

TABLE OF CONTENTS



Executive Summary v

I. COUNTRY CONTEXT 1

Political and Security Developments **3**

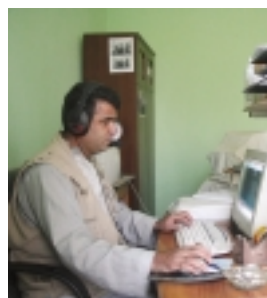
Recent Economic Performance **5**

Fiscal Developments **8**

Poverty Profile **9**

Structural and Sectoral Developments and Challenges **11**

Public Administration, Capacity and Governance **13**



2. IMPLEMENTATION OF THE TRANSITIONAL SUPPORT STRATEGY (TSS) (2003) 15

The IDA Program **19**

Analytical and Advisory Activities (AAA) **20**

The Multilateral Investment Guarantee Agency (MIGA) **21**

The International Finance Corporation (IFC) **21**

The Afghanistan Reconstruction Trust Fund (ARTF) **23**

The Japan Social Development Fund (JSDF) **23**

Managing Fiduciary Risk **23**

Bank Group Country Presence **24**

Donor Coordination **24**



3. THE GOVERNMENT'S STRATEGY 27

The Interim Afghanistan National Development Strategy (IANDS) **30**

4. THE WORLD BANK'S INTERIM STRATEGY 31

Key Objectives and Strategic Focus **33**

The IDA Program **35**

Analytical and Advisory Activities (AAA) **36**

Cross Cutting Themes **37**



5. PROSPECTS AND RISKS 39



TABLES

Table 1: Macroeconomic Indicators **6**

Table 2: Fiscal Indicators **8**

BOXES

Box 1: The Threat of Deteriorating Security **4**

Box 2: The Opium Poppy Economy **7**

Box 3: What Do We Know About the Rural Poor? **10**

Box 4: Contracting Out Health Service Delivery – Initial Results **12**

Box 5: Countering Corruption **14**

Box 6: Better governance for Mineral Resources: the Paradox of Plenty **18**

Box 7: Reaching Out in Afghanistan **20**

Box 8: The Afghanistan Reconstruction Trust Fund (ARTF) **22**

Box 9: Pillars, Sectors and Themes of IANDS **29**

Box 10: Benchmarks for Progress under ISN Pillars by FY08 **36**

FIGURES

Figure 1: The Informal Equilibrium **17**

Figure 2: Disbursement Ratios **19**

Figure 3: The Formal Equilibrium **33**

ATTACHMENTS

Attachment 1: The Afghanistan Compact **45**

Attachment 2: Debt Sustainability Analysis **57**

Attachment 3: Results of TSS Benchmarks of Outcomes **62**

Attachment 4: Private Sector Consultations **64**

Attachment 5: Global MDGs, Targets and Indicators **66**

Attachment 6: ARTF Actual and Expected Donor Contributions **70**

Attachment 7: Consultative Groups – Proposed Working Group Structure **72**

STANDARD ANNEXES

Annex A2: Afghanistan At-a-Glance **76**

Annex B2: Selected Indicators of Bank Portfolio Performance and Management **82**

Annex B3: IBRD / IDA Program Summary **83**

Annex B3: IFC & MIGA Program Summary **86**

Annex B4: Summary of Non-Lending Services **87**

Annex B8: Operations Portfolio (IBRD / IDA) **89**