



DEVELOPMENT EFFECTIVENESS COUNTRY BRIEF

Afghanistan

Selected Country Indicators

Country Indicators	Value/Indicator	Year
Gross domestic product per capita (\$)	335	2006
Poverty incidence (% below national poverty line)	53%	2007
Annual population growth rate (% change)	2.03	2005
Under-5 mortality (per 1,000)	230	2003
Infant mortality rate (below 1 year, per 1,000 live births)	140	2003
Maternal mortality rate (per 100,000 live births)	1,600	2002
Total fertility rate (births/woman)	6.3	2006
Births attended by skilled health staff (% of total)	14.3%	2002
Life expectancy at birth (years)	46.4	2004
Literacy rate of 15–24 year olds (%)	34%	2004
Primary school enrollment (%)	54%	2003
Public education expenditure (% of gross domestic product)	1.6	2002
Ratio of girls to boys in primary and secondary education (%)	0.33	2003
Access to an improved water source (% of population)	23%	2003
Access to sanitation (% of population)	12%	2003
Telephone lines (per 1,000 people)	1.6	2003

COUNTRY DEVELOPMENT SETTING

Overview of Country Achievements and Development Challenges

- 1. Economic Growth and Macroeconomic Policy.** Despite its many development challenges, Afghanistan's recent economic performance has been quite remarkable. Inflation has fallen sharply from 52.4% in 2002/03 to an estimated 7.0% in 2006/07. The International Monetary Fund (IMF) estimates that the real economy (excluding opium production) grew by 8% in 2004/05, 14% in 2005/06, and 8% in 2006/07. Average per capita gross domestic product (GDP) increased from \$182 in 2002/03 to an estimated \$335 in 2006/07. Annual export growth has averaged more than 20% over the last 3 years. Government revenue has increased from 3.2% of GDP in 2002/03 to 7.0% in 2006/07. At the same time, Afghanistan's recent economic growth has been fuelled by large inflows of foreign assistance and increased earnings from opium production, both of which have generated increased domestic demand. Sustained economic growth is required to generate the increased government revenues that will be needed to fund the government budget as well as more targeted poverty reduction initiatives.
- 2. An estimated 80%–90% of economic activity is in the informal sector due to continued insecurity, the lack of the rule**
- of law, a weak private sector regulatory and financial environment, and the tax regime.** Informal firms typically remain small, avoiding investments in productive assets or technology that would enable them to achieve economies of scale or to move into higher value-added activities. Poor infrastructure, limited access to finance, and weak business skills also serve as constraints to more formalized economic activity. Much of the country's recent economic growth has been concentrated in Kabul and a limited number of regional centers with limited participation from the country's rural areas and limited rural employment creation. A key challenge, then, is to build Afghanistan's human, institutional, and infrastructure foundations to develop a more diversified economic base that will contribute to sustained strong growth in both legal incomes and employment.
- 3. Poverty Reduction and Human Development.** While considerable progress has been made since 2001 to lay the foundations for Afghanistan's social and economic recovery and progress, achieving its Millennium Development Goals (MDGs) will require extensive, predictable, and sustained international assistance.¹ Afghanistan's human

¹ An assessment of Afghanistan's progress against global MDG targets is difficult given lack of reliable 1990 baseline data. In addition, Afghanistan lost out on more than 2 decades of development due to civil conflict, and the 2015 target for achievement of the MDGs would give Afghanistan only 10 years to achieve what other countries were expected to achieve over 25 years. Afghanistan thus decided to "Afghanize" the targets and the end-date for their achievement to make the targets more meaningful and to provide an overall vision for the year 2020. Even with a five-year extension of the normal MDG timeframe, Afghanistan's *Country Report 2005* rates only 2 of the 25 MDG targets as "probably" met by 2020; the other targets are rated as "potentially" met. The Country Report also rates the policy environment for achieving 19 of the targets as "fair" with 6 targets rated as "weak but improving". Islamic Republic of Afghanistan. 2005. *Millennium Development Goals Islamic Republic of Afghanistan Country Report 2005 Vision 2020*. Kabul, pp. xxiii–xxiv.

development indicators measuring the most basic human welfare are among the lowest in the world, comparable to only a few of the poorest landlocked or war-torn countries of sub-Saharan Africa.² Poverty measurement in Afghanistan is severely constrained by a lack of quality data. Available data, however, paint a dire picture: 40% of the rural population cannot count on having sufficient food to satisfy their most basic needs; life expectancy is under 45 years (20 years less than any other Asian country); over 20% of all Afghan children die before the age of five; half of Afghanistan's school-age children are not in school; in much of the country over 80% of the people are illiterate; and gender inequality is rife across all sectors resulting in particularly difficult circumstances for Afghanistan's women.

4. **Development Challenges.** Afghanistan faces significant development challenges, all of which are closely interlinked. Insecurity poses a real threat to Afghanistan's further reconstruction and development. As of mid-2007 there were some 51,000 international military and police personnel in the country. Despite the foreign troop presence and ongoing training of the Afghan National Army and Afghan National Police, Afghanistan has continued to suffer ongoing and in some areas increased insecurity due to the resurgence of the Taliban and other anti-government elements as well as the continued presence of other illegally-armed groups. Over the past 2 years, insecurity has spread to parts of the country that were previously stable with insurgents utilizing such tactics as targeted assassinations of government and military personnel; vehicle-borne and body-borne improvised explosive devices aimed at government, national and international military personnel and international and domestic development

workers, contractors, consultants, and civilians; and kidnappings and beheadings. Such tactics contribute to a general sense of insecurity and undermine confidence in the Government.

5. Insecurity also threatens the overall reconstruction effort by limiting access to various areas and thus the ability of the Government to extend public services to them. Insecurity also diverts donor funding to military or security activities rather than to core development activities, limits interest on the part of bidders for reconstruction contracts, makes it difficult to recruit international contractors and consultants (including expatriate Afghans), increases project costs because of the need for costly security measures, and erodes popular support for both the Government and international military and civilian personnel.
6. **Rural-Based Society.** Some 19 million Afghans, nearly 80% of the total population, live in rural areas. In addition, since 2001 more than 2.5 million Afghan refugees have returned to the country. With so much of the population directly dependent on agriculture, with limited arable land, and with a youthful and rapidly increasing population, further agriculture sector growth (and poverty reduction) will depend on agricultural expansion and diversification as well as improvements in the agriculture value chain (production, processing, packaging, transport, and marketing).
7. **Employment Generation.** Employment is the key to alleviating poverty. In addition, continued high levels of unemployment will lead to social problems as people engage in illicit activities as an alternative. Increased private investment is needed to create employment opportunities, and access to markets and electrical power and a supportive enabling environment

² Due to unreliable or outdated statistical data, Afghanistan is not included in the United Nations Development Programme's 2006 Human Development Index. Various statistical indicators provided for Afghanistan, however, would place Afghanistan among the lowest ranking countries and certainly the lowest in Asia and the Pacific.

are needed to create incentives for increased investment. Greater security and better protection of property rights also are important preconditions for increased private investment. The lack of skilled labor results in high wage costs that adversely affect government efforts to recruit qualified personnel. The shortage of skilled labor also negatively affects the competitiveness of domestic industry, particularly in comparison with neighboring economies.

8. **Opium Economy.** Afghanistan accounts for a major and increasing share of the world's opium production. In 2006, 165,000 hectares of opium poppies were cultivated in Afghanistan, up from 104,000 hectares in 2005. In 2006 nearly 90% of the world's opium was produced in Afghanistan, equivalent to 6,100 metric tons of opium or 610 metric tons of heroin. While opium poppies accounted for less than 3% of the total cultivated land area, the total value of opium production in 2006 was estimated at \$3.1 billion, equivalent to 46% of the country's legal GDP or about 27% of estimated total nominal GDP including narcotics. Opium production is labor intensive; it is estimated that more than 2 million Afghans, nearly 10% of the country's total population, were involved in the production of opium in 2005. While the farm-gate price of dry opium has fallen from over \$400/kg in late 2002/early 2003 to \$125–\$220/kg in 2005 and 2006, none of Afghanistan's other agricultural products can currently match income from it, which is estimated to be \$4,900 per hectare.
9. In addition to its impact on employment and rural incomes, opium poppy production has strong links to poverty reduction, economic development, security, and governance. The cultivation of opium poppies plays an important role in rural livelihood strategies providing access to land, credit, and both on-farm and off-farm income for the country's rural population. For many Afghan families, cultivating poppies is essential for economic survival. The income generated by the production and trade in opium also has a multiplier effect throughout the national economy. At the same time, Afghanistan's drug economy is a major source of corruption and crime with opium-related profits also helping to finance anti-government activities. The scale of opium poppy production in Afghanistan, the challenge of providing alternative forms of employment and alternative livelihoods, and the Government's limited capacity to reduce cultivation effectively and sustainably and to control the narcotics trade also reduce the credibility of the Government.
10. A key result of 3 decades of conflict is weak human capacity. Over the past 5 years, lack of capacity has emerged as one of the greatest constraints to Afghanistan's further reconstruction and development. A key challenge is to build essential capacity while at the same time successfully delivering far-reaching reconstruction and development activities and realizing an ambitious reform program. Given Afghanistan's weak human resource base and poor education indicators, it is clear that sustained, long-term capacity development efforts will be required.
11. Given the legacy of conflict and weak governance, since 2001 the Afghan authorities have made a credible effort to establish and extend the reach of government institutions and services, including through a number of national programs. With international support, the Government also has undertaken significant reforms including macro-economic and fiscal reforms and public administration reform. Further reform measures will require commitment and discipline as well as sustained high levels of external assistance.

ADB'S CONTRIBUTIONS TO DEVELOPMENT RESULTS

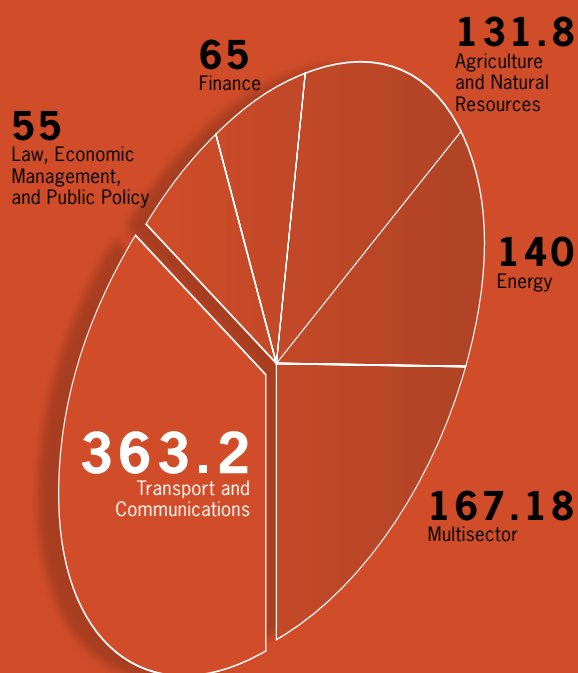
Total ADB Assistance to Afghanistan (as of 30 June 2007)	No.	ADB Funding (\$ million)	Co-financing (\$ million)	Total (\$ million)
1966–1992				
Loan	9	95.10	–	95.10
Technical Assistance	16	2.57	–	2.57
Total		97.67		97.67
2002				
Loan	1	167.18	–	167.18
Technical Assistance	2	15.00	0.14	15.14
Grant Investment Projects	4	–	37.00	37.00
Total		182.18	37.14	219.32
2003				
Loan	1	150.00	–	150.00
Technical Assistance	8	10.00	0.45	10.45
Grant Investment Projects	3	–	43.00	43.00
Total		160.00	43.45	203.45
2004				
Loan	4	170.00	2.10	172.10
Technical Assistance	13	8.90	4.71	13.61
Grant Investment Projects	1	–	10.00	10.00
Private Sector Operations	3	47.60	–	47.60
Total		226.50	16.81	243.31
2005				
Loan	3	121.80	–	135.00
Asian Development Fund Grant	4	100.00	–	100.00
Technical Assistance	11	8.30	0.20	8.50
Private Sector Operations	1	5.50	–	5.50
Total		235.60	0.20	249.0
2006				
Loan	2	113.20	–	113.20
Asian Development Fund Grant	2	100.00	13.20	113.20
Technical Assistance	5	6.95	1.00	7.95
Grant Investment Projects	2	–	38.00	38.00
Private Sector Operations	1	85.00	–	85.00
Total		305.15	52.20	357.35
2002–2006 Total		1,109.43	149.80	1,272.43
1969–2006 Total		1,207.10	149.80	1,356.90

Volume and Performance of ADB Operations

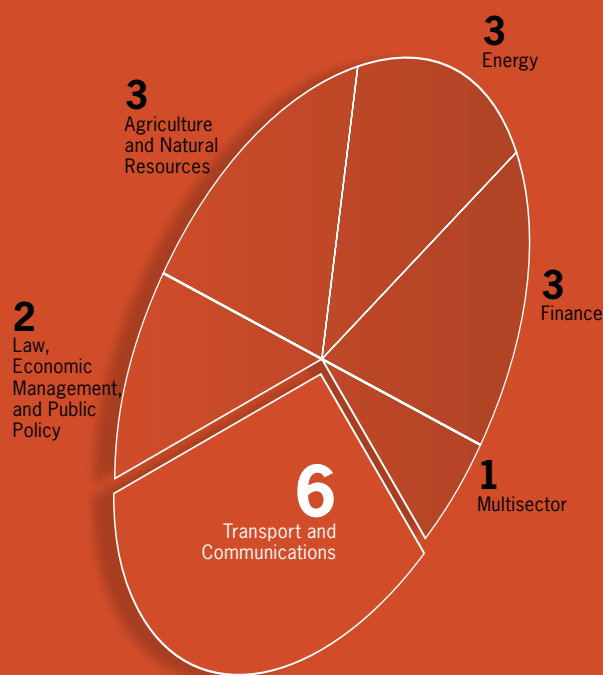
12. Between 1969 and 1979, the Asian Development Bank (ADB) provided Afghanistan with nine loans totaling \$95.1 million as well as \$2.5 million in technical assistance. During the next 2 decades of occupation and internal conflict, ADB's assistance to Afghanistan was suspended. ADB resumed operations in Afghanistan in 2002 and since then assistance has totaled more than \$1.2 billion including nearly \$150 million in cofinancing. Total ADB support to Afghanistan including significant capacity development technical assistance is summarized in the following table.
13. Since 2002, ADB's assistance has focused on the agriculture and natural resources, energy, and transportation sectors with support also for public governance (see figures 1 and 2). ADB has provided significant capacity development support for key sectors of engagement.
14. **Project Implementation Performance and Success Rate.** The key constraints to effective portfolio management are the lack of government ownership (a function to some extent of aid dependence), frequent changes in senior ministry personnel, and the lack of qualified counterpart staff in executing agencies. The lack of reliable data prevents definitive economic and financial analysis of project activities. Consultation with

Figure 1

Asian Development Fund Loans and Grants Approved, 2002–2006 (\$ million)

**Figure 2**

Asian Development Fund Grants Approved, 2002–2006 (number of projects)



local authorities, beneficiaries, and other stakeholders—particularly women—also is deficient. Security issues are increasingly affecting the ability to implement projects. Project implementation also suffers from weak ministry capacity and inadequate or cumbersome government systems and procedures. The difficult security environment increases project costs, results in implementation delays, and constrains effective monitoring of project implementation. Overall disbursement performance for donor-funded activities remains well below expectations as does overall physical progress on most infrastructure projects. To address such problems, the Afghanistan Resident Mission has instituted quarterly portfolio management review meetings with the Ministry of Finance and executing agency ministries.

Highlights of ADB Results

- As ADB resumed operations in Afghanistan only in 2002, no loan/grant project has yet been completed, and only a limited number of technical assistance projects have been. No country assistance program evaluation (CAPE) has as yet been undertaken. While it is too early to report the achievements and lasting impact of ADB operations in the country, this section highlights some significant expected results from the current portfolio.
- Agriculture and Natural Resource Management.** To date, ADB's support to Afghanistan's agricultural sector has consisted mostly of rehabilitating key traditional irrigation schemes in northern Balkh Province. The \$75 million Western Basins Water Resources Management Project approved in 2005 will support infrastructure development, strengthening

of institutional frameworks, and capacity development for water resource management and irrigated agriculture in the western basins (Badghis, Ghowr, and Herat provinces). The \$55 million Agriculture Sector Program approved in 2002 supported market-based policy reforms, the development of public infrastructure investment programs, and institutional reform and capacity development in the agriculture sector.

17. **Energy.** ADB has also made a significant contribution to Afghanistan's energy sector by rehabilitating power transmission lines in the north and damaged gas production, transmission, and distribution facilities in Sheberghan. In 2005, an additional \$50 million was approved for a power supply improvement project involving the construction of a 110-kilovolt (kV) transmission network as well as the construction and rehabilitation of associated substations and low-voltage distribution systems. The \$35 million Regional Power Transmission Interconnection Project was approved in late 2006 to interconnect the power grids in Tajikistan and Afghanistan to allow Tajikistan to export surplus electrical power to Afghanistan. The project will finance the construction of a 220kV double-circuit transmission line from the border town of Sherkan Bandar to Kunduz, Baglan, and Pul-e-Khumri in northern Afghanistan. This new transmission line will connect with a 220kV corridor linking Pul-e-Khumri to Kabul (the corridor is now under construction with support from the

power component of Loan 1997-AFG, Emergency Infrastructure Rehabilitation and Reconstruction).

18. **Transportation.** ADB is financing the rehabilitation of major portions of Afghanistan's ring road network including connections and border facilities with Afghanistan's neighbors. ADB is also administering grant project financing for the rehabilitation of the Kandahar-Spin Boldak road. The \$118.2 million North-South Corridor Project approved in 2006 will rehabilitate 140.3 kilometers of the Mazar-i-Sharif to Dara-i-Sufi road. The road passes through the center of the country and will serve as a link to the country's national ring road. The project also includes installation of cross-border facilities in Spin Boldak and an HIV/AIDS prevention and anti-human trafficking awareness campaign. The project is complemented by a \$20 million grant from the Japan Fund for Poverty Reduction to support civil works for the 98.9 kilometer Bamiyan-Yakawlang road. The \$30 million Regional Airports Rehabilitation Project approved in 2004 will rehabilitate several regional airports and will provide capacity development support to the Ministry of Transport.

19. **Public Financial Management and Governance.** ADB has provided \$55 million for the Fiscal Management and Public Administration Reform Program (approved in 2005) and \$60 million for the Private Sector and Financial Market Development Program (approved in 2006). Both are under implementation.

ADB'S AGENDA FOR ENHANCING PARTNERSHIPS AND AID EFFECTIVENESS

Current ADB Portfolio and Assistance Pipeline

20. A description of the current portfolio is provided in page 6. Figures 3 and 4 show proposed Asian Development Fund (ADF) funding for 2007–2011 based on an indicative ADF allocation of \$200 million/per year in 2007 and 2008 and \$265 million/per year in 2009, 2010, and 2011 (subject to ADF X negotiations).

Ownership, Alignment, and Managing for Results in ADB Operations

21. **The Afghanistan Compact.** In early 2006, the Government tabled its Interim National Development Strategy (I-ANDS) at the London International Conference on Afghanistan. The London Conference also saw the adoption of the Afghanistan Compact.³ The Compact details a set of outcomes, benchmarks, and timelines

Figure 3

Projected Approvals, 2007–2011 (\$ million)

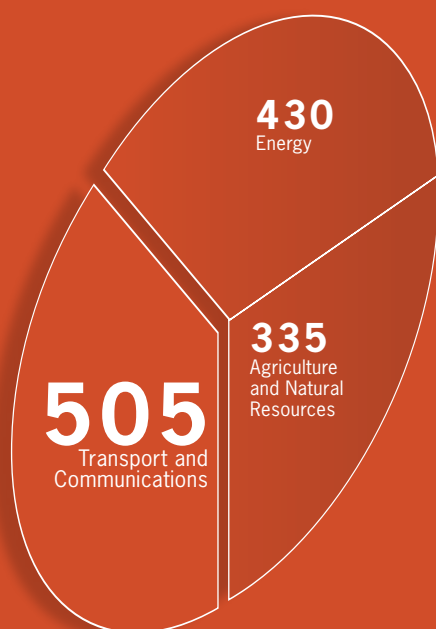
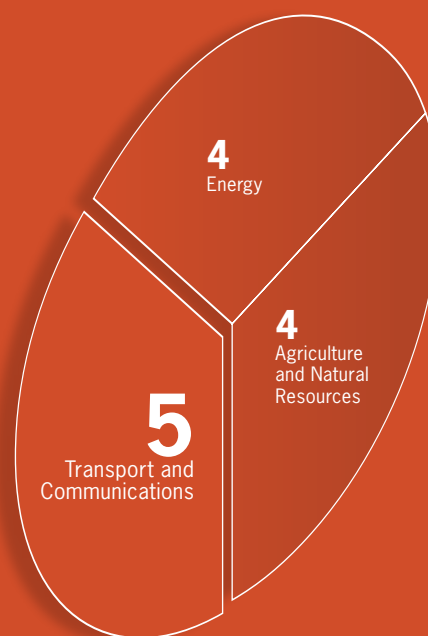


Figure 4

Projected Approvals, 2007–2011 (number of projects)



³ The Afghanistan Compact was agreed by the Government of Afghanistan and its international development partners at the 31 January–01 February 2006 London International Conference on Afghanistan. The UN Security Council unanimously endorsed the Afghanistan Compact and its annexes on 15 February 2006 calling on “the Afghan Government and on all members of the international community and international organizations to implement the Compact and its annexes in full. United Nations. 15 February 2006. *UN Security Council Resolution 1659 (2006)*. New York, paragraph 2.

that encompass key MDGs and Paris Declaration on Aid Effectiveness targets. The I-ANDS is a credible effort to articulate the Government's security, governance, and economic and social development priorities, to develop specific sector strategies to achieve those priorities, and to detail overall resource requirements. The I-ANDS thus provides a comprehensive plan for building the necessary institutions, infrastructure, and enabling environment required to promote strong growth in investment, employment, and incomes and to reduce poverty.

22. At the request of the Government and in line with the initial National Development Framework and the subsequent I-ANDS, ADB's assistance has focused on infrastructure development in support of Afghanistan's overall economic growth and on critical capacity development support. A strength of ADB's country strategy in Afghanistan has been its relatively narrow focus that has helped ADB to better understand sector constraints and opportunities, to build trust and good working relations with counterpart agencies, to concentrate ADB resources to develop the capacity needed to implement development projects, and to better coordinate with other development partners with ADB taking the leader in selected sectors. The clear sector focus also has helped to reduce transaction costs, improve supervision, and better meet planned project processing schedules in an overall context of extremely weak national capacity.
23. **Country Partnership Strategy (CPS) 2007–2011.** A new CPS is in the final stages of preparation with Board review

scheduled for October 2007. It is fully aligned with the Government's I-ANDS and is a continuation of ADB's 2002–2006 Country Program and Strategy but with increased focus and selectivity as per ADB's Medium-Term Strategy (MTS II). Under the new CPS, ADB's assistance to Afghanistan will focus on (i) agriculture including irrigation and water resource management, rural development, and commercial agriculture, (ii) energy including power generation, transmission, and distribution and developing indigenous energy resources such as micro, small, and medium hydropower, and (iii) road infrastructure with a focus on rehabilitation and construction of national roads including links with neighboring countries. The new CPS also features the following themes to be mainstreamed in sector operations: capacity development, counter-narcotics, gender, governance, private sector development, and regional cooperation.

24. Development effectiveness and managing for development results considerations are embedded in both the I-ANDS and the Afghanistan Compact through defined targets and benchmarks. Related monitoring mechanisms also are in place including through the Joint Coordination Monitoring Board (JCMB) of which ADB is a full member. The CPS results framework is directly linked to the results frameworks developed for I-ANDS and Afghanistan Compact monitoring. CPS sector and thematic road maps describe key expected outcomes from ADB assistance, the results chain, links, and results indicators for monitoring implementation, again derived from the Afghanistan Compact and I-ANDS.

ADB's Role in Donor Coordination and Harmonization Initiatives

25. The Afghanistan Compact represents a unique partnership between the Government of Afghanistan and the international community in support of improved security; governance, rule of law and human rights; and economic and social development. Through the Compact, the Afghan Government has committed itself to realizing the shared vision of Afghanistan's future. The international community, in turn, has committed itself to providing resources and support to realize that vision.
26. **The Joint Coordination Monitoring Board (JCMB).** The JCMB comprising government and key donor representatives was inaugurated in April 2006 with responsibility for overseeing progress toward achieving the Afghanistan Compact and I-ANDS targets and benchmarks. The JCMB meets on a quarterly basis to monitor progress and to identify and address key constraints to effective implementation of national strategies. The Government Oversight Committee, supported by eight consultative groups (and sector and cross-cutting thematic working groups), focuses on sector implementation issues or other constraints that might affect the achievement of the I-ANDS and Compact benchmarks. Development partners including ADB have agreed to provide technical and other support to the JCMB, the Oversight Committee, and the I-ANDS Secretariat. This provides a strong foundation for ensuring effective coordination and donor support with the Compact committing donors to improving aid effectiveness in line with the Paris Declaration. By providing assistance within the framework of the I-ANDS, it is intended that priorities and projects will be coordinated with the Government to focus on government priorities, to eliminate duplication, and to rationalize donor activities to maximize cost effectiveness. The I-ANDS and Afghanistan Compact targets and benchmarks also provide a clear framework for monitoring development results.
27. In addition to serving as a member of the Afghanistan Compact/I-ANDS JCMB, ADB serves on the management committees of the Afghanistan Reconstruction Trust Fund and the Counter Narcotics Trust Fund. ADB also is a member of the Priority Action Group established by the Afghan President to coordinate development assistance to provinces affected by insecurity and conflict. ADB also is a member of the Government-Donor Aid Effectiveness Working Group established by the Ministry of Finance to promote the full implementation of the Paris Declaration on Aid Effectiveness in Afghanistan. The External Advisory Group of donors meets regularly to discuss key coordination and partnership issues, including the I-ANDS.
28. **Joint Assessments, Reviews, Programs, and Analytical Work.** Afghanistan has an extraordinary level of donor collaboration including on the development dialogue with the Government. Over the past year, ADB has collaborated with the United Kingdom's Department for International Development, the United Nations Development Programme (UNDP), the United Nations Office on Drugs and Crime (UNODC), and the World Bank on mainstreaming counter-narcotics measures (including the adoption of a World Bank guidance note

and counter-narcotics check list). ADB similarly has collaborated with UNDP, UNODC, and the World Bank on anti-corruption measures that have included the development of a policy note that was presented at the April 2007 Afghanistan Development Forum as well as support to the Government for developing an effective anti-corruption strategy. ADB also collaborated in developing the common vulnerability to corruption risk-assessment methodology that is used to conduct anti-corruption risk assessments in leading sectors. As part of its efforts to mainstream governance in key sectors, ADB has undertaken anti-corruption risk assessments for the customs, energy, and road transport sectors. Work also is underway to assist the Government to develop a national capacity development framework.

29. ADB and World Bank financial management and procurement procedures are very similar but have not as yet been harmonized. Both institutions currently support separate project implementation units at the line ministry level. There is scope for improved coordination where both provide support to the same ministries/sectors.

CONTACT

Brian D. Fawcett
Country Director
Afghanistan Resident Mission
Asian Development Bank

House 126, Street 2, Haji Yaqob Round About
Shar-e-now, P.O. Box 3070, Kabul, Afghanistan
Tel +93 20 210 3602
Fax +93 85 535204
adbafirm@adb.org
www.adb.org/afirm