AFGHANISTAN
Country Partnership Strategy
2015-2016

December 2014
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I. Basic Macroeconomic Indicators

Table 1: Basic Macroeconomic Indicators

<table>
<thead>
<tr>
<th>Key Indicators: Afghanistan</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (mid-year; mln)</td>
<td>25.6</td>
<td>26.0</td>
<td>26.5</td>
<td>27.0</td>
<td>27.5</td>
</tr>
<tr>
<td>Average Exch. Rate (Local currency/USD)</td>
<td>49.26</td>
<td>45.80</td>
<td>47.76</td>
<td>50.92</td>
<td>55.38</td>
</tr>
<tr>
<td>Inflation rate (CPI average; %)</td>
<td>4.8</td>
<td>-4.5</td>
<td>13.7</td>
<td>8.4</td>
<td>7.4</td>
</tr>
<tr>
<td>GDP at current prices (Local curr. bln)</td>
<td>374.8</td>
<td>386.9</td>
<td>896.2</td>
<td>1086.2</td>
<td>1197.2</td>
</tr>
<tr>
<td>GDP at current prices (USD bln)*</td>
<td>12.9</td>
<td>15.9</td>
<td>17.9</td>
<td>20.3</td>
<td>20.7</td>
</tr>
<tr>
<td>GDP/Capita (in curr. Prices; USD)</td>
<td>505</td>
<td>629</td>
<td>709</td>
<td>780</td>
<td>772</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>20.6</td>
<td>8.4</td>
<td>6.5</td>
<td>13.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Direct foreign investment (USD bln)</td>
<td>0.21</td>
<td>0.08</td>
<td>0.09</td>
<td>0.07</td>
<td>0.07</td>
</tr>
<tr>
<td>Central Gov. Budget balance/GDP (%)*</td>
<td>-1.6</td>
<td>0.9</td>
<td>-0.6</td>
<td>1.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Gen. Government Debt/GDP (%)</td>
<td>15.5</td>
<td>14.7</td>
<td>15.0</td>
<td>11.6</td>
<td>12.1</td>
</tr>
<tr>
<td>Export (fob, USD bln)</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Import (fob, USD bln)</td>
<td>3.1</td>
<td>4.9</td>
<td>6.0</td>
<td>6.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Trade balance (exp. fo. - imp. fob.; USD bln)</td>
<td>-2.7</td>
<td>-4.5</td>
<td>-5.7</td>
<td>-5.8</td>
<td>-8.1</td>
</tr>
<tr>
<td>Current account balance (USD bln)*</td>
<td>0.2</td>
<td>0.5</td>
<td>0.6</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Current account / GDP (%)*</td>
<td>1.8</td>
<td>3.0</td>
<td>3.1</td>
<td>3.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Official reserves (incl. Gold.; eop; USD bln)</td>
<td>3.7</td>
<td>4.4</td>
<td>5.8</td>
<td>6.5</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: Central Bank of Afghanistan, (*) IMF
II. Economic Overview and Outlook

Real Sector

Afghanistan’s real GDP growth slowed down to 3.6% in FY13 coming off an impressive double digit performance in FY12. Over the last decade, Afghanistan has made enormous progress in reconstruction and development as economic growth was averaging strongly around 8% in the pre-global crisis era which did not alter its performance in the post-crisis period as well. Even though the Afghan economy did not contract during the 2009 global crisis, it still displayed huge volatility in economic growth rates in the following years.

The deceleration in growth performance in FY13 came as a result of slow expansion in agriculture, industry, and services. Due to favorable weather in 2013, agriculture sector which makes up one fourth of the economy grew 8.1% y/y up from 3.2% y/y in the preceding year. The scale down of spending by international security forces halted large number of projects funded and implemented by development partners that hugely hindered activity in industry and services in FY13. Non-agricultural GDP which accounts for more than three quarters of the economy grew 11% on average in FY07–11 but halted in FY13 growing with slightly above 3%.

With significant reform efforts and donor support, Afghanistan’s robust economic growth over the last decade enabled the size of the economy to increase 4.5 times to reach USD 20.7 billion at the end of FY13 with per capita nominal GDP at USD 772. Compared to a decade ago, Afghanistan’s living standards measured as per capita income in purchasing power parity figures increased more than around half of the ECO region countries.

External Sector

Exports of the country are pretty much flat over the past years, not exceeding half a billion US dollars, but the same is not true for imports which more than doubled since FY9 to hit USD 8.6 billion in FY13. As a result, the trade balance produced a massive deficit at 38% of GDP in FY13, up by 17 percentage points since FY10.

The current account deficit excluding grants is pretty much stable over the past few years but is likely to fall below forty percent of GDP in FY14. The current account surplus including grants declined to 2.8% of GDP in FY13 from 3.9% in FY12 on lower net foreign earnings.

The countries exports are mainly agricultural products to neighboring countries and Europe. In the top-10 destination of exports, there are three ECO member countries: Pakistan, Iran, and Turkey while Pakistan is the major buyer of Afghanistan goods with a share of nearly 50%. In the top-10 destination of imports, there are again three ECO member states where Pakistan leads the list again with 26%, followed by Kazakhstan, and Turkey.
Since the country is landlocked, it is vital to have easy access channels to improve trade relations with neighbors and rest of the world. Recently, Iran and Afghanistan have finalized a draft for a new transit trade agreement. The planned land route that has been completed will run through Iran connecting Afghanistan to the Persian Gulf. It will connect Afghanistan to Iran’s Chabahar port which will facilitate the movement of goods from Afghanistan and Central Asia.

Fiscal Outlook

Afghanistan has one of the lowest domestic revenue collections in the world just like its neighbor Pakistan, with an average of about 9% of GDP since 2006. There was a huge jump in budget revenues from 2006 to 2011 when the revenue to GDP ratio increased from 7% to 11%. The successful trend halted in 2012-2013 as the ratio dropped to 9.5%–10% of GDP because of the negative impact of the international troop’s withdrawal.

Tax revenue collected in FY13 is just USD 2.0 billion while the budget expense comes around USD 5 billion a year. The fiscal deficit excluding grants comes around 15% of GDP and financed through foreign assistance. The economy relies heavily on trade related taxes, which represented 45% of total tax revenues. The parliament is discussing implementation of Value Added Tax (VAT) which in the medium term would broaden the tax base and rebalance the composition of revenues.

Improved economic performance and reforms implemented in key areas enabled Afghanistan to qualify for debt relief under the Heavily Indebted Poor Country Initiative in January 2010, leading to a 96% reduction in Afghanistan’s 2006 stock of external debt. Following this extensive debt relief, Afghanistan’s debt burden was pulled down significantly to 6.1% of GDP at the end of 2013.

Financial Sector

The sector has been constantly growing in terms of institutions, number of players, portfolio size and complexity as well as the people being served. The banking system in Afghanistan comprises of twelve fully licensed commercial banks and four branches of foreign banks with about 390 bank branches throughout the country. The banking system assets have grown very rapidly over the past few years from a very low base to USD 4.3 billion at the end of 2013. The deposits reached USD 3.7 billion with a loan-to-deposit ratio of 22.6%. The banking system is highly liquid because of this low lending. The loan portfolio is about USD 837 million which represents 19.4% of the total assets while liquid assets reached 62% of total assets at the end 2013.

The banking system remains profitable with a small margin as banks in 2013 turned an aggregate profit of about USD 31 million for the first time in several years despite large provision expenses and continued losses in state-owned banks. Even though the banking system as a whole is well capitalized with a capital adequacy ratio above 20% since FY 11, some banks show poor or negative capital ratios.
A new banking law was submitted to parliament in February 2013 that would strengthen banking supervision, corporate governance, prudential requirements, enforcement, and bank resolution. Similarly, a five-year strategic plan was adopted to further strengthen financial sector supervision.

The first step in establishing an Islamic banking system in the country was taken in May 2014. Afghan central bank will prepare the code of conduct for the development Islamic banking system based on supply and demand in the market and also providing short-term and long-term loans based on Islamic law.

**Inflation Dynamics and Monetary Policy**

Afghanistan maintains a managed floating exchange rate regime. Monetary policy is anchored by targets on reserve money. Afghanistan has no access to international capital markets and relies on donors’ inflows to cover the current account deficit to control its currency.

The central bank managed the exchange rate flexibly (over the last years through sales of foreign exchange in the twice-weekly auctions. The local currency-Afghani depreciated by 8.0% against the USD in FY13, while international reserves remained at a comfortable level of USD 6.7 billion which is sufficient for nine months of imports.

The introduction of a new Consumer Price Index (CPI) in 2012 was a major achievement for the implementation of monetary policy in the economy. With the new index, the prices are gauged through a broader geographical coverage, updated weights, and an enlarged consumer basket.

Having reached an all-time high of 13.97% in April of 2011, inflation is continuing to cool down. Average CPI inflation continued to remain in single digits for the second year in a row in FY13, falling to 7.4% y/y due to relatively supportive international commodity prices.

**Future Outlook**

The presidential and provincial elections were held in April 2014 and the new Government shall continue the reform agenda vital to the functioning of the economy. Transition from aid dependency toward a more self-sustaining economy will be the prime challenge of the country.

Economic growth is expected to pick up only modestly during the strategy period under the fact that international military presence is being drawn down and the government is gradually taking over the management of spending previously managed by donors.

In FY13, international development partners financed 60% of the national budget, 45% of recurrent expenditure, and 77% of the development budget. The most pressing issue the economy has for 2014 is the financing of development projects since the US has cut the development aid to Afghanistan by 50% to USD 1.2 billion for the 2014.
Fiscal policy is likely to be under pressure during the strategy period due to rising security expenditures, the cost of operating and maintaining assets built by development partners. But the country will continue to get foreign support for some more time as the international community in July 3, 2013, reiterated its pledge to continue to support Afghanistan through transition and the transformation decade (2015-2024) and reaffirmed its Tokyo commitment of providing USD16 billion through 2015, and sustaining support, through 2017, at or near levels of the past decade.

III. Main Business Strategy

Within the framework of its business plan, the Bank continues to pursue a comprehensive program to encourage other ECO member states to become a member of the Bank. In this context, Afghanistan with paid-in capital contribution of SDR 15 million signed the Articles of Agreement establishing the Bank on March 12, 2012. Afterwards, the Central Bank of Afghanistan, informed the Bank on 15 March 2014 about the official acceptance of the Articles of Agreement as the authorized representative of Afghanistan in the matters related to the Bank. Afghanistan as the new shareholder of the ETDB has paid 20 percent of its share of the paid-in capital contribution as initial payment and shall complete its capital contribution plan in five equal consecutive annual installments.

As a result of the three decades of conflicts, Afghanistan has lost most of its main social and economic infrastructure. However, the country has been undergoing fundamental transitions in its political, security, and socio-economic spheres over the past 12 years. Significant reform efforts and influx of foreign aid over the last decade supported the development of agriculture and services sectors. The international community has contributed USD 67 billion in aid to Afghanistan in nine donor conferences during 2003-10. In Tokyo conference, convened in 2012, donors pledged further USD 16 billion of civilian aid through 2017.

With significant reform efforts and donor support, Afghanistan's robust economic growth over the last decade enabled the size of the economy increased 4.5 times to reach USD 20.7 billion at the end of 2013. The nominal GDP per capita increased from USD 186 in 2002 to USD 772 in 2013. Although still 36 percent of the Afghan population lives below the national poverty line, proxy indicators used to determine multidimensional poverty levels, health and education show considerable improvement. Despite certain improvements, the country is still in need of comprehensive development efforts. Since Afghanistan is in transition from dependence on foreign assistance to gradual self-reliance, the biggest economic challenge is finding sustainable sources of growth. In this respect, focusing on the development of agriculture and agribusiness sector would significantly contribute to economic growth, employment and food security. Equally, encouraging investments in development of minerals and hydrocarbons resources such as copper, iron ore, gold, oil and gas would stimulate economic growth and prosperity for the Afghan people. In this respect, ETDB would put all its efforts to foster partnership and contribute meeting emerging priorities and challenges in the country.
This country strategy document lays the foundation for a successful partnership between Afghanistan and ETDB. It is the primary analytical and planning tool that would enable ETDB to design, execute, monitor, review, and evaluate its operations in Afghanistan for the period of 2014-2016. The document includes economic, thematic and sector policy analyses and provide a basis for operational dialogue with the public and private sector. It highlights areas of opportunity where ETDB can provide support to Afghanistan, in accelerating the pace of sustainable development, increasing trade, and enhancing regional integration, in an efficient and relevant manner. The document further provides details of operational objectives of the ETDB for intermediated and direct operations. To enhance the Bank’s overall contribution, concentration would be given on promotion of strategic investments in roads, rail network, production and distribution of electricity, and the infrastructure needed to enable extractive industries. The international community plays an important role in helping the country to navigate this period from transition to transformation and achieve the goal of self-reliance. Therefore, in close coordination with government authorities, international financial institutions, donors and other development partners, the Bank would align its operations with the priorities of Afghanistan and foster a conducive and sustainable investment environment. While recognizing the challenges, the Bank would invest in opportunities that would deliver positive economic activities and prosperity for Afghanistan.

The Bank supports development priorities featured in the Afghanistan National Development Strategy (ANDS) and National Priority Programs (NPPs), which constitute the bedrock of Afghanistan’s strategy for economic growth, development, and self-reliance in the coming years. More specifically, the ETDB will strive to provide support for implementation of development projects, foster interregional and global trade expansion and enhance access to finance for micro, small and medium-sized enterprises. The operations of the Bank in Afghanistan are expected to grow across following means i.e. lending through financial intermediaries, project and corporate finance loans. The Bank will also work with selected local financial institutions in Afghanistan where such delegation of responsibility will assist the Bank in serving a targeted market segment more efficiently and effectively than the Bank might be able to do directly. Supporting development of the financial sector would be aimed to enhance credit flow for development of real sector.

(i) Micro, Small and Medium Sized Enterprises (M-SMEs) Development Facility

Under this facility the Bank would provide loans to local banks and financial intermediaries for supporting development of loans to the M-SMEs. The main goal of these intermediated loans is to support growth and employment potential of the M-SMEs and poverty alleviation efforts. Thus, promoting the production and innovation capacity of vibrant SMEs in the member states remains a priority for the Bank. The expansion of healthy MSMEs is vital component of the Afghanistan economic development plan. Excluding agriculture sector, SMEs and microenterprises make up approx. 80% of Afghan business, generate almost half of GDP and employ 75% of the labor force. The Government’s SME development strategy aims to create 1 million new jobs and add USD 3 billion to the Afghan economy by 2018.

Action plans have been developed for several of the priority sectors targeted in the SME Development Strategy that have the potential for economic expansion, export creation and bringing value-added manufacturing back from neighboring countries, including: agribusiness, carpets, marble, gemstones and jewelry, cashmere products, construction materials, and
leather. Afghanistan is also investigating options for supporting SME development in other sectors with growth potential, such as medicinal and herbal products, pottery and stoneware products, and wood products. The main challenges include limited access to finance and risk averseness of private funding sources for M-SME finance in Afghanistan. The ETDB would cooperate with relevant institutions and support programs which are designed to provide financial services for development of SMEs. The level of microfinance is also growing from a small base. There are 14 microfinance providers including one microfinance bank, 5 MFIs (micro Finance Institution) and 7 CSPIs (Community-Based Savings Promoting Institutions). For microfinance sector development, cooperation with specialized institutions would enable the ETDB to channel its funds as per the requirements of the microfinance sector.

(ii) Short Term Trade Finance (STTF) Program

Trade finance is a distinct core business of the Bank. The STTF facility has been designed to strengthen the ability of local banks to support entrepreneurs throughout the member states to expand their trade transactions. The Bank offers a number of instruments designed to address funding needs of suppliers/exporters and /or buyers/importers.

The overall foreign trade in Afghanistan in 2013 amounted to USD 9.1 bln. While the value of imports amounted to USD 8.6 bln., there were limited export items such as dried fruits, wool, cotton, marble and stones. ETDB would promote private sector production and support financing requirements of Afghani exporters through its financial intermediaries with particular support to be given for enhancing trade activities among ECO member states. ETDB would also facilitate importation of basic humanitarian needs and importation of capital and intermediary goods that are necessary to enhance production capacity.

(iii) Corporate and Project Finance

The Corporate & Project Finance operations are aimed to contribute towards attainment of ETDB’s primary objective of nurturing and promoting sustainable economic development, social progress and intra-regional trade, by providing a full range of financing and facilitation options to its clientele in member states, targeting both public and private sector enterprises in the designated/eligible business segments. In this respect, the Bank would focus on identifying operations in Afghanistan closely matched with the national development priorities and Bank’s mission. The primary objective is to maximize economic and developmental impact in a most efficient and effective manner from perspectives of risk, return and value addition.

On the other hand, positive contribution to development of fundamental sectors and promoting complementarities and reciprocity among member states tend to be a preferential factor in allocation of funds towards projects with the optimum risk/return ratio. Therefore, corporate and project finance operations in Afghanistan would primarily focus on priority sectors like energy, mining, manufacturing, agriculture and development of transport and communication infrastructure, and intra-regional trade facilitation.

Based on the Bank’s exposure to international markets and a successful track record of numerous project financing transactions in priority sectors, the advisory and consultancy services may also be made available to aspiring clientele in Afghanistan to contribute positively to the country’s capacity building endeavors. Similarly, based on specific requirements for trade financing, specially designed trade programs would also be worked upon to facilitate international trade in the country with specific focus on intra-regional trade with other ECO member states.
IV. Review of Key Sectors and Investment Opportunities

i) Energy

Although Afghanistan is relatively well endowed with hydropower, natural gas, and coal, the availability of secure energy supplies within Afghanistan was significantly disrupted by more than two decades of conflict during which much of the power generation, transmission, and distribution infrastructure was destroyed. As a result, the country’s remaining distribution and transmission systems are stretched beyond their technical and economic lives because of inadequate investment and maintenance.

Afghanistan as per capita power consumption is among the lowest in the world at about 27 kWh per year. It is estimated that about 30% of population have access to electricity from grid-based power, micro-hydro, or solar panel stations. The Business Environment and Enterprise Performance (BEEP) survey estimated power outages wiped out more than 10 percent of companies’ annual sales. About 70 percent of Afghan firms own their own private power generators to back up the grid supply, which increases production costs. The transmission grid has a total of 2,031.5 km of high voltage transmission lines (over 35 kV), a total of about 1,712 km medium voltage (10 kV to 35 kV) distribution lines, and low voltage distribution lines of about 2,983 km. The situation has improved significantly in the major urban population centers along the critical North East corridor between Mazar-e-Sharif and Kabul, following the import of power from Uzbekistan and the rehabilitation of three hydro plants (Mahipar, Sarobi and Naghlu). Increasing parts of some urban centers, for example Kabul, Herat, Mazar-e-Sharif, and Pul-e-Khumri, now have a 24-hour power supply for the first time in decades. Actual developed hydro capacity is only about 260 MW (just over 50% of the total), with gas turbines and diesel units accounting for the remainder of the 475 MW. On the macro scale, regional power trading can provide significant opportunities for Afghanistan to purchase electricity at cheaper prices. The country may also gain transit fees if regional power trade takes place between its neighboring countries. This will require physical interconnections to be completed and upgraded. Imports from Turkmenistan, Uzbekistan, Tajikistan and Iran provide approximately 15% of total electrical energy.

The ANDS target electricity supply over the medium-term to reach at least 65 percent of households and 90 percent of non-residential establishments in major urban areas and at least 25 percent of households in rural areas. To achieve these targets, Afghanistan is seeking to develop energy production and imports, its transformation and distribution particularly using private sector capacities to increase access to energy in all urban and rural areas. As regards distribution, there are four distinct grid systems in the different parts of Afghanistan, none of them interconnected. A considerable amount of urban and rural electrification work appears to be done off-grid at the community level.

The hydrocarbons (petroleum and natural gas) industry provides great investment potential for Afghanistan, both financially and as a means for energy production. Recent surveys reveal that Afghanistan has natural gas reserves of about 1200 bcm and over 150 million tons of medium-gravity recoverable crude oil reserves. More than 15 oil and gas fields in northern Afghanistan have been identified, but only three gas fields have been developed. Afghan natural gas production at its peak had reached 385 million cubic feet per day (Mmcf/d) in the mid-1970s. Despite having proven crude oil fields, particularly, in Sar-i-Pol province, almost all of Afghanistan petroleum products such as diesel, gasoline, and jet fuel (worth around USD 1.5 bn and growing) are imported.
The Bank would look into feasible projects that would increase the supply of power to Afghanistan, reduce its reliance on imported fuel and overall energy costs. The hydro potential is estimated to be about 23,000 megawatts (MW). Investment in the sector will create direct employment opportunities in the development of power plants, oil, gas and coal fields, the construction of grid systems and the commercial operations of the sector. Development of small energy installations such as micro hydroelectric, wind power and solar panel stations will also contribute to local economic development, particularly in rural areas.

 ii) Transportation

Much of the transport infrastructure was ruined which was built during the 1960s. Afghanistan strategic vision and goal for the transport sector is “to have a safe, integrated, transportation network that ensures connectivity and enables low-cost and reliable movement of people and goods domestically as well as to and from foreign destinations. Such a network will give impetus to economic growth and employment generation and help integrate Afghanistan into the global economy. Investment of about USD 4 billion in the last ten years has greatly improved national highways, roads and bridges to help increase travel as well as trade inside the country and with neighboring countries. Notable investment made development of national ring road, which connects Kabul, Kandahar, Herat, and Mazar-e Sharif. Road travel times between Kabul and Kandahar have dropped from 19 to 5 hours and between Kabul and Herat from 44 to 12 hours. However Afghanistan’s 42,150 km road network is in serious need of both expansion and rehabilitation. The road density of 6 km per 100 square km of land area remains one of the lowest in the region. Only 30 percent of all roads are sealed.

The feasibility study of 1,225 km of railways has been conducted of which 75 km railways have been completed. Currently it is the rail service between Mazar-i-Sharif in Afghanistan and Uzbekistan in the north. The Afghan government expects to have the line extended to Kabul and then to the eastern border town of Torkham, connecting with Pakistan railways. Apart from that the railroad will start from Mashad (Iran) to Herat and other will start from Turkmenistan to Kabul and Kandahar province.

Afghanistan is considered as a land bridge connecting emerging markets in Middle East, Central and Southern Asia. The country is situated to again function as a strategic gateway, serving landlocked countries to the north and the Iranian and Pakistani seaports to the south. Investments in the transportation and logistics sector are vital to the overall economic development, as it will enable the transportation and distribution of products throughout the country and to overseas destinations.

Ministry of Public Works (MPW) is mandated to increase the capacity of transportation and civil aviation’s facilities and assets and effective maintenance to ensure easy access to provinces, remote and difficult areas within the country and the region. Currently, construction of major roads, railways and civil aviation sub sectors are under implementation program. The initial rough estimate of needed investments for five years is about USD 5.65 billion.

Afghanistan’s large and growing market for basic logistics and transportation services presents a ground-floor opportunity for new providers. While investment in the sector is increasing, the field is virgin territory for many services. An important demand in the logistics sector is the provision of cold transportation and storage facilities such as cold rooms and refrigerated trucks and containers.

This sector represents a vital support-industry to other sectors which will not be able to perform well without an up-graded transport and logistics sector. The Bank will support development of
efficient and viable transportation network for achieving economic growth and poverty reduction, particularly in rural areas.

iii) Agriculture

Agriculture remains fundamental to the livelihood in Afghanistan and supporting nearly 80 percent of population who live in rural areas. The sector which makes up one fourth of the economy grew 3.2% y/y in FY2012 but increased to 8.1% y/y in the next year (2013) due to favorable weather conditions. It also accounts for about 90 percent of the country’s exports. Recurrent natural disasters, drought, lack of machinery stock and high energy costs make it difficult to ensure agricultural development and contribute to rural livelihoods. The sector was badly affected by three decades of war and conflict to the extent that the irrigated cropped area decreased by almost 70 percent and crop productivity plummeted, to less than 50 percent of the pre-war levels. While about 12–15 percent of total land area is suitable for crop production, water constraints inhibit cultivation of up to one third of irrigated land. Therefore, improved irrigation and storage of water is essential both to improve agricultural output and minimize recurrent flood damages. Shortages and poor quality of other key inputs such as seed, fertilizer and agrochemicals are considered as important limiting factors for agricultural production.

Afghanistan used to have a significant global comparative advantage in raisins, other dried fruit and vegetables, fresh fruits, and nuts. During the long years of conflict, it has lost its global market niche, and the production of such horticultural products is now characterized by low productivity, poor product quality and grading, and high post-harvest losses. There are post-harvest losses of up to 30–40% because of the destruction of market infrastructure and limited access to technical and market support. There are requirements for investment in infrastructure for storage, packing and cold storage, processing, and product quality and access to technology.

Livestock products including meat, hides, skins, casings, and wool make important contribution to country’s economy. However, productivity and quality is low, with limited value addition. Improving the livestock value chain will have positive economic and public health benefits. Thus, the Bank will focus on improving agricultural growth and productivity through supporting investments in rehabilitating and developing new irrigation and water resource infrastructure.

The domestic market potential for agricultural products is huge and demand is increasing with a rise in population and income across the country. Currently, most processed food is being imported. Unfortunately, decades old agri-processing facilities are outdated or non-operational. Presently, the wheat milling industry is the largest agri-based industry in Afghanistan. Substantial investment is required to bring these up to modern production standards either on the part of the private sector or for communal facilities in conjunction with the Government and other stakeholders. Fortunately this is beginning to happen. In recent years, successful investments have been made by agri-businesses in a variety of sectors. Afghanistan is beginning to move up the value chain. It is estimated that the processed fruits and vegetables market amounts to around USD 28-60 million demonstrating that the market potential for processed agricultural products including snack foods, packaged biscuits, fruits concentrates, pickles and fresh fruit jams is enormous. The strategy of the Bank is to facilitate investments in appropriate technology and equipment for processing and packaging such as sealing machines, vacuum wrap machines, potato chip slicers, mincers, juicers and mixers that incorporate quality control measures such as hygiene and traceability. It is believed agricultural development would provide tangible means to accomplish the goals of poverty reduction, improved food security and sustainable growth through economic regeneration.
iv) Manufacturing

Afghanistan is keen on developing fundamental, labor-intensive manufacturing sector. The private sector is overwhelmingly composed of micro and small enterprises. Many of which are concentrated in Kabul and major cities engaged in trade or the provision of traditional products and small-scale activities such as carpet weaving and dried fruit production. There are few medium sized enterprises and only a handful of large firms.

The carpet sector represents one of Afghanistan’s largest official exports, generating USD 150 million annually and constituting 15 percent of carpet exports globally. The carpet sector in Afghanistan has great potential for export growth with industry experts predicting strong growth in the handmade carpet segment over the next five years. The sector has become more innovative, following functioning of Afghan Craft Cut-and-Wash Facility in Jalalabad, and has improved its communication outreach. The said facility is crucial to the strengthening of the carpet value chain, finally allowing the carpet sector to develop within the borders of Afghanistan. Nevertheless, there is room to expand Afghanistan’s cut-and-wash industry in order to add value, and thus higher profits, to carpet exports. It is estimated that improved carpet finishing (cut-and-wash) and trading in Afghanistan could create about 7,000 jobs.

Afghanistan shall increase the volume of cashmere production by focusing on improving harvesting techniques and establishing clear market linkages. The objectives of the Cashmere Action Plan are to increase processing of raw cashmere fibers and enable the private sector to move further up the value chain into weaving of yarn and making clothes. Encouraging investment in processing plants for cashmere offers a long term opportunity to improve the quality of Afghan cashmere and increase Afghanistan’s competitive position globally.

Creating a competitive national construction industry is a prerequisite for the reconstruction of Afghanistan. Currently, the sector is one of the fastest growing in the country. Due to reconstruction efforts overall the country and massive increase in private construction (notably housing) the demand for construction materials is rising rapidly in Afghanistan. Moreover, around two thirds of building materials are imported. There is ample room therefore for import substitution and making the related manufacturing sector attractive for investors.

Afghanistan is home to 60 known deposits and it is estimated that there are as many as 400 varieties of marble. With numerous high-quality deposits, the Afghanistan dimension stone and marble industry has great potential to become a significant player in the Afghan economy and provide thousands of rural jobs at the quarries and in the downstream processing industry.

Domestic production of machinery related to the agro-business and agro-processing industries is a lucrative opportunity for investors given that current equipment in Afghanistan is currently imported from abroad, or very old. Demand for new machinery, such as grain cleaning and sieving equipment for flour, and tractor trolleys and ploughs, will continue to grow and be vital to the production of agricultural goods. In the long term, the manufacture of local machinery will be profitable to the agricultural industry.

On the other hand, Afghanistan has to speed up the process of making land and supporting infrastructure available in industrial parks and other locations to agribusiness sector firms to support the development of sector clusters and upgraded processing facilities. This will be vital for Afghanistan’s economic wellbeing in the next decade and during the transitional period.
Afghanistan’s strategic location and vast natural resources together with enterprising population offer an enormous opportunity to turn Afghanistan into an economically vibrant and stable country. The economy is growing strongly and is beginning to diversify and increase the value added within the country. There is substantial interest globally in investing in the development of Afghanistan’s mineral wealth. The Bank would look into opportunities for investing in development of the manufacturing sector. Industries suitable for investment are likely to be those which can first supply the local market and later on become an export product. That way these industries can help significantly with offsetting Afghanistan’s trade imbalance.

v) Mining

Afghanistan has world class mineral deposits of copper, iron-ore, rare-earth metals, gold, gemstones and marble and hydrocarbons which have been estimated to have potential value of between USD 1-3 trillion. There are currently more than 1,400 identified mineral deposits and they are clearly critical to Afghanistan. Generations of instability have resulted in little exploration, minor development attempts and an inadequate infrastructure for development and transportation of these resources. The sector has the capacity to transform the Afghan economy and to create jobs. Therefore, Afghanistan supports a mining sector strategy that encourages legitimate and transparent private investment in the sector. A trust fund for mine sector revenue is under preparation, an anti-corruption strategy for the Ministry of Mines has been developed. The Extractive Industries Transparency Initiative (EITI) is a global voluntary standard to ensure transparency of payments from natural resources. Afghanistan signed up to EITI to implement it at the national level.

In order to realize the tremendous potential of Afghanistan’s resources, a number of reform initiatives have been launched by the Ministry of Mines and Petroleum. The Sustainable Development of Natural Resources Project II (SDNRP II) focuses on improving internal regulatory capacities and stimulating private investments in the mining sector involving transparent international tendering. Successful development of mines and the oil and gas blocks will bring not only significant revenue and growth, but would create a demonstration effect that would help unlock much broader potential. Current contributions from the mining sector are almost negligible but this is expected to drastically change over the next decade. The two recent large scale investments into Aynak (a large-scale copper mine in Logar province) and Hajigak (a large iron-ore deposit) in 2010 and 2011 could mark a fundamental shift in the future of the country. Extraction of oil in Amu Darya and production of gas in Sheberghan are expected to begin within coming years. Several other mid-sized deposits will be tendered in coming years. To develop the vast mineral resources of Afghanistan, a stable and reliable base-load power supply is needed. The coal resources of central Afghanistan or the natural gas from Amu-Darya Basin can be used as a reliable fuel source for large electric generation plants to meet the need of the mining projects. In addition, it would create thousands of additional jobs. It is fact that development of major mineral industries in Afghanistan depends on development of much needed physical and social infrastructure through the provision of secured road, rail, power and water systems. If successfully managed, over the next ten years, mining is expected to contribute between 2 and 3 percent to economic growth.

Above all, government is committed to invest in mining industries (extraction of mines and petroleum), which will pave the ground for job opportunities, increase in domestic revenues, and economic growth of the country. The new Mineral Law approved in August 2014 is expected to remove all obstacles and pave the road for national and international investors to extract the country’s rich mineral resources. Recognizing this, the Bank will strive to contribute and encourage environmentally and socially acceptable private investment to the mining sector.
vi) Telecom and IT

Afghanistan’s ICT sector has seen significant growth since 2002, in part based on Government support for private sector participation. From fewer than 60,000 telephones at that time, Afghanistan now has over 15 million mobile telephone subscriptions and half of rural households own a mobile telephone. Intercity and international connectivity has also improved. The national fiber optic backbone network already connects 20 provinces and links with four neighboring countries. Much of this growth is led by the private sector. Private investments have crossed USD 1.6 billion and more than 60,000 direct or indirect jobs have been created. Four mobile telephone companies and several Internet Service providers (ISPs) compete among each other and with state-owned Afghan Telecom.

Currently communication services cover 89 percent of the country’s population, which shows a good progress and coverage of communication networks. Sectors such as agriculture, rural development, and financial services are seeing the introduction of transformative mobile applications for price information, data collection, and money transfer services. However, much remains to be done. Internet services remain limited in their reach, with only about 3 percent of the population subscribing. Afghanistan ranks poorly on international e-Government rankings and IT use in public service delivery is rudimentary at best. The Government is committed to expand the national backbone network to reach uncovered areas. It has also recently initiated a National eID program which will when rolled out help to improve service delivery while simplifying citizen-government interactions. The Government also plans to set up an e-Government Resource Center that will coordinate the deployment of ICT in the public sector.

Afghanistan’s goals include having 75 percent of the population connected through telephones, 25 percent of the population using the internet, and completing 4,000 km of the national backbone network in the coming years. While there are still opportunities for mobile service providers, the other supply and service areas of the telecommunication sector represent a far more virgin market such as data processing, basic business-processing operations, information and communication technologies, data transfer, process control and call centers.

V. Conclusion

Afghanistan has a large amount of natural and human resources for sustainable growth. But as a result of conflicts, lack of necessary capital, technical knowledge, limitations of the social and economic organizations and security issues has not been able to use these resources properly. On the other hand, being a land locked country caused that development process to extend be difficult and costly.

For overcoming these challenges and expediting the development process and attaining sustainable growth, proper measures have been taken over the last decade. However, the country faces formidable development challenges in poverty reduction, job creation, and service delivery. The real GDP growth slowed down to 3.6% in 2013 as a result of slow expansion in agriculture, industry, and services. Country’s productions are very little and lack of production equipment is visible and aid dependency remains very high. Nevertheless, developmental challenges are vast, but they are not insurmountable. Current opportunities that face the country’s economy should be capitalized by public and private sectors.
The current country strategy document is closely aligned with the Afghanistan National Development Strategy (ANDS) and the National Priority Programs. Bank’s engagement will focus on helping Afghanistan to manage the critical transition from security and development dominated by the international community to self-sufficiency. In this context, sustainable job creation, building infrastructure, developing the country’s human resource capacity through a robust system of education, fostering entrepreneurship in the society, and investment in the country’s productive sectors, notably agriculture, energy, and mining are among Afghanistan’s crucial needs if it is to achieve fiscal viability and ensure a sustainable economy. Particularly, development of the mining sector has clear benefits to the economy and provides first-mover advantages to investors. ETDB has a clear focus to support development projects in cooperation with ministries/agencies and other development partners. In the coming years, the major components of the country program would inter alia include:

**Financial sector:** Support improving capacity and competitiveness of the financial institutions to foster small and medium enterprise lending, trade finance and microfinance investment.

**Energy:** Support rehabilitation of power infrastructure and regional power trading. Development of indigenous energy resources such as micro, small, and medium hydropower, solar panels will be a specific focus area.

**Agriculture:** Agricultural supports will be structured for expanding the means of production, particularly irrigation networks, water resources management, quality seeds, plant protection increasing efficiency, productivity and quality in production. Support investments in modernizing agro-food processing to boost production and exports.

**Mining:** Support development of extractive industries which will create revenue streams for development financing.

**Infrastructure:** Support implementation of projects that will enhance sustainability of the national road and railway network including links with neighboring countries.

**Manufacturing:** The Bank will seek to support development of fundamental manufacturing sectors, enhance productivity and exports. Support local entrepreneurs to produce input materials and products for the domestic market.