

Executive Summary

i) The current Interim Strategy Note for Afghanistan is being presented in the context of considerable political uncertainty and mounting security challenges. Presidential and provincial council elections are scheduled for August 2009 with parliamentary elections to follow in 2010, additional international troops are expected to be commissioned to Afghanistan shortly, and security is widely anticipated to worsen before it gets better. This ISN is intended to update the country context and its implications for the Bank Group's operations and reconfirm the Bank Group's strategy in the context of this deeply uncertain and high-risk operating environment.

ii) **Afghanistan's environment remains extraordinarily challenging.** The insurgency continues to spread into previously stable areas and security conditions have deteriorated in much of the country. Insurgents are using more sophisticated asymmetric attacks, and the opium economy—with its attendant violence and corruptive influences—remains pervasive. Governance and administrative capacity weaknesses remain and the rule of law has yet to be widely institutionalized. The prevalence of corruption, either through patronage or criminal activities, and the perception of a rising culture of impunity has weakened the legitimacy of the Government in the eyes of the population. The results of significant amounts of Government and international aid have generally fallen short of popular expectations. Assistance to Afghanistan remains fragmented with two-thirds of the resources entering the country flowing outside the Government's budget.

iii) **At the same time, Afghanistan has made remarkable progress in many areas.** Important development results have been achieved in areas such as health, education, microfinance, irrigation and rural livelihoods, as well as in sound macroeconomic management and progressive improvements in public financial management. The results achieved to date reflect the massive support of the international community to help rebuild Afghanistan, the efforts and ingenuity of many enterprising Afghans who continue to deliver services in challenging circumstances, and the impact of strong leadership in key areas. Resources channeled to successful national programs have had a particularly strong impact, reaching across the country and improving the day-to-day life of millions of Afghans. For example, the National Solidarity Program (NSP) now reaches over 22,000 villages (68 percent of the population) across rural Afghanistan through locally elected community development councils (CDCs). The program is delivering results to citizens who are empowered to make their own decisions about their development priorities. However, these excellent results represent just a first round of development effort in all these villages.

iv) **The development needs in Afghanistan remain vast.** Widespread poverty and low human development indicators persist. In particular, the country's cereal harvest self-sufficiency rate remains low and is threatened by adverse weather and global prices, despite large investments in the agricultural sector. Moreover, difficulties in importing wheat from neighboring countries make recurrent food shortages a real threat. Despite success in health and education, significant access and quality gaps remain to be addressed. Access to electricity is still among the lowest in the world and much more needs to be done to increase rural productivity as well as improve the quality of urban life. While the private sector exists and in some cases thrives, it is too small and informal yet to provide the real impetus to growth that Afghanistan needs. Overall, development progress in Afghanistan remains fragile, and programs are highly dependent on the continued funding of the international community.

v) **There are some distinct opportunities at the current time.** On the political front, the US administration's recently announced strategy for Afghanistan has been strongly endorsed by the international community at a meeting in the Hague in March, bringing with it increased international attention to Afghanistan, a stronger realization that Afghanistan's challenges need to be addressed in a regional context, and a better understanding of the development, political and security linkages necessary for state building. Presidential and parliamentary elections in Afghanistan over the coming year, if

managed credibly and broadly accepted, provide an opportunity for renewed dialogue with a new Afghan administration on reform priorities. In responding to these opportunities, Afghanistan now has experiences and expertise it can build upon to accelerate development and deliver services to the population. These include: coordinated support, often through the Afghanistan Reconstruction Trust Fund (ARTF) for well conceived national programs; examples of strong ministerial leadership that exerts Afghan ownership; and institutional capacity that has successfully been developed at the community level and that can be built upon to strengthen governance and accountability from the bottom up.

vi) **The time is appropriate to review the World Bank Group's strategic goals in extending assistance to Afghanistan, and to affirm the WBG's strategy for enhanced partnerships with the government, the Afghan people and the donor community.** The Bank has contributed to many areas of success and has maintained active partnership with Government and donors alike. Experience under the previous ISN demonstrates that the development goals and outcomes supported by our previous assistance programs remain relevant and are aligned with the Afghanistan National Development Strategy (ANDS) of June 2008. The overall mix of instruments and the modality of operating have been appropriate to the environment, and have evolved to meet the challenges of the difficult situation.

vii) **For the current ISN period, the Bank's main objective is to sustain and accelerate the progress made so far in many areas of state building and service delivery,** which constitute significant platforms for improving livelihoods and building government credibility. In this way the Bank will contribute to the broader goal of building an Afghan state that can effectively and credibly deliver services and security to the people while protecting their rights and opportunities. In implementing the new ISN, the Bank Group will be selective and build on opportunities as they arise in a framework of state building and government ownership. In particular we will engage in areas where there is evidence that a strong reform-minded leadership is in place, where we can help leverage the support of others, and where opportunities exist to develop operational frameworks for future programs. The Government has requested that the Bank play an enhanced role in working with them to determine the vision, design and framework for their interventions in national programs, such as in agriculture, irrigation and the next phase of NSP, which others might support.

viii) **World Bank Group interventions will continue to operate with flexibility and pragmatism under similar strategic pillars as used in the previous ISN:** (i) building the capacity of the state and its accountability to its citizens; (ii) promoting growth of the rural economy and improving rural livelihoods; and (iii) supporting growth of the private sector. We will also utilize our knowledge and experience to support government and other stakeholders in coming to consensus on strategies for addressing the country's long-term development challenges and opportunities, including the scope for greater regional cooperation.

ix) **The fluid operating environment means that an ISN remains an appropriate instrument for what lies ahead.** An ISN will enable both the Bank and the Government to retain flexibility to deal with uncertainties and may lay the basis for a firmer strategy or Country Assistance Strategy depending on how conditions develop. Governance, environmental, social and gender considerations will continue to be interwoven into the structure of each pillar.

x) **Daily events in Afghanistan remind us that security and fiduciary risks remain significant,** despite the increasingly focused attention of key players in the international community and despite the considerable progress in areas outlined above. The probability of a significant downside political and security scenario remains. Implementation of the Bank's program will be continually assessed against constraints and opportunities as they emerge.