I. Introduction and Context

Country Context

KEY DEVELOPMENT ISSUES AND RATIONALE FOR BANK INVOLVEMENT

Afghanistan, a highly aid dependent country, and one of the poorest countries of the world, remains in conflict, with extremely fragile institutions in the midst of a critical transition. The country continues to struggle to overcome almost three decades of war and civil strife. Despite exceptionally high economic growth of 9.1 percent over the last decade, driven mainly by enormous flows of aid for reconstruction and international military spending, Afghans continue to face both political uncertainty and security challenges, and the government remains challenged to bring tangible improvements in the lives of the people.
Afghanistan will experience a major security and development transition over the next years. At the Kabul and Lisbon Conferences in 2010, NATO and the Afghan government agreed that full responsibility for security would be handed over to the Afghan National Security Forces (ANSF) by the end of 2014. The country now faces the drawdown of most international military forces over the coming several years with an expected accompanying decline in civilian aid as international attention shifts elsewhere and aid budgets come under increasing fiscal pressure. The decline in external assistance is likely to have widespread ramifications for Afghanistan’s political and economic landscape well beyond 2014. Falling aid flows in Afghanistan will have the most impact on public spending as present levels of expenditure will be fiscally unsustainable for Afghanistan once donor funds decline. The main issue is how to manage this change, mitigate impacts, and put aid and spending on a more sustainable path. At the Tokyo Conference on July 8, 2012, the international community committed to $16 billion of aid to Afghanistan (annual average of $4 billion over the next four years) and agreed to the Tokyo Mutual Accountability Framework (TMAF) with the Government of Afghanistan that focuses on (i) Representational Democracy and Equitable Elections, (ii) Governance, Rule of Law and Human Rights, (iii) Integrity of Public Finances and Commercial Banking Systems, (iv) Government Revenues, Budget Execution and Sub-National Governance, and (v) Inclusive and Sustained Growth and Development.

Sectoral and Institutional Context

Afghanistan’s urban population has grown rapidly due to an influx of returning refugee, conflict, and drought induced migration. The relatively high urban population growth rate of 4.6 percent is higher than the national population growth rate of 2.4 percent. 47 percent of the population is expected to be living in urban areas by 2050.

Kabul Municipality (KM), home to half the urban population of Afghanistan, ranks 86th amongst the world’s largest 100 urban agglomerations. It has a special legal and political status as the capital city. The Mayor, is a member of both the Cabinet and the Economic Council, and the Municipality’s budget is approved by the Parliament. The city consists of twenty two districts each with its own District Head.

Kabul’s population has doubled since 2004 with about 70 percent of it estimated to be living in informal settlements without access to basic services. The growing informality has reduced the tax base of KM and investment needs far exceed available resources. Infrastructure and service delivery deficiencies are significant across all sectors: roads, water supply, solid waste management, sewage and sanitation. The main challenges in Kabul are to reduce the huge backlog of infrastructure investment to improve municipal service delivery in terms of both quality and quantity, and the lack of access long-term municipal investment funds. KM recognizes that infrastructure provision is as necessary as making available adequate resources for operations and maintenance of assets, and therefore the need for advancing a municipal reform program.

Rationale for IDA Involvement: Cities need a sustained flow of services to contribute to growth, not just infrastructure stock. Service delivery requires substantial institutional reforms which take time. The ability to provide sizable investment over lengthy periods of time gives the Bank comparative advantage to both facilitate and sustain reform processes during the transition thereby enhancing prospects for the effectiveness of public expenditures. The Bank has been financing projects aimed at supporting basic service delivery in unplanned settlements as well as municipal development for over thirty years, another comparative advantage for bank involvement.
Lessons Learned in Previous Operations: Given the substantial donor involvement in Afghanistan over the past decade and the highly volatile working environment, some of the key lessons are: (i) Keep projects simple and focused on a few key objectives and minimize the demands on weak and under-staffed institutions; (ii) Activities co-financed by other donors remain complementary, as donor aid is delivered largely off-budget; (iii) Bank’s criteria for procurement should be defined in a way which is suitable to the condition of the local market.

Relationship to CAS
The proposed project is aligned with the World Bank’s Interim Strategy Note (ISN) that commits the Bank to support ‘building an Afghan state that can effectively and credibly deliver services and security to the people while protecting their rights and opportunities’ as a means of reducing poverty and stabilizing the country. By increasing access to basic services and infrastructure, living conditions will be improved and livelihoods enhanced. A contribution will be made to effective governance through the involvement of beneficiary communities at all stages of investment selection, design and execution of sub-projects. Further, the role of Kabul Municipality staff in managing the project will contribute to the development of technical capacity for planning, budgeting, and execution of development interventions.

II. Proposed Development Objective(s)
Proposed Development Objective(s) (From PCN)
The development objective of the proposed project is to (i) support implementation of Kabul Municipality's multi-year urban upgrading program for the delivery of basic municipal services to under-serviced areas; and (ii) support an increase in the internally generated revenues of select Districts of Kabul Municipality.

Key Results (From PCN)
Quantifiable and measurable results from the investment in infrastructure upgrading, as well as from the support for municipal strengthening will be developed during project preparation. Based on experience with upgrading costs in Kabul under the Kabul Urban Reconstruction Project, the investments under the proposed project could lead to upgrading of over 1,500 hectares of unserviced settlements.

III. Preliminary Description
Concept Description
The proposed project will have the following components (i) Annual Capital Improvement Program for Upgrading (US$73.0m); (ii) a Municipal Strengthening Program (US$10.0m); (iii) Technical Studies and support (US$12.0m); (iv) Project Planning and Management Support and Capacity Building (US$5.0m). Some details of these components are provided below:

Component 1 – Annual Capital Improvement Program for Upgrading: This component will finance: (i) comprehensive upgrading of over 1,500 hectares (to be determined during preparation) of land over the project’s life, including both planned and unplanned settlements; (ii) emergency support to the Sanitation Department

Component 2 - Municipal Strengthening Program: This component will finance (i) computerization of KM’s Financial Management System; (ii) development of KM’s institutional capacity; (iii) enhancement of local revenue mobilization; (iv) support for investment planning, budgeting, and
execution for better service delivery

Component 3 – Technical Studies and support: This component will finance the preparation of feasibility and detailed studies in sequence for (i) a drainage master plan; (ii) solid waste master plan for Kabul; and (iii) asset management study and establishment of an asset management system for KM.

Component 4 - Project Planning and Management Support and Capacity Building: This component will finance: (i) the preparation of detailed design for upgrading; (ii) knowledge sharing and training for capacity building in the areas of solid waste management, upgrading, and municipal development; (iii) communications in the areas targeted in the CIP; (iv) development of an asset management system; and (v) project management costs including operating costs.

Potential Risks and Mitigation: Project Risks and Mitigating Measures

The Project will be implemented by the KM with support from a Project Management Unit of dedicated staff with substantial experience working on IDA projects. This group of staff will be responsible initially for facilitating project preparation and after grant approval for overall supervision of all aspects of the project and for monitoring and reporting.

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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