Economic Overview

Political events have overshadowed economic developments in Afghanistan in recent months. The protracted election process has compounded uncertainty building since 2013 from the political and security transition. An agreement on a unity government signed on September 21 and the September 29 swearing-in of the president and chief executive officer provide Afghanistan with a way forward. The new government will need to quickly establish itself as a cohesive and effective unit in order to address the considerable development challenges with which Afghanistan is faced.

Economic growth, down sharply in 2013 from uncertainty over the political and security transition, is slowing further in 2014. Afghanistan experienced a sharp slowdown in economic growth to 3.7 percent (estimated) in 2013 from 9.4 percent per year during 2003-12. Uncertainty over the political and security transition led to a slump in investor and consumer confidence and a sharp reduction of new investment commitments in the non-agriculture sectors. Agricultural production was robust in 2013 but did not exceed the record levels of 2012. Several indicators point to a further slowdown of economic growth to about 1.5 percent in 2014. New investments in the non-agriculture sectors, specifically services and construction, appear to have been cut further in light of the protracted political uncertainty while agricultural production is expected to be down slightly from the record levels of 2012-13.

Afghanistan faces a deteriorating fiscal crisis, with declining revenues leading to an unfinanced fiscal gap in 2014. Domestic revenues have continued to weaken in 2014. Based on current trends, the authorities anticipate revenues of Afs 105 billion ($182 billion) or 8.7 percent of GDP for fiscal 2014. This would be Afs 28.8 billion ($500 million) short of the target set out in the approved 2014 budget. It would also represent a further decline from revenues of 9.7 percent of GDP in 2013, itself down from a peak of 11.6 percent in 2011. While the deteriorating economic slowdown is part of the explanation, increasing weaknesses in tax and customs compliance are a large part of the problem. In this context, despite austerity measures, the authorities have run down their cash balances and incurred arrears on operations and management as well as discretionary development spending during the first eight months of 2014. Even with austerity measures, the unfinanced fiscal gap is estimated at about $500 million for 2014. While part of this could be financed from cash balances, it is estimated that at least $300 million in additional financing will be needed for 2014 to cover civilian salaries, pensions and critical operating and development spending. If revenues do not reach the anticipated Afs 105 billion for the year or if projected donor grants linked to reform progress do not materialize in full, the financing gap and additional financing needed would be larger.

The new government of Afghanistan faces the dual challenge of restoring confidence in its economic prospects and addressing formidable medium term development challenges. In addition to stalled growth and the fiscal crisis, Afghanistan faces formidable medium term development challenges. These include aid dependence, job creation for 400,000 new entrants into the labor force each year, high and persistent poverty, low levels of human development, and high levels of corruption. Furthermore, fragility and conflict remain pervasive and undermine economic prospects as well as social cohesion and stability. Addressing these challenges will require reforms in three areas: (i) restoring fiscal stability; (ii) restoring confidence and creating private-sector jobs; and (iii) strengthening social cohesion and service delivery. Above all, high level commitment to tackle corruption and strengthen governance across the board will be critical to delivering on the success of reforms in these priority areas.

Recent Sector Developments

Financial Sector

Developments in the financial sector continue to be overshadowed by the Kabul Bank crisis, which hit in September 2010 and exposed a number of serious systemic weaknesses. In April 2011, DAB announced that receivership proceedings would be instituted against Kabul Bank. A new “good bank” (New Kabul Bank) was created. As per agreement with the IMF, this new bank was put up for sale in September 2012 and, if no suitable buyers were found, was to be liquidated (originally by March 2013). The first privatization process failed, with the sole bid rejected in March 2013. The tender process was reinitiated in September 2013. In
December 2013, the Ministry of Finance announced that Kru Capital won the bid for New Kabul Bank (with an offer of $20 million in capital, plus $8.5 million). However, the privatization process of New Kabul Bank has not yet been completed.

The Kabul Bank crisis has revealed serious limitations in the capacity of the Financial Supervision Department at the central bank and the broader governance of the financial sector. A detailed report of the public inquiry into the Kabul Bank crisis was released in November 2012 by the Independent Joint Anti-Corruption Monitoring and Evaluation Committee. The conclusions are severe and highlight critical weaknesses in governance in the financial sector and more broadly (including the judiciary), at the highest levels. The report proposes detailed recommendations with regard to: governance, regulatory environment, supervision and enforcement, investigation and law enforcement, judicial proceedings, recoveries, sale of New Kabul Bank, monitoring and reporting. The capacity of the central bank to regulate commercial banks remains weak. DAB currently receives no technical assistance on banking supervision (there are no longer IMF advisers at the central bank). This is a key concern, as DAB still requires significant technical assistance to improve banking supervision.

A small and fragile financial sector. As of June 2014, total assets of the banking system stood at $4.2 billion, with $3.5 billion in deposits and $813 million in outstanding loans. Non-performing loans (NPLs) are reported at 6.3 percent of gross loans. However, these figures need to be treated with caution considering the large margin of error in financial sector performance indicators, which was demonstrated by the Kabul Bank crisis.

Over the last year, the profitability of the banking sector improved slightly, with the Return on Assets standing at 1.1 percent, compared to 0.18 percent in June 2013. Two institutions are reporting losses. Domestic credit to the private sector represented 4.1 percent of GDP in 2012, compared to 46.7 percent for South Asia.

Although Afghanistan has made some progress in terms of financial outreach, there is still much work needed to raise formal financial sector activity. The banking system counts 2.653 million depositors, but only 100,000 borrowers for a population of 30 million. Bank coverage across the country is overwhelmingly concentrated in urban areas. Out of all loans extended, 80 percent are reported as being in Kabul province. The latest World Bank Afghanistan Investment Climate Assessment (released in 2014) reports that only 5.7 percent of firms have a bank loan and 2.2 percent of firms use banks to finance investments.

Microfinance has faced a major consolidation phase following a repayment crisis in 2008. The sector counts 350,000 clients with 170,000 active borrowers (37 percent women) and a total portfolio of $135 million. The sector is dominated by one commercial bank that focuses on micro, small and medium enterprises, representing 53 percent of total lending and 34 percent of borrowers.
Business Environment

Afghan firms are young and small: half of the firms have been operating for four years or less, and 91 percent of firms have five workers or less (0.2 percent of firms have more than 50 workers). Firms are concentrated in: (i) trade and retail (29 percent); (ii) manufacturing, including food processing (22 percent); and (iii) accommodation and food services (10 percent) [IBES, 2009].

Foreign Direct Investment (FDI) has been declining, from an already low base. Inflows steadily increased between 2001 and 2005, reaching $271 million. With the deterioration in national security, FDI inflows have decreased and been more erratic since 2006, standing at $94 million in 2012, according to the U.N. Conference on Trade and Development. Gross domestic private investment has remained at the low level of eight to nine percent of GDP, with further declines in 2012 and 2013 (respectively 4.9 percent and 3.6 percent – IMF estimates).

The 2014 Enterprise Survey identified political instability, access to land and corruption as major constraints, as well as access to finance and electricity (see graph below on 10 top constraints, as a percentage of firms). Afghanistan ranks 164th out of 189 economies in the 2014 Doing Business report. It ranks particularly low on protecting investors (189); trading across borders (184); registering property (175); enforcing contracts (168); and dealing with construction permits (168). Only 5.7 percent of firms have a bank loan or line of credit and only 2.2 percent of firms use banks to finance investments.
Poverty and Labor Market

Despite sustained growth over the past five years, Afghanistan has made no progress in poverty reduction. Results from the latest National Risk and Vulnerability Assessment (NRVA) household survey conducted in 2011-12 show a poverty rate stagnating at around 36 percent, the same level measured in 2007-08. The lack of poverty reduction was accompanied by a significant upward trend in inequality. In particular, the Gini coefficient increased from 29.7 in 2007-08 to 31.6 in 2011-12, while the growth rate of per capita spending by the richest 20 percent of the population was three times higher than that of the poorest 20 percent. Stagnating poverty rates and increasing inequality suggest that the country’s growth path is not improving socio-economic inclusion, but rather benefiting a few at the expense of the many. As a result of these trends, the bottom 40 percent of the population commands only 21 percent of total consumption, and more than 50 percent of the population is vulnerable to descending into poverty.

Poverty in Afghanistan is a predominantly rural phenomenon. The poverty rate in rural areas is 38.3 percent, about 10 percentage points higher than in urban areas. In rural areas, 54 percent of people work in agriculture, which is the main sector of employment in the regions where poverty is the highest. Overall, inequality in Afghanistan has a strong spatial connotation, with regions showing different poverty levels. According to the latest NRVA 2011-12 data, poverty rates are the highest in the Northeast, West-Central and East regions.

High dependency ratios, low levels of female labor force participation and low labor productivity all contribute to shaping Afghanistan’s poverty profile. Sustained population growth and a very young age structure produce a situation in which a relatively small number of persons in the economically productive age group (15-64) must provide for a large number of dependents under the age of 15. High economic dependency due to demographic pressure is further aggravated by extremely low levels of female labor force participation (19 percent) and the overwhelming prevalence of vulnerable forms of employment in informal and low productivity jobs (81 percent). Creating more and better quality jobs, especially in the agriculture sector, and improving the economic participation of women remain key constraints to poverty reduction, and crucial milestones in promoting a more sustainable and inclusive economic growth.

Public Sector Governance Structures

Afghanistan’s public sector is highly centralized. Only central ministries and similar administration units receive funds from the national budget. Services at the provincial level are delivered by line ministries, agencies and provincial administrations.
The central administration level consists of about 50 government units. These comprise ministries, departments, agencies, offices, independent directorates, and other budgetary units. These central government ministries and institutions are considered primary budgetary units, and the respective budgets of these entities are determined by the annual budget law. The Finance Ministry has prepared a provincial budget policy that would significantly enhance the role of provincial line departments and administrations in both planning and budget execution. The proposal awaits cabinet approval.

Two other central institutions help the finance ministry manage government relations: The Independent Directorate for Local Governance (IDLG) and the Ministry of Reconstruction and Rural Development (MRRD). The IDLG is responsible for the overall system of inter-governmental relations, including provincial, district, village and municipal affairs. Among line ministries, the MRRD plays an important role in rural development in the provinces. This includes managing the National Solidarity Program, which promotes local development and governance through the establishment and funding of community development councils.

Afghanistan is divided into 34 provinces that vary widely in their population. Provinces are not designated budget units and there are overlapping roles and responsibilities between different units at provincial level, including the role of provincial governors (appointed by the president), line ministries and provincial councils elected directly by citizens. Provincial councils exercise only limited oversight over the provincial governor and provincial line departments. The provincial department of the Ministry of Economy coordinates the preparation of the Provincial Development Plan, but this has little connection with the budget process.

Provincial offices have very limited capacity and staff. They wield influence primarily through their ability to shape the national budget and its execution through the provincial departments of line ministries. The governor has signatory power over most procurement at the provincial level and certain powers of appointment. Some governors will exercise significant de facto authority at the provincial level. Furthermore, the governor has significant authority over the police in the province, and direct authority over the district governors.

There are 398 districts in Afghanistan, with an average population of about 67,000. The constitution is vague on the legal nature of district entities. District governors report to the provincial governor, and represent the IDLG at the district level. The district governor is part of the Office of the Provincial Governor in organizational and budgetary terms.

There are currently no formal governance institutions at the village level. The constitution does call for the election of village councils, but these have not yet been constituted. There are, however, other governance structures, such as community development councils, that help administer the National Solidarity Program and other development programs, as well as other formal and informal local groups. The cabinet has endorsed a policy to consolidate district coordination through a District Coordination Committee, and at village level through existing community development councils.

Municipalities are constitutionally recognized as local government entities, created to manage urban affairs. As such, municipalities have their own separate budgets. Urban affairs are mostly managed in a rather top-down manner by the IDLG’s General Directorate for Municipal Affairs; mayors are centrally appointed, and budgets are centrally approved. Municipalities are largely self-sustaining entities that fund the provision of urban services with local revenue collections.

Public Financial Management

Afghanistan has a well-developed infrastructure for public financial management (PFM). PFM’s foundation is a comprehensive budget that is prepared in an orderly, transparent fashion. Given the centralized nature of the budget, it practically gives the entire general government sector’s financial position. The Ministry of Finance plays a pivotal role in budget preparation and expenditure control. Line ministries, departments and agencies have well-defined roles in implementing the budget, but no role in accounting or reporting. The Ministry of Finance’s Treasury Department makes all payments (both for central units and in all 34 provinces) and maintains an integrated financial management system. This system is at the heart of
control and reporting functions, which are highly rated under studies on Afghanistan by Public Expenditure and Financial Accountability (PEFA), a multi-donor partnership.

**Afghanistan’s Control and Audit Office, the supreme audit organization, conducts financial and compliance audits.** The 2012 publication of a new audit law provides the legal framework for a modern external review. The role and responsibilities of the supreme audit organization are clearly established, and it has a wide mandate with guarantees for access. Some concern remains over its independence, and there are capacity limits that prevent it from conducting audits to a high standard without extensive technical assistance.

**Medium-term budgetary framework.** The Fiscal Policy Department of the Ministry of Finance has developed a medium-term fiscal framework tool that is regularly updated and used in preparing the annual pre-budget statement. The document provides a preliminary draft budget that assesses the government’s existing budget policies, as well as new funding priorities for the next fiscal year and over the medium-term. The document also includes revenue and expenditure analyses that provide the basis for sector expenditure reviews and, within these, calculation of budget ceilings for the primary budgetary units.

**Afghanistan’s scores on PEFA are relatively strong.** Performance indicators are superior to fragile state and other low-income countries’ results on all dimensions except budget credibility, and they equal middle-income country results for control, reporting, and external scrutiny. Similarly, Afghanistan’s rating by the independent Open Budget Survey improved in 2012 to 59 (compared to 58 in Pakistan) from a rating of 21 in 2010.

**Energy**

**Afghanistan has one of the lowest rates of electricity usage in the world.** It is in the bottom 10 percent globally (around 100 kilowatt hours per year per capita consumption) and only about 25 percent of its population is connected to the grid. In 2011, the last year for which reliable data is available, Afghanistan’s estimated 32 million people consumed only about three million megawatts (MW) of grid-supplied electricity. Imported power supplied almost three-quarters of this energy, while domestic hydro supplied about 26 percent and the balance (one percent) came from diesel thermal plants in Kabul and generators. The reliability of the grid, particularly in Kabul, has improved significantly over the past few years. But load shedding and outages are still a sufficiently common occurrence that few have given up their private generators.

**Low connectivity to the grid conceals a vast difference between rural and urban access.** While over 75 percent of the population in large urban areas like Kabul, Kandahar, Herat, and Mazar-e-Sharif have electricity, less than 10 percent of the rural population has access to grid-connected power. Large parts of Kabul, Mazar-e-Sharif and Pul-e-Khumri have a 24-hour power supply. These cities are part of the North East Power System (NEPS), which imports 300 MW from Uzbekistan throughout the year, supplemented by 300 MW from Tajikistan during the summer.

**Energy demand, usage and capacity are increasing from a very low base.** Growth in demand for electricity was 17 percent in the last four years and there has been a four-fold increase in the customer base. Installed energy capacity has more than doubled, from 430 MW in 2001 to 1,029 MW in 2009. Supply has also increased through greater use of imported energy. These imports consist of power purchase agreements with Uzbekistan (55 percent of total imports), Turkmenistan (16 percent) and Iran (22 percent), mostly from thermal generation, and Tajikistan (seven percent) from hydropower. The government plans to further increase import capacity by around 900 MW through projects set out in the National Energy Supply Program, one of its National Priority Programs.

**Progress on increasing the energy mix has been limited in the midst of decreasing domestic production.** Domestic generation has been dominated by hydropower, which accounts for around 49 percent of the total installed capacity, followed by diesel (32 percent). The share of hydropower has fluctuated, but diesel-based generation has increased exponentially since 2003.

**Losses, and the performance of the national utility, remain a challenge.** Distribution losses are high (in 2010, aggregate losses were 30 to 40 percent), making sector planning difficult. Donors are helping Da Af-
ghanistan Breshna Sherkat (DABS), the state-owned vertically integrated utility, to improve its performance and provide capacity building. There have been some noted improvements in loss reductions and cash collections, and therefore the commercial efficiency ratio, but commercial and technical losses remain significant.

**Northern Afghanistan contains large oil and dry gas prospects.** One of the most important gas field projects is Sheberghan, which is supported by the U.S. Agency for International Development (USAID). The potential for cheap gas, due to a lack of alternative uses and the resulting low opportunity cost, means that a gas-fired generation plant could potentially be competitive with imported power from Uzbekistan, currently priced at 7.6 cents/kWh. However, gas refining is difficult, and financing agencies have been reluctant to proceed without further seismic work to confirm the predictability of supply, as well as a clear contractual framework. Also, the gas is extremely sour (high in sulfur), requiring investment in a sweetening plant to make it suitable for power generation.

**Domestic coal resources exist in the North-West Bamyan province.** Coal, including development of a plant to supply the Aynak copper mining project, could provide a significant source of power. However, there has been a significant delay in project implementation, and there are serious doubts about whether the project will ever provide the promised 200 MW of surplus power to the grid. Similarly, hopes are fading for investment linked to the Hajigak iron ore deposit, which had foreseen the development of a power plant of up to 800 MW.

**More needs to be done to strengthen capacity and accountability, to ensure clearer explanation of responsibilities and better collaboration across government agencies.** The sector’s legal framework is weak; in particular there is a lack of sector-specific laws and regulations, leading to poor governance. This needs to be tackled if the sector is to eventually establish market-based pricing that allows for cost recovery. These shortcomings must also be addressed if the Afghan energy sector is to have any hope of attracting much-needed foreign investment.

**Finance and capacity is limited in the national power utility.** Afghanistan’s energy infrastructure requires significant capital investment. Following the separation of DABS (then DABM) from the Ministry of Energy and Water and commercialization of DABS in 2009, these projects should be implemented by DABS. However, it cannot raise enough revenue internally, nor can it expect to fill the shortfall externally, especially in the current political environment. As a result, there will continue to be significant under-investment in Afghan energy infrastructure.

**Current investment plans are limited in the sector.** Additional supply from Aynak and Hajigak is unlikely to emerge, and supply from Sheberghan is unlikely to be injected into NEPS due to grid code issues. The only investments at the moment are: (i) the Turkmen 500kV line and the cross-Salang 500kV line (but no b/b HVDC converter with it); (ii) the NEPS-SEPS interconnector; and (iii) the Ghazni 220kV line, all financed by the Asian Development Bank. The World Bank has two projects in preparation: (i) Rehabilitation of Naghu Dam, which will restore generation capacity to 100MW and may increase the amount of energy generated from the plant; and (ii) a technical assistance project with DABS to increase capacity building. DABS, with USAID financing, plans to install a third turbine at the Kajaki power plant in Helmand Province, augmenting supply to the South East Power System (SEPS). Additional investment in generation capacity, particularly to address peak winter demand, is a high priority.

**Regional energy projects can also provide opportunity.** The Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000, a regional IDA-backed project), uses surplus hydro generation in Central Asia to supply both Afghanistan and Pakistan, without the need for new investments in power generation. Afghanistan would also gain a new source of revenue from transit fees. CASA 1000 would enable a transfer of up to 1,300 MW of electricity (via a DC transmission line) between the two regions. Afghanistan would gain access to 300 MW of the capacity with the construction of a DC converter station. The first electricity is due to flow in 2018.
Agriculture Development

Agriculture still remains the main source of real GDP growth, employment and subsistence for the Afghan population. Only 12 percent of Afghanistan’s 65 million hectares of land area is arable, and the actual cultivated area is substantially less, due to a lack of irrigation. Between 2003/04 and 2011/12, real agricultural growth ranged from -22 percent to 45 percent, reflecting the continuing importance of rain-fed agriculture. The sector is also dominated by smallholder production. Average farm size ranges from 0.4 to 1.0 hectare for small-scale producers and one to two hectares for large-scale producers. Similarly, the average size for livestock farming is 1.3 cows and 10 sheep and goats.

Three decades of conflict have destroyed much of the country’s agricultural infrastructure, and eroded institutional capacity to provide technical services, such as regulation or the teaching of new farming techniques. Before the conflicts, Afghanistan was a top international supplier of horticultural products, commanding about 10 percent of the dried fruit and raisin market in the 1970s. That share has fallen to two percent. It also was self-sufficient in meat and milk and was a significant exporter of wool, carpets, and leather goods. Afghanistan was also self-sufficient in cereals and, at times, was a small exporter. However, rapid population growth coupled with the destruction of much of the country’s irrigation systems, storage facilities and rural road network during the years of conflict, have turned Afghanistan into a net importer of wheat.

Even today, most agriculture is subsistence. Food crops account for over two-thirds of the cultivated area and are typically grown for household consumption, including perennial horticultural crops and vegetables. The country lost its horticulture market to China, India, and Turkey. These nations made significant investments in production, processing and marketing, resulting in state-of-the-art perennial fruits industries. Afghanistan has now embarked on developing promising horticulture value-chains, such as almonds, fresh grapes, raisins and pistachios. Although, the major farming system of the poor is cereal production for household food security, most families are still only food sufficient for a few months each year. To meet steadily growing domestic demand, Afghanistan imports between 30 and 60 percent of cereals annually, particularly from Pakistan. It also depends on imports of live and frozen chicken, eggs, and dairy products.

The most important crop is wheat. Afghans consume wheat with every meal and boast the world’s highest annual wheat consumption, at 160 kilograms per person. Wheat flour contributes 57 percent to the total caloric content of the average basket of food items of the poor. Despite the large area devoted to wheat cultivation, Afghanistan remains a highly food-insecure country. Productivity is low, due to a lack of improved seeds and the poor transfer of modern farming skills. Local milling capacity is very weak, the quality of local wheat flour is inferior, and milling costs are significantly higher than in neighboring countries. Boosting agricultural productivity will generate income, as well as widen the range of nutritious dietary choices for Afghans.

Transport

Afghanistan heavily relies on road transport to move people and freight. The country has a road network of about 123,000 km, of which seven percent are regional and national highways (see figure below). The country has a scant 75 km of railway line and just two international airports, Kabul and Mazar-e-Sharif.

Rehabilitation and extension of road networks is a high priority. About 13,000 km of Afghan roads have been rehabilitated or improved over the past 10 years. But much remains to be done to improve regional...
integration, national connectivity and access to local markets. Around 85 percent of roads are in poor shape and the majority cannot be used by motor vehicles. Action to improve operation and maintenance is urgently needed. Afghanistan is establishing an independent road authority to manage and maintain the network, supported by a road fund mechanism to help with finance.

**Access to urban transport services is another challenge.** Rapid urbanization has complicated the provision of affordable, safe and clean transport in towns and cities. Rehabilitation of urban roads and the restructuring and improvement of urban transportation remains a priority. Traffic management and safety are challenges that particularly impact the urban poor.

**The railway system is underdeveloped.** Afghanistan has no internal railway link, hampering the development of mining and agriculture. The government has established a railway authority, but the country still needs a railway strategy and significant improvements in operations and maintenance capacity.

**Airports have been rehabilitated and expanded in the past 10 years, but civil air service lags behind international standards and practices.** The nation urgently needs a regulatory framework that encourages free entry of civil aviation transporters and maintains international safety standards.

**Public sector technical and organizational capacity is limited.** The past 10 years have seen a significant improvement in the basic technical skills of private design and consulting firms. But public sector capacity, in terms of budgeting, procurement and contract management, and transport-related asset management, is lagging. Moreover, the sector’s lack of regulatory and enforcement frameworks, overlapping ministerial responsibilities, and a lack of coordination among ministries also have hampered productivity.

**Urban Development**

Some 40 percent of Afghanistan’s population will live in cities by 2050, higher than Sri Lanka and Nepal in the South Asia Region. Urban population growth has been fueled by an influx of returning refugees, conflict and drought-induced migration, and an urban population growth rate of 3.7 percent, versus a national population growth rate of 2.4 percent. Between 2002 and 2013, over two million refugees returned to urban areas - 36 percent of whom went to Kabul (UNHCR). Inclusive urban development will remain high on the national agenda.

Emerging economies of agglomeration, or clustering, around six cities that are home to about one fifth of Afghanistan’s population, presents a significant opportunity for growth and poverty reduction: These cities are Herat, Jalalabad, Kabul, Kandahar, Kunduz and Mazar-e-Sharif. Afghanistan’s economy is dominated by a strongly entrepreneurial informal sector, accounting for 80-90 percent of business activity, providing relatively high labor absorption capacity and enabling easy entry for rural entrepreneurs and rural-urban migrants. There is little planning in the informal economy, and city-specific initiatives could encourage small and medium enterprises and job creation, while promoting security.

However, centralization makes it harder to realize the economies of agglomeration, over-whelming service delivery amid rapid urban growth and severe resource constraints. Municipalities are responsible for administering city affairs, but the constitution defines the country as an indivisible unitary state, preserving the principles of centralism. Municipalities are fiscally autonomous. But authority, functions and resources are not decentralized, slowing municipal response time to local market signals. They cannot manage or develop land to maximize local development and job creation, or develop infrastructure and services to affordable standards that are in line with their budgets.

Unplanned development is commonplace, and an estimated 2.3 million people live in unplanned settlements in the five major cities. This weakens the urban tax base and increases the vulnerability of residents. On the other hand, unplanned, densely populated developments present an opportunity to provide basic public goods in a swift and affordable manner. But this will need a proactive shift in the focus of planning from “places” to “people”. To help municipalities function better, they will require: (i) powers over local planning, enforcement and regulation, including over the use of physical space and local economic development; (ii) authority to manage local government finances and procurement; (iii) make their own local staffing
and employment decisions; and iv) to run local government services flexibly. Until then, cities will be unable to plan affordable services for incoming migrants, limiting their ability to boost growth and reduce poverty. The Ministry of Urban Development Affairs (MUDA) has the primary policy and planning role for all urban areas in Afghanistan, except Kabul. Implementation of infrastructure, land development and other functions at the municipal level is supposed to happen within a centrally-prepared framework. This leaves little room for municipalities to develop locally relevant capital improvements that fit within their budgets, or reflect the priorities of their own communities. Central planning, on the other hand, is a resource-intensive process that delivers results that can be unaffordable and unsuited to local needs.

Education
The public education system in Afghanistan suffered decades of upheaval in the 1980s (Soviet occupation) and 1990s (civil war and the emergence of the Taliban). Since 2002, however, education has been one of Afghanistan’s success stories. In 2001, no girls attended formal schools, and boys’ enrollment was 1 million. By 2013, around 3.75 million girls were enrolled out of a total of 9.1 million active pupils. In the same period, the number of teachers had grown from 20,000 to more than 187,000.

Afghanistan is ranked 175th in the human development index and education attainment overall is low. Given insecurity and unrest in the country, sustained efforts are needed to meet the Millennium Development Goal (MDG) on universal primary education by 2020, which is Afghanistan’s timeline since signing up in 2004. The education sector, while growing steadily, faces a number of supply and demand challenges. Only about half of the total registered schools have proper buildings, while the rest operate in tents, houses and under trees. Of all the teachers, only 52 percent meet the minimum requirements; the rest receive in-service training to upgrade skills. National student learning assessments are yet to be mainstreamed and the quality of education and administration remains relatively weak.

Education Indicators 2002/03 vs. 2013/14

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2002/03</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Enrollment</td>
<td>1 million</td>
<td>8.7 million (36% girls)</td>
</tr>
<tr>
<td>University Enrollment</td>
<td>&lt;10,000</td>
<td>160,000 (20% girls)</td>
</tr>
<tr>
<td>TVET Enrollment</td>
<td>&lt;2,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Number of Schools</td>
<td>3,500</td>
<td>16,000</td>
</tr>
<tr>
<td>Adult Literacy</td>
<td>12% (female)</td>
<td>(5%) 3% (13% female)</td>
</tr>
</tbody>
</table>

On the demand side, an estimated 4.2 million children of primary school age do not attend classes. Furthermore, girls’ dropout rates are high in secondary grades. In higher education, the quality and relevance of the teaching still requires significant reforms and more resources. In addition, the adult literacy rate is one of the lowest in the world. The higher education gross enrollment ratio is about five percent, which is one of the lowest participation rates in the world. As a new generation of primary and secondary school students comes of age, enrollment and the demand for school places is increasing sharply, putting pressure on the labor market.
Education faces significant challenges, which are compounded by insecurity, diminishing resources, low government implementation capacity, and weak links between the central and sub-national level. Meeting further education goals requires sustained commitment from the government and development partners. The government, having focused for a decade on expanding access, has turned its attention to strengthening systems and ensuring education quality. A number of reforms and assessments have been initiated in the past three years. For instance, the Global Partnership for Education was launched in 2012 to expand education to insecure areas and get children back to schools. A first learning assessment of students in grade 6 is near completion to inform policy decisions and show how much learning actually happens in classrooms. Technical vocation and education training (TVET) reforms, and a new higher education strategy for the next five years, are being formulated to address the gap between market needs and tertiary education.

Female education remains a key priority. Strategically investing in girls' schooling through expanded access, an enabling environment and sufficient resources is a key priority for the government.

Health
The Afghan health system has made considerable progress during the past decade thanks to strong government leadership, sound public health policies, innovative service delivery, careful program monitoring and evaluation, and development assistance. Data from household surveys (between 2003 and 2011) show significant declines in maternal and child mortality. The under-5 mortality rate and infant mortality rate dropped from 257 and 165 per 1,000 live births to 97 and 77 respectively. The maternal mortality ratio is 327 per 100,000 live births, compared with 1,600 in 2002. The number of functioning health facilities increased from 496 in 2002 to more than 2,000 in 2012, while at the same time the proportion of facilities with female staff increased.

Since the establishment of a new administration in 2002, the government has placed the utmost importance on addressing high maternal and child mortality, especially in rural areas. The Ministry of Public Health defined a Basic Package of Health Services and an Essential Package of Hospital Services, and it established a system for large-scale contracting with non-governmental organizations (NGOs) for delivery of these services. The Basic Package of Health Services has recently been expanded to include mental health, disability, and nutrition services. The ministry also prioritized the monitoring and evaluation of health sector performance. Through the deployment of predominantly local consultants, it addressed human resource capacity constraints in terms of managing NGO contracts, tracking health sector progress through rigorous impact level monitoring, and effectively performing its stewardship.

Despite significant improvements in the coverage and quality of health services, as well as a drop in maternal, infant and under-5 mortality, Afghan health indicators remain below average for low-income countries, indicating the need to further lower barriers for women accessing services. Afghanistan has one of the highest levels of child malnutrition in the world, with about 55 percent of children under five suffering from chronic malnutrition while both women and children suffer from high levels of vitamin and mineral deficiencies.

Social Protection
The Social Protection sector in Afghanistan is still fragmented. While the Afghanistan National Development Strategy provides a framework for developing social protection, the transition from primarily humanitarian relief-based interventions to social protection systems is still in its infancy. The Afghan social protection system includes a public sector pension scheme, a non-contributory pension program for Martyrs and Disabled, and a number of small social assistance schemes that transfer cash and in-kind benefits to various groups while providing social care services. The government also administers a number of labor market interventions, including skills development programs, with support from development partners. In addition, there are several social assistance and safety net interventions that are implemented and led by development partners and NGOs.
The sector faces a number of challenges related to program coordination, effectiveness and financing. Staff quality constraints and organizational complexity hampers the Ministry of Labor, Social Affairs, Martyrs and Disabled in performing its coordination function as the lead agency for social protection. The recent (2013) increase in pension program spending, amounting to about 1.6 percent of GDP, risks their fiscal sustainability. The country’s safety net has low coverage and weak targeting, with about six million people living in poverty and not covered by social protection. Those safety nets that do provide sizeable coverage of the poor consist mainly of cash-for-work or food-for-work programs, many targeting rural areas, and are financed and implemented by donors and NGOs.

World Bank Group Program in Afghanistan

The World Bank Group’s program to assist Afghanistan is built around three interlocking themes: (i) building the legitimacy and capacity of institutions; (ii) equitable service delivery; and (iii) inclusive growth and jobs. Afghanistan’s overall performance toward development outcomes has been good, with considerable achievements in education and health, and more challenging results in urban issues and infrastructure and energy. All Bank operations are on-budget and support national programs.

The Bank provides support to policy reforms in areas critical to strengthening revenue mobilization and improving the environment for investment in sectors with a high growth potential. A recently approved programmatic Development Policy Grant is instrumental in this regard. In advance of the 2014 elections, the Bank invested considerable effort in preparing policy notes in key areas to help the new government move forward with reforms.

The Bank has a strong focus on governance and gender throughout its portfolio. The Bank has a governance advisor in Kabul who advises task teams on issues including public sector reform, institution-building and sub-national governance. Gender disparities remain pronounced in Afghanistan and gender issues continue to be integrated across the Bank’s portfolio. In 2013/14, the Bank updated its Country Gender Assessment and published a report in English and Dari titled Women’s Role in Afghanistan’s Future – Taking Stock of Achievements and Continued Challenges.

The World Bank Group’s program in Afghanistan is governed by its joint Interim Strategy Note for FY12-14. The Bank also administers the Afghanistan Reconstruction Trust Fund (ARTF), the World Bank Group’s largest single-country multi-donor trust fund. The ARTF provides grant support to Afghanistan based on a 3-year rolling financing strategy. Together, ARTF and the International Development Association (IDA) provide close to $1 billion per year in grants ($150 million from IDA and about $800-$900 million from the ARTF). Additionally, the International Finance Corporation (IFC) has a committed exposure to Afghanistan totaling $131 million.

Portfolio management is quite strong: The Bank’s portfolio (including ARTF projects) comprises 28 ongoing operations across a wide range of sectors. The disbursement ratio for IDA was 32 percent in FY14. The ARTF disbursement ratio (slightly different methodology) was over 61 percent in FY14. The Bank has taken steps to improve portfolio performance by restructuring a handful of projects, adjusting procurement plans based on risk analysis and an appraisal of government fiduciary responsibilities, and improving project readiness, to name just a few initiatives. Supervision is also being enhanced through use of partner organizations in many projects, third party monitoring, and innovative information technology.

Extensive and well-received analytical work has been at the forefront of the Bank’s engagement. Two pieces of analytical work in particular, Transition Economics and Resource Corridors, played a crucial role in informing and advancing dialogue between the international community and Afghan government during the Tokyo Conference in 2012 and at the 2013 Senior Officials Meeting in Kabul. Highlights included an agriculture sector review to inform strategic investment and job creation, and continuing work on resource corridors that looks at strategic supply chains investment to produce economic spillovers from mining operations.
International Finance Corporation

IFC’s portfolio in Afghanistan has more than doubled since FY08 - from around $58 million to about $135 million to date. IFC is following an integrated advisory and investment strategy focused on improving the investment climate, building capacity, and supporting selective investments in sectors with high development impact and job creation. Currently, IFC’s portfolio includes two investments in the telecommunication sector – $60 million in Mobile Telephone Networks (MTN) in a joint project with the Multilateral Investment Guarantee Agency (MIGA); and $65 million in Roshan Telecom – along with one investment in the hotel sector ($3 million in TPS), and two operations in financial markets ($2 million equity in First Microfinance Bank and a trade facility with the Afghanistan International Bank). Going forward, IFC is looking to expand its Afghan investment program in the areas of infrastructure, finance, manufacturing, agribusiness and services.

IFC’s investments have had a transformational impact in the microfinance sector, in terms of access to finance and outreach, through the First Microfinance Bank (FMFB). FMFB is the first licensed private sector microfinance bank in Afghanistan, which was able to reach over 64,000 borrowers - 16 percent of whom are women. Similarly, IFC has had significant impact in the telecommunication sector by improving mobile phone access and services to the poor through the investment in MTN and Roshan.

The investment program has been supported by a strong advisory services program in the areas of access to finance, investment climate, small and medium enterprise (SME) capacity development, horticulture/agribusiness and public - private partnerships (PPPs). At present, there are seven active mandates across business lines.

In Access to Finance, IFC provided assistance to the central bank (DAB) in collaboration with the World Bank’s “Financial Sector Strengthening Program.” IFC also helped establish regulatory frameworks for leasing and will now focus on building the strengths of commercial banks and other financial institutions to offer asset-based lending products and to achieve a greater utilization of the registries, with a view of further expanding outreach of financial services to more small and medium enterprise (SMEs) in country.

With respect to Enterprise Development, the Business Edge initiative has been facilitating business skills training to individuals and SMEs. To date, the program has trained more than 6,640 individuals (2,855 women) along with 586 micro-, small- and medium enterprises (MSMEs), plus government and development organizations. IFC has partnered with 10 local training providers to strengthen their capacity, aiming to enhance the sustainability of the provision of management training services.

IFC has been providing support to SMEs in the Agribusiness sector by helping farmers improve productivity and supporting the expansion of market opportunities both nationally and internationally. IFC has been carrying out two primary interventions aimed at reforming the business regulatory environment, namely on trade licensing reform and the construction permit process. In 2012, IFC’s public-private partnership unit signed a contract with Da Afghanistan Breshna Sherkat (DABS) to design a management support contract for improving the financial and operational efficiency of the Kandahar Operating Center and power distribution in the city.

Business Enabling Environment: IFC has been collaborating closely with the World Bank in the Doing Business Indicator Reform project and an incentive program in supporting key reforms affecting the private sector. It also has worked closely with the World Bank and MIGA on joint programs to maximize impact and build on respective comparative advantages. In line with this strategic approach, IFC supported the establishment of the first collateral registry under the Bank’s Financial Strengthening Program.
Multilateral Investment Guarantee Agency

MIGA has $155 million of gross exposure in Afghanistan, supporting telecoms and agri-business projects. MIGA recently launched its "Conflict Affected and Fragile Economies Facility", which will boost the agency’s exposure in Afghanistan. MIGA is currently supporting three projects in Afghanistan, of which one is a joint effort with the IFC in the telecoms sector (MTN). The other two are MIGA-only in dairy and cashmere production.
## Acces to Finance Project

### Key Dates:
- Approved: November 26, 2013
- Effective: April 17, 2014
- Closing: December 31, 2018

### Financing in million US dollars

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### Project Background:
Implemented by the Microfinance Investment Support Facility for Afghanistan (MISFA) and the Ministry of Finance, the supports and complements the government of Afghanistan’s efforts to develop and execute a financial sector development strategy that focuses on increasing access to finance for micro, small and medium enterprises.

### Project Development Objective and Brief Component Description:
To build institutional capacity to improve access to credit of micro, small and medium enterprises. Component are:

- Improving access to financial services for micro and small enterprises by strengthening the microfinance sector through MISFA and facility’s strategy and programs in increase access to financial services for micro and small enterprises.
- Improving access to financial services for small and medium enterprises by supporting the expansion of the Afghanistan Credit Guarantee Facility (ACGF) and increasing commercial bank and microfinance investment lending.

### Results Achieved:
- The project was declared effective on April 17, 2014.

### Key Partners:
- Microfinance Investment Support Facility for Afghanistan (MISFA)
- Ministry of Finance (MOF)
- Afghanistan Credit Guarantee Facility
Afghanistan Agriculture Inputs Project

Key Dates:
Approved: June 30, 2013
Effective: June 30, 2013
Closing: June 30, 2016

Financing in million US Dollars (as of Sept. 3, 2014)

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<tr>
<td>Trust Fund (ARTF)</td>
<td>74.75</td>
<td>6.54</td>
<td>68.21</td>
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</table>

Project Background:
Limited access to quality inputs at affordable prices is a key constraint to higher agricultural productivity in Afghanistan. The agricultural inputs delivery network remains underdeveloped, weakly regulated, and distorted, requiring investments and action at the institutional, policy, and farm levels.

The project will build institutional capacity in the Ministry of Agriculture, Livestock and Irrigation (MAIL) required for overseeing input quality control, safety and reliability, and availability.

It will support the infrastructure and human resources needed to exercise and enforce quality control for fertilizers and other agro-chemicals, and improve functioning and transition of the seed sector toward a market for certified wheat seed with minimal external support.

Project Development Objective and Brief Component Description:
The project objective is to strengthen institutional capacity for the safety and reliability of agricultural inputs and the sustainable production of certified wheat seed.

Components are:
- Improved Wheat Seed Production supports (a) varietal selection and production of breeder seed; (b) production of foundation and registered seed; and (c) coordination of the seed sector.
- Plant Quarantine Networks and Quality Control of Agro-chemicals supports enhancement of MAIL capacity to implement the quality control of agro-chemicals, including: (a) establishment of an office for pesticides registration; (b) construction of various laboratories; (c) provision of pesticide bio-efficacy trial equipment; and (d) strengthening the fertilizer quality control inspection system.
- Input Delivery Systems supports the analysis of the recipient’s current agricultural input delivery systems and assists in the development of an action plan for investment activities in inputs delivery systems.
- Project Management and Monitoring supports management and monitoring of the project.

Results Achieved:
The project has delivered in-kind assistance to Agriculture Research Institute of Afghanistan (ARIA), improved Seeds Enterprise (ISE), and MAIL’s Plant Protection and Quarantine Department to support their seed production-related activities.

The implementation of seed production activities in ARIA and ISE has already started in Kabul and four other regions. Production of unclean breeder seed in 2014 reached 40.7 MT, exceeding the target of 37.6 MT.

Meanwhile, the first batch of 34 MSc and 2 PhD candidates of the aforementioned agricultural departments completed the mandatory English language training and got sent to different international universities in India. Training on wheat seed improvement for 47 project staff took place in August 2014.

Key Partners:
Ministry of Agriculture Irrigation and Livestock with support from Agriculture Research Institute of Afghanistan (ARIA), Improved Seeds Enterprise (ISE) and National Seed Board.
Afghanistan Second Skills Development Project

Key Dates:
Approved: 19-Mar-2013
Effective: 01-Jul-2013
Closing: 30-Jun-2018

Financing in million US Dollars

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Co-financing

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Project Background:
The project supports the Government of Afghanistan in its strategy to build market relevant vocational and technical skills for economic growth and development. Building on the ongoing Afghanistan Skills Development Project, this program will strengthen the Technical Vocational Education Training (TVET) institutional system, improve performance of TVET schools and institutes, improve teacher competencies, and strengthen monitoring and evaluation systems.

Project Development Objective and Brief Component Description:
To increase the potential for employment and higher earnings of graduates from Vocational Education and Training institutions through improvements in the skills delivery system.
Components are:
- Strengthening of the TVET institutional system
- Improving the performance of TVET schools and institutes
- Improving teacher competencies
- Project management, monitoring and evaluation and public awareness

Results Achieved:
- Award of International Certificate to 1,108 National Institute of Management and Administration (NIMA) graduates;
- Award of Voucher Program to 300 TVET graduates to upgrade and strengthen their competencies by pursuing an International Certification program;
- Award of Recognition Grant ($30,000) to 15 TVET schools/institutes;
- Approval of Afghanistan National Qualification Framework (ANQF) and establishment of TVET Board;
- Recruitment of firm to develop 5 years Business Plan for TVET Institutes/schools
- Establishment of In-service Technical Teacher Training Institute;

Key Partners:
Ministry of Education, Ball State University for NIMA Institute, International Labor Organization (ILO)
Afghanistan: Strengthening the National Statistical System

Key Dates:
Approved: October 07, 2010
Effective: March 24, 2011
Closing: February 29, 2016

Financing in million US Dollars (as of February 28, 2014)

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Project Background:
The overall objective of the project is to promote a national, system-wide approach to statistics; increase resources for the implementation of a National Statistical Plan; explicitly link improvements in statistical systems to the needs of national and sector policy and monitoring frameworks; promote improved national dialogue and partnership between data users and producers; and aim to deliver more efficient and effective aid and technical assistance for strengthening statistical systems and results measurement.

Project Development Objective and Brief Component Description:
The main objective of this project is to: (i) enable Afghanistan to address the data needs of the country for planning, decision-making and monitoring purposes through various surveys and by developing administrative statistical systems to support the Afghanistan National Development Strategy; (ii) build sustainable statistical capacity in the country, and particularly at the Central Statistics Organization; (iii) enable Afghanistan to use international standards for concepts, classifications, and definitions; and (iv) enable Afghanistan to meet its data obligations.

Results Achieved:
The World Bank Statistical Capacity Building Score for Afghanistan improved to 45 points, up from the baseline level of 33 points; Number of the Afghanistan National Development Strategy and MDG indicators supported by the Central Statistics Organization increased from 17 indicators to 26 indicators; Increased percentage of users who say they are “satisfied” or “very satisfied” with statistical products and services.

Key Partners:
Central Statistics Organization (CSO), Germany’s GTZ and UK’s Department for International Development (DFID)
**Afghanistan Rural Access Project**

**Key Dates:**
- Approved: June 26, 2012
- Effective: August 12, 2012
- Closing: March 13, 2018

**Financing in million US Dollars (as of February 28, 2014)**

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**Project Background:**
Two decades of civil war severely damaged Afghan road network at all levels: regional and national highways, provincial roads and local access roads. Prolonged conflict denied most of the rural population access to essential social services including markets, health centers, schools and government offices. Formulated in 2002, the National Emergency Employment Program funded short-term employment through restoration of the dilapidated rural infrastructure. This initiative evolved into the National Rural Access Program from 2005, with a strong focus on the provision of year-round rural access to basic social services. More than 11,000 km of rural roads and related drainage structures have been upgraded or rehabilitated under these programs through four projects financed through IDA, ARTF, and other funds.

**Project Development Objective and Brief Component Description:**
The objective of the Afghanistan Rural Access Project is to enable rural communities to benefit from all-season road access to basic services and facilities. Components are:
- Improvement and maintenance of secondary roads: Supports rehabilitation of about 1,000 km roads; 250 km of upgrading existing pavement to bituminous standard; about 1000 km of routine and periodic maintenance of paved and unpaved secondary roads, and construction of about 1,000 linear meters of bridges.
- Improvement and maintenance of tertiary roads: Will support about 1,300 km of rehabilitation and 2,000 km of routine and periodic maintenance of tertiary roads, and construction of about 1,600 linear meters of bridges.
- Program planning and development, institutional strengthening and program coordination support: Will support human resource and institutional capacity building, program monitoring and evaluation, and program development activities.

**Results Achieved:**
- Construction of 200 km of secondary gravel roads, 35 km of secondary asphalt roads and 590 linear meters of secondary bridges;
- Construction of 518 km of tertiary roads and 520 linear meters of tertiary bridges;
- Routine maintenance of 1,032 secondary road and periodic maintenance of 132 km of secondary road;
- Routine maintenance of 3,000 km of tertiary road and periodic maintenance of 237 km of tertiary road;
- Establishment of new GIS based network planning;
- Roll out of first nationwide inventory and condition survey of rural roads.

**Key Partners:**
Afghan Ministries of Public Works; Rural Rehabilitation and Development; and Finance
Afghanistan Rural Enterprise Development Project

Key Dates:
Approved: March 09, 2010
Effective: June 14, 2010
Closing: January 01, 2015

Financing in million US Dollars

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Project Background:
Over 75 percent of the Afghan population live in rural areas where agriculture is the primary activity and contributes about one-third of GDP. But poor governance, weak factor markets, inadequate marketing infrastructure, ineffective business development services, and poor post-harvest practices limit the development potential of this sector.
The Afghanistan Rural Enterprise Development Project aims to ensure the social, economic, and political well-being of rural communities, especially the poor and the most vulnerable, while stimulating the integration of rural communities within the economy.

Project Development Objective and Brief Component Description:
The overall development objective of the project is to improve employment opportunities and income of rural men and women, and the sustainability of targeted local enterprises. Components are:
- Community-led enterprise development: Creates savings groups, enterprise groups and village savings and loans associations. These institutions are assisted in building their own capacities, increasing the value of trade; ensuring production is oriented towards identified market opportunities, and creating access to credit through internal lending.
- Small and medium-sized enterprise (SME) development: Supports the emergence of a stronger SME sector with improved trading linkages with the rural economy and adequate access to financial services. The project finances a sequenced approach for SME support, i.e. identifying key value chains in each province, working with the stakeholders to identify choke points constricting growth, identifying opportunities for value chain linkages and defining skill gaps.
- Project implementation support: Project management, monitoring and evaluation.

Results Achieved:
The project has so far established 5,638 saving groups, 229 Village Saving and Loan Associations (VSLAs), 1,345 Enterprise Groups, and has supported 256 Small Medium Enterprises.
A total of six Provincial Situations Analysis (PSA) are completed and 10 PSAs are underway.

Key Partners:
Afghan Ministry of Rural Rehabilitation and Development, UK’s Department for International Development (DFID) and Swedish International Development Cooperation Agency (SIDA)
Afghanistan Recurrent and Capital Cost Window

Key Dates:
- Approved: May 13, 2002
- Effective: May 13, 2002
- Closing: June 30, 2018

Financing in million US Dollars (as of Sept. 14, 2014)

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<td>Trust Fund (ARTF)</td>
<td>3,173.32</td>
<td>3,102.5</td>
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Project Background:
A coordinated funding mechanism to support Afghan reconstruction is essential to help the country return to normalcy. Such an instrument needs to be aligned with national priorities, should promote transparency and accountability of reconstruction assistance, and reinforce the national budget as the primary policy instrument.

The international community and the Afghan government have recognized that the Afghanistan Reconstruction Trust Fund (ARTF) should be used to fund the essential recurrent costs required for the government to function effectively.

Project Development Objective and Brief Component Description:
The objective of the recurrent cost component of the ARTF is to provide a coordinated financing mechanism enabling the Afghan government to make predictable, timely, and accurate payments for approved recurrent costs related to salaries and wages of civil servants, and non-security related government operating and maintenance expenditures.

Components are:
- Reimbursements of civil servant salaries: Establish an amount via grant renewals for reimbursement of civilian expenditures. With the assistance of a third party monitoring agent, the government submissions are then reviewed to determine that these have met the eligibility criteria.
- Reimbursement of operating and maintenance costs: Establish an amount via grant renewals for reimbursement of civilian expenditures. With the assistance of a third party monitoring agent, the government submissions are then reviewed to determine that these have met the eligibility criteria.
- Incentive program: Introduced in 2009, it refers to a series of policy actions and revenue benchmarks agreed to between the World Bank and the government that align with development priorities and which, if attained, entitle the government to an agreed amount of additional funding for the first two components.

Results Achieved:
Over 12 years, the project disbursed nearly $3.2 billion against legitimate recurrent costs in a timely fashion. This represents 20 percent of civilian recurrent costs in the period, and the process provided an opportunity for donors to conduct monitoring of all civilian costs for adherence to financial and eligibility standards. The incentive component led to significant reforms in revenue generation, public sector governance, and private sector development.

Key Partners:
Government of Afghanistan, all the ARTF donors (33 countries)
**Afghanistan: Capacity Building for Results Facility**

**Key Dates:**
- Approved: January 15, 2012
- Effective: January 20, 2012
- Closing: December 31, 2017

**Financing in million US Dollars**

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<td>Borrower</td>
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<td>Co-financing</td>
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<td>Total Bank Financing</td>
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<td>IBRD</td>
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<tr>
<td>Trust Fund (ARTF)</td>
<td>100</td>
<td>35.2</td>
<td>64.8</td>
</tr>
</tbody>
</table>

**Project Background:**
The Capacity Building for Results Facility (CBR) is a key ARTF investment that supports government in developing its internal human capacity over the medium term to improve service delivery to the population. It is demand driven with ministries required to meet criteria to participate.

A CBR ministry must develop a comprehensive reform plan (to be implemented with existing donor and government resources) with a results framework to which it is held accountable.

CBR enables a ministry to hire skilled Afghans into civil service positions at more competitive rates.

**Project Development Objective and Brief Component Description:**
The project’s development objective is to assist the government in improving the capacity and performance of select line ministries in carrying out their mandates and delivering services to the Afghan people.

Components are:
- Technical Assistance Facility for preparation and implementation of Capacity Building for Results (CBR) programs: Provides technical assistance to the participating ministries.
- Developing human resources: Supports the continued implementation of broad civil service reform efforts and placement of critical managerial and professional staff resources in participating line ministries.
- Civil service training: Intends to create partnerships between the Afghanistan Civil Service Institute and reputable international institutions to: (i) develop custom-made public administration management training programs for civil servants in managerial positions and management interns; (ii) deliver the training programs; and (iii) develop faculty capacity at the Afghanistan Civil Service Institute.
- Project management, monitoring and evaluation: Focuses on overall project management, monitoring and reporting, and consultancy services for appraisal and review of implementation progress and results of Capacity Building for Results programs.

**Results Achieved:**
The Ministries of Agriculture and Communications were approved as the first top tier ministries, enabling it to recruit a substantial number of skilled civil servants to implement its CBR reform program.

The Ministry of Mines also has been approved, and several others are at various stages of proposal development.

Recruitment of senior level civil servants funded through CBR is progressing; a total of 99 active senior management group positions are currently funded with 45 more in various stages of recruitment.

CBR is also encouraging salary harmonization for donor-funded consultants led by the Bank.

**Key Partners:**
Afghanistan: Second Education Quality Improvement Project

**Key Dates:**
Approved: January 31, 2008
Effective: March 20, 2008
Closing: August 15, 2015

**Financing in million US Dollars (as of February 28, 2014)**

<table>
<thead>
<tr>
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<td>Trust Fund (ARTF)</td>
<td>283</td>
<td>219.40</td>
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</tr>
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**Project Background:**
The Second Education Quality Improvement Program (EQUIP II) has expanded the scope of education sector investments into a national, multi-donor supported project that is fully aligned with the vision and goals set out by the Ministry of Education. Institutionally, EQUIP II seeks to consolidate the following implementation systems: (i) the community and school-based management education system; (ii) the supervision and monitoring systems through the provincial and district education departments’ teams; and (iii) the systems, procedures and skills within key departments of the Ministry of Education to continue to guide education services in a systematic and results-oriented approach.

**Project Development Objective and Brief Component Description:**
Increase equitable access to quality basic education – especially for girls – through school grants, teacher training, and strengthened institutional capacity with support from communities and private providers.
Components are:
School Grants: Awards school grants for Quality Enhancement and infrastructure and executes social awareness and mobilization.
Teacher and Principal Training and Education: Undertakes teacher/principal training, and increases female teachers.
Project management: Monitoring and evaluation.

**Results Achieved:**
Supported the construction of 446 schools and 384 more schools are currently under construction.
It is estimated that 1,838,834 students are currently studying in EQUIP constructed schools, of which 812,341 (44 percent) are girls.
Overall, there are 9.2 million children enrolled in schools in Afghanistan of which 3.61 million (39 percent) are girls.
Under both phases of the Education Quality Improvement Program, social mobilization activities have been conducted in 11,087 communities, resulting in the establishment of 8230 school shuras (community-based consultative bodies).
So far, 11032 schools have received Quality Enhancement Grants for purchase of school supplies, laboratory equipment, and other purposes.

**Key Partners:**
Ministry of Education, ARTF donors (US, UK, Denmark, Canada, Sweden, Australia, Germany, and Norway.)
## Afghanistan: Financial Sector Rapid Response Project

### Key Dates:
- **Approved:** August 25, 2011
- **Effective:** September 06, 2011
- **Closing:** June 30, 2016

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</table>

### Co-financing:
- **Total Bank Financing:** 25.7
- **IDA:** 25.7
- **IBRD**

### Trust Fund

### Project Background:
The project run by the Central Bank of Afghanistan (DAB) aims to finance costs associated with the following activities: (i) audits (financial, portfolio and institutional) of 10 commercial banks operating in Afghanistan; (ii) modernization of the national payment system to facilitate payments within the country; (iii) support for the development of the Afghanistan Institute of Banking and Finance; and (iv) technical assistance and training for project implementation.

### Project Development Objective and Brief Component Description:
The project assists DAB in developing actions plans for improved banking supervision and to implement a modern national payment system for efficient and transparent payment transactions.

Components are:
- **Audits:** Financial, portfolio and institutional audit of 10 commercial banks operating in Afghanistan.
- **Modernization of the national payment system:** Establish a Real Time Gross Settlement, Automated Clearing House, and Central Security Depository all as one system at DAB, as well as a national card payment switch.
- **Develop financial infrastructure:** Support development of the Afghanistan Institute of Banking and Finance
- **Project Implementation:** Provide technical assistance and training

### Results Achieved:
- Audits of the 10 commercial banks completed.
- Movable Collateral Registry was established in February 2013.
- Public Credit Registry was launched in December 2013.
- Establishment of the switch is underway at Afghanistan Payment System.

### Key Partners:
- Da Afghanistan Bank (Afghan central bank or DAB), Afghanistan Payment System (APS)
# Afghanistan: Financial Sector Strengthening Project

## Key Dates:
- Approved: April 30, 2009
- Effective: June 18, 2009
- Closing: June 30, 2014

## Financing in million US Dollars (as of February 28, 2014)

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## Project Background:
The project will help finance the costs associated with strengthening the capacity of Da Afghanistan Bank (DAB) in the areas of banking supervision, accounting, internal audit and human resource management and developing necessary financial infrastructure.

## Project Development Objective and Brief Component Description:
The objective of the Financial Sector Strengthening Project (FSSP) is to assist DAB in improving its core function of banking supervision and regulation, and to help improve access to formal banking services by establishing key initial building blocks for further financial sector reform. The project has two components:

- Strengthening the capacity of DAB
- Development of basic infrastructure in the financial sector

## Results Achieved:
The Afghanistan Institute of Banking and Finance was established in November 2010. The collateral registry was established and officially launched in February 2013. Contract for establishment of the public credit registry was signed in February 2013 enabling the registry to begin operations by late April 2014.

## Key Partners:
- Da Afghanistan Bank, International Finance Corporation (IFC)
Afghanistan: ICT Sector Development Project

**Key Dates:**
- Approved: April 26, 2011
- Effective: June 14, 2011
- Closing: June 30, 2016

**Financing in million US Dollars (as of Sept. 10, 2014)**

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**Project Background:**
Since 2002, Afghanistan has made considerable progress in telecommunications connectivity, and mobile telephony has become widespread. A high-capacity fiber optic backbone network connects many provinces and provides international connectivity to neighboring countries.

The information and communications technology (ICT) sector offers opportunities to expand the reach and delivery of government services and stimulate private sector-led economic growth and employment generation.

This Project builds on the strong growth seen thus far in mobile services to expand service delivery while accelerating expansion and improvements in backbone network connectivity. It also seeks to expand broadband connectivity and accelerate the development of the local private sector IT industry.

**Project Development Objective and Brief Component Description:**
The goal is to expand connectivity, encourage widespread use of mobile applications in strategic sectors in the government, and support the development of the local information technology (IT) industry.

Components are:
- **Expanding connectivity:** Finances the expansion of the national backbone network by 1,000 km and supports the creation of an enabling policy and regulatory environment to increase the reach of high quality mobile telephone and Internet services to more users.
- **Mainstreaming mobile applications:** Supports activities that build on the high penetration of mobile telephones in Afghanistan to expand the reach and improve the quality of public services and applications that support program management.
- **IT industry development:** Supports the definition of an IT sector development policy; an IT skills development program to expand the pool of skilled IT professionals as a key building block for sector development in Afghanistan; and the setting up of an incubator for ICT firms in the ICT Village.

**Results Achieved:**
- About 200 km of optical fiber cable construction has been completed, and the first nodes on the Northeast segment are becoming operational. The Ministry of Communications and Information Technology has adopted an open access policy for the national backbone network ensuring non-discriminatory access to wholesale Internet bandwidth for all firms.
- 450 Afghans have been trained under the IT skills development program, and a second round of training is now underway. A job fair for 500 successful trainees is planned for October 2014. The program will train 1,500 Afghans by its conclusion.
- The first round of the Innovation Support Program awarded 11 local innovators for their ideas on how mobile technologies could help address nine challenges in various sectors including agriculture, education, and health.

**Key Partners:**
Afghanistan: Irrigation Restoration and Development Project

**Key Dates:**
Approved: April 28, 2011
Effective: June 15, 2011
Closing: December 31, 2017

**Project Background:**
The Irrigation and Restoration and Development Project (IRDP) is designed as a follow-up initiative to the IDA-funded Emergency Irrigation Rehabilitation Project (EIRP). While various bilateral and multilateral donors supported the reconstruction or development of specific dams or river basins, the EIRP was instrumental to the government’s launch of a national irrigation rehabilitation program in 2004. The EIRP had a national coverage and was designed to respond to requests and demands of local communities.

**Project Development Objective and Brief Component Description:**
The objective is to increase agriculture productivity and output in the project areas. Components are:
- Rehabilitation of irrigation systems: Supports the rehabilitation of irrigation schemes covering total irrigated area of about 300,000 hectares.
- Small dam development: Supports the design and construction of about three multi-purpose small dams and appurtenances, and associated irrigation conveyance and distribution systems.
- Establishment of hydro-meteorological facilities and services: Builds on work done under EIRP and establish an efficient and effective hydro-meteorological service.
- Project management and capacity building: Includes (i) project management and construction supervision; (ii) support for capacity building; and (iii) incremental contract staff.

**Results Achieved:**
Approximately 20,000 ha (44 percent of the targeted 45,000 ha) of incremental irrigated area has been achieved.
Pre-feasibility study selected seven dam sites in northern provinces, and feasibility studies for six dams have been submitted. A feasibility study for three remaining dam sites also has been submitted.
Installation of hydro-meteorological equipment has been completed and data collection performance of the installed stations improved considerably in all five river basins.

**Key Partners:**
Afghan Ministry of Energy and Water, U.N. Food and Agriculture Organization

<table>
<thead>
<tr>
<th>Financing in million US Dollars (as of August 31, 2014)</th>
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<tbody>
<tr>
<td>Financing source</td>
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<tr>
<td><strong>Total Project Cost</strong></td>
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<td><strong>Borrower</strong></td>
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<tr>
<td>Co-financing (Afghan Govt.)</td>
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<td><strong>Total Bank Financing</strong></td>
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<tr>
<td>IBRD</td>
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<td>Trust Fund</td>
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</table>

**Financing Source:**
- Total Project Cost: 148.7 million US Dollars
- Co-financing: 2.5 million US Dollars
- Total Bank Financing: 138.5 million US Dollars
- IDA: 97.8 million US Dollars
- IBRD: 48.4 million US Dollars
Afghanistan: New Market Development Project

Key Dates:
Approved: May 30, 2011
Effective: July 12, 2011
Closing: February 29, 2016

Financing in million US Dollars
<table>
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<td>Trust Fund</td>
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Project Background:
The New Market Development Project is the first World Bank funded project to be implemented by Ministry of Commerce and Industries since the World Bank’s re-engagement in Afghanistan. It seeks to support the development of the Afghan private sector.

Project Development Objective and Brief Component Description:
The objective is to help revitalize private sector activities in the four major cities – Kabul, Mazar-e-Sharif, Jalalabad, and Herat – by providing business development and technical assistance to support private firms’ initiative to gain market knowledge, improve product quality and processes.
Components are:
- Facility for New Market Development: Establishes a cost-sharing mechanism to support small- and medium-sized enterprises (SMEs) and business associations to access business development services in order to enhance productive capacity and encourage innovation through product or market diversification.
- Project implementation support and technical assistance to the Ministry of Commerce and Industry (MOCI): Supports MOCI with: (i) the establishment and operation of a project management unit for the New Market Development Project; and (ii) technical assistance to develop a strategic plan to access support from the recently approved Afghanistan Capacity Building for Results Facility.

Results Achieved:
The Facility for New Market Development was officially launched on March 12, 2013.
It has received 745 applications from SMEs and signed cost-sharing grant contracts worth $9 million with 311 firms and associations.
Through the facility, more than 900 jobs have been created across the country, including more than 250 for women, with 149 new products introduced in local markets.

Key Partners:
Afghan Ministry of Commerce and Industries (MOCI)
Afghanistan: National Horticulture and Livestock Project

**Key Dates:**
- Approved: December 18, 2012
- Effective: December 22, 2012
- Closing: March 13, 2018

**Financing in million US Dollars (as of Sept. 2, 2014)**

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<tr>
<td>Trust Fund</td>
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**Project Background:**
The agriculture sector accounts for 31 percent of GDP, but provides employment to 59 percent of the labor force. The government’s strategy for economic growth and poverty reduction includes development of perennial horticulture and livestock as key activities. The project will build on achievements made by a previous initiative in promoting adoption of improved production practices. Its main focus will be on effectively graduating from an emergency phase and into a development approach.

**Project Development Objective and Brief Component Description:**
The objective is to promote adoption of improved production practices by target farmers, with gradual rollout of farmer-oriented agricultural services, delivery systems and investment support.

Components are:
- Horticultural production: Provides target beneficiaries with demand-driven extension and productive investment support, including organizational support (e.g., orchard management, value addition and marketing) for farmers and extension support for the successful adoption of improved technology.
- Animal production and health: Provides beneficiaries with investment support for animal production and animal health, and extension support for adopting improved technology packages. It also supports public investments for the establishment of an animal health surveillance and control system, and in the development of improved models of intervention through trials and studies to inform policy on possible future private investment.
- Implementation management and technical assistance: Supports implementation management at national and regional levels, and technical assistance to inform implementation, policy development and capacity building at the Ministry of Agriculture, Irrigation, and Livestock.

**Results Achieved:**
- Financed the establishment of 4,414 ha of new orchards, more than halfway to the project target, with 30 percent in new provinces.
- Rehabilitated more than 29,000 ha of orchards, more than quadrupling the target of 6,000, and established 34,695 kitchen gardening schemes, well over the target of 20,000.
- Brucellosis vaccination campaign conducted in 360 districts of 34 provinces during which 430,000 young cattle (representing 20 percent of the whole population) and 2.2 million young sheep and goats (representing 20 percent of sheep and goat population) have been vaccinated.

**Key Partners:**
Afghan Ministry of Agriculture, Irrigation and Livestock (MAIL).
**Afghanistan: National Solidarity Program**

**Key Dates:**
- Approved: June 29, 2010
- Effective: October 06, 2010
- Closing: September 30, 2015

**Financing in million US Dollars (as of March 2014)**

<table>
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<td>Trust Fund (ARTF)</td>
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</table>

**Project Background:**
The National Solidarity Program (NSP) is a flagship program of the government of Afghanistan and is currently operating in all 34 provinces. The Afghan government launched NSP to lay the foundation for a sustainable form of inclusive local governance, rural reconstruction, and poverty alleviation. Identified in Afghanistan’s National Development Strategy as the government’s principal community development program, the billion-dollar project is managed by the Afghan Ministry of Rural Rehabilitation and Development.

**Project Development Objective and Brief Component Description:**
The objective is to build, strengthen, and maintain community development councils (CDCs) as effective institutions for local governance and socioeconomic development.

Components are:
- Capacity building: Establish CDCs to (i) function as village-level governance bodies for continued empowerment of village communities; and (ii) facilitate communities’ participation in the various sector programs operating in rural areas.
- Community grants for economic and social development: Provide block grants to communities to fund priority investment schemes (sub-projects) for rural and social development.
- Project implementation: Support the Ministry of Rural Rehabilitation and Development’s overall management and oversight of NSP.

**Results Achieved:**
More than 33,400 villages have formed CDCs, and about 31,000 communities in 398 districts have received at least their first block grants. Over $1.48 billion has gone to communities through block grants.

Sub-projects financed to date are in the areas of water supply and sanitation (24 percent), rural roads (27 percent), irrigation (21 percent), power (10 percent) and education (eight percent).

Over 22 million people have benefited from NSP sub-projects out of Afghanistan’s total population of 36 million. NSP has created temporary rural employment by generating over 50 million labor days over the past decade.

**Key Partners:**
- Afghan Ministry of Rural Rehabilitation and Development (MRRD), Afghanistan Reconstruction Trust Fund
Afghanistan: On-Farm Water Management Project

**Key Dates:**
- Approved: March 16, 2011
- Effective: March 16, 2011
- Closing: June 30, 2014

**Financing in million US Dollars (as of Aug. 15, 2014)**

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<tr>
<td>Trust Fund (ARTF)</td>
<td>25</td>
<td>16.5</td>
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**Project Background:**
Most irrigation schemes in Afghanistan are operating at 25 percent efficiency, as compared to the norm of 40-60 percent elsewhere in South Asia.

Water loss occurs at farm level because the absence of proper farm-level irrigation systems (basins, furrows) leads to wastage of water supplied from the watercourses.

Under the Agriculture Production and Productivity Program, the first step is to improve agricultural productivity by reducing water loss in tertiary canals and proper on-farm water management practices.

**Project Development Objective and Brief Component Description:**
The objective is to improve agricultural productivity in project areas by enhancing the efficiency of water used.

Components are:
- **On-farm water management:** Carries out social mobilization for the establishment of irrigation associations (IAs) in the project areas, including the provision of: (i) training to communities in organization and management of IAs; (ii) facilitation services for communities to develop the IAs’ internal legal rules and regulations; (iii) assistance to IAs to be registered under the Water Law; (iv) technical training to IAs; and (v) carrying out engineering surveys and infrastructure improvements to small irrigation schemes, or tertiary canals, covering approximately 10,000 hectares in the project areas.
- **Institutional strengthening and capacity building:** Develops institutional capacity at the Ministry of Agriculture, Irrigation and Livestock (MAIL) to plan, design, implement and monitor on-farm water management programs. Supports the construction of five office buildings to accommodate the ministry’s irrigation directorate and staff at five regional centers in Kabul, Herat, Mazar-e-Sharif, Baghlan and Jalalabad.
- **Project management, coordination, monitoring and evaluation:** Strengthens institutional capacity at the ministry for project implementation, monitoring and evaluation by establishing and maintaining a project implementation unit comprising a Kabul-based core team, five project area teams, and internationally recruited experts.

**Results Achieved:**
Land productivity of wheat and other crops has increased by 15 percent, while water productivity of wheat and other crops also increased by 10 percent and irrigated area by 10 percent.

Surveys of 148 schemes have been reported to be complete, from which designs for 128 schemes have been prepared and contracts for construction of 86 schemes have been awarded.

About 60 schemes covering an area of about 12,935 ha have been completed.

A total of 146 staff members of MAIL and other Afghan agriculture, irrigation and livestock agencies have been trained overseas.

A total of 225 of ministry staff have been trained in topics ranging from on-farm water management, modern irrigation practices, system of rice intensification quality control and quality assurance construction, and social mobilization.

**Key Partners:**
Afghan Ministry of Agriculture, Irrigation of Livestock (MAIL).
Afghanistan: Second Public Financial Management Reform Project

Key Dates:
Approved: May 2, 2011
Effective: June 23, 2011
Closing: December 31, 2015

Financing in million US Dollars

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<td>IDA</td>
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Project Background:
Building core public financial management (PFM) capacity in government has been one of the fundamental thrusts of the Bank’s interim support strategy for Afghanistan. The Bank has gained valuable insight on PFM issues in Afghanistan through IDA-funded technical assistance projects and extensive analytical work.
In the wake of discussions between the government and the donor community on a planned transition for Afghanistan to take greater responsibility in managing the reconstruction agenda, the government prepared and shared with donors at the Kabul Donor Conference in June, 2010 a PFM “roadmap”. It is guided by the vision that (i) policies that reflect the aspirations and needs of the Afghan people drive the government budget; (ii) a government budget assigns responsibility for development outcomes; (iii) efficient public finance and equitable allocation of resources sustain economic development; and (iv) accountable civil servants and equitable delivery of services build citizens’ trust in government.

Project Development Objective and Brief Component Description:
To strengthen public financial management through effective procurement, treasury and audit structures and systems in line with sound financial management standards of monitoring, reporting, and control.
Components are:
- Procurement reform: Introduces procurement reform aimed at enhancing procurement facilitation, capacity building in line ministries and provinces, and institutional development.
- Financial management reform: Supports financial management reform in treasury operations and system development, human resources capacity development, professional accountant organization, and line ministry public financial management assessments.
- Audit reform: Supports reforms and performance improvement through training for internal and external audit.
- Reform management: Supports monitoring technical assistance and reporting on benchmarks of the PFM roadmap.

Results Achieved:
The legal framework underpinning public financial management in Afghanistan has been established. The government now prepares and passes a comprehensive budget in an orderly and transparent manner.
A government–wide integrated financial management information system is in place.
Project support to Afghanistan’s centralized procurement oversight has been mobilized and the Procurement Policy Unit in the Ministry of Finance continues to assist with the reorganization, development and assessment of procurement units in the line ministries.

Key Partners:
Ministry of Finance, Supreme Audit Office of Afghanistan, Afghanistan Reconstruction Development Services
Afghanistan: Rehabilitating and Expanding Electricity Infrastructure

**Key Dates:**
Approved: October 22, 2008
Effective: March 19, 2009
Closing: January 31, 2015

**Financing in million US Dollars (as of February 28, 2014)**

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**Project Background:**
The project supports the continued rehabilitation and expansion of Afghanistan’s electricity infrastructure, with a focus on increasing supply to the secondary cities of Charikar, Gulbahar and Jabul-es-Seraj, located 60-70 km north of Kabul, and Pul-e-Khumri, which is approximately 200 km north of Kabul.
It follows two recently-closed projects that addressed transmission and distribution rehabilitation in Kabul and Mazar-e-Sharif.

**Project Development Objective and Brief Component Description:**
The project development objective is to increase the number of electricity connections for the urban centers of Charikar, Gulbahar and Jabul-es-Seraj and Pul-e-Khumri in an institutionally efficient way.
Components are:
2. Financing a project management firm to support the Ministry of Energy and Water in implementation, and to undertake a pilot energy efficiency program.
3. Rehabilitating transmission switchyards associated with Naghlu and Mahipar hydropower stations

**Results Achieved:**
1. 192 distribution lines constructed or rehabilitated under the project
2. 526 KVA installed in Charikar, Gulbahar and Jabul-es-Seraj
3. 2400 KVA installed in Pul-e-Khumri

**Key Partners:**
Afghan Ministry of Energy and Water, Da Afghanistan Breshna Sherkat (DABS), Asian Development Bank (ADB), Government of India, Germany’s KfW and USAID.
Afghanistan: Customs Reform and Trade Facilitation Project

Key Dates:
Approved: May 25, 2010
Effective: December 28, 2010
Closing: June 30, 2014
Revised Closing: June 30, 2015

Financing in million US Dollars (as of June 30, 2014)

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Project Background:
The Second Customs Reform and Trade Facilitation Project continues the Bank’s support as part of the overall donor effort to reform and modernize Afghan customs. It assists the Afghanistan Customs Department in consolidating the customs modernization process, improving governance, and improving the release of legitimate goods in a fair and efficient manner.

Project Development Objective and Brief Component Description:
The objective is to strengthen the customs modernization process through reforms. Components are:
- Countrywide computerization of Customs clearance operations: Builds on the accomplishments of the computerization effort undertaken under the first Customs Modernization project through implementation of Automated System for Customs Data.
- Installation of executive information systems for Customs to allow real-time monitoring of operations: Introduces a new functionality (management summary and statistical reporting and alerts) to improve governance and mitigate chances of corruption.
- Development of possible options for cross-border Customs cooperation: Reviews the current available options to improve Customs-to-Customs cooperation, including data sharing between Afghanistan and its bordering countries.
- Provision of new Customs infrastructure: Builds selected Customs infrastructure to enable modernized operations such as Inland Clearance Depots in Jalalabad, Kabul, Khost, Nimroz, Farah, and Andkhoi, as well as the Aqina Border Post.
- Technical assistance: Support to address major cross-cutting issues related to Generally Accepted Accounting Principles including improvement of laws and procedures; review of Customs clearance procedures; improvements to risk management and control requirements in the computerized framework; and informing the Customs role in collaborative border management.

Results Achieved:
A Customs-to-Customs Cooperation Agreement between Tajikistan and Afghanistan was signed on March 26, 2014, and work is underway to finalize a similar agreement with Iran.
Automated System for Customs Data (ASYCUDA) full declaration processing (DPS) is now fully operational in 13 computerized Customs offices, covering more than 95 percent of declared trade.
Migration from ASYCUDA++ version to the newer web-based ASYCUDA World platform has been completed in 12 sites, with both international and national transit covered.
Infrastructure development is progressing satisfactorily, with 10 large and 21 smaller civil works-related contracts completed, including a new Customs House at Khost, and improvements to Jalalabad, Kandahar and Nimroz Customs Houses.
Substantial progress has been made in preparation of a Customs Modernization Action Plan, Post Clearance Audit (PCA) implementation plan, Risk Management policy and procedure, and Customs Strategic Plan.

Key Partners:
**Afghanistan: Sustainable Development of Natural Resources Project II**

**Key Dates:**
- Approved: May 31, 2011
- Effective: September 21, 2011
- Closing: June 30, 2016

**Financing in million US Dollars (as of August 31, 2014)**

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**Project Background:**
As part of a program approach to oil, gas and mining sector development in Afghanistan, the Executive Directors approved the following technical assistance operations: (i) Sustainable Development of Natural Resources Project (SDNRP) in 2006 ($30 million); (ii) SDNRP-Additional Financing (SDNRP-AF) in 2009 ($10 million); and (iii) Second SDNRP (SDNRP-2) in 2011 ($52 million). The first two have closed.

**Project Development Objective and Brief Component Description:**
To assist the Ministry of Mines & Petroleum (MoMP) and the National Environmental Protection Agency (NEPA) in further improving their capacities to effectively regulate Afghanistan’s mineral resource development in a transparent and efficient manner, and foster private sector development.

Components are:
- Award of contracts and licenses: Support the preparation and management of competitive and transparent procedures for development and extraction of the country’s mineral resources.
- Regulation and monitoring of operations: Strengthens the process of installing comprehensive frameworks for regulating activities in the mining and hydrocarbon sectors, and build institutional capacity of relevant government entities to monitor regulatory compliance.
- Preservation of antiquities: Support for recovering and preserving some of the artifacts and antiquities at Mes Aynak through implementation of the Archaeological Recovery and Preservation Plan for Aynak antiques. Also promoting alternative livelihoods through improving the sustainability of artisanal and small-scale mining enterprises.
- Project implementation: Funding support for the Project Management Unit (PMU) in carrying out day-to-day project management, public information disclosure and related public consultation processes, project fiduciary and safeguards management, and project monitoring and evaluation.

**Results Achieved:**
Establishment International Advisory Panel (IAP) to ensure the transparency of the negotiations process; collection of new geo-data and the digital capture of existing historical geo-data for the development of a modern computerized geo-database and preparation of 18 sub-sector development policies to guide sustainable development.

Establishment of an independent external inspection and contract compliance monitoring system; capacity building of NEPA and MoMP on inspectorate services functions and regulatory monitoring; preparation of Resettlement Policy Framework (RPF) and Strategic Environmental and Social Assessment (SESA) for the sector, and implementation of the Extractive Industries Transparency Initiative (EITI).

Nearly 75 percent of the archaeological red zone has been excavated at Mes Aynak.

**Key Partners:**
Afghanistan: Justice Service Delivery Project

**Key Dates:**
- Approved: June 01, 2012
- Effective: June 01, 2012
- Closing: May 31, 2017

**Financing in million US Dollars (as of September 10, 2014)**

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**Project Background:**
The Justice Service Delivery Project beneficiaries include the Supreme Court, the Ministry of Justice, and the Attorney General’s Office and – through support to these institutions – the poor, who will benefit from better and more efficient legal services. The project seeks to mitigate the impact of the political and security transitions, put the justice system on a sustainable path for long-term results, and improve service delivery.

**Project Development Objective and Brief Component Description:**
The objective is to increase access to and use of legal services through balancing demand and supply of core services and increasing the productivity of providers through: (i) encouraging specialization and close collaboration among various service providers; (ii) aligning the structure, organization, processes and capacities of judicial institutions to contemporary needs of users; and (iii) easing access to legal information for legal professionals, judicial institutions and the broader public.

Components are:
- Partnership for Justice
- Legal Empowerment
- Organization and Capacity of Justice Institutions
- Implementation Capacity

**Results Achieved:**
- Implementation infrastructure is in place; annual work plans have been prepared.
- Capital Investment Plans are under implementation; the development of the Legal Aid Road Map and Legal Aid Regulatory Framework, Training Needs Assessments for courts and public defenders’ offices are about to be contracted.
- Civil service reform in the Attorney General’s Office has advanced according to plan.
- Training programs for prosecutors focusing on white collar and corruption related crimes have taken place.
- Training of 105 judges in Egypt Training Institute for Judges in the fields of criminal laws, civil laws, commercial and family laws, and related issues has started.
- Construction of Information and Administrative Center of the Supreme Court and two other provincial offices have been completed.
- New Criminal Procedural Code and a number of other laws have been printed and distributed to relevant stakeholders.
- Five legal libraries have been opened by the Supreme Court and Attorney General’s Office.

**Key Partners:**
- Supreme Court
- Ministry of Justice
- Attorney General’s Office
- Ministry of Finance
- UNDP (legal aid)
- USAID (court case management)
- Italian Development Corporation (partnership for justice)
- European Union
- Italy
- Norway
- Sweden
- Belgium
Afghanistan: System Enhancement for Health Action in Transition Project

Key Dates:
- Approved: February 28, 2013
- Effective: June 20, 2013
- Closing: June 30, 2018

Financing in million US Dollars (as of September 11, 2014)

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Project Background:
The System Enhancement for Health Action in Transition (SEHAT) Project augments the progress achieved through the Strengthening Health Activities for Rural Poor project, and will support the implementation of the Basic Package of Health Services (BPHS) and Essential Package of Hospital Services (EPHS) through contracting arrangements in rural and urban areas covering 22 of the country’s 34 provinces, including Kabul.

Project Development Objective and Brief Component Description:
The objective is to expand the scope, quality and coverage of health services provided to the Afghan population, particularly to the poor in the project areas, and to enhance the stewardship functions of the Ministry of Public Health. Components are:
- Implementation of the BPHS and EPHS: Supports performance-based partnership agreements between the Ministry of Public Health and non-government organizations that deliver health services.
- Sub-national governments: Strengthening the Healthcare Financing Directorate; developing regulatory systems and capacities to ensure quality pharmaceuticals; working with the private sector; enhancing capacity for improved hospital performance; strengthening human resources for health, governance and social accountability; strengthening health information systems and the use of information technology; strengthening health promotion and behavioral change; and improving fiduciary systems.
- System development: Supports costs associated with system development and stewardship functions of the Ministry of Public Health including those at central and provincial levels and technical assistance.

Results Achieved:
Increase in births attended by skilled health personnel among lowest income quintile from 15.6 percent to 35 percent.
PENTA3 immunization coverage (a combination of five vaccines in one covering polio, diphtheria, Pertussis, tetanus and hepatitis B) among children aged 12 to 23 months in lowest income quintile more than doubled, from 28.9 percent to 60 percent.
Contraceptive prevalence rate (using any modern method) has increased from 19.5 percent to 30 percent.
Score on the examining quality of care in SCs, BHCs, and CHC on the balanced scorecard rose from 61 percent to 70 percent.

Key Partners:
Ministry of Public Health, USAID, European Union and UN agencies.
**Afghanistan: Safety Nets and Pensions Support Project**

**Key Dates:**
- Approved: October 15, 2009
- Effective: February 10, 2010
- Closing: June 30, 2016

**Financing in million US Dollars (as of September 11, 2014)**

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**Project Background:**
The Afghan formal social protection system consists largely of a pension scheme for public sector employees, military, police and a Martyrs and Disabled Pension Program. In addition, a social safety net encompasses a number of government and donor schemes that transfer cash and in-kind benefits to various groups. In pensions, the government’s objective is to ensure fiscal sustainability and mitigate fiscal impact of the civil service reform on the pension program, making it consistent with the broader public sector reform agenda. However, the recent increase in spending in the Martyrs and Disabled Program puts at risk the sustainability of social protection expenditures.

**Project Development Objective and Brief Component Description:**
The project’s goals are to improve the administration of the public pension schemes, and develop administrative systems for safety net interventions, with a focus on targeting and benefit payment delivery systems, while delivering cash benefits to the poorest families in specific pilot districts.

Components are:
- Pensions: Supports the design of new administrative arrangements for the public pension system and modernization of the existing pension systems, including the Martyrs and Disabled Pension.
- Safety nets: Supports the design and piloting of targeting and delivery systems to establish a poverty-targeted cash transfer system; this includes capacity development at the ministry to deliver and coordinate social protection programs.

**Results Achieved:**
Financed key elements of a reformed and modernized Public Sector Pension System, which includes a revised institutional and human resource structure of the Pension Department, a comprehensive new Management Information System, a set of business processes, fiscal forecasting models for revenues and expenditures, and a new chart of accounts of the pension system. A multi-phased safety net cash transfer pilot has been designed, implemented and evaluated. A targeting and benefit delivery mechanism has been tested and is now being further improved, together with computerized registration. The pilot program over the past two years has provided support in cash transfers to over 16,000 poor and vulnerable families (around 80,000 individuals) in eight selected districts in five provinces.

**Key Partners:**
Afghan Ministry of Labor, Social Affairs, Martyrs and Disabled, UNICEF, World Food Program (WFP), UK’s Department for International Development (DFID), USAID, and International Labor Organization (ILO).
### Afghanistan IFC: Access to Finance—Financial Infrastructure Public Credit Registry Project

**Key Dates:**
- Approved: January 01, 2009
- Effective: January 01, 2009
- Closing: December 31, 2014

**Financing in million US Dollars**

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**Project Background:**
The Afghanistan Credit Registry project is part of the Financial Infrastructure Program in the MENA region. At the outset of the project, Afghanistan did not have credit reporting infrastructure in either a public credit registry or a private credit bureau. This inhibited expansion of access to finance in Afghanistan as lenders lacked necessary information for underwriting and risk management processes, limiting their willingness to broaden lending practices. Access to finance is viewed as a key constraint on micro, small and medium enterprise (MSME) growth in Afghanistan, and a credit registry will improve financing opportunities and help economic growth.

**Project Development Objective and Brief Component Description:**
The objective of the project is to establish a credit registry, hosted and operated by the Central Bank of Afghanistan, which is in line with best practice standards. Help the banking sector adopt better risk management practices through access to credit information, while helping the central bank strengthen its supervisory capability.

The project includes the following components:

- a) legislative reform to draft and enact credit information sharing laws/regulations;
- b) creation of a functioning credit registry hosted and operated by the Afghan central bank; and
- c) awareness raising and capacity building to increase knowledge among stakeholders.

**Results Achieved:**
A comprehensive credit information-sharing regulation enacted by the central bank which establishes the foundations for credit reporting in Afghanistan. In the short term, this caters for a credit registry at the central bank. Longer term, it will establish a private credit reporting model when the market is ready.

Selected international vendor to develop credit registry system at central bank.

Implemented and launched the first phase of the credit registry in December 2013, with 16 banks participating.

Conducted eight capacity building and awareness events for 118 participants from the public and private sector.

**Key Partners:**
- Da Afghanistan Bank, Harakat
**Afghanistan IFC: Access to Finance—Financial Infrastructure Secured Lending Project**

**Key Dates:**
- Approved: November 30, 2008
- Effective: November 30, 2008
- Closing: June 30, 2014

**Financing in million US Dollars (as of February 28, 2014)**

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**Project Background:**
The Afghanistan Secured lending project is part of the Financial Infrastructure Program in the MENA region. IFC’s access to finance advisory services in the MENA region, through its Secured Transactions and Collateral Registries Team, assists government clients in developing the appropriate legal and institutional frameworks to allow and encourage the use of movable assets as collateral for loans.

At inception of the project, the results from the Doing Business ranking on the Ease of Getting Credit, a measure of credit information sharing and legal rights of borrowers and lenders, showed that the financial sector in Afghanistan was not able to meet the needs of small firms or individuals—Afghanistan ranked 179th out of 181 countries in 2009.

**Project Development Objective and Brief Component Description:**
The overall objective of the project is to achieve sustained development of the financial sector by increasing private sector access to finance, particularly credit, in the MENA region, by strengthening lender rights in movable assets.

In Afghanistan, the project operates under three components: a) legislative reform resulting in enactment or amendment of laws and regulations to enhance rights of creditors of movable assets; b) creation of a functioning movable asset registry to enable lenders to effectively file a notice related to their proprietary rights, and c) awareness raising and capacity building activities to increase knowledge among stakeholders about the benefits of well-functioning secured financing systems.

The overall program targets are to benefit 250 micro, small and medium enterprises with expanded access to finance, facilitate $13 million in financing to small and medium enterprises (secured with movable property as collateral) and an overall $30 million in financing facilitated.

**Results Achieved:**
- Two new acts on secured transactions in movable property adopted in Afghanistan
- Improvements in the ranking of Afghanistan from 0 to 7 on the “Ease of Getting Credit” ranking of Doing Business in 2013.
- Establishment of the Afghanistan Institute of Banking and Finance in November 2010.

**Key Partners:**
- Da Afghanistan Bank, Harakat
Afghanistan: Urban Water Sector Project

**Key Dates:**
- Approved: May 25, 2006
- Effective: December 27, 2006
- Closing: June 30, 2014

**Financing in million US Dollars (as of February 28, 2014)**

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**Project Background:**
Lack of investment, conflict and drought during the decades before 2005, plus rapid urban growth in recent years, contributed to very poor quality water supply service in Afghan cities.

Piped water coverage in 2005 was among the lowest in the world at around 18 percent, and because of poor operation and maintenance, the water service was reaching an even smaller share of the population.

Sewerage coverage presented a dismal picture, with less than two percent of Kabul’s population having access, and wastewater was only being partially treated before discharge into the Kabul River.

Under efforts to meet Millennium Development Goals (MDG), the government envisaged that 50 percent of households in Kabul and 30 percent in other major urban centers would have access to piped water by 2010.

To achieve this target, the government took major steps on the policy and institutional fronts, with the announcement of the Afghanistan Urban Water Supply and Sewerage (AUWSSC) Sector Policy, Urban WSS Sector Institutional Development Plan, and the Presidential Decree to corporatize CAWSS to: (i) improve sustainable access to safe drinking water and basic sanitation in accordance with the MDGs; (ii) ensure improved operation and maintenance of the WSS infrastructure; and (iii) place emphasis on full cost recovery and financial sustainability of service providers.

**Project Development Objective and Brief Component Description:**
The Urban Water Sector Project for Afghanistan aims to assist the government in developing the capacity of the Afghanistan Urban Water Supply and Sewerage Corporation for operational management and investment planning and implementation.

- Financial support to Afghanistan Urban Water Supply and Sewerage Corporation operations.
- Extension of the Kabul water supply system.

**Results Achieved:**
AUWSSC has assumed the country’s urban water supply and sewerage responsibility and expanded operations from 16 to 42 towns.

AUWSSC achieved: (i) expansion of operations from 16 to 42 towns (162 percent increase); (ii) reduction in water production and distribution costs by 25 percent; (iii) reduction in system water losses from 60 percent to 35 percent; (iv) reduction in staff per water connection from 8.6 to 5.9; (v) increase in total operational revenues by 3rd quarter 2013 over end 2011 by 67 percent; and (vi) increase in the number of water connections by 2nd quarter 2013 by eight percent.

A system of internal monitoring and monthly reporting between the AUWSSC HQ and Strategic Business Units (SBUs) is in place providing both physical and financial data.

**Key Partners:**
Afghan Urban Water Supply and Sewerage Company
Afghanistan IFC: Afghanistan International Bank

**Key Dates:**
- Approved: June, 2009
- Effective: 
- Closing: 

**Financing in million US Dollars**

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**Project Background:**

Afghanistan International Bank (AIB) is sponsored by Asian Development Bank (ADB) and three Afghan private sector business groups – Afghan Investment Partners Corporation (AIPC), Horizon Associates LLC (HA) and Wilton Holdings Ltd. (WHL) – with each having a shareholding of 25 percent. The bank was founded in March 2004 and is present in the major cities of Afghanistan through its network of 32 branches. It has roughly a 22 percent share in the total assets of the banking sector, and was the first bank to commence ATM services and introduce international debit card services in Afghanistan.

AIB focuses lending efforts on corporate and the small and medium enterprises (SMEs) mostly in the trading sector (55 percent), followed by fuel suppliers (25.9 percent), construction (8.4 percent) and telecommunications (2.7 percent). In 2012, AIB acquired Standard Chartered Bank’s (SCB’s) retail business in Afghanistan that included one branch, nine ATMs and gross assets of $229 million. As of March 14, 2014, AIB employed 641 staff members.

**Project Development Objective and Brief Component Description:***

To contribute to the reconstruction and economic development of Afghanistan by providing financing to small and medium sized businesses, which are at the forefront of job creation in the fledgling economy.

To develop the financial sector by providing basic financial services currently not available in the market. The project was expected to contribute to overall financial sector reform by setting best-practice standards and supporting the authorities in developing the evolving legal and regulatory framework.

**Results Achieved:**

AIB has made a substantial development impact evident from its market-leader position in the banking sector of Afghanistan. It ranked number one in terms of assets, and as March 31, 2014, had a net loan portfolio of $78 million and total deposits of $776 million.

The bank is also regarded highly in the sector through its financial performance characterized by a relatively sound asset quality despite the tough operating and macroeconomic environment.

**Key Partners:**

Afghanistan International Bank (AIB), Asian Development Bank (ADB), Afghan Investment Partners Corporation (AIPC), Horizon Associates LLC (HA), Wilton Holdings Ltd (WHL)
Afghanistan IFC: Business Edge—Fast Afghanistan Phase-2

**Key Dates:**
- Approved: 
- Effective: April 01, 2013
- Closing: June 30, 2016

**Financing in million US Dollars (as of February 28, 2014)**

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**Project Background:**
The private sector in Afghanistan still lacks a sufficient level of capacity and understanding of good business skills and practices. This lack of knowledge affects the ability of the private sector to grow or to export which in turn affects economic growth. The business development services (BDS)/management skills training market, while having improved its capacity to deliver high quality training using material customized to the local business environment, is still underdeveloped and requires further assistance to enable it to orient itself towards the private sector and its training needs.

IFC has been contributing to the development of management capacity in both the public and private sector with its Business Edge (DFID funded) management training program for the past four years (September 2008 to March 2013).

**Project Development Objective and Brief Component Description:**
The overall goal of the project is to enhance the business performance and increase the revenue of micro, small and medium enterprises (MSMEs) by developing their managerial capacities using IFC’s Business Edge (BE) product.

The project will build the capacity of local training providers to deliver BE management training to 5,200 individuals (of which 1,820 are women) reaching 520 MSMEs.

Approximately 77 percent of the targets (4,000 individuals trained) will be reached by project completion (June 30, 2016) and 23 percent of targets (1,200) will be reached within three years of post-project completion (by June 30, 2019).

**Results Achieved:**
From inception in September 2008 to June 30, 2014, the project has delivered training to 6,460 people including 2,855 (44 percent) women and reached 586 MSMEs. The impact assessment indicated that 91 percent of the private sector respondents expressed a positive impact of the BE training on company performance.

**Key Partners:**
Afghanistan IFC: Investment Climate – Construction Permit Reform

**Key Dates:**
- Approved: May 2013
- Effective: May 2013
- Closing: May 2015

**Financing in million US Dollars (as of February 28, 2014)**

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**Project Background:**
According to the Doing Business Report 2013, Afghanistan ranks 164th among 183 economies on the “ease of dealing with construction permits” indicator. Currently, investors must wait for at least 334 days in order to get a construction permit. Alternatively, they pay bribes to speed up the process, discouraging local and foreign investors and giving way to corruption.

There is a pressing need to eliminate unnecessary delays and curb corruption in the process, while increasing investor interest in the construction sector through the reform and simplification of construction permitting within Kabul Municipality.

By establishing a streamlined permit process, Afghanistan seeks to reduce corruption and improve transparency in this priority area.

**Project Development Objective and Brief Component Description:**
The objective of this project is to develop a simplified yet effective construction permit system and regulatory framework that will improve the government’s efficiency and capacity to issue construction permits. By doing so, the private sector will benefit from reduced costs by easing permitting bottlenecks, which hampers the ability of the growing housing sector in Afghanistan to meet demand.

The new framework will also allow the government to retroactively formalize unpermitted buildings. The project aims to reduce the time it takes to obtain construction permits from the current 334 days to 180 days; reduce the number of procedures from 15 to nine; and improve the capacity of civil servants operating the process.

Changes are expected to increase both the efficiency and capacity of the Kabul Municipality to issue construction permits and, hence, increase applications under the reformed permits system by 40 percent.

**Results Achieved:**
- Implement and monitor the new, simplified construction permit processes in Kabul to ensure smooth operations and make necessary adjustments based on early implementation results.
- Support the Afghan government in the implementation of the capacity building/training plan. The training plan will comprise two levels to address operational level staff and management (decision making) level officials. Run the private-public-dialogue (PPD) as per the design stage.

**Key Partners:**
Kabul Municipality, United States Agency for International Development (USAID)
Afghanistan-IFC: DABS Kandahar

**Key Dates:**
- Mandate: 11/13/2012
- Effective: N/A
- Closing: N/A

**Financing in million US Dollars (as of February 28, 2014)**

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**Project Background:**
Da Afghanistan Breshna Sherkat (DABS) is the national power utility of Afghanistan. DABS is a limited liability company that is wholly owned by the government of Afghanistan and has the authority to operate and manage electric power generation, import, transmission, and distribution throughout Afghanistan on a commercial basis.

Kandahar province in Afghanistan has a population of around 1,080,000. The city of Kandahar is one of the six largest cities in Afghanistan with a population of around 500,000. There are a total of 75,000 registered electricity customers across Kandahar, with about 50,000 of them based in Kandahar City.

An estimated 20 percent of additional customers are either not registered or are illegal. Installed capacity in Kandahar does not meet current demand and is further reduced by the inability to source fuel, leading to significant amounts of load shedding (around 20 hours a day).

Reliable supply, in the form of hydropower, accounts for approximately 15MW. The average cost of electricity is estimated at 33 ¢/kWh due to the high cost of imported diesel.

IFC is supporting DABS to develop, negotiate and execute a management support contract to improve the operational and financial efficiency of the Kandahar Operating Centre, DABS’ regional department responsible for operations in Kandahar.

**Project Development Objective and Brief Component Description:**
The objective of the project is to improve the financial and operational efficiency of the Kandahar Operating Centre. To do this, the private contractor would provide the following support to the Kandahar Operating Centre:
- Capacity building
- Management support
- Customer care
- Implementation and integration with the Electricity Commercialization Program
- Community engagement
- Reducing aggregated technical and commercial losses.

By reducing financial and technical losses, it will be possible to increase supply to existing customers, improve reliability for industrial customers, and make the provision of power in the Southern region of Afghanistan more sustainable.

**Results Achieved and Expected:**
Four bids were received in April 2014. Following a comprehensive technical and financial evaluation, Power Generation Solutions/Afghanistan Holding Group Consortium got chosen for the management support contract. The winning proposal included total available contractor fees of $23.4 million, with $4.1 million available for additional network investment.

The contract is the first performance based public-private partnership agreement in Afghanistan, and was signed in August 2014.

By introducing private sector participation for this project, IFC expects to increase the number of people with access to improved electricity services by 300,000 (by April 2018).

**Key Partners:**
Da Afghanistan Breshna Sherkat, United States Agency for International Development (USAID)
**Afghanistan IFC : IFC Investment--Roshan**

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**Financing in million US Dollars (as of February 28, 2014)**

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**Project Background:**
Founded in 2003, Roshan is the leading local mobile operator in Afghanistan with an estimated 27 percent mobile market share and 5.6 million subscribers as of March 2013.

The company currently reaches 230 cities and towns in all of Afghanistan’s 34 provinces and covers approximately 62 percent of the population.

In mid-2012, Roshan approached IFC to finance: (i) the acquisition of its 3G license; (ii) the capital expenditures to roll-out the 3G network and improve the 2G network; and (iii) consolidation of its existing loans into a single loan and extending its maturity.

**Project Development Objective and Brief Component Description:**
IFC provided Roshan with long-term financing not available from local commercial banks or capital markets to finance its 3G expansion plan. Given an internet penetration rate of only four percent and a fixed line penetration of 1 penetration in the country, IFC's investment is expected to create a competitive environment that motivates all operators to provide the best quality mobile data services at competitive prices to the Afghan population.

In accordance with the 3G license obligations, Roshan will extend its mobile broadband services coverage to achieve a target of 80 percent population coverage in key cities within five years.

Other development impacts include: (i) broadening economic opportunity to reach the unbanked population in Afghanistan through Roshan's mobile banking services; (ii) financially supporting community social programs such as building schools and playgrounds and providing clean water wells; and (iii) reducing the gender gap by financially supporting the inclusion of women in society.

**Results Expected:**
- Increase mobile banking customers to 0.9 million (against less than 0.1 million today)
- Increase mobile customers to 8.1 million (against 5.6 million today)
- Increase direct employment to 1,417 (against approximately 1,200 today)
- Support local companies and SMEs by partnering with over 4,600 dealers and distributors (against 4,300 today)
- Increase the amount of regulatory fees and taxes paid to the government to $59 million

**Key Partners:**
Roshan, AKFED (a for-profit international development agency), Monaco Telecom (the main telecommunication company in Monaco), TeliaSonera (a leading telecommunications operator in the Nordic and Baltic regions)


### Afghanistan: Strengthening Afghanistan Horticulture Exports Project

**Key Dates:**
- Approved: 
- Effective: October 1, 2014
- Closing: April 30, 2018

#### Financing in million US Dollars (as of February 28, 2014)

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**Project Background:**
This project builds on the success of a previous successful IFC intervention in the horticulture sector, Afghanistan Horticulture Exports Development, which helped farmers to adopt best agriculture practices for two major export commodities (raisins and pomegranates). The project will focus on improving farmers’ skills and expanding market opportunities for Afghan agriculture commodities through improving access to export markets, and strengthening the overall value chain, including processing opportunities for grade B fruits. The project will reach out to farmers located in remote locations, leveraging the skills of the extension workers association established and trained in the previous project. These farmers will be integrated into the supply chain of large fruit exporting and processing firms in Afghanistan. Meanwhile, these lead agribusinesses will be supported in becoming compliant with global standards required for access to high-end markets for food products.

**Project Development Objective and Brief Component Description:**
The overall objective of the project is to increase the supply of fresh and dried fruits, through improved compliance with market standards, and integration of farmers into the value chain of lead agribusiness firms, giving them access to wider market opportunities. The project will initially start its activities in Kandahar province, building on the success of the previous project, while assessing the potential of expanding to other provinces in Afghanistan.

**Expected Results:**
- Support 1,000 farmers in adopting best agriculture practices for fruits, and comply with market standards. The outreach to farmers will be ensured through the already established network of extension workers in Kandahar.
- Improve the operations of one or two lead Afghan agribusiness firms through the integration of farmers that were able to implement best practices in their supply chains.
- Increase the sales value of Afghan fresh and processed fruits by $2 million, through at least four export contracts, as a result of supporting one or two leading Afghan agribusiness firms in accessing wider market opportunities.

**Key Partners:**
Large fruit processing companies in Afghanistan, the Extension Workers Association, local NGOs, organizations engaged in supporting the agribusiness sector in Afghanistan.
Afghanistan MIGA: Mido Dairy Production Company

**Key Dates:**
- Approved: October 29, 2013
- Closing: 

**Financing in million US Dollars (as of February 28, 2014):**

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**Project Background:**
Dairy products are a major source of protein in Afghanistan. However, the dairy sector was largely destroyed during the Afghan civil war and has yet to fully recover. Imported dairy products have gained the majority of the market share in large metropolitan areas including Kabul. Supporting the livestock and local dairy industries has been a priority for the Afghan government as well as international development organizations. However, domestic producers continue to find it difficult to compete with imported products in terms of both quality and quantity. MIGA issued a guarantee of $1.82 million for 10 years to Mido Dairy Production Co to cover direct equity against the following risks: Transfer Restriction, Expropriation and War and Civil Disturbance.

**Project Development Objective and Brief Component Description:**
From both the country and sector perspectives, MIGA is playing an important role in facilitating private investment to promote the technical know-how and investment needed to develop this sector in a conflict-affected country. Project entails the establishment of a joint venture company in Afghanistan, Mido Dairy Production Co (‘MIDO’ or ‘the Company) with a dairy processing plant, located in the suburbs of Kabul, which will produce and distribute high-quality dairy products such as milk and yogurt, primarily to Kabul.

**Results Expected:**
With MIGA guarantee coverage, MIDO is expected to achieve:
- The generation of 20-25 new permanent jobs;
- €1.2 million over the 7 years of operation in taxes and fees;
- 27.9 percent economic rate of return.

**Key Partners:**
Mido Dairy Production Co.
**Afghanistan MIGA: Traitex Industry**

**Key Dates:**
- Approved: June 26, 2013
- Effective: June 28, 2013
- Closing:

**Financing in million US Dollars (as of February 28, 2014)**

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<tr>
<td>IDA</td>
<td>1.33</td>
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<tr>
<td>IBRD</td>
<td>2.155</td>
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</table>

**Trust Fund**

**Project Background:**
Afghanistan is the third largest producer of raw (greasy) cashmere in the world, after China and Mongolia. Cashmere is harvested only in limited areas of Afghanistan, mostly in the western provinces of Herat, Farah, Ghor, and Badghis. Currently Afghanistan exports around 1,000 metric tons (MT) of cashmere on an annual basis. The main trade center is Herat, where a handful of exporters gather to purchase the cashmere from farmers.

The project was initially supported by the Afghanistan Small and Medium Enterprise Development program, funded by USAID. In 2011, this program provided funding to Traitex Belgium and Cashmere Fibres International ("CFI"), the largest dehairer of Afghan cashmere, to set up operations in Afghanistan in order to increase the value-added within the country and to promote the development of the sector.

Traitex Belgium is an independent processing company that scour and carbonizes wool and cashmere. It is based in Verviers, Belgium. In June 2013 MIGA issued a guarantee of $1.3 million to Traitex to cover direct equity against the risks of transfer restriction, expropriation, and war and civil disturbance.

**Project Development Objective and Brief Component Description:**
From both the country and sector perspectives, MIGA is playing an important role in facilitating private investment to promote the technical know-how and investment needed to develop this sector in a conflict-affected country.

**Results Achieved:**
- Generation of 35 permanent jobs directly, as well as supporting many hundreds of cashmere farmers indirectly;
- $35,000 in taxes and fees annually;
- 20.6 percent economic rate of return.

**Key Partners:**
Traitex Industry
AFGHANISTAN-IFC: MTN GROUP

**MIGA Key Dates:**
Approved: June 22, 2012
Signed: June 29, 2007, July 5, 2011

**MIGA Guarantee (million US Dollars):**

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
<th>Fiscal Year</th>
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<tr>
<td>Equity</td>
<td>$74.5</td>
<td>2006</td>
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<td>Shareholder loan Equity</td>
<td>$84.1</td>
<td>2010</td>
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**IFC Key Dates:**
Approved: June 23, 2006
Signed: June 30, 2006/June 19, 2009

**IFC Investment (million US Dollars):**

<table>
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<th>Amount</th>
<th>Fiscal Year</th>
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<tbody>
<tr>
<td>Equity</td>
<td>13.5</td>
<td>2009/10</td>
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<tr>
<td>Senior Debt</td>
<td>65.0</td>
<td>2011</td>
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**Project Background:**
In 2002, following decades of armed conflict, Afghanistan had a barely functioning and severely limited communications network. In early 2007, IFC and MIGA made a commitment to provide support directly to the most recent (third) mobile operator, MTN Group (then Areeba Afghanistan). IFC initially made an investment commitment in Areeba Afghanistan in 2006, which was later replaced by a larger investment facility to MTN Afghanistan comprising an equity investment of $13.5 million and senior debt of $65 million in order to finance the expansion of MTN's operations. MIGA issued a guarantee of $74.5 million to cover its direct equity investment of $85 million in Afghanistan. The coverage was for 15 years against two risks: i) transfer and convertibility restriction, and ii) expropriation. The Afghanistan Investment Guarantee Facility (AIGF), managed by MIGA, provided $2 million of first loss. In 2011, when MTN Group expanded its network, MIGA issued a second guarantee of $84.1 million. These guarantees bring MIGA's total gross coverage to $158.6 million and total net coverage up to $108.6 million. IFC exited its equity investment in July 2013.

**Project Development Objective:**
From both a country and sector perspective, MIGA and IFC are playing an important role in facilitating south-south investment to promote the expansion of telecommunications infrastructure in a conflict-affected country, increasing the availability and affordability of communication services in Afghanistan. Furthermore, IFC's investment has been supporting the expansion of telecom services into semi-urban and rural areas of Afghanistan. MIGA can mobilize additional capacity in the private insurance market through its reinsurance arrangements. MIGA's establishment of the AIGF, a first loss fund, with the help of other donor countries, has helped bring down the risk of the transaction, making it more attractive for the private reinsurance market.

**Results:**
With MIGA guarantee coverage and IFC's investment and advisory support, MTN has been able to exceed expectations and reach over five million subscribers, close to a one-third market share.

**Key Partners:**
Afghanistan Investment Guarantee Facility (AIGF) – MIGA