1. Country and Sector Background

Late 2005 saw the culmination of the political transformation established for Afghanistan by the Bonn agreement in 2001, forming the basis for the state-building and development in a country emerging from nearly three decades of conflict and political turmoil.

Despite unmet expectations for some of the population, it is clear that Afghanistan’s progress in some sectors has been impressive – development of road networks had reduced travel times and improved rural access; school enrolments have reached historic highs; health facilities are gaining outreach; thousands of rural communities have been mobilized for development; commercial banks have opened up for business and microfinance programs have extended services to thousands, predominantly women. Real GDP, excluding opium production, is projected to grow by 14 percent in 2005/06 (SY 1384), following increases of 29 percent in 2002/03, 16 percent in 2003/04 and 8 percent in 2004/05. However, the situation is far from normalized and the country has not emerged from its state of conflict. For every success, there remain formidable, numerous challenges.

These are particularly demanding in rural Afghanistan, which is home to nearly 80 percent of the population, and where incidence of rural poverty is high, penetration of insurgency growing, and opium production booming as the country recovers from the long-term effects of the recently ended six-year drought.
To address state building, local governance, warlordism, and to urgently provide basic rural infrastructure for irrigation, drinking water, electrification, rural roads and school, the government has promoted since 2003 a massive effort for outreach to rural communities through the National Solidarity Program (NSP). The NSP, supported by the International Development Association (IDA) and several donors under the leadership of the World Bank, has been implementing successfully in the last three years quickly positioning itself as the government most visible intervention in rural areas, significantly contributing to the process of pacification, democratization and reconstruction.

The NSP is making a significant contribution towards achieving the vision and goals of the Government of Afghanistan set out in the interim-Afghanistan National Development Strategy (I-ANDS) which will lay out the basis for an Afghanistan PRSP. The NSP is directly in line with the overall vision for the Islamic Republic of Afghanistan, ‘to consolidate peace and stability through just, democratic processes and institutions, and to reduce poverty and achieve prosperity through broad based and equitable economic growth’. The NSP promotes CDCs at the community level through a democratic process, thereby working towards the good governance goal of establishing basic institutions and practicing democratic governance at the village level. The implementation of the subprojects, prioritized by the communities, contributes to poverty reduction and enhanced livelihoods.

The NSP will also be a key vehicle in the delivery of the benchmarks for the I-ANDS Agriculture and Rural Development pillar, particularly in the areas of rural infrastructure and community development. NSP subprojects cover nearly all the areas of priority investments for rural infrastructure: drinking water, sanitation, small-scale irrigation, roads and structures, schools and village electrification. The program has the sole responsibility for the delivery of the Community Development Program benchmark of the I-ANDS.

2. Objectives
Building on the current NSP, the proposed Grant will finance expansion to new areas to lay the foundations for strengthening of community level governance, and to support community-managed subprojects comprising reconstruction and development that improve access of rural communities to social and productive infrastructure and services.

3. Rationale for Bank Involvement

In May 2006, the World Bank Board of Executive Directors discussed a new Interim Strategy Note (ISN) for Afghanistan, which guides the Bank's engagement for the next two years, and is aligned with the government’s Interim National Development Strategy (I-ANDS). The ISN envisages a grant program of up to US$540 million over those two years, which is in line with the World Bank’s five-year pledge of US$1.2 billion made at the January 2006 London Conference. Under the ISN, the World Bank priorities are: (i) building the capacity and accountability of the state, (ii) improving rural livelihoods and promoting rural economy, and (iii) supporting the growth of a formal, modern, and competitive private sector. Because of its design and outreach, the NSP is considered one of the key instruments to achieve these objectives.
4. Description

The proposed IDA Grant will finance about 23 percent of the total projected cost of the National Solidarity Program in the next three years and for the following components:

(i) **Block Grants for communities** (US$94.3 million) to carry out Subprojects involving reconstruction and development activities through a facilitated participatory planning process. This will cover about a third of the amount estimated to complete block grant disbursement to existing and new communities (US$288 million) for the whole program. While the use of block grants is demand-driven following the Community Development Plan priorities, based on the experience gained in the program to date it is expected that block grants will be invested mainly on community-based productive and social infrastructure.

(ii) **Community Facilitation and Subproject Preparation** (US$9.7 million) to support local communities through: (i) facilitation exercises to establish inclusive community institutions, and identify local development needs and priorities; and (ii) assistance for preparing subproject proposals. The FP cycle of support to CDCs has been reduced from three years in the first phase of the program to two years. The two year timeframe will allow the FPs to support communities with mobilization and the establishing and functioning of CDCs as inclusive community institutions; the formulation, through a consultative process, of community development plans, identifying local needs and priorities; and assistance and capacity building for the implementation of priority subprojects, based on the community development plans utilizing the block grant.

(iii) **CDC Capacity Development** (US$14.4 million) to assist CDCs in carrying out subprojects for which block grants have been made available, and capacity building for members of local communities. These services will strengthen local communities’ capacity in financial management, procurement, and technical skills.

(iv) **Implementation and Management Support** (US$1.5 million) comprising provision of consultants’ services for capacity building in, implementation support to, and incremental operating costs for the MRRD. The project will also augment the MRRD’s human and physical capacity to supervise and implement the project.

At the end of the three years, it is expected that: (i) the NSP will have covered all districts across the country making available basic social and productive infrastructure and other services resulting from receipt of block grants, and (ii) that 21,600 CDCs (90 percent of an estimated total of 24,000 villages) will be performing as representative bodies to lead community development planning and financing in their areas per the CDC by-laws.

5. Financing

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<td>IDA Grant</td>
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<tr>
<td><strong>Total</strong></td>
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</table>
6. Implementation
The implementing arrangement over the next three years will rely upon the regional and provincial office structure as was in the ongoing program, but it is proposed to have a rather autonomous structure within the MRRD as opposed to the OC led implementation structure of the ongoing program.

The NSP II management will continue to be supported by a reduced level of international technical assistance, while the MRRD will lead and provide the oversight for the program. MRRD will carry out core functions such as policy and strategy development and application, coordination with other ministries, external relations with donors, resource mobilization, management of relations with FPs, appraisal, approval and processing of subprojects, engineering, monitoring and quality assurance – focusing on achievements, outcomes and program impact, and training and capacity development at central and regional levels.

Other functions, such as consolidated financial management, Block Grant Management and Management Information System (MIS) operations will be outsourced to an external consultant. All remaining operational functions (including M&E, Human Resource Development, Procurement, General Administration, Public Communications, FP Management, and Technical Support) will be handled directly by MRRD NSP staff with limited technical assistance from international consultants. These MRRD staff, however, will be contracted staff and not MRRD civil servants as there is still an acute shortage of civil servants within the MRRD.

An inter-ministerial steering committee will guide the NSP for the overall policy, strategic planning and management of the project and for integration with other rural development programs. Chaired by the Second Vice President of the Government, the Committee is represented by the Ministers of Finance, Agriculture and Irrigation, Energy and Water, Education, Public Health, Women’s Affairs, Public Works, Rural Rehabilitation and Development, and Justice and Interior.

An external donor committee composed of the donors financing the NSP II will monitor the program planning, implementation and development outcomes.

At field level, the program will be managed by Management Units established at the central and provincial levels. At the center, the Minister will be assisted by an Executive Director responsible for policy formulation, program planning, external and donor relations, budget and fund management and overall oversight. The Executive Director will be assisted by a Director of Operations.

At present 24 facilitating partners are engaged in the ongoing program. The contracts of the FPs will expire on March 31, 2007. However, almost all these FPs will require completing the ongoing community mobilization cycle leading to the satisfactory completion of subprojects, some beyond March 31, 2007. In addition, FP services will be required to ensure the continuity of the program in the NSP II as the program rolls out to new communities covering the districts where FPs are already present and new districts where no FPs are presently working.

Implementation in High Risk Areas
The security environment in which the NSP operates has deteriorated over the course of the program and is currently at its worst level. The number of communities and districts where NSP activities are suspended has steadily increased. The security situation remains highly volatile and is the single most important risk the NSP II faces to achieve full national coverage.

The planning of the implementation of the NSP II in the high risk areas therefore requires to strike a pragmatic balance between the state building objectives of the Government and need to comply with the development effectiveness and outcomes as well as the diligent fiduciary management of the project. It has been agreed that the project, through the National Steering Committee, will obtain guidance for program planning and implementation in the high risk areas, particularly for the roll out to new communities and new districts. If the accessibility of these villages and districts are restricted, the program roll out to new communities and new districts will not take place until the Steering Committee recommends that the security situation has eased off, the concerned Communities are willing to receive the services of FPs, the concerned FP and the staff of the Regional staff are willing to travel to those areas, and the Bank task team is confident that satisfactory arrangements for implementation supervision, monitoring and fiduciary compliance are in place.

7. Sustainability

Expected to start in October 2006, the project will cover the first three years of a seven-year government proposal for the expansion and consolidation of the program. There is no plan to extend NSP beyond the proposed 7 years. Any further activity beyond that period applies to the community councils established through NSP, not to NSP itself. CDC’s can play three important roles in the bigger picture of Afghanistan’s longer-term development. First, CDC’s for the first time provide the central government with an effective means to deliver basic services across the entire country. Second, CDC’s could carry out certain basic administrative functions provided that they received a core block grant through the budget. Third, CDC’s could be grouped to provide representative planning bodies at the district level that would advise local government. These three options to a large extent hinge on the central government’s vision for sub-national government and administration.

8. Lessons Learned from Past Operations in the Country/Sector

The lessons from the past three years of operations, albeit still at an early stage, demonstrate that it is possible to implement a large scale CDD program involving substantial facilitation at the community level in the volatile and uncertain socio-political environment of present day Afghanistan.

- **Program targets**: Program targets (block grant disbursement, number of CDCs registered, etc.) are not realistic with relation to the amount of time required for community mobilization and subproject implementation. NSP II takes into consideration a feasible and more realistic implementation period and adopts target ranges rather than absolute numbers.

- **Coordination with other Afghan Government Ministries**: As NSP is a program whose governance and infrastructure outputs are cross-cutting among the portfolios of various other
ministries, it was important to have a high-level cooperation between these ministries and MRRD for the NSP. However, the inter-ministerial Steering Committee adopted during the first phase has not been effective. This has resulted in petty jealousies and often a lack of support from line ministries for NSP projects and/or funding. It was also poorly attended by the ministries. NSP II introduces an inter-ministerial Steering Committee chaired by the Second Vice President, thereby ensuring higher level representation and an equal balance between all ministries.

- **Financial management**: The financial and block grant management of NSP was divided between the MRRD Finance Department, and the NSP OC Finance Department. Occasionally the different departments had discrepancies with their financial reports and there were issues with communications flow. Also the responsibilities of budget planning, forecasting, preparation, implementation and monitoring became divided and complex, and ultimately ineffective. NSP II introduces a streamlined financial management under an outsourced department. This will include all aspects of NSP funding, including bi-lateral donors and ARTF and IDA grants.

- **National Management**: During NSP I, the program has been criticized for being managed and implemented to a large extent by outsourced international consultants and NGOs. During NSP II, the increased role of MRRD in the management of NSP and increased national ownership is important. The recruitment of senior national management staff will be undertaken ensuring maximum competition and transparency, using international recruitment principles.

- **Income Generation, Micro Credit, Public Goods, Human Capital Development**: While several stake holders have encouraged income generation activities and micro-credit within NSP, most OC and FP staff were not adequately skilled in income generation and micro-credit schemes and methodologies and the projects selected in these categories were done with little or no market analysis, cost recovery plans etc. Experience showed that it was counterproductive to task local governance institutions with loan-management responsibilities. NSP II promotes human capital development activities as a means to lay the ground

### 9. Safeguard Policies (including public consultation)

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10. List of Factual Technical Documents

11. Contact point
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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas