

The World Bank in Afghanistan

COUNTRY UPDATE

July 2007



Scene of rain shower in Kabul city. The unseasonal floods have claimed many lives besides causing heavy losses in different parts of the country during the last week of June.

“Despite many challenges, over the last five years Afghanistan economy has grown substantially. It has been supported by stability, by better harvests, and by substantial inflows of donor money,” said **Mr. Praful Patel World Bank Vice President for South Asia Region** at Enabling Environment Conference held in Kabul.

INTRODUCTION

Wolesi Jirga or the Lower House of Parliament on April 16, 2007, approved the national budget for the year 1386. In the new fiscal year, the overall core budget has been planned at 130.6 billion Afghanis (US\$2.6 billion), of which 53.6 billion Afghanis (US\$1.07 billion) are the planned expenditures for operating expenditures, while the development budget for the year of 1386 has been planned at 77 billion Afghanis (US\$1.54 billion), earmarked through donor nations’ grant and loans. Domestic revenues are expected to finance almost 67 percent of the core operating budget.

The Conference on the Enabling Environment for Effective Private Sector Contribution to Development in Afghanistan took place in Kabul on June 4 and 5, 2007. It focused on creating the conditions necessary to significantly increase the contribution of the private sector – defined as both for-profit business and not-for profit civil society – to social, economic, and cultural development in Afghanistan’s urban and rural areas. At the conclusion of the conference, parties agreed to the conference statement, which includes a series of recommendations, and a roadmap for actions ranging from legal and fiscal frameworks to human resources and public-private partnerships. For more information, visit: <http://www.akdn.org/enablingenvironment>.

AFGHANISTAN SAARC MEMBERSHIP

The 14th Summit of the South Asian Association for Regional Cooperation (SAARC) began in the New Delhi, India, with Afghanistan formally included as the eighth member of the group. Earlier, Afghanistan was allowed to attend the meeting as an observer. All the heads of states and government of the member countries approved the declaration regarding the announcement of Afghanistan’s being the eighth member of SAARC. SAARC was founded in 1985 with the aim of expanding regional cooperation. The members are: Pakistan, India, Sri Lanka, Bangladesh, Bhutan, Nepal, Maldives, and, now, Afghanistan. The People’s Republic of China, the European Union, Japan, North Korea, and the United States have been given observer status.

WORLD BANK SUPPORT

Since April 2002, the World Bank has committed over US\$1.4 billion for 33 development and emergency reconstruction projects and three budget support operations in Afghanistan. Currently, the Bank

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.

has 21 active projects with net commitments of US\$1.0 billion. This support comprises over US\$1 billion and US\$436.4 million in no-interest loans—known as “credits.” Two budget support operations and emergency public works, infrastructure reconstruction, education rehabilitation projects, and the first phase of rural development project have so far been completed.

The Afghanistan Reconstruction Trust Fund (ARTF), administered by the World Bank on behalf of 27 donors and managed in conjunction with Asian Development Bank, Islamic Development Bank, United Nations Assistance Mission for Afghanistan, and United Nations Development Program, remains the main mechanism for providing coordinated funding support to Afghanistan’s recurrent budget and investments in line with agreed budget priorities of the government. As of June 13, 2007, 27 donors had pledged US\$2.22 billion to ARTF, of which more than US\$1.85 billion had been received. Over US\$1 billion had been disbursed to the Government of Afghanistan to help cover recurrent costs, and US\$420 million has 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 national programs of the government. By June 2007, Japanese contributions to JSDF reached US\$44 million.

The World Bank has provided advice to help the government manage donor funds effectively and in a transparent way. The World Bank also supported 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 is most critical.

STATUS OF ONGOING OPERATIONS

Emergency National Solidarity Project (NSP) (US\$425 million Grant, US\$216.4 million ARTF Grant, and US\$26 million JSDF 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 NSP. Other sources include: the Afghanistan Reconstruction Trust Fund (ARTF), the Japanese Social Development Fund, and several bilateral contributors. Since early-May 2003 and as of May 31, 2007, the National Solidarity Program (NSP) has reached over 15.4 million Afghans (around 81 percent of Afghanistan’s estimated 19 million rural inhabitants). Some 17,078 rural communities have elected Community Development Councils (CDCs). Over 23,176 community projects have been partially or fully financed, of which more than



A cross drainage structure and a culvert have been built under the National Solidarity Program in a village in Ghazni Province.



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

11,727 projects have 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.

The community projects financed under NSP focus on social and economic infrastructure and are based on the priorities of the rural population. Of the current 23,176 funded community projects, over 25 percent are projects 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 279 districts in all the country's 34 provinces. As of May 31, 2007, US\$294.13 million of block grant installments had been disbursed out of US\$321.33 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 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 with the objectives of assisting the government to enable 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 at April 2007, NEEPRA has: (i) rehabilitated 1,482.01 km roads; (ii) rehabilitated 7,033.04 m of cross drainage structure, including bridges,; (iii) generated more than 2.3 million labor days; (iv) rehabilitated eight airfields; and (v) completed new MRRD building. The World Bank will continue its assistance in providing rural access through the National Emergency Rural Access Project.



Most of Afghanistan's rural roads are damaged due to conflict or lack of proper maintenance.

Public Administration Capacity Building Projects (US\$45.4 million Grant):

A series of three operations support Afghanistan's efforts to establish a transparent, well-functioning public administration leading to better use of public resources. The grants are funding consulting firms that are helping government officials carry out procurement, treasury, and internal and external audit functions. In addition, the projects are developing public administration capacity, assessing existing systems, and recommending suitable policy reforms. Training is being provided for the entire staff of the Internal Department of the Ministry of Finance. The operation also helps the Independent Administrative Reform and Civil Service Commission develop and oversee the implementation of a public administration reform program, including merit-based senior civil service appointments and management; reform, and restructuring of key departments, ministries, and

agencies; and introduction of a new pay and grading policy for the civil service. Activities include:

Financial Management Agent: A computerized check issuance system, coordinated with the Treasury Department in the Ministry of Finance, went on-line in Kabul in October 2002. As a result, real-time reporting is possible for all expenditures processed in Kabul, and weekly reports on budget expenditures are now sent by the Ministry of Finance to the Cabinet. Progress continues on the management of payrolls. Payments are processed promptly, and all budget operations are reliably reported.

Procurement Agent: The procurement advisor has facilitated 351 government contracts valued at US\$1 billion. Training in procurement rules and procedures has been provided for over 110 ministry staff, with more courses planned. A new procurement law has been enacted, and related regulations and bidding documents have also been prepared.

Audit Agent: The audit advisor has assisted the Control and Audit Office with the audits of IDA projects, Afghanistan Reconstruction Trust Fund (ARTF) projects and cost expenditures, and the state budget. In addition, over 100 staff have participated in various training courses including computer and language training, technical audit, and modern audit working practices and procedures. A strategic development plan is under preparation along with a review of the legal framework associated with audit activities.

The Education Quality Improvement Program (US\$35 million Grant and US\$5 million ARTF Grant) provides teacher training and grants to communities for the rehabilitation of school buildings and quality inputs such as teaching and learning materials through Provincial Education Departments and the facilitation of NGOs. The project has expanded into eleven provinces of Kabul, Helmand, Zabul, Kandahar, Paktika, Badakhshan, Logar, Bamyan, Parwan, Kapisa, and Khost.

School grants for quality enhancement are used based on school improvement plans prepared by School Management Committees (SMCs) and Parent Teacher Association (PTAs). SMCs and PTAs receive technical assistance from provincial education directors and 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 (91 percent of the original target) SMCs have been established. All 2,480 SMCs have 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 and construct existing 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 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. Three hundred and six schools in all 11 provinces will be rehabilitated and constructed by 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 and progress has picked up in all other provinces.

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.

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 for an institutional base for the development of an agenda focusing on tertiary education development, capacity building, and reform. The program is envisaged as the first



Students attend a class at Kabul University.

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 partnerships with universities abroad (such as Kansas State University, USA, and Delhi University, India) in the fields of Engineering, English as a Second Language, and Natural Sciences have been formed for five of the six participating universities, and usage of the block grants to procure books, rehabilitate libraries and laboratories are underway.

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 and 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 under implementation.

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, ventilation shafts, and buildings and installation of ventilation equipment, tunnel lighting, and electric power generators. The tunnel is believed to have 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 and 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 middle 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 August 9, 2005.

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 underserved rural areas. It has contributed to ensuring that 82 percent of the population has access to primary health care. Independent



A view of Kunduz-Taloqan road, being rehabilitated under the World Bank-financed Transport Project.



A doctor examines a child in a health clinic in Mammod Raqi, capital of Kapisa Province.

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 135 per 1,000 in 2006. This means that 40,000 fewer infants are dying each year compared to during 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 nongovernmental organizations (NGOs). In February 2006, a supplemental grant of US\$30 million was approved to increase the project budget to 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 underserved 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. 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 Basic Package of Health services in three districts of Kabul province. The project is also financing two research projects on a Safe Water System and Health Care Financing. The Safe Water System is being carried out in Wardak province and is testing a variety of approaches for decreasing diarrhea and other water-borne illnesses by early 2007. The user charge and control arms of the Health Care Financing project are examining a few approaches to community health financing and will be completed by May 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 shoopkeeper uses a mobile phone in Mazar city.

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 has been 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. The third mobile operator Areeba has commenced services, and Etisalat of the UAE is expected to start services in early 2007. 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 focuses on the development of physical infrastructure at border crossing stations, inland clearance depots, including the Kabul Inland Customs Depot (ICD), transit checkpoints, and the customs facilities at Kabul airport. It will also support policy changes; strengthen the government's administration of the customs and transit systems, including communications and the introduction of computerization; provide technical advice on trade and transit agreements; and assist in the establishment of an Authority to set the environment for Standard, Metrology, Testing, and Quality in Afghanistan.

Considerable progress has been achieved in implementation of ASYCUDA (Automated System for Customs Data). ASYCUDA full Declaration Processing System (DPS) was piloted successfully at Kabul ICD. The Afghanistan Customs Department (ACD) ASYCUDA team with the assistance of UNCTAD technical assistance is preparing to rollout full DPS to Jalalabad, Herat, Mazar, and Kabul Airport within this quarter. In addition, the ASYCUDA Transit System has been further rolled out to the Hairaatan-Mazar-Kabul axis as well as to the Torkham-Jalalabad-Kabul and Islamqala-Herat-Kabul axis. Until end-May 2007, over 163,000 T1s (Transit Transaction Declarations) have been processed. Apart from the benefits of reduced truck release times and increase in customs revenue, nearly 100 percent of the trucks processed through this system completed the transit operations in the two main axes of Torkham-Jalalabad-Kabul and Islamqala-Herat-Kabul, i.e., the leakages in truck reporting have practically been reduced to near zero. Overall trade volumes have increased by 100 percent compared to when the project was initiated.

All customs locations have been equipped with radio equipment for use in enforcement activities and for improving communications. The Project ICT team has deployed VSAT VPN networks in six locations in the east and west/south-west regions, and VHF and HF radio equipment at 12 locations around Afghanistan is operational. Areas with no mobile telephony are being connected through HF/VHF on a priority basis. Vehicle registration link with borders for Kabul and Heart Traffic Police have also been established.

The Regional Customs Advisory Unit (CAR) established earlier is primarily focusing on rapid implementation of the Customs Code through framing of sub-legislation and standard operating procedures (SOPs) and has developed more than 30 different procedures and regulations, as well as 20 forms and reporting formats. A Training Coordination Unit (TCU) has also been established to manage and coordinate the vital need for ACD's capacity building. Substantial progress achieved in training and capacity building of ACD staff under the project. The first cohort of 25 officers went through fast-track training with the help of Pakistan Customs, and the second cohort is being prepared.

Progress on infrastructure delivery has also been satisfactory with more than 56 facilities repaired/constructed and functionally improved. Currently, work on the Kabul Customs Headquarters Building is in full swing. Work is also underway for the rehabilitation and improvement of the Kabul and Jalalabad Inland Clearing Depots (ICD).

Initiatives under the Trade Facilitation improvement include carrying out of a census of freight forwarders, which assisted in the formation of AFCA (the national Afghan Freight Forwarders Association) and in its gaining membership with FIATA on September 15, 2005. The zero draft of the Afghanistan Memorandum of Foreign Trade Regime is under preparation. Under the project, UNCTAD is developing training courses for freight forwarders in order to ensure that this service sector develops into a professional reliable sector that can compete with International freight forwarders and that Afghan Freight Forwarders become parties that are solely responsible for goods in transit. Preparations for the re-negotiation of the 1965 Afghan Transit Trade Agreement (ATTA) with Pakistan are underway. UNCTAD has reviewed the ATTA and other transit trade agreements with neighboring countries and submitted recommendations for improvement, especially to enable proper implementation. Based on these recommendations, a draft of new Pakistan-Afghanistan Transit Trade Agreement has been prepared, which is being reviewed internally by Ministry of Commerce.

Afghan National Standards Authority (ANSA) was established through a Presidential Decree. The Afghan Standards Law drafted earlier has been reviewed and is now being put up to the Parliament for enactment. ANSA has started testing key products like cement, steel, pharmaceuticals, edible oil, and other foodstuffs.



An irrigation in-take, being built under the World Bank-financed Irrigation Rehabilitation Project, in Jalalabad city.

The Emergency Irrigation Rehabilitation Project (US\$40 million Credit, US\$25 million Grant, and US\$35 million ARTF Grant) is helping to provide water to farms in the project areas with improved reliable and equitable distribution of irrigation water to 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 May 31, 2007, 658 subproject proposals costing about US\$55.99 million have been prepared. Out of these, 582 subprojects totaling US\$41.8 million to bring 356,312 ha of land area under irrigation have been approved; contracts for 501 subprojects worth US\$26.36 million have been awarded and are ongoing; and 314 subprojects worth US\$13.0 million have 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 have been completed, and design for the second phase of this project has been 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 is expected to be completed (Euro 2.2 million) in 18 months, and the final feasibility report is expected by August or September 2007.

The Afghanistan Investment Guarantee Facility (AIGF), together with the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, has provided US\$1.07 million in investment insurance (guarantee) for a cotton project in northern Afghanistan (February 2006). The guarantee will protect 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—will provide 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 cottonseed 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 is covering its US\$0.48 million equity stake (September 2006). The company is now in a 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 risk 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. 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.

Facility applicants seeking coverage submit a confidential Preliminary Application (PA) before the investment is irrevocably committed. There is no fee charged for the Preliminary Application. 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 definitive application.

The total associated investment for the three projects signed in 2006 is about US\$25 million. The Facility received 10 new Preliminary Applications in 2006 with indicative investments totaling US\$234 million. In addition, the Facility has developed a strong pipeline of potential investments which is expected to result in new Preliminary Applications in 2007 and 2008.

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 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. It 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 Emergency Power Rehabilitation Project (US\$105 million Credit and US\$20 million ARTF Grant) aims to improve supplies of electricity to Kabul through the rehabilitation and expansion of city distribution network, 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 Naghlu 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 expected to be completed in 2010.

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; and (iv) prepare a follow-up project under which more substantial institutional and financial objectives could 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; and (iii) an extension of the Kabul water supply system. 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 has been established by Ministry of Urban Development and Ministry of Finance. Consultants to support the Working Group mobilized in Kabul in early September 2006. The project is financed in parallel by the German Development Cooperation.

Emergency Horticulture and Livestock Project (US\$20 million Grant) is designed to stimulate marketable output of perennial horticulture and livestock by improving the incentive framework for private investments and contribute to strengthening institutional capacity in livestock and horticulture subsectors. 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 the three-year period which will be financed as full grants expected from IDA (US\$20 million), ARTF (US\$20 million), and JSDF (US\$10 million). DfID and CIDA have shown positive willingness to contribute about US\$10 million each through the ARTF. The project is the first stage in a long-term program that will unfold over the coming decade to support the horticulture and livestock subsectors nationwide. The project activities are being commenced due to initial delay in the mobilization of Facilitation Partners. In January 2007, GTZ has been mobilized as Lead Facilitating Partner (LFP) to provide technical support to the Ministry of Agriculture, Irrigation and Livestock (MAIL) to implement the project. A National Union of Horticulture Development Association (NUHDA) has been formed with a Board of Executive Directors and an international Facilitating Partner (Intercorporation) has been hired since April 2007 to support the development of NUHDA. Initial nursery development and farmer demonstration activities for horticulture orchard rehabilitation and expansion have begun in the field.

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, and this project will help ensure the revenues from these valuable resources are available to the country as a whole and not captured through corrupt practices. It will also help attract and retain qualified local and international investors. Some of the innovative approaches the government will use to manage the sector include the Extractive Industries Transparency Initiative – a set of principles that support 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 the Ministry to implement 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 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.

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

Programmatic Support for Institution Building III (US\$80 million Grant) is designed to deepen and sustain the reforms underway in the areas of public administration and fiscal management. The project will support reforms to enable efficient allocation of fiscal resources in the areas of health and education development and private sector development. It complements separate investment and technical assistance operations that, together, support the implementation of comprehensive reforms in key sectors such as public administration reform, private sector development, public finance management and budget management.

Public Financial Management (PFM) Reform Project (US\$33.4 million Grant) is designed to develop an efficient and effective public financial management system and the human resource capacity of the Ministry of Finance (MOF) and Control and Audit Office (CAO) to ensure better operation of public financial management. To meet these objectives the project will assist departments within the MOF and the CAO to develop and implement the structures, procedures, and systems required to carry out their mandates under the new public financial management law and provide consultants, training opportunities, and materials for the development of skills of MOF staff, line ministry staff, and CAO staff.

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.

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 structure and staffing so as to better meet their tasks. The project will also support the government in managing the civil service according to clear rules and procedures.

**Japan Social Development Fund (JSDF)
US\$44 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 government's alternate livelihood program in opium poppy producing areas. The JSDF grant focuses on helping former combatants reintegrate into society as a component of the broader Afghanistan New Beginnings Program (a Japanese-funded government initiative). As at April 30, 2007, 2,340 ex-combatants and rural poor have completed the work-based training in road and crafts constructions, combined with academic training at vocational institutions. This includes 50 specialized technicians, who have completed four-

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

month technician courses at two universities in Kabul and Kandahar. An estimated 90 percent of these graduates in crafts skills are employed in and out of the RAL construction projects. Currently, more than 400 trainees are studying at the feeder schools as well as universities. This project will rehabilitate 376 km of roads; more than 40 percent are completed.

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 ages 12 to 28. Construction of the four youth centers in Faryab, Kandahar, Kabul, and Mazar have 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, ADA, HAW).

Capacity Building—First Microfinance Bank of Afghanistan (US\$650,000 Grant): This project is financing the deployment of a microfinance system and provides relevant training to staff of the Microfinance Bank. Providing access to financing for micro and small businesses will stimulate economic growth and incomes in Afghanistan's post-conflict economy.

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, such as 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.

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 June 13, 2007, 27 donors had pledged US\$2.22 billion to ARTF, of which more than US\$1.85 billion had been received. Over US\$1 billion had been disbursed to the Government of Afghanistan to help cover recurrent costs, and US\$420 million has been disbursed 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)



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

The ARTF recurrent window finances salaries and wages of more than 200,000 non-uniformed civil servants, over half of whom are working 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 SY1386 National Budget includes US\$270 million of 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 combined commitment of around US\$490 million as follows. For ARTF co-financed investment projects, please see above.

The ARTF Microfinance Support for Poverty Reduction Project (US\$86.3 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\$84.52 million in funds including US\$59.38 million in loans. There are now 15 microfinance institutions (MFIs) with a network of over 232 branches in 23 provinces, with more than 350,000 loan and savings clients. Sixty-eight percent of the clients are women, and the loan repayment rate is 95 percent. In 2006, the sector disbursed US\$7 million in loans every month and added more than 10,000 clients per month. The sector now employs over 3,500 Afghans, and, in 2006, more than 610 Afghans were 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 is already covering 89 percent of its costs from its own income earned from lending activities. Three of the microfinance institutions have already reached operational self-sufficiency, and it is believed that most of the other MFIs will achieve sustainability by the end of 2008.

The Rehabilitation of Telecommunications Systems Project (US\$6.1 million) aims to establish international connectivity between Afghanistan and other countries, particularly neighboring countries. The project consists of three components: rehabilitation of the satellite earth station in Kabul, expansion and improvement of transmission links, and the billing system. The expansion and improvement of telecommunication transmission links has been completed and is operational. The satellite earth station at Mahtab Qila in Kabul has also been rehabilitated. The project is expected to be completed by end-December 2006.

National Emergency Employment Program Phase I (NEEP-I) (US\$52.82million): 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 aim of the project is to assist the government in providing employment in rural areas at a minimum wage, as a safety net, to as many people and in as short a time as may be feasible through rural access and irrigation rehabilitation subprojects. Physical works under the original NEEP-1 Grant of US\$16.62 million were 100 percent completed by July 31, 2005. NEEP-1 has been further extended after receiving additional funding of US\$36.2 million from DfID, USAID, CIDA, and AusAid through ARTF. Overall a total of 609 subprojects will be implemented constructing 2,476 km of rural access roads, 3,073m of cross drainage structures. In addition, 98 natural resource management subprojects, 25 small irrigation subprojects, and four large irrigation subprojects totaling 37,000m in the Shamalan area were 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 became effective in February 2005; 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 upon feasibility studies that have been completed for Kabul (financed by KfW) 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 procurement, and construction activities starting this summer and will carry on over the next summer. Contracts with technical support agencies are ongoing for all project components. The financial support to operations has now been effective since August 2005. It has significantly contributed to building the management capacity in all 14 units of CAWSS, and has generated detailed technical, financial, and commercial data for the first time. It is

being closed as 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 expected to be completed by March 2007.

Rural Water Supply (US\$5 million): has two objectives: (i) improve the health of rural communities by increasing awareness through integration of health and hygiene education with the provision of water supply and sanitation services; and (ii) strengthen and build the capacities of the central and provincial governments for sector development as well as that of NGOs, the private sector, and the communities 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 system. Procurement of different consultants and contractors has been completed and actual implementation on the ground has commenced in eight provinces (Samangan, Sari-Pul, Kunduz, Takhar, Baghlan, Jowzjan, Badghis and Kabul. All the support organizations completed the district demand collection phase and working on provincial planning in four districts selected in each of the provinces. The Community Action Plan is being finalized in some of the selected districts.

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

The first component—**Afghan Expatriates Program (US\$10 million)**—will increase the contribution of professional Afghans living abroad in the reconstruction of Afghanistan by enhancing public sector policy and institutional capacity. This component also aims to close the skills gap in information technology, engineering, and teaching with well-trained overseas Afghans, by providing local Afghans with opportunities for on-the-job training to enhance their technical skills. Since September 2004, around 92 Afghan Experts have been placed in government ministries and agencies.

The second component—**Lateral Entry Program (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 to assist with the reform and restructuring process, and to build institutional capacity. If successful, the pilot phase will be expanded. Since August 2005, around 100 lateral entrants have been recruited.

A new program—the **Managerial Capacity Program (MCP)** to replace the AEP and LEP—is currently under design and is expected to be appraised in February 2007. This program follows from independent reviews of the Afghanistan Expatriates Program and Lateral Entry Program. The key objective will be to build managerial capacity and capacity in the common functions (procurement, financial management, human resource management, project management).

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 to prepare larger investment projects.

All dollar figures are in US dollar equivalents.

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