

The World Bank in Afghanistan

COUNTRY UPDATE

OCTOBER 2007



On 20 September, around one hundred children flew blue and white kites at the summit of Tap-e-Maranjan hill overlooking Kabul, delivering a strong message of peace as part of Afghanistan's countrywide Peace Day 2007 campaign. (Photo by: UNAMA)

“To date, the international community has played a valuable role in Afghanistan. As we move forward, however, we must listen and learn from Afghans themselves. The situation is complex, and our role increasingly will be to provide Afghans with the information, the means and the resources to navigate their own course. Our challenge is to seek a more coherent and integrated means of delivering our assistance, to empower reformers, and invest in success.” said **Mr. Graeme Wheeler, World Bank Managing Director** at the UN high level meeting in New York.

INTRODUCTION

On 23rd September 2007, UN Secretary-General Ban Ki-moon and Afghanistan President Hamid Karzai co-chaired a high-level meeting of 17 member states including China, France, Iran, the United States and Britain, and international organizations, to assess the progress made so far in Afghanistan and discuss further measures to help bring peace and stability to the central Asian country. In a communiqué issued after the meeting, the participants reaffirmed their commitment to the emergence of Afghanistan as a stable, peaceful, prosperous, and democratic member of the family of nations. For more information, please visit: <http://www.unama-afg.org/latestnews/2007/English/07sep23-high-level-meeting-urges-sustained-support.html>

On 27th August 2007, the United Nations Office for Drugs and Crime (UNODC) released a report which indicated that opium cultivation in Afghanistan grew by 17 percent in 2007, reaching record high levels for the second straight year. Afghanistan now accounts for 93 percent of the world's opium; the same number was posted last year, according to the report. For more information, please visit: http://www.unodc.org/unodc/press_release_2007_08_27.html

From 9th to 12th August 2007, Afghanistan hosted a historical joint peace *Jirga* (conference), which brought together over 700 delegates from both Pakistan and Afghanistan. In a six-point declaration issued at the end of the *Jirga*, the two countries agreed that the war on terror should continue to be an integral part of their national policies and security strategies. The *Jirga* resolved to constitute a smaller *Jirga* — consisting of 25 prominent members each from Pakistan and Afghanistan — which would be mandated to strive to expedite the ongoing process of dialogue for peace and reconciliation between the two countries. The *Jirga* once again emphasized the vital importance of brotherly relations in the pursuance of policies of mutual respect, non-interference and peaceful coexistence, and recommended further expansion of economic, social and cultural relations between the countries.

WORLD BANK SUPPORT

Since April 2002, the World Bank has committed over US\$1.45 billion for 35 development and emergency reconstruction projects and three budget support operations in Afghanistan. This support comprises over US\$1 billion in grants and US\$436.4 million in no-interest loans—known as ‘credits.’ Currently, the Bank has 21 active projects in Afghanistan with net commitments of US\$1 billion. Three

The World Bank strategy for Afghanistan focuses on three areas of support:

- Building the capacity and accountability of the state, primarily to ensure the provision of services that are affordable, accessible, and of adequate quality for citizens.
- Promoting growth of the rural economy and improving rural livelihoods.
- Supporting growth of a formal, modern, and competitive private sector.

budget support operations and emergency public works, infrastructure reconstruction, education rehabilitation projects, and the first phase of a rural development project have so far been completed.

The Afghanistan Reconstruction Trust Fund (ARTF) is administered by the World Bank on behalf of 27 donors and managed in conjunction with the Asian Development Bank, Islamic Development Bank, United Nations Assistance Mission for Afghanistan, and the United Nations Development Program. It is the main mechanism for providing coordinated funding support to Afghanistan's recurrent budget and investments, in line with the agreed budget priorities of the government. As of 22nd August 2007, 28 donors had pledged US\$2.3 billion to ARTF, of which more than US\$2 billion had been received. Over US\$1 billion had been disbursed to the Government of Afghanistan to help cover recurrent costs, and US\$514 million had been disbursed for investment projects.

The Japan Social Development Fund (JSDF), administered by the World Bank, has provided a special window for Afghanistan which operates in a harmonized manner to support the national programs of the government. By September 2007, Japanese contributions to JSDF for Afghanistan reached US\$22.4 million.

The World Bank has provided advice to help the government manage donor funds effectively and in a transparent way. The World Bank also supports the government by providing analytical work on the economy, public administration, gender, poverty, the opium economy, and an ongoing public finance management (PFM) review. The Bank has actively supported key reforms, particularly in the fiscal and public administration spheres, and through its budget support operation. It has advocated building capacity and legitimacy of the State and channeling donor resources through the government to ensure investments are aligned with national priorities. To this end, the World Bank works closely with other multilateral and bilateral agencies across a number of sectors where aid coordination and government ownership are most critical.

STATUS OF ONGOING OPERATIONS

Emergency National Solidarity Project (NSP) (US\$306 million Grant, and US\$216.4 million ARTF Grant): This is the Government of Afghanistan's flagship program to support small-scale reconstruction and development activities identified by local Community Development Councils (CDCs) across the country. The World Bank is the main source of financing for the NSP. Other sources include the ARTF, the JSDF, and several bilateral contributors. Since early-May 2003 and as of 15th September 2007, the NSP had reached over 15.4 million Afghans (around 81 percent of Afghanistan's estimated 19 million rural inhabitants). Some 18,018 rural communities had elected Community Development Councils (CDCs). Over 31,090 community projects had been partially or fully financed, of which more than 13,384 projects had been completed. About 80 percent of the community projects involve infrastructure such as irrigation, rural roads, electrification, and drinking water supply, all critical for the recovery of the rural economy, stability and governance.



A water tank and water supply network have been established under the National Solidarity Program in Rahman village in Kapisa Province.



Locals work to rehabilitate a road under the NEEPRA project in Bagram district of Parwan Province.

The community projects financed under the NSP focus on social and economic infrastructure and are based on the priorities of the rural population. Of the current 31,090 funded community projects, over 25 percent projects are for dealing with water and sanitation; over 17 percent for the rehabilitation of irrigation systems; over 21 percent to improve transport infrastructure (roads, bridges); over 15 percent for the provision of energy (generators, micro-hydro, solar energy); over 10 percent to improve livelihoods and generation of income; over 10 percent for education infrastructure; and 1 percent for other investments. The NSP is active in 281 districts in the country's 34 provinces. As of 15th September 2007, US\$346.82 million of block grant installments had been disbursed out of the US\$372.45 million committed to community projects. The NSP start-up phase (US\$22 million) was funded under the Emergency Community Empowerment and Public Works Project in June 2002. More information is available at <http://www.nspafghanistan.org>.

National Emergency Employment Program (NEEP)

There are three ongoing projects under the overall NEEP umbrella administered by the Bank. Please see under JSDF and ARTF (further down) for the two other projects.

National Emergency Employment Program for Rural Access (NEEPRA) (US\$39.2 million Credit/Grant):

NEEPRA was initiated in July 2003 to assist the government in enabling the rural population to benefit from year-round access to basic services and facilities in rural areas covered by the project. The development objective was revised in May 2007 to focus on providing quality rural roads, while creating jobs when feasible. As of September 2007, NEEPRA had: (i) rehabilitated 1,516 km of roads; (ii) rehabilitated 7,033.04 m of cross drainage structure, including bridges; (iii) generated more than 2.677 million labor days; (iv) rehabilitated eight airfields; (v) completed construction of a new building for the Ministry of Rural Rehabilitation and Development (MRRD); (v) and, constructed 25,485 m of masonry retaining walls and other structures. The World Bank will continue its assistance in providing rural access through the National Emergency Rural Access Project (NERAP).



A sign of development and distraction in Afghan capital Kabul in Dehmazang area.
(Photo by: Pajhwok)

Public Financial Management Reform Projects (US\$60.4 million Grant):

A series of four operations support Afghanistan's efforts to establish a transparent and well-functioning public financial management system to attain better use of public resources. The grants fund consulting firms, individuals and goods to support government officials in carrying out procurement, treasury, and internal and external audit functions. In addition, the projects are developing public financial management capacity, assessing existing systems, and recommending suitable policy reforms. Training in procurement is being provided across the government and for the entire staff of the Internal Audit and Treasury Departments of the Ministry of Finance, as well as for the staff of the Control and Audit Office (CAO). The operation also helps implement an administration reform program, including merit-based appointments of senior civil service officers and management, reform and restructuring of key departments in the Ministry of Finance, and a new pay and grading policy for the civil service. Activities include:

Procurement Advisor: The procurement advisor has facilitated 420 government contracts valued at US\$1.1 billion. A new procurement

law has been enacted and related regulations and bidding documents have also been prepared.

Procurement Capacity Building Advisor: A comprehensive needs assessment for procurement training and a plan for addressing the needs have been completed. Training in procurement rules and procedures will be provided at the Civil Service Training Institute for all government procurement staff.

Financial Management Operations Advisor: An integrated accounting, budget control and check issuance system has been operating in the Treasury Department in the Ministry of Finance since October 2002. All budget transactions are recorded in this system which generates timely and comprehensive reports on the government's budget execution and financial position. This system is being expanded to the provincial offices of the Ministry of Finance and some line ministries, and new programs are being added to support purchasing and control of assets.

Audit Advisor: The audit advisor has assisted the CAO with the audits of International Development Association (IDA) projects, ARTF projects and cost expenditures, and the state budget. In addition, over 100 staff members have participated in various training courses, including computer and language training, technical audit, and modern audit working practices and procedures. The CAO is being equipped with computers and other training material and a strategic development plan has been prepared, along with a review of the legal framework associated with audit activities.

The Education Quality Improvement Program (US\$35 million Grant and US\$44 million ARTF Grant) provides teacher training and grants directly to communities. These funds are used for the rehabilitation of school buildings and for accessing quality inputs, such as teaching and learning materials, through Provincial Education Departments and, in four provinces, the facilitation of non-governmental organizations (NGOs). The findings of the IDA-led Mid-term Review Mission found that very positive progress had been made in project components and the project has been expanded into a national program that will be implemented in all 34 provinces of the country.

School grants for quality enhancement are used based on school improvement plans prepared by School Management Committees (SMCs) and Parent Teacher Associations (PTAs). SMCs and PTAs receive technical assistance from Provincial Education Directors, District Education Directors and the implementing agencies to implement quality improvement activities such as teacher training, additional teacher support supervision, educational materials and supplies, supplementary readers' toolkits, workshops, seminars, meetings, and transportation for teachers and PTA members for their participation in such activities. After school-level preparatory activities (including school surveys, awareness programs, community mobilization, and PTA training) about 2,480 SMCs (91 percent of the original target) were established. All 2,480 SMCs prepared School Improvement Plans following the relevant training to SMC/PTAs, and provincial and district educational departments. So far, 1,075 SMCs are implementing quality grants according to agreed criteria.

School grants for infrastructure development are used to rehabilitate existing government schools and construct new registered government schools based on priority criteria described in the project design, such as: first priority will be given to girls' schools, second to schools with both boys' and girls' sections/shifts, and third to boys' schools that plan to open up a section/shift for girls. Schools will be rehabilitated and constructed based on improved building models developed by the construction department of the Ministry of Education. A total of 306 schools in all 11 provinces will be rehabilitated and constructed with these grants. The infrastructure grant has been provided to 118 schools and grants have been committed to an additional 211 schools in 12 provinces, thus exceeding the original program target of 250 schools in 10 provinces. Construction progress is at an advanced stage, with near completion in Badakhshan. Progress has picked up in all other provinces.

The teacher education program aims to develop national teaching standards, a unitary teacher education curriculum, a national in-service training system that provides continuous training and support for all teachers, and a comprehensive national pre-service training system. So far, in addition to the training of master and core trainers for the program, teacher training has taken place in six provinces.

The policy development, monitoring and evaluation grant is helping to develop capacity at the Ministry of Education for policy formulation, monitoring and evaluation. The Education Management Information System is being strengthened and a full nationwide survey is taking place at this time through funding from this program.

The Strengthening Higher Education Program (US\$40 million Grant) aims to progressively restore basic operational performance at six core universities in Afghanistan — Kabul Polytechnic University, Kabul University, and four regional universities (Balkh, Herat, Kandahar, and Nangarhar) — through partnership programs with universities in the region and in the West and competitive block grants. In addition, funds will be provided to set up an institutional base for the



Students attend a class under tent in Sar-e-Pul Province.

development of an agenda focusing on tertiary education development, capacity building and reform. The program is envisaged as the first phase of a long-term higher education development program in Afghanistan, acting as a catalyst to attract various resources to the Afghan tertiary education sector.

Under this program, eleven partnerships with universities abroad (such as Kansas State University, USA, and Delhi University, India, to name just two) in the fields of engineering, English as a second language and natural sciences, have been formed for five of the six participating universities. The usage of block grants to procure books and rehabilitate libraries and laboratories is under way.

The Emergency Transport Rehabilitation Project (US\$108 million Credit and US\$45 million Grant) is helping to remove key transport bottlenecks on an emergency basis. It also supports the government's efforts to rehabilitate both highway and civil aviation programs. The work will improve physical access to goods, markets, and administrative and social services, all critical to Afghanistan's economic and social recovery. In May 2005, a supplemental grant of US\$45 million was approved to increase the project budget for Kunduz–Taloqan–Kishem road rehabilitation and other components for the satisfactory completion of the project. Most of the highway and civil aviation components were completed by summer-2006 and the remaining road components (Taloqan–Kishem, etc.) and technical assistance studies are expected to be completed by June 2008.

Salang Tunnel Rehabilitation: In July 2004, the Salang tunnel work was completed, opening the 2.7 km tunnel for two-way traffic, for the first time, since 1997. Work included reconstructing collapsed snow galleries and ventilation shafts, and building and installing ventilation equipment, tunnel lighting and electric power generators. The tunnel is located at one of the highest altitudes (3,400m) in the world and covers a critical section of the highway that connects the city of Kabul to eight provinces. The tunnel also connects Afghanistan to both Uzbekistan and Tajikistan.

Emergency Road Repairs: The Bank is also financing the upgrading of the road from Kabul to Kunduz, and onwards to the Tajikistan border at Sher Khan Bandar, Kunduz–Taloqan, as well as a 68 km section of the Taloqan–Kishem road. The overall road components from Kabul to Doshi and from Pol-I Khumri to Kunduz are now complete. The remaining section from Kunduz to Sher Khan Bandar was completed in April 2006. The Taloqan–Kishem section is expected to be complete by the end of 2007.

Civil Aviation: The Bank is also financing some emergency needs in the civil aviation sector, including: runway rehabilitation, emergency de-mining and fencing of the Kabul International Airport. In addition, funds will provide navigation and communication equipment for Kabul and other provincial airports. The Kabul Airport runway was formally inaugurated on 9th August 2005.



A view of Taloqan-Keshim road, under rehabilitation through the World Bank-financed Transport Project.

The Health Sector Emergency Reconstruction and Development Project (US\$94.8 million Grant) is helping to expand delivery of high-impact basic health services and ensure equitable access, particularly for women and children, in under-



A view of Kabul - Salang highway, being rehabilitated under the World Bank financed project.

served rural areas. It has contributed to ensuring that 82 percent of the population has access to primary health care. Independent evaluation indicates that the quality of care has improved significantly and the number of patients served has more than tripled. A recent, independently conducted, household survey indicates that the infant mortality rate in Afghanistan declined from an estimated 165 per 1,000 live births in 2001 to about 129 per 1,000 in 2006. This means that 50,000 fewer infants are dying each year now, compared to during the Taliban rule. Use of family planning has increased from 5 percent in 2003 to 15 percent in 2006, and the proportion of pregnant women receiving prenatal care has increased from 5 percent to 30 percent over the same period. The project has also helped ensure the Ministry of Public Health's stewardship over the sector through a greater role in healthcare financing, the coordination of partners and oversight of NGOs. In February 2006, a supplemental grant of US\$30 million was approved to increase the project budget. This would expand provision of basic health services in eight new areas across the country where no clinics have been established and where health services have rarely been provided. The supplemental grant also supports the provision of vaccines for immunization campaigns (polio, measles, and neonatal tetanus). Activities include:

Seven Afghan and five international NGOs are providing services in eight provinces (Helmand, Farah, Badghis, Sari-Pul, Balkh, Samangan, Wardak, and Nimroze) as well as six clusters of districts in other under-served provinces (Badakhshan, Baghlan, Ghazni, Khost, Paktia, and Pakitka). More than 200 new health facilities have been established and 85 percent of them now have female staff. Thousands of community health workers have been trained and deployed to promote healthy behaviors and provide first aid. With support from the project, hundreds of community midwives have been trained as a means of reducing Afghanistan's very high maternal mortality rate. Since September 2004, the Ministry of Public Health has been responsible for delivering services in the three additional provinces of Parwan, Kapisa and Panjshir. In the meantime, since June 2006, the Ministry is also responsible for delivering the Basic Package of Health Services in three districts of Kabul province. The project is also financing two research programs on Safe Water System and Health Care Financing. The Safe Water System research program is being carried out in Wardak province and is testing a variety of approaches for decreasing diarrhea and other water-borne illnesses; the final report of the study will be available by end-September 2007. The user charge and control arms of the Health Care Financing project are examining a few approaches to community health financing; the project will be completed by December 2007. Findings from these two pilots will guide policy formulation on safe water systems and revenue generation for the health sector in the future.



A pharmacist gives medication to a patient in a health clinic in Farah Province.

The Emergency Communications Project (US\$22 million Credit) is helping the government expand its communications network through policy advice, capacity building at the Ministry of Communications, and improvement of postal services. Activities include:

A US\$14 million Government Communications Network has been launched and is providing internet access and voice telecommunications services, including long distance and international services, to over 30,000 government employees in Kabul

and Afghanistan's provinces. A new radio spectrum monitoring system, to ensure proper use of the radio spectrum in Afghanistan, was installed and launched in December 2006. All provincial capitals are now also able to videoconference with the President and ministers in Kabul. In addition, there are over 1.5 million private mobile phone subscribers across the country. Etisalat, of the UAE, is the fourth mobile operator in the country that has recently started services. The Afghanistan Telecommunications Regulatory Authority has also been established.

The Emergency Customs Modernization and Trade Facilitation Project (US\$31 million Credit) is supporting Afghanistan's efforts to increase customs revenue, reduce transport-related trade costs, stimulate trade, reduce corruption, and streamline border procedures. The project has achieved substantial progress in the areas of automation, communications, infrastructure, core customs technical assistance, trade facilitation, and standards and metrology. Customs revenues have increased by 280 percent from 2003/2004. Substantial implementation of key reforms, along with the development of supporting infrastructure, has made this possible. Reported trade volumes show a 100 percent increase over the project baseline of 2003.

Truck release times have been reduced substantially in Kabul and at the borders. Trade facilitation activities have resulted in improvements in border processing times. Based on a recent survey at Towrkham border (one of the three busiest borders), 73 percent of trucks cleared the Border Control Zone in less than an hour; 91 percent cleared it in less than one-and-a-half hours. These reduced truck release times are also attributable to the successful implementation of the ASYCUDA (Automated System for Customs Data) transit module at key borders. The ASYCUDA full Declaration Processing System was piloted successfully at the Kabul Inland Clearing Depot (ICD), resulting in reductions in truck release times from 3 days to 1 day, and increase in customs revenue at Kabul ICD. Approximately 300,000 electronic transit declarations have been lodged by trucks coming into Afghanistan through the three transit axes since May 2006, with almost 100 percent of the trucks accounted for at the completion of the transit process. This is a very significant achievement, given the earlier leakage of 20-30 percent.

The project has been able to connect 8 VSAT/VPN and 16 VHF/HF/Mobiles/Repeater sites. Progress on rehabilitation/construction of key infrastructure has been satisfactory. More than 56 facilities have been rehabilitated, constructed, or functionally improved. The main headquarters building for Customs and Revenue has been completed and will be ready for occupancy soon. Substantial progress has been made in the training and capacity building capacity of customs staff, with more than 900 staff participating in 59 courses on various subjects. The training was conducted by the Customs Training Unit established under the project.

The Emergency Power Rehabilitation Project (US\$105 million Credit and US\$20 million ARTF Grant) aims to improve supply of electricity to Kabul through the rehabilitation and expansion of city distribution networks; connection of the future North East Transmission System to the Kabul city grid to allow the import of lower cost power to Kabul; rehabilitation of the 100 MW Nughlu Hydropower Plan (the largest generation station supplying Kabul) and the associated transmission line; and, the restructuring and commercialization of the power utility to improve service delivery. The project is progressing well, with all the contractors mobilized and on the ground to complete the envisaged infrastructure and rehabilitation of existing worn-out and aged assets. The project is expected to show significant progress in the next 15 months and would be completed in 2010.

The Emergency Irrigation Rehabilitation Project (US\$40 million Credit, US\$25 million Grant and US\$6 million Government Fund) is helping to provide water to farms in the project areas, with improved reliable and equitable distribution of irrigation water. This will help increase agricultural productivity and farm income, improve food security and livelihoods, and reduce vulnerability due to droughts, through the rehabilitation of the national irrigation system in all five river basins of Afghanistan. To date, six regional offices in Kabul, Jalalabad, Kandahar, Balkh, Kunduz, and Herat have been established to develop institutional capacity at the local level. As of 31st August 2007, 672 sub-project proposals, costing about US\$57.22 million, had been prepared. Out of these, 605 sub-projects totaling US\$44.39 million to bring 397.60 ha of land area under irrigation had been approved; contracts for 571 sub-projects worth US\$33.90 million had been awarded and are ongoing; and, 360 sub-projects worth US\$16.30 million had been completed. In addition, the first phase of the works under the contract for the emergency repair works to Band-e-Sultan Dam, costing about US\$500,000, had been completed, and design for the second phase of this project reviewed and submitted for approval. The work under the Feasibility Study of the Lower Kokcha Irrigation and Hydropower Multipurpose Project on the Kokcha River in the Amu River Basin is ongoing. The contract was completed (US\$3 million) in 18 months and the final feasibility report is expected shortly.

The Kabul Urban Reconstruction Project (US\$25 million Credit) is supporting reconstruction and rehabilitation in 19 of Kabul's most vulnerable neighborhoods where the majority of the urban poor live in informal settlements. The objective



An irrigation intake, being built under the World Bank financed project in Kapisa Province.

is to assist approximately 100,000 residents in gaining access to basic services such as water, sanitation, and solid waste management, and in obtaining secure land tenure. These measures will help to mend the urban fabric of this important city that is struggling to accommodate thousands of returnees. Building capacity in both the Ministry of Urban Development and Kabul Municipality are critical components of the project.

The Afghanistan Investment Guarantee Facility (AIGF), together with the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, provided US\$1.07 million in investment insurance (guarantee) for a cotton project in northern Afghanistan (February 2006). The guarantee protects the investment against the noncommercial risks of currency transfer restriction, expropriation, and war and civil disturbance, including terrorism. The project — the first investment in Afghanistan to be guaranteed by AIGF and MIGA — provided technical and financial assistance to cotton growers in northern Afghanistan to increase cotton production and yield, as well as upgrade the region's capacity for ginning cotton and producing cotton-seed oil.

The second guarantee involves the establishment of a local pharmaceutical company, Baz International Pharmaceutical Company Ltd. (BIPC), by the Swiss NGO, Business Humanitarian Forum, for which an investment guarantee covers its US\$0.48 million equity stake (September 2006). The company is now in the process of setting up the production line. Approximately 100 jobs are expected to be created once it reaches its full operational capacity.

The third guarantee covers a US\$2 million equity investment and retained earnings in BRAC Afghanistan Bank by ShoreCap International Ltd. of the Cayman Islands (September 2006). The guarantee, for up to seven years, will protect the investment against the risks of transfer restriction, expropriation, and war and civil disturbance, including terrorism. The project involves the creation of a newly licensed commercial bank, BRAC Afghanistan Bank, to provide credit and other financial services to the country's small- and medium-size enterprises. Building Resources Across Communities (BRAC) NGO — the bank's sponsor and Afghanistan's primary microfinance provider with 70 percent market share in terms of lenders — is one of the largest microfinance operators in the world. BRAC Afghanistan Bank will provide loans and savings products to micro-entrepreneurs and small businesses across Afghanistan. The lack of employment opportunities in war-ravaged rural areas and the disappearance of jobs and low pay in the public sector in urban areas have resulted in the growth of a large number of small, privately owned enterprises, representing a sizeable demand for credit.



Infrastructure upgrading program of Kart-e-Sakhi locality of Kabul, conducted by the Ministry of Urban Development. (Photo by: Pajhwok)

Facility applicants seeking coverage submit a confidential Preliminary Application (PA) before the investment is irrevocably committed. No fee is charged for the PA. Once the investment and financing plans are established, applicants submit a Definitive Application (DA) along with any relevant project documentation. A fee is charged for the DA.

The total associated investment for the three projects signed in 2006 is about US\$25 million. The Facility is currently processing two DAs in the financial sector and one in the telecom sector, with investments of US\$10 million, US\$85 million and US\$3 million respectively. The Facility has also received 17 PAs from various sectors, including manufacturing, financial services and cement production, which are being reviewed to determine their investment status and potential for guarantee issuance. In addition, the Facility has developed a strong pipeline of potential investments which is expected to result in new PAs in 2007 and 2008.

Urban Water Sector Project (US\$40 million Grant) aims to initiate actions to: (i) transform the Central Authority for Water Supply and Sewerage (CAWSS) into a technically viable operation; (ii) establish the financial sustainability of the Afghan Urban Water Supply and Sanitation Company (AUWSSC, CAWSS' successor); (iii) increase access to and reliability of the water supply service in Kabul; (iv) and, prepare a follow-up project under which more substantial institutional and financial objectives can be achieved and coverage further expanded in Kabul and provincial towns. To achieve these objectives, the project includes three main components: (i) institutional development of AUWSSC; (ii) financial support to AUWSSC operations; (iii) and, an extension of the Kabul water supply system. The project is financed in parallel by the German Development Cooperation Agency (GTZ). Following the announcement of the sector policy and institutional development plan in October 2005, a Presidential decree to corporatize CAWSS was issued in January 2006. The Working Group mandated under the decree was established in April 2006 and the consultants to support the Working Group were mobilized in Kabul in September 2006. The Articles of Incorporation of the new AUWSSC were approved by the Cabinet on 9th July 2007, the recruitment of the management team is ongoing, and the transfer of assets and liabilities is on schedule. The procurement of various consulting services is ongoing and construction contracts for the implementation of the investment program are likely to be finalized in mid-2008.

Emergency Horticulture and Livestock Project (US\$20 million Grant) is designed to stimulate the marketable output of perennial horticulture and livestock. It aims to improve the incentive framework for private investments and contribute to strengthening the institutional capacity in the livestock and horticulture sub-sectors. The project will also make a positive contribution to the government's counter-narcotics agenda. It is designed as a multi-donor investment program with an estimated cost of US\$50 million over a three-year period. It will be financed with full grants expected from the IDA (US\$20 million), ARTF (US\$20 million) and JSDF (US\$10 million). The Department for International Development (DfID) of the United Kingdom and the Canadian International Development Agency (CIDA) have shown positive willingness to contribute about US\$10 million each through the ARTF. The project is in the first stage in a long-term program that will unfold over the coming decade to support the horticulture and livestock sub-sectors nationwide. A National Union for Horticulture Development Association (NUHDA) has been established and is functional under the project to provide policy, regulatory and marketing development of perennial horticulture in the country. The project will launch a full scale horticulture orchard rehabilitation and development program in the coming growing season, in selected project areas, in line with the five year investment plan of the Ministry of Agriculture, Irrigation and Livestock (MAIL). Initial nursery development and farmer demonstration activities to launch horticulture orchard rehabilitation and expansion have begun and are progressing satisfactorily in the field. The MAIL is nearing completion of the hiring of Food and Agriculture Organization (FAO) as the facilitating partner. FAO will provide assistance to the project for integrated pest management in the contemplated horticulture program. It will also assist in implementing activities that will help about 25,000 rural women enhance their incomes from rural, backyard, small-holder poultry production activities.

Sustainable Development of Natural Resources Project (US\$30 million Grant) supports a number of measures to ensure competition, transparency, and adherence to international investment standards. In many countries, this is a sector prone to corruption. This project will help ensure that the revenues from these valuable resources are available to the country as a whole and not captured through corrupt practices. It will also help to attract and retain qualified local and international investors. Among the innovative approaches the government will use to manage the sector is the Extractive Industries Transparency Initiative – a set of principles that supports improved governance through full publication and verification of company payments and government revenues from oil, gas, and mining. In addition, an International Advisory Council will be established to assist the government in evaluating the strengths and benefits of proposed contracts for Afghanistan in developing its natural resources.

This project is currently under execution. A project management unit has been established within the Ministry of Mines to assist in the implementation of the project. A number of contracts are under tender, including those for recruitment of senior advisors in mining and petroleum, cadastre management services, drafting of mining regulations, and logistical and materiel support to the Ministry. Also, the project is assisting in the tender for the development of the Aynak copper deposit, for which a number of international companies have expressed interest.

Private Sector Development (PSD) Support Project (US\$25 million Grant) aims to provide land services and facilities, including electricity, water and telecommunications, and build capacity of government agencies to develop and implement PSD-related programs. It will also help improve the capacity of the government and its agencies to promote Afghanistan as an investment destination, and provide investment facilitation services. The project will fund the construction of an industrial park in Hissar-e-Shahi near Jalalabad. This industrial park will help stimulate the local economy, generate employment, and raise much needed tax revenues.

Since the project was approved by the Board in February 2007, significant human capacity has been built in the Afghanistan Investment Support Agency's (AISA's) Industrial Parks Development Department to implement the project. Moreover, significant progress has been made towards the construction of the industrial park. The civil construction tender has been invited and the bids are expected in early November 2007. The processing for other tenders on water treatment plants, and solid waste disposal and electrical equipments, has progressed substantially and tender invitation is expected in November. The progress on building the capacity of the Research and Policy Department (RPD) of AISA and the PSD Directorate in the Ministry of Commerce and Industries is ongoing. The World Bank Institute is also assisting to create sustainable capacity in RPD.

Avian Influenza Control and Human Pandemic Preparedness and Response Project (US\$8 million Grant and US\$5 million Avian and Human Influenza (AHI) Facility) is designed to prevent the spread of avian influenza to humans, and develop and implement HPAI (Highly Pathogenic Avian Influenza) prevention, containment, control, and eradication activities in the livestock sector. It will also support a national program to raise public awareness through strategic communication.

Afghanistan HIV/AIDS Prevention Project (US\$10 million Grant) is designed to strengthen national capacity to respond to the epidemic by scaling up prevention programs targeting people engaged in high risk behaviors, including injecting drug use and unsafe sex. These vulnerable groups at high risk include injecting drug users (IDUs), sex workers and their clients, truckers, and prisoners. The project also aims to improve the knowledge of HIV prevention among the general population, strengthen surveillance of HIV prevalence and high risk behaviors, map and estimate the sizes of groups engaged in high risk behavior, and use communications and advocacy to reduce stigma related to HIV and AIDS.

Civil Service Reform Project (US\$20.4 million Grant) aims to support key government ministries to improve their performance in terms of service delivery and accountability for the use of public resources. To meet this objective, the project will provide support to core ministries as they reorganize their structures and staffing so as to better perform their tasks. The project will also support the government in managing the civil service according to clear rules and procedures.

JSDF US\$22.4 million Grant to support innovative post-conflict projects Ongoing projects include:

National Emergency Employment Program for Demobilization, Disarmament and Reintegration, and Rural Livelihood Support (NEEP/DDR/RLS) (US\$19.6 million Grant): The grant was provided to the ongoing NEEP to support its efforts to create employment opportunities for ex-combatants in order to facilitate their re-integration into society, and contribute to the government's alternate livelihood program in opium poppy producing areas. The JSDF grant focuses on helping former combatants reintegrate into society and is a component of the broader Afghanistan New Beginnings Program (a Japanese-funded government initiative). As of end August 2007, approximately 3025 ex-combatants and rural poor had completed their work-based training in road and crafts constructions, combined with academic training at vocational institutions. This number includes 57 specialized technicians who have completed four-month technician courses at two universities in Kabul and Kandahar. An estimated 90 percent of these graduates in crafts skills are employed in and outside of the Rehabilitation and Alternative Livelihoods (RAL) construction projects. The projects are rehabilitating 376 km of roads (more than 80 percent have been completed). A total of 879,127 labor days are being generated under these projects.

Creating Future Potential Entrepreneurs: Targeting Youth (US\$2.98 million Grant): This grant is improving the economic and social status of youth by preparing them for careers and assisting them with developing a means to generate income on a sustained basis. The program will work with boys and girls aged 12 to 28. Construction of the four youth centers in Faryab, Kandahar, Kabul, and Mazar has been completed. Over 2,500 young boys and girls are being trained in vocational skills by the Ministry of Social and Labor Affairs (MOLSA) and contracted NGOs (ASCHIANA, Afghan Development Agency, and Humanitarian Assistance for Women)

AFGHANISTAN RECONSTRUCTION TRUST FUND

The multilateral Afghanistan Reconstruction Trust Fund (ARTF) was set up in May 2002 to provide support to Afghanistan in two areas. First, it provides for the recurrent costs of the government: the salaries of teachers, health workers, civilian staff in ministries and provinces, operations and maintenance expenditures, and bulk purchases of essential goods for the government. Second, it supports investment projects, capacity building, feasibility studies, technical assistance, and the return of expatriate Afghans.

Japan Social Development Fund

The JSDF was established by the Government of Japan in 2000 as a means of supporting activities which directly respond to the needs of poor and vulnerable groups, enhance their capacities, and strengthen their empowerment and participation in the development process. The fund is administered by the World Bank.

The Government of Japan and the World Bank agreed to set up a special window within the JSDF to support activities in Afghanistan under a three-year program of assistance for the country's reconstruction and transition toward political, economic, and social stability.

The ARTF is administered by the World Bank under the supervision of a management committee comprising the Asian Development Bank, the Islamic Development Bank, the United Nations Development Program, and the World Bank. Government representatives (mainly from the Ministry of Finance) also participate in the monthly management committee meetings as observers. A monitoring agent has been recruited to assist in ensuring proper fiduciary management for the recurrent cost financing done under ARTF.

As of 22nd August 2007, 28 donors had pledged US\$2.3 billion to ARTF, of which almost US\$2 billion had been received. Over US\$1 billion had been disbursed to the Government of Afghanistan to help cover recurrent costs and US\$514 million had been made available for investment projects.

The ARTF has emerged as one of the main instruments for financing the country's recurrent budget deficit and is set to evolve into a major source of technical assistance and investment support for Afghanistan.

The ARTF Recurrent Costs Window (US\$1.2 billion)

The ARTF recurrent window finances salaries and wages of more than 200,000 non-uniformed civil servants, over half of whom work outside the city of Kabul, and the government's operating and maintenance expenditures outside of the security sector, including bulk purchases of essential supplies. The 1386 (Solar Year) National Budget includes US\$276 million in disbursements from ARTF for recurrent costs. Over the last three years, the Government of Afghanistan has established a new framework for Public Finance Management comprising the national budget as the main policy instrument; a commitment to transparency; and, a centralized computerized system, the Afghanistan Financial Management Information System (AFMIS), to issue checks and record revenues and expenditures of the ordinary and development budgets. Parallel improvements have been made in the Da Afghanistan Bank payment systems.

Currently, there are 10 ongoing investment projects funded by the ARTF, with a combined commitment of around US\$309 million (see below). For ARTF co-financed investment projects, please see above.

The ARTF Microfinance Support for Poverty Reduction Project (US\$119.3 million)

aims to assist the government in developing a sustainable microfinance sector that will provide flexible, convenient, and affordable financial services to poor people. The goal is to build an integrated financial sector and remove the barriers that separate the microfinance community from the broader mainstream financial system. In just over three years of operations, the project has provided more than US\$85.3 million in funds, including US\$59.8 million in loans. There are now 15 microfinance institutions (MFIs), with a network of over 240 branches in 23 provinces, with more than 394,000 savings and loan clients. Sixty-seven percent of the clients are women and the loan repayment rate is 91 percent. In 2006, the sector disbursed US\$7 million in loans every month and added more than 10,000 clients per month. In 2007, so far, the sector has disbursed about US\$15 million in loans every month and added



Students attend a painting class at ASCHIANA vocational training center in Kabul.

The Afghanistan Reconstruction Trust Fund

The ARTF is designed to strengthen ownership and leadership of the government, which is essential for reconstruction assistance to be effective. The fund supports the government's program of activities as prioritized in its national budget.

The Fund is designed to:

- Promote transparency and accountability of reconstruction assistance
- Help reinforce the national budget as the vehicle to align the reconstruction program with national objectives
- Reduce the burden on limited government capacity while promoting capacity-building over time
- Help fund the recurrent budgetary expenditures required for the government to function effectively

Channeling support through the ARTF has helped the government to avoid addressing the distinct funding specifications of 28 different donors, allowing the assistance to be used more efficiently and effectively without the risk of duplication of work.



A widow uses her credit to set up a shop in Charikar city.

10,000 to 15,000 clients every month. The sector now employs over 3,800 Afghans; more than 610 have been trained in microfinance operations. The project is also expanding in the seven poppy growing provinces identified by the government to provide alternative livelihood opportunities to poppy-growing farmers. The project anticipates that it will reach at least 600,000 poor households in most provinces by the end of 2008. The sector, as a whole, already covers 89 percent of its costs from its own income which is earned from lending activities. Four of the MFIs have already reached operational self-sufficiency and most of the others will likely achieve sustainability by the end of 2008.

National Emergency Employment Program, Phase I (NEEP-I) (US\$52.82 million): NEEP-1 evolved from the IDA Grant-funded Labor-Intensive Public Works (LIPW) Roads component of the Emergency Community Empowerment and Public Works Program. The project is aimed at assisting the government in providing employment in rural areas at a minimum wage, as a safety net, to as many people in as short a time as feasible, through rural access and irrigation rehabilitation sub-projects. Physical works under the original NEEP-1 Grant of US\$16.62 million were 100 percent completed by 31st July 2005. NEEP-1 was further extended after receiving additional funding of US\$36.2 million from DfID, United States Agency for International Development (USAID), CIDA, and the Australian Agency for International Development (AusAid), through the ARTF. Overall, a total of 609 sub-projects will be implemented, constructing 2,476 km of rural access roads and 3,073 m of cross drainage structures. In addition, 98 natural resource management sub-projects, 25 small irrigation sub-projects, and four large irrigation sub-projects, totaling 37,000 m in the Shamalan area, have been completed. A total of 4 million labor days are planned, out of which 3.77 million labor days have been paid to date.

The ARTF-financed Urban Water Supply and Sanitation Project (UWSS) provides US\$41 million to support the government's short-term UWSS program. The first tranche of US\$20 million was made available in February 2005 and the second tranche of US\$21 million became effective in November 2005. The project has five components: Kabul water supply, Kabul sanitation, provincial towns WSS, engineering support and technical assistance, and financial support to the Central Authority for Water Supply and Sewerage (CAWSS) operations. The Kabul water supply and provincial towns WSS components are based on feasibility studies that have been completed for Kabul (financed by KfW development bank of Germany) and 11 provincial capitals currently served by CAWSS. In addition, the ARTF has also financed feasibility studies for 11 cities not yet served by CAWSS. The Kabul sanitation component is based on the strategic sanitation plan and associated master plan covering municipal solid waste, on-site sanitation, and sewerage and storm water drainage. Investment components are currently at various stages of implementation. In particular, drilling works for Kabul water supply have now started and the tendering process for the next three construction contracts is close to completion. Simultaneously, goods worth US\$10 million for the provincial towns WSS are currently being shipped to Afghanistan and contracts for pipe-laying are being finalized. Contracts with technical support agencies are ongoing for all project components.

The financial support to operations has now been effective since August 2005. This has significantly contributed to building the management capacity in all 14 units of CAWSS and detailed technical, financial, and commercial data have been generated for the first time. CAWSS is now about to be incorporated into the Afghan Water Supply and Sewerage Corporation (AUWSSC).

The Improvement of Power Supply to Kabul project (US\$7.4 million) is working to improve the availability and reliability of power supply in Kabul by supplementing and extending activities financed under Afghan-German financial cooperation. It has the following three components: partial rehabilitation of Mahipar Hydropower Station, rehabilitation of 110 KV transmission lines, and supply and installation of street lighting in Kabul. The transmission and street lighting components have been completed. The hydropower rehabilitation is partially complete with one unit commissioned in May 2007. The balance of the work is expected to be completed by December 2007.

Rural Water Supply (US\$5 million) project has two objectives: (i) improve the health of rural communities by integrating health and hygiene education/awareness with the provision of water supply and sanitation services; (ii) and strengthen and build the capacities of the central and provincial governments, NGOs, private sector, and the communities for sector development, so as to scale up provision of sustainable water supply and sanitation services. This project will specifically help alleviate the rural community water supply problem through the implementation of 950 rural water points and 15 gravity pipe schemes, integrated with hygiene education, promotion for expanding the use of hygienic sanitation facilities, and establishment of community based operation and maintenance management systems. The Program Implementation Unit (PIU) is now in place and the support organizations are fully deployed in each of the eight provinces covered by the project (Samangan, Sari-Pul, Kunduz, Takhar, Baghlan, Jowzjan, Badghis, and Kabul). The mobilization phase, with district demand collection, provincial planning and community action plans is almost completed in each of the four districts selected in the eight provinces. The physical construction works have started in some four provinces and are expected to be initiated in all eight provinces before winter 2007.

Afghan Civil Service Capacity Building Program (US\$13 million) consists of two components:

The first component — **Afghan Expatriates Program (AEP) (US\$10 million)** — will increase the contribution of professional Afghans living abroad to the reconstruction of Afghanistan by inviting them to play a role in formulating public sector policy and building institutional capacity. This component also aims to close the skills gap of the Afghan people in information technology, engineering, and teaching by getting well-trained overseas Afghans to return and provide local Afghans with on-the-job training to enhance their technical skills. Since September 2004, around 92 Afghan experts from overseas have been placed in government ministries and agencies.

The second component — **Lateral Entry Program (LEP) (US\$3 million)** — includes a pilot phase, which aims to place 100 lateral entrants from NGOs and international organizations in middle- and senior-level line positions in government ministries and agencies for a period of up to two years. They will assist with the reform and restructuring process and help build institutional capacity. If successful, the pilot phase will be expanded. Since August 2005, around 100 lateral entrants have been recruited.

The Managerial Capacity Program (US\$10 million) will help ministries to temporarily improve their capacity in key managerial areas. This should enable the government to manage resources more effectively and deliver results faster on the ground. The program will fund qualified Afghan staff, currently working in NGOs and international agencies, to work in critical positions in government in areas such as financial management, procurement, human resource management, policy, and administration. Priority will be given to positions in the sub-national offices of line ministries. This program is expected to replace the AEP and LEP in the near future.

Technical Assistance and Feasibility Studies (US\$18.5 million)

This project provides technical assistance to line ministries to make programs and projects suitable for funding by key development partners or private sources. Specialists have been recruited to help guide the preparation and supervision of reconstruction and development activities, and to design and supervise feasibility studies. In addition, the project funds feasibility studies by qualified firms for the preparation of larger investment projects.

All dollar figures are in US dollar equivalents.

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