



Country Partnership Strategy

October 2017

Afghanistan, 2017–2021 —Achieving Inclusive Growth in a Fragile and Conflict-Affected Situation

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 19 September 2017)

Currency unit	–	afghani (AF)
AF1.00	=	\$0.0146
\$1.00	=	AF68.6671

ABBREVIATIONS

ADB	–	Asian Development Bank
AITF	–	Afghanistan Infrastructure Trust Fund
ANPDF	–	Afghanistan National Peace and Development Framework
ANR	–	agriculture and natural resources
ARTF	–	Afghanistan Reconstruction Trust Fund
CAREC	–	Central Asia Regional Economic Cooperation
CPS	–	country partnership strategy
DABS	–	Da Afghanistan Breshna Sherkat (Afghan National Electricity Company)
FCAS	–	fragile and conflict-affected situation
GDP	–	gross domestic product
km	–	kilometer
KPSs	–	knowledge products and services
MEW	–	Ministry of Energy and Water
NPA	–	National Procurement Authority
NPP	–	National Priority Program
O&M	–	operation and maintenance
PPP	–	public–private partnership
TA	–	technical assistance
TAPI	–	Turkmenistan–Afghanistan–Pakistan–India
WUA	–	water user association

NOTE

In this report, “\$” refers to United States dollars.

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COUNTRY AT A GLANCE

Economic	2012	2013	2014	2015	2016
GDP (\$ billion, current)	20.3	20.2	20.4	19.7	18.9
GDP per capita (\$, current) ^a	681.0	660.0	651.0	615.0	565.0
GDP growth (% , in constant prices)	14.0	3.9	1.3	0.8	2.0
Agriculture	...	0.1	(0.1)	(5.0)	2.0
Industry	...	3.1	2.4	4.1	3.1
Services	...	5.3	2.2	1.6	1.4
Gross domestic investment (% of GDP)	25.3	23.1	17.6	18.6	18.7
Gross national saving (% of GDP)	30.7	31.6	23.4	21.5	25.8
Consumer price index (annual % change)	6.4	7.4	4.7	(1.5)	4.4
Liquidity (M2) (annual % change, end of period)	8.7	9.9	8.6	3.2	9.6
Overall fiscal surplus (deficit) (including grants, % of GDP)	1.1	(0.6)	(1.7)	(1.4)	0.1
Merchandise trade balance (% of GDP)	...	...	(28.8)	(32.8)	(29.3)
Current account balance (including official transfers, % of GDP)	5.3	8.5	5.8	2.9	7.1
External debt service (% of exports of goods and services)	...	...	...	...	...
External debt (% of GDP) ^b	6.5	7.0	6.5	7.0	6.5

Poverty and Social	2001	Latest
Population (million)	20.5	32.5 [2015]
Population growth (annual % change)	4.2	2.8 [2015]
Maternal mortality ratio (per 100,000 live births)	1,050.0	327.0 [2014]
Infant mortality rate (modeled estimate, per 1,000 live births)	95.4 [2000]	66.3 [2015]
Life expectancy at birth (years)	55.5	60.7 [2015]
Adult literacy (% ages 15 years and older)	31.7	34.3 [2014]
Primary school gross enrollment (%)	22.0 [2000]	112.0 [2014]
Child malnutrition (% below 5 years old)	...	55.0 [2014]
Population below poverty line (%)	...	39.1 [2014]
Population with access to safe water (%)	32.0	65.0 [2014]
Population with access to sanitation (%)	24.0	39.0 [2014]

Environment	2000	2015
Carbon dioxide emissions (ktCO ₂)	773.7	9,809.2 [2014]
Carbon dioxide emissions per capita (tons)	0.0	0.7 [2013]
Forest area (% of total land area)	2.1	2.1
Urban population (% of total population)	21.3	26.7

ADB Portfolio (active loans and ADF grants)	As of 31 December 2016
Total number of loans and ADF grants	25
Sovereign	25
Nonsovereign	0
Total loan and ADF grant amount (\$ million)	2,701.0
Sovereign	2,701.0
Nonsovereign	0.0
Disbursements	
Disbursed amount (\$ million, 2016)	184.6
Disbursement ratio (%)	10.4

... = not available, () = negative, [] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, IMF = International Monetary Fund, ktCO₂ = kilo ton of carbon dioxide, M2 = broad money, UN = United Nations, UNDP = United Nations Development Programme.

^a Incorporates the 2012 revision to the UN World Population Prospects. UN Department of Economic and Social Affairs, Population Division. 2013. *World Population Prospects: The 2012 Revision*. New York.

^b Public sector only. Incorporates committed debt relief. Debt relief recorded fully at the time of commitment.

Sources: Asian Development Outlook database; Government of Afghanistan, Central Statistics Organization. 2016. *Afghanistan Living Conditions Survey, 2013–2014: National Risk and Vulnerability Assessment*. Kabul; IMF. 2017. Islamic Republic of Afghanistan: First Review Under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria—Press Release; and Staff Report. *IMF Country Report*. No. 17/144. Washington, DC; IMF World Economic Outlook database. April 2017. <https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/index.aspx>; IMF. Regional Economic Outlook: Middle East and Central Asia Update. April 2017. <https://www.imf.org/en/Publications/REO/MECA/Issues/2017/04/18/mreo0517>; World Bank. 2017. *World Development Indicators 2017*. Washington, DC; and UNDP. 2016. *Human Development Report 2016: Human Development for Everyone*. New York.

I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Key development challenges.** The insurgency in Afghanistan continues to shape the country's development trajectory and adversely affects all aspects of life in Afghanistan. Economic growth has slowed considerably since 2014 and is not high enough to counter the country's rapidly growing population, resulting in increased poverty. Afghanistan is also grappling with high numbers of internally displaced persons and the millions of refugees returning from neighboring countries, which place a greater strain on the already limited services and capabilities of the government. Insufficient infrastructure limits private sector activity and prevents greater access to basic services. The operating and development budgets are financed mainly by donor assistance because the government has low revenue-generation capacity. Conditions have improved since 2002 in some aspects of health and education, but gender disparity in Afghanistan remains among the highest in the world. Government capacity is improving but needs further support to make development assistance more effective.

2. **ADB's strategic objectives and priorities.** In response to these and other development challenges, the country partnership strategy (CPS) of the Asian Development Bank (ADB) aims to establish a stronger foundation for more inclusive and sustainable growth and to prevent the poverty rate from worsening. The CPS will build on the strong partnership that has been established between ADB and Afghanistan, and enhance the effectiveness and inclusiveness of ADB operations. The CPS will integrate various approaches to fragile and conflict-affected situations (FCAS). ADB will base its operations on three strategic pillars: (i) expanded access for women and men to economic opportunities, markets, and services; (ii) stronger institutions and human capacities; and (iii) increased environmental sustainability, climate change resilience, and disaster resilience. ADB operations will continue to focus on its three priority sectors—energy, transport, and agriculture and natural resources (ANR)—based on its comparative advantages in the country, the government's request for assistance in these areas, and lessons and recommendations from past engagement defined in the CPS final review and validation report by the Independent Evaluation Department.¹

3. **Alignment with government development plans.** The CPS closely aligns with the government's Afghanistan National Peace and Development Framework (ANPDF), Realizing Self-Reliance agenda, National Priority Programs (NPPs), and various sector master plans.² The CPS also embodies ADB's corporate strategy as reflected in Strategy 2020 and the Midterm Review of Strategy 2020.³ ADB's strategic priorities and sectors in Afghanistan complement the work of other development partners, as the roles of development partners and their priority sectors and thematic areas in Afghanistan are well defined.

4. **ADB's value addition.** ADB brings substantial value addition to Afghanistan. ADB is one of Afghanistan's leading partners in infrastructure and regional cooperation, and has in-depth experience in delivering infrastructure projects during conflict and reconstruction. The holistic sector approach in the CPS—covering investments, capacity building, operation and

¹ ADB. 2015. *Country Partnership Strategy Final Review: Afghanistan (2009 to mid-2015)*. Manila; and Independent Evaluation Department. 2017. *Validation Report of the Country Partnership Strategy Final Review: Afghanistan, 2009 to mid-2015*. Manila: ADB.

² Government of Afghanistan. 2016. *Afghanistan National Peace and Development Framework (ANPDF), 2017 to 2021*. Kabul; and Government of Afghanistan. 2014. *Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership*. Paper presented at the London Conference on Afghanistan. London. 4 December.

³ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila; and ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

maintenance (O&M), and other features—will help make results more sustainable. The ADB-administered Afghanistan Infrastructure Trust Fund (AITF) will leverage cofinancing for projects of interest to other development partners.

II. COUNTRY DEVELOPMENT CONTEXT

5. **Conflict.** Afghanistan has been affected by conflict since the 1970s and is one of the world's least developed countries. In ADB, it is categorized as an FCAS country. While it appeared that the conflict was ebbing in 2005–2006, violence escalated substantially in 2009 and then again in 2015, demonstrating that the conflict may be increasing in intensity rather than winding down. The security situation has further deteriorated since 2016, with intensifying armed clashes between the Afghan security forces and the Taliban and Daesh.⁴ In 2016, the number of civilian casualties reached a new peak, with over 11,400 deaths and injuries.

6. **Adverse population dynamics.** The conflict has caused adverse population dynamics in Afghanistan. Millions of refugees live in neighboring countries, although some are gradually returning to Afghanistan, where there are about 1.3 million internally displaced persons. Many Afghans, particularly younger and educated ones, are also emigrating to find economic opportunities in developed countries. In 2016, over 635,000 people were newly displaced. Since 2002, over 4.8 million refugees have been repatriated back to Afghanistan, and in 2016 alone, over 1.0 million Afghan refugees returned from Pakistan and Iran, with many of them settling in overcrowded camps and other informal settlements in urban areas. About 2.3 million Afghan refugees still live in neighboring countries.

7. **Economic overview.** Services comprise more than half of gross domestic product (GDP), agriculture accounts for 23%, and industry 21%. Agriculture's weather-dependent performance greatly influences the country's annual growth rate, resulting in fluctuations. The Afghan economy has a limited export base, consisting primarily of carpets and rugs, agriculture and animal products, and internal sales to nonresidents (largely foreign troops). Afghan exports are equivalent to only 10% of imports. Afghanistan also has a large informal economy, including opium production. In addition, Afghanistan remains dependent on donor aid that has underpinned reconstruction and economic growth since the Taliban were removed from government. In 2016, donor grants covered about 63% of government expenditure. Over half of government expenditure goes toward security, leaving limited fiscal resources for development. GDP growth in Afghanistan averaged 8.7% annually during 2003–2013. However, growth has slowed greatly since 2014, averaging less than 1.4% annually during 2014–2016. The rapid decline in growth in 2014–2016 is mainly attributed to the impact of the withdrawal of most foreign troops from Afghanistan at the end of 2014, political instability that began with the 2014 presidential election and has continued under a tenuous power-sharing arrangement, and deteriorating security conditions.

8. **Political economy.** Afghanistan's political economy is shaped in part by the conflict. Billions of dollars in donor aid since 2002 greatly increased the stakes in controlling access to these funds. Competition for the allocation of funds at the central level and contracts at the local level has led to corruption and instability in government and has reinforced informal centers of power at the local level (warlordism). Opium production and exports also feature prominently in Afghanistan's political economy, as the country supplies about 90% of the world's opium and heroin. Opium is a major source of income for insurgents, criminal groups, and local militias, and production and trafficking are a major source of corruption.

⁴ Daesh is used locally to refer to Islamic State militants in Afghanistan. It is an Arabic acronym.

9. **Poverty.** Economic growth since 2002 has not reduced poverty. Poverty (measured by consumption) remained virtually unchanged during 2007–2012, but since then it is estimated to have increased from 36.5% in 2011–2012 to 39.1% in 2013–2014. Furthermore, inequality is worsening. Per capita consumption has been declining overall, but the poorer segments (bottom two quintiles) of the population have experienced a more rapid decline than the richest two quintiles. Other dimensions of poverty and inequality include food insecurity and unequal access to basic services. About one-third of the population is food insecure, while inequality is evident in the urban–rural and provincial disparities in access to improved drinking water and improved sanitation, and in education enrollment.

10. **Social conditions.** Most of Afghanistan’s socioeconomic indicators are near the bottom in Asia, but some improvements since 2002 are evident in areas such as education and health. School enrollments have improved significantly. In 2001, only about 1 million children, mostly boys, were enrolled in school. By 2013, Afghanistan had about 8.6 million children enrolled in school, with 39% of these being girls. However, the education system is still beset with several problems, such as gender disparity, poor quality of teaching, a shortage of female teachers, and cultural and other barriers to girls’ participation in education. In health, several achievements have been made, particularly rapid improvements in the maternal mortality ratio and infant and under-5 mortality rates. Overall, life expectancy increased from 43 years in 2001 to 60 years in 2015. However, Afghanistan has one of the highest levels of child malnutrition in the world, with 55% of children under 5 years suffering from chronic malnutrition.

11. **Gender.** Afghanistan continues to face severe gender disparities. The Gender Inequality Index for 2016 ranked Afghanistan 154th out of 159 countries.⁵ However, improving gender equity is difficult because of the cultural and social restrictions placed on women and girls, such as attitudes about education for girls, seclusion of women, and limited movement outside of the home. Women’s labor force participation, at 29%, is low because of cultural factors, security risks, and a lack of job opportunities, and because they care for their families and homes. Women work mostly in the informal sector, and about two-thirds of employed women work in agriculture. Gender-based violence is prevalent. Underage marriage for girls, including forced marriage, contributes to gender disempowerment and a cycle of poverty. In practice, women and girls have limited legal protection, despite laws designed to protect their rights. The government is making efforts to improve the lives of women and girls by launching the Women’s Economic Empowerment NPP and by establishing units responsible for elimination of violence against women in several state institutions, the 2016 Law on Anti-Harassment of Women and Children, and dedicated prosecution units with regard to violence against women in 34 provinces.⁶

12. **Environment and climate change.** Afghanistan is vulnerable to environmental degradation, climate change, and disasters triggered by natural hazards. Its environment is coming under greater pressure because of rapid population growth, poor management of natural resources, overgrazing by livestock, and encroachment on forest land. Water resources are under stress because of poor management and water shortages, particularly for irrigated agriculture. Afghanistan is among the countries most at risk to the adverse effects of climate change because of its vulnerability to expected impacts and its low adaptive capacity. Climate change is expected to pose significant risks to economic activity and the quality of life of the population, with a likely disproportionate impact on the poor, women, and marginalized groups. Afghanistan is already prone to natural hazards, and the effects of climate change will worsen the situation through

⁵ United Nations Development Programme. 2016. *Human Development Report 2016: Human Development for Everyone*. New York.

⁶ Government of Afghanistan. 2016. *Women’s Economic Empowerment National Priority Program*. Kabul.

declining mean precipitation and more frequent extreme rainfall and high temperature events. Natural hazards such as earthquakes, floods, droughts, avalanches, and landslides affect thousands of Afghans every year and have a disproportionate impact on the poor, who often live in disaster-prone areas.

13. **Government capacity and governance.** Institutional capacities in government ministries and agencies are gradually improving. State institutions generally have limited oversight abilities, technical understanding to develop the appropriate rules and regulations, and capacity to enforce them. The institutional capacities are closely related to poor governance. Afghanistan ranked 169th out of 176 countries with a score of 15 out of 100 in the Corruption Perceptions Index 2016.⁷ Corruption deters growth in the licit business sector, helps fuel insurgency, and drives down popular support for the government. The government has undertaken several initiatives to improve governance, such as the establishment of the Anti-Corruption Justice Center in 2016, the preparation of anticorruption plans by several ministries, and the preparation of a draft anticorruption strategy for the whole government.

14. **Private sector.** The private sector in Afghanistan has not been the engine of growth for the economy as foreign aid has been. One estimate is that the Afghan private sector contributes merely 10%–12% to GDP.⁸ This is the result of a poor business enabling environment and the distortions of foreign aid dependence. Factors such as a weak legal and regulatory framework, violence, slow pace of economic reforms, corruption, deficient infrastructure, limited access to land, and a nascent finance sector have created a poor business environment and limited private sector growth. The private sector is also not generating sufficient jobs for the estimated 400,000 entrants to the labor market each year. The government has made efforts to improve private sector conditions, such as passing the Public–Private Partnership Law in 2016, establishing the Executive Committee on Private Sector Development, and fostering cooperation between the government and the private sector on private sector reform priorities.

15. **Infrastructure deficit.** Afghanistan faces a severe infrastructure deficit. Not only is additional infrastructure required, but much of the existing infrastructure has also been damaged by a lack of maintenance. The deficient infrastructure reduces economic growth and job creation. Only about 32% of the population has access to grid-connected electricity, with the level falling to less than 10% in rural areas. Afghanistan’s road network has a density of only 4 kilometers (km) per 1,000 square km, and only 52% of households are within 2 km of a road. Yet even where roads exist, only 7% of them are paved and more than 70% of the interprovincial and interdistrict roads remain in a poor state. In agriculture, only 10% of irrigated land has formal irrigation systems, and the rest relies on inefficient informal systems that hold back productivity, higher incomes, and job opportunities.

III. COUNTRY STRATEGY FRAMEWORK

A. Lessons from Previous Strategy

16. The CPS builds on key lessons learned from the final review of the CPS, 2009–2013 and operations through mid-2015.⁹ These lessons include (i) the need for flexibility in the provision of security services and to have security issues more central in project design and implementation;

⁷ Transparency International. Corruption Perceptions Index 2016. https://www.transparency.org/news/feature/corruption_perceptions_index_2016.

⁸ R. Ghiasy, J. Zhou, and H. Hallgren. 2015. *Afghanistan’s Private Sector: Status and Ways Forward*. Stockholm.

⁹ ADB. 2015. *Country Partnership Strategy Final Review: Afghanistan, 2009 to mid-2015*. Manila.

(ii) the need to concentrate on a limited number of sectors to ease the burden on government and ADB resources; (iii) the need to have better quality at entry of projects, strengthened capacities, and increased supervision to improve efficiency; and (iv) the need to improve results frameworks and monitoring to strengthen ADB's results orientation. The CPS final review made several recommendations, including (i) a greater focus on inclusive economic growth; (ii) more attention to crosscutting themes and drivers of change; (iii) continuation of the sector focus on transport, energy, and ANR; (iv) support for an enabling environment for the private sector; and (v) strengthening of the risk assessment and risk management approaches. The CPS final review validation report, which rated the operations from 2009 to mid-2015 as *less than successful on the borderline*, endorsed these recommendations and added the following: (i) project security measures should be appropriate to the location and site conditions, (ii) development of the government's capacity should be enhanced, and (iii) more support should be given to ANR for more inclusive and sustainable growth.¹⁰ This CPS incorporates the lessons and recommendations of the validation report.

B. National Development Strategy

17. Afghanistan is now in the "Transition Decade" (2015–2024) as it seeks to become more self-reliant and move toward peace, recovery, productivity, and growth. Afghanistan began implementation of the ANPDF in 2017.¹¹ The ANPDF's overall vision is to achieve self-reliance and improve the welfare of the Afghan people. Its main goal is to reduce poverty and improve people's welfare, while other goals include building the legitimacy and effectiveness of the state and achieving sustainable job creation and progress toward the Sustainable Development Goals. The ANPDF will be implemented through NPPs, which are outcome-focused thematic programs that guide ministries toward addressing social and development concerns.

18. Preceding the ANPDF is the government's reform agenda articulated in the *Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership* paper.¹² This reform agenda intends to move the country toward peace, recovery, and growth, and contains seven key reform areas. Another key strategic document is the *National Infrastructure Plan, 2017–2021*, which covers the planning, delivery, and operation of infrastructure.¹³ It highlights sector priorities; presents an infrastructure pipeline; and addresses policies, regulations, and institutional reforms. Various sector master plans also exist.

C. Role of Development Partners

19. Since the start of reconstruction in 2002, development partners have accounted for a substantial portion of the government's budget expenditure. In 2016, foreign grants to Afghanistan were estimated to be about 48% of GDP (or \$9 billion). Afghanistan will continue to require significant amounts of aid to cover both government operating costs and development costs. At the 2016 Brussels Conference on Afghanistan, donors endorsed a reform program to support the Government of Afghanistan and to ensure continued international political and financial support through 2020.

¹⁰ Independent Evaluation Department. 2017. *Validation Report of the Country Partnership Strategy Final Review: Afghanistan, 2009 to mid-2015*. Manila: ADB.

¹¹ Government of Afghanistan. 2016. *Afghanistan National Peace and Development Framework (ANPDF), 2017 to 2021*. Kabul.

¹² Government of Afghanistan. 2014. *Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership*. Paper presented at the London Conference on Afghanistan. London. 4 December.

¹³ Government of Afghanistan. 2016. *National Infrastructure Plan, 2017–2021*. Kabul.

20. Donor roles and sector and/or thematic areas in Afghanistan are well-defined and have been for several years following the government's request for donors to limit the number of sectors they support. ADB is viewed as the lead infrastructure development partner of the government. Social sectors such as health and education receive substantial funding from the World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF) and some bilateral programs. The European Union and other bilateral donors, including Nordic countries, support governance, justice, and human rights. In addition to support from ADB, agriculture receives support from the United States Agency for International Development and the European Union. Donors working in the same sectors have tended to specialize in subsectors (e.g., ADB for the national ring road and the World Bank for rural roads), and coordination mechanisms are in place to reduce overlap.

21. Two major donor trust funds exist. The ARTF, which is financed by 34 donors, covers sectors such as civil service, health, education, rural development, agriculture, and governance, and supports recurrent costs for the government. The ADB-administered AITF, established in 2010, is the only dedicated trust fund for infrastructure. Both trust funds will continue to help harmonize aid and build partnerships in key sectors.

D. ADB's Strategic and Thematic Objectives and Public and Private Sector Operational Priorities

22. **Overview of country partnership strategy approach.** The proposed CPS approach aims to establish a stronger foundation for more inclusive and sustainable growth and to prevent the poverty rate from worsening. ADB operations will focus on three strategic pillars: (i) expanded access for women and men to economic opportunities, markets, and services—infrastructure investments and private sector development will provide more women and men with access to jobs, resources, services, and markets while improving connectivity within the country and with neighboring countries; (ii) stronger institutions and human capacities through sector-level reforms, enhanced governance, capacity building, and skills development; and (iii) increased environmental sustainability, climate change resilience, and disaster resilience, focusing on environmentally sustainable infrastructure, climate-change-resilient infrastructure and livelihoods, and disaster resilience (see figure). The CPS will be grounded in an FCAS approach in terms of how ADB responds to fragility and conflict to improve development impact. An FCAS approach will help guide the ways in which ADB and the government plan and deliver projects.

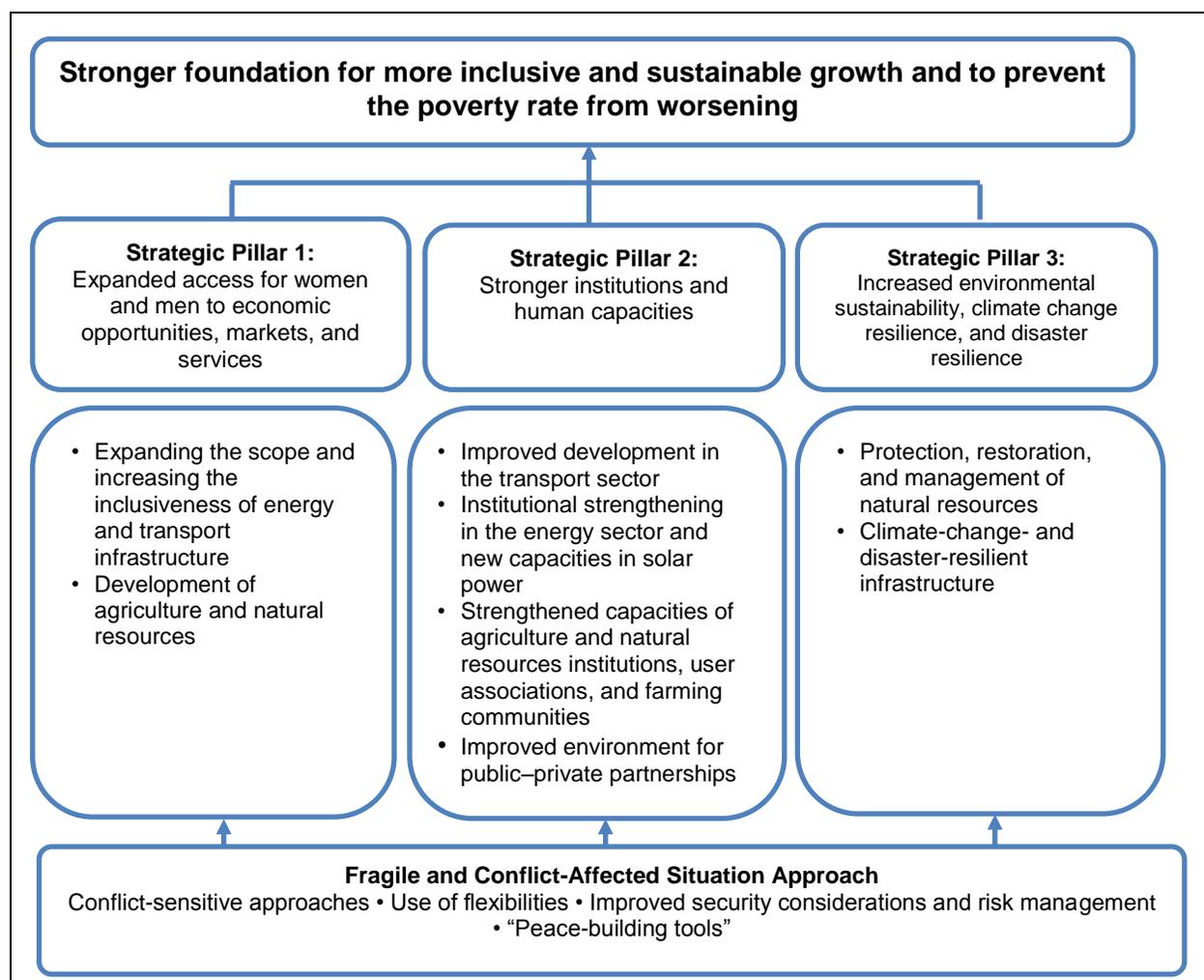
23. **Priority sectors, drivers of change, and ADB's value addition.** ADB will continue its long-standing focus on three priority sectors: transport, energy, and ANR. This is in response to the severe infrastructure deficit in these sectors and in consideration of ADB's comparative advantages and government priorities for ADB assistance.¹⁴ Investments in these sectors will be accompanied by institutional reform and development, and technical capacity building and skills development for a holistic sector approach. Priority drivers of change will entail gender equity, private sector development, governance and capacity development, and partnerships through the AITF. ADB's value addition will be the holistic sector approach in the CPS, covering investments, capacity building, O&M, and other features that will help ensure sustainable results. Other forms of value addition are ADB's regional cooperation leadership and the AITF, which will also leverage additional cofinancing for projects of interest to other development partners.

24. **Regional cooperation and integration.** Afghanistan lies at the crossroads between Central Asia and South Asia and is therefore a key member of the Central Asia Regional Economic Cooperation (CAREC) Program. Afghanistan stands to benefit from closer cooperation

¹⁴ The government conveyed its requests to ADB during the CPS consultations in January–February 2017.

with neighboring countries, but it will also make substantial contributions to economic integration across regions because of its location. ADB will continue to develop Afghanistan's potential as a cross-regional transit point for both transport and energy, with emphasis on the CAREC corridors and regional energy initiatives such as the Turkmenistan–Afghanistan–Pakistan–India (TAPI) gas pipeline, the Turkmenistan–Uzbekistan–Tajikistan–Afghanistan–Pakistan power interconnection project, and the Turkmenistan–Afghanistan–Pakistan power interconnection project. Additionally, trade facilitation initiatives under CAREC will continue to increase regional trade and create greater opportunities for local businesses.

Summary of Country Partnership Strategy, 2017–2021 for Afghanistan



Source: Asian Development Bank.

1. Pillar 1: Expanded Access for Women and Men to Economic Opportunities, Markets, and Services

25. **Expanding the scope and increasing the inclusiveness of energy and transport infrastructure.** To achieve the government's poverty reduction goals, Afghanistan requires a significant increase in reliable energy supply. The provision of energy has numerous development benefits, such as job creation and poverty reduction, increased productivity and income growth, and improved gender equity and health and education outcomes. Key changes from the energy program under the CPS 2009–2013 are that ADB will have a more balanced approach to the

development of the power subsector (generation and distribution along with transmission), greater geographic diversity (including on- and off-grid development), and support for renewable energy.

26. ADB will increase the country's electrification rate by expanding the distribution network to thousands of households, businesses, schools, and health facilities, which will also be an important aspect of making ADB's energy operations more inclusive. The program will distribute power across more regions, many of which have high poverty rates. The provision of power to more parts of the country will stimulate economic opportunities, including jobs and new lines of business in industry and commerce.

27. ADB will continue to play a major role in power transmission with both regional and domestic lines. Regionally, expanded interconnections and power imports from Turkmenistan will expand energy trade and regional cooperation, while also strengthening Afghanistan's position as an electricity transit corridor between energy-rich Central Asia and energy-poor South Asia. Afghanistan is an anchor in the regional Turkmenistan–Uzbekistan–Tajikistan–Afghanistan–Pakistan initiative and the proposed Turkmenistan–Afghanistan–Pakistan power interconnection project. Domestically, ADB will diversify its transmission work and increase inclusiveness by extending power lines to the eastern, western, and central provinces.

28. To improve domestic energy security, increase power supply, and provide more clean energy, ADB will engage in renewable energy generation projects. At least one solar power project will be developed as proof of concept to capitalize on Afghanistan's vast potential for solar power. Domestically, clean energy will also be produced by hydro power. During the CPS period, ADB will conduct additional feasibility studies for run-of-the-river hydro power projects.

29. In the gas subsector, ADB will focus on domestic gas production through the rehabilitation of wells. The domestic gas wells will produce millions of cubic meters of additional gas per day for industrial and commercial use, which will help expand industrial production, stimulate new jobs, and improve productivity. ADB will also continue to facilitate the CAREC Program's flagship TAPI gas pipeline, which will eventually export up to 33 billion cubic meters of natural gas per year from Turkmenistan to Afghanistan, Pakistan, and India. The Government of Afghanistan has requested that ADB help finance the TAPI pipeline.

30. Developing the transport network is vital to improved national and regional connectivity, higher economic growth, and increased inclusivity of economic growth. ADB will continue to support the development of the road network by constructing or rehabilitating major roads, including parts of CAREC corridors 2, 5, and 6, and by completing the national ring road (two-thirds of the country's population resides within 36 km of this road). Development of the CAREC corridors will foster greater regional cooperation, helping Afghanistan to become a regional transit point and improving regional trade. Completion of the ring road will help further integrate Afghanistan internally and promote inclusive growth. Other road initiatives will connect northern and central provinces to create new transit hubs, link disadvantaged agriculture-based communities to goods and labor markets, and further integrate growth centers and urban markets with each other. Also, these road investments will benefit local communities by increasing access to new job opportunities along with education, health, and other social services.

31. ADB will continue to support road O&M to ensure that the road network continues to provide sustainable benefits over time. Improved O&M will contribute to increased road safety for vehicles and people along the roads.

32. ADB will explore opportunities to expand the rail network domestically and establish new rail links with neighboring countries. An expanded rail network will increase transport volumes,

reduce transport costs, and provide access to Afghanistan's mineral wealth, which is a potential key driver of growth in the medium to long term. Large quantities of minerals require railways to move them to processing centers or export markets, and ADB will explore synergies during railway planning. Railways will also foster regional integration and more seamless connectivity, as imports and transit goods from neighboring countries are currently brought to the borders by rail and then transshipped onto vehicles for movement within Afghanistan.

33. ADB will make efforts in its energy and transport operations to coordinate with the government on rural infrastructure projects under the Citizens' Charter, including for electricity and road access. The Citizens' Charter is a commitment by the government to provide every village in Afghanistan with basic services.

34. **Development of agriculture and natural resources.** One of the keys to poverty reduction and inclusive growth is the development of agriculture and water resources. In addition to agriculture serving as an engine of growth for the economy, the development of the sector will contribute to peace and stability in rural areas through increased employment, higher incomes, and more equitable distribution of water resources. ADB's focus will be on the provision and rehabilitation of irrigation and water resource infrastructure, and on the development of agriculture market infrastructure and value chains.

35. ADB will rehabilitate and upgrade irrigation infrastructure and enhance watershed management to protect irrigation schemes from floods and improve water supply to downstream users. These investments to improve the availability and efficiency of water for agriculture will produce numerous benefits to the rural population: increased productivity and yields, crop diversification, improved food security, and increased exports of high-value products such as fruit and nuts. Farm household incomes will increase and thousands of full-time rural jobs will be generated.

36. Other water resource infrastructure will deliver safe water supply through improved water storage and delivery systems. New water storage technology for Afghanistan is expected to serve multiple purposes in terms of urban water supply, delivering water for irrigated agriculture, and hydro power generation.

37. ADB will provide greater balance to its ANR operations by placing more emphasis on agriculture market infrastructure and value chain development, and when possible link these with transport initiatives. ADB will invest in horticulture market infrastructure and provide support to improve the commercial operation of facilities, including the adoption of improved postharvest technologies and marketing practices. ADB will coordinate with other government initiatives and development partners to address value chains more comprehensively, based on the comparative advantages of the development partners. Beneficiaries in the value chain should also receive higher incomes from (i) the higher prices resulting from improved product quality and value addition through processing, and (ii) the sale of greater quantities of goods. Greater attention will be placed on enhancing women's participation in agriculture market infrastructure and value chain development because of the potential for women's employment in the sector. Greater participation of women in agriculture can reduce poverty and gender disparities and increase the inclusiveness of growth.

2. Pillar 2: Stronger Institutional and Human Capacities

38. Capacity constraints loom large in Afghanistan. Government institutions generally have limited technical and financial capacities, reducing their ability to deliver services and implement

development projects. Institutional strengthening and human capacity building will be centered around energy, transport, and ANR along with private sector development, which will focus on capacity building for public–private partnerships (PPPs). Institutional strengthening through sector-level reforms; enhanced governance; transparency and anticorruption initiatives; and skills development, particularly in infrastructure planning, project management, and infrastructure financing, will improve public sector efficiency and effectiveness. ADB will explore synergies with the Capacity Building for Results project funded by the ARTF.

39. Institutional strengthening in the energy sector and new capacities in solar power.

In energy, ADB will continue to strengthen the capacities of the Ministry of Energy and Water (MEW) and the Afghan National Electricity Company (DABS), the state-owned power utility. ADB will provide support in O&M, planning and project management, procurement, technical skills, and safeguards. To turn DABS into a more sustainable enterprise, ADB will enhance the business plan, management, and financial capacities of the company. A new area of capacity building will be for solar power. ADB will deliver capacity development to DABS and MEW staff on solar photovoltaic plant design, technical evaluation, O&M, and grid integration. ADB will assist the government in implementing a new national renewable energy road map that was prepared under MEW with ADB support.¹⁵

40. Institutional development in the transport sector.

In the transport sector, ADB will support streamlining and rationalizing the mandates and responsibilities of transport institutions. ADB will help establish sustainable road management practices—specifically in road asset management and road maintenance—and through classroom and on-the-job training build the technical capacity of the Ministry of Public Works to operate and maintain roads. ADB will support the establishment of an autonomous national road authority, a transportation institute, and a road fund, which is being led by the United States Agency for International Development. ADB support in establishing the road fund will improve the sustainability of the roads subsector, which has seen network expansion but received insufficient O&M funding. The road fund would be vital in the introduction of a road asset management system that would facilitate recurrent maintenance.¹⁶ ADB will also support the institutional development of the Afghanistan Railway Authority. ADB will deliver additional capacity building for public transport officials to improve policy making and planning, project design and implementation, safeguards, administration, and financial management. This can be done by embedding national and international specialists within the project delivery units of key ministries to mentor government staff. This can also be done through formal classroom training programs in Afghanistan and across the region.

41. Strengthened capacities of agriculture and natural resources institutions, user associations, and farming communities.

ANR initiatives will enhance the capacities of government institutions and local communities. ADB will make an effort to further develop the policy and institutional framework for integrated water resources management and will provide training to public institution staff on the sustained and equitable operations of water supply and irrigation water management facilities. ADB will provide project management training to line ministry and project management office staff and will explore opportunities to provide formal degree and nondegree education to government officials.

42. ADB will provide support to establish and strengthen water user associations (WUAs) and irrigation associations. ADB will improve the capacities of these associations in approaches to

¹⁵ ADB. 2014. *Technical Assistance to the Islamic Republic of Afghanistan for Renewable Energy Development*. Manila.

¹⁶ ADB has an ongoing project to support O&M: ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Islamic Republic of Afghanistan for the Road Asset Management Project*. Manila.

integrated water resources management and provide training for irrigation infrastructure O&M. ADB will give particular attention to the promotion of women's membership in WUAs and irrigation associations and will provide specific training for men, where appropriate, to raise awareness on the importance of women's involvement in WUAs and irrigation associations. On-farm training activities will include assisting farmers with on-farm water management, supporting pre- and postharvesting, introducing new cultivation methods and agronomic techniques, and using new technologies for value chain development. ADB will include women in training for improved on-farm water management and agronomic techniques, and provide specific training to women on household plot vegetable and fruit growing.

43. **Improved environment for public–private partnerships.** ADB will provide capacity building support to improve the environment for PPPs and complement ongoing World Bank assistance in this area. ADB assistance will be provided in line with the pillars of ADB's Public–Private Operational Plan.¹⁷ Under pillar 1 (advocacy and capacity development), ADB will help increase government capacity to undertake PPP policy reforms and identify and develop PPP projects for infrastructure. Under pillar 2 (enabling environment), ADB will support reforms in the enabling policy, legal, and institutional environment, including support for appropriate draft bylaws and amendment to key laws. Simultaneously, as the environment for PPPs in Afghanistan becomes more mature, ADB will also look to provide assistance under pillar 3 (project development) to develop projects, including project screening and analysis tools. While initial ADB efforts in Afghanistan will focus on strengthening the overall enabling environment for PPPs, ADB will also explore potential PPPs in renewable energy, power generation, and gas development.

44. As part of its efforts to support the government, ADB will fund through the AITF a PPP advisor position in the PPP unit of the Ministry of Finance. In line with ADB's commitment to elevate the private sector to become a proactive stakeholder in ADB projects, the advisor will engage closely with the private sector to help address PPP constraints in Afghanistan.

3. Pillar 3: Increased Environmental Sustainability, Climate Change Resilience, and Disaster Resilience

45. The third pillar of the strategy intends to promote environmentally sustainable growth by (i) protecting, restoring, and promoting the sustainable use of the environment; and (ii) strengthening resilience to climate change and natural hazards. ADB's efforts will assist the government in making progress toward its intended nationally determined contribution to the United Nations Framework Convention on Climate Change.¹⁸

46. **Protection, restoration, and management of natural resources.** ADB will contribute to the protection, restoration, and management of natural resources to further strengthen resilience to climate change and natural hazards and contribute to increased environmental sustainability. Much of the environmental protection and restoration efforts will come through watershed management, which will mitigate against reduced water availability and droughts, improve precipitation infiltration and recharge, lessen the impact of floods, and reduce soil erosion and landslides by restoring the original forestry and/or rangeland vegetation around watersheds and

¹⁷ ADB. 2012. *Public–Private Operational Plan, 2012–2020—Realizing the Vision for Strategy 2020: The Transformational Role of Public–Private Partnerships in Asian Development Bank Operations*. Manila.

¹⁸ United Nations Framework Convention on Climate Change. 2015. Islamic Republic of Afghanistan: Intended Nationally Determined Contribution, Submission to the United Nations Framework Convention on Climate Change. http://www4.unfccc.int/ndcregistry/PublishedDocuments/Afghanistan%20First/INDC_AFG_20150927_FINAL.pdf.

irrigation schemes. ADB will work closely with the government to prepare and implement natural resource management plans for watersheds and/or restoration and protection of rangeland sites.

47. **Climate change and disaster-resilient infrastructure.** ADB will incorporate appropriate designs, construction standards, and technology to climate-proof infrastructure and make it more resilient to geophysical and hydrometeorological hazards. These will apply to transport, energy, and ANR infrastructure in highly hazard-prone and exposed areas and will include, for example, flood-proofing roads and designing irrigation systems with resilience measures against flood and drought resulting from climate change. ADB will provide support to the government in developing capacities for disaster-resilient design and construction standards and operations, risk-sensitive land use planning, and disaster risk management.

48. ANR projects will include agriculture practices that are resilient to the impacts of climate change and natural disasters, such as water saving technologies, improved monitoring and water and land management, and improved surface and groundwater storage. These projects will also promote adaptation measures, such as changing the cropping calendar and adjusting cropping methods to mitigate against reduced water availability and lower crop productivity, so that agriculture livelihoods are more resilient to climate change and natural hazards.

49. As Afghanistan is prone to disasters triggered by natural hazards, ADB will continue to support post-disaster reconstruction as needed. Repairing infrastructure will help restore rural connectivity and access to markets after people's livelihoods are affected by disasters.

50. One aspect of this pillar will be the promotion of climate-friendly infrastructure, such as railways and renewable energy (paras. 28 and 32). Compared with road transport and fossil fuel energy, railways and renewable energy could reduce greenhouse gas emissions. Road transport is the current preferred mode for moving goods through Afghanistan and neighboring countries. However, emissions from trucks and cars are a significant contributor to greenhouse gases and climate change. Railways are more energy efficient and significantly less carbon dioxide intensive compared with road or air transport, and land use per passenger-km for rail is several times lower than for cars and trucks.

51. Expansion of the power grid to more households and businesses will reduce the use of diesel generators or the burning of wood and biomass for cooking and heating. In addition, this will provide health benefits to women who are the main users of wood and biomass for cooking. Also, ADB's support for the development of indigenous power generation through gas and renewable energy will gradually reduce the reliance on sources of power that are more polluting.

E. Priorities for Knowledge Support

52. ADB will continue to focus on delivering operationally relevant knowledge products and services (KPSs), mainly in the infrastructure sector but also in other areas that need support on a demand basis. Infrastructure-related KPSs will complement ADB's investment projects and enable ADB to build on previous capacity and knowledge initiatives to provide a longer term and more sustained approach to building institutions and human capital in these sectors. After taking stock of recent KPSs, ADB will feature infrastructure planning, project implementation, procurement, and sector-based technical knowledge and skills in the infrastructure KPSs. ADB will deliver KPSs as components of investment projects and through technical assistance (TA). In addition, ADB will try to incorporate appropriate innovations for Afghanistan, such as PPPs and FCAS project approaches, as part of the investment projects.

53. ADB will conduct knowledge support in collaboration with the government and the private sector and will undertake joint efforts with other development partners on cross-sector project implementation solutions. Civil society organizations, nongovernment organizations, and local research and training institutions will be involved in the dissemination and uptake of KPSs.

IV. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

54. Afghanistan is a Group A country with access only to the Asian Development Fund and is eligible for 100% grants because of its high risk of debt distress classification.¹⁹ The 11th replenishment of the Asian Development Fund (ADF 12) provides for an extension of the exceptional post-conflict support to Afghanistan and a suspension of its phaseout until at least 2020. The indicative allocation for Afghanistan during 2017–2020 is about \$887 million in grants, subject to resource availability and project readiness.²⁰ Sovereign operations will focus on projects in the energy, transport, and ANR sectors, combining infrastructure investments with capacity building for the government. ADB will continue its efforts to attract more donors to the AITF to finance and cofinance projects and provide a greater resource envelope for Afghanistan. ADB will also seek opportunities for nonsovereign activities as described in para 59.

55. ADB will continue to promote the use of selected country systems in Afghanistan by delivering 100% of its financial assistance through the government budget. Cost-sharing parameters remain the same and allow ADB to finance up to 99% of grants and TA costs.

B. Implementation Priorities

56. **Fragile and conflict-affected situation approaches.** ADB will use FCAS approaches in its operations. This will include making use of the flexibilities in business procedures permitted for FCAS countries and can apply to procurement, disbursement, project appraisal requirements, and project processing. ADB will also improve its understanding of the underlying fragility, conflict sensitivity, and local drivers of conflict to ensure appropriate security measures are implemented and that opportunities are taken up to promote peace and development through peace-building tools. ADB will place greater emphasis on more thorough risk assessments and improved risk management. Additionally, ADB will provide FCAS training to government and ADB staff working in Afghanistan.

57. **Portfolio management.** ADB will implement several measures to improve portfolio management and disbursement as described in the Enhanced Project Delivery Approach paper.²¹ These will include (i) canceling nonmoving, uncontracted packages that do not affect project outcomes; (ii) avoiding new major procurement and consultancy packages during project extensions; (iii) rolling out the Client Portal for Disbursement to speed up disbursements;²² (iv) exploring, with the government and other development partners, the establishment of standard operating procedures for project administration, procurement, and financial management of donor-funded projects; and (v) conducting more frequent sector portfolio review meetings and quarterly meetings with contractors, consultants, and engineers to discuss implementation

¹⁹ ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila; and ADB. 1998. *A Graduation Policy for ADB's DMCs. Corrigendum 1*. Manila.

²⁰ The allocation of \$887 million includes \$20 million for disaster risk reduction measures. The indicative allocation for 2021 will be determined by the 12th replenishment of the Asian Development Fund. In addition, 2017 might include reprogrammed funds from cancellations of an ongoing project.

²¹ Based on ADB. 2016. *Afghanistan: Enhanced Project Delivery Approach Paper*. Manila.

²² ADB. Client Portal for Disbursements. <https://www.adb.org/documents/client-portal-disbursements-guide>.

constraints. The approach paper as well as the measures for procurement will be applied in accordance with ADB's established procedures and policies and on a case-by-case basis.

58. **Improve project readiness.** ADB will implement several measures to address problems with project readiness (footnote 21). Project design improvements will come from more systematic use of project design advances and project preparation TA grants, while multitranche financing facilities, if used, will include support for the preparation of subsequent tranches. ADB will place more emphasis on projects with smaller contract sizes and separate design and construction packages. ADB will improve procurement through closer cooperation with the National Procurement Authority (NPA) to address bottlenecks and service standards, along with implementing ADB's new procurement framework that will reduce processing times and improve the quality of procurement decisions.²³

59. **Private sector engagement.** ADB will strengthen its engagement with the private sector in Afghanistan. The intention is to have the private sector become a proactive stakeholder in ADB projects by increasing coordination, exchanging information, and facilitating a new model of public-private dialogue and collaboration. A main priority will be to bring the private sector into infrastructure, such as through PPPs, infrastructure O&M, and as independent power producers. ADB will also place emphasis on (i) collaborating with the private sector on PPPs for infrastructure finance, management, and O&M; and (ii) shaping the business environment for economic growth and job creation led by the private sector. ADB's Private Sector Operations Department will pursue commercially viable transactions that generate financial returns while also delivering on ADB's overall mission to promote environmentally sustainable and inclusive economic growth. Potential sectors that may be considered include agribusiness, financial institutions, infrastructure, manufacturing, and social sector subject to satisfying nonsovereign operations appraisal standards. Further, under pillar 4 (project financing) of ADB's Public-Private Operational Plan, ADB will consider nonsovereign products and their application, where appropriate, as well as commercial cofinancing to enable ADB to leverage assistance and catalyze change through greater private investment in Afghanistan.

60. ADB will conduct more consultations with the private sector, particularly through chambers of commerce, to (i) identify infrastructure gaps that hinder supply chain development to optimize ADB project designs, and (ii) determine how the proposed infrastructure can enhance international trade and implement the national export strategy that is still under preparation. Other forms of engagement with the private sector will include (i) increasing the use of local firms in ADB contracts, and (ii) facilitating linkages between the business communities in Central Asia through CAREC and regional investment forums.

C. Monitoring of Results

61. The results framework (Appendix 1) will be the primary tool to monitor progress and guide project design and implementation. Some indicators and targets in the results framework require sex-disaggregated data, and all efforts will be made to collect these. Monitoring will be based on a combination of government data and reports, community monitoring and reporting, and ADB project and TA review missions. Several indicators in the results framework are based on existing indicators for which data are periodically collected in government household surveys and other reports or databases by development partners. Flexibility for indicators and targets may be

²³ ADB. 2017. *Improving ADB Project Performance Through Procurement Reforms*. Manila.

required, given the dynamic situation in Afghanistan and limited access to information. ADB will update the results framework annually, as needed, in the country operations business plan.

62. ADB will explore the use of third-party monitoring to improve results collection at project sites, and will heed the lessons learned from the experiences of the World Bank and other development partners with third-party monitors.

D. Risks

63. **Security.** ADB will mitigate security risks to projects through a combination of measures. First, ADB will be flexible during the CPS period. Projects will be designed for and implemented in areas that are accessible, but ADB will identify possible alternative sites for projects or multitranches financing facility tranches as access can change depending on security conditions. Second, ADB will require contractors and consultants to prepare security plans and be responsible for the security of their staff. Project funding will cover security plans for project sites, and ADB will also allocate funds, as needed, to provide security services. ADB will continue to use the recent flexibilities offered by the government for project security, including the local police, the Afghan National Army, the Afghan Public Protection Force, and the local community. Third, ADB's security unit, or possibly a risk management firm, will help plan security measures by providing guidelines to contractors on security planning, reviewing security components of bids, and reviewing the rationale of any security-related contract variations, as well as auditing project progress and security-related payments. Fourth, enhancing security in project sites will be done through a participatory community-based approach. Contractors will engage community elders and the existing community development councils in the preparation and implementation of projects, including employment for construction works. Security at the resident mission will also be strengthened to ensure continuity of ADB operations and safety of ADB personnel, including resident mission staff and visiting missions.

64. **Governance and corruption.** The government's current institutional capacity and country systems present governance risks. ADB will mitigate these primarily through sector-level engagement with government counterparts. In public financial management, ADB will assist government ministries and agencies in the preparation and implementation of action plans to strengthen their financial management. Government ministries and agencies will prepare, audit, and submit the required financial statements to ADB in a timely manner. Grant recipients will hire independent auditors or an audit firm to audit all ADB-financed projects and financial statements annually in accordance with ADB requirements. All procurement and consultant recruitment will require prior approval of ADB. ADB will also work closely with the NPA, which undertakes due diligence for the approval of all contract packages and submits them to the National Procurement Commission for approval. ADB will support the NPA and facilitate procurement for ADB projects by placing consultants in the NPA. ADB will continue to be active in supporting the government in developing an e-procurement system.

65. **Project implementation delays and cost overruns.** ADB will take several measures to mitigate implementation delays and cost overruns. The government will procure civil works in smaller national competitive bidding contract packages, where appropriate, to engage local Afghan contractors in the project area. This will have the advantage of attracting capable local firms that can (i) operate more effectively in the country than many of the larger foreign contractors, and (ii) help reduce security risks through their local knowledge and ability to engage better with communities. The government will use smaller contract packages and a single-stage, one-envelope bidding procedure for civil works. To help reduce cost overruns, ADB will provide adequate contingencies in financing plans.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Impact Indicators with which the CPS is Aligned				
1. Proportion of the population living below the national poverty line maintained at 39% or improved by 2021 2. Average GDP growth rate of 4% per year during 2017–2021 3. GDP per capita increased from \$565 in 2016 to \$719 in 2021				
CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Expanded access for women and men to economic opportunities, markets, and services	Expand the scope and increase the inclusiveness of energy and transport infrastructure Develop agriculture and natural resources Develop the private sector	Transport network scope and efficiency improved Power supply and electrification rate increased Access to and use of social services increased Agriculture productivity increased	By 2020, average travel time, by road, from Kabul to Ghazni reduced to 2.2 hours (2016 baseline: 2.5 hours) Grid-connected electrification rate increased to 40% by 2021 (2016 baseline: 32%) Irrigated wheat yield increased to 2.80 tons per hectare by 2021 (2016 baseline: 2.45 tons per hectare) Percentage of employed women engaged in farming or crop growing increased to 25% (2014 baseline: 21%)	Ongoing portfolio Ongoing sovereign loan projects and ADF grants (as of 31 December 2016): Number: 25 Amount: \$2.70 billion Planned operations and contribution: Sovereign Lending (\$665.76 million of ADF grants for 2018–2020) Technical assistance
Stronger institutions and human capacities	Develop institutions in the transport sector Strengthen institutions in the energy sector and create new capacities in solar power Strengthen the capacities of agriculture and natural resources institutions, user associations, and farming communities Improve the environment for PPPs	Governance and institutional functions improved Environment for PPPs improved	At least 80% of implementing agencies' performances rated <i>satisfactory</i> in PCRs and TCRs during 2020–2021 (2016 baseline: 67%) Contractual close of at least one PPP passed fiscal affordability and value-for-money test by 2021 (2016 baseline: 0)	Nonlending (\$3.00 million for 2018–2020)
Increased environmental sustainability, climate change resilience, and disaster resilience	Develop infrastructure resilient to climate change and natural hazards Protect, restore, and manage natural resources	Natural resources protection expanded Use of renewable energy increased Provision of infrastructure resilient to climate change	At least 200 hectares of aquifer protection zone developed and functional by the end of 2021 (2016 baseline: 0) At least 13,000 tons of CO ₂ equivalent	

CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
	Promote climate-friendly infrastructure	and natural hazards increased	<p>per year avoided by 2020 (2017 baseline: 44.42 million tons of CO₂ equivalent per year)</p> <p>At least 43,000 MWh of solar power generated per year by 2020 (2016 baseline: 0)</p> <p>At least three infrastructure projects received climate change adaptation finance by 2021 (2016 baseline: 0)</p>	

ADB = Asian Development Bank, ADF = Asian Development Fund, CO₂ = carbon dioxide, CPS = country partnership strategy, GDP = gross domestic product, MWh = megawatt-hour, PCR = project completion report, PPP = public-private partnership, TCR = technical assistance completion report.

Sources: Asian Development Bank; Government of Afghanistan. 2016. *Afghanistan National Peace and Development Framework (ANPDF), 2017 to 2021*. Kabul.

COUNTRY KNOWLEDGE PLAN

A. Knowledge Needs

1. Afghanistan has been suffering from conflict since the 1970s. It is one of the poorest and least developed countries in Asia, with a gross domestic product per capita of \$565 in 2016. Its economy grew at a relatively fast rate during 2002–2013 but this decreased substantially during 2014–2016, averaging less than 1.4% annually, because of the withdrawal of international forces in 2014, political instability arising from the presidential election in 2014 and the subsequent National Unity Government, and the deteriorating security situation. Decades of conflict have left Afghan institutions and human capital devastated. The succession of changes in political regimes from the late 1970s to the end of the Taliban regime in late 2001 meant that there was practically no institutional memory and traditions left to build on in 2002. Since 2002, with assistance from development partners, the government has made progress in rebuilding institutions and human capacities. But considering the low base from which development started in 2002, significant work still needs to be done in these areas.

2. The government recognizes that strong institutions and human capital are necessary for Afghanistan to achieve self-reliance. This principle is stated in the Afghanistan National Peace and Development Framework (ANPDF) and the Self-Reliance through Mutual Accountability Framework.¹ The government's emphasis has shifted from bringing outside expertise in to solve problems (referred to as the second civil service) to building capacity that will enable national and local institutions to deliver services and manage their functions on their own. This approach is supported by Afghanistan's development partners, for example by the World Bank's Capacity Building for Results program. The Asian Development Bank (ADB) is a leading development partner in the infrastructure sector, and in addition to infrastructure financing has invested in capacity development for Afghan institutions, particularly in the energy, transport, and agriculture and natural resources (ANR) sectors.

3. Afghanistan's needs for knowledge products and services (KPSs) are wide and varied, and development partners work in specific sectors and thematic areas. As ADB will continue to prioritize energy, transport, and ANR, the knowledge needs and planned knowledge operations for this country knowledge plan focus on these three sectors.

4. ADB's experience in the country and recent consultations with the Government of Afghanistan have led to the identification of knowledge needs in the infrastructure sector. These include a combination of administrative and technical functions such as financial management, procurement, contract management, design and engineering, operation and maintenance (O&M), and asset management. Many areas in need of KPSs cut across sectors, generally in terms of (i) infrastructure planning and budgeting, and (ii) project implementation, while within sectors there are specific issues requiring knowledge solutions.

5. **Infrastructure planning and budgeting.** Afghanistan has vast infrastructure needs. A lot has been done since 2002, yet large investments in infrastructure are still needed. But government ministries and agencies tend to have limited planning and budgeting capacities, and development partner financing for infrastructure has been decreasing. Hence, there is a need to develop mechanisms to prioritize infrastructure investments and ensure the efficient use of available funds. To help finance infrastructure, the government also needs to attract the private

¹ Government of Afghanistan. 2016. *Afghanistan National Peace and Development Framework (ANPDF), 2017 to 2021*. Kabul; and Government of Afghanistan. 2015. *Self-Reliance through Mutual Accountability Framework*. Kabul.

sector, particularly through public–private partnerships (PPPs). The newly formed PPP unit in the Ministry of Finance requires support for the identification, development, and implementation of PPP projects.

6. **Project design and implementation.** Project implementation has been slow in Afghanistan, often leading to delays and cost overruns. In 2016, the development budget execution rate was only 55%. Many factors account for this low rate. In addition to security constraints, capacities for design and engineering, procurement, and contract management are limited, all of which create undue delays. Ministries and government agencies require training in these areas, along with project implementation guidelines, standards, and tools for every stage of project implementation. These guidelines and procedures need to be tailored specifically to the fragile and conflict-affected situation (FCAS) in Afghanistan.

7. **Sector-specific needs.** In addition to crosscutting knowledge issues, each sector has specific needs for KPSs:

- (i) **Transport.** The transport sector has newly emerging and forthcoming institutions such as the national road authority, road fund, and transport institute. These institutions are still under development and the governance arrangements and functions are still being designed and need support. O&M, particularly for roads, is another key area that the government seeks to develop capacity in.
- (ii) **Energy.** The sustainability of the Afghan National Electricity Company, the state-owned power utility, can be improved by increasing its capacity to function as an independent corporation and by enhancing its electricity tariff model. Additionally, the power utility and the Ministry of Energy and Water are looking to develop new capacity in renewable energy that would increase domestic energy generation and provide cleaner energy.
- (iii) **Agriculture and natural resources.** A key need in ANR is to develop the integrated water resources management capacity of both the government ministries and agencies and the farmers who are actual water resource users. Another key area in ANR KPSs is improving agriculture yields through research and development and on-farm training.

B. Scope of ADB’s Planned Knowledge Operations

8. The country partnership strategy (CPS), 2017–2021 aligns with the ANPDF and other national and sector-specific strategies and plans. The CPS aims to establish a stronger foundation for more inclusive growth and to prevent the poverty rate from worsening by focusing on three strategic pillars: (i) expanded access for women and men to economic opportunities, markets, and services; (ii) stronger institutions and human capacities; and (iii) increased environmental sustainability, climate change resilience, and disaster resilience. ADB’s planned knowledge operations are designed in particular to support the achievement of the second strategic pillar but will also bolster efforts in the first and third pillars.

9. Recognized by the government and development partners as a thought leader in infrastructure and project implementation, ADB aims to deliver practical and tailored KPSs in Afghanistan through investment and technical assistance (TA) projects in a practical, sector-focused approach. Concentrating on infrastructure will complement the expected investment projects envisaged to be supported by ADB under the CPS. This will also enable ADB to build on previous capacity and knowledge initiatives to provide a longer-term and more sustained approach to building institutions and human capital. The ADB country director will be the knowledge custodian for ADB in Afghanistan.

10. **Infrastructure planning and budgeting.** ADB will provide cross-sector support to develop government capacities in infrastructure planning and budgeting. ADB will deliver KPSs for infrastructure project evaluation criteria and for a prioritized infrastructure investment plan, in close collaboration with the Ministry of Finance. ADB will provide additional support for an infrastructure sector institutional framework and an update of the National Infrastructure Plan. At the sector level, ADB will assist in developing or updating master plans, sector road maps, and action plans, including an implementation plan for the Transport Sector Master Plan Update, a renewable energy road map and action plan, the Energy Sector Master Plan, and river basin master plans.

11. **Project implementation.** ADB will work closely with the government to deliver practical KPSs that will improve project implementation. KPSs will include unified project implementation procedures and standards for government agencies, National Procurement Commission service standards, a national construction industry development plan, contract management guidance notes, and PPP implementation guidelines. ADB will provide KPSs related to project implementation with FCAS approaches, such as project-level peace-building tools, and capacity building for their application.

12. **Other sector-specific knowledge products and services.** In transport, ADB will assist in developing a road asset management system and will continue support for road O&M capacity. In energy, KPSs will include studies on domestic energy generation potential, national grid expansion, and power synchronization, along with the preparation of a power tariff model and new institutional capacity for renewable energy. For the ANR sector, ADB will conduct a water resources development strategy, provide capacity building on integrated water resources management for government and water user associations, and provide technical support for on-farm training activities. ADB will provide other sector-specific KPSs on demand during the CPS period, especially for institutional strengthening.

C. Areas of Collaboration with Partners

13. **Government and local institutions.** ADB's KPSs will be prepared in close collaboration with government ministries and agencies to continue to provide comprehensive support in the three priority sectors. ADB will also work closely with the private sector during the preparation of some KPSs, such as PPP implementation guidelines and the national construction industry development plan. ADB will consult with local think tanks and both domestic and international nongovernment organizations on a regular basis. ADB will use its own external relations channels and those of the government to ensure wide distribution and adoption of the KPSs. Although ADB does not operate formally in the education sector, collaboration on KPSs, including training, may occur with selected universities, government technical institutes, or other educational institutions partnering with the government on infrastructure matters.

14. **Development partners.** Development partner coordination and collaboration is strong in Afghanistan. ADB's infrastructure focus complements the KPSs efforts of other development partners in sector and thematic areas where they have greater comparative advantages. Some development partners, such as the Department for International Development of the United Kingdom, finance KPSs through ADB's Afghanistan Infrastructure Trust Fund, and this is expected to continue during the CPS period. Furthermore, ADB will work closely with the World Bank and the United States Agency for International Development on the preparation of KPSs related to project implementation to develop joint solutions that will benefit projects funded by all

three organizations. ADB will also conduct information exchange and joint policy dialogue with other development partners.

D. Resource Allocation

15. ADB is expected to contribute about \$14 million to generate KPSs for Afghanistan during 2017–2019 through TA, grants, staff consultancies, and dedicated staff time. In addition to receiving country-specific assistance, Afghanistan will benefit from initiatives under the Central Asia Regional Economic Cooperation Program and other regional KPSs. The financing sources include ADB investments in infrastructure that have components for analytical work and capacity building, cofinancing through the Afghanistan Infrastructure Trust Fund, TA, and cost sharing from the government.

E. Knowledge Competence or Expertise

16. Afghanistan has significant experience in postconflict reconstruction of assets and rebuilding of institutions. This experience can be shared with other FCAS countries.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=AFG-2017>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Country Operations Business Plan

Supplementary Document

4. Afghanistan: Enhanced Project Delivery Approach Paper