Summary

- Security conditions worsened in the six-months’ run up to the Presidential elections, but the poll was held as scheduled, on August 20. By the time this report was delivered, the incumbent President Hamid Karzai held an outright lead. However, more than 2,000 objections were lodged with the Electoral Complaints Commission (ECC), which could affect the outcome and in any case looked likely to significantly delay the finalization of the result. The inauguration is supposed to follow 30 days after finalization of results.

- Despite the global economic crisis and domestic political and security problems, Afghanistan maintained macroeconomic stability in 2008/09. Real GDP growth for 2008/09, however, decelerated to 2.3 percent, the lowest in the post-Taliban period, due to poor agriculture. A strong rebound is expected for the current year (2009/10) with the main summer harvest bountiful. Prices turned from inflation in 2008/09 to deflation year to date in the current year. Monetary policy is on track, the nominal exchange rate has been stable and international reserves reached a comfortable level at 13 months of imports. Regarding fiscal policy, domestic revenues increased substantially with the implementation of new policy measures associated with the revised income tax law and improvements in customs administration.

- Progress on structural and policy reforms has been mixed. The government made progress in reforming the revenue component of public financial management and improving the investment climate for enterprises. It introduced, or was in the process of introducing, new laws to regulate the hydrocarbon, mining and banking sectors, and was preparing to establish institutions to fight corruption. Some reforms lagged. The rate of execution of core development expenditures has faltered. Pay and grading reforms, a core part of the reform of the public administration, slipped well behind schedule.

Recent Political and Security Developments

Political: On August 20, Afghans voted to elect their president, for the second time in the country’s history. Even though the deteriorating security situation was considered the major obstacle, by and large, the elections proceeded with unexpected smoothness. Even though there is no official data indicating voter turnout, observers estimated that 40 percent of the electorate turned out; much lower than the 76 percent who voted in the first Presidential election, in 2004.

The Independent Election Commission (IEC) announced results that showed incumbent president Hamid Karzai had won and surpassed the 50 percent necessary to avoid a runoff against the second-placed candidate. However, certification of the results by the IEC will depend on the ECC’s adjudication of widespread allegations of fraud. By September 10, the ECC had received about 2,300 complaints, 720 of which could affect the election results, if determined valid.

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1 The report was prepared by T. G. Srinivasan and Yoichiro Ishihara.
Security: Security conditions are steadily worsening. United Nations data show security incidents increased by 45 percent in the first half of 2009 compared to the same period in 2008 (Figure 1). The new US administration committed in March 2009 to increase US troops in Afghanistan by 21,000, taking the total eventual deployment to 61,000\(^2\). Security further deteriorated during August, the month of presidential election. The NATO commander for the International Security Assistance Force has proposed a new counter-insurgency strategy, which is under review by the US administration.

Recent Economic Developments

Real Sector slowed but rebound expected

GDP growth slowed\(^3\). Preliminary assessment of the growth rate in 2008/09 puts it at 2.3 percent, much lower than in 2007/08, which was 16.2 percent. The 2008/09 growth rate was the lowest in the post-Taliban era. While the service and industrial sectors – two of the three most important sectors in the economy – grew by 16.0 percent and 7.0 percent, the third, agriculture, turned negative, with a -16.5 percent return (Figure 2). This is consistent with the fall in cereal production of 34 percent between 2007 and 2008\(^4\).

Although agriculture fluctuates due to the weather, the growth rate of industry decelerated sharply in 2007/08-2008/09. Within industry, manufacturing and construction growth have slowed, raising concerns about weak private investment and the investment climate overall (please refer to Box 2 of the 2008 Enterprise Survey\(^5\)). Table 1 below presents key indicators of recent economic performance for the last five years. Despite high real growth rates since 2002/03 (averaging 11 percent between 2002 and 2008), GDP per capita (nominal terms in US$) remains low at US$426 in 2008/09\(^6\).

\(^2\) As of July 23, 2009, there were about 64,500 international security assistance force troops operating in Afghanistan alongside 91,900 Afghan National Army personnel.

\(^3\) Including the drug economy in agriculture.

\(^4\) MAIL (May 2009) “Agriculture Prospects Report”

\(^5\) http://www.enterprisesurveys.org/ExploreEconomies/?economyid=2&year=2008

\(^6\) Includes some illicit opium income.
**Investment is weaker.** The expenditure account\(^7\) shows the extent of deceleration in investment (i.e., growth fixed capital formation) measured by the share of gross fixed capital formation in GDP (Figure 3). The share declined from 33 percent in 2006/07 to 28 percent in 2008/09. Although detailed data are not available, both private investment and public investment (i.e., capital expenditures from the budget and external budget) may have contributed to the decline.

**Growth is highly likely to rebound in 2009/10,** mainly due to improved performance in agriculture. With the main crop season (May – September) nearly over, cereal production, accounting for three quarters of agriculture, is projected to increase by 74 percent on the strength of predicted adequate water availability for the rest of the season rebounding from the drought of the previous year. Furthermore, as agriculture accounts for about 1/3 of the GDP, the overall growth in 2009/10 would be well above 10 percent.

**Opium economy shrank.** In contrast to overall agricultural production, opium production in 2009 fell by 10 percent to 6,900 metric tons from 2008 (Figure 4). While cultivated area under opium fell by 22 percent, mainly in Helmand province, productivity (yield per hectare) increased by 15 percent due to good climate, low levels of plant disease and shift to more fertile areas. The decline in cultivated area is in part a response to declining prices in recent years. Opium prices fell to an eight year low of US$ 64/ kg because of global excess supply. Though opium production fell for two straight years, the opium industry remains the biggest sector in Afghanistan. The survey estimates that about 1.6 million people (6.4 percent of the total population, or 245,000 households) are involved in opium cultivation. The government’s anti-narcotic program is having success with two new provinces becoming opium-free and the crop eradicated in about 5300 hectares.

**Monetary Policy is on track**

**Prices turned from inflation to deflation in 2009/10.** The CPI rose by 27 percent in 2008/09 (period average, based on data for Kabul) because of the drought and high international commodity prices. However, inflation started to decelerate in late 2008 and turned negative in April 2009, following the decline in world prices and promise of a bumper harvest. CPI growth rates in the first five months of 2009/10 were -12.5 percent (Figure 5). Food prices fell by 20.2 percent, while non-food prices increased by 3.4 percent. Core inflation rates, which exclude volatile items such as bread, cereals, transportation, energy and fuel, were 0.0 percent.

\(^7\) Only nominal figures are available for the expenditure account in the national account.
Interest rates eased. One-month interest rates, from the central bank’s capital note auctions (denominated in Afghans) an instrument of monetary control, have also been declining. The rates peaked at 16.0 percent in March 2008 and stayed high during 2008. However, it fell sharply in 2009, reaching 5.6 percent in August. Nevertheless, real interest rates measured by the gap between one-month interest rates and core inflation rates have increased since August 2008.

Exchange rates remained stable. The central bank seeks to maintain stable exchange rate to build confidence in Afghani while using the currency auctions to control money supply. The nominal exchange rate against the US dollar has been stable since the end of 2003 at around Af50 against the US dollar, although there were some fluctuations (Figure 6). Da Afghanistan Bank, the central bank, (DAB) continued to intervene regularly in the currency market by foreign exchange auctions to smooth the currency fluctuations. The appreciation against the main trading partner, Pakistan, continued with the Pakistani Rupee depreciating somewhat against the US dollar in the last six months.

Money supply under control. Currency in circulation (CiC) is used an intermediate target by the DAB to control inflation. DAB manages to contain CiC as agreed with the IMF (i.e., roughly below nominal GDP growth rates). The IMF’s poverty reduction and growth facility (PRGF) target for 2009/10 is 16 percent. In the first quarter, CiC increased by 2.1 percent (quarterly growth), lower than the IMF’s PRGF target of 3.8 percent (Figure 7).

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8 Proper measure of real effective exchange rate is not computed for the recent six months. Prior to the last six months the real effective exchange rate was appreciating.
Banking Sector Policy Improves

Regulatory changes could revive bank lending to private sector

Sixteen commercial banks are operating, and in the past year, the number of deposit accounts and loan accounts increased by 20 percent and 10 percent. The bulk of deposits are held in foreign currency (71 percent in July 2009) though the slow shift to Afghani deposits is observable over time. The growth of loans, however, is decelerating (Figure 8), although access to finance is one of the most serious challenges confronting the private sector (please see Box 2). To encourage bank lending, the Mortgage Law and the Secured Transaction Law were both signed by the President in May. The Secured Transaction Law, a necessary requirement for the establishment of a collateral registry, took effect immediately. The DAB is also steering through the National Assembly a law on Islamic Banking. In response, the majority of commercial banks are developing Islamic-compliant lending products to meet the perceived demand from the population. Additionally, the DAB is drafting legislation to extend regulatory oversight to e-money institutions. Given the extent of mobile penetration at 33 percent, it is hoped that e-money providers will be able to greatly increase the reach of banking services to the unbanked rural population.

Fiscal Sector had some bright spots but concerns remain

Domestic revenues surged

Domestic revenue collection started to accelerate in early 2009. In the first 6 months of SY1388 (2009/10), preliminary results showed that domestic revenues reached Af 27.4 billion (US$549 million). The amount is 51 percent higher than in the same period the previous year (Figure 9). Among major
categories\textsuperscript{9}, tax revenues (other than customs) contributed about half of the increase between 2008/09 and 2009/10, with customs duties being the next highest. The Business Receipt Tax (BRT) on imports, which was introduced with the revised income tax law in March 2009 (Box 1), and revenues from the state-owned Fuel and Liquid Gas Enterprise (FLGE) accounted for almost all of the increase in custom revenues. Domestic revenue reached 54 percent of the IMF target in the first half, which is the highest since 2006/07 (Figure 10). The BRT is a presumptive tax which can be offset later by companies when they file corporate tax. The sharp rise in revenues from specific tax on fuels is mostly because of better compliance. For these two reasons, the surge witnessed in customs revenue collection could be difficult to sustain in the medium-term.

\textbf{Box 1: Income Tax Law Amendment}

The income tax law was amended in March 2009, after lengthy discussions, after the government submitted the amendment to parliament in March 2007. Key changes in the amendment are:

- Imposition of a 2 percent Business Receipt Tax (BRT) on imports as a presumptive tax;
- Simplified income tax for small businesses, eliminating most fixed taxes for specific activities;
- Moving the BRT towards a broad-based goods-and-services tax (and future Value Added Tax);
- Removing nuisance taxes (notably Sukook taxes) and simplifying the tax structure in this area;
- Introducing a new income tax bracket at 2 percent (Af5,000-Af12,500 per month) to instill a tax culture among Afghans. The rate is low but will generate revenues.

\textbf{Figure 11: Core Development Budget}

(execution rates relative to the budget 1/)

Core development budget execution is low. Execution rates remained low until the sixth month of 2009/10. In the first six months of that year, core development expenditures reached Af17.7 billion, or 14 percent of the budget (including carry over) (Figure 11). The execution rate in 2009/10 lower than 2007/08 and 2008/09. Execution accelerated in July/August, but decelerated again in September. In July the Cabinet revoked its earlier decision on the involvement of the Ministry of Economy in the allotment process, which seems to have had a positive impact on execution. Allotment increased by Af10.8 billion in the fifth month, though fell to Af 4.6 billion in September, too.

\textsuperscript{9} Up until July due to classification issue in August data.
First Annual Report of the Afghanistan National Development Strategy (ANDS) is published. The first annual report of the ANDS was published in August, 2009, more than a year after the government launched the strategy under joint leadership of the Ministry of Finance (implementation) and the Ministry of Economy (monitoring and evaluation).

During the first year, the government sought to link the ANDS with the government’s reform agenda, identifying methodologies and setting up systems and frameworks for better implementation of sector strategies as well as monitoring and evaluation. “Managing for Results and Monitoring and Evaluation” was the central theme, reflected in the pilot result-based budgeting for the 2010/11 budget.

Aside from documenting the ANDS’s achievements, the annual report identifies key constraints as capacity, funding, coordination (within the government and between the government and the international community), and addressing the diverse needs of provinces.

An important challenge for the government is successful implementation of the newly established “Managing for Results and Monitoring and Evaluation” framework in order to achieve tangible results during the remaining ANDS period. This will require strong leadership from the two ministries - Finance and Economy - to guide implementation by other line ministries.

Security expenditure is expected to mount. The Ministry of Finance plans to conduct a mid-year review in September/October. Additional spending pressures are expected from the security sector, due mainly to the increase in police manpower (from 82000 to 96000) and additional resources for the Ministry of Defense. Although additional security expenditures would be externally funded, they will negatively affect long-term fiscal sustainability.

Afghanistan is making progress towards reaching completion point under the Heavily Indebted Poor Countries (HIPC) Initiative. Afghanistan’s external debt burden fell from 155 percent in 2006 to 20 percent of GDP in 2007 after securing interim relief after qualifying by reaching HIPC decision point in July 2007 preliminary assessment of the Bank-IMF team.
indicate progress towards the achievement of a number of floating completion point triggers and it is the Government of Afghanistan's goal to reach completion point in the near future. Paris Club creditors indicated previously their willingness to grant 100 percent debt relief after Afghanistan reaches HIPC completion point, which together with additional debt relief from the Multilateral Debt Relief Initiative (MDRI) would comprise substantial benefits. However, as recent debt sustainability analysis indicates, over the medium-term Afghanistan continues to face considerable risk of debt distress since the country’s external debt sustainability is heavily dependent on the continued availability of official grant financing supplemented by highly concessional loans.

**External Sector**

**Declining international trade share in the economy and persistent trade deficits.** International trade as share of GDP declined from 58.2 percent in 2002/03 to 33.4 percent in 2008/09. While exports (% GDP) have been constantly low, at around 5 percent, imports fell significantly (Figure 12). Nevertheless, trade deficits remain high at around US$2.5 billion (more than 20 percent of GDP). Pakistan is Afghanistan’s main trading partner, accounting for 20 percent of total international trade.

**Exports reached US$545 million in 2008/09.** Exports\(^{11}\) increased at 33 percent per annum between 2002 and 2008, and increased as a percentage of GDP from 3 percent in 2003/04 to 5.1 percent in 2008/09, after peaking at 5.6 percent in 2005/06. Afghan exports concentrate on primary products and there are almost no manufacturing exports. In 2008/09, dried fruits accounted for 45 percent of total exports followed by carpets (27 percent) and fresh fruits (8 percent) (Figure 13).

**Import values, unlike those of exports, remained almost constant.** The annual growth rate from 2002 to 2008 was a mere 4 percent, however, the composition has changed (Figure 14). The share of machinery and equipment fell from 42 percent to 19 percent, in line with weakening investment (please see section 2-(a)). Meanwhile, the share of petroleum and fuel increased to 18 percent, reflecting higher energy prices in 2008.

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\(^{10}\) Data is derived from the central statistics office (CSO) and does not include illegal trades such as opium.

\(^{11}\) Does not include illegal opium exports.
Vulnerabilities and Risks

Food security improves with prospects of better harvest. According to initial estimates from the 2007/08 National Risk Vulnerability Assessment (NRVA), the average Afghan family spends 77 percent of its total income on food, a significant increase from the 56 percent noted in the 2005 NRVA. This implies that Afghans have become more vulnerable to changes in food prices.

However, the prospects for agricultural production in 2009 are greatly improved12 (Figure 16). Cereal production is projected to increase by 74 percent to 6.3 million metric tons (MMT), the highest in the post-Taliban period. In addition to good weather and rainfalls, increased use of improved seeds and chemical fertilizers and effective pest and disease controls have contributed to the increase in production.

As the result of the increased cereal production, the self-sufficiency ratio improved from 57 percent in 2008 to 97 percent in 200913, which is the highest since 2003 (92 percent) (Figure 15). Increased cereal self-sufficiency must be viewed in the context of high proportion of population that is nutritionally poor14. Another caveat is that there are disparities on the wheat balance between regions. In general, while northern provinces have surpluses, central and southern provinces have deficits. Transportation within Afghanistan is a key issue. Wheat prices vary significantly among provinces. For instance, in August 2009, wheat prices in Mazari Sarif in the northern Balkh province were Af 14/kg, while those in the southern Kandahar province were Af18.3/kg. In reaction to the increased production, wheat flour prices have fallen sharply. In Kabul, for example, wheat flour prices (average quality, per kg) fell from Af38 in May 2008 to Af20 in August 2009.

Less vulnerable financial sector

The financial sector shows few signs of vulnerability. The gross non-performing loans (NPLs) ratio was 0.7 percent in June 200915, having ranged between 1 percent and 3 percent since 2006, showing that the country was little affected by the global financial crisis. Provisions to NPLs reached 486 percent. Furthermore, commercial banks have strong capital bases; the capital adequacy ratio reached 29 percent in July 2009.

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12 Analysis and data are derived mostly from “Agriculture Prospects Report” by the Ministry of Agriculture, Irrigation and Livestock (MAIL) in May 2009.
13 Demand for cereals are MAIL estimates in 2009. Others are World Bank estimates based on population growth rates.
14 In 2007, 45 percent of the population was nutritionally poor to buy 2100 calories per day.
International reserves remain sufficient

Net international reserves have increased, reaching US$3.3 billion in August 2009. At the end of 2008/09, net international reserves reached 13 months of official imports (Figure 16).

Structural Reforms and Policy Developments

Public Administration

Progress of Pay and Grading (P&G) reforms. By end-August 2009, 11,500 civil servants in six ministries had shifted to the new P&G system. However, due to the delay in teacher competency tests - a pre-condition for teachers to move to P&G - no teacher had shifted to the new system. As the government plans to have converted 31,000 civil servants and 56,000 teachers to the system by the end of 2009/10, the implementation seems to be behind schedule. The new Pay and Grade structure under the July 2008 civil service law has eight grades and monthly salaries ranges between US$100 and US$650. The reform replaces the previous personal grades with position based grades that reflect responsibilities ascribed to civil service positions. P&G reform plans to shift all non-uniform civil servants in four years into the new structure.

Private sector development

The private sector reform process has gathered momentum but is still short of the 2007 roadmap. In the past six months, several reforms have been implemented to improve the availability of developed land for investors, streamline regulations and procedures. The Cabinet approved the Industrial Park Development strategy in August 2009. This strategy embodies a reform package that includes land allocation policy, leasing tenure and the management of industrial parks. It is intended to establish an independent “Afghanistan Industrial Parks Development Authority (AIPDA)” to take over management of the industrial parks from the Ministry of Commerce and Industry and Afghanistan Investment Support Agency. For strengthen adherence to the reform time-table, the government announced that the Vice President would chair a monthly meeting to monitor the progress and implementation of key objectives of the private sector roadmap that was drawn up at the Enabling Environment Conference in 2007.

The World Bank Enterprise Survey (2008) reported robust growth in sales between 2005 and 2008 and continuing problems with policy enforcement, availability of electricity, crime, corruption, access to land and finance (Box 2). Afghanistan also improved its “doing business” ranking by 8 places.

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16 Based on program exchange rates by the IMF.
World Bank enterprise survey in 2008 1/. The key finding of the survey is that strong private sector growth, albeit from a small base, is taking place in Afghanistan, despite poor governance, weak factor markets, and a lack of innovation. The survey shows that Afghan businesses have been growing and plan to expand in 2009. Between 2005 and 2008, the average sales growth reached 220 percent, which is indicated by strong service and industry performances in the national account. Also, 77 percent of respondents plan to expand in 2009.

Nevertheless, there are several key constraints which hinder private sector businesses. The most pressing constraints are (i) Policy enforcement (i.e. state ineffectiveness in designing and implementing consistent policies); (ii) electricity availability and distribution; (iii) crime, theft, and disorder; (iv) corruption; (v) access to land and (vi) access to finance. Since 2005, there has been a serious decline in policy enforcement and crime (which is consistent with security statistics in Section 1).

Percent of Firms Citing Constraint as Major or Very Severe
(Comparison between 2005 and 2008)

<table>
<thead>
<tr>
<th>Constraint</th>
<th>2005</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy enforcement</td>
<td>15</td>
<td>60</td>
</tr>
<tr>
<td>Electricity</td>
<td>59</td>
<td>59</td>
</tr>
<tr>
<td>Crime, Theft &amp; Disorder</td>
<td>22</td>
<td>43</td>
</tr>
<tr>
<td>Tax Rates</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>Access to Land</td>
<td>63</td>
<td>40</td>
</tr>
<tr>
<td>Access to Finance</td>
<td>67</td>
<td>39</td>
</tr>
<tr>
<td>Corruption</td>
<td>28</td>
<td>33</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>24</td>
<td>33</td>
</tr>
<tr>
<td>Transport</td>
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<td>32</td>
</tr>
<tr>
<td>Business Licensing &amp; Permits</td>
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<tr>
<td>Customs &amp; Trade Regulations</td>
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<td>27</td>
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<tr>
<td>Practices in formal sector courts</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Inadequate educated workforce</td>
<td>1</td>
<td>20</td>
</tr>
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<td>15</td>
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<td>Labor Regulations</td>
<td>2</td>
<td>5</td>
</tr>
</tbody>
</table>

Doing Business 2010 2/. Afghanistan is ranked 160th out of 183 countries, up from 168th in the previous year. Among 10 categories, Afghanistan made positive reforms in (i) starting business, (ii) registering property and (iii) getting credit.

According to the document, “Afghanistan simplified business start-up by taking company registration out of the commercial courts and establishing a new company registry that acts as a one-stop shop combining company registration, tax registration, and publication in the official gazette, and charges a flat registration fee. The government also eased property registration by cutting the property transfer tax by 3 percent of property value. Access to credit was strengthened with a new law on secured transactions that broadens the scope of assets that can be used as collateral—including future assets—and allows a general description of debts and obligations. The new law also allows out-of-court enforcement”.

One of the weakest categories is “trading across borders”, which measures ease of international trade. In most indicators, Afghanistan is the worst among South Asian countries. For example, “time to export and import” exceeds 70 days, which is more than twice as long as the South Asian average. These factors hinder the growth of international trade (see Section 2(4) of the World Bank Enterprise Survey 2008).

1/ The survey was conducted from September to November 2008, covering 1,066 firms in 10 Afghan cities. It provides a good representation of firms operating in the major urban centers, but it does not cover rural firms, firms that tried to enter the market but failed, or firms that ceased operating

The Ministry of Commerce and Industry has completed a business plan, which was started earlier in the year. This highlights an overall need for structural change within the ministry. It also issues a clear mandate for the ministry to “encourage the growth of the Afghan economy through the development, in consultation with all stakeholders, of appropriate polices and regulations, and the facilitation of internal and external private sector production and trade.” The ministry plans to implement the proposals by December 2010.

**World Bank Assistance to Afghanistan**

**Overview:** World Bank assistance comprises a portfolio of IDA grants and credits as well as the projects it supervises on behalf of the donors to the Afghanistan Reconstruction Trust Fund (ARTF). Since 2002, IDA has committed a total of US$1.9 billion in grants (77 percent) and credits (23 percent) in Afghanistan. Thirty-one development and emergency reconstruction projects as well as four budget-support operations have been implemented to date. In addition, the ARTF has committed US$1.9 billion for the recurrent costs of government and US$1.1 billion in ARTF investments in national government programs.

**Approvals and Exits in FY 2009:** Measures implemented under the World Bank’s modernization and simplification of investment lending agenda has enabled a strong portfolio of additional financing operations for both IDA and the ARTF. In FY2009, IDA approved seven grants totaling US$198.3 million, comprising two grants for new projects (Strengthening Health Activities for Rural Poor and Financial Sector Strengthening), one development policy grant, and four additional financing grants. The ARTF allocated US$316 million for the Recurrent Cost Window, US$259.6 million for additional financing (NSPII, Microfinance, EQUIP II, Higher Education, Skills Development, and Rural Water Supply), and $ 86.3 million for four new projects (Power System Development, Kabul Urban Roads, Water Resources Development TA, and Judicial Reform). Four projects (Public Administration Capacity Building, Health Sector Rehabilitation, NEEP, and Improving power Supply to Kabul) and two IDA grants (NSPII and EQUIP) totaling US$351.8 million closed in FY2009.

**Disbursement:** The overall performance of the IDA and ARTF portfolios has been satisfactory with a combined disbursement ratio of 75 percent, aided significantly by the ARTF’s major financing of recurrent costs as well as the National Solidarity Program. Thanks to the ownership, commitment and leadership of a majority of line ministries, and the intensive supervision efforts of Bank staff, the results of the portfolio indicate a solid performance with major deficiencies limited to eight problem projects, despite the severe capacity constraints and deteriorating security.

**Pipeline:** The indicative US$383 million currently comprises 12 projects. The investment pipeline includes the new rural enterprise program, the third phase of the National Solidarity Program, and technical assistance for pension reform as well as further investment in industrial parks, customs, health, education and a possible development policy grant.

**Interim Strategy Note (ISN):** In May 2009 the Bank Group adopted a new strategy for Afghanistan for the period FY09-11. The ISN provides an update on the country context and its implications for the Bank Group’s operations; and reconfirms the Bank Group’s strategy in the context of this very uncertain and high risk operating environment. The new ISN is consistent with the previous ISN, focusing on three priority pillars: (i) building the capacity of the state and its accountability to citizens; (ii) promoting growth of the rural economy and improving rural livelihoods, and (iii) supporting growth of the private sector. The ISN also covers the ongoing activities of International Finance Corporation and the ARTF.