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**AFGHANISTAN BORDER STATES
DEVELOPMENT FRAMEWORK**

APPROACH PAPER

(Discussion Draft)

**South Asia Region
Europe and Central Asia Region
Middle East and North Africa Region**

November 12, 2001

LIST OF ABBREVIATIONS

ABSDF	Afghanistan Border States Development Framework
ADB	Asian Development Bank
AJK	Azad Jammu Kashmir
AKRSP	Aga Khan Rural Support Program
CAS	Country Assistance Strategy
CIS	Commonwealth of Independent States
DOTs	Directly Observed Treatment
EBRD	European Bank for Reconstruction and Development
ECO	Economic Cooperation Organization
IFAS	International Fund to Save the Aral Sea
IFIs	International Finance Institutions
I-PRSP	Interim Poverty Reduction Strategy Paper
IMF	International Monetary Fund
FATA	Federally Administered Tribal Areas
GDP	Gross Domestic Product
GEF	Global Environment Facility
HYCOS	Hydrological Cycle Observing System
NGO	Non-governmental Organization
NRSP	National Rural Support Program
NWFP	North West Frontier Province
OECD	Organization for Economic Cooperation & Development
PHC	Primary Health Care
PPAF	Pakistan Poverty Alleviation Fund
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction and Strategy Program
RSP	Rural Support Program
SMEs	Small and Medium Enterprises
TRACECA	Trans-Caucasus and Central Asia Transportation Corridor
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
WEMP	Water and Environment Management Project
WHYCOS	World Hydrological Cycle Observing System
WMO	World Meteorological
WTO	World Trade Organization

Unless Otherwise Noted, All Dollar Amounts (\$) Refer to U.S. Dollars

Executive Summary

1. The Afghanistan Border States Development Framework (ABSDF) proposed in this paper complements at the regional level the World Bank response to the current crisis at two other levels:

- **Global** (discussed in *Impact of Recent Events on Low- and Middle-Income Countries: Response of the World Bank Group*, paper prepared for the 64th Meeting of the Development Committee and distributed on November 7).
- **Afghanistan-specific** (as detailed in the note *Afghanistan: World Bank Strategy Brief*, distributed to the Executive Board of Directors on October 26).

2. The crisis presents serious risks for Afghanistan and its neighbors: (i) escalation of the current military conflict and spill-over into other areas; (ii) large refugee flows, in addition to the over five million Afghan refugees prior to September 2001; (iii) increased cross border problems of terrorism, extremism, narcotics and organized crime; and (iv) worsening incidence of communicable diseases, such as measles, tuberculosis and HIV/AIDS. The complicated ethnic composition of the region involves a number of ethnic groups spread across national borders (Pashtuns, Tajiks, Baloch, Uzbeks, Turkoman and others). Yet there is hope of a resumption of intra-regional trade and other benefits for the region, ranging from enhanced security for the population to higher private investment, direct foreign investment and economic growth.

3. This paper focuses on Afghanistan and five countries that border it directly—Iran, Turkmenistan, Uzbekistan, Tajikistan and Pakistan—as well as, in view of its proximity to Afghanistan and overlapping border with the Ferghana Valley, the Kyrgyz Republic. Together these countries represent a combined population of 263.9 million and a land area of 4.4 million square km., roughly 1.35 times the size of the European Union. The proposed ABSDF countries are not equally affected by the crisis. Afghanistan and Pakistan are the hardest hit, Iran somewhat less affected, and the countries of Central Asia have been only modestly affected.

Toward a Framework for Assistance

4. The ultimate objective of the ABSDF program will be to help foster a less crisis prone environment that will allow Afghanistan's reconstruction to move forward and create the economic and social conditions that support regional peace and stability. Immediate goals are to:

- Help mitigate the immediate impacts of the crisis (e.g. support to refugees, drought relief, debt relief, balance of payments support);
- Implement reforms that lead to economic growth and poverty reduction;
- Reduce poverty through measures targeted at the poor, particularly those living in vulnerable and impoverished areas;
- Facilitate regional cooperation, through improved information sharing, institutional reforms and infrastructure improvement

5. A framework for achieving these objectives would need to be carried out in three phases: *During the Afghanistan Conflict*, when development activities in border regions would be intensified and preparatory work for national activities would be initiated; *The Immediate Post-Conflict Environment*, when individual national development programs would be pursued while high impact regional activities requiring limited investment and preparation would be carried out,

along with limited bilateral cooperative arrangements; and *Long Term Regional Development*, when trade and other economic relations would be normalized and cooperative initiatives involving three or more states would be implemented.

Short and Medium Term Initiatives

6. In the southern tier of the ABSDF region, including Afghanistan and, to a lesser extent, Pakistan and Iran, humanitarian issues will dominate in the short run. Even during the conflict, national poverty programs can be activated in districts close to the Afghanistan border. Strong emphasis would be placed on community-led development, and various activities could be supported on a grant or concessional basis: micro-credit schemes; small-scale infrastructure development; labor-intensive public works; drought relief; community development and empowerment; primary education and health care, with particular emphasis upon women and children; and social safety nets, with particular emphasis upon widows and those with disabilities.

7. In *Afghanistan* massive humanitarian relief will need to be accompanied and followed by early reconstruction activities as soon as the situation allows. As outlined in the Bank's note of October 26, such activities would include supporting communities through provision of basic services and small-scale development and empowerment programs; promoting agricultural recovery and food security; generating livelihoods for returning refugees and displaced people; expanding the existing de-mining program; large-scale employment generation through public works programs; rapid rehabilitation of Afghanistan's main road network; and re-starting and expanding key social services like education and health, with a focus on reaching girls and women. Other components of reconstruction, particularly institution building, delivering basic social services (education and health) to the bulk of the population, and private sector and export development, will take more time to reach fruition. The Bank will work in close partnership with the UN system and the rest of the assistance community, starting with a conference scheduled for November 27-29 on preparing for Afghanistan's reconstruction, and also including consultations with Afghans and outside experts; encouraging the adoption of appropriate mechanisms for financing and management of Afghanistan's reconstruction; making contingency plans to deal with Afghanistan's arrears to the World Bank; preparing an assessment of Afghanistan's reconstruction needs; and beginning work in priority areas for World Bank direct involvement.

8. In *Pakistan* the government has implemented a strong economic reform program complemented by significant governance reforms, including major decentralization of government to the local level. The border regions of *Balochistan, North West Frontier Province (NWFP) and Federally Administered Tribal Areas (FATAs)*, which are underdeveloped relative to the rest of Pakistan are most severely impacted by the Afghan crisis. There are law and order concerns, and persistent drought in these areas has resulted in the collapse of the rural economy. In spite of these challenges, economic and governance reforms, plus sharper government focus on poverty through a recently completed Interim Poverty Reduction Strategy Paper (I-PRSP) offer the possibility for raising the Afghan border regions out of poverty. The I-PRSP describes a number of poverty programs which are in place that could be focused and scaled up to support development in the Afghan border region. These include: *Rural Support Programs* for community driven rural development; *Social Protection Programs* such as the *Zakat* system and the *Pakistan Bait-ul-Maal* program; *Public Works Programs* such as the *Khushal Pakistan Program* for federally funded public works implemented through a partnership of provincial and district governments and local communities; *Microfinance* provided through NGOs and the *Pakistan Poverty Alleviation Fund (PPAF)* and the Microcredit or *Kushali Bank* which provides

retail credit with the cooperation of commercial banks and local organizations. The I-PRSP will be followed up by a number of regional papers where the border regions could be given priority. Community driven programs described above now offer better transparency and financial and operational sustainability. The cost of Pakistan's poverty programs mentioned above during the next few years would amount to around \$1,800 million, plus resources needed to support microfinance commitments of around \$210 million.

9. In *Iran* the macroeconomic situation and near-term prospects are relatively good. However, the two eastern provinces bordering on Afghanistan—Khorasan and Sistan & Baluchestan—are among Iran's poorest and also suffer from low social indicators. Within the framework of the existing Interim Assistance Strategy for Iran, discussed at the World Bank Board on May 10, 2001, the Bank could, if the Iranian Authorities so wish, refocus projects in the pipeline to specifically target the provinces most affected by the current crisis. This would involve the Social Fund for \$150 million and Low Income Housing for \$150 million, and possibly also restructuring the existing Primary Health Care and Nutrition Project (\$87 million). In the short term, the effort would be to improve the Bank's ability to quickly develop and implement, in partnership with the Iranian authorities and other donors, a three-pronged rapid response action plan. The Bank's role would be to: (1) provide a basic economic framework for development in these regions; (2) set up flexible and innovative financial instruments and institutional arrangements through which the Bank and other donors might channel funding for emergency assistance and technical assistance; and (3) finance development investments which can serve as models for Iran and other donors.

10. The four *Central Asian countries* are in midst of a complex and difficult transition to market economies following dissolution of the former Soviet Union. This has depressed trade, investment, budget support, production and incomes for these landlocked economies which are dependent on commodity exports. Tajikistan, Kyrgyz Republic and Uzbekistan face localized security threats from extremist militants. Soviet-era achievements in universal education, health and infrastructure have been eroded and poverty remains a serious problem. Water mismanagement and shortages over the past two years have adversely affected agricultural production and country living standards. Special attention is also required in the Ferghana Valley, home to half of the Kyrgyz, one third of the Tajik and one quarter of the Uzbek population. Approaches to help these countries cope with both the immediate economic effects of the crisis and their own long term development challenges will need to be differentiated, and tailored to individual country circumstances.

11. *Kyrgyz Republic* The Kyrgyz Republic, a small economy where over half the population lives in poverty, has made substantial progress towards becoming a market economy. Growth has rebounded to 5 percent over the last two years following the 1998 Russian financial crisis. Exchange rate and price stability have been restored but its fiscal deficit and its external debt (now 135 percent of GDP) are still at unsustainable levels, and growth has not reduced poverty. So far the consequences of the Afghan conflict have been limited, with no change in immediate external financing needs, but investment could decline and exports may be affected with tightened border security. Increased security expenditures could compress social expenditures further just as a large fiscal adjustment is taking place. Timely provision of debt relief through the Paris Club is crucial for partially covering the projected financing gap and mitigating the required fiscal adjustment.

12. *Tajikistan* Tajikistan's civil war which cost almost 50,000 lives, displaced hundreds of thousands of people, and led to the destruction of much of the country's infrastructure and

economic assets, was concluded in 1997. Living standards remain the lowest among the countries in transition, with per capita GDP around \$170, over 80 percent of the population below the national poverty line, and debt around 130 percent of GDP. Isolated location, a post-conflict legacy and security problems are compounded by weak institutions and rule of law. The worldwide economic slowdown, falling prices of aluminum and cotton, and drought have increased balance of payments pressures. Following the Afghan crisis, Tajikistan's financing needs for 2002 are expected to increase.

13. For the Kyrgyz Republic and Tajikistan, the Bank, as warranted, would consider possible additional budget/balance-of-payments support through on-going and proposed adjustment operations, and/or seek grant funding to 'top-up' or complement such support. The Poverty Reduction Strategy Papers (PRSPs) of both countries, which are under preparation, will define their medium-to long-term policy options.

14. **Uzbekistan** Uzbekistan has the largest population and economy in Central Asia. The country is well endowed with mineral wealth, is self-sufficient in energy and exports cotton and gold. Although the economy has been growing since 1996, structural reform has been slow and the longer term sustainability of this growth is questionable. The Government maintains an administered foreign exchange and trade system and a high degree of intervention in the real economy, particularly in agriculture, which are candidates for liberalization. Rural poverty continues to be significant, and the rural-urban divide may have widened in recent years. The Afghan conflict through its world-wide impact is expected to adversely affect commodity prices, trade and capital flows. The impact of the second consecutive year of drought is still being felt. Prolonged military action in neighboring Afghanistan may also further discourage foreign investment. Nonetheless, the main risk to Uzbekistan's economy remains the slow and uncertain pace of economic and structural reforms. The potential short term Bank response would be to accelerate disbursements under the existing portfolio and possibly to restructure other projects for drought relief. Uzbekistan is expected to become IDA eligible under a new CAS, now under preparation, and the Bank with others will support the initiation of the PRSP process. Budget and balance of payments support could be considered when an IMF program is in place and a track record of reform implementation established.

15. **Turkmenistan** Turkmenistan has the tenth largest gas reserves in the world and substantial oil reserves. Until 1999, gas exports were difficult, due to poor payment discipline among its mostly-CIS natural gas consumers. In recent years Turkmenistan has concluded major agreements on long-term natural gas sales which fueled GDP growth, allowing it to maintain large subsidies on basic commodities and utilities and finance a large visible public works. The 1998 Living Standards Survey indicated that about half the population was living on less than the official minimum wage. Among the transition economies, Turkmenistan has made the least progress towards a market economy and the state continues to exert control over most of the economy. The adverse impact of the Afghan crisis on Turkmenistan's economy could come primarily from the drop in the international prices of oil and cotton and possible decline in foreign investment inflows. The scope for World Bank assistance at present is limited. No new Bank lending would take place until negative pledge violation and debt reporting issues are addressed and the government demonstrates increased commitment to reforms.

Long-term Regional Development Issues

16. Beyond these country-specific initiatives, there are broader gains to be obtained through enhanced bilateral and multilateral collaboration. Both Afghanistan and the countries of Central Asia share the following economic challenges: a limited domestic market, distant export markets

dominated by a few commodities, the need to build the institutional and legal foundations for a market based economy, attract foreign investment, and make better use of their natural resources, including water. National development strategies that consider regional opportunities would provide mutual benefits to those parties involved, e.g. management of water resources; transport infrastructure and trade logistics; governance and anti-corruption (particularly customs, private sector development, and narcotics); regional health issues; and trade in energy. In order to exploit such opportunities, sizable investments would be required, for example in the case of Afghanistan an estimated \$600-900 million for rehabilitation of the trunk highway system and electricity interconnections of major cities with neighboring countries, or in the case of Central Asia \$200 million for water management.

17. The emergence of a stable government within Afghanistan would open new opportunities for trade and economic cooperation (see Attachment 2). There is a potentially rich agenda for regional cooperation and the countries will need to meet and establish their priorities areas once the political situation stabilizes, and then seek partnerships with donors and financial institutions to carry out studies and to implement selectively activities with the highest returns.

Modalities and Next Steps

18. Given the differences in the impact of the current crisis as well as the large differences in political and social traditions, administrative frameworks, economic policies, natural resource endowments and social capital among the countries in the proposed ABSDF, work on the ABSDF program should proceed along two dimensions. Since most of this work will be country specific, it will be funded by a refocusing and expansion of the individual country programs of various donors. This will require a concerted effort on the part of country teams to refashion existing country programs to respond to the anticipated impact of the crisis. This work will be most pronounced in Pakistan and Iran, less so in Central Asia where support to transition remains high priority. A second bilateral and multilateral strand could eventually be funded through a modest technical assistance trust fund, which would support cross-regional analytic work, exchanges and training. Any serious engagement on regional issues among countries and development partners would be premature before a recognized government emerges to represent the interests of Afghanistan. Should the post-conflict Afghanistan situation and interests of neighboring countries warrant it, a more substantial regional trust fund (in addition to the financial arrangements for Afghanistan's own reconstruction) could be explored in the future.

19. There are a number of options for interfacing between the ABSDF countries and their development partners, shown below; the development community needs to reach an early consensus on its preferred modalities.:

- Create an informal working group, which would serve as a forum for exchanging information and loosely coordinating donor activities across these countries;
- Use existing or proposed sub-regional fora, for example the Joint IFI initiative for Central Asia mentioned in paragraphs 69-71 of this paper;
- Pursue purely country based approaches through the various consultative mechanisms that exist at present.

20. The World Bank is ready to offer its technical expertise, experience in post-conflict reconstruction and development, and financial resources for national programs. It has set up a steering group across the vice presidencies for Central Asia, South Asia and Middle East and North Africa. In other post-conflict situations, the World Bank has been called upon to

coordinate reconstruction and its regional dimension, and this expertise could be drawn upon if requested by regional countries and their development partners.

21. Subject to the wishes of the international community, the Bank could proceed with detailed work along the following four dimensions:

- Develop mechanisms for Bank and donor coordination, as appropriate.
- Launch an intensive round of client consultation and feedback to further refine individual country programs.
- At the country level, redirect existing programs to respond to the conflict-related needs of ABSDF countries and their border regions, along with quantifying additional resource requirements.
- Develop and refine the broader regional agenda once Afghanistan has a stable government, to be agreed with regional governments, and supplemented by development partners.

I. INTRODUCTION

1. Recent events have illustrated that a persistent failure to address Afghanistan's poverty, low social indicators and chronic political instability can have a disastrous impact upon the growth and development of both its neighbors and the broader world. While Afghanistan currently faces political uncertainty and a dire humanitarian emergency, the international community may at any time be asked to move rapidly to assist with its recovery. Afghanistan's reconstruction cannot take place in a vacuum, for it is intrinsically linked to the broader development of the region as a whole, which stands at the critical nexus between the Middle East, Central and Southern Asia.

2. The current crisis presents significant risks and opportunities for Afghanistan and its neighbors. The most pronounced risk is that the current military conflict will escalate and spill into other areas. Short of this, there are other ways in which the conflict's social and human costs can hinder development and work to undermine the peace and stability of its neighbor states:

- ❑ Massive refugee flows, estimated at over five million prior to September 2001, can tax social services and lead to tremendous social dislocation. The U.N. High Commissioner for Refugees (UNHCR) estimates that 50,000 to 60,000 refugees have entered Pakistan in the wake of the current crisis, and preparations are underway for an exodus of up to 1.5 million Afghans across the region;
- ❑ Cross border problems of terrorism, extremism, narcotics and organized crime could increase. Several states have already dealt with various insurgency movements, and one (Tajikistan) has recently emerged from a civil war that left 50,000 dead. According to the United Nations, 80 percent of the heroin consumed in Western Europe and Russia originates in Afghanistan and Pakistan. One half of these drugs (an estimated 120 tons per year) travels to Europe via Central Asia.
- ❑ Communicable diseases, such as measles, tuberculosis and HIV/AIDS could also rise, taxing public health services that are already overstretched.

3. Yet the crisis also holds out hope that the isolation and separation Afghanistan and its border states experienced during the great power rivalries of the nineteenth and twentieth centuries will at last be laid aside. This could enable a resumption of the flourishing trade that took place along the fabled "Silk Road" corridor and its offshoots. The prospect of South Asian markets for Central Asian oil and gas, as well as quicker and cheaper access to markets in Europe and East Asia through ports in Iran and Pakistan, make the resurrection of such commercial ties of more than historical interest. Such ties will also facilitate the expansion of cross-border trade between these neighboring countries.

4. In addition to the gains from trade, there will be broader benefits to the region arising from peace and reconstruction in Afghanistan. The World Bank's research on conflict clearly demonstrates that peace is a "regional public good." The region around Afghanistan would reap benefits ranging from enhanced security and safety of the population to higher private investment, direct foreign investment and economic growth. Improved collaboration and sharing of climate and hydrological information would help to avoid natural calamities such as floods and allow regional countries to use scarce water resources to their best advantage. The improved sharing of epidemiological data will prevent the outbreak of debilitating disease. Collaboration will be

essential to address common problems relating to smuggling and security along the long and porous border that Afghanistan shares with its neighbors. Regional countries can also play an important role in the post-war rebuilding of that country.

5. The World Bank is responding to the evolving crisis in Afghanistan along three dimensions. The Bank has produced a paper (circulated on November 7, 2001) entitled *Impact of Recent Events on Low-and Middle-Income Countries: Response of the World Bank*, for discussion at the 64th Meeting of the Development Committee in Ottawa, Canada on November 18th. The Bank has also recently produced *Afghanistan: World Bank Strategy Brief* (circulated to the World Bank Board on October 26), which seeks to lay out a potential strategy for the post conflict reconstruction of Afghanistan.

6. This analysis fits in between these efforts. It examines the major developmental challenges confronting Afghanistan and its neighboring states in light of the current conflict and considers how the donor community can best contribute to the region's short-term needs and long-term development. The first section lays out the geographic sphere of interest and discusses the impact of the current crisis. The second discusses the varying circumstances confronting Afghanistan's neighboring states and the need for tailoring responses to fit the specific issues and challenges that each of them confronts. The third section broadens the discussion to consider potential region-wide initiatives, which could potentially be supported through closer coordination of national development strategies, perhaps augmented by a modest trust fund. The final section discusses the modalities for donor assistance, the risks involved and some potential next steps.

Geographic Scope

7. Afghanistan's borders total 5,529 km. The largest border is with Pakistan (2,450 km), followed by Tajikistan (1,206 km); Iran (936 km); Turkmenistan (744 km); Uzbekistan (137 km) and China (76 km). The proposed ABSDF will focus on Afghanistan and five other countries that border it directly: Iran, Turkmenistan, Uzbekistan, Tajikistan and Pakistan. In light of its proximity to Afghanistan and overlapping border with the Ferghana Valley, the Kyrgyz Republic will also be considered as a part of this initiative.¹

8. A fifth Central Asian state, Kazakhstan, is not included as a ABSDF state as it is both farther from the conflict and economically more insulated. In light of the overall size of its economy and the limited and remote nature of its border with Afghanistan, China also is not included within the proposed ABSDF.

9. Taken together, these countries represent a combined population of 263.9 million and a combined land area of 4.4 million square km., or roughly 1.35 times the size of the European Union. Average GDP per capita throughout the region is \$811 (excluding Afghanistan, for which no current GDP data is available), and ranges from a high of \$1,759 in Iran to a low of \$257 in the Kyrgyz Republic. The complicated ethnic composition of the region involves a number of ethnic groups spread across national borders (Pashtuns, Tajiks, Baloch, Uzbeks, Turkoman and others).

¹ The Ferghana Valley is a densely-populated and agriculturally-rich valley home to about 20% of Central Asia's population, including half of the Kyrgyz population, one-third of the Tajik population, and a quarter of the Uzbek population. The heart of the valley and the most fertile land is part of Uzbekistan, and the majority of the populace are ethnically Uzbek. However, geographically the Valley also includes parts of Kyrgyzstan and Tajikistan. The valley includes several territorial enclaves of one state within the other, as well as over 100 border disputes. The tight border controls have separated families and disrupted trade.

Impact of the Existing Conflict

10. The proposed ABSDF countries are not equally affected by the crisis, whose impact to date has been diverse. Afghanistan and Pakistan are clearly the hardest hit. The former, already one of the poorest states in the world, is likely to suffer even more damage and dislocation of unknown intensity and duration until a satisfactory political solution is attained. The latter is confronting significant domestic unrest, particularly in the border provinces of Balochistan and North West Frontier Province (NWFP), which are ethnically linked to the Pashtun people of Afghanistan. Pakistan's dire economic situation—which was improving following the implementation over the past two years of a strong stabilization and structural reform program supported by the Bank, the IMF, and the ADB—could worsen again if the war in Afghanistan lasts beyond the end of the calendar year.
11. Iran is in the next tier of countries likely to experience significant dislocation along certain dimensions. It is currently coping with more than 2.4 million refugees (as reported by the Ministry of Interior), and UNHCR has estimated that another 300,000 to 400,000 could flee into this country. In countries of Central Asia, including the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan, the direct impact of the crisis to date has been modest. These countries have relatively small numbers of refugees and tightly controlled borders with Afghanistan. The extent to which the conflict may adversely affect their nascent economic recovery remains to be determined.
12. The circumstances confronting each of these countries will be discussed in greater detail below. More information on the economic and social conditions of these countries and their border regions can be found in Attachment 3 at the end of this document.
13. *Afghanistan:* Afghanistan is a landlocked, mountainous, geographically remote, sparsely populated, ethnically diverse, yet geopolitically important country. The nearest port is Karachi in Pakistan, some 1,600 km from Kabul. Overland road and rail transport to the Middle East and Europe takes place through Mashed in Iran or three river ports on the Amu Darya, a river along Afghanistan's northern border.
14. Even prior to the 1979 Soviet invasion, Afghanistan was one of the poorest countries in the world. In 1996, Afghanistan ranked 169th (out of 174 countries) in the UN's Human Development index. In areas of maternal and infant mortality, health, water supply and sanitation and education, Afghanistan ranks among the worst in the world, with women and children the hardest hit. There has never been an accurate census or other precise data on Afghanistan's population. In 1979 the total national population was estimated at 14 million, whereas at present the population in-country (not including refugees in Pakistan and Iran) is estimated at 18-20 million. If all refugees were to return, Afghanistan's population would be about 25 million.
15. Afghanistan was at peace between the 1930s and the late 1970s, and underwent a modest degree of economic and social development. Modernization was concentrated in the cities and towns, however, and most rural areas retained their traditional mores, governance structures, and social practices. The Afghan state remained relatively weak and had limited reach in most of the country. More than two decades of conflict since 1978, combined with the current three-year drought, have resulted in widespread human suffering and massive displacement of population (both within Afghanistan and as refugees in neighboring countries). Currently, an estimated seven million people are vulnerable to famine. Afghanistan's infrastructure has been destroyed or degraded; its human resource base severely depleted; and its social capital eroded. State institutions are largely non-functional, and the economy and society have become increasingly

fragmented. Gender gaps in social indicators remain large and are the result of long years of deprivation, war, and traditional practices, compounded by the policies of the controlling authorities. Thus Afghanistan faces serious political problems, a dire humanitarian emergency in the short run and large needs for reconstruction and development over time, as reflected in the *Afghanistan: World Bank Strategy Brief*.

16. **Pakistan:** Prior to 1999, Pakistan's economic performance had deteriorated over a number of years. Annual growth had dropped to 2.6 percent, its lowest rate since the 1960s; the country's domestic and foreign debt were on the rise and reached about 100 percent of GDP; and foreign exchange reserves were often measured in terms of weeks of imports rather than months. Pakistan's social indicators have generally been considerably worse than those of other countries at a similar level of per-capita income. Governance problems have adversely affected the effectiveness of the public sector and hampered the growth prospects of the private sector.

17. The present government has made significant progress in stabilizing the economy and reducing Pakistan's fiscal and external imbalances. Pakistan has recently successfully completed a ten month stand-by agreement with the IMF. Important stabilization measures were achieved, including lowering the fiscal deficit, containing the growth in debt and building up reserves. Major structural reforms have been implemented, including measures to broaden the tax net, liberalize the exchange rate, deregulate prices and imports in the energy and agricultural sectors, and increase fiscal transparency. Progress has also been made in improving governance in the short run. However, improving social indicators through better delivery of social services will be a long-term effort, which the government is tackling through devolution.

18. Based on the satisfactory completion of the Stand-By, negotiations for a three year Poverty Reduction and Growth Facility (PRGF) program with the IMF are at the final stages. The PRGF is expected to be presented to the IMF Board by early December.

19. In light of the current heightened regional tensions, Pakistan faces lower economic growth (forecast at 3.7 percent in FY 02 compared with 4.0 percent prior to September 11), a higher fiscal deficit (5.3 percent of GDP as opposed to 4.9 percent as forecast earlier) due to lower tax revenues, and a higher current account balance of payments deficit (1.8 percent of GDP compared to 1.4 percent forecast earlier) mainly due to lower exports. The country's external financing gap is expected to rise by an additional \$1.3 billion. This estimate is based on the assumption that the war in Afghanistan will be over by the end of the calendar year and that economic activity, especially exports, will resume. Should these conditions not materialize, then the losses to the Pakistan economy are going to be much larger than the estimates above. The \$ 1.3 billion additional external financing gap is expected to be covered in part by higher external assistance in the form of grants and in part by extra exceptional financing from international financial institutions in support of Pakistan's medium-term reform program.

20. Pakistan has also recently gained increased access to OECD markets through an easing of textile export quotas ahead of their expiration under the multi-fiber agreement. Economic sanctions against Pakistan have been lifted by the USA and Japan, and Pakistan is discussing with its bilateral creditors alternative modalities for debt rescheduling and, in some cases, debt relief.

21. Within Pakistan, five districts of the province of Balochistan, two districts of the North West Frontier Province (NWFP) and the Federally Administered Tribal Areas (FATA) are directly contiguous to Afghanistan. Prior to September 11th, there were an estimated 2.5 million Afghan refugees living in Pakistan: 1.5 million in NWFP and almost a million in Balochistan. Since the beginning of US air strikes on Taliban positions in Afghanistan, there has been a steady

flow of refugees into Pakistan particularly from Kandahar into Chaman, Balochistan. Hundreds of thousands more refugees are reportedly on the move. With winter fast approaching, the government has come under immense pressure to provide food, shelter and warm clothing to the refugees, an undertaking expected to cost Pakistan \$2.5 billion this year alone.

22. Pakistan is also grappling with security problems, particularly in NWFP and Balochistan, which have close ethnic links with the Baluchi and Pashtun peoples in Afghanistan. Anti government demonstrations have been staged in both provinces, which have caused material and financial damage. Terrorist attacks have also occurred against minority groups recently

23. *Iran:* Iran's economic performance has improved during 2000-2001. Its GDP growth was 5.6 percent; inflation fell to 12.6 percent; the current account surplus was 13 percent of GDP; and the budget surplus was 8.6 percent of GDP. These favorable results can be attributed not only to the oil price increase, but also due to a fall in indebtedness (debt is 8% of GDP), fiscal discipline, and (to a certain extent) to the start of the reform process. Prospects are also favorable for next year, as Iran now enjoys greater room of maneuver in its external financing and will benefit from the likely favorable effects of the implementation of the reforms.²

24. Iran is still a rather state-managed economy. It has a closed capital account, a low debt, and a comfortable level of reserves equivalent to more than 11 months of imports. Furthermore, its current account surplus is projected at around 8 percent GDP for the Iranian year 2001. It is therefore unlikely that the Iranian economy will suffer a major shock from the current crisis. No financing requirements are envisioned in the near future, even if oil markets fluctuate significantly.³

25. However, there are three ways in which the current conflict could have an impact upon Iran: (i) increased refugee flows; (ii) greater narcotics trafficking and drug addiction problems; and (iii) a worsening of its ongoing border problems. The UNHCR has estimated that between 300,000 and 400,000 Afghans could flee to Iran, adding to a total of 2.4 million refugees already in that country. Many live in the suburbs of large cities, where sporadic backlashes against them have taken place over the last few years. Afghan refugees are blamed for the spread of drug trafficking and for taking jobs from the local populations. Prior to September 11, Iran engaged in a controversial policy of refugee repatriation. To contain an anticipated major influx of Afghans, Iran has deployed troops to guard its borders. Iran is also setting up camps along the frontier to help refugees without letting them enter Iranian soil.

26. *Central Asian Republics:* There are three Central Asian states that directly border Afghanistan: Turkmenistan, Uzbekistan and Tajikistan. A fourth Central Asian state—the Kyrgyz Republic—is situated within 75 miles of the border and includes part of the Ferghana Valley. All four countries are landlocked with severe geographic conditions, high mountains and vast deserts. Together, they are home to about 40 million people.

² Iran's reforms have included the removal of non-tariff barriers in trade, the unification of the exchange rate (which will be finalized by March), privatization and selected financial sector reforms.

³ Oil represents 85 percent of Iran's exports, half of its government revenues and around 10 percent of its GDP. In spite of this exposure to fluctuation in oil revenues, the potential impact of any major crisis will be limited. The Plan budget for 2000-05 is based on a conservative price of around \$15 per barrel, and Iran follows a balanced budget rule based on such oil revenue projections.

27. The four Central Asian states became independent 10 years ago when the Soviet Union dissolved. The process of transition to market-based economies has been traumatic, with massive initial losses in production and income due to adverse terms of trade changes, the loss of fiscal transfers and capital investments from the central Soviet budget, and the collapse of trade, production, fiscal and payments systems. Tajikistan also suffered a devastating civil war, and the Kyrgyz Republic and Uzbekistan face security threats from extremist militants. In addition, transit routes for drug smuggling appear to be operating in the region. These countries face uncertain long-term growth prospects, severe budgetary pressures and, in some cases, high levels of external debt. As landlocked states with exports dominated by a few commodities, they are also highly susceptible to external factors, as demonstrated by the widespread impact of the Russian financial crisis of 1998.

28. Since 1996, most of these Central Asian economies have seen evidence of economic recovery. In 2000, real GDP growth was 5 percent in the Kyrgyz Republic, over 4 percent in Uzbekistan, 8 percent in Tajikistan and almost 18 percent in Turkmenistan. In 2001, prior to the outbreak of the crisis, growth in most countries remained strong, largely thanks to the continued expansion of the Russian economy. Despite this growth, poverty remains a serious problem in these countries. In the Kyrgyz Republic and Tajikistan, available data indicate that well over half of the populations are living in poverty. Taking the countries as a group, most of the population live in rural areas, with cotton and wheat the most important crops. Water mismanagement and shortages over the past two years have adversely affected agricultural production and country living standards. The countries inherited Soviet-era achievements in universal education, health and infrastructure. However, these systems have eroded severely during the past decade and are unsustainable and require restructuring. As a whole, the region has weak governance and institutions.

29. Thus far, the Afghanistan crisis has had a limited direct impact on these countries. Refugee flows have been very modest, numbered perhaps in the hundreds, since the borders with Afghanistan are tightly controlled. Although the magnitude of the impacts are difficult to quantify, the most likely transmission channels for the crisis are through depressed demand for their exports and lower commodity prices, especially for cotton, oil and gas. It appears that the immediate impact of the crisis has been to worsen already declining trends in commodity prices and dampened demand for exports. Although foreign investment and tourism are also expected to suffer, existing levels are relatively modest. In addition to the potential revenue losses, fiscal positions may be strained by increased spending on military and security forces.

II. TOWARD A FRAMEWORK FOR ASSISTANCE

Objectives

30. The ultimate objective of the ABSDF program will be to help foster a less crisis prone environment that will allow Afghanistan's reconstruction to move forward and create the economic and social conditions that support regional peace and stability. More immediate goals would include:

- Help mitigate the immediate impacts of the crisis (e.g. refugees, drought relief, debt relief, balance of payments support);

- ❑ Implement reforms that lead to economic growth necessary for poverty reduction; reduce poverty through measures targeted at the poor, particularly those living in vulnerable and impoverished areas;
- ❑ Facilitate regional cooperation that deepens social and economic development, through improved information sharing, capacity building, institutional reforms and infrastructure improvements.

31. An additional benefit that could potentially flow from this initiative would be the opportunity to further expand the dialogue with those border states, where the work of international financial institutions has heretofore been limited.

Framework Approach

32. A framework for achieving these objectives would need to be carried out in three phases. The first steps would occur *During the Afghanistan Conflict*, when development activities in affected border regions would be intensified and preparatory activities for national activities would be initiated. The second phase would take place in the *Immediate Post-Conflict Environment*, when individual national development programs would be pursued while high-impact regional activities requiring limited investment and preparation could be carried out, along with limited bilateral cooperative arrangements. The third phase would involve *Long Term Regional Development*, when trade and other economic relations would be normalized and cooperative initiatives involving three or more states would be implemented.

33. In the immediate future, humanitarian issues will predominate in the southern tier of the ABSDF region, involving Afghanistan and, to a lesser extent, Pakistan and Iran. Yet even during this phase of the conflict, the development of border regions can be initiated. As Table 1 on page 21 indicates, national poverty programs can be activated in districts close to the Afghanistan border. Preparations can be made for supporting returning refugees, such as road rehabilitation and the alignment of other infrastructure. The immediate aftermath of the conflict will be dominated by issues of security; demilitarization (including both the demobilization of combatants and the de-mining of territory); famine relief; short-term employment generation; and the repatriation of refugees. These issues will be of primary concern to Afghanistan, but issues such as repatriation will also be important in Iran and Pakistan and, to a much lesser extent, Tajikistan and Kyrgyz Republic.

34. Beyond these immediate concerns, both ABSDF countries and the international community face the daunting challenge of enhancing the region's medium-term development. This task will have multiple components. One of the most important will be providing local communities, often outside the mainstream of national development, with the resources they need to improve their immediate quality of life and cope with the spill over effects from the conflict. Each country will have its own priorities and modalities for delivery. Much of this development effort will be based on intensifying or redirecting existing programs, such as the poverty oriented programs in Pakistan. New activities may also be required, such as a possible social fund in the provinces of Sistan & Baluchestan and Khorassan in Iran. Another important set of activities will need to take place in Central Asia to assist these states in the first instance to cope with the immediate economic effects of the crisis, but more importantly to deal with their own long-term development challenges. Incremental financial resources will be needed for two reasons: *first*, because of the special impacts of the Afghan conflict on vulnerable impoverished areas; and *second* because other regions of these countries may object to redistributing resources away from them at a time of national stress.

35. Beyond these country-specific initiatives, there are broader gains to be obtained through enhanced bilateral and multilateral collaboration. Both Afghanistan and the countries of Central Asia share the following economic challenges: a limited domestic market, distant export markets dominated by a few commodities, the need to build the institutional and legal foundations for a market based economy, attract foreign investment, and make better use of their natural resources, including water. National development strategies that consider regional opportunities would provide mutual benefits to those parties involved. Coordinated development of transport and energy infrastructure, for example, would increase the effectiveness of investment and lower the cost to users of these services.

36. Encouraging regional development after years of limited contact among the countries in the nexus between Central and South Asia and the Middle East will be a lengthy process. It is likely to proceed incrementally and require confidence building measures. These could include results oriented meetings at different levels, the implementation of low cost activities of benefit to all (e.g. prevention of the spread of disease, the streamlining of customs procedures), and the joint participation of study groups on specific cross-border issues (e.g. electric power interconnection). Coordination will require a combination of bilateral and multilateral forums that could provide the political umbrellas for technical discussions to take place at the sectoral level.

III. COUNTRY BASED MEASURES IN THE CONFLICT AND IMMEDIATE POST-CONFLICT SCENARIOS

37. As noted above, the countries in the ABSDF region are affected by the conflict in very disparate ways. They have widely differing political and administrative traditions, resource endowments, and human and social capital. As the discussion below indicates, poverty profiles differ significantly both between and within these states as well.⁴ Any successful strategy for enhancing security and prosperity must in the first instance respond to the unique circumstances and challenges that they face. Because the crisis has had such a differential impact, the vast majority of near and medium term work will take place within the individual country context.

Southern Tier: Fostering Community Led Development in the Border Regions

38. To address the poverty and backwardness of border provinces in Pakistan and Iran, strong emphasis would be placed upon community-led development. The following types of activities could be supported on a grant or concessional basis:

- Micro-credit schemes;
- Small-scale infrastructure development;
- Labor-intensive public works;
- Drought relief;

⁴ Although little reliable data exists for Afghanistan, it is clear that the country is on the border of a massive humanitarian crisis, with nearly a third of the populace vulnerable to famine. The border provinces of Iran and Pakistan are among the poorest in those countries. Central Asia presents a more complex picture. The majority of citizens appear to live close to the poverty line, and income distribution has worsened.

- Community development and empowerment;
- Primary education and health care, with particular emphasis upon women and children;
- Social safety nets, with particular emphasis upon widows and those with disabilities.

39. The modalities will vary depending upon the issue and country. Some sets of issues, such as social safety nets, would ideally be tackled at a national level (although capacity constraints could complicate such efforts). The majority of programs would be community based in their orientation, and seek to provide local communities with the resources to fashion indigenous solutions to common problems.

40. *Pakistan: Balochistan, North West Frontier Province (NWFP) and Federally Administered Tribal Areas (FATAs)* In Pakistan, both Balochistan and NWFP are relatively under-developed. These provinces are home to 27 million people, and their per capita income is much lower than Pakistan's national average of \$443. A study conducted in January 1998 ranked districts in NWFP as having an intermediate level of social development, while those in Balochistan were the most backward. For example, female literacy is only 0.8 percent in FATA, 15 percent in Balochistan and 21 percent in NWFP, compared to the national average of 38 percent; male literacy is higher ranging from 11 percent in FATA to 53 percent in NWFP, compared to a national average of 63 percent. Income growth and standards of living in the two provinces have not improved appreciably over the past decade. The population in these border areas remains largely illiterate and without access to basic services. Infrastructure development lags behind other provinces. Natural resource management and environmental issues also remain unresolved. The loyalty of border areas has been sought since British colonial times by combinations of coercion and subsidies that have had mixed success in integrating them into the life of the nation. There are major law and order concerns, emanating from the fragmentation of society along ethnic, tribal and sectarian lines. Balochistan also faces serious and deep rooted fiscal problems.

41. To compound all this has been the persistent drought in these areas resulting in the collapse of the rural economy. Agriculture has been hardest hit. Agricultural value added nationally declined by 2.5 percent in Pakistan's fiscal year 2002, compared to an increase of 6.1 percent during the previous year. A significant number of livestock are dead or diseased and their grazing lands have become barren—all of which has seriously affected individual livelihoods (particularly among the poor) and poses a threat to the underlying social fabric. The drought is most severe in the districts of Balochistan, where underground aquifers in the province are dropping at an estimated rate of 3.5 meters annually. These natural hardships have been augmented by institutional failures and an absence of preparedness to deal with drought effects.

42. In spite of these challenges, a number of factors are currently coming together which offer the possibility for raising the Afghan border regions out of poverty. The Government of Pakistan has completed an Interim Poverty Reduction Strategy Paper (I-PRSP) through a consultative process.⁵ This will be followed up by a number of regional papers where the border regions could be given priority. A number of poverty alleviation programs are in place that could be redirected to the border areas, many of which are implemented by NGOs.

⁵ Ministry of Finance, Government of Pakistan, "Pakistan. Interim Poverty Reduction Strategy Paper (I-PRSP)" (November 2001)

43. The government has implemented a strong reform program at the macro level that is expected to lead to a supply response that would open up economic opportunities and create conditions for targeted poverty interventions to succeed. For example, it is tackling the underpricing of agricultural products and other market distortions that adversely affect the returns and incentives in agriculture. These reforms have been combined with significant governance reforms. Pakistan has recently implemented major decentralization of government to the local level. Elections were completed for local councils this year, which offer hope of engendering a responsiveness to community needs and accountability for results that have bedeviled national poverty programs in the past.

44. The I-PRSP describes a number of poverty programs which are in place that could be focused and scaled up to support development in the Afghan border region:

- **Rural Support Programs** Community driven rural development, based on building institutions both at village and higher levels and linking them with the existing administrative framework, holds particular promise. This participatory approach was pioneered by the Aga Khan Rural Support Program (AKRSP) in the border areas of north Pakistan. In 1992 the government established the National Rural Support Program (NRSP) based on the AKRSP experience. Rural support programs are active in fifteen districts in NWFP, five in northern areas, and only one in Balochistan where the agrarian structure remains feudal. RSPs mobilize communities for activities such as infrastructure development (e.g. irrigation, road building, drinking water supply and village electrification). The I-PRSP shows budget allocations for rural development for FY02-04 as \$440 million.⁶
- **Social Protection Programs** Two existing programs provide direct relief to families, the *Zakat* system of relief grants and rehabilitation programs and the *Pakistan Bait-ul-Maal* program which complements *Zakat* in providing assistance to those in need. *Zakat* is based on an Islamic wealth tax administered by Provincial, District and Local committees, with rehabilitation packages in support of small businesses being administered by Local Councils. Costs for FY02-04: *Zakat* \$410 million, *Bait-ul-Maal* \$15 million.
- **Public Works Programs** are part of the government's social protection framework, the most notable of which is the *Khushal Pakistan Program* where federal funds are allocated through Provincial governments for public works schemes identified and selected at the district level through active community participation. For FY00-FY01 the government budgeted around Rs7 billion (\$110 million) for *Khushal Pakistan* in Balochistan, NWFP and FATA/Northern Areas/AJK, which employed 183,000 up to March 2001, of which 135,000 were in Balochistan. Assuming the same levels of budget allocation as in FY01. The cost of the *Khushal Pakistan Program* for FY02-04 could potentially be around \$900 million, although capacity constraints may necessitate a lower figure.

⁶ All Pakistan poverty program costs shown in this section are from Ministry of Finance, Government of Pakistan, "Pakistan. Interim Poverty Reduction Strategy Paper (I-PRSP)" (November 2001)

- **Microfinance** NGOs have been the main impetus to microfinance in Pakistan, particularly AKRSP and the later rural support programs. The *Pakistan Poverty Alleviation Fund (PPAF)* was launched in 1999 with World Bank assistance to provide wholesale credit through NGOs and the private sector. In 2000 the Microcredit or *Kushali Bank* was established to provide retail credit to individual borrowers with the cooperation of nationalized commercial banks and local organizations. Disbursements from microfinance schemes for FY02-04 are forecast in the I-PRSP to be: PPAF \$40 million; Kushali Bank, \$170 million.

45. Development of the Afghan border regions could be accelerated through scaling up existing government and NGO programs which involve participation of beneficiary communities. These efforts will not be without their challenges. Many border communities are far-flung and isolated. Programs implemented by central government agencies have had limited impact in the border regions in the past. Fortunately, community driven programs as described above are now available that offer better transparency and financial and operational sustainability. Scaling up these programs could be done in three phases, consistent with local commitment and capacity:

- **Phase I (0-12 months)** Prepare plan for scaling up poverty programs in the border region. Complete district development programs already planned for districts in border areas. Jump-start implementation of poverty programs in the border zone.
- **Phase II (1-5 years)** Implementation of poverty programs in the border areas. Implementation of health, education and trunk infrastructure programs through local governments.
- **Phase III (6-10 years)** Evaluation and fine tuning of programs. Deepen implementation.

46. **Iran: Khorasan and Sistan & Baluchestan** There are two provinces of the *Islamic Republic of Iran* bordering Afghanistan: Khorasan, and Sistan & Baluchestan. Among all twenty eight Iranian provinces, UNICEF ranks Khorasan at number seven for rural deprivation and number eight for women's deprivation and provincial deprivation. The population growth rate is 0.1 percent for the province with an urban rate of 2.2 percent. The fertility rate is above the national average. Khorasan has relatively poor health indicators. Infant mortality is 53 per 1,000 live births for males and 50.2 for females, double the national average of 26. The crude birth rate and crude death rate are high compared to the national average: 23.9 and 9.3 per 1,000 respectively. Khorasan Province has the fifth highest child malnourishment stunting rate (23.7 percent) and the fourth highest wasting rate (11.6 percent) in the country. (The national rural average for stunting is 24.8 percent and for wasting 7.8 percent.) Deliveries that are attended by untrained health staff stand at 81 percent in rural and 7.7 percent in urban areas. The literacy rate is, paradoxically, above the national average at 81.6 percent for women and 72.1 percent for men.

47. According to UNICEF, the Province of Sistan & Baluchestan ranks highest among all Iranian provinces in terms of rural deprivation, women's deprivation and provincial deprivation. About 3 percent of the population of Iran live in Sistan & Baluchestan, but they have the highest fertility rate (5.2) and a population growth rate of 3.5 percent per year. The province has the worst health indicators in Iran. The infant mortality rate is 66 per 1,000 live births. The crude birth rate and crude death rate are among the highest in Iran: 36.3 and 8.9 per 1,000 respectively.

Iran's under-five malnutrition rate is the third highest in the region (after Iraq and Yemen). Children in Sistan & Baluchestan are severely malnourished with the worst stunting rate (41.5 percent) and the worst wasting rate (12.7 percent) in the country. This province has the highest rate of deliveries that are attended by untrained health staff: 80 percent in rural and 33 percent in urban areas. Literacy rate is the lowest in the country with 43 percent for women and 61 percent for men.

48. Within the framework of the existing Interim Assistance Strategy for Iran, discussed at the World Bank Board on May 10, 2001, the Bank could, if the Iranian Authorities so wish, refocus projects in the pipeline to specifically target the provinces most affected by the current crisis. This would involve the Social Fund for \$150 million and Low Income Housing for \$150 million. In addition, the existing Primary Health Care and Nutrition Project (\$87 million) could be restructured to more closely target the provinces of Khorasan and Sistan-Baluchestan. This project focuses on improving health conditions in rural and urban areas through: (i) improving the quality and access to primary health care; and (ii) improving the nutritional status of children under two years of age and pregnant and lactating women. Pending a decision by management, staff could quickly reorient a substantial part of the project to the needs of the Afghan border regions.

49. The Bank will also increase its knowledge-base on Iran's eastern border areas. In the medium to long term, this knowledge base will continue to inform the Country Assistance Strategy. In the short term, the effort would be to improve the Bank's ability to quickly develop and implement, in partnership with the Iranian authorities and other donors, a three pronged, rapid response action plan. The Bank's role would be to: (1) provide a basic economic framework for development in the regions; (2) set up flexible and innovative financial instruments and institutional arrangements through which the Bank and other donors might channel funding for emergency assistance as well as technical assistance; and (3) finance development investments which can serve as models for Iran and other donors.

Northern Tier: Long Term Problems, but Limited Near Term Impact

50. Approaches in Central Asia need to be differentiated and tailored to the unique circumstances of individual countries. Their social, political and economic circumstances vary greatly. Tajikistan and the Kyrgyz Republic are the most vulnerable to the economic and fiscal dislocations stemming from the crisis. They are likely to require assistance in coping with the impact of depressed commodity prices upon revenues, lower demand for exports, along with increased security expenditures and high levels of indebtedness.

51. Possible areas for assistance may include debt forgiveness and even budgetary or balance of payments support. Both Tajikistan and the Kyrgyz Republic are in the process of preparing Poverty Reduction Strategy Papers (PRSPs), and Uzbekistan is expected to initiate the process soon. Over the coming months, it is expected that the PRSPs will be a central vehicle in defining specific paths and programs for addressing both the short and medium term impact of the recent crisis, in addition to setting the overall poverty reduction strategy. This would include, as appropriate, activities to address specific needs in vulnerable and impoverished areas, such as the Ferghana Valley. Established donor coordination mechanisms, including Consultative Groups, are in place which would, to the extent practicable, be employed to assist the countries in meeting new challenges. Should the need for a regional donor focus—either with a Central Asian focus and/or the broader ABSDF region, be deemed desirable, such an option could also be explored.

52. ***Kyrgyz Republic*** The Kyrgyz Republic is a small economy (with a population of 5 million and GDP of \$1.3 billion) which, unlike several neighboring countries in Central Asia, does not have large natural resources except some minerals (including gold) and water for hydropower. Over half the population lives in poverty. Extreme poverty (the food-only poverty line) affects 18 percent of the population, while 52 percent are considered poor (below the general food and non-food poverty line). The country has made substantial progress towards becoming a market economy, although its economic potential is limited by constraints to getting its goods to export markets, energy trade which depends on unstable inter-regional water-sharing arrangements, as well as weak governance and limited institutional capacity. Reforms have been most substantial in agriculture, in liberalizing the trade regime, in privatization of small and medium enterprises (SMEs) and in establishing a legal framework to facilitate the functioning of private markets. The private sector share in GDP rose from 15 percent in 1991 to an estimated 75 percent in 2000. However, just as these reforms were starting to pay off in increased growth, the Russian financial crisis in 1998 hit the economy hard. Though growth has rebounded to 5 percent over the last two years, and exchange rate and price stability has been restored (with single digit inflation over the last two years), both its fiscal deficit and its external debt (now 135 percent of GDP) are still at unsustainable levels. Despite the economic growth and overall stability, there is no evidence of reduced poverty.

53. The impact of the Afghan conflict has been limited so far in the Kyrgyz Republic, as in the other Central Asian countries. Projections made in close coordination with IMF staff indicate no change in external financing needs due to events following September 11. However, there are risks that exports may be affected if cross-border trade, already subject to formal and informal barriers, faces further constraints with tightened border security. An increase in security expenditures could exert pressures on the fiscal deficit and, in turn, compress social expenditures further just as a large fiscal adjustment is taking place. In this context, timely provision of debt relief through the Paris Club is crucial for partially covering the projected financing gap and mitigating the required fiscal adjustment. More generally, improving prospects for growth and poverty reduction requires the government to carry through with reforms of the large infrastructure and utility sectors; address governance issues, notably those affecting the business environment; and improve prioritization of public expenditures including the level and composition of social spending.

54. The Bank is monitoring the situation closely and, as warranted, would consider possible additional budget and balance-of-payments support through on-going and proposed adjustment operations, and/or seek grant funding to 'top-up' such support (which would be desirable in view of the precarious external debt situation described above); increasing cost-sharing levels of IDA funds to maximum permissible levels; modifying projects to accommodate emerging priorities; providing sustained support for long-term development and poverty reduction through the CDF/PRSP process; and debt management work with the IMF and donors. The Bank is also increasing its donor coordination efforts to assist the government ensuring that key social and other expenditures and reform efforts are maintained.

55. ***Tajikistan*** Tajikistan plunged into a civil war soon after independence in 1991, which continued for six years, cost roughly 50,000 lives, displaced hundreds of thousands of people, and led to the destruction of much of the country's infrastructure and economic assets. A peace accord which brought the main opposition parties (the United Tajik Opposition) into the government and military in a power sharing arrangement, was signed in 1997. Nevertheless, some parts of the country are still not fully under the control of the central Government, and internal security has been a continuing challenge.

61. However, in recent years Turkmenistan concluded major agreements on long-term sales of natural gas with Ukraine and Russia, which fueled a sharp increase in natural gas exports and a rapid GDP growth (17-18 percent per year in 1999-first half of 2001). This allowed it to maintain large subsidies on basic commodities and utilities, and to finance a large public investment program, much of it directed towards high visibility construction projects. While the agricultural sector, primarily cotton growing, has declined in importance as a source of foreign exchange earnings after the resumption of natural gas exports, it continues to provide incomes for around a half of the population. The Bank and Fund do not have reliable access to data from Turkmenistan. However, a 1998 Living Standards Survey indicated that, while the absolute incidence of poverty appears low, about half the population were living on less than the official minimum wage.

62. Among the transition economies, Turkmenistan has made the least progress towards a market economy and the state continues to exert control over most of the economy. The agricultural sector remains subject to state procurement; price distortions and quasi-fiscal subsidies are large; public resource management is poor and nontransparent; and the exchange rate regime is extremely restrictive, resulting in a 300-plus percent black market premium over the official exchange rate.

63. The adverse impact of the Afghan crisis on Turkmenistan's economy could come primarily from the drop in the international prices of oil and cotton (natural gas prices are pre-set in the export contracts and are not likely to be revised downward). Some decline in foreign investment inflows due to security concerns is also possible. A large inflow of refugees is unlikely as the border is closely guarded and severe restrictions on border crossings have been in place for years.

64. The scope for World Bank support to Turkmenistan is very limited at the present time. As discussed in the context of the January 2001 Country Assistance Strategy, no new Bank lending to Turkmenistan can take place until the negative pledge violation and debt reporting issues are addressed and the government shows increased commitment to reforms.

65. *Uzbekistan* Uzbekistan has the largest population (just under 25 million) and economy in Central Asia. For this reason, and given its central location (it borders all the other Central Asian Countries), it occupies an important position in the geopolitics of Central Asia. The country is well endowed with mineral wealth; has become energy self-sufficient since independence; and relies heavily on two main exports, cotton and gold. The economy has been growing since 1996. However, this growth has been dampened by the very slow pace of structural reform. The longer term sustainability of the growth is questionable as macroeconomic imbalances have persisted and external debt accumulation to finance the country's industrialization has until recently been exceedingly high. The Government maintains an administered foreign exchange and trade system and a high degree of intervention in the real economy. In particular, the agriculture sector suffers from controls over prices, production, and exporting for cotton and wheat. Rural poverty continues to be significant and the rural-urban divide may have widened in recent years. Some steps were taken last year toward currency unification with a large devaluation of the official exchange rate, and the government just announced the unification of the official and commercial exchange rates effective November 1. These measures need to be accompanied by liberalization of access to foreign exchange and measures to decontrol the agricultural sector.

66. The Afghan conflict is expected to have some adverse impact on the economic situation in Uzbekistan, primarily through the global economic environment. The additional fall since September 11 in prices for cotton fiber, a key export commodity accounting for one third of Uzbekistan's merchandise exports earnings over the past three years, is expected to cause losses

in export earnings. In addition, the impact of the second consecutive year of drought is still being felt. A prolonged military campaign in neighboring Afghanistan may also further discourage foreign investment.

67. However, the main risk to Uzbekistan's economy remains the slow and uncertain pace of economic and structural reforms. To improve efficiency and unleash its growth potential, the government will need to satisfactorily resolve the issue of access to foreign exchange, and address serious distortions caused by state intervention and numerous administrative restrictions in other areas such as the cumbersome registration requirements for international trade, the pricing in the energy and irrigation sectors at a fraction of cost recovery levels, and the state procurement of key cash crops—cotton and wheat—at below-world market prices.

68. The potential Bank response in the short-term would be to explore modification of the existing portfolio to accelerate disbursements and possibly further restructure the ongoing projects for drought relief. Uzbekistan is expected to become IDA eligible under the new CAS (now under preparation), and the Bank, in coordination with other donors, will support the formulation of the PRSP process. Finally, possible budget and balance of payments support could be considered when an IMF program is in place and a track record of reform implementation is established (an IMF mission is scheduled for December).

69. *The Joint IFI Initiative:* Besides the activities proposed in the ABSDF, the Bank is examining its programs and strategies in each individual country to determine how best to help these countries in the changed external environment. In addition, the Bank is working on a joint initiative with the Asian Development Bank, the European Bank for Reconstruction and Development and the International Monetary Fund that focuses on the medium-term challenges of growth and poverty reduction in the low-income CIS countries: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan.

70. The initiative is based on three objectives: (1) ensuring through better coordination, including with bilateral donors and in the context of the poverty reduction strategies adopted by these countries, that IFI policy advice has the best possible chance of implementation; (2) raising the international profile of these poor countries, in order to help make their case both with creditors who could provide debt relief and with donors who might provide additional ODA; and (3) improving prospects for growth through accelerated implementation of structural reforms and strengthened regional cooperation, both in Central Asia and in the South Caucasus.

71. As a first step, a brainstorming meeting is proposed for January 2002 to consider how to strengthen the poverty reduction strategies that are emerging in these countries. The meeting would include representatives of major bilateral donors (including Russia and other Paris Club members) as well as the IFIs and the countries themselves. In order to facilitate the January meeting, the staffs of the Bank and Fund, in collaboration with the ADB and EBRD, are preparing a background paper designed to stimulate discussion of policy priorities and possible forms of assistance to accelerate their implementation. As follow-up, we envisage a Ministerial level meeting, possibly during the Spring Meetings, where the proposals for the initiative would be agreed. The agreement would cover the roles of each party in the initiative, and establish concrete benchmarks for assessing progress. Besides these events, the Bank is planning to sponsor one or more academic-style conferences on the economic and social challenges facing these countries, with a view to broadening both the analytical base and dialogue on these issues.

IV. LONG-TERM REGIONAL DEVELOPMENT ISSUES

72. In the wake of the current conflict, opportunities may open up to make progress on a range of shared issues that have promise for enhancing the development of participating countries. The agenda for regional issues that could be addressed in the longer term includes:

- The management of water resources;
- Transport infrastructure and trade logistics to support closer regional integration;
- Governance and anti-corruption (particularly with regard to customs, private sector development and narcotics);
- Regional health issues, including measles, tuberculosis, HIV/AIDS, and malnutrition;
- The trade in energy, particularly potential gas exports from Iran and Turkmenistan to South Asia;

73. Prior to independence, Central Asia had extensive regional linkages in water, irrigation, industry, energy trade, and agricultural production. While many of these legacies have been positive, maintaining equitable post-independence economic cooperation in these fields poses many challenges. The end of the Afghanistan conflict provides opportunities for further cooperation with countries in South Asia and the Middle East. Attachment 1 provides a list of the main regional economic partnership arrangements that were established in the 1990s.

74. In spite of these multiple organizations and forums, actual cooperation on the ground has been limited. There has been relatively weak support for regional integration among the countries surrounding Afghanistan. Some have recently expressed a preference for bilateral arrangements on sensitive issues such as water. Many signed documents are either not enforced or are contradicted by national legislation. Further economic cooperation has been hampered by deeper problems of payment difficulties, price distortions, border clashes and mining, and complex and restrictive administrative barriers.

75. While further economic cooperation among Central Asian countries could proceed now according to the wishes of these countries, improved links with South Asia and Iran are currently constrained by the Afghanistan conflict. The emergence of stable government within Afghanistan would open new opportunities for trade and economic cooperation. A more detailed discussion of potential areas for strengthened bilateral and multilateral ties, and the prospects and pitfalls associated with them, is provided in Attachment 2. There is a rich agenda for regional cooperation and the countries will need to meet and establish their priority areas once the political situation stabilizes, and then seek partnerships with donors and financial institutions to carry out studies and to selectively implement activities with the highest returns.

V. MODALITIES AND NEXT STEPS

76. This paper has argued that the countries surrounding Afghanistan are likely to experience increased costs and disruptions in the wake of the Afghanistan conflict. For some, these disruptions are likely to be quite significant. For others, they will be modest or merely exacerbate

problems that have been going on for some time. The emergence of peace will generate positive externalities for all nations, and will open up opportunities for mutual gains through increased trade and collaboration.

77. However, the large differences in political and social traditions, administrative frameworks, economic policies, natural resource endowments and social capital make it difficult to come up with any hard and fast generalizations that will hold for all or even most of the ABSDF countries. Furthermore, in contrast to the Southeast European case, where conflict led to regional post-conflict solutions, the ABSDF countries do not share a common development vision such as the vision of European Union membership which the Southeast European countries aspire to. Therefore, donor coordination arrangements would have to reflect these particular realities.

Arrangements for Donor Coordination

78. In light of the above, work on the ABSDF program should proceed along two dimensions. Since most of this work will be country specific, it will be funded by a refocusing and expansion in the individual country programs of various donors. This will require a concerted effort on the part of individual country teams to refashion existing country programs to account for the anticipated impact of the crisis. This work will be most pronounced in Pakistan and Iran; less so in Central Asia. A second bilateral and multilateral strand could eventually be funded through a modest technical assistance trust fund, which would support cross-regional analytic work, exchanges and training. Should the post-conflict Afghanistan situation and interests of neighboring countries warrant it, a more substantial multi country trust fund (in addition to the financial arrangements for Afghanistan's own reconstruction) could be discussed in the future.

79. After an initial round of country level consultations, staff foresee that regional governments and their development partners would need to meet during the next few months. While an initial approach paper on selected regional development challenges could go ahead within the next twelve months, any serious engagement on regional issues among countries and development partners would be premature before a recognized government emerges that will represent the interests of Afghanistan.

80. A number of options for a meeting between countries and their development partners are shown below:

- Create an informal working group, which would serve as a forum for exchanging information and loosely coordinating donor activities across these countries, possibly back to back with a meeting on Afghan reconstruction and development;
- Use existing or proposed sub-regional fora, for example the Joint IFI initiative for Central Asia mentioned in paragraphs 69-71 of this paper;
- Pursue purely country-specific approaches based on PRSPs, as appropriate, through the various consultative mechanisms that exist at present.

81. The development community needs to reach an early consensus on its preferred modalities for program coordination and finance.

Cost

82. The increased cost of individual country initiatives will be funded by their respective country programs. In the first instance, a technical assistance trust fund could potentially provide modest resources for bilateral and multilateral initiatives. At this point, any figures would be provisional and subject to later adjustment. Initial expenditures would be modest, with the bulk of the expenditure falling in the out years.

Potential Risks and Mitigation Strategies

83. At this stage, the proposed ABSDF program faces major uncertainties. They include the scope and duration of the conflict, the flow of refugees and the economic and social impact upon neighboring countries. More detailed consultations will be necessary to consider additional measures suggested by the national authorities and communities and to ensure their full ownership and active participation. Other consultations will be necessary to ensure the various components of the framework are fully consistent with other donor programs and coordination mechanisms. There will be challenges in scaling up community development programs to respond to needs and capacity of far-flung border communities. The mid-term economic and fiscal impact has yet to be fully understood. The legacy of multilateral and bilateral cooperation throughout parts of the ABSDF region since 1991 is not encouraging, but other regions offer models which promise constructive results.

84. A variety of approaches will be pursued in managing these concerns. Bank staff will work closely with their client states and other IFIs to track the economic dislocation from the conflict and prepare remedial measures, as necessary. Community development efforts will draw on proven practices and be expanded carefully in a fashion consistent with local capacity. Regional initiatives in some areas, such as water or customs, may involve starting with narrower bilateral arrangements and focusing on “win-win” initiatives such as hydrological monitoring. In others, such as transport or health, a more regional approach may be warranted.

The World Bank’s Role

85. World Bank policy explicitly recognizes that economic and social stability and human security are preconditions for sustainable development. The Bank also recognizes that conflict not only affects the country or countries of the combatants, but also may spill over to other countries and have regional implications.⁸

86. The World Bank is ready to offer its technical expertise, experience in post-conflict reconstruction and development, and financial resources for national programs. It has set up a steering group across the vice presidencies for Central Asia, South Asia and Middle East and North Africa. In other post-conflict situations, the World Bank has been called upon to coordinate reconstruction and its regional dimension, and this expertise could be drawn upon if requested by regional countries and their development partners. The World Bank has also been working closely with others in all countries, including the UN, ADB and IMF.

⁸ See *World Bank Operational Policy 2.30*.

Next Steps

87. Subject to the wishes of the international community, the Bank could proceed with detailed work along the following four dimensions:

- developing mechanisms for Bank and donor coordination, as appropriate;
- launching an intensive round of client consultation and feedback to further refine individual country programs;
- at the country level, redirect existing programs to respond to the conflict-related needs of ABSDF countries and their border regions, along with quantifying additional resource requirements; and
- refining and developing the broader regional agenda, which could later be agreed with regional governments, including Afghanistan, and supplemented by development partners.

Table 1

AFGHANISTAN BORDER DEVELOPMENT FRAMEWORK
Potential Initiatives

Individual Country Initiatives	Near-Term (0-12 months)	Mid-Term (1-5 years)
Pakistan	<ul style="list-style-type: none"> • Humanitarian assistance and relief to refugees (UN and other agencies) • Provision of debt relief and balance of payments support by international financial institutions • Prepare plan for scaling up National poverty programs in border regions • Complete district development programs already planned for districts in border area • Jump-start implementation of poverty programs in border zone • Preparations for supporting returning refugees, such as road rehabilitation 	<ul style="list-style-type: none"> • Implementation of poverty programs in border areas • Implementation of health, education and trunk infrastructure programs through local government
Iran	<ul style="list-style-type: none"> • Focus the proposed Social Fund project (\$150 million) and restructure the ongoing Primary Health Care and Nutrition Project (approved in May 2000 in the amount of \$87 million) towards addressing needs of bordering provinces of Khorasan and Sistan & Baluchestan. 	<ul style="list-style-type: none"> • Focus the FY03 Low Income Housing project (\$150 million) (under preparation) to emphasize the needs of the two bordering provinces. • Follow up the Irrigation Improvement project (closed in FY01) with another Agriculture Irrigation project (\$100 million) in the framework of the upcoming CAS (scheduled for May 2003). • Proposing a Community Integrated Development project (\$150 million) of a sufficient size and scope covering the two provinces and addressing its priority social and economic development needs.

Country/Regional Initiatives*	Near-Term (0-12 months)	Mid-Term (1-5 years)
<p>Kyrgyz Republic</p> <p>Tajikistan</p> <p>Turkmenistan</p> <p>Uzbekistan</p> <p>* Note: In the case of Central Asia, these activities will be pursued, as needed, in all countries</p>	<ul style="list-style-type: none"> • Review budget/BOP needs to compensate for commodity price drops • Portfolio restructuring as warranted, including increase in IDA cost share • Use PRSP as vehicles for identifying and prioritizing needs • Intensify Community Driven Development approaches, with particular emphasis on Ferghana Valley situation • TAJ- intensify Social Fund project preparedness (5/02 Board) • KR – initiate preparations for Community Development Project • Continued work on water and rural poverty projects • Enhanced donor coordination • Joint IFI focus on debt and development (TAJ, KR, UZB) 	<p>Proceed in accordance with CAS programs.</p> <ul style="list-style-type: none"> • KR- Progress Report (December 2001). Common themes over the medium term include: debt sustainability, inclusive growth to address poverty issues; development of export products/markets; improvement in business environment and governance • TAJ- CAS (July 2002) Common themes include: post-conflict consolidation and nation building; debt sustainability; poverty reduction and social cohesion; intensified structural reform; improved governance • TRK – CAS (January 2001) Bank's ability to extend new loans contingent upon resolution of the negative pledge clause, debt reporting, and progress on the key policy issues, particularly public sector and foreign exchange management • UZB – CAS (March 2002) Common themes include: improve foreign exchange and trade regime; improve prudential regulations and supervision in the banking sector; increase agricultural productivity; improvement of the business climate; and improved governance

Regional Initiatives	Near-Term (0-12 months)	Mid-Term (1-5 years)
Water	<ul style="list-style-type: none"> • Continued water and energy dialogue, especially on Syr Darya Basin (Central Asia) • Continue GEF-Aral Sea Initiative implementation (Central Asia) • Continue implementation of GEF Caspian Sea Program (Central Asia) 	<ul style="list-style-type: none"> • Inter-governmental bilateral meetings to discuss specific issues • Specific technical and generic training to support program elements • Depending on country readiness, the Amu Darya Basin could emerge as areas of focus
Transport	<ul style="list-style-type: none"> • Consider Central Asian Trade and Transport Facility (in conjunction with other key donors such as the ADB) 	<ul style="list-style-type: none"> • Create a multi-national steering group under an existing regional body • Prepare a strategic transport plan for the region.
Governance		<ul style="list-style-type: none"> • Analysis of regional customs agencies and non-tariff barriers to trade • Initiate bilateral efforts to streamline and harmonize customs practices
Health		<ul style="list-style-type: none"> • Establish a mechanism for regional collaboration among the ministries of health • Address specific common threats such as the spread of infectious diseases through improved surveillance and coordination
Energy		<ul style="list-style-type: none"> • Study facilitation and risk management in large scale gas trade • Study regional power capacity and requirements
Other	<ul style="list-style-type: none"> • Continue GEF West Tian Shan Transboundary Biodiversity Program implementation (Central Asia) 	

Attachment 1 Regional Economic Cooperation in Central Asia

- **World Trade Organization:** Only one Central Asian country, the Kyrgyz Republic, has joined the WTO. Membership is not advanced for the other Central Asian countries, and additional membership is not expected in the near future.
- **Eurasian Economic Community (formerly CIS Customs Union):** Members are Russia, Belarus, Kazakhstan, Kyrgyz Republic and Tajikistan. Although in principle there should be no trade barriers or tariffs between members, this is not always the case. Unlike other Customs Unions, all countries can set rates individually for non-members.
- **The Shanghai Cooperation Organization (formerly the Shanghai Five):** Members are China, Russia, Uzbekistan, Kazakhstan, Tajikistan and Kyrgyz Republic. Its primary mandate is security, but at a meeting in July 2000 members discussed the possibility of expanding it to incorporate an economic union. Work is underway to establish a regional anti-terrorism center in Bishkek.
- **Central Asian Forum (formerly the Central Asian Economic Community):** Members are Uzbekistan, Kazakhstan, Kyrgyz Rep., and Tajikistan. The Forum provides a permanent mechanism to discuss mutual economic and political matters and holds regular meetings on issues such as customs, migration, tax policy, water agreements etc. Under the Forum, more than 200 agreements have been signed and a Central Asian Bank for Reconstruction and Development created. In June 2000, the Presidents of the four member countries signed an agreement to create a common market in stages.
- **Economic Cooperation Organization:** Members are Iran, Pakistan, Turkey, the five Central Asian countries, Azerbaijan, and Afghanistan. ECO was created to promote regional cooperation in trade, transport, communications, tourism and culture. Various tariff reductions have been agreed upon, but the framework is looser than a customs union.
- **International Fund to Save the Aral Sea (IFAS):** Members are Kazakhstan, Uzbekistan, Tajikistan, Kyrgyz Republic, and Turkmenistan. This was set up to coordinate cooperation on investments and policies relating to the Aral Sea Basin. There is a rotational leadership every two years. It has approved an Aral Sea Basin Program of 8 sub-programs comprising about 20 projects including a GEF project (Water and Environment Management Project – WEMP)
- **GUUAM:** Members are Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova. Guuam promotes cooperation in regional security, economic and political matters. Special importance is attached to establishing a Trans-Caucasus and Central Asia transportation corridor (TRACECA) and to settling pipeline energy issues.

Attachment 2

Potential Areas for Regional Collaboration

Water Resources

Despite its severe and predominantly arid or semi-arid climate, Afghanistan holds an important position in the region's water resources endowment. Mountainous northern Afghanistan forms part of the Indus and the Aral Sea basins. Rivers rising in the central highlands of Afghanistan flow east into Pakistan and west into the Central Asian countries of Turkmenistan and Uzbekistan. In southern and western Afghanistan, the rivers flow west across the deserts into Iran. Rainfall is scant and unreliable, particularly in the growing season. Snow and glacial melting are the predominant source of water resources, providing the critical groundwater recharge that sustains river flow in the growing season and supplies drinking water.

Within Afghanistan, settled agriculture covers just 12 percent of the arable land and is concentrated in the northern plains, the narrow valleys of the central highlands and along the rivers flowing through deserts in the south and west. Livestock, and hence fodder and pasture (encompassing nearly half the arable land), are the predominant land use. Drought is a recurrent event, exacerbated in recent years by the combination of poverty, demographic pressure, unsustainable practices, and the consequences of war and displacement. As a consequence the frequency and severity of drought has increased, and traditional pasture and forest lands have been degraded, disrupting the hydrologic cycle and undermining traditional livelihoods sustained for centuries by indigenous coping strategies and methods.

Notwithstanding the severity and importance of local water management issues, trans-boundary issues are also important and offer unique and important development and institution building opportunities during the early phases of reconstruction. Afghanistan shares many climatic hazards as well as water resources with its neighbors. Its northern highlands encompass the headwater watersheds for two great river systems on which its neighbors critically depend: the Indus and the Amu Darya. Since irrigated agriculture and settlement is concentrated along the river valleys in the central and western parts of the country, pollution and water quality together with water sharing are important to Afghanistan and its neighbors. Groundwater will be the most important source of water for increasing access to safe drinking water, and for restoring Afghanistan's regionally renowned production of vegetables and fruits. But this same groundwater resource also sustains the flow of the rivers in the long dry summer season, both in Afghanistan and within its neighbors.

A program fostering regional cooperation in water resource management would benefit all of the countries of the region. However, in light of the high profile and potential volatility of the issue, as well as the expressed reluctance of some regional countries to pursue multilateral solutions, it will need to be approached with care. One potential solution would be to foster a series of bilateral approaches that could lay the groundwork for a possible multilateral regime.

In terms of substance, the program should refrain from being overly ambitious, at least in its early stages. The program could, for example, focus on meteorological and hydrologic monitoring, data and information sharing, groundwater recharge management, and drought and flood forecasting. Such cooperation could also be an important means of rebuilding Afghanistan's shattered institutions and technical capacity in these important areas of water resource management, since the other countries of the region have strong technical capacity in these areas. The WMO World Hydrological Cycle Observing System (WHYCOS) provides a possible model

for a regional cooperative program and the process through which it can be fostered and developed. WHYCOS has concentrated on developing regional systems founded on common and shared regional interests, and led by local experts. A regional HYCOS program could provide a useful platform on which regional technical cooperation, knowledge sharing, and institution building could be founded and supported. Such an approach could be strengthened considerably through bilateral programs such as the ongoing hydro-meteorological forecasting assistance project supported by Switzerland in Tajikistan.⁹

An illustrative regional program in water cooperation is shown in Box 1.

Box 1
Illustrative Regional Activities in Water Resource Management

Program Activities	Indicative Cost (\$1,000)
1. Program Working Paper – Comprehensive background paper including a thorough technical bibliographic assessment of past work, assessment of global experience and lessons learned, available regional and global technical resources, and proposed program options	250
2. Regional Expert Consultations – A well structured and designed series of meetings of experts from the region with international resource persons, formation of task and study groups, assessment of existing capability and experience, identification of investment, training and knowledge needs, review of on-going and planned research and studies, and project proposals and plans	500
3. Inter-governmental bilateral meetings – inter-governmental meetings to discuss specific issues such as lake and river basin management, information and data sharing, water policy, etc., monitor program progress and set program direction and policy	400
4. Initial Spatial Knowledge Base Development – Design and implementation of an initial spatial knowledge base, remote sensing applications, acquisition of equipment and tools, training, planning and program design for future development	750
5. Specialized Research and Working Papers – Support for country, organization and expert sponsored research and study of important issues including forecasting models and tools, stressing wherever possible joint and collaborative work within the region and support for supplemental international assistance as required	750
6. Investment Project Preparation and Design – Preparation and design of investment projects including data acquisition technology and equipment	1,000
7. Training and Study Tours – Specific technical and generic training to support other program elements including project implementation. Study tours to learn about methods and approaches being implemented elsewhere in the world and to exchange experience.	750
Total	4,400
NOTE: These activities would not be implemented sequentially but would overlap, stop and restart according to the current overall program plan and progress on key tasks as recommended by the expert consultations and the inter-governmental panel.	

⁹ A great deal of work on Central Asian water issues has already been undertaken under the Aral Sea program. Any additional needs for analytic work would need to take this into account. Given the strategic and critical role of prudent management of the Syr Darya and Amu Darya basins (water management, dam safety, irrigation and drainage), estimated incremental financing needs for maintenance and rehabilitation works over the next 1-3 years could reach \$200 million.

Transportation

Trade and transport in the Afghanistan border countries region was disrupted first during the conflict between Britain and Russia in the 19th century and later in the 20th century first with the formation of the Soviet Union and later following the Iranian revolution and the Soviet invasion of Afghanistan. Regional peace could profoundly affect trade and transport patterns in the region. Initially, transport flows would be related primarily to the emergency relief and reconstruction of Afghanistan. Later, there could be resumption of the overland trading routes between Europe and the Middle East and the Indian sub-continent, and development of north-south transport links between Central Asia and South Asia that have been broken for more than 150 years. Central Asian countries presently have a transport infrastructure oriented toward Russia, but have the prospect of access to large markets in South Asia (where the population exceeds 1.2 billion) and ports on the Arabian Sea that would provide a gateway to East Asia. South Asian countries would have improved land routes to Europe and the Middle East and Russia. They would also have market access in the five Central Asian countries of 55 million people.

Even in the 1970s, transport between Afghanistan and routes through the Soviet Union, Iran and Pakistan were long (transshipment via Peshawar to Karachi is more than 1,500 km). Iranian ports are about 2,300 km from Herat and prone to congestion and other difficulties. In 1976, Afghanistan's total export, import and transit trade amounted to only 1 million tons, with exports consisting of mainly fruits and cotton and imports mainly petroleum, sugar and tea. More than half of Afghanistan's international trade was moved through the river port at Hairatan in the former Soviet Union.¹⁰

There are two priorities for transport in the Afghanistan border countries region. The first is the maintenance and rehabilitation of the existing road network to support development of the farm and non-farm economies. Even this objective will be difficult to afford in light of existing macroeconomic and fiscal constraints. Therefore, the countries will have to focus their maintenance program on the core network and limit upgrading and new construction to few exceptional cases. The second objective is to enable international transport within the region and with the outside world, which will require both physical investments and, even more importantly, the elimination of non-physical trade barriers.

The immediate priorities are maintenance/rehabilitation and (in exceptional conditions) the upgrading of the existing core road network in the areas bordering Afghanistan, which would allow greater access to markets for agricultural products and lower the cost of manufactured goods to those living in border areas. This would be achieved through national investments in road rehabilitation and feeder roads that would provide all-weather access to villages.

Regional transport development would start with reconstruction of key roads inside Afghanistan and between Afghanistan and its neighbors through a number of coordinated national investments that would support Afghan relief and reconstruction and the resumption of trade.

Bank staff estimate that rehabilitating the 2500 km of trunk road network within Afghanistan to two lane asphalt surface standard would cost \$500-750 million. Before the foundations of post reconstruction transport investment can be laid, it will be necessary to prepare a strategic transport plan for the region that would not only project transport flows within the region, but would also assess transport demand between the ABSDF region and Turkey and the Middle East,

¹⁰ For information on trade and transport in Afghanistan, see World Bank, "Afghanistan: Staff Appraisal Report of a Third Highway Project," *Report 2360a-AF*, (May 16, 1979)

Russia, China and Europe. Such a study would need to be carried out under the auspices of a multi-national steering group that would be specially created or established under an existing regional body.

Governance and Corruption

The countries of the ABSDF region present a mixed picture with regard to governance and the rule of law. Iran fares relatively well and is undergoing a serious process of political reform centered on fostering democratic accountability, rule of law, clean government and freedom of the press. Pakistan has historically struggled with governance issues, but the country has recently initiated a variety of far-reaching reforms under the leadership of its National Reconstruction Bureau to improve the efficiency and responsiveness of the public sector; devolve power to the grass roots level; and ensure accountability. Some Central Asian states such as the Kyrgyz Republic and Tajikistan have not been able to rebuild sufficient state capacity to provide critical goods and services following the disintegration of the former Soviet Union. Other Central Asian states have been able to maintain strong centralized state authority, but often at a price of minimal accountability and transparency. Afghanistan has ceased to have a functioning central government in the traditional sense.

These countries derive their political and administrative structures from widely differing traditions. The Central Asian Republics have inherited a bureaucratic legacy from the Soviet command system. Pakistan has its roots in the British Commonwealth, and Iran within established Islamic traditions. They vary significantly on important questions of transparency, capacity, decentralization and responsiveness to the public. In light of these differences, most governance work will need to take place at the national level. There are three related areas, however, where greater regional collaboration would be likely to play a valuable role: (1) border security; (2) smuggling and narcotics; and (3) customs harmonization, standardization and professionalization.

The first two are beyond the purview of the Bank but may be areas of interest for bilateral donors. The third is a very significant problem. A recent study of problems in cross border trade by the Asian Development Bank noted that "perhaps the most serious non-tariff barrier is pervasive corruption, which affects the ability to transport goods efficiently at a reasonable cost."¹¹

Historically, customs problems have arisen in a majority of countries from legislative and regulatory differences which imposed on traders dual sets of requirements, sometimes conflicting with one another, and opened opportunities for corruption. Different definitions have also been responsible for high transaction costs in international trade. There are models for the legislative modernization and procedural harmonization that are necessary (e.g. from the Kyoto Convention of 1973), but no quick fix is possible. In the interim, much can be accomplished bilaterally by setting up channels for simultaneous transmission of complaints to both the respective customs' organizations; comparing customs' forms and elaborating common simplified formats; and particularly moving in the direction of flexible, risk-based, and targeted enforcement. The latter, however, requires far better intelligence to identify upstream the sources of probable risk—whether illicit drugs, weapons, or routine smuggling. In turn, this calls for a reasonable level of integrity and transparency in the higher institutions of government.

Addressing the problem of corruption in cross-border trade would require progress along several dimensions. Initiatives to improve the rate of sanctions and prosecutions will need to be carefully

¹¹ *Regional Cooperation in Central Asia* (Asian Development Bank, July 1998), p. 115.

tailored to local circumstances and administrative traditions, and should rightly be addressed within the individual country context. A major thrust of any successful anti-corruption effort is to remove the incentive and opportunity for corruption. Practices such as multiple exchange rates, licensing, quotas and the registration of contracts, excessive check points, multiple processing stages for documents, and excessive administrative discretion create opportunities for rent seeking and illicit behavior. Proactive initiatives to address these non-tariff barriers can play a powerful role in reducing corruption and enhancing regional trade.¹²

Efforts to streamline customs and border procedures and to improve the quality of information flowing to citizens would benefit from closer coordination. As a start, a careful analysis of potential reforms in customs operations in selected ABSDF states could help lay the groundwork for broader reforms. The next stage could involve a series of bilateral steps, which may be more practical than a regional approach. Moreover, in parallel with the historical experience with most-favored-nation clauses, such bilateral steps would in time lead naturally to harmonization and simplification in customs procedures on a regional basis. A mechanism to begin introducing improvements could consist of setting up small working groups of customs officials from pairs of countries involved, supported by expert advice from the World Customs' Organization. The guiding criterion should be to always join simplification with harmonization, lest procedures be harmonized "up," toward the more complex and intrusive practices.

Finally, any successful anticorruption effort requires a strong emphasis on transparency and public awareness. Devices such as citizens charters, posted service standards, and well-established grievance procedures can be extremely effective in making citizens aware of their rights and recourse to administrative malfeasance.

Health and Nutrition

With the exception of Iran, the states surrounding Afghanistan already suffer from poor health conditions. They are either making only modest progress, such as Pakistan, or possibly witnessing a deterioration in health status, such as the Central Asian Republics (see Table 2).¹³ Vaccination coverage is poor throughout the region and results in a heavy burden of measles and diphtheria, with outbreaks of the latter are still occurring in Central Asia. Tuberculosis is highly prevalent in all the countries except Iran, and there has been only modest progress in the introduction of DOTS (directly observed treatment with short-course chemotherapy, which is global best-practice for TB control). These countries currently have a low prevalence of HIV/AIDS, but are at serious risk due to substantial numbers of injecting drug users and increasingly mobile populations. The possible introduction of soldiers from a large number of countries may also increase the spread of HIV, as has happened in other post-conflict situations.

¹² Within Asia, there are examples such as the Philippines, where a major streamlining of customs procedures (in this case, utilizing information technology) radically reduced the time and expense in obtaining clearance for goods while improving revenue collection.

¹³ There are serious concerns about the routinely reported data in the Central Asian Republics and the health conditions are likely to be worse than what has been reported.

Table 2
Selected Health Indicators for the States Surrounding Afghanistan

Indicator	Iran	Kyrgyz Republic	Pakistan	Tajikistan	Turkmenistan	Uzbekistan
Life expectancy in years, 1999	71	67	63	69	66	70
Change in life expectancy since 1980, years	+11	+2	+8	+3	+2	+3
Infant mortality rate per 1000 births, 1990	47	30	111	41	45	35
Infant mortality rate per 1000 births, 1999	26	26	90	20	33	22
percent of children under 5 malnourished (weight for age) 1993-1999	11	11	38	--	--	19
Incidence of tuberculosis per 100,000	55	99	181	87	74	81
percent of population with access to improve water source, 2000	95	77	88	--	58	85

-- = no data available

source: World Bank, World Development Indicators

Recent drought in much of the region has worsened nutritional status, particularly of children, which was in poor condition to begin with. In addition to protein-energy malnutrition, there are also high levels of micronutrient malnutrition, including extensive deficiencies of iron, iodine and vitamin A.

With the exception of Iran, the primary health care (PHC) systems that could make a large difference to the health of people in the region are in poor shape and in the Central Asian Republics are actually deteriorating. The PHC systems, while extensive, do not provide effective delivery of basic services to the existing population and are ill-equipped to meet further demands on them. With a few exceptions, the managers of the PHC systems are poorly motivated, reluctant to innovate, and rarely held accountable. In several countries, there are serious problems with governance and corruption. This results in PHC services that are inefficient ineffective, and cannot make use of what resources are available. There are both international and local NGOs working extensively in the region but there have been few opportunities for NGOs and other private sector entities to work closely with government to improve service delivery on a large scale.

In the short to medium term the most pressing health consequences of the fighting in Afghanistan will likely be: (i) increased risk from infectious diseases, particularly vaccine-preventable illnesses such as measles and diphtheria, tuberculosis, and HIV/AIDS; (ii) worsening malnutrition from disruptions in agriculture and food distribution as well as potentially large numbers of refugees; (iii) greater stress on the systems that provide water, sanitation, and hygiene, particularly if there are large numbers of refugees or internally displaced people; and (iv) further deterioration or lack of improvement in the poorly functioning PHC systems as they try to meet greater demand for services within constrained budgets.

Beyond what needs to be done at county-level, there are a number of strategies that could be used to facilitate regional improvements in health in the short-term (some of which could also have beneficial long-term consequences). These include: (i) establishing a formal mechanism for regional collaboration among the ministries of health so that they can share information and experiences as well as coordinate strategies; (ii) using the mechanism for cooperation among the different ministries of health to also coordinate the regional health activities of multilateral, bilateral, and non-governmental organizations; (iii) addressing specific common threats such as the spread of infectious diseases through improved surveillance (including strengthened behavioral and sero-surveillance for HIV/AIDS) and coordination of specific activities, such as childhood immunization, similar to what has already been done for polio; and (iv) utilizing contracts with NGOs or other private sector entities to improve outreach, help increase the efficiency and effectiveness of government PHC services, and to expand services rapidly where needed.

Energy

Energy and the Poor While national electrification rates and access of households to modern fuels is high in relation to income levels in the ABSDF region, except for Afghanistan, this is generally not true in border areas, where use of biomass and animal residues for cooking and kerosene for lighting is common. Use of traditional fuels for cooking creates serious problems of indoor pollution. World-wide around 3.5 million, mainly women and children under 5, die each year due to respiratory diseases related to indoor air pollution¹⁴. The population cooking indoors in traditional ways will be affected similarly in the Afghanistan border states region. Providing clean, affordable modern fuels depends on national reforms of the petroleum sector and improved road access.

Recent studies have shown that the benefits from rural electrification are much greater than previously thought. A recently completed rural electrification project in Bangladesh had an enormous rate of return of around 100 percent¹⁵. However, rural electrification by government public utilities has had mixed success. Community based electrification based on supply by cooperatives, entrepreneurs or village associations which either purchase bulk power, or produce it in small facilities has been more effective. Specific solutions depend on topography and costs of central power production; in the border regions community based hydroelectricity has been shown to be cost effective when villages are remote from the grid. Social mobilization, often through NGOs is a critical first step to community electrification, finance can be provided from the community itself and through social development funds.

International Energy Trade Countries in the Afghanistan border states region are richly endowed with natural gas (see Table 3) and hydroelectricity (see Table 4). Iran and Turkmenistan are gas and oil exporters, and the Kyrgyz Republic and Tajikistan have large hydroelectric potential. Pakistan may have temporary surpluses in power and gas.

¹⁴ World Bank: Fuel for Thought, An Environmental Strategy for the Energy Sector (2000).

¹⁵ World Bank: Implementation Completion Report, Bangladesh Third Rural Electrification Project: Report 20615, (June 2000).

Table 3
Natural Gas Resources, 2000

Country	Proven Gas Reserves (trillion cubic meters)	Reserves to Production Ratio (years)
Afghanistan	0.11 ¹	..
India	0.65	24.8
Iran	23.00	>100
Turkmenistan	2.86	61.8
Pakistan	0.61	32.3
Uzbekistan	1.87	34

Source: BP Statistical Review of World Energy 2001

Note: 1. Afghanistan data for 1978 are from ADB, "Survey of Energy Utilization" (March 1980) Coopers & Lybrand, London

Regional power trade would also enable economic savings arising from coordinating operation of hydro and thermal plant between countries to take account of seasonal and daily cost variations, as well as providing emergency support when power systems fail. There is also considerable hydroelectric potential in the region with riparian issues that would require international agreement. There are about 13 hydroelectric projects identified on the rivers that on Afghanistan's northern borders comprising 9110 MW on the Amu Darya and 9050 MW on the Panj river, but since no rigorous analysis of environmental impacts and resettlement is available, some of this potential might not be able to be developed. By comparison, total electricity demand in Afghanistan in 1980 was around 200MW and in 1980 was expected to increase to about 1000MW in 1999.¹⁶ It is conceivable that Afghanistan could obtain revenues from power exported from these projects until its own electricity demand grows to absorb its share of the output. A starting point for extending international power trade simultaneously with the reconstruction of Afghanistan would be the inter connection of the main Afghan cities of Kabul, Kandahar, Herat and Mazar-e-Sharif with neighboring countries. Transmission lines (600 km, 132kv, single current) and sub stations have been estimated by Bank staff to cost around \$150 million.

There are other possibilities not only for inter-regional trade, but also for trade with countries outside the immediate region (particularly India, which has limited gas resources and enduring power shortages). In the 1970s, revenues from gas exports to the Soviet Union accounted for 30 percent of Afghan budget revenues. Trade in energy within the Afghanistan-Region is constrained by internal energy pricing policies which limit the number of creditworthy buyers. Trade is not just a matter of overcoming political constraints and investment, but is linked to the reform of national energy policies.

Trade in natural gas and electricity would potentially reduce the need for further growth of coal consumption in India and provide national and global environmental benefits, as well as economic benefits for the producing, consuming and transit countries. Substituting natural gas and hydroelectricity for coal is one of the few choices that India has to reduce greenhouse gas emissions and have a significant global impact.

¹⁶ For analysis of Afghanistan's hydroelectric potential and electric power market see Acres International Limited, "Afghanistan Power Sector Master Plan", (June 1980)

Table 4
Energy Resources, Production and Trade, 1998

	Hydroelectric Potential (TWh)	Electricity Production (GWh)	of which Hydroelectricity (GWh)	Imports (GWh)	Exports (GWh)	Ratio Hydro Potential to Production	Ratio Trade Volume to Production
Afghanistan	100,000	513	325	100		194.93	19.5%
India	2,638,000	464,372	74,494	1,580	85	5.68	0.4%
Iran	176,000	97,744	6,908			1.80	0.0%
Kyrgyz Republic	163,000	12,600	11,220	7,000	8,700	12.94	124.6%
Pakistan	262,000	59,119	37,915			4.43	0.0%
Tajikistan	527,000	14,005	13,713	4,345	4,147	37.63	60.6%
Turkmenistan	24,000	9,400	950	3,600		2.55	38.3%
Uzbekistan	88,000	46,055	12,418	11,489		1.91	24.9%
Total (excl. India)	1,340,000	239,436	83,449	26,534	12,847	5.60	16.4%

Sources: "Energy Statistics Yearbook 1997", United Nations, New York (2000).

Acres International Limited, "Afghanistan Power Sector Master Plan" (1980)

Gas pipelines have been proposed by private investors to export gas from Iran to India via Pakistan and from Turkmenistan to India via Afghanistan and Pakistan. These projects have not progressed because of tensions between India and Pakistan and the situation Afghanistan. Should political conditions become favorable, the Bank could prepare a paper on facilitation and risk management in large scale gas trade. While Pakistan now has sufficient gas resources to meet its needs in the immediate future, preliminary cost estimates are available from Bank reports on the costs of gas pipelines from Turkmenistan to Pakistan (\$3.4 – 7.6 billion) and Iran to Pakistan (\$3.3 - \$8.3 billion) for gas flows ranging from 1000 to 4000 MMSCFD. These costs include compressor status and pipeline diameters ranging from 42 to 60 inches¹⁷.

¹⁷ UNDP/World Bank Energy Management Assistance Programme (ESMAP) "Pakistan Natural Gas Reserve Assessment and Imports Strategy" (March 1994) (Confidential).

T. Althuis, P. Venogopal, A. Malhotra and H. Razavai, "South Asia Gas Trade" World Bank Asia Technical Department Paper number 10 (April 1995).

Attachment 3
Basic Economic and Social Indicators for ABSDF Countries
and Their Border Regions

PAKISTAN

	Balochistan	NWFP	Tribal Areas
Area (sq km)	347,190	74,521	27,220
Population*	6,511,358	17,554,674	3,137,863
Urban	1,516,339	2,973,047	83,131
Rural	4,995,019	14,581,627	3,054,732
Density per sq km	19	236	115
Average Annual Growth Rate (%)	2.42	2.75	1.95
Districts bordering Afghanistan	Chagai Quetta Qilla Abdullah Quilla Saifullah Zhub	Chitral Dir	
Economic Indicators			
Absolute Poverty Indicator (%)	29	36	
Cultivated area/ Available area (%)	14		
Livestock density per sq km	32		
Length of roads (km)			
Metal	4,198		
Shingle	19,853		
Unemployment ratio (%)	1.06	3.33	
Social Indicators			
Literacy ratio (10 years & above) (%)			
Male	36.5	52.8	10.9
Female	15.0	21.1	0.8
Primary School Enrollment Rate (%)			
Total	64	70	
Girls	43	54	
People per hospital bed	1,776		
People per doctor	7,249		
Fertility rate	6.8	6.5	
Infant mortality rate (per 1000 births)	86	62	
Access to water (% of households)	27	53	
Number of Refugees	1 million	1.5 million	

Source: Economic Survey 1999-2000

Note: Data is not available for the Federally Administered Tribal Areas.

ISLAMIC REPUBLIC OF IRAN

	Khorasan	Sistan & Baluchestan	Iran	
Real Consumption expenditure per capita ('000 Rials)	1.502	1.120	1.899	
Unemployment	13.2	20.2	13.5	
Consumption expenditure index	0.70	0.51	0.90	
Social Indicators:				
Population (million) (2001)	6.1	2.0	64.5	
Number of registered afghan refugees ('000)			1,500	
Life expectancy at birth (years)				
	Male	63.5	60.7	67.0
	Female	65.1	61.5	69.8
Adult literacy rate (%)				
	Male	81.6	61.0	80.1
	Female	72.1	43.0	66.7
Infant mortality rate (per 1000 live births)	53.0	66.0	26.0	
Gross enrolment ratio:				
	Primary	122.7	111.4	119.1
	Secondary	69.9	43.4	76.8
Female net enrolment ratio:				
	Primary	94.0	65.5	94.7
	Secondary	54.2	25.0	58.9
Population without access to				
	safe water	5.8	9.4	5.5
	sanitation	45.3	58.9	35.7
Human poverty index	23.1	39.5	21.4	
Population below income poverty line (\$1 a day)	6.3	9.5	3.4	
Food consumption (as % of total household consumption)	39.7	50	44.5	

Source: Human Development Report, I.R. Iran, 1999.

CENTRAL ASIA REPUBLICS

	Size (SqKm Million)	Popul (#M)	GDP (\$B, 2000)	GDP/Capita (\$ 2000, Atlas Meth)	Adult Literacy (%)	Estimated Private Sector (% GDP)
Uzbekistan	0.5	24.7	13.5*	620	97.2	45
Turkmenistan	0.5	4.8	4.4**	840	97.7	25
Kyrgyz Rep.	0.2	5.0	1.3	270	97.0	75
Tajikistan	0.1	6.3	1.0	170	96.7	30
Total	1.3	40.8				

* at the official exchange rate. Uzbekistan has multiple exchange rates. If the indicate rate is used, defined as a weighted average of the official (60 percent), commercial (10 percent) and curb market (30 percent), then GDP was \$7.7 billion in 2000.

** at the official exchange rate, which is highly overvalued. An indicative rate has not been calculated due to inadequate information.

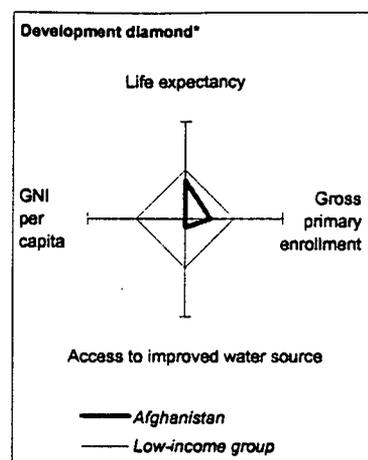
Source: World Bank statistical data base

Afghanistan at a glance

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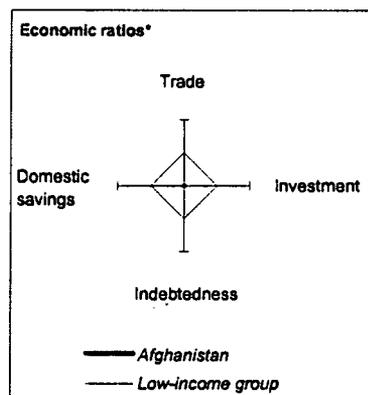
POVERTY and SOCIAL

	Afghanistan	South Asia	Low-income
2000			
Population, mid-year (millions)	26.6	1,355	2,459
GNI per capita (Atlas method, US\$)	..	460	420
GNI (Atlas method, US\$ billions)	..	617	1,030
Average annual growth, 1994-00			
Population (%)	4.1	1.9	1.9
Labor force (%)	4.1	2.4	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	22	28	32
Life expectancy at birth (years)	46	63	59
Infant mortality (per 1,000 live births)	147	74	77
Child malnutrition (% of children under 5)	49	47	..
Access to an improved water source (% of population)	13	87	76
Illiteracy (% of population age 15+)	63	45	38
Gross primary enrollment (% of school-age population)	49	100	96
Male	64	110	102
Female	32	90	86



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1980	1990	1999	2000
GDP (US\$ billions)	3.6	..	..	..
Gross domestic investment/GDP	..	..	..	..
Exports of goods and services/GDP	..	..	..	..
Gross domestic savings/GDP	..	..	..	..
Gross national savings/GDP	..	..	..	..
Current account balance/GDP	1.5	..	..	..
Interest payments/GDP	..	..	..	..
Total debt/GDP	..	..	..	..
Total debt service/exports	..	..	..	..
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
	1980-90	1990-00	1999	2000
(average annual growth)				
GDP	..	..	..	..
GDP per capita	..	..	..	..
Exports of goods and services	..	..	..	..



STRUCTURE of the ECONOMY

	1980	1990	1999	2000
(% of GDP)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Imports of goods and services
	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture
Industry
Manufacturing
Services
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services

Note: 2000 data are preliminary estimates.

This table was produced from the Development Economics central database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Afghanistan

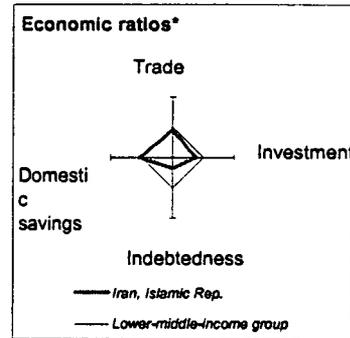
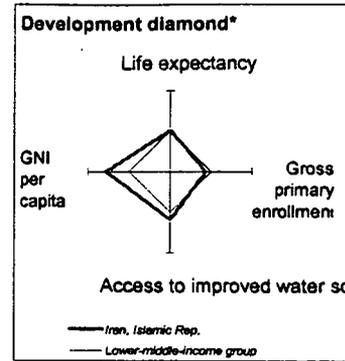
PRICES and GOVERNMENT FINANCE				
	1980	1990	1999	2000
<i>Domestic prices</i>				
<i>(% change)</i>				
Consumer prices	..	..	..	..
Implicit GDP deflator	2.5	..	..	..
<i>Government finance</i>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	..	..	..	..
Current budget balance	..	..	..	..
Overall surplus/deficit	..	..	..	..
TRADE				
	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total exports (fob)	..	..	..	..
n.a.	..	..	..	..
n.a.	..	..	..	..
Manufactures	..	..	..	..
Total imports (cif)	..	..	..	..
Food	..	..	..	..
Fuel and energy	..	..	..	..
Capital goods	..	..	..	..
Export price index (1995=100)	..	..	..	..
Import price index (1995=100)	..	..	..	..
Terms of trade (1995=100)	..	..	..	..
BALANCE of PAYMENTS				
	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Exports of goods and services	741	..	..	..
Imports of goods and services	918	..	..	..
Resource balance	-177	..	..	..
Net income	45	..	..	..
Net current transfers	185	..	..	..
Current account balance	54	..	..	..
Financing items (net)	-125	..	..	..
Changes in net reserves	72	-21	..	..
<i>Memo:</i>				
Reserves including gold (US\$ millions)	940	638	..	..
Conversion rate (DEC, local/US\$)	44.1	50.6	..	..
EXTERNAL DEBT and RESOURCE FLOWS				
	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	..	..	..	..
IBRD	..	..	..	..
IDA	..	..	..	..
Total debt service	..	..	..	..
IBRD	..	..	..	..
IDA	..	..	..	..
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	..	..	..	..
Private creditors	..	..	..	..
Foreign direct investment	..	..	..	..
Portfolio equity	..	..	..	..
World Bank program				
Commitments	..	..	..	..
Disbursements	..	..	..	..
Principal repayments	..	..	..	..
Net flows	..	..	..	..
Interest payments	..	..	..	..
Net transfers	..	..	..	..

Note: This table was produced from the Development Economics central database.

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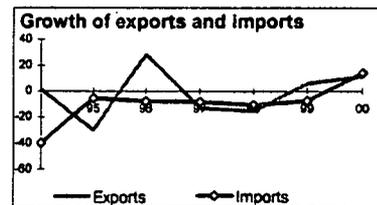
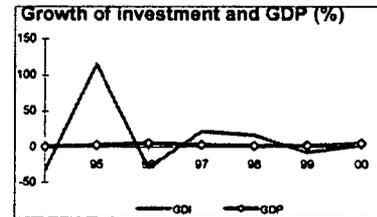
Iran, Islamic Rep. at a glance

	Iran	M. East & North Africa	Lower-middle-income		
POVERTY and SOCIAL					
2000					
Population, mid-year (millions)	64.0	296	2,046		
GNI per capita (Atlas method, US\$)	1,780	2,040	1,140		
GNI (Atlas method, US\$ billions)	114.1	602	2,327		
Average annual growth, 1994-00					
Population (%)	1.6	2.0	1.0		
Labor force (%)	2.4	2.8	1.3		
Most recent estimate (latest year available, 1994-00)					
Poverty (% of population below national poverty line)	15	..	..
Urban population (% of total population)	62	59	42		
Life expectancy at birth (years)	71	68	69		
Infant mortality (per 1,000 live births)	28	44	32		
Child malnutrition (% of children under 5)	11	..	11		
Access to an improved water source (% of population)	95	89	80		
Illiteracy (% of population age 15+)	23	35	15		
Gross primary enrollment (% of school-age population)	98	95	114		
Male	102	102	116		
Female	95	88	114		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1980	1990	1999	2000	
GDP (US\$ billions)	92.7	120.4	110.8	104.9	
Gross domestic investment/GDP	29.6	28.6	15.5	20.0	
Exports of goods and services/GDP	13.3	22.0	22.7	34.8	
Gross domestic savings/GDP	28.5	27.1	19.9	34.2	
Gross national savings/GDP	25.0	26.9	20.0	35.0	
Current account balance/GDP	-2.6	-1.8	4.3	12.7	
Interest payments/GDP	0.5	0.0	0.3	0.3	
Total debt/GDP	4.9	7.5	9.3	7.6	
Total debt service/exports	6.8	3.2	42.5	21.6	
Present value of debt/GDP	7.3	..	
Present value of debt/exports	37.7	..	
	1980-90	1990-00	1999	2000	2000-04
<i>(average annual growth)</i>					
GDP	1.7	3.5	2.5	5.4	5.0
GDP per capita	1.7	1.9	0.8	3.7	3.3
Exports of goods and services	6.9	-1.1	5.8	11.8	1.8



STRUCTURE of the ECONOMY

	1980	1990	1999	2000
(% of GDP)				
Agriculture	18.0	23.5	20.9	18.9
Industry	32.5	28.6	22.8	22.3
Manufacturing	9.5	12.3	17.0	18.3
Services	49.5	47.9	56.3	58.8
Private consumption	52.7	61.9	68.5	51.8
General government consumption	20.8	11.1	13.5	14.0
Imports of goods and services	16.4	23.5	16.1	20.7
	1980-90	1990-00	1999	2000
<i>(average annual growth)</i>				
Agriculture	4.5	3.8	-0.3	-2.3
Industry	3.3	-3.8	4.4	5.0
Manufacturing	4.5	4.7	2.5	3.0
Services	-1.1	9.1	4.0	6.9
Private consumption	2.8	2.9	2.8	4.9
General government consumption	-5.0	6.4	6.8	13.6
Gross domestic investment	-2.5	2.8	-7.4	2.7
Imports of goods and services	-3.6	-10.9	-7.5	14.2

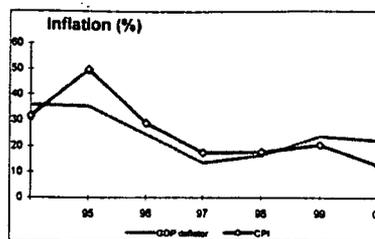


Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

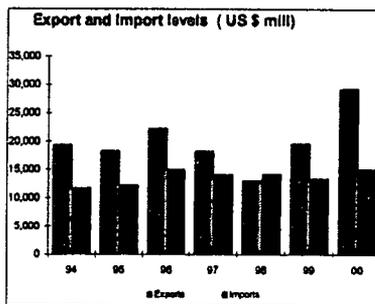
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	23.5	8.9	20.4	12.8
Implicit GDP deflator	23.4	18.6	23.8	22.3
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	6.2	27.0	40.0
Current budget balance	..	-8.6	10.9	21.2
Overall surplus/deficit	-13.8	-13.7	1.0	12.8



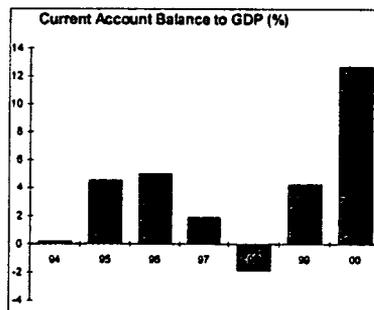
TRADE

	1980	1990	1999	2000
(US\$ millions)				
Total exports (fb)	12,256	19,305	19,727	29,382
Fuel	11,693	17,993	18,270	25,382
Textiles	..	..	12	642
Manufactures	..	..	1,064	823
Total imports (cif)	10,835	18,330	13,511	15,201
Food	..	..	1,959	2,427
Fuel and energy	1,000	400	215	274
Capital goods	..	..	4,510	4,928
Export price index (1995=100)	125	73	174	89
Import price index (1995=100)	55	68	179	58
Terms of trade (1995=100)	229	108	98	120



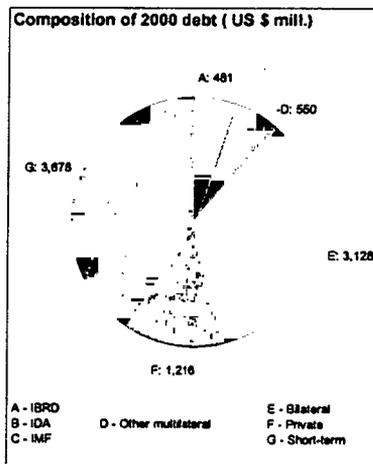
BALANCE of PAYMENTS

	1980	1990	1999	2000
(US\$ millions)				
Exports of goods and services	13,069	19,741	21,077	30,991
Imports of goods and services	16,111	22,292	16,419	18,370
Resource balance	-3,042	-2,551	4,658	12,621
Net income	608	378	-275	383
Net current transfers	-2	0	345	315
Current account balance	-2,438	-2,173	4,728	13,319
Financing items (net)	-7,409	1,848	-2,811	-1,542
Changes in net reserves	9,847	325	-1,917	-11,777
Memo:				
Reserves including gold (US\$ millions)	..	..	5,847	17,424
Conversion rate (DEC, bcal/US\$)	71.6	304.4	3,750.3	5,104.0



EXTERNAL DEBT and RESOURCE FLOWS

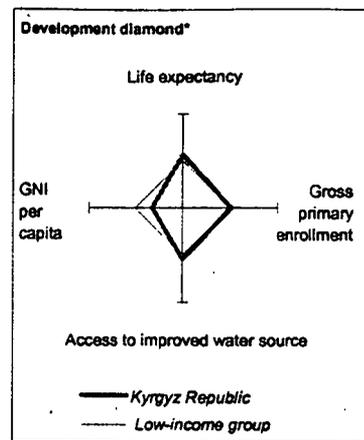
	1980	1990	1999	2000
(US\$ millions)				
Total debt outstanding and disbursed	4,500	9,020	10,357	7,953
IBRD	622	86	437	481
IDA	0	0	0	0
Total debt service	959	655	9,177	6,914
IBRD	119	77	104	110
IDA	0	0	0	0
Composition of net resource flows				
Official grants	1	78	..	..
Official creditors	-85	-56	-1,257	..
Private creditors	-178	-30	-1,470	..
Foreign direct investment	..	..	400	400
Portfolio equity	0	0	-300	0
World Bank program				
Commitments	0	250	0	232
Disbursements	4	0	74	114
Principal repayments	70	67	70	70
Net flows	-86	-67	4	44
Interest payments	49	10	34	40
Net transfers	-118	-77	-30	5



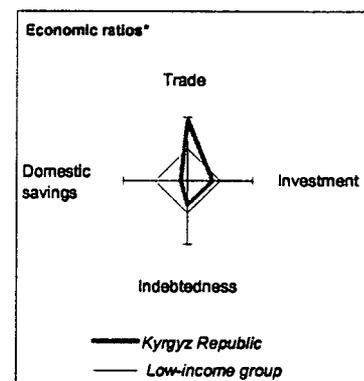
Kyrgyz Republic at a glance

11/8/2001

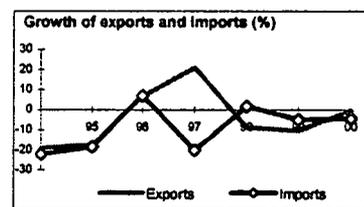
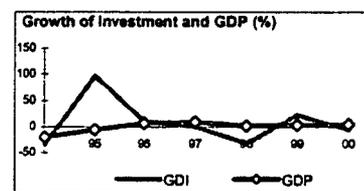
	Kyrgyz Republic	Europe & Central Asia	Low-income
POVERTY and SOCIAL			
2000			
Population, mid-year (millions)	4.9	475	2,459
GNI per capita (Atlas method, US\$)	270	2,010	420
GNI (Atlas method, US\$ billions)	1.3	956	1,030
Average annual growth, 1994-00			
Population (%)	1.1	0.1	1.9
Labor force (%)	2.9	0.6	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty (% of population below national poverty line)	52	..	..
Urban population (% of total population)	34	67	32
Life expectancy at birth (years)	67	69	59
Infant mortality (per 1,000 live births)	26	21	77
Child malnutrition (% of children under 5)	11	..	..
Access to an improved water source (% of population)	83	90	76
Illiteracy (% of population age 15+)	3	3	38
Gross primary enrollment (% of school-age population)	97	100	96
Male	97	101	102
Female	97	99	88



	1980	1990	1999	2000	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
GDP (US\$ billions)	..	5.2	1.3	1.3	
Gross domestic investment/GDP	..	24.2	18.0	16.0	
Exports of goods and services/GDP	..	29.2	42.2	43.5	
Gross domestic savings/GDP	..	3.7	3.2	4.3	
Gross national savings/GDP	..	3.7	2.8	4.5	
Current account balance/GDP	-14.4	-5.9	
Interest payments/GDP	..	0.0	4.0	5.1	
Total debt/GDP	..	0.0	133.5	130.4	
Total debt service/exports	22.3	25.2	
Present value of debt/GDP	..	0.0	98.1	87.3	
Present value of debt/exports	227.8	198.7	
(average annual growth)					
GDP	..	-4.1	3.7	5.0	4.6
GDP per capita	..	-5.1	2.2	4.1	3.4
Exports of goods and services	..	-2.3	-10.4	-0.4	0.1



	1980	1990	1999	2000
STRUCTURE of the ECONOMY				
(% of GDP)				
Agriculture	..	34.2	37.7	39.4
Industry	..	35.8	26.7	26.4
Manufacturing	..	27.7	7.1	5.7
Services	..	30.0	35.6	34.2
Private consumption	..	71.1	77.6	77.0
General government consumption	..	25.0	19.1	18.7
Imports of goods and services	..	49.6	57.0	55.2
(average annual growth)				
Agriculture	..	1.5	8.2	3.9
Industry	..	-8.0	-3.8	6.0
Manufacturing	..	-14.3	-5.7	-6.8
Services	..	-11.3	0.0	7.0
Private consumption	..	-5.4	2.4	6.7
General government consumption	..	-8.9	4.1	3.1
Gross domestic investment	..	-5.0	23.3	-5.8
Imports of goods and services	..	-8.5	-4.9	-4.6



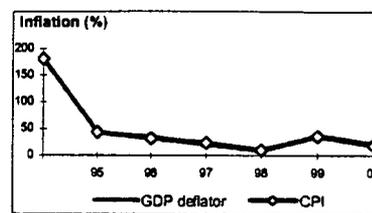
Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Kyrgyz Republic

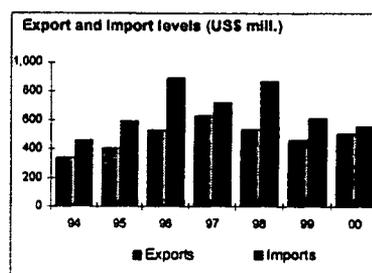
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	35.9	18.7
Implicit GDP deflator	..	7.9	37.6	21.5
Government finance (Incl. social security contribution by non-government)				
(% of GDP, includes current grants)				
Current revenue	21.3	19.5
Current budget balance	-2.7	-2.3
Overall surplus/deficit	-12.5	-10.2



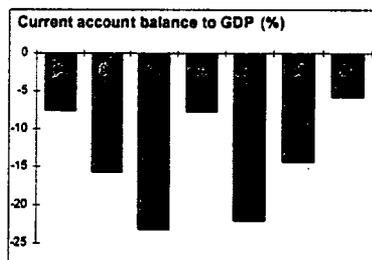
TRADE

	1980	1990	1999	2000
(US\$ millions)				
Total exports (fob)	483	511
Electricity	52	80
Gold	184	197
Manufactures	100	104
Total imports (cif)	614	559
Food	53	61
Fuel and energy	123	129
Capital goods	160	107
Export price index (1995=100)	107	119
Import price index (1995=100)	125	128
Terms of trade (1995=100)	85	93



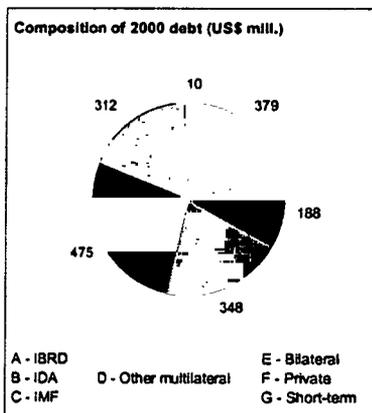
BALANCE of PAYMENTS

	1980	1990	1999	2000
(US\$ millions)				
Exports of goods and services	528	573
Imports of goods and services	701	651
Resource balance	-174	-78
Net income	-74	-80
Net current transfers	68	82
Current account balance	-180	-77
Financing items (net)	222	83
Changes in net reserves	-42	-7
Memo:				
Reserves including gold (US\$ millions)	249	263
Conversion rate (DEC, local/US\$)	39.0	47.7



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US\$ millions)				
Total debt outstanding and disbursed	..	0	1,667	1,700
IBRD	..	0	0	0
IDA	..	0	342	379
Total debt service	..	0	118	145
IBRD	..	0	0	0
IDA	..	0	2	3
Composition of net resource flows				
Official grants (current and capital)	..	0	75	92
Official creditors	..	0	181	118
Private creditors	..	0	-42	-47
Foreign direct investment	0	0	44	-2
Portfolio equity	..	0	28	24
World Bank program				
Commitments	0	0	25	75
Disbursements	..	0	25	34
Principal repayments	..	0	0	0
Net flows	..	0	25	34
Interest payments	..	0	2	3
Net transfers	..	0	22	32

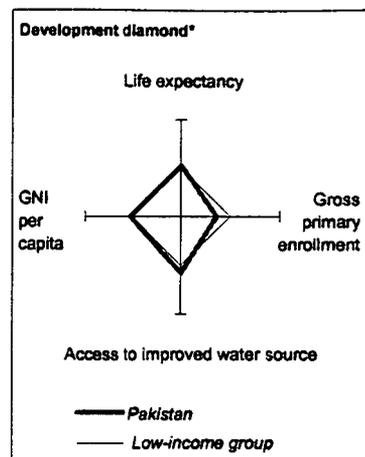


Pakistan at a glance

9/5/01

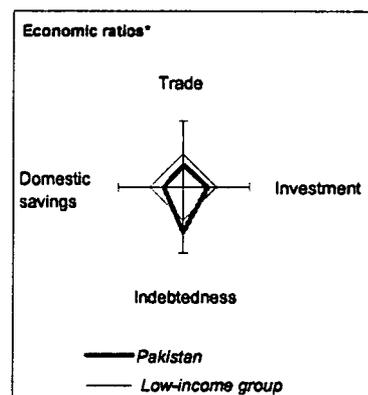
POVERTY and SOCIAL

	Pakistan	South Asia	Low-income
2000			
Population, mid-year (millions)	138.1	1,355	2,459
GNI per capita (Atlas method, US\$)	440	460	420
GNI (Atlas method, US\$ billions)	61.0	617	1,030
Average annual growth, 1994-00			
Population (%)	2.4	1.9	1.9
Labor force (%)	3.0	2.4	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty (% of population below national poverty line)	33	..	..
Urban population (% of total population)	37	28	32
Life expectancy at birth (years)	63	63	59
Infant mortality (per 1,000 live births)	90	74	77
Child malnutrition (% of children under 5)	38	47	..
Access to an improved water source (% of population)	88	87	76
Illiteracy (% of population age 15+)	54	45	38
Gross primary enrollment (% of school-age population)	69	100	98
Male	77	110	102
Female	60	90	86



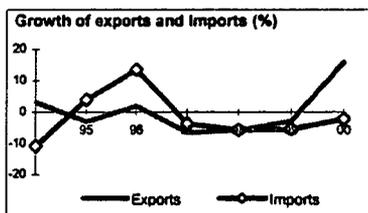
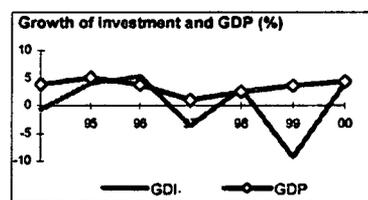
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1980	1990	1999	2000	
GDP (US\$ billions)	23.7	40.0	58.6	61.6	
Gross domestic investment/GDP	18.5	18.9	15.8	15.6	
Exports of goods and services/GDP	12.5	15.5	15.1	15.5	
Gross domestic savings/GDP	8.9	11.1	10.6	12.1	
Gross national savings/GDP	13.7	14.2	11.0	12.0	
Current account balance/GDP	-4.8	-4.7	-4.8	-3.6	
Interest payments/GDP	1.0	1.3	1.6	1.4	
Total debt/GDP	41.9	51.6	57.8	52.2	
Total debt service/exports	18.3	23.3	29.4	26.7	
Present value of debt/GDP	..	..	42.5	..
Present value of debt/exports	..	..	249.0	..
(average annual growth)					
GDP	6.3	3.7	3.7	4.4	4.6
GDP per capita	3.5	1.2	1.2	1.9	2.3
Exports of goods and services	8.4	1.7	-2.9	16.0	7.1



STRUCTURE of the ECONOMY

	1980	1990	1999	2000
(% of GDP)				
Agriculture	29.5	26.0	27.0	26.3
Industry	24.9	25.2	23.7	22.8
Manufacturing	15.9	17.4	15.5	15.1
Services	45.6	48.8	49.2	50.9
Private consumption	83.1	73.8	79.0	76.9
General government consumption	10.0	15.1	10.4	11.0
Imports of goods and services	24.1	23.4	20.0	19.1
(average annual growth)				
Agriculture	4.3	4.4	1.9	6.1
Industry	7.3	3.9	4.9	-0.1
Manufacturing	7.7	3.5	4.1	1.4
Services	6.8	4.4	5.0	4.8
Private consumption	4.3	4.9	7.5	0.9
General government consumption	10.3	0.7	-8.9	7.0
Gross domestic investment	5.8	1.8	-9.2	4.1
Imports of goods and services	2.1	2.5	-5.4	-2.3



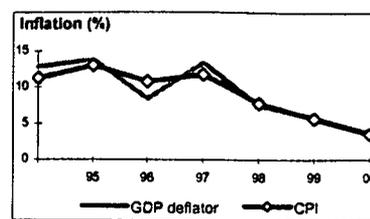
Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Pakistan

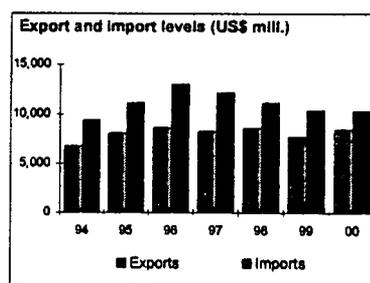
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
(% change)				
Consumer prices	..	..	5.7	3.6
Implicit GDP deflator	9.1	6.5	5.9	3.7
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	18.0	16.2	16.6
Current budget balance	..	-1.0	-3.0	-3.5
Overall surplus/deficit	..	-6.6	-6.0	-6.3



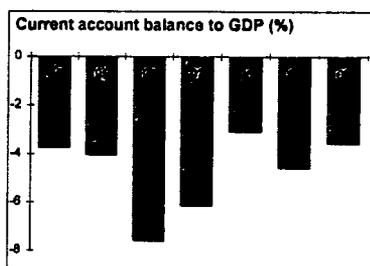
TRADE

	1980	1990	1999	2000
(US\$ millions)				
Total exports (fob)	2,365	4,954	7,779	8,569
Cotton	..	443	2	73
Rice	..	239	533	540
Manufactures	1,371	2,489	4,538	5,092
Total imports (cif)	..	8,054	10,457	10,404
Food	..	1,086	1,496	896
Fuel and energy	..	1,163	1,477	2,793
Capital goods	..	1,788	2,921	2,705
Export price index (1995=100)	..	58	90	92
Import price index (1995=100)	..	52	102	105
Terms of trade (1995=100)	..	112	88	88



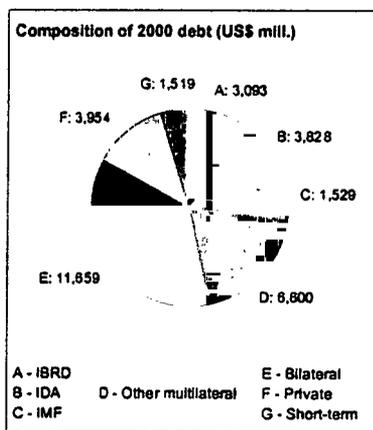
BALANCE of PAYMENTS

	1980	1990	1999	2000
(US\$ millions)				
Exports of goods and services	2,958	6,217	8,842	9,575
Imports of goods and services	5,709	9,351	11,737	11,762
Resource balance	-2,751	-3,134	-2,895	-2,187
Net income	-281	-966	-1,808	-2,018
Net current transfers	1,895	2,210	2,005	1,997
Current account balance	-1,137	-1,890	-2,698	-2,208
Financing items (net)	1,416	1,890	3,952	2,000
Changes in net reserves	-279	0	-1,254	208
Memo:				
Reserves including gold (US\$ millions)	..	1,311	2,228	2,805
Conversion rate (DEC, local/US\$)	9.9	21.4	50.1	51.6



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
(US\$ millions)				
Total debt outstanding and disbursed	9,931	20,663	33,886	32,182
IBRD	330	1,816	3,315	3,093
IDA	821	2,106	3,905	3,828
Total debt service	870	1,926	2,940	2,850
IBRD	58	199	434	408
IDA	9	34	86	93
Composition of net resource flows				
Official grants	268	538	573	926
Official creditors	544	913	876	452
Private creditors	167	-63	-477	-361
Foreign direct investment	68	200	478	467
Portfolio equity	0	87	28	74
World Bank program				
Commitments	185	972	808	0
Disbursements	90	494	628	301
Principal repayments	29	92	283	291
Net flows	61	402	345	10
Interest payments	39	141	237	210
Net transfers	22	261	108	-201

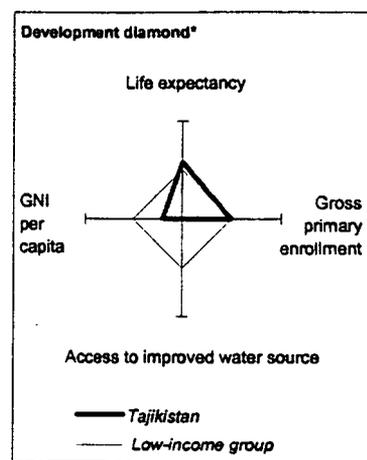


Tajikistan at a glance

10/2/01

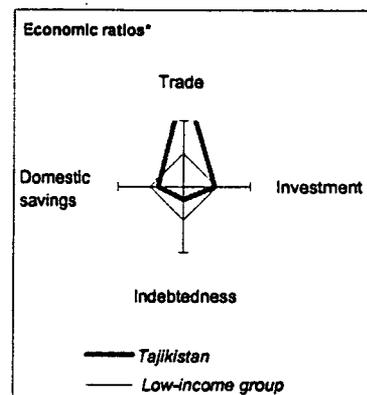
POVERTY and SOCIAL

	Tajikistan	Europe & Central Asia	Low-income
2000			
Population, mid-year (millions)	6.3	475	2,459
GNI per capita (Atlas method, US\$)	170	2,010	420
GNI (Atlas method, US\$ billions)	1.1	956	1,030
Average annual growth, 1994-00			
Population (%)	1.6	0.1	1.9
Labor force (%)	2.7	0.8	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty (% of population below national poverty line)	83	..	..
Urban population (% of total population)	28	67	32
Life expectancy at birth (years)	69	69	59
Infant mortality (per 1,000 live births)	20	21	77
Child malnutrition (% of children under 5)	..	..	..
Access to an improved water source (% of population)	..	90	78
Illiteracy (% of population age 15+)	1	3	38
Gross primary enrollment (% of school-age population)	95	100	98
Male	97	101	102
Female	94	99	86



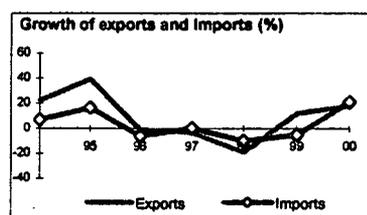
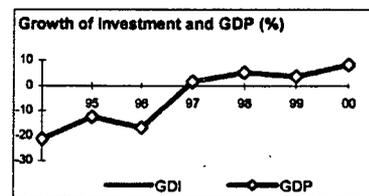
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1980	1990	1999	2000	
GDP (US\$ billions)	1.1	1.0	
Gross domestic investment/GDP	..	24.8	19.1	19.9	
Exports of goods and services/GDP	..	27.8	62.4	80.7	
Gross domestic savings/GDP	..	17.5	17.6	16.0	
Gross national savings/GDP	15.8	13.7	
Current account balance/GDP	-3.3	-6.2	
Interest payments/GDP	0.7	1.2	
Total debt/GDP	85.2	93.0	
Total debt service/exports	5.9	6.6	
Present value of debt/GDP	52.8	56.7	
Present value of debt/exports	84.6	70.3	
	1980-90	1990-00	1999	2000	2000-04
(average annual growth)					
GDP	2.0	-10.4	3.7	8.3	5.8
GDP per capita	-1.0	-11.9	1.7	6.6	4.0
Exports of goods and services	..	5.0	12.0	18.2	6.4



STRUCTURE of the ECONOMY

	1980	1990	1999	2000
(% of GDP)				
Agriculture	..	33.3	18.7	19.4
Industry	..	37.6	24.6	25.7
Manufacturing	..	24.8	21.2	22.6
Services	..	29.1	56.7	54.9
Private consumption	..	73.8	72.4	75.8
General government consumption	..	8.7	9.9	8.2
Imports of goods and services	..	35.2	63.9	84.7
	1980-90	1990-00	1999	2000
(average annual growth)				
Agriculture	-2.8	-5.8	3.8	12.4
Industry	5.6	-12.6	5.0	10.2
Manufacturing	..	..	..	..
Services	..	..	..	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	..	..
Imports of goods and services	..	0.8	-5.2	21.1

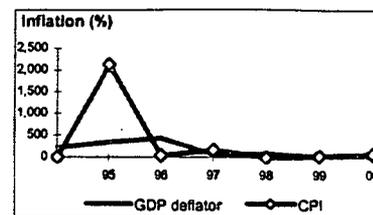


Note: 2000 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

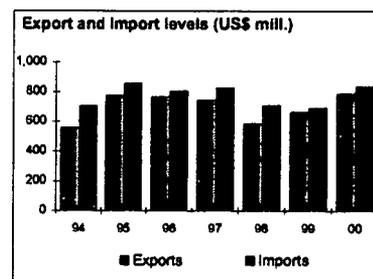
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
<i>(% change)</i>				
Consumer prices	30.1	60.6
Implicit GDP deflator	..	6.2	28.5	24.0
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	13.5	13.6
Current budget balance	0.3	2.1
Overall surplus/deficit	-3.1	-0.6



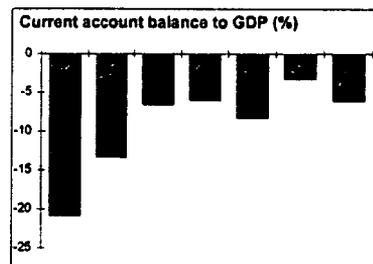
TRADE

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total exports (fob)	686	791
Aluminum	284	393
Cotton fiber	93	92
Manufactures	46	49
Total imports (cif)	693	839
Food	69	68
Fuel and energy	273	324
Capital goods	45	53
Export price index (1995=100)	93	99
Import price index (1995=100)	103	111
Terms of trade (1995=100)	91	89



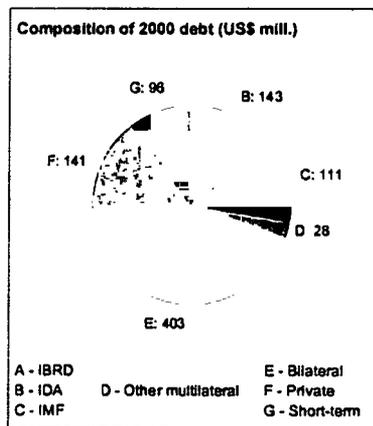
BALANCE of PAYMENTS

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Exports of goods and services	677	800
Imports of goods and services	693	839
Resource balance	-16	-39
Net income	-55	-55
Net current transfers	35	33
Current account balance	-36	-61
Financing items (net)	30	84
Changes in net reserves	6	-23
Memo:				
Reserves including gold (US\$ millions)	58	87
Official exchange rate (local/US\$)	1.2	1.8



EXTERNAL DEBT and RESOURCE FLOWS

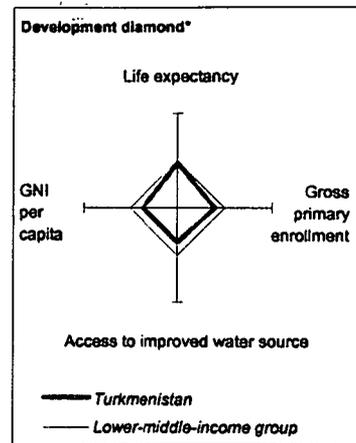
	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	0	0	924	922
IBRD	0	0	0	0
IDA	0	0	126	143
Total debt service	0	0	40	53
IBRD	0	0	0	0
IDA	0	0	1	1
Composition of net resource flows				
Official grants	0	0	31	33
Official creditors	0	0	31	21
Private creditors	0	0	-14	-11
Foreign direct investment	0	0	21	22
Portfolio equity	0	0	0	0
World Bank program				
Commitments	0	0	40	26
Disbursements	0	0	36	23
Principal repayments	0	0	0	0
Net flows	0	0	36	23
Interest payments	0	0	1	1
Net transfers	0	0	35	22



Turkmenistan at a glance

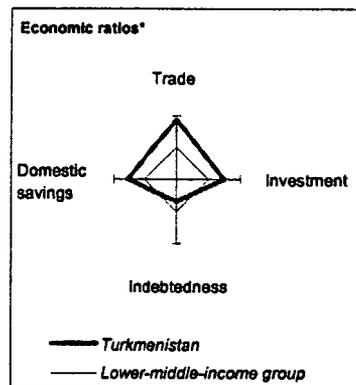
9/20/01

	Turkmenistan	Europe & Central Asia	Lower-middle-income
POVERTY and SOCIAL			
2000			
Population, mid-year (millions)	4.8	475	2,046
GNI per capita (Atlas method, US\$)	840	2,010	1,140
GNI (Atlas method, US\$ billions)	4.0	956	2,327
Average annual growth, 1994-00			
Population (%)	1.6	0.1	1.0
Labor force (%)	2.3	0.6	1.3
Most recent estimate (latest year available, 1994-00)			
Poverty (% of population below national poverty line)**	58	..	..
Urban population (% of total population)	45	67	42
Life expectancy at birth (years)	66	69	69
Infant mortality (per 1,000 live births)***	33	21	32
Child malnutrition (% of children under 5)	..	..	11
Access to an improved water source (% of population)	58	90	80
Illiteracy (% of population age 15+)	2	3	15
Gross primary enrollment (% of school-age population)	90	100	114
Male	..	101	116
Female	..	99	114



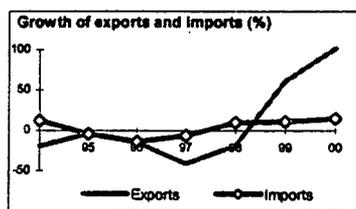
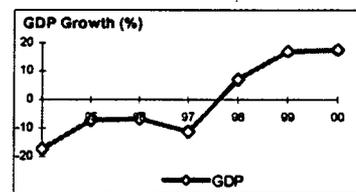
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1980	1990	1999	2000	
GDP (US\$ billions)					
Gross domestic investment/GDP	3.3	4.4	
Exports of goods and services/GDP	46.3	39.7	
Gross domestic savings/GDP	41.8	63.0	
Gross national savings/GDP	..	27.8	26.0	49.4	
Current account balance/GDP	29.0	49.1	
Interest payments/GDP	-17.3	9.4	
Total debt/GDP	2.3	2.1	
Total debt service/exports	70.0	52.3	
Present value of debt/GDP	32.0	12.8	
Present value of debt/exports	65.6	49.0	
	145.0	73.6	
(average annual growth)					
GDP	..	-4.8	17.0	17.6	7.3
GDP per capita	..	-7.4	15.5	16.1	5.8
Exports of goods and services	..	-6.1	61.7	101.6	13.6



STRUCTURE of the ECONOMY

	1980	1990	1999	2000
(% of GDP)				
Agriculture	..	32.2	27.8	27.3
Industry	..	29.6	46.1	50.0
Manufacturing	34.5	39.8
Services	..	38.2	26.1	22.6
Private consumption	..	49.3	62.4	34.4
General government consumption	..	23.0	11.6	16.3
Imports of goods and services	61.9	53.4
(average annual growth)				
Agriculture	..	-5.7	25.5	17.0
Industry	..	-3.2	15.5	24.5
Manufacturing	16.0	29.0
Services	..	-5.8	10.0	9.0
Private consumption
General government consumption
Gross domestic investment	..	1.9	3.0	13.8
Imports of goods and services	..	0.6	10.9	14.9



Note: 2000 data are preliminary estimates. Due to restrictions on access to statistical data in Turkmenistan, some of the numbers in the table are estimates and need to be treated with caution.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

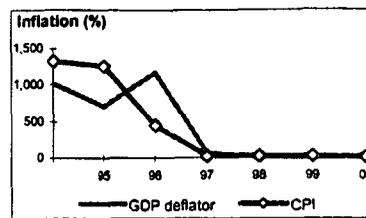
** According to the 1998 Living Standards Measurement Survey, 58% of population had incomes below the official minimum wage at the time. Turkmen authorities suggest that a relative poverty measure – share of population with incomes below 50% of median per capita income – may be appropriate. Official statistics indicate that only 1% of population falls below this level.

*** Recent official statistics indicate that this may have fallen to as low as 26 per 1,000 live births.

Turkmenistan

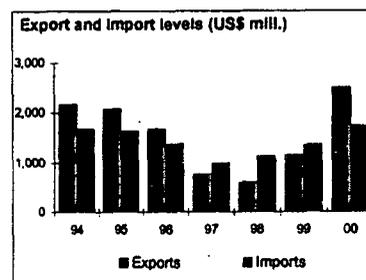
PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
Domestic prices				
<i>(% change)</i>				
Consumer prices	20.1	7.9
Implicit GDP deflator	..	6.3	5.0	13.3
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	17.8	25.7
Current budget balance	-1.8	0.7
Overall surplus/deficit	0.9	1.2



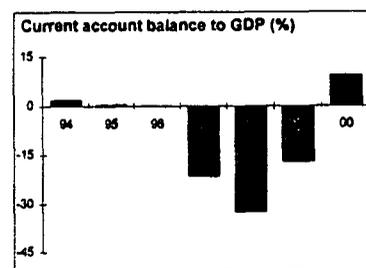
TRADE

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total exports (fob)	1,164	2,508
Natural gas	390	1,244
Oil products	211	773
Manufactures	182	252
Total imports (cif)	1,374	1,742
Food	198	192
Fuel and energy
Capital goods	362	610
Export price index (1995=100)	70	87
Import price index (1995=100)	107	111
Terms of trade (1995=100)	65	79



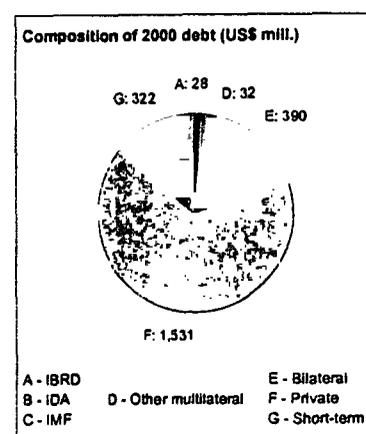
BALANCE of PAYMENTS

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Exports of goods and services	1,376	2,774
Imports of goods and services	2,046	2,350
Resource balance	-670	424
Net income	-8	-177
Net current transfers	105	166
Current account balance	-571	412
Financing items (net)	705	-164
Changes in net reserves	-134	-249
Memo:				
Reserves including gold (US\$ millions)	1,513	1,762
Conversion rate (DEC, local/US\$)	5,200	5,200



EXTERNAL DEBT and RESOURCE FLOWS

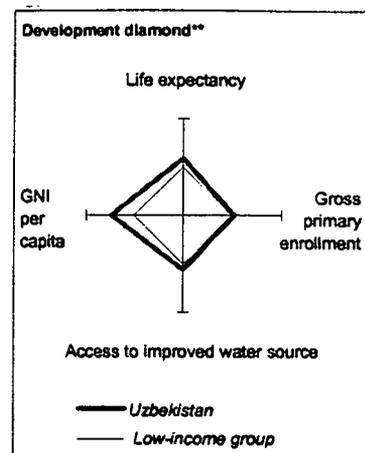
	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	2,314	2,303
IBRD	9	28
IDA	0	0
Total debt service	479	374
IBRD	1	2
IDA	0	0
Composition of net resource flows				
Official grants	4	2
Official creditors	97	53
Private creditors	166	-57
Foreign direct investment	125	131
Portfolio equity	0	0
World Bank program				
Commitments	0	0
Disbursements	2	20
Principal repayments	0	1
Net flows	2	20
Interest payments	1	1
Net transfers	1	18



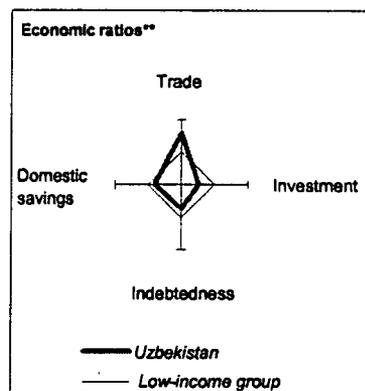
Uzbekistan at a glance

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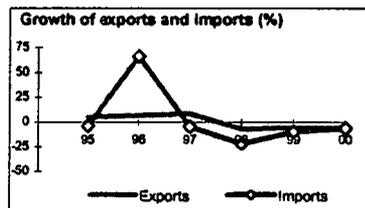
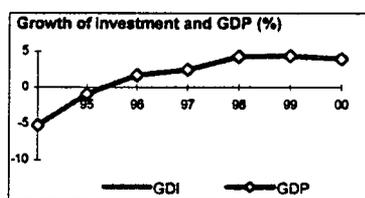
	Uzbekistan	Europe & Central Asia	Low-income
POVERTY and SOCIAL			
2000			
Population, mid-year (millions)	24.7	475	2,459
GNI per capita (Atlas method, US\$)	620 *	2,010	420
GNI (Atlas method, US\$ billions)	15.3 *	956	1,030
Average annual growth, 1994-00			
Population (%)	1.6	0.1	1.9
Labor force (%)	2.7	0.6	2.4
Most recent estimate (latest year available, 1994-00)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	37	67	32
Life expectancy at birth (years)	70	69	59
Infant mortality (per 1,000 live births)	19	21	77
Child malnutrition (% of children under 5)	19	..	..
Access to an improved water source (% of population)	85	90	76
Illiteracy (% of population age 15+)	1	3	38
Gross primary enrollment (% of school-age population)	100	100	96
Male	100	101	102
Female	100	99	86



	1980	1990	1999	2000	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
GDP (US\$ billions)	8.7	7.7	
Gross domestic investment/GDP	..	32.2	17.8	11.1	
Exports of goods and services/GDP	..	28.8	35.8	44.1	
Gross domestic savings/GDP	..	13.2	17.3	16.8	
Gross national savings/GDP	15.9	13.5	
Current account balance/GDP	-1.9	2.4	
Interest payments/GDP	2.1	2.8	
Total debt/GDP	53.1	59.1	
Total debt service/exports	18.2	28.3	
Present value of debt/GDP	53.1	59.1	
Present value of debt/exports	146.2	133.9	
(average annual growth)					
GDP	..	-0.5	4.4	4.0	2.0
GDP per capita	..	-2.4	2.9	2.9	0.2
Exports of goods and services	..	0.2	-5.5	-5.6	..



	1980	1990	1999	2000
STRUCTURE of the ECONOMY				
(% of GDP)				
Agriculture	..	32.8	33.5	34.9
Industry	..	33.0	24.6	23.0
Manufacturing	10.5	9.7
Services	..	34.3	41.9	42.1
Private consumption	..	61.4	62.1	63.7
General government consumption	..	25.4	20.6	19.7
Imports of goods and services	..	47.8	36.3	38.6
(average annual growth)				
Agriculture	..	0.1	5.9	3.2
Industry	..	-3.2	4.0	1.9
Manufacturing
Services	..	0.3	3.7	6.0
Private consumption
General government consumption
Gross domestic investment
Imports of goods and services	..	-0.1	-9.5	-6.2



Note: 2000 data are preliminary estimates.

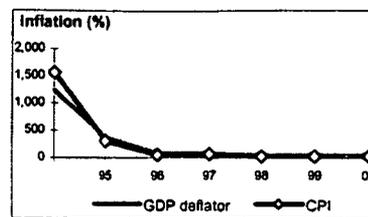
* At the official exchange rate; other calculations for 1999-2000 use an indicative exchange rate, which is a weighted average of the official (60%), the commercial bank (10%), and the curb market (30%) exchange rates.

** The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Uzbekistan

PRICES and GOVERNMENT FINANCE

	1980	1990	1999	2000
<i>Domestic prices</i>				
<i>(% change)</i>				
Consumer prices	..	3.1	29.1	28.3
Implicit GDP deflator	..	4.0	44.0	44.3
<i>Government finance</i>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	29.3	28.5
Current budget balance	4.7	5.5
Overall surplus/deficit	-2.6	-2.2



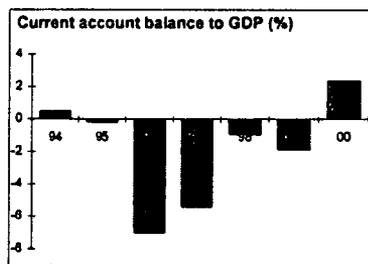
TRADE

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total exports (fob)	2,790	2,935
Cotton	833	897
Gold	810	809
Manufactures	205	205
Total imports (cif)	2,841	2,696
Food	408	381
Fuel and energy	87	113
Capital goods	1,394	1,044
Export price index (1995=100)	79	88
Import price index (1995=100)	92	93
Terms of trade (1995=100)	86	95



BALANCE of PAYMENTS

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Exports of goods and services	3,099	3,383
Imports of goods and services	3,144	2,962
Resource balance	-45	422
Net income	-168	-251
Net current transfers	49	13
Current account balance	-164	184
Financing items (net)	263	-87
Changes in net reserves	-99	-97
<i>Memo:</i>				
Reserves including gold (US\$ millions)	1,242	1,273
Indicative exchange rate (local/US\$)	245.6	416.7



EXTERNAL DEBT and RESOURCE FLOWS

	1980	1990	1999	2000
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	4,599	4,534
IBRD	203	217
IDA	0	0
Total debt service	574	957
IBRD	12	16
IDA	0	0
<i>Composition of net resource flows</i>				
Official grants	15	..
Official creditors	516	178
Private creditors	376	176
Foreign direct investment	121	75
Portfolio equity	0	0
<i>World Bank program</i>				
Commitments	25	29
Disbursements	28	30
Principal repayments	1	5
Net flows	27	26
Interest payments	11	12
Net transfers	16	14

