

Quarterly Country Update

Afghanistan

Introduction

After an often difficult four month process President Karzai inaugurated Afghanistan's new Parliament on Wednesday, January 24, 2011. The Parliament spent its first few weeks electing a speaker. After four failed attempts, Abdul Raouf Ibrahimy – an MP from the northeastern Kunduz Province – was elected to the post. An ethnic Uzbek and former border commander in Kunduz province, Ibrahimy received 169 affirmative votes from the 173 members present.

One of the new parliament's first duties has been to consider the SY1390 proposed budget. The total budget for SY1390 is AFN215.9 billion or \$4.8 billion, roughly the same level than last year's budget. AFN150 billion is for operational expenditure and AFN65.9 billion is for development expenditure. Sixty-four percent of the budget will be spent on maintaining security and equipping and training Afghan security forces whereas 20 percent of the outlay would go to the agriculture sector. The parliament has rejected the first draft: the second draft will be re-submitted shortly.

In his new year speech on March 21, President Karzai inaugurated the "transition" process. He announced the first seven areas where local security forces will take over from NATO, kick-starting a transition designed to allow international combat forces to leave by the end of 2014. They include central Bamiyan Province, central Panjshir Province, parts of Kabul Province, and Meherlam city (the capital of eastern Laghman Province), as well as the cities of Mazar-e-Sharif in northern Balkh Province, Herat city in western Herat Province and Lashkagar city in southern Helmand Province. Afghanistan's security forces are currently comprised of 118,000 police and 159,500 army forces.

WORLD BANK GROUP SUPPORT

Since April 2002, the World Bank has committed over \$2.1 billion for development and emergency reconstruction projects and four budget support operations in Afghanistan. This support comprises over \$1.67 billion in grants and \$436.4 million in no-interest loans known as "credits." Currently, the Bank has 23 active projects in Afghanistan with net commitments of over \$900 million.

So far, a number of Bank-financed projects have been completed which include the rehabilitation of education, emergency public works, the reconstruction of infrastructure, emergency transport rehabilitation, health sector reconstruction, emergency communications project and the first phase of a public administration project as well as



A young boy in Kandahar City.

four budget support operations. For more information about closed projects, please visit: www.worldbank.org.af – Projects & Programs page.

The World Bank has provided advice to help the government manage donor funds effectively and in a transparent way. The World Bank also supports the government by providing analytical work on the economy, public administration, gender, poverty, the opium economy, and public finance management (PFM). 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 are most critical.

The International Finance Corporation (IFC), the World Bank Group's private sector development arm, continues to work with its investment partners in Afghanistan. IFC now has an investment portfolio totaling more than \$90 million in six companies. This includes commitments in the financial (First Microfinance Bank of Afghanistan, BRAC Afghanistan Bank, Afghanistan International Bank), telecom (MTN



The World Bank Group's IFC investment in Afghanistan is currently more than \$90 million.

Afghanistan), hospitality (Serena Kabul Hotel) and healthcare (Acomet Family Hospital) sectors. IFC continues to work in various sectors through its pipeline of projects in Afghanistan.

The IFC continues strengthening the financial sector through capacity building of various financial institutions. IFC assisted First Microfinance Bank of Afghanistan to design; pilot and roll out a housing microfinance ("HMF") product to help low income Afghans meet their housing needs. Additionally, Business Advisory Services ("BAS") has recently concluded an SME Banking diagnostic of Afghanistan International Bank (AIB). IFC expects this to lead to a more in-depth advisory engagement.

The Afghanistan Reconstruction Trust Fund (ARTF) is a partnership between the international community and the Afghan government for the improved effectiveness of the reconstruction effort. Since early 2002, 32 donors have contributed over \$4.2 billion (as of March 20, 2011), making ARTF the largest contributor to the Afghan budget – for both operating costs and development programs. ARTF's support for national priority programs, for operating costs of government operations, and for the policy reform agenda is contributing to the achievement of the Afghanistan National Development Strategy goals. More than \$2.29 billion

has been disbursed to the Government of Afghanistan to help cover recurrent costs, such as civil servants' salaries, and over \$559.42 million had been made available for investment projects.

The Japan Social Development Fund (JSDF), administered by the World Bank, has provided a special window for Afghanistan which operates in a harmonized manner to support the national programs of the government. As of March 2011, JSDF's total commitment to Afghanistan since its establishment in 2002 had reached \$81.3 million. A number of JSDF financed projects have so far been completed. For more information, please visit <http://go.worldbank.org/U5OQZVF200>.

STATUS OF ONGOING OPERATIONS

Emergency National Solidarity Project (NSP) (IDA Grant \$398 million, ARTF Grant \$618 million and JSDF Grant \$15 million): This is the Government of Afghanistan's flagship program to support small-scale reconstruction and development activities identified by Community Development Councils (CDCs) across the country. The project is financed by the World Bank, the ARTF, the JSDF, and several bilateral contributors. Between early-May 2003 and March 2011, the NSP has reached over 18 million Afghans. Approximately

24,936 communities have been mobilized, and 26,856 communities have successfully elected Community Development Councils (CDCs). These CDCs are established through the assistance of 28 NSP Facilitating Partners who mobilize the community, facilitate elections and community development planning through community consultation, assist in project preparation and implementation, and also provide capacity building to CDC members.

Approximately 56,074 community subprojects have been partially or fully financed, of which some 45,350 subprojects have been completed. About 80 percent of the community subprojects 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 subprojects financed under the NSP focus on social and economic infrastructure and are based on the priorities of the rural population. Of the currently funded community subprojects, 24 percent address water and sanitation issues, 16 percent rehabilitate irrigation systems, 24 percent improve transportation infrastructure (e.g. roads, bridges), 15 percent provide energy (e.g. micro-hydro, solar energy), 5 percent improve livelihoods and income-generation, 14 percent work on education infrastructure, and 2 percent

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Utilizing the NSP block grants, over 26,800 communities completed over 45,350 community-based projects such as drinking water supply networks.

go towards other investments. The NSP is active in 359 of Afghanistan's 364 districts and all of Afghanistan's 34 provinces. As of March 18, 2011, over \$844 million of block grants had been disbursed to CDCs.

In addition to subproject implementation, NSP has effectively strengthened community-level governance by establishing a network of CDCs. CDCs are the village-level representative body and form a basis for interaction within and between communities as well as with government bodies and other aid agencies. The CDCs are also increasingly becoming the platform for dispute resolution at the community level. The third phase of NSP became effective on October 6, 2010. NSP III plans to achieve national coverage by rolling out to the remaining communities in the country and also provide a second block grant to approximately 14,000 communities that have already fully utilized their first block grant. More information is available at <http://www.nspafghanistan.org>.

National Emergency Rural Access Project (NERAP) (IDA Grant \$152 million and ARTF Grant \$80 million): Following the successfully completed National Emergency Employment Program for Rural Access project (NEEPA), the Bank, on December 13, 2007, approved a grant of \$112 million for the National

Emergency Rural Access Project. In keeping with the overarching objectives of the program, the project aims to provide year-round access to basic services and facilities in the rural areas of Afghanistan to enhance the well being of the population and promote economic growth in the country. Under the project, secondary roads are being rehabilitated by the Ministry of Public Works (MPW) and tertiary roads by the Ministry of Rural Rehabilitation and Development (MRRD). The project targets the rehabilitation of approximately 2,300 km of rural roads and some

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9,000 meters of drainage structures, generating 2.13 million unskilled labor days of employment. As of February 28, 2011, 82 of the 121 secondary roads and drainage contracts have been awarded to contractors, of which 51 contracts are completed and 31 are in progress; the remaining 39 contracts are under various stages of development. On the tertiary roads side, 219 of the 326 roads and drainage contracts have been awarded

to contractors, of which 155 contracts are completed and 64 are in progress; 107 contracts are under various stages of development. Six hundred fifty-one km of the total 1,105 km of the secondary roads and 625 of the total 1,197 km of the tertiary roads have been rehabilitated. Secondary roads have generated about 669,400 labor days of employment to date and the tertiary roads over 860,000 labor days. Out of the total budget of \$232 million allocated for road rehabilitation, drainage works, and routine maintenance, approximately \$127 million has been disbursed to date.

Due to the increased cost of rehabilitation of road works, the ARTF Management Committee approved on November 22nd an additional funding of \$30 million and a \$20 million allocation which was already approved in October 2009. Similarly, the World Bank Board approved an additional financing of \$40 million on December 16th. This brings the total NERAP funding up to \$232 million. Bank management recently approved the extension of the Project closing date to December 31, 2013, to allow the outstanding project works to be completed and fully meet the project objectives. A supervision mission has been conducted from February 7-16 to review implementation progress since the last mid-term review mission in May-June 2010.

Afghanistan Rural Enterprise Development Project (AREDP) (IDA Grant \$30 million and ARTF Grant \$18 million) enhances participation of the rural poor in economic activities by providing business development services, improving their access to finance, and strengthening market linkages and value chains. The project will support the establishment of 13,000 Savings Groups (SGs), 6,500 Enterprise Groups (EGs) and 1,300 Village and Savings Loan Associations. The EGs will help maximize the economic potential of rural entrepreneurs to improve market access, deliver technical knowledge, raise basic business skills, and leverage economies of scale to increase the value of their sales. The project will also work with around 750 Small and Medium Enterprises (SMEs) which are likely to be key drivers of rural employment. It will support SMEs in building necessary skills, promoting market development, and particularly encouraging business linkages into the rural economy. AREDP has set up offices and recruited provincial staff in Parwan, Bamyan, Nangarhar, Balkh, and Herat provinces. In Parwan, 123 female SGs; 121 male SGs; and 35 EGs have been formed. In Bamyan, 103 female SGs and 85 male SGs have been formed and in Nangarhar 59 female SGs and 126 male SGs have been formed. All groups have started saving and many have also started internal lending. The key enterprises that the EGs in Parwan are involved in include saffron production, poultry development, livestock rearing and handicrafts.

Expanding Microfinance Outreach and Improving Sustainability Project (MISFA) (IDA Grant \$30 million and ARTF Grant \$183.3 million): The project 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 microfinance from the broader mainstream financial system. Since its inception in 2003, the project has provided more than \$168 million in funds, including \$123.4 million in loans. There are now 14 microfinance institutions (MFIs), with a network of 249 branches in 26 provinces, and more than 429,989 savings and loan clients. To date, the program has disbursed a total of 1.8 million loans across Afghanistan worth more than \$1 billion. As of January 31, 2011, the gross loans outstanding were \$123 million. Sixty percent of the clients are women, and 30 percent of the businesses are run by women. The ARTF Grant was closed on June 30, 2010 and the IDA Grant funding which ended on December 31, 2010, has been extended for one more year to ensure that the project objectives are met and to assist MISFA continue to effectively support their current efforts in ensuring the development of a sustainable microfinance sector in Afghanistan. The sector now employs 3,890 people, 1,465 of whom are women; and over 90 percent of professional positions and 50 percent of management positions in the sector are occupied by Afghans. According to findings of the Baseline/Impact study of the microfinance sector conducted in 2007, each MFI loan supports or creates 1.5 employment opportunities in Afghanistan. More information is available at <http://www.misfa.org.af>.

Public Financial Management Reform Projects (IDA Grant \$60.4 million): A series of four operations support Afghanistan's efforts to establish a transparent and well-functioning public financial management system to ensure better

use of public resources. The grants initially concentrated on funding consulting firms to support government officials in carrying out procurement and treasury operations, but have now shifted emphasis to building capacity in procurement and audit functions in the Treasury Department of the Finance Ministry. The projects contributed to the establishment of the current modern legal framework for public financial management and to the implementation of systems to support this framework. Activities include:

Procurement Advisor: The procurement advisor has facilitated 873 government contracts valued at \$2.2 billion. A new procurement law has been enacted and related regulations and bidding documents have also been prepared along with standard bidding documents.

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

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





Some 9,487 School Shuras received block grants to improve quality of education.

added to support purchasing and control of assets.

Audit Advisor: The audit advisor has assisted the Control and Audit Office (CAO) with the audits of International Development Association (IDA) projects, ARTF projects and cost expenditures, and the state budget. In addition, over 100 staff members have participated in various training courses, including computer and language training, technical audit, and modern audit working practices and procedures. The CAO is being equipped with computers and training material; a strategic development plan has been prepared and a new law on auditing is proposed.

Internal Audit Capacity Development: The Ministry of Finance Internal Audit Department is operating an auditing training program which has already imparted a four-month training program to 120 staff of the Ministry of Finance and other public entities and has trained internal audit staff from across government, including 40 new auditors in the Ministry of Defense.

The Second Education Quality Improvement Program (EQUIP) (IDA Grant \$65 million and ARTF Grant \$85 million) is fully aligned with the goals of the Afghanistan National Education Strategic Plan for Solar Years 1385 to 1389). The project is designed to: (i) increase children's access to schooling from Grades 1

through 12; (ii) strengthen the capacity of communities to better manage teacher-learning activities; (iii) promote district-based teacher training activities nationwide; and (iv) provide scholarships for girls to attend teacher training college. Results have been impressive. Since 2008, an additional 480,000 girls have been enrolled, bringing the total number of girls in school to 2.68 million. Similarly, an additional 687,047 boys were enrolled in 2008, bringing the total number of boys in school to 4.385 million. Overall, around 150,000 teachers have been trained, with 65,544 teachers being trained in 2009-2010 alone. In addition, 814 school administrators have completed the school management training. School Shuras (school management committees) have been established in all provinces, and as of today 10,462 out of 11,724 MOE-supported schools have functioning school shuras. Furthermore, school grants have been distributed to 9,487 Shuras. Grants are used by Shuras to purchase library books, teaching materials, computers, laboratory equipment, and other school supplies. With support from EQUIP I and II, a total of 10,288 new classrooms have been built and 637 schools have been completed. As noted above, EQUIP has actively supported the training of teachers with a special focus on attracting female teachers into the system. Studies have demonstrated that female teachers are critical

to improving girls' enrollment especially in more traditional areas. EQUIP supports the District Teacher Training Program in 23 provinces (the balance 11 provinces are supported by USAID). Forty two Teacher Training Colleges and 730 district-based Teacher Training Centers (TTC) have been established. 750 qualified lecturers have been recruited in 18 provinces to teach at Teacher Training Colleges. Additionally, 3000 scholarships have been distributed in 25 provinces to incentivize and increase girls' enrollment in Teacher Training Colleges. Qualified women are trained for a period of two years at the Teacher Training College after which they join the teaching force in their local communities.

Strengthening Higher Education Program (SHEP) (IDA Grant \$60 million and ARTF Grant \$32 million): The program aims to restore basic operations at 12 core universities in Afghanistan — Kabul Polytechnic University, Kabul University, Kabul Education University, and nine regional universities (Balkh, Herat, Kandahar, Khost, Bamyan, Kapisa, Takhar, Juzjan, and Nangarhar) — through partnership programs with universities in the region and in the West, as well as through competitive block grants. In June 2010 additional resources of \$20 million equivalent through World Bank's International Development Association (IDA) Crisis Response Window (CRW) was approved to scale

up these activities while adding 6 more public universities (Bamyán, Takhar, Jozjan, Khost, Kabul-Education and Alberoni Universities), in line with the priorities identified in National Higher Education Strategic Plan (NHESP). Funds will also be provided to set up an institutional base to develop an agenda for tertiary education, capacity building and reform. The program is envisaged as the first phase of a long-term higher education development program in Afghanistan that will act as a catalyst to attract various resources to the Afghan tertiary education sector.

Under this program, eleven partnerships have been formed for five of the six participating universities with eight established overseas universities. These partner universities include: Kansas State University (USA), University of Hartford (USA), San Diego State University (USA), Asian Institute of Technology (Thailand), University of Brighton (UK), Delhi University (India), Ruhr Bochum University (Germany) and Technical University of Berlin (Germany), focusing essentially on Engineering, Computer Science, English Language, Natural Science and Economics/Management. Most partnership contracts have ended by December 2010. However three partnership contracts have been given time extensions to allow master degree students to complete their studies by June 2011. The program will have trained 131 junior faculty members in master degree program by June 2011. The usage of block grants to procure books, teaching materials, and IT equipment, and to rehabilitate libraries and classrooms and equip laboratories is continuing. Most procurement packages have been completed as per plan. Also, SHEP, with the support of other development partners, is supporting the Ministry of Higher Education in the

implementation of the 5-year National Higher Education Strategic Plan, aligned to the goals of the ANDS.

The ARTF Management Committee approved a blanket commitment of \$32 million in 2008 to support the construction of faculty buildings, libraries, and gymnasiums, as well as master plans and other activities to improve academic delivery in the universities of Balkh, Kandahar, Nangarhar, and the Kabul Polytechnic. The first phase of the ARTF funded activities is currently underway with \$5 million in the form of a Development Grant Agreement (DGA) that essentially covers design consultancy costs of buildings and master plans, capacity building as well as the cost of

“SHEP supports 131 junior faculty members to earn masters degree in different fields.”

supervising construction of buildings. Contracts for these activities have been signed for the Universities of Nangarhar, Balkh and Kandahar and are being implemented.

Afghanistan Skills Development Project (IDA Grant \$20 million and ARTF Grant \$18 million): The project is designed to increase the number of skilled Afghans and create a high-quality Technical Vocational Education and Training (TVET) system that is equitable, market responsive, and cost-effective. More specifically, the project aims to develop a demand-driven vocational education and training system, and give training institutions autonomy to plan and customize their programs and establish partnerships with

experienced national and international training providers. The project has 3 components:

Component 1: Mainly focuses on the establishment of the Afghanistan National Qualifications Authority (ANQA); Afghanistan National Qualifications Framework and Awarding (ANQF) Boards. Hiring of an expert consultancy firm has been completed and contract signed with CINOP (a Dutch consultancy firm) on May 19, 2010 to undertake the above mentioned activities over a period of 24 months. The setup for the Committee on Education and Skills Policy (CESP) is in place and chaired by the First Vice President. The CESP Secretariat has been restructured and hiring of the staff is ongoing. Eight biweekly Technical Advisory Groups (TAG) meeting have been conducted, model of ANQA and ANQF adopted and draft structure of ANQA and ANQF will be developed by the middle of next month.

Component 2: In pursuance of its mandate to be a model TVET institution, National Institute of Management and Administration (NIMA) has been established and it implements competency-based curricula for its academic programs. The Maxwell Stamp PLC (MSP) took over the academic management during the second semester with 1,700 students. Meanwhile, the third semester was started with 1510 students. A significant feature is a Placement System where a cooperation-type sustainable industry-institution linkage is being forged necessitating the development of competencies demanded by the industries. To lend credence to the programs, the MSP through the University of Jyväskylä will provide international accreditation to the programs and possibly national accreditation in the event





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the Afghanistan National Qualifications Authority becomes operational. Four computer laboratories have been equipped with 410 computers. The office equipment for NIMA institute has been purchased. Several TVET institutes are also being supported by the Project: the Afghanistan National Institute of Music (ANIM), the School of Blind, Auto-Mechanical Institute, Construction Institute, Women's Dormitory and some buildings for the Deputy Minister TVET's (DMTVET) headquarters.

After a comprehensive evaluation of the DMTVET and its institutes, the German Education and Training (GET) undertook and completed a review/reorientation of procedures and processes to prepare the Deputy Ministry for a decentralized structure. Policy recommendations have been put forward, and capacity building interventions have been initiated to prepare the Deputy Ministry for a decentralized management system. This covers human resource management, curriculum development, quality assurance, teacher training, planning and organization, among others. As a result of this, interventions and capacity building measures are identified and designed for implementation.

In addition, the Project has provided support to TVET

buildings and campuses in need of renovation and physical rehabilitation. The physical up-gradation activities undertaken are: Construction of the Afghanistan National Institute of Music (ANIM): Renovation of the ANIM is complete; the design for construction of new buildings for the Music School has been completed; contract for construction of an alternate building and construction of a library and computer center for the Auto-mechanical School have been awarded and the construction work is ongoing; construction of the surrounding wall of the Auto Mechanical School (100 percent complete); construction of the auxiliary building for DMTVET (80 percent complete); the construction additional classes for Takhnik-Sanwi is under evaluation, construction of learning space for IT Institute (Darul-Aman) has been announced, the termination of dining hall & cafeteria for Jangalak have been cleared with procurement department of MOE and will to be announced and construction of a women's dormitory. The project has likewise provided funds for the purchase of equipment for the Blind School, such as stationary, slide board, stile (chalk), walking stick, laptop and Braille computers (completed and audio equipment covered by Canadian Embassy); and Western musical instruments

for ANIM.

Component 3: Under the National Skills Development Program (NSDP), contracts were signed with local NGOs and training providers to train around 7500 poor women, marginalized farmers and unemployed youth in 13 provinces namely (Khost, Zabul, Uruzgan, Kandahar, Badakhshan, Samangan, Bamyán, Ghazni, Paktika, Kunduz, Baghlan, Faryab, and Helmand) in wage and self employment. The training programs have progressed well and more than 7,390 participants have completed the training so far and the training of rest 110 trainees in Helmand will be completed by the end of February, 2011. In order to support the UN-Habitat Learning and Community Empowerment Project 2 (LCEP-2) the procurement process of hiring a consultancy firm to provide TOT in Business Development Services (BDS) and follow up support for 1500 trainers of LCEP-2 and 150 trainers of other TVET providers is completed and KBDS has been selected. The project makes progress according to the plan and so far 170 trainers received TOT in BDS. The main purpose of these interventions is to improve the livelihoods of the above groups, and especially those who can benefit from training in improved production and marketing methodologies, and



Infant mortality rate, per 1,000 live births down from 129 in 2006 to about 111 in 2008.

more diversification.

The curriculum and material development specialist resigned and hiring of new curriculum and material specialist and other technical consultants are in process to support the NSDP curriculum and standards development team in development of Competency Based Training standards at different level for the most demanded skills. So far 84 standards have been developed by the team and some of these have already been introduced to the training providers.

The Government of Norway and USAID are co-financing the project in the amount of \$12 million and \$6 million respectively through the ARTF. The project is expected to be completed by February 2013.

The Strengthening Health Activities for Rural Poor Project (SHARP) (IDA Grant \$79 million, ARTF Grant \$22 million, JSDF Grant \$17.9 million, \$12 million from Multi Donor Trust fund for health results innovation): SHARP aims to improve the health and nutritional status of Afghans, focusing especially on women and children and the underserved areas of the country. The project supports Afghanistan's Health and Nutrition Sector Strategy, which is the blueprint for the government's health sector program for the period 2008-13.

The National Risk and Vulnerability Assessment (NRVA) 2007/08 indicate good progress in reducing infant and under-five mortality. Infant and under five mortality in 2008 has declined to 111 (13 percent reduction) and 161 per thousand live births (15 percent reduction) respectively from 129 and 191 per

1000 live births respectively in 2006. With World Bank support in 18 provinces since 2003, the number of health facilities has nearly tripled from 148 to 432. About 85 percent of the population lives in districts, which now have service providers to deliver a basic package of health service. However, 57.4 percent of the population lives within one hour walking distance from a public health facility (based on NRVA 2007/2008). Health service utilization increased among project area populations from a rate of 0.3 consultations per capita annually at the outset to 1.21 per capita by the mid 2010. Health care for expectant mothers expanded, with the number of deliveries assisted by trained health workers jumping from 6 percent to 24 percent (NRVA2007/08). The number of pregnant women who received at least one prenatal care visit rose from 11 percent in 2004 to 36 percent in 2008. Child immunization rates are still low but have improved from 12 percent in 2005 to 33 percent in 2008. Around 20,000 community health workers—half of them women—have been trained and deployed throughout the country, increasing access to family planning and boosting childhood vaccinations. The number of facilities with trained female health workers rose from 25 percent before the project to 74 percent today.

SHARP finances provision of the Basic Package of Health Services in eight provinces (Helmand, Farah, Badghis, Nimroz, Samagan, Balkh, Wardak, and Saripul) through national and international NGOs contracted out by Ministry of Public Health (MoPH). The MOPH has signed all the BPHS service delivery contracts for 8 provinces of the country. SHARP also supports monitoring and evaluation of health

services in Afghanistan by financing a third party agency to conduct annual balance scorecards for primary health care facilities and hospitals.

Implementation of an innovative results-based financing (RBF) mechanism to improve coverage and quality of services in health facilities is making satisfactory progress. In addition, \$17.9 million has been approved through JSDF to co-finance the SHARP project. This allows the project to provide BPHS services for Balkh, Samangan and urban Kabul for three years. In addition, \$22 million, which had been approved by the ARTF, is being used to co-finance the implementation of BPHS in 11 provinces - in Helmand, Badghis, Farah, Nimroz, Samangan, Balkh, Wardak, Sar-e-Pul) through NGO contracts, and in Kapisa, Panjshir, and Parwan through direct delivery by MOPH, under the stewardship of the Ministry in guiding implementation and policy dialogue for the Essential Package of Hospital Services. The Bank has also approved Additional Financing from the Crisis Response Window in the amount of \$49 million equivalent to expand SHARP's implementation capacity to deliver basic health and hospital services to the vast majority of the poor. Provision is being made to include (a) mental health and enhanced nutrition services in the new BPHS package; and (b) improve hospital services critical to reduce maternal and child mortality.

Afghanistan HIV/AIDS Prevention Project (IDA Grant \$10 million) is designed to strengthen national capacity to respond to the epidemic by scaling up prevention programs targeting people engaged in high risk behaviors. These vulnerable groups at high risk include injecting

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drug users (IDUs), sex workers and their clients, truckers, and prisoners. The project also aims to improve the knowledge of HIV prevention among the general population, strengthen surveillance of HIV prevalence and high risk behaviors, map and estimate the sizes of groups engaged in high risk behavior, and use communications and advocacy to reduce stigma related to HIV and AIDS.

Since its approval in July 2007, the project has contributed to strengthening the capacity of the National Aids Control Program (NACP) through (i) recruitment of seven national advisors and one international advisor; (ii) participation of NACP staff in national/international training activities; and (iii) exposure of NACP staff to well performing HIV/AIDS programs abroad. The increased capacity of NACP has resulted in the adoption of the Afghanistan HIV Code of Ethics, an important milestone for the support and protection of people living with HIV/AIDS in the country. The program also finalized the policy on Opioid Substitution Therapy. The HIV/AIDS policy development is in an advanced stage which will be finalized soon. To achieve its objectives, the NACP has signed 12 contracts with national and international organizations, and the harm reduction activities have been initiated. Comprehensive integrated biological-behavioral surveillance (IBBS 2009) has been completed among priority populations of injecting drug users, prisoners, female sex workers, and road transport workers. The results of the survey have important implications for Afghanistan's

AIDS program. Injecting drug use is the major source of new HIV infections, with transmission highest in Western Afghanistan. HIV prevalence is significant among prisoners and

“Child immunization rates increased from 12% in 2005 to 33% in 2008.”

appears to be related to the proportion of injecting drug users in prison. HIV prevalence is zero among both sex workers and road transport workers, suggesting limited sexual transmission.

Based on the recommendations of the mid-term review, the project was restructured in February 2010. The restructuring includes: (i) Modification of the project performance indicators; (ii) cancellation of part 4.2 in schedule 1 to the Financing Agreement (innovative initiatives sub-component); (iii) expansion of the project scope including possible extension of the provision of harm reduction services for injecting drug users (IDUs) to Farah and Nimroz provinces where the HIV epidemic is believed to be high (dependent on the results of the rapid IDU assessment in these provinces); and (iv) extension of the Project Closing Date from December 31, 2010 to June 30, 2012. Most of the NGO contracts have been extended up to June 30, 2012.

The Second Customs Reform and Trade Facilitation Project (SCRTFP) (IDA Grant \$50.5 million): Building on the overall success of

the successfully completed Emergency Customs Modernization and Trade Facilitation Project (ECMFTP) and to continue with the reforms underway, the World Bank Board approved a new follow-on project on June 25, 2010. The project will continue to consolidate the customs modernization process, and is specifically focused on anticorruption and on improving the release of legitimate goods in a fair and efficient manner. The grant helps finance costs associated with: countrywide computerization of customs clearance operations; installation of executive information systems for customs, allowing real-time monitoring of operations; development of possible options for cross-border Customs-to-Customs cooperation; provision of selected customs infrastructure to enable modernized operations; and technical assistance to support the development of a regulatory, administrative, and institutional framework for customs. Through these initiatives, the project continues the World Bank's efforts to reform and modernize the Afghan Customs administration initiated in 2004 when the ECMFTP began.

The ECMFTP (IDA Credit \$31.2 million and IDA Grant \$6.81 million) closed on December 31, 2010. To ensure continuity of reforms and to avoid loss of momentum, the Government of Afghanistan has provided \$2.8 million from its own resources as bridge financing for the interim period until the Second Customs Reform and Trade Facilitation Project became effective, on December 28, 2010. The ECMFTP is currently in the Implementation Completion

The World Bank's Interim Strategy Note (2009-11) is aligned with Afghanistan's National Development Strategy (ANDS) and is designed around three main pillars:

Building the capacity of the state and its accountability to its citizens: The Bank will continue to strengthen core government systems as the basis for credible state building. Efforts will be made to strengthen public financial management and fiscal sustainability, and improve transparency and accountability. Assessments of vulnerability to corruption will be integrated into ongoing work.

Promoting growth of the rural economy and improving rural livelihoods: Support to the rural economy and livelihoods will remain a priority for the Bank. Rural programs also serve as important entry points for shifting economic incentives away from opium and toward alternative, legal, high value agricultural products.

Supporting growth of the formal private sector: The World Bank Group will continue to address the overall constraints to private sector development through lending and advisory work. It will identify and address specific measures that catalyze business growth and will invest directly in local companies, including banks, to help them expand business.

Report phase.

The ECMTFP has helped improve the valuation of goods, reduce leakage of revenues, and decrease the waiting time at major border crossings. One of the project's key achievements has been the automation of customs processes with the Automated System for Customs Data (ASYCUDA). To date, Customs processes have been automated at major Inland Customs Depots (ICD), including at the Kabul Airport, which receives approximately 55 percent of all the country's customs declarations. ASYCUDA is now functional at five transit axes, which receive some 65 percent of Afghanistan's transit trade by value thus improving the collection of transit fees in major transit corridors in Afghanistan. Full Declaration Processing System is now operational at five locations. Customs revenues have soared from \$50 million in 2004 to over \$400 million in 2008 and almost doubled at the end of March 2010, reaching over \$700 million - an increase of more than 1,400 percent in six years. In fact, in the last year, Customs revenues have increased by about 90 percent. This was largely attributable to computerized control over transit shipments, tighter control over the clearance of goods, and the enhanced capacity of the Afghan Customs Department (ACD) staff. The waiting time for trucks at the major border crossings has also decreased. For example, at Torkham, at the eastern border with Pakistan, over 90 percent of trucks are now cleared in less than one and a half hours, down from 18 hours in 2003. At the Kabul Inland Clearance Depot, the average waiting time for trucks is a quarter of what it used to be before computerization. Afghanistan's ranking of Customs

Logistics Performance Index (LPI) has improved notably from 150 in 2007 to 143 in 2010. In relative terms, as compared with the country with the highest score, Afghanistan's performance increased from 6.6 percent of the highest performer in 2007 to 39.9 percent in 2010.

“The first customs project helped improve valuation of goods, reduce leakages and decrease waiting time at major border crossings.”

The Emergency Irrigation Rehabilitation Project (IDA Credit \$40 million, IDA Grant \$86.5 million, and \$6 million Government Funds): The project is helping to provide water to farms in the project areas, with more reliable and equitable distribution of irrigation water. The rehabilitation of the national irrigation system in all five river basins of Afghanistan will help increase agricultural productivity and farm income, improve food security and livelihoods, and reduce vulnerability due to droughts. 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 January 31, 2011, 775 subproject proposals, costing about \$90 million, had been prepared. Of these, 774 subprojects totaling \$89.4 million have been approved; contracts for 767 subprojects worth \$75.9 million are ongoing; and 679 medium and large size traditional irrigation schemes worth \$55.8 million serving more than

726,000 ha of land in various parts of the country have been completed. As a result of the rehabilitation, an additional 145,000 hectares of land area are now receiving irrigation supplies, and crop yields have increased substantially. In addition, the work under the Feasibility Study of the Lower Kokcha Irrigation and Hydropower Multipurpose Project on the Kokcha River in the Amu River Basin has been completed, and the final report was submitted in April 2010. Installation of 105 of the 174 hydrology stations in different part of the country has been completed. Work on installation of 40 Cableways has commenced. These facilities will enable measurement of river flows for future use in planning and developing water resources in the country.

The Afghanistan Investment Guarantee Facility (AIGF), in cooperation with Asian Development Bank (ADB), Department for International Development (DFID), and World Bank's Multilateral Investment Guarantee Agency (MIGA), aims to assist Afghanistan in its reconstruction efforts by stimulating foreign direct investment through a program of political risk insurance in an environment where the perception of political risk by foreign investors is very high. The project is designed to stimulate private business activity and attract foreign private investment in a variety of sectors. It will stimulate the local economy, generate employment, create tax revenues, and assist in the transfer of modern technologies and business practices to Afghanistan.

Despite the deteriorating business environment which impeded the flow of foreign direct investment to Afghanistan, the AIGF has been making steady progress. To date, a





Da Afghanistan Brishna Shirkat (Afghanistan Power Utility) has significantly improved power supply to Kabul.

total of six guarantees have been underwritten with the AIGF for two beneficiaries covering the agricultural, financial, construction, and telecommunication sectors. There are potential projects which are now being examined. These are (i) underwriting of an investment of \$100 million in the telecom sector; and (ii) underwriting of an investment of \$3.5 million in the agriculture sector to set up a cold storage for fruits. The due diligence process is in progress, and the underwriting will be completed in June 2011. The total associated foreign investment of the projects under the AIGF is about \$107 million with approximately 850 jobs created as a result. The above two additional investments will increase the coverage of the project from \$107 million to \$210 million and the number of jobs from 850 to 940. Given the importance of the project in attracting foreign direct investment, and at the request of Government of Afghanistan, the closing date of AIGF has been extended for two years from September 30, 2009, to September 30, 2011.

Kabul Urban Reconstruction Project (IDA Credit \$25 million and ARTF Grant \$8.8 million): This ongoing urban upgrading project benefits formal and informal neighborhoods, including four neighborhoods in the Old City of Kabul. About 200,000

persons have already received improved services, and approximately another 50,000 are in the process of receiving services. As of December 27, 2010, 8,639 street lights have been installed, 8,310 latrines have been improved, 147 km of drainage and 120 km of roads, 91.2 km of water supply scheme, 36 unit of solid waste collection point and two deep wells with water pump and other facilities have been constructed or rehabilitated have been constructed or rehabilitated.

In each neighborhood, community-based Gozar Cooperative Shuras are formed to represent women and men of the area. The project has initiated a program of community consultation to booster community support for the project and to build community area upgrading. The shuras identify community needs which are integrated into a Community Upgrading Plan (CUP) covering water supply, access roads and drains, sanitation, solid waste management, and street lighting (i.e. urban services). Shuras are very important in managing local infrastructure and organizing a solid waste collection system where a collector/sweeper contracts with the Shura, and health and hygiene campaigns on clean water and sanitation. In addition, the Shura plays a vital role during the implementation of the project

within the Gozars.

The Emergency Power Rehabilitation Project (IDA Credit \$105 million and ARTF Grant \$20 million):

The project is working to provide improved and more reliable supply of electricity to the residents of Kabul. It is doing so by rehabilitating and expanding city distribution networks; connecting the Kabul city grid to the future North East Transmission System to allow for the import of lower cost power from Uzbekistan into the city; rehabilitating the 100 MW Naghlu Hydropower Plant (the largest hydro generation station in Afghanistan which supplies power to Kabul) and the associated transmission line; and restructuring and commercializing the power utility to improve service delivery.

A majority of project components have been completed and the facilities are in use and providing the desired services, including the rehabilitation of a 110kV transmission line from Naghlu to Kabul; 110 kV of new transmission lines from Chimtallah substation to Kabul North; supply and installation work of optical fiber ground wire from Pul-e-Khumri to Chimtallah 220 kV transmission line; and rehabilitation of 110 kV North-West and North Substations. Unit no. 4 of Naghlu

Japan Social Development Fund (JSDF):

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 multi-year program of assistance for the country's reconstruction and transition toward political, economic, and social stability.

hydro project was also commissioned in October 2010, and commissioning of Unit no. 3 is expected in April 2011. However, this component of the project and the 110kV transmission line from North Substation to the Eastern line continue to experience significant delays due to security considerations, right of way, and some contractual issues. The government has requested additional financing from the World Bank for both contracts which are currently under review.

DABS (Da Afghanistan Brishna Shirkat – Afghanistan Power Utility) has also significantly improved the power supply to Kabul, as well as billing and collection. By December 2010, DABS had fulfilled the ARTF benchmarks for FY1389 relating to improved commercial performance: it had opened five Customer Care Centers in Kabul; met revenue from billed energy cash realized per kWh energy supplied benchmarks; and established a hotline for supply-related complaints.

Given the delays, and after the revised work schedule agreed between the parties, the closing dates of the IDA Credit and ARTF Grant have also been extended from the original dates of September 30, 2010, and June 30, 2010, respectively, to September 30, 2012.

Urban Water Sector Project (IDA Grant \$17 million): The project which originally aimed to (i) transform the Central Authority for Water Supply and Sewerage (CAWSS) into a technically viable operation; (ii) establish the financial sustainability of the Afghanistan Urban Water Supply and Sanitation Corporation (AUWSSC); (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 can be achieved and coverage further expanded in Kabul and provincial towns, was restructured in

October 2010. The revised objective is to assist the Government of Afghanistan to develop the capacity of the Afghanistan Urban Water Supply and Sewerage Corporation (AUWSSC) for operational management and investment planning and implementation. To achieve the revised objective, the restructured project included (i) modification of the project scope to reflect the cancellation of the Kabul water supply system component; (ii) addition of two new activities for the preparation of a new water supply project for Kabul and a pilot scheme for expanding water supply services by small private operators; (iii) revision of the project development objective and project results and indicators; and (iv) extension of the current grant closing date to June 30, 2012, to enable completion of the technical assistance and capacity building activities for the water supply and sewerage utility.

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 Articles of Incorporation of the new AUWSSC were approved by the Cabinet on July 9, 2007, and gazetted by the Ministry of Justice on July 11 2007; the Board of Directors is meeting regularly, and the management team, comprising of General Manager, Finance Manager, Operations Manager, and Deputy Technical Manager, Internal Auditor, and Heads of six Strategic Business Units, has been appointed. AUWSSC took over the entire urban water supply and sewerage operation in the country. External auditors have been appointed, and the consulting contract for obtaining technical assistance has been finalized.

Emergency Horticulture and Livestock Project (HLP) (IDA Grant \$20 million and ARTF Grant \$34.3 million): The project is making good progress especially under

the Horticulture component. Over 2,839 ha of new orchards have been planted which makes 95 percent of the set target of 3,000 ha. Four additional crops -- apple, peach, plum, and cherry -- were introduced during fall season campaign (the previous crops were almond, apricot, pomegranate, and grape). Over 600 female farmers have participated in the new orchard's scheme. Besides receiving input, they have received extension messages. The component also supports existing orchards by providing extension messages and inputs through farmers' field schools.

Under the Animal Health Component, in addition to 114 government veterinary clinics transferred to trained veterinarians for private operation, 53 more clinics have been identified and assessed for similar transfer. The poultry subcomponent has helped poor women enhance their incomes from poultry production. Under this component, over 12,800 intensive poultry units have already been established, out of which 7,000 units were established in 2009, and 5,800 units were established at the beginning of 2011. So far, over 13.8 million eggs have been produced. Furthermore, 200 small-scale broiler units were also established by December 2010. Out of 7,000 units established in 2009, 94 percent have started the second production cycle without financial assistance from the project, which demonstrates sustainability.

Sustainable Development of Natural Resources Project (IDA Grant \$40 million Grant): The project supports measures to enhance regulatory capacity, foster private sector development and adherence to international standards. This project is helping the government to ensure that the revenues from these valuable resources are available to the country as a whole and are transparently managed. Among the approaches the government will use to manage the sector



Under the Horticulture and Livestock Project, over 2,800 hectares of new orchards have been planted.

is the Extractive Industries Transparency Initiative – a set of principles that supports sector governance via the full publication and verification of company payments and government revenues from oil, gas, and mining. In addition, an International Advisory Council has been established to assist the government in evaluating the strengths and benefits of contracts to ensure that best practices are applied to help Afghanistan in developing its natural resources.

Despite a number of constraints—notably a difficult business environment—the project has made steady progress since its inception. Significant strengthening of the Ministry of Mines departments responsible for cadastre and mine title management has been conducted as well as training courses for the Afghanistan Geological Survey. Mining regulations have been drafted and environmental regulations are under preparation as well as other guidelines and procedures for the Ministry of Mines. Significantly, the project has stimulated private sector investment in Afghanistan by facilitating the successful tender of the Aynak copper deposit, one of the largest such deposits in the world. The government has concluded the contractual agreements with the Chinese company which was awarded the tender. The total amount of the investment will be around \$10 billion over the next 5 to 10

years, and an initial payment of \$80 million has been received by the government. In a short while, the project will guarantee the supervision of contractual obligations of the Aynak development, with an emphasis on social and environmental issues. Important steps have been undertaken with regard to the cultural preservation of the Buddhist antiquities which are located in the Logar valley: The project supports a rapid archaeological assessment as well as the development of a full recovery plan, with the overall goal to rescue and exhibit these artifacts. Since end of 2010, the project has supported the government to initiate the Hajigak tender process. Hajigak is a world class iron deposit and will be Afghanistan's biggest mine and indeed one of the largest in the region, once operational. The WB-supported tender process has already shortlisted interested bidders, and is expected to be concluded toward the last quarter of this year.

A quarry/mine verification exercise is being undertaken using members of the Extraction Department and the Inspection Department of the Ministry of Mines. The exercise is using hand-held GPS instruments to obtain coordinates of actual quarries around Kabul, photographs are taken of the GPS and site, and this information, together with other information regarding the

contract, is placed in a newly established filing system (hard copy), with a copy of the contract as obtained from the Department of Extraction. To date, 69 quarries have been located. The filing system is, however, being progressed. The program is also used for training in the use of GPS instruments in a real situation. The Mineral Resource Development Corridor has been researched, maps were prepared, and the concept of the Resources Development Corridor was developed and received high commendation from the World Bank. New plans to enhance and promote the concept by developing a comprehensive geo-scientific database are under way as are plans to develop an inventory of mineral assets and promote mineral assets for Afghanistan by mineral districts and mineral deposits. In addition, the project will assist AGS with the planning and management of conducting countrywide a regional stream sediment geochemical survey, geochemical database and interpretations, and mineral deposit assessments. The project is also helping the government through Transaction Advisers with bidding procedures of the Hajigak Iron Ore Deposit, which is one of the world class iron deposits.

In addition to strengthening the Ministry of Mines' capacity to supervise the mining sector, the project is helping the government move towards its

goal of ensuring transparency and good governance in the sector. The government has taken the important step of endorsing the principles of the Extractive Industries Transparency Initiative (EITI) and has been awarded "candidate" status by the EITI secretariat in Oslo. An EITI Secretariat and the National Multi Stakeholders Group, with a broad participation of government, private sector, and civil society groups, have both been established to run and oversee EITI implementation processes in Afghanistan.

Private Sector Development (PSD) Support Project (IDA Grant \$25 million): The project aims to stimulate the local economy to generate employment, create income and alleviate poverty. It helps create an economic enclave for businesses operating in both the domestic and export markets. The project supports: (i) constructing an industrial park at Hisar-e-Shahi, (ii) establishing industries in 4 key sectors (light engineering, food processing, leather garments, carpet washing and finishing); (iii) building AISA's (Afghanistan Investment Support Agency) capacity in the Industrial Parks Development Department (IPDD) and Research and Policy Department (RPD); and (iv) creating capacity in the Private Sector Development Directorate (PSDD) of Ministry of Commerce and Industries (MoCI) to design PSD related policies. The capacity of IPDD has been substantially improved in financial management, procurement, environmental and social management, and project supervision. However, the high staff turnover has constrained the ability to implement projects independently. Similarly, a number of staff in PSD department of MoCI have been trained to improve their capacity in undertaking policy analysis and

implementing projects.

Civil construction work of the park, which includes leveling, boundary walls, road work, storm water drainage, and water supply system, is now fully completed. This represents 40 percent of the total project cost. The power distribution network and street lighting of the park is being constructed. The design contract for wastewater treatment was awarded in September 2010. The major constraint that the project is experiencing relates to power supply. The project was designed in 2006, when the grid station was not available in Jalalabad City. The Asian Development Bank (ADB) is financing a transmission line from Naghlu hydro power station to Jalalabad city and building a substation in Jalalabad. An MOU has been signed between Da Afghanistan Brishna Sherkat (DABS) and AISA which states that DABS will provide 25 MVA hydropower to the Hussar-e-Shahi industrial park.

Since the project is located 24 km from Jalalabad city, it would be possible to extend the ADB-financed transmission line to the Hisar-e-Shahi industrial park and install a substation to supply the power from the grid to the park. The transmission line from Jalalabad city to the industrial park and the substation could potentially be financed under the PSD Support Project. The project closing date is June 30, 2011. In order to complete the planned activities, the project would need to be extended for at least two years and would require additional financing. To help reach a decision on whether to extend the project and to request additional financing, AISA will shortly complete a study which will focus on the following aspects: (i) industry sector assessment and demand analysis, (ii) economic and financial modelling,

(iii) institutional framework and management arrangement, and (iv) implementation action plan.

Civil Service Reform Project (IDA Grant \$20.4 million): The project supports the Independent Administrative Reforms and Civil Service Commission (IARCSC) and key government ministries in improving their capabilities for management of human resources. To meet this objective, the project supports the government in the development and implementation of clear rules and procedures for managing civil servants. The project also supports core ministries to reorganize their structures and staffing so as to better perform their tasks. In addition, the project supports ministries to implement the Pay and Grade reforms.

Financial Sector Strengthening Project (IDA Grant \$8 million): The project supports the Afghanistan National Development Strategy's vision to establish a modern and competitive financial sector. The project will specifically strengthen the capacity of Da Afghanistan Bank (DAB) in the area's offside banking supervision, accounting, internal audit, and human resource management. It will also develop necessary financial infrastructure such as a public credit registry, collateral registry, and the Afghanistan Institution of Banking and Finance (AIBF). AIBF was officially inaugurated on November 10, 2010. Furthermore, the agreement for regional collaboration for AIBF was signed between Da Afghanistan Bank (DAB) and Bangladesh Institute of Banking and Management on December 8, 2010. Under this agreement, BIMB will help AIBF's capacity building, training, and curriculum development. The consultants for the positions of audit,





The Bank's new Global Food Crisis Response Program helped rehabilitate 379 small irrigation schemes, benefiting over 6,900 families.

human resources, accounts, and procurement have been recruited. At the request of the Central Bank, the project will finance in-depth audits of 10 commercial banks operating in Afghanistan. The recruitment of the auditing firms is ongoing.

Through this project, IFC is also providing technical assistance to the Central Bank in order to establish two basic financial sector infrastructures in the country: (i) a Public Credit Registry that will provide lenders with information for efficient risk assessment on borrowers; (ii) a Collateral Registry for movable property that will provide lenders with the ability to effectively use borrowers' property as collateral. IFC's involvement in these two projects includes an assessment of the legal and regulatory framework, support in the preparation of the necessary new laws and regulations required for the establishment of this infrastructure, assistance in raising awareness among the relevant stakeholders, and providing advice regarding the necessary IT systems. IFC is also engaged with the Central Bank to establish the legal framework for leasing.

The Afghanistan Credit Reporting Regulation was approved by the Supreme Council of Da Afghanistan Bank on June 05, 2010. The new regulation will be in force after the official publication in the Gazette, and can

be considered one of the most modern in the region. It allows both public and private credit reporting to be established in Afghanistan. It also introduces, for the first time, ample borrowers' privacy rights and allows for the establishments of Private Credit Bureaus in the future. It has been constructed to attract leading private providers (mandatory sharing and mandatory inquiries with borrowers' consent, closure of the PCR to inquiries when the first PCB opens) and allows the participation of regulated and non-regulated entities.

Afghanistan Food Crisis Response Project (\$8 million Grant): The Bank's new Global Food Crisis Response Program provided assistance for the rehabilitation of approximately 476 small irrigation schemes, critical to the recovery of the country's agriculture. The project closed on September 2010 at which time approximately \$7.1 million had been disbursed overall, of which \$6.8 million was disbursed directly to rural communities for implementation and construction work of irrigation subprojects. Of these, 379 subprojects have been completed by the communities, while the remaining 97 subprojects are still ongoing and funds for these subprojects have been fully disbursed into community bank accounts.

These irrigation schemes

included cleaning of canals/karezes, as well as building of protection walls, gabion walls, water dividers, and intakes. With rehabilitation of these schemes, over 6,900 families in far remote areas of Afghanistan have been provided with access to improved irrigation systems which will enable farmers to expand irrigated farmland.

Afghanistan Pension Administration and Safety Net Project (IDA Grant \$7.5): The project is designed to improve the administrative capacity of the public pension system to ensure the effectiveness of a reformed pension scheme for public sector employees. It will also develop a policy framework for safety nets, and on that basis implement a pilot safety net program for needy households, with a subsequent proposal for a scaled-up national approach. The project aims to develop capacity in the Ministry of Labor and Social Affairs to plan and administer programs in pensions and safety nets. At present, the pension beneficiary survey is halfway into its implementation; an IT firm has been contracted to implement a new computerized system for the Pension Department; various manuals for the new benefit application process are close to completion; a public information campaign for the HR officers and employees of the government agencies will soon be rolled out. On

The Afghanistan Reconstruction Trust Fund (ARTF) was established in April 2002 as a temporary means to finance the government's wage bill. Now the ARTF has developed into the main multi-donor funding mechanism in the country – financing both the essential running costs of government as well as key Afghan National Development Strategy (ANDS) programs across the country. The objectives of ARTF are to:

- Position the national budget as the key vehicle to align the reconstruction program with national development objectives.
- Promote transparency and accountability of reconstruction assistance
- Reduce the burden on limited government capacity while promoting capacity-building over time
- Enhance donor coordination for financing and policy dialogue.



the safety nets side, a new targeting instrument has been developed and a comprehensive Operational Manual for the pilot has been developed. A small-scale proof of the concept pilot (covering 22 villages and around 500 beneficiaries) is underway in Farza district of Kabul province. The second phase of the pilot program will be fully rolled out in three districts of three different provinces during the spring. Evaluation of the pilot will be conducted by a specialized firm hired for this purpose by the Ministry. It will cover evaluation of the targeting instrument and operational evaluation of the proposed new delivery mechanism. If successful, the scheme will be proposed for the national scale up.

AFGHANISTAN RECONSTRUCTION TRUST FUND

The Afghanistan Reconstruction Trust Fund (ARTF) is a partnership between the international community and the Afghan government for the improved effectiveness of the reconstruction effort. Since early 2002 until March 20, 2011, 32 donors had contributed over \$4.2 billion, making ARTF the largest contributor to the Afghan budget—for both operating costs and development programs. ARTF's support for national priority programs, for operating costs of government operations and for the policy reform agenda is contributing

How the Afghanistan Reconstruction Trust Fund (ARTF) works:

Donors contribute funds into a single account, held by the World Bank in the US. The ARTF Management Committee makes decisions on proposed allocations at its monthly meetings, and those decisions are translated into funds through Grant Agreements signed between the World Bank and the Government of Afghanistan. ARTF allocations are made through two “windows”: the Recurrent Cost Window and the Investment Window. The Recurrent Cost Window reimburses the government for a certain portion of eligible and non-security related operating expenditure every year. The Investment Window provides grant financing for national development programs in the development budget.

to the achievement of the Afghanistan National Development Strategy goals.

Management: The ARTF is managed by the World Bank as Administrator of the fund. The Management Committee consists of the World Bank, the Islamic Development Bank, the Asian Development Bank, UNDP and the Ministry of Finance. The Management Committee meets regularly in Kabul to review the ARTF finances and approve funding proposals. Once a quarter, ARTF Donors meet to discuss broader strategy with the government and ARTF Management in the Steering Committee.

ARTF and Donor Contributions: A total of 32 donors have contributed to the ARTF over the past nine years. Donor contributions have increased year after year, with new donors joining and older donors increasing their levels of contribution. Nevertheless, over the last few years the “preferenced” portion of donor contributions has been the main factor driving growth. The agreed ARTF rules are that donors may not “preference” more than half of their annual contributions. This rule is to ensure that the ARTF has sufficient funding to finance the Recurrent Cost Window and that it retains some flexibility in the approval of National Priority Investment Projects.

The Recurrent Cost (RC) Window (\$2.29 billion

Grant): To date, the ARTF has disbursed \$2.15 billion through the government's operating budget. Domestic revenues continue to be insufficient to cover the costs of government. The ARTF Recurrent Cost Window has therefore ensured the basic functioning of government including the delivery of services such as healthcare and education. Given that around 60 percent of the non-uniformed Afghan civil service is accounted for by teachers, the Ministry of Education has in general received around 50 percent of total ARTF resources. Ministries of Public Health, Foreign Affairs, Labor, and Social Affairs and Higher Education have also been major recipients. It should also be highlighted that the ARTF's RC Window resources are national in scope, ensuring the payment of salaries of around 400,000 non-uniformed civil servants in all 34 provinces of the country. Steady year-on-year increases in operating costs across government mean the RC Window accounts for a declining share of the overall budget. Nevertheless, the RC Window still finances around half of the non-security costs of government.

The Investment Window: The Investment Window has in the last two years increased significantly in volume and scope. In the last two years (SY1388 and SY1389) investment commitments have exceeded recurrent cost commitments. Disbursement rates on ARTF



The ARTF is managed by the World Bank as Administrator of the fund.

investment have been very strong with 65 percent of total investments disbursed as of March 20, 2011. Consistently high rates of disbursement are strongly influenced by the sectors in which ARTF invests. Decentralized and national rural development programs, such as NSP, NRAP, and education, have been strongly supported by the ARTF.

As of March 20, 2011, there were 17 active projects funded through ARTF, with a combined commitment value of over \$635.19 million; of this, \$559.42 million was disbursed. Full details of investment activities are provided in the ARTF Quarterly Reports available at www.worldbank.org/artf.

The ARTF-financed Urban Water Supply and Sanitation Project (UWSS) provided \$41 million to support the government's short-term UWSS program. 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 were based on feasibility studies that were completed for Kabul (financed by KfW) and 11 provincial capitals served by CAWSS. In addition, the ARTF had financed feasibility studies for 11 cities which were not served by CAWSS. The Kabul sanitation component

was based on the strategic sanitation plan and associated master plan covering municipal solid waste, on-site sanitation, and sewerage and storm water drainage.

Implementation of the project was most problematic throughout the project period, and the project encountered severe cost and time overruns, which led to project restructuring in March 2010 to drastically reduce project scope and scale back project outcome targets. The grant closing date was extended three times from the original closing date of December 31, 2007, to December 31, 2010. The Ministry of Urban Development Affairs (MUDA) did not implement the agreed action plan to complete the ongoing contracts for water supply in 12 provincial towns, and the project performance was unsatisfactory. In view of the unsatisfactory performance and based on the Bank's operational policies on closing date extension, further extension of the Grant closing date was not considered.

Except for the construction of the water supply systems in 12 provincial towns where the works remained partially completed, all other investment activities envisaged in the restructured project were completed by grant closing. Financial support to operations, effective since August 2005, was terminated in March 2007. The CAWSS was liquidated and Afghanistan Water Supply and Sewerage

Corporation (AUWSSC) took over the existing water supply and sewerage operations in the urban areas. Withdrawal of about \$36 million was made by the government out of the grant amount of \$41 million, and withdrawals will be allowed until April 30, 2011, for eligible expenditures.

Kabul/Aybak/Mazar-e-Sharif Power Project (\$57 million Grant) is working to provide reliable and quality power to consumers in the target areas of the cities of Kabul, Aybak, and Mazar-e-Sharif. The project would support investments to: (i) strengthen the low-voltage distribution network through rehabilitation/upgrading of old and dilapidated infrastructure in parts of Kabul with the aim of improving the reliability and quality of electricity supply and services in the target areas, as well as accountability of power utility; (ii) construct a new 220/20 kV substation and associated 20 kV lines at Aybak to provide quality, reliable, and clean grid power to the residents of Aybak town; and (iii) rehabilitate and augment the transmission facilities for the medium- and low-voltage distribution network in Mazar-e-Sharif. In addition, the project would support institutional capacity building for operation and maintenance of the distribution systems, as well as the establishment, operation, and handover to DABS (Da Afghanistan Brishna Shirkat – Afghanistan Power Utility) of a customer care center in the target area.

The main project components are falling behind schedule. The project will require further extension (from the revised closing date of September 2011) for a few months. Ministry of Energy and Water (MEW) and SMEC (the implementing consultancy firm) are working on the revised work plan and completion time. The delay was mainly because of issues with acceptance of poles' technical standards by MEW. Even though the issue is now resolved, the delay has already affected the project completion time. Terrorist attacks targeting Indians had led the Indian contractors to recall a major part of their work force causing further delays in execution of some contracts.

The physical progress of the Kabul rehabilitation work is slow with only about 72 percent of the work completed as of March 2011. Delays are being caused by access difficulties for construction activity; pole procurement contributed the maximum delay. In addition, delays are also caused by delay in obtaining permission from Kabul Municipality and other organizations, frequent work stoppages by different organizations and individuals, slow progress by the contractor, and slow progress in manufacturing of meter boxes by DABS.

Implementation work for Feeder 07 (pilot project) under Mazar distribution works was completed and energized on June 20, 2010, with 20 distribution transformers connected to this new feeder. Approximately 4,500 consumers were connected to the new line, having 24-hour electricity supply from Mazar substation. Since then, the work has been delayed and progress in increasing the number of connections was not being made. Work is in progress at GSS feeder 01 with 42 Nos distribution transformers.

It was planned to energize 17 Nos of distribution transformers in GSS feeder 01 before the end January 2011. However, a shortfall of 12m poles has delayed meeting this target. Work is continuing on other feeders although progress was severely restricted due to nonavailability of concrete distribution poles. Civil and structural design approvals for both Aybak and Mazar substations are fully completed. Construction works of the boundary wall of Aybak substation has been completed. Also, leveling works at Aybak switchyard is nearing completion. Sixty-one percent of the supply items, including 16MVA power transformer, have reached the Aybak site.

The construction work of the customer care center is completed. Procurement of a digital metering package for single and three phase consumers, base computer stations, handheld units, and meter testing sets has also been completed. All three shipments of the energy meters, base computer stations, handheld units, and meter testing sets have arrived in Kabul and Mazar-e-Sharif. Handing over of two lots was completed, and the third lot is underway. The training of DABS personnel by the contractor is completed in Kabul and is in progress in Mazar-e-Sharif.

ARTF – Afghanistan Power Sector Development Project (\$60 million Grant): The project supports the Government of Afghanistan in increasing: (i) access to grid power; and (ii) the quantity of power available to consumers in the target urban centers of Pul-e-Khumri, Charikar, Gulbahar and Jabul-Seraj. The project consists of the following three components: Distribution System Rehabilitation; Rehabilitation of Transmission Switchyard Associated with Naghlu and Mahipur Hydropower Stations; and Institutional Capacity

Building and Project Management Support to Ministry of Energy and Water (MEW). The project is also supporting the establishment of a unit within MEW to promote energy efficiency and saving. The project was designed at \$60 million. Phase I of the project was started with \$35 million. The proposal for the balance of \$25 million of ARTF funding has been processed and approved in January 2011, and now the full \$60 million funding is available for the project. A one-year extension in the project closing date has also been approved and the new closing date is July 31, 2013; the extension will cover the completion of rehabilitation of Naghlu and Mahipar Switchyards and the delays in the project that have occurred in the past.

The state-owned utility DABM was converted to a corporate DABS. It was officially formed on May 4, 2008, and took over the assets of DABM on September 30, 2009. Work on the rehabilitation of distribution works at Pul-e-Khumri and Charikar, Gulbahar and Jabel-es-Seraj is underway. The rehabilitation and extension work includes 173 km of MV lines, 10 km of underground MV cables, 420 km of LV lines, and 170 distribution transformers. The contractors have completed survey and design work. Delays occurred in release of funds, customs clearance issues, pole design/quality issues, and extension of some of the L/Cs. These issues have mostly been resolved. Most of the equipment has been procured and is either being manufactured or has already arrived in Afghanistan. In Pul-e-Khumri, the coverage area had to be increased.

The project is supporting energy efficiency activities of Ministry of Energy and Water. The Bank has already funded the salaries of Energy Efficiency Engineers at MEW





Rehabilitation of about 12 kms of existing roads in Kabul city will be completed by May 2011.

and is currently discussing a plan of further support to the unit. The project aims to strengthen Afghanistan's capabilities to incorporate energy efficiency into its core energy development strategy and mitigate the impacts of high generation costs on consumers. The support includes establishment of a unit within MEW to work in the area of promoting energy efficiency and demand-side measures, including implementation of some pilots; and preparing and implementing a communication strategy for awareness among consumers. The Energy Efficiency Cell has been established at MEW. The Bank is working closely with MEW for a well planned staffing of the Energy Efficiency Unit, so that implementing measures to support energy efficiency work can be effectively undertaken.

A household energy survey has been completed. Results show that respondents are willing to pay more for better quality electricity, and there is awareness of energy saving and alternate energy measures. Results of the study were disseminated in a workshop on October 6, 2010, which was chaired by the Minister of Energy and Water and attended by Ministry officials. It has been recommended by the Supervision Consultant to go to the next stage and address the comments in the Survey by carrying a Feasibility Study to assess the most critical area where power is needed. Five Professional Engineers have been hired with the project

funds, and procurement of office facilities is underway. The recruitment process for the National Energy Efficiency Advisor has started. The Energy Efficiency Advisor will lead the recruitment of an international team leader and also lead the preparation of the annual work plan for three main areas: (a) capacity building of Professional Engineers in energy audit, implementation of load management, power factor demand side management (DSM), (b) an awareness/outreach program, and (c) a few demonstration projects in Kabul and some provinces.

Two other activities in the energy efficiency area explicitly designed to promote energy efficiency and demand-side measures in Afghanistan are: (i) an Energy Efficiency Study for large public buildings in Afghanistan (funded by ESMAP); and (ii) an Energy Assessment (Analytic and Advisory Activities (AAA)) which would identify energy efficient lighting solutions in Afghanistan. Both these Bank-executed studies have been completed and shared with MEW and Inter-ministerial Commission on Energy participants.

Kabul Urban Roads Improvement Project (\$18 million Grant): The Project aims to improve traffic flow on priority corridors or segments of the main urban roads in Kabul city. The Project will rehabilitate about 12 kms of existing roads; construct and rehabilitate road

side drains and walkways; construct roundabouts at key intersections; and install street lights. The Implementation Consultant (IC) has completed the topographic survey, geotechnical investigations and design for 75 km of roads under their contract and has submitted to the Kabul Municipality for final approval. Under this project 12 km of the existing roads will be rehabilitated in Kabul city. The project has shown notable implementation progress in the second quarter where physical progress increased from 56 percent to 68 percent and disbursement rose from 45 percent to 54 percent. The construction work is expected to be completed in May 2011. Bank management approved the extension of the Grant closing date to December 31, 2011, to allow the outstanding project works to be completed and fully meet the project objectives.

Afghanistan On-Farm Water Management Project (\$41 million Grant): The project is designed to support on-farm water management investments in five provinces (Herat, Bamyan, Nangarhar, Balkh, and Kabul) covering a total of 175 irrigation schemes in approximately 50,000 ha. The project's investments include the establishment and strengthening of Irrigation Associations, improving on-farm irrigation infrastructure, and disseminating improved water saving techniques and high efficiency irrigation systems to farmers. At the



same time, the project will invest in capacity building and institutional strengthening of the General Directorate of Irrigation in the Ministry of Agriculture, Irrigation, and Livestock.

Afghanistan Justice Sector Reform Project (Phase 1) (\$27,75 million Grant): In line with the ANDS and National Justice Sector Strategy (NJSS), the Justice Sector reform project's (JSRP) objective is to enhance capacity of the justice institution to deliver justice. This should be achieved through more strategic human capital and physical infrastructure management, the increase of the skills of legal professionals, enhancement of the physical infrastructure, the provision of legal aid and legal awareness program. The project implementation started in July 15, 2008 and the project should be completed in June 30, 2011.

The project has three components: Enhancing the Capacity of Justice Institutions; Legal Empowerment; and Strengthening Implementation Capacity. Key activities include: (a) Human Resource Management (HRM) (with HRM for Judges and RIMU (Reform Implementation and Management Unit) to support the HRM for court staff, prosecutors and AGO employees); (b) Training and Training Management Capacity (TMC); (c) creation of Central and Provincial Legal Libraries; and (d) International and National Gatherings of Legal Professionals; (e) Legal Aid program; (f) Legal Awareness Program; and (g) Financing the institutional structure for the implementation of the NJSS and the Project. Though with different levels of success, the Justice Institutions have made progress in the course of project implementation. Accomplished results imply that the project is likely to achieve its objectives. The Ministry of Justice has been the strongest performer among the JIs, followed by the Supreme Court. The AGO has made the slowest progress. Building project's implementation capacity presents by far the biggest challenge for the project.

The Management Capacity Program (\$35 million Grant) helps ministries to improve their capacity in key managerial areas over the medium term. This enables the government to manage resources more effectively and deliver results faster on the ground. The program funds qualified and highly professional Afghan staff; currently working in NGOs and international agencies, to work in critical positions in government to apply for 'line' civil service posts in areas such as financial management, procurement, human resource management, policy and administration. This program directly funds about 100 senior level government positions in about 17 ministries, mostly focused on common functions.

These positions are filled through a transparent and merit based recruitment managed by the Independent Administrative Reform and Civil Service Commission (IARCSC).

Note:

All dollar figures are in US dollar equivalents.

IDA (International Development Association) is the World Bank's concessionary lending arm.



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