

The World Bank in Afghanistan

COUNTRY UPDATE

JANUARY 2006



A school girl attends her class in a village outside the capital Kabul

World Bank Support

Since April 2002, the World Bank has committed US\$973 million for 18 development and emergency reconstruction projects in Afghanistan. This support comprises US\$536.8 million in grants and US\$436.4 million in no-interest loans—known as “credits.” Two projects have so far been completed.

The World Bank also administers six grants, totaling US\$1.31 billion, from the Afghanistan Reconstruction Trust Fund (ARTF), US\$38.04 million from the Japan Social Development Fund (JSDF), and a US\$1.5 million grant for training teachers from the World Bank Post Conflict Fund.

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 operations. 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.

Democracy Arrives

On September 18, 2005, over six million Afghans went to the polls to elect the Afghan parliament and provincial councils for the first time in over three decades. Altogether 249 Members of Parliament (MPs) (of which 27 percent are women) were elected for the Lower House of the Parliament (Wolesi Jirga) and 420 (of which 28 percent are women) were elected for the Provincial Councils. Another 102 MPs (22 percent are women) were elected by Provincial Councils (two-thirds), and appointed by the President (one-third) to sit in the Upper of House of parliament (Meshrano Jirga).

On December 19, 2005, Afghanistan wrote a new chapter in its history with the inaugural session of Afghanistan's National Assembly composed of Wolesi Jirga and Meshrano Jirga. With the formation of the National Assembly, Afghanistan has completed the Bonn process and is now preparing to renew its mutual commitments

The World Bank remains committed to Afghanistan for the long haul, and we will continue to support the country's priorities outlined in its own National Development Strategy.

Praful Patel
World Bank Vice President
for South Asia Region

Afghanistan's Millennium Development Goals

Eradicate Extreme Poverty and Hunger (Goal 1): Available data suggests that about 20 percent of rural Afghans are chronically unsure of obtaining enough food, and another 18 percent are vulnerable. Nearly 40 percent of the children under 3 years old are underweight, and more than half the children in that age group are stunted.

Achieve Universal Primary Education (Goal 2): Afghanistan has the highest proportion of school-age (7-12) children in the world: about 1 in 5 Afghans is a school-age child. But despite the success of the back-to-school campaign, half of the school-age children are still out of school. Women and girls lag far behind men and boys in education, and the gap is not narrowing.

Promote Gender Equality and Empower Women (Goal 3): Afghanistan has the lowest female literacy rate in the world, between 9 percent and 18 percent. Violence against women is pervasive, a silent epidemic due to the low status of women, and compounded by long exposure to hostilities and conflict.

Reduce Child Mortality (Goal 4): Over a fifth of all Afghan children die before the age of five. Of these, a third die soon after birth, and more than half within the first year. High mortality rates are due to lack of food, poor sanitation, and low literacy, especially of women. Life expectancy at birth is under 45 years, 20 years less than any other Asian country.

Improve Maternal Health (Goal 5): Afghanistan has the highest rate of maternal mortality of any country except Sierra Leone and Angola. Overall maternal mortality is estimated at 1,600 to 2,200 deaths per 100,000 live births. As a result of the low level of female education and gender segregation, fewer than 15 percent of births are attended by medically trained personnel (who must be female) and only 10 percent by a traditional midwife.

Combat HIV/AIDS, Malaria, Tuberculosis, and other Diseases (Goal 6): Currently Afghanistan has a low prevalence of HIV/AIDS, but it is at high risk. There is no blood screening, little condom use, and very little knowledge of the disease or how to prevent it, reinforced by widespread illiteracy and cultural inhibitions about discussion of the disease and how it spreads. Afghanistan is also one of the 22 countries with the highest rates of tuberculosis, with young women constituting about 70 percent of the cases.

Ensure Environmental Sustainability (Goal 7): Forest cover appears to have been cut in half since 1978 as a result of lack of energy alternatives to firewood and demand for timber in both Afghanistan and Pakistan. Only 6 percent of the population has access to a regular supply of electricity. Due to drought and the destruction of water management systems, the water table has sunk in many areas.

Global Partnership for Development (Goal 8): Among landlocked developing countries, Afghanistan has one of the longest distances to a seaport (over 2,000 kilometers) over exceedingly harsh terrain. The country has no railroads and only 16 percent of roads are paved. As an impoverished landlocked country seeking to emerge from violent conflict, Afghanistan needs international partnership to connect to the market, provide employment, particularly to youth (a major factor in preventing violence), and invest in basic institutions and services.

Enhancing Security (Goal 9): Despite extreme poverty, ill health, and hunger, Afghans define the lack of security as their greatest problem. The main threat Afghans cite is an absence of the rule of law resulting in violent predation by local power holders, criminals, and corrupt officials. Lack of security is a principal obstacle to the education and public participation of women, as well as to long-term investment for development.

with the international community. The Afghanistan Compact of 1384, to be signed at the London Conference on January 31, 2006, succeeds the Bonn Agreement of 1380 (signed on December 5, 2001). The Bonn Agreement provided a framework for the international community to help Afghans create a legitimate government, while the Afghanistan Compact will provide an assistance framework for the international community, with special focus on security, governance, economic and social development, and counter-narcotics.

Regional Cooperation

On December 4-5, 2005, Afghanistan hosted a regional economic cooperation conference, bringing together 12 countries from the four major zones of which Afghanistan is at the center. The countries include the six sharing borders with Afghanistan, plus India, Turkey, UAE, Kazakhstan, and Kyrgyzstan. The focus of the conference—co-chaired by the United Kingdom in its capacity as G8 President—was to promote economic cooperation in areas of critical concern to countries in the region. These areas included: electricity and energy generation; transport, transit trade, and trade facilitation, including border management; and trade promotion, investment, and improvement of the business climate.

New Development Strategy

Since June 2005, the Government of Afghanistan has started consultations with civil society, the private sector, and international partners to design an Afghanistan National Development Strategy (ANDS). This process will identify areas for action that will have the biggest impact on economic growth and poverty reduction. The effective design and implementation of the ANDS will require improvements in data collection as well. While the government is only in the early stages of developing the Interim ANDS (I-ANDS), it has sought to establish a platform for broad consultation now, as the foundation for evolution to the full ANDS by the end of 2006. The government is preparing to present its I-ANDS at an international conference, scheduled for January 31, 2006, in London.

STATUS OF OPERATIONS

Emergency Infrastructure Reconstruction Project (US\$33 million Grant): It is rehabilitating water supply and sanitation in secondary cities, sanitation in Kabul, and basic electricity for several cities. The project's urban public works are also generating short-term employment opportunities. Activities include:

Rehabilitation of Water Supply Systems is happening in 11 provincial cities (Kandahar, Qalat, Mazar, Shiberghan, Kunduz, Taloqan, Charikar, Mehterlam, Jalalabad, Ghazni, Gardez). The project is undertaking rehabilitation and redesign of existing systems, sector development analysis, planning for future operations, and feasibility studies for system expansion. Over US\$6.5 million of goods and equipment have arrived in Kabul and have been shipped to all provincial towns for rehabilitation works. Local contractors are currently installing the materials and expect to finish work by early 2006.



Members of the Community Development Council in Daoudzai village, Shakardara District of Kabul Province. The establishment of such councils has been supported by Afghanistan's National Solidarity Program with financing by the World Bank. The elected members' primary work has been to determine local development needs and assist with implementation of projects that will serve their communities.

Solid Waste Management in Kabul: Between October 2002 and May 2004, over 120,000 cubic meters of solid waste was collected and 46 community organizations were formed to help solve sanitation problems in Kabul. Teams of professional female hygiene and health educators have, in addition to reaching out to over 68,000 students, visited 160,000 households to teach families safe ways to dispose of garbage.

Labor-Intensive Municipal Public Works Program: Launched in December 2002 and completed in April 2004, this program implemented over 100 labor-intensive projects for infrastructure improvement and repair in Kabul, Kandahar, Jalalabad, Mazar-i Sharif, and Herat. The cash-for-work program generated significant temporary employment (supplying the equivalent of work for 43,000 people for an average of 10 days). Achievements include: over 43,000 meters of road graveling and leveling in four cities; cleaning, construction, and excavation of almost 61,000 meters of side ditches in Kabul, Jalalabad, and Kandahar; construction of 74 shallow wells and 17 deep wells in Kabul; the planting of 21,000 saplings in Mazar; and site cleaning of 32,000 square meters in Kandahar.

Increasing Power Supply: In January 2003, the 45 mw Northwest Kabul Thermal Power Station was recommissioned, after being inactive for 14 years. This has almost doubled the available power supply in Kabul, particularly critical during the winter months, when demand increases by one-third. USAID is financing the fuel requirements to allow the plant to continue operations. In addition, several diesel generators have been installed in smaller provincial cities throughout the country which had little or no access to electricity, including Faizabad, Baghdis, Bamiyan, Samanghan, and Uruzgan.

Power Sector Master Plan: A final master plan to develop Afghanistan's power sector was submitted in October 2004. It provides the basis for future investments in power generation and transmission up to 2020.

The Emergency Community Empowerment and Public Works Project (US\$42 million Grant): It supported local income generation and infrastructure rehabilitation through labor-intensive public works. It also strengthened governance at the community level through elected Community Development Councils that planned and managed small reconstruction and development projects funded by block grants. The project was completed on December 31, 2004.

Emergency National Solidarity Project (NSP) (US\$123 million Grant, US\$74.2 million Grant by ARTF, and US\$11 million Grant by JSDF): 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 Afghanistan Reconstruction Trust Fund (ARTF), the Japanese Social Development Fund (JSDF), and several bilateral contributions. Since September 2003, it has reached over a half of Afghanistan's estimated 22,500 rural communities (in 38,000 rural settlements), benefited about 10.5 million people, established 10,000 CDCs, and



A well is dug as part of a community project to improve the drinking water supply in Sighan District, Bamayan province. The project was supported by Afghanistan's National Solidarity Program which is funded primarily by the World Bank.



A villager with his child draw water from a communal well. Only around 13 percent of Afghanistan's 23.5 million population has access to safe drinking water.

Afghanistan Transitional Support Strategy

In March 2003, the World Bank finalized its *Transitional Support Strategy for Afghanistan*, which directly supports the government's National Development Framework. It outlines the Bank's assistance over a period of two years and focuses on four key areas: improving livelihoods; assisting with the government's fiscal strategy, developing and managing institutions; supporting governance and public administration reform; and enabling private sector development in Afghanistan.

financed 12,000 community projects. About 88 percent of the community projects involve infrastructure such as irrigation, rural roads, electrification, and drinking water supply, critical for the recovery of the rural economy, stability, and governance.

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 12,000 funded community projects, about 25 percent are for supplying drinking water; 21 percent for the rehabilitation of irrigation systems; 20 percent to improve transport infrastructure (roads, bridges); 17 percent for the provision of energy (generators, micro-hydro, solar energy); 11 percent to improve their livelihood and generation of income; 5 percent for education infrastructure; and 1 percent for other investments. The NSP is active in all the country's 34 provinces. As of December 20, 2005, US\$139 million of block grant installments had been disbursed out of US\$181 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.

National Emergency Employment Program (NEEP):

There are three ongoing projects under the overall NEEP umbrella administered by the Bank.

National Emergency Employment Program Phase I (NEEP-I):

evolved from the IDA Grant funded Labor-Intensive Public Works Roads component of the Emergency Community Empowerment and Public Works Program. As of October 31, 2005, under NEEP-I, over 2,500 kms of rural access and 3,100 meters of structures were completed. In addition 98 natural resource management sub-projects, 25 small irrigation sub-projects and four large irrigation sub-projects (in the Shamalan area) have been completed. Out of the 409 contracts awarded, 402 are complete while seven contracts are in final stages. Overall, 99 percent of the physical works are complete and only final payments remain. Labor days targeted under the project were 4.4 million, while labor days committed stand at 2.7 million out of which 2.48 million have already been paid. NEEP-1 has further been extended, as DFID had expressly committed funding of approximately US\$35 million and USAID of US\$2 million through ARTF for continuing the program.

National Emergency Employment Program for Rural Access (NEEPRA) (US\$39.2 Million Credit/Grant and US\$16.6 Million Grant by ARTF):

NEEPRA is a follow-up project to the IDA-funded Labor-Intensive Public Works Program and was initiated in July 2003. As of October 31, 2005, out of 1,500 km roads planned to be rehabilitated, 1,200 km have been completed. Eighteen bridge projects were planned (totaling 787m), 13 projects are underway while one project has been completed. Similarly, 4,181m of smaller cross drainage structures out of 11,221m planned have been completed. Out of 16 airport projects planned, 11 are underway, and two have been completed.

Emergency Public Administration Project (US\$45.4 million Grant): This operation is being implemented through three consecutive projects. It supports Afghanistan's efforts to establish a transparent, well-functioning public administration by facilitating better use of public resources. Grants are funding consulting firms



The World Bank opened a Development Information Corner in the Kabul University Main Library in 2004. More than 100 students are using the facility per day. The Corner is equipped with three computers connected to the internet and reading materials about development and the World Bank activities in Afghanistan.

that are helping government officials carry out procurement, treasury, and internal and external audit functions. In addition, this project is developing public administration capacity, assessing existing systems, and recommending suitable policy reforms. It 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 development of a legal and regulatory framework 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. More payments are now received on time.

Procurement Agent: The procurement agent 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 draft procurement law and related regulations and bidding documents have also been prepared.

Audit Agent: The audit agent has assisted the Control and Audit Office with completing the audits of IDA projects, Afghanistan Reconstruction Trust Fund (ARTF) projects and cost expenditures, and the state budget. In addition, over 100 staff has 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 Emergency Education Rehabilitation and Development Project (US\$15 million Grant) has assisted the rehabilitation of universities through capitation grants, given grants to communities to manage community schools, supported the Ministry of Education to develop a medium-term policy framework, an EMIS system, and establish a government intranet and a global distance learning center. Special emphasis has been placed on increasing access to educational opportunities for girls. Activities include:

Female students in a Women's Leadership Class in Kabul University were assisted by the grant to establish an internet café in April 2005. The café is completely female run and administered. It can accommodate up to 25 people at a time and has been financially self sufficient.

Rehabilitating Primary Schools with Community Participation: Grants have been provided for the rehabilitation of approximately 100 primary schools in Bamyan, Logar, Parwan, Kapisa, and Badakhshan provinces. Nearly 700 schools in these provinces have established School Management Committees, which allow communities oversight of their children's education. The communities cover 25 percent of the cost of school rehabilitation and construction, while the Ministry of Education covers the



A bridge is built in Jabel Seraj District, Parwan Province with financing support from the World Bank National Emergency Employment Program for Rural Access



Rural girls on their way to school

remainder with grant funds. The physical rehabilitation of schools is also combined with teacher training and other educational inputs.

A comprehensive school survey was begun in May 2004 and has been completed recently with support from the World Bank. The results of this survey will assist the government in assessing the education needs of the country. The web site of the Ministry of Education (<http://www.moe.gov.af>) has also been developed under the project.

Support for the Ministry of Education at the Provincial Level: High frequency radio communication equipment has been provided to each of Afghanistan's 32 provincial education offices to improve school monitoring activities and communications with the Ministry of Education based in Kabul.

Support for Policy Development: Technical assistance has been provided to the Ministry of Education and Ministry of Higher Education to develop a medium-term policy framework and to conduct a study on private sector involvement.

Kabul Distance Learning Center: A center was established in Kabul in November 2002. It is now used to facilitate sharing of development knowledge between people in Afghanistan and their counterparts around the world through new information and communications technologies. The center is part of the World Bank-Global Development Learning Network.

Government Internet Connectivity Project: Eight government agencies (Ministries of Finance, Rural Reconstruction and Development, Foreign Affairs, and Communication; the President's Office; the AACA; and the Central Bank) have been connected to the internet, have access to email for the first time, and are also connected to the Kabul Distance Learning Center.

The Education Quality Improvement Program (US\$35 million Grant) provides 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 five provinces in addition to those in the Emergency Education Project—Helmand, Zabul, Kandahar, Paktika, and Khost. The national Teacher Education Program which 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 is also a major aspect of the project. So far, in addition to the training and of master and core trainers for the program, teacher training has taken place in six provinces. The program will also to set up a system of training and certification of school principals and educational administrators at the district, provincial, and central level. The grant is also helping to develop capacity at the Ministry of Education for policy formulation, monitoring, and evaluation.

The Strengthening Higher Education Program (US\$40 million Grant) aims to progressively restore basic operational performance



Kabul University students participate in a video discussion entitled "Youth and Universities: Achieving the MDGs." The objective of the series, that brought together university students from seven countries, including Afghanistan, and was organized by the World Bank Institute, was to enhance the participants' awareness of gender and MDGs and to discuss the role youth and universities can play in achieving the MDGs. The students joined the conference via satellite from the Kabul Global Development Learning Center, which was financed by the World Bank.



A crumbling Bridge in Logar province

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 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.

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.

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 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. All sections of road pavements have also been restored, and overall road components from Kabul to Doshi are now complete. The remaining section to Sher Khan Bandar is expected to be complete by the end of 2005.

Civil Aviation: The Bank is 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\$59.6 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 will help increase 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). Activities include:



A female doctor examines a woman in a rural clinic in northern Afghanistan

Three Afghan and four international NGOs have begun work in eight provinces: Helmand, Farah, Badghis, Sari-Pul, Balkh, Samangan, Wardak, and Nimroze. Around 100 new health facilities have been established in the last year and hundreds of community health workers have been trained. Since September 2004, the Ministry of Public Health has been responsible for delivering services in the three additional provinces of Parwan, Kapisa, and Panjshir. 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 will be completed by the end of 2006. The Health Care Financing project is being conducted in the above mentioned 11 provinces. Findings will guide policy formulation on safe water systems and revenue generation for the health sector in the future.

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 access and/or long distance and international services to over 30,000 government employees in Kabul and Afghanistan's provinces. The majority of provincial capitals are now also able to videoconference with the President and Ministers in Kabul. In addition, there are almost one million private mobile phone subscribers across the country, with sector growth fostered by the telecoms regulatory board under the Ministry and the newly passed Telecommunications Law.

The Emergency Customs Modernization and Trade Facilitation Project (US\$31 million Credit) is supporting Afghanistan's efforts to increase revenue from trade, 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, 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 a National Standards Commission.

By July 31, 2005, substantial progress has been achieved in both physical infrastructure and technical assistance. A new Custom's Law is in place. A Customs Reform Unit (CURE) has been established to coordinate donor assistance and the work of implementing agencies. Performance measurements at Kabul Inland Clearance Depot (ICD) and Airport were completed in June 2004, while a survey at Torkham and Herataan was completed in August 2005. Designs for new Customs headquarters are expected to be finalized by October 2005. An Afghan Standards Quality Metrology and Testing Authority (ASYCUDA) have been established, and a draft law on standards is being finalized. A training program for ASYCUDA has been established and a transit module is scheduled to be implemented in September 2005.

The Emergency Irrigation Rehabilitation Project (US\$40 million Credit 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. The process of hiring consultants for monitoring and evaluation is under way. The evaluation of technical proposals is completed and the contract for the Feasibility Study of the Lower Kokcha Irrigation and Hydropower Multipurpose Project on the Kokcha River in the Amu River Basin is finalized. Restoring and modernizing the hydro-meteorological network is under process. The contract is expected to be awarded in early January 2006.

The Afghanistan Investment Guarantee Facility (US\$5 million Credit) has been established to provide potential investors with up to US\$60 million of insurance against political risks. It seeks to encourage investment in areas such as manufacturing, agribusiness, banking, and smaller-scale infrastructure projects. Foreign investment will stimulate the local economy, increase employment, create tax revenues, and assist in the transfer of modern technologies and business practices to Afghanistan. The World Bank Group's Multilateral Investment Guarantee Agency (MIGA) is administering the facility and, along with the International Development Association and the Asian Development Bank, has provided the initial capital for the Facility.

The Afghan Investment Guarantee Facility (AIGF) is now open for business and working closely with the Afghan Investment Support Agency (AISA), which is the "one-stop-shop" for investors in Afghanistan. Currently AIGF provides coverage against the risk of transfer restriction, expropriation, breach of contract, and war and civil disturbance. Investors may choose all or any combination of these risks. The duration of the AIGF coverage is up to seven years.



A man uses micro-finance credit to set up his business in Parwan Province.

The Kabul Urban Reconstruction Project (US\$25 million Grant) is supporting reconstruction and rehabilitation in 45 of Kabul's most vulnerable neighborhoods where the majority of the urban poor live in informal settlements. The objective is to assist approximately 250,000 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 Housing and Kabul Municipality are critical components of the project.

The Emergency Power Rehabilitation Project (US\$105 million Credit and US\$20 million Grant from ARTF) involves the rehabilitation and expansion of distribution networks in Kabul. This IDA-financed component will consist of a contract to rehabilitate and extend the sub-transmission networks in Kabul. Inadequate service wires, which have been erected haphazardly and without metering, will be replaced with appropriately sized conductors for approximately 200,000 consumers.

The Naghlu Hydro Power Station has a total capacity of 100MW and is the largest single plant in Afghanistan. Due to deterioration, non-availability of spare parts, and lack of servicing, the plant may stop production at any time. This component aims at refurbishing the mechanical and electromechanical equipment (turbine, generator), the hydro-mechanical equipment (valves), the control, regulation, and protection equipment.

The rehabilitation of a 110kV transmission line from Naghlu to the Kabul East Substation and to the Kabul North (US\$ 3 million): The power generated at Naghlu is conveyed to Kabul through a double circuit 110kV transmission line. This component supports a contract to restring these lines and replace or repair several damaged towers.

The commercialization of DABM-Kabul will assist DABM (Power Utility in Afghanistan) to improve its performance so the distribution company will be able to operate on a commercial basis. The main outputs under this activity include the establishment of a customer database, a computerized financial management and accounting system, the identification of assets and liabilities, creation of financial statements, improved billing and collection, and the selection and training of staff.

Programmatic Support for Institutional Building (US\$80 million Credit and US\$80 million Grant): So far, two consecutive programmatic support facilities for institutional building, a series of operations aimed at supporting the implementation of the government's medium-term development strategy, have been provided for the Government of Afghanistan. The government has made significant progress in implementing important economic reforms since the World Bank financed the first Programmatic Support for Institution Building project in July 2004. Notable among these achievements are improvements in fiduciary standards, adoption of modern civil service, budget, and procurement laws, and initiation of a significant merit-based recruitment process. The second operation, approved in December 2005, aims to deepen,



A scene of Naghlu Hydro Power Station under rehabilitation with financial support from the World Bank.

broaden, and sustain the reforms underway in the areas of public administration and fiscal management. It also supports the implementation of reforms that lead to a more efficient allocation of fiscal resources in the areas of human development (health and education, in particular) and private sector development.

Japan Social Development Fund (JSDF)

US\$38.04 million Grant to support innovative post-conflict projects: These include:

National Emergency Employment Program for Demobilization, Disarmament and Reintegration, and Rural Livelihood Support (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 reintegration in society and contribute to governments' alternate livelihood program in opium poppy producing areas. The JSDF grant will focus on helping former

combatants reintegrate into society as a component of the broader Afghanistan New Beginnings Program (a Japanese-funded government initiative). To date, more than 1,500 ex-combatants have been trained or are undergoing training (both classroom- and work-based). In addition, 360 km roads have been identified to be constructed/rehabilitated through 27 sub-projects, and the bidding process for contracting services is underway. Seventeen sub-projects, with an estimated cost of US\$6.38 million, are in advance stages of procurement, meaning contracts either have been awarded or are in the process of being awarded. All sub-projects are expected to commence in March or April 2006.

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.

NGO Support Program (US\$2 million Grant): (A procurer of the National Solidarity Program) is enabling the Government of Afghanistan to grant funds to NGOs to help communities rebuild. Achievements to date include:

Forty-four NGOs have been contracted to work with communities to support sub-projects in irrigation, drinking water supply, road repair, school rehabilitation, and income-generation and literacy programs for women. A total of 35 subprojects have been completed.

The NGO support program was the first to provide a framework where the Government of Afghanistan and local NGOs could work together and has provided lessons on both how such a collaboration should

be organized and the kind of constraints that need to be overcome for this collaboration to be replicated on a larger scale to the Ministry of Rural Rehabilitation and Development (MRRD).

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. The construction work for three youth centers is underway in Mazar-e-Sharif, Kandahar, and Faryab with an average of 70 percent completion rate. In Kabul, the bidding process for a youth center has been in its final stages. Over 300 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).

NGO Health Sector Emergency Rehabilitation (US\$500,000 Grant): The project is helping the Ministry of Health work systematically with NGOs to ensure the delivery of basic health services such as immunization, maternal care, and family planning in underserved rural areas. The project is developing the capacity of the Ministry of Health to coordinate the activities of the many NGOs, and has resulted in the expansion of health services that has avoided large gaps in coverage or duplication of efforts.

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 of 2002 to provide support to Afghanistan in two areas. First, it was to provide 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 would support investment projects, capacity building, feasibility studies, technical assistance, and the return of expatriate Afghans.

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 22 different donors, allowing the assistance to be used more efficiently and effectively without the risk of duplication of work.

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. A monitoring agent has been recruited to assist in ensuring proper fiduciary management.

As of December 18, 2005, 24 donors had pledged US\$1.3 billion to ARTF, of which US\$1.1 billion has been received. Over US\$685 million had been disbursed to the Government of Afghanistan to help cover recurrent costs, and US\$155 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\$763 million)

The ARTF recurrent window finances salaries and wages of about 220,000 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 SY1384 National Budget updated under the midyear review includes US\$280 million disbursements from ARTF for recurrent costs. Over the last three years, the Government of Afghanistan 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; and 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.

Following are investment projects with grants allocated from the ARTF.

The ARTF Microfinance Support for Poverty Reduction Project (US\$41.4 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 two years of operations, the project has provided more than US\$28 million in funds, with US\$17 million as portfolio outstanding and is now working with 12 microfinance institutions (MFIs). Currently the project supports a network of 128 branches, with more than an 119,000 clients in 17 provinces and 120 districts. Eighty-five percent of the clients are women and the repayment rate is approximately 99 percent. The sector now employs over 1,500 Afghans (two-thirds are women) and has trained over 400 Afghans including 25 managers in microfinance. The project is also expanding in the seven poppy growing provinces identified by the government in order to provide alternative livelihood opportunities to poppy-growing farmers. The project anticipates that it will support 20 or more MFIs in the coming two to three years, reaching at least 600,000 poor households in most provinces. Efforts are being made towards sustainability of the sector and anticipation that most of the MFIs will follow good microfinance practices and will achieve operational sustainability by 2007.

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 and collection system.

The Repair of Major Kabul City Roads and Water Drainage Systems Project (US\$3 million) was completed by June 30, 2005. Its objective was to improve transport services on important roads within Kabul city through the rehabilitation of high-priority road sections, as well as the repair of drainage systems along these roads. This project was the continuation of a German-funded project, through Kreditanstalt für Wiederaufbau (KfW) in Kabul city. Under this project, road repair works consisted of 30 percent of pothole repair and 70 percent of overlay. A total of 47,300 man-days of labor have been created by the road component. In addition a total 3,660m of newly drainage ditches have been constructed and 4,850m have been reconstructed along the roads. A total of 9,540 man-days of labors were created by the drainage repair component.

The Urban Water Supply and Sanitation Project (UWSS) (US\$41 million) supports the government's short-term UWSS Program and 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 first tranche of US\$20 million was released in February 2005. Implementation progress on the various components includes the preparation for detailed designs/bidding documents and conducting hydro-geological surveys for the Kabul water supply and provincial WSS investments. The Kabul water 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 to these components, the ARTF has also financed feasibility studies for cities not yet served by CAWSS, including Maimana, SariPul, Pul-E-Khomri, Faizabad, Aybak, Zaranj, Bazarak (Panjsheer), Mahmud-E-Raqi (Kapisa), Bamyan, Maydan Shar (Wardak), and Pul-E-Alam (Logar). The Kabul sanitation component is based on the strategic sanitation plan and associated Master Plan covering solid waste, on-site sanitation, and sewerage and storm water drainage. The contract for consultancy services to support the design and implementation of the Kabul sanitation component commenced in October 2005. A stakeholder workshop was held on September 1, 2005, to discuss the Ministry's urban water supply and sanitation program, including the sector policy, the sector institutional development plan, and ongoing and future donor support.

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 110kV transmission lines, and supply and installation of street lighting in Kabul. The street lighting component will contribute to improve security in Kabul, while the rehabilitation project of the Mahipar Hydropower Station will finance the supply of tools, spare parts, consumables, and the project's supervision.

The Strengthening the Financial Management Capacity of Government (US\$5.1 million) project will improve the financial management capacity of selected line ministries through participation of advisors to the chief financial officers. This will result in increased donor confidence in Afghanistan's financial management capabilities.

Afghan Civil Service Capacity Building Program (US\$8 million)

Component One: Afghan Expatriates Program (US\$5 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 65 Afghan Experts have been placed in government ministries and agencies.

Component Two: Lateral Entry Program (US\$3 million): The pilot phase of this project 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 to recruit a further 1,400 lateral entrants. Since August 2005, around 30 lateral entrants have been recruited.

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.

The Education Quality Improvement Project (US\$5 million) is providing support to schools and communities who are strengthening their capacity to better manage teaching/learning activities; investing in human resources (teachers, principals, and educational administration personnel) and physical facilities; strengthening the capacity of schools, District Education Departments, Provincial Education Departments, and the Ministry of Education. The program is promoting education for girls by making hiring and training female teachers a priority.

All dollar figures are in US dollar equivalents.

Abdul Raouf Zia
☎ (93) *070-276002
✉ azia@worldbank.org
* (outside Afghanistan, omit zero)

Washington, DC
Benjamin S. Crow
☎ 202 473-5105
✉ bcrow@worldbank.org