee		Afghanistan Compact Benchmark (Headings only)	Working Group		Ministry Members (+OSC members TBD)
	(Co-Chairs)	Donor Rep (Chair TBD)		24 CGs and 6 CCGs		
CCG2 Counter Narcotics	Mr. Qadiri, Haneef Atmar, Dr. Ahadi			Counter Narcotics		MoCN, MRRD, MoAAHF, MoI, NSC, MoBTA, MoJ, MoICT, MoY, MoPH
CCG3 Regional Cooperation	Dr. Abdullah Abdullah, Prof. Nadiri, Dr. Ahadi			Regional Cooperation		MoFA, MoEcon, MoCommerce, MoT, MoBTA, MoF, MoI, MoC, MoEW, MoCN
CCG4 Institutional Reform and Capacity Development and Anti Corruption	Dr. Lodin, Prof. Nadiri, Dr. Ahadi			Anti Corruption		Anti Corruption Commission, Audit and Control Office, MoJ
CCG5 Environment	Mustafa Zaher, Haneef Atmar, Dr. Ahadi			Environment		NEPA, MoEW, MoAAHF, MRRD, MoMI, MoUDH, MoI, MoICT, MoPW

Standard Annexes

Annex A2

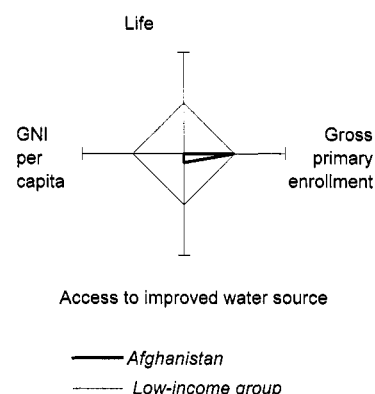
Afghanistan at a glance

9/15/05

POVERTY and SOCIAL

	Afghanistan	South Asia	Low-income
2004			
Population, mid-year (millions)	..	1,448	2,338
GNI per capita (Atlas method, US\$)	..	590	510
GNI (Atlas method, US\$ billions)	..	860	1,184
Average annual growth, 1998-04			
Population (%)	..	1.7	1.8
Labor force (%)	..	2.1	2.1
Most recent estimate (latest year available, 1998-04)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	..	28	31
Life expectancy at birth (years)	..	63	58
Infant mortality (per 1,000 live births)	..	66	79
Child malnutrition (% of children under 5) /a	49	48	44
Access to an improved water source (% of population)	13	84	75
Literacy (% of population age 15+) /a	29	59	61
Gross primary enrollment (% of school-age population)	92	97	94
Male	120	105	101
Female	63	92	88

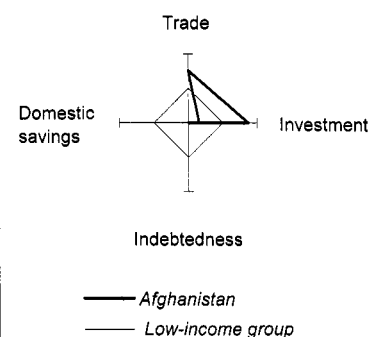
Development diamond*



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1984	1994	2003	2004
GDP (US\$ billions)	4.6	6.0
Gross capital formation/GDP	35.2	38.8
Exports of goods and services/GDP	10.5	9.4
Gross domestic savings/GDP	-15.7	-6.2
Gross national savings/GDP
Current account balance/GDP	3.1	0.7
Interest payments/GDP	0.2	0.2
Total debt/GDP	13.5	..
Total debt service/exports
Present value of debt/GDP
Present value of debt/exports
(average annual growth)	1984-94	1994-04	2003	2004
GDP	15.7	8.0
GDP per capita	13.6	5.3
Exports of goods and services

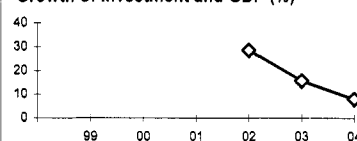
Economic ratios*



STRUCTURE of the ECONOMY

	1984	1994	2003	2004
(% of GDP)				
Agriculture	48.5	37.2
Industry	21.3	24.4
Manufacturing	14.8	15.2
Services	30.2	38.3
Household final consumption expenditure	106.3	97.0
General gov't final consumption expenditure	9.4	9.1
Imports of goods and services	61.4	54.4
(average annual growth)	1984-94	1994-04	2003	2004
Agriculture	13	-17
Industry	12	24
Manufacturing	7	11
Services	19	37
Household final consumption expenditure
General gov't final consumption expenditure
Gross capital formation
Imports of goods and services

Growth of investment and GDP (%)

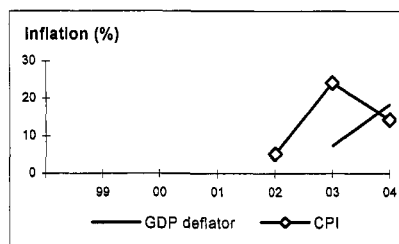


Note: 2004 data are preliminary estimates. a. MICS 2003.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. For Afghanistan, GNI is replaced by GDP per capita.

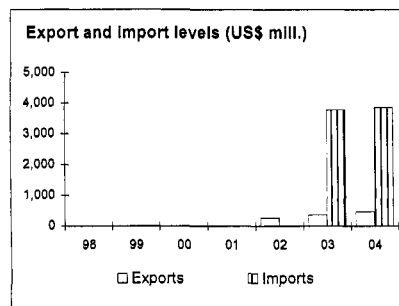
PRICES and GOVERNMENT FINANCE

	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	24.2	14.3
Implicit GDP deflator	7.4	18.4
Government finance				
(% of GDP, includes current grants)				
Current revenue	9.2	9.7
Current budget balance	-0.7	-0.3
Overall surplus/deficit	-2.2	..



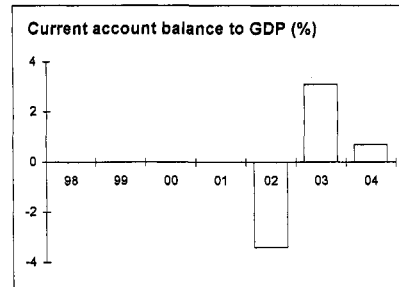
TRADE

	1984	1994	2003	2004
(US\$ millions)				
Total exports (fob)	377	471
n.a.
n.a.
Manufactures
Total imports (cif)	3,786	3,867
Food
Fuel and energy
Capital goods
Export price index (2000=100)
Import price index (2000=100)
Terms of trade (2000=100)



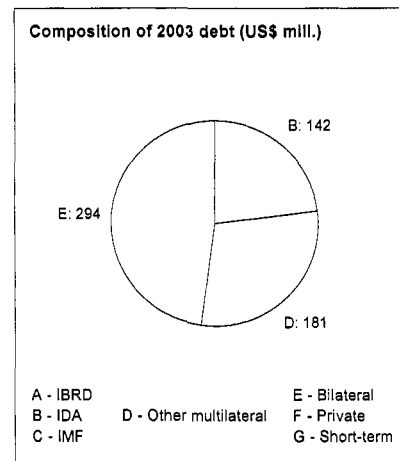
BALANCE of PAYMENTS

	1984	1994	2003	2004
(US\$ millions)				
Exports of goods and services	1,999	1,749
Imports of goods and services	4,331	4,440
Resource balance	-2,331	-2,692
Net income	-3	4
Net current transfers	2,477	2,729
Current account balance	142	41
Financing items (net)	247	458
Changes in net reserves	-389	-499
Memo:				
Reserves including gold (US\$ millions)	816	1,261
Conversion rate (DEC, local/US\$)	49.0	47.7



EXTERNAL DEBT and RESOURCE FLOWS

	1984	1994	2003	2004
(US\$ millions)				
Total debt outstanding and disbursed	617	..
IBRD	0	..
IDA	142	..
Total debt service
IBRD	0	0
IDA	31	4
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment (net inflows)
Portfolio equity (net inflows)
World Bank program				
Commitments	403	250
Disbursements	97	230
Principal repayments	25	3
Net flows	72	228
Interest payments	6	2
Net transfers	66	226



Annex B2 - Afghanistan
Selected Indicators* of Bank Portfolio Performance and Management
As Of Date 03/07/2006

Indicator	2003	2004	2005	2006
<i>Portfolio Assessment</i>				
Number of Projects Under Implementation ^a	9	14	17	15
Average Implementation Period (years) ^b	0.7	1.2	1.7	2.3
Percent of Problem Projects by Number ^{a, c}	11.1	0.0	5.9	13.3
Percent of Problem Projects by Amount ^{a, c}	6.1	0.0	5.5	20.9
Percent of Projects at Risk by Number ^{a, d}	33.3	7.1	17.6	13.3
Percent of Projects at Risk by Amount ^{a, d}	15.6	1.4	24.2	20.9
Disbursement Ratio (%) ^e	61.3	56.0	44.5	26.1
<i>Portfolio Management</i>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	6	2
Proj Eval by OED by Amt (US\$ millions)	126.8	125.7
% of OED Projects Rated U or HU by Number	0.0	0.0
% of OED Projects Rated U or HU by Amt	0.0	0.0

- 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 B3 - Afghanistan
Bank Group Program Summary
as of March 31, 2006

Fiscal Year		IDA (US\$M)	Grants (US\$M)	Credits (US\$M)	Strategic Rewards ^a (H/M/L)	Implementation Risks ^a (H/M/L)
Actual						
2002	Emergency Public Administration	10	10		M	M
	Emergency Education Rehabilitation	15	15		H	M
	Emergency Infrastructure Reconstruction	33	33		H	M
	Emergency Community Empowerment & Public Works	42	42		H	M
	Subtotal:	100	100			
2003	Emergency Transport/Roads	108		108	H	M
	Health Sector Emergency Rehabilitation	60	60		H	M
	Emergency Public Administration II	8	8		M	M
	National Emerg. Employment Prog for Rural Access Rds.	39	19	20	H	M
	Subtotal:	215	87	128		
2004	Emergency Communications Development	22		22	H	M
	Emergency Irrigation Rehabilitation	40		40	M	M
	Emergency Customs Modernization and Trade Facilitation	31		31	M	M
	Emergency National Solidarity Program	95	95		H	M
	Emergency Power Rehabilitation	105		105	H	H
	Subtotal:	293	95	198		
2005	Programmatic Support for Institution Building	80		80	H	M
	Kabul Urban Reconstruction Project	25		25	M	M
	Investment Guarantee Facility (MIGA)	5		5	H	M
	Education Quality Improvement Program	35	35		H	H
	Public Administration Capacity Building	27	27		M	M
	Emergency Transport (Supplemental)	45	45		H	M
	Strengthening Higher Education	40	40		M	M
	National Solidarity Program (Supplemental)	28	28		H	M
	Subtotal:	365	175	190		
2006	Programmatic Support for Institution Building II	80	80		H	H
	Health Sector Emergency Rehabilitation (Additional Grant)	30	30		H	M
	National Solidarity Program (Additional)	40	40		H	M
Planned	Natural Resources and Industrial Development	20	20		M	M
	Horticulture & Livestock Productivity	20	20		H	H
	Urban Water Supply and Sanitation	40	40		H	M
	Subtotal:	230	230			
2007	Private Sector Development Support	20	20		H	H
	Public Administration Reform	20	20		M	M
	(Tentative)					
	Programmatic Support for Institution Building III	80	80			
	Power Sector (Additional)	30	30			
	Power Sector	80	80			
	Urban Waste Management	20	20			
	Public Administration Capacity Building 2	25	25			
	HIV/AIDS	15	15			
	Other: NSP, Microfinance, Statistics, vocational training	17	17			
	Subtotal:	307	307			
2008	Projects to be determined	267	267			

^a For each project, the strategic rewards and implementation risks are indicated as high (H), moderate (M) or Low (L)

Annex B3 (IFC & MIGA) for Afghanistan				
Afghanistan - IFC and MIGA Program, FY 2003-2006				
	2003	2004	2005	2006
IFC approvals (US\$m)	1.25	7.00		
Sector (%)				
Accommodation & Tou		100		
Finance & Insurance	100			
Total	100	100	0	0
Investment instrument(%)				
Loans				
Equity	100			
Quasi-Equity		100		
Other				
Total	0	100	0	0
MIGA guarantees (US\$m)	0.00	0.00	0	1

Annex B4 - Afghanistan
Summary of Nonlending Services
as of March 31, 2006

Product	Completion FY	Cost (US\$000)	Audience ^a	Objective ^b
Recent Completions				
<u>Reports:</u>				
Mining as a Source of Growth	2003		G,D,B,P	KG
Country Economic Report	2004	216.4	G,D,B,P	KG, PS
Financial Sector Study	2004	86	G,D,B,P	KG, PS
Regional Trade Work	2004	230	G,D,B,P	KG, PS
Civil Service and Governance Issues	2004	299	G,B	KG, PS
Poverty, Vulnerability & Social Protection Study	2005	268	G,D,B,P	KG, PS
Country Gender Assessment	2005	30	Other	KG, PS
Investment Climate Assessment	2006	114.3	G,D,B,P	KG, PS
Public Finance Management Review	2006	532.4	G,D,B,P	KG, PS
<u>Policy Notes:</u>				
Mine Action Study	2002	16.5	G, B	KG, PS
Afghanistan Drug Economy	2004	252	G,D,B,P	KG, PS
Afghanistan Education Policy Note	2004	73.2	G,D,B,P	KG, PS
Labor Markets and Pensions	2004	153	G,D,B,P	KG, PS
Water and Natural Resources	2004	41	G,D,B,P	KG, PS
National Food Policy	2005	120	G,B,P	KG, PS
Framework for Private Sector Development	2005	213	G, B	KG, PS
Regional Issues in Afghanistan's Development	2006	59	G, B	KG, PS
<u>Other:</u>				
Afghanistan - ICT Policy	2003	109.3	G,B,P	KG, PS
Microfinance TA	2003	122.1	G,B,P	KG, PS
Power Technical Assistance	2004	61	G,B,P	KG, PS
Capacity Assessment Social & Environmental Management	2004	27.2	G,B,P	KG, PS
Capacity Building for Social & Environmental Management	2005	80.7		KG, PS
Civil Service Reform Dialogue	2005	70.9		KB, PS
Underway				
<u>Reports:</u>				
Gap Analysis for Public Sector Accounting	2006	20	G,B,P	KG, PS
<u>Policy Notes:</u>				
Skills Development / Vocational Training	2006	160	G,B,P	KG, PS
Doing Business in Afghanistan	2006	20	G,B,P	KG, PS
Afghanistan Drug Economy	2006	71	G,D,B,P	KG, PS
<u>Other:</u>				
Rural Land Policy	2006	50	G,B,P	KG, PS
Afghanistan Pensions	2006	124.2	G,B,P	KG, PS
Poverty Monitoring Technical Assistance	2006	60	G,B,P	KG, PS
Strategic Planning for Higher Education	2006	80	G,B,P	KG, PS
Planned				
<u>Policy Notes:</u>				
Kabul Household Energy Survey	2007	90	G,B,P	KG, PS
Anti-Corruption	2007		G,B,D,P	KG, PS
Service Delivery and Accountability	2007		G,D,B,P	KG, PD

^a Government, donor, Bank, public dissemination

^b Knowledge generation, public debate, problem-solving

Annex B8 - Afghanistan
Operations Portfolio (IBRD/IDA)
as of March 7, 2006

Closed Projects **26**

IBRD/IDA *

Total Disbursed (Active)	304.37
of which has been repaid	0.00
Total Disbursed (Closed)	425.45
of which has been repaid	39.31
Total Disbursed (Active + Closed)	729.82
of which has been repaid	39.31
Total Undisbursed (Active)	354.41
Total Undisbursed (Closed)	0.22
Total Undisbursed (Active + Closed)	354.63

Active Projects

Active Projects		Last PSR					Difference Between Expected and Actual Disbursements ^{a/}	
Project ID	Project Name	Supervision Rating		Fiscal Year	IDA		Orig.	Firm Rev'd
		Development Objectives	Implementation Progress		Credit	Grant			Undisb.
P088719	Investment Guarantee Facility	MS	S	2005	5		3.88	1.03
P078936	Emergency Irrigation Rehabilitation	S	MS	2004	40		28.3	22.94
P083720	Emergency Communications Development	S	S	2004	22		8.57	0.67
P078324	Health Sector Emergency Rehabilitation	HS	HS	2003		60	25.5	22.41
P083964	Education Quality Improvement Program	MU	MU	2005		35	31.92	1.05
P083906	Emergency Customs and Trade Facilitation	MS	S	2004	31		15.13	3.78
P077896	Emergency Education Rehabilitation & Dev	MS	MS	2002		15	0.89	-1.48
P077779	Emergency Infrastructure Reconstruction	S	S	2002		33	2.49	-2.86
P083908	Emergency Power Rehabilitation Project	MU	MU	2004	105		102.63	33.13
P078284	Emergency Transport Rehabilitation	S	S	2003	108		4.12	-5.24
P083919	Kabul Urban Reconstruction Project	U	MU	2005	25		23.67	3.64
P082472	Natn'l Emergency Emp. Prog for Rural	S	S	2003	20	19	2.52	-2.48
P084736	Public Admin Capacity Building Project	S	S	2005		27	22.35	9.42
P082610	Second Emergency Public Admin Project	S	S	2003		8	1.77	0.94
P089040	Strengthening Higher Education Program	S	S	2005		40	35.67	-1.4
P090390	Emergency Transport Rehabilitation (Suppl)			2005		45	45.00	
Overall Result					356	282	354.41	85.55
								-6.05

^{a/} Intended disbursements to date minus actual disbursements to date as projected at appraisal

