

Quarterly Country Update

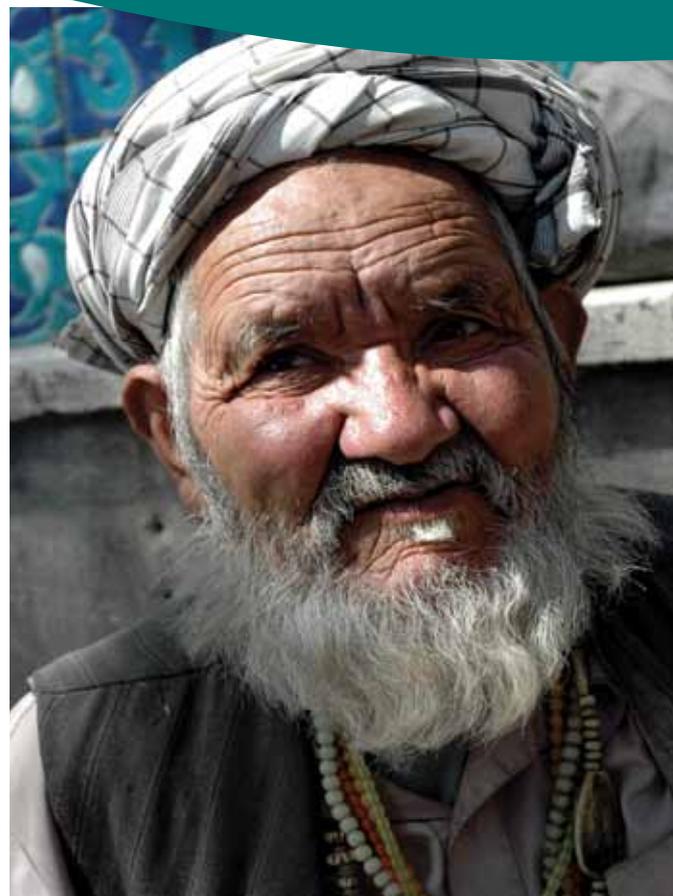
Afghanistan

Introduction

Representatives from more than 50 countries from across the world attended the two-day International Contact Group conference held on June 26-27, 2011, in the Afghan capital, Kabul. Peace talks, regional cooperation, the role of neighboring countries in Afghan peace efforts, the security handover and the continuation of the strategic partnership between Afghanistan and the international community beyond 2014 were the main issues discussed at the summit.

On June 23, 2011, Afghan President Hamid Karzai welcomed his US counterpart Barack Obama's decision to withdraw American forces from Afghanistan. The drawdown of troops is set to begin in July 2011, with 10,000 troops being withdrawn by year-end, and a total of 33,000 troops to be out by the summer of 2012. A statement released by the Presidential Palace quoted President Karzai as saying: "Today we welcome the decision of US president on the withdrawal of US troops from Afghanistan. This decision benefits the United States and Afghanistan. The beginning of the security transition and the withdrawal of foreign forces from Afghanistan means Afghan security forces must be strengthened and that Afghans throughout the country have more confidence in their national army and police."

On June 23, 2011, the Special Electoral Court, set up to look into further allegations of fraud during the September 2010 parliamentary elections, presented its findings. The Court announced the numbers of votes of those candidates it had investigated in a recount and found fraudulent. It also announced the names of the 62 candidates that, according to its findings, would now make it into the Wolesi Jirga (Lower House) from 27 out of the 35 electoral constituencies (the 34 provinces plus the Kuchis). That would mean that 62 so far unsuccessful candidates would become election winners, replacing the 62 others currently sitting in the Jirga, who are supposed to drop out in their favor. In announcing the results, the court's chief judge, Sediqullah Haqiq, said the next step was for the verdict to be carried out by the attorney general and the independent election commission. Election officials immediately refused to implement the decision, arguing that no one had the authority to change the results of last year's parliamentary elections as the final results had already been announced.



An elderly man in northern Faryab Province.

On May 2, 2011, the Wolesi Jirga passed the third draft of the national budget for SY1390 (Mar 21-2011 – Mar 20, 2012). The total budget for SY1390 is AFN224.780 billion (US\$4,782 billion) of this the operating budget is AFN150.726 billion (US\$3.207 billion) and development budget AFN74.054 billion (US\$1.575 billion). The operating budget is 25.8 percent higher than the previous year (SY1389) mainly due to the increase in security personnel and the ongoing implementation of the Pay and Grading reforms for civil servants and teachers. The development budget is nearly 34 percent lower than the previous year. Reflecting Government priorities, 35.2 percent of the development budget (AFN23.2 billion) is allocated for infrastructure and natural resources and another 25.0 percent (AFN16.5 billion) for agriculture and rural development.

WORLD BANK GROUP SUPPORT

Since April 2002, the World Bank has committed over \$2.3 billion for development and emergency reconstruction projects and four budget support operations in Afghanistan. This support comprises over \$1.9 billion in grants and \$436.4 million in no-interest loans known as "credits." Currently, the Bank has 25 active projects in Afghanistan with net commitments of over \$1 billion.



The World Bank Group's International Financial Corporation (IFC) has investments in six companies in Afghanistan with a total commitments of over \$90 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 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 World Bank recently released its quarterly publication: the Afghanistan Economic Update for June 2011. Afghanistan's economy continues to grow, with real GDP growing at 8.2 percent during FY2010/11. According to the report, the country's fiscal position has also strengthened although uncertainty remains over the full implications of the Kabul Bank crisis. Preliminary estimates suggest that Afghanistan's GDP growth rate has dropped from 20.4 percent in FY2009/10 (SY1388) to 8.2 percent in FY2010/11 (SY1389). While last year's GDP growth was exceptionally high due to a record harvest and a large increase in donor grants, preliminary data suggest that this year's return to a lower, but still strong figure was the result of an expansion of the services sector and a solid harvest. Afghanistan's fiscal position is strengthening. In the last three years, fiscal revenues have grown by an average of 20 percent per annum, due to improvements in customs and tax collection. Higher revenue collection is expected once mining operations begin and with the introduction of the value-added tax in FY2014/15. The full report is available at:

<http://go.worldbank.org/8IRXPESWP0>

The Ministry of Economy (MoEc) and the World

Bank (WB) have just released the "Afghanistan Provincial Briefs", based on the National Risk and Vulnerability Assessment (NRVA) 2007/08. The report provides a selection of key indicators of individual and household wellbeing for each province of Afghanistan. The indicators encompass multiple dimensions of wellbeing, including poverty and inequality, food security, labor market outcomes, sectoral distribution of employment, gender, education, health, and access to services and infrastructure. By unbundling variations in development outcomes at the provincial level, these briefs enrich the aggregate description of well being presented in the 2010 MoEc-WB "Poverty Status in Afghanistan" report. The statistics presented in this report highlight that development outcomes in Afghanistan vary significantly from province to province. The prevalence of poverty, for example, varies from 9 percent in Helmand to 76 percent in Paktika; a considerably large spread around the national average of 36 percent. School enrollment rates among children aged 6-12 are the highest in Daykundi with over two thirds of the children enrolled in schools, while Urozgan has one of the lowest enrollment rates with an estimated 2 percent of its children enrolled in schools. Access to key services such as electricity

Afghanistan Provincial Briefs provide statistics on 39 social and economic indicators encompassing several dimensions of wellbeing, including poverty and inequality, food security, labor market outcomes, sectoral distribution of employment, gender, education, health, and access to services and infrastructure.



Using NSP block grants, more than 27,777 communities completed over 46,031 community-based projects across the country.

and safe drinking water also shows a high degree of variation across provinces. For example, 85 percent of households in Kabul have access to electricity compared to less than 4 percent in Badghis and Urozgan. The English and Dari versions of the Briefs are available at: www.worldbank.org.af

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 a committed 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 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. IFC is actively exploring investment opportunities across the manufacturing, agribusiness, education and infrastructure sectors, and has recently completed two senior-level business development missions to 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. IFC has also engaged with the financial sector in Afghanistan to assess housing finance and SME lending – key areas for financial sector development. Also, as a follow up to our work on creating conducive regulatory framework for leasing, IFC is actively exploring the development of a leasing company with a local Non-Bank Financial Institution (NBFI) to expand financing product options to Micro, Small, Medium Enterprises (MSMEs). IFC expects this to lead to a more in-depth advisory engagement.

As part of the World Bank's "Financial Sector Strengthening Program", IFC is successfully moving forward on its support to establish a best-practices credit and collateral registry. These registries are expected to make a significant impact on the volume of lending by financial and non-financial institutions.

IFC's focus on enterprise development is a key driver to building capacity across the private sector. IFC's Business Edge product has identified and accredited three local private sector firms and 18 trainers. More

than 60 percent of the global BE training content was localized and translated into Dari and/or Pashto. The plan is to expand the outreach of BE to more regions in Afghanistan by diversifying and growing the pool of accredited training providers to include NGOs.

IFC's goals to strengthen the business-enabling environment remain a key area of activity. To this end, IFC has successfully initiated projects to improve the business licensing process at the Ministry of Commerce and Industry and to institutionalize alternate commercial dispute resolution and mediation for the private sector so that disputes are resolved in the shortest period of time, and savings expenses for the private sector.

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 \$4.3 billion (as of April 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 \$446.84 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 May 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 late June 2011, the NSP has reached over 18 million Afghans. Approximately 27,864 communities have been mobilized, and 27,777 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 57,400 community subprojects have been partially or fully financed, of which some 46,031 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

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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, 19 percent rehabilitate irrigation systems, 26 percent improve transportation infrastructure (e.g. roads, bridges), 12 percent provide energy (e.g. micro-hydro, solar energy), 10 percent work on education infrastructure; and the balance 9 percent improve livelihoods and income-generation. The NSP is active in 359 of Afghanistan's 364 districts and all of Afghanistan's 34 provinces. As of

June 27, 2011, over \$870 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 aims 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 (NEEPRA), 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





Nearly 40 percent of Afghans working in the microfinance sector are women.

(MRRD). The project targets the rehabilitation of approximately 2,300 km of rural roads and some 9,000 meters of drainage structures, generating 2.13 million unskilled labor days of employment. As of end of April 28, 2011, 98 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 23 contracts are under various stages of development. On the tertiary roads side, 271 of the 326 roads and drainage contracts have been awarded to contractors, of which 158 contracts are completed and 113 are in progress; 55 contracts are under various stages of development. Six hundred eighty-two km of the total 1,105 km of the secondary roads and 649 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. The Government prepared a proposal to scale up NRAP by over US\$600 million over the next three years. The proposal has been through two rounds of consultation with stakeholders, where the Government has received important feedback on road standards, capacity, implementation arrangement and institutional needs.

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. These offices are now covering 17 districts and 235 communities. In total, 1,757 savings groups (SGs) have been formed with 20,837 Saving Group members. In addition, 76 enterprise groups (EGs) have been formed with savings ranging from Afn 3.39million to Afn 8.8 million. All the SGs and EGs are now interloaning. The first of the Village Savings and Loan Associations have also been formed by federating the SGs. 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 \$123.6 million in loans. There are now 11 microfinance institutions (MFIs), with a network of 246 branches in 23 provinces, and more than 344,039 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 April 30, 2011, the gross loans outstanding were \$113 million. Seventy three percent of the total borrowers are 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 3,287 people, 1,302 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:

"Afghanistan Reconstruction
and Development Services
(ARDS) facilitated government
contracts valued at \$2.6
billion."

Procurement Advisor in ARDS: The procurement advisor has facilitated 1033 government contracts valued at \$2.6 billion.

Procurement Capacity Building Advisors in the Procurement Policy Unit: 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 government ministries at the Civil Service Training Institute. Standard bidding documents have been issued for the new procurement law, and robust support has been put in

place for the work of the Appeals and Review Commission.

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 the provincial offices of the Ministry of Finance. .

Audit Advisor: The audit advisor has assisted the Control and Audit Office (CAO) with the audits of International Development Association (IDA) and ARTF projects. Training is continuing in various areas including computer and language training, technical audit, and modern audit working practices and procedures. Most recently CAO senior officials completed a study tour to European Union entities to learn of their external accountability arrangements.

Internal Audit Capacity Development: Following the audit training of earlier years, the Ministry of Finance's Internal Audit Department is now carrying out internal audits of a high standard, in conjunction with teams from four line ministries. In the new solar year, it will carry-out audits in ten more ministries, in addition to its comprehensive review of operations under the Ministry of Finance.

The Second Education Quality Improvement Program (EQUIP) (IDA Grant \$65 million and ARTF Grant \$85 million):The objective of the program is to increase





More than 2.68 million girls and 4.39 million boys are now enrolled in schools.

equitable access to quality basic education, especially for girls, through school grants, teacher training and strengthened institutional capacity with support from communities and private providers. Program interventions are primarily targeted towards general education, teacher training, curriculum development and education management. The Program is fully aligned with the Afghanistan National Education Strategic Plan and supports the institutional development of the program staff of the Ministry of Education. EQUIP has made significant contributions to the education sector in Afghanistan. Since the initiation of EQUIP II in 2008, an additional 183,095 girls have been enrolled, which has increased total girls' enrolment to 2.68 million. For boys, 301,981 have been enrolled, bringing total enrollment of boys to 4.39 million. Through EQUIP I & II, an additional 1,024 schools have been constructed or rehabilitated, implying an additional 5,730 classrooms. Almost 7,000 school administrators have received SMT I training (School Management Training), while 107 have received SMT II training. EQUIP interventions have directly led to the training of almost 100,000 teachers, of which almost 90,000 have received formal formal the first round in-service training.

The second round of in-service training is currently being initiated under EQUIP II. Under EQUIP II a system of scholarships was initiated for women; a total of 1,500 female teachers have received scholarships in Teacher Training Centers. Community involvement in the provision and quality of education has increased significantly. The Program has helped create 10,893 school shuras and 10,759 School Improvement Plans (SIPs), which are utilized to improve the general learning environment within the school. Quality Enhancement Grants have been distributed to 9,935 shuras; these have primarily been used to purchase necessary equipment for schools such as books, furniture, laboratory equipment etc.

The EQUIP team at the Ministry of Education carried out a Learning Assessment in 90 schools across 17 provinces, testing 2,400 students each from grades III and VII. The results for this assessment are being compiled and there is a plan to institutionalize a Learning Assessment System that would ensure that these are carried out regularly.

The overall pace of implementation and achievements of the three components (school grants, teacher and principal

education, and monitoring and evaluation) varied across components. While overall numbers show positive results, substantive achievements in terms of quality enhancement have not been emphasized. This is in line with the strategy adopted by the Ministry of Education on sequencing interventions i.e. first enhancing access to schools and subsequently focusing on quality. Issues related to quality will be a key area of focus from now until the end of the program.

Afghanistan Skills Development Project (IDA Grant \$20 million and ARTF Grant \$18 million): The project is designed to increase the number of immediately employable skilled persons by building in stages 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



The Afghanistan Skills Development Project (ASDP) aims to increase the number of skilled Afghans.

Afghanistan National Qualifications Authority (ANQF); Afghanistan National Qualifications Framework (ANQF), and Awarding Boards. The Committee on Education and Skills Policy (CESP) is in place and full CESP meetings chaired by the First Vice President are being held. A consulting firm (CINOPS) is helping the CESP in developing the institutional structures, technical details, roles and responsibilities of the ANQA, ANQF and the specific Boards that will oversee particular aspects of the education and skills in the country, the rules that will govern the operations of these institutions, and in drafting the law that will provide the legal underpinning for these structures to be established. This legal framework is expected to supersede and replace existing laws in the country on education and skills. Biweekly Technical Advisory Group (TAG) meetings have been held, and a very informative website has been developed that allows for further consultations.

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 first batch of about 1,050 students in Accounting, Management and ICT (a two year diploma program, accredited by the University of Jyväskylä, Finland) is about to graduate (July 2011). The new cohort of the students was competitively selected based on entrance examination. The NIMA have admitted 444 students to keep the size of the student body at a manageable level until it has matured and has built up adequate capacity. The two year contract

with NIMA's implementing partner to run the academic program has ended in early July 2011. The Ministry of Education (MoE) has now initiated the process of recruiting a new implementing partner (academic institutes) for the administrative, academic and examination aspects of running NIMA for the next two years. In order to manage the transition, DMTVET is recruiting about 20 junior faculty members to teach until the new implementing partners have been recruited and mobilized.

The project has supported other TVET institutions under the DMTVET to upgrade facilities, recruit faculty and teachers and to expand TVET access. The Afghanistan National Institute of Music (ANIM), established under the guidance of the Project Director, ANIM is now home to about 175 children, mostly from disadvantaged backgrounds, who are being trained in Afghan traditional and Western Classical music while simultaneously receiving general educational support at ANIM. Besides NIMA and ANIM, the project also supports several other DMTVET schools including the Auto Mechanical Institute, Institute of Local Industries and Construction, Techniki Sanawe, and School for the Blind.

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.

Component 3: Under the National Skills Development Program (NSDP), nearly all of the programs contracted out for the training of youth, marginalized farmers and chronically poor women (about 6,750 people) have been completed. The NSDP in the Ministry of Labor, Social Affairs, Martyrs and Disabled (MOLSAMD) has carried out analysis of impact by oversampling the number of eligible trainees and then randomly assigning them into control and treatment groups. The NSDP has also requested additional allocation from ASDP to expand the training of marginalized farmers, youth and drug addicts, which the project plans to support through restructuring of the project. The training of the trainers for business development services (BDS) has also been progressing well. Implementation of the planned activities for capacity building support to NSDP and MOLSAMD has however been slow. Following the MTR, the NSDP/ MOLSAMD now have planned to recruit the Standard and Curriculum Development Specialist/Adviser and two specialists (industry and agriculture/livestock sectors), a Technical adviser for TVET, a contract/procurement specialist/adviser and a procurement/contract officer to further strengthen its capacity. NSDP/ MOLSAMD have also prepared a program for the next year, including study tours to learn from the TVET experience of other countries, and training to build skills in strategic

Under SHEP, five of the six participating universities have formed partnerships with eight established overseas universities to improve the quality of higher education.

planning, M&E, curriculum development, project management, IT and English.

Strengthening Higher Education Program (SHEP) (IDA Grant \$60 million and ARTF Grant \$5 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 (Bamyan, 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. So far the partnership contract with Ruhr Bochum University has been completed. However other partnership contracts have been given extensions to allow masters degree students to complete their studies by June 2012. The original SHEP program will have trained 131 junior faculty members in masters degree programs by June 2012. Under additional financing, the program will train an additional 12 faculty members in Masters and PhD programs from each participating university. In total, the program will have trained 275 faculty members by June 2013. The usage of block grants to procure books, teaching materials, and IT equipment, and to rehabilitate libraries and classrooms and equip laboratories is continuing. In addition, funds for quality assurance, accreditation, curriculum revision and development, and research development have been allocated to project universities which are being utilized to improve the quality of learning and teaching in universities. 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 supervising construction of buildings. Contracts for these activities have been signed for the Universities of Nangarhar, Balkh and Kandahar and are being implemented.

The Strengthening Health Activities for Rural Poor Project (SHARP) (IDA Grant \$79 million, ARTF Grant \$46 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

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.

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 end of 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 (BPHS) in eleven provinces. In Helmand, Farah, Badghis, Nimroz, Samagan, Balkh, Wardak, and Saripul provinces through national and international NGOs contracted out by Ministry of Public Health (MoPH) and in Kapisa, Panjsher and Parwan through direct delivery by 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. 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, disability and enhanced nutrition services as per the new BPHS package; and (b) improve hospital services critical to reduce maternal and child mortality. Recently, an additional \$24 million has been provided by ARTF to be used to co-finance the implementation of the revised BPHS in 11 provinces, the expansion of the Essential

Package of Hospital Services (EPHS) to five provincial hospitals (Nimroz, Wardak, Parwan, Panjsher and Kapisa), and the financial procurement of the Oral Polio vaccine for Afghanistan's Polio eradication initiative.

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 drug users (IDUs), sex workers and their clients 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





Child immunization rates increased from 12 percent in 2005 to 33 percent in 2008.

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 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

“The Afghanistan HIV/AIDS Prevention Project has helped develop a policy for Opioid Substitution Therapy.”

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 (SCRTEP) (IDA Grant \$50.5 million): Building on the overall success of the successfully completed Emergency Customs Modernization and Trade Facilitation Project (ECMTEP) 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 the following components: a): countrywide computerization of customs clearance operations; b): installation of executive information systems for customs, allowing real-time monitoring of operations; c): development of possible options for cross-border Customs-to-Customs cooperation; d): provision of selected customs infrastructure to enable modernized operations; e): 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 ECMTEP began, specifically on ASYCUDA. A first phase of activities under component a) for the continuation of countrywide computerization of customs clearance operations have been underway thanks to the bridge funding of US\$ 2.8 million provided by the Government in early 2010. An additional US\$ 8.7 million supports component d) for the provision of selected customs infrastructure to enable modern operations. It covers the construction of an office buildings complex, of truck parking, and utility and supporting services

at the Inland Customs Department in Khost, Afghanistan.

The first ECMTFP (2003-2010) 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

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

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 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 May 31, 2011, 775 subproject proposals, costing about \$90 million, had been prepared. Of these, 775 subprojects totaling \$90 million have been approved; contracts for 772 subprojects worth \$77.3 million are ongoing; and 695 medium and large size traditional irrigation schemes worth \$60.8 million serving more than 763,000 ha of land in various parts of the country have been completed. As a result of the rehabilitation, an additional 154,000 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.

Irrigation Restoration and Development Project (IDA Grant \$97.8 million): The project builds upon and scales up activities supported under the ongoing World Bank-financed Emergency Irrigation Rehabilitation Project (EIRP). It supports the rehabilitation of irrigation systems serving some 300,000 hectares of land, design and construct a limited number of small multi-purpose dams and related works, while establishing hydro-meteorological facilities and services. project aims to support the Afghan Government's efforts to: further increase the irrigated area by about 15 percent; increase crop yields by at least 20 percent in project areas; reduce water-related disputes by at least 30 percent in these areas; prepare more cost-effective designs for the rehabilitation and development of irrigation systems using improved hydro-meteorological data.

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

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.



As a result of the rehabilitation of irrigation systems, 154,000 hectares of additional land are now receiving irrigation supplies.

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 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 August 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. 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.

Several 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 hydro project was commissioned in October 2010, and rehabilitation of Unit no. 3 is under way. However, this component of the project, the 110kV transmission line from North-West to North Substation and to East substation, and the rehabilitation of medium voltage systems in Kabul 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. The management team, comprising of General Manager, Finance Manager, and Deputy Technical Manager have been appointed. The Internal Auditor, External Auditor, consultants for obtaining technical assistance regarding corporatization and capacity building, and Heads of six Strategic Business Units have also been appointed. AUWSSC took over the existing urban water supply and sewerage operation in the country, and expanded into three provincial towns.

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 3,000 ha of new orchards have been planted which makes 106 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). In addition, the project promoted four suitable intercrops— alfalfa, tomato, onions, and water melon. Over 600 female farmers





With support from the Horticulture and Livestock Project, 3,000 hectares of new orchards have been planted.

have participated in the new orchard's scheme. Besides receiving input, farmers 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, around 16 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 \$92 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 is the Extractive Industries Transparency Initiative – a set of principles that supports private 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.

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 Hesar-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.

It was proposed to finance the transmission line from Jalalabad to the industrial park through the project. However this would have required an extension of the project's closure date (the project was scheduled to close on June 30, 2011) as well as additional financing. To help reach a decision on whether to extend the project and to request additional financing, AISA commissioned a study focused on the following aspects: (i) industry sector assessment and demand analysis, (ii) economic and financial modelling, (iii) institutional framework and management arrangement, and (iv) an implementation action plan.

Following the completion of this study and discussions with stakeholders, the World Bank concluded that a two-year project extension would not allow the project to reach a satisfactory outcome on account of the following: (i) reliable grid power is critical for the viability of the industrial park. At this stage, reliable grid power supply cannot be guaranteed, which will significantly and negatively affect the demand for the industrial park from private firms, (ii) a two year extension will not be sufficient to complete the waste water treatment plant and the landfill site, (iii) the project implementation mechanism appears, in hindsight, inappropriate for the effective development of the industrial park, (iv), in the base case scenario, the up-take for the industrial park would be far beyond the timeframe proposed for project extension.

Based on the above, the project would not be completed and achieve its development objective by the end of a two-year extension period. Hence, it does not meet the criteria set in the Bank's operational policies for the extension of the closing date. The World Bank has therefore informed the Afghan authorities that the project has to close on June 30, 2011.

Civil Service Reform Project (IDA Grant \$20.4 million): The project supports the Independent Administrative Reforms and Civil Service Commission (IARCS) 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. The project is scheduled to close at the end of July 2011.

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, BIBM will help AIBF's capacity building, training, and curriculum development. The consultants for the positions of audit, human resources, accounts, and procurement have been recruited. The Consultant in charge of the upgrading of two critical information systems at DAB (off-site supervision and HR management) is under recruitment (following a first failed procurement attempt). At the request of the Central Bank, the project will finance in-depth audits of 10 commercial banks operating in Afghanistan. The



The Bank's Global Food Crisis Response Program helped rehabilitate 394 small irrigation schemes, benefiting over 6,900 families.

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

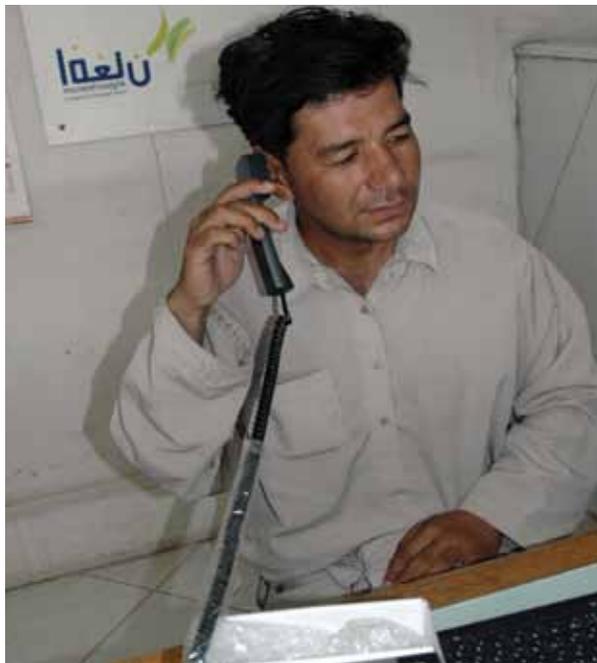
established in Afghanistan. It also introduces, for the first time, ample borrowers' privacy rights and allows for the establishments of Private Credit Bureaus in the future. It has been constructed to attract leading private providers (mandatory sharing and mandatory inquiries with borrowers' consent, 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 474 small irrigation schemes, critical to the recovery of the country's agriculture. The project closed on September 2010 at which time approximately \$7.9 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, 394 subprojects have been completed by the communities, while the remaining 80 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 million): 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



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.

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.

will soon be rolled out. On 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 New Market Development Project (IDA Grant \$22 million): The project will pilot a business development program in the four urban centers of Kabul, Mazar-e-Sharif, Jalalabad and Herat, which are the major hubs of economic activity. It will help enterprises in these centers to gain market knowledge, improve the quality of their products, boost their productive capacity, acquire new technologies, and develop and implement business plans to increase their presence in both the domestic and export markets. The project specifically aims to support approximately 750

enterprises and 10 business associations through a cost sharing facility to access business development services. The project is expected to create around 1,500 jobs in the short term with much higher job growth expected over the longer term.

Afghanistan Information and Communication Technologies (ICT) Sector Development Project (IDA Grant \$50 million):

The project builds on the success of earlier projects and catalyzes the next phase of ICT development in the country. It will support policy and regulatory reforms and strategic infrastructure investment to expand connectivity and enable more users to access high quality mobile and internet services. It will also help mainstream the use of mobile applications to improve public service delivery and program management in strategic sectors in the Government. The project will help develop the local IT industry by expanding the pool of skilled and qualified IT professionals, and supporting the incubation of ICT companies in Afghanistan. Some of the expected results that the project will support include: increasing telephone penetration from 55 percent to 80 percent of the population; increasing internet penetration to 10 percent of the population; adding 1000 km to

the fiber optic national telecommunications backbone network; training at least 1500 Afghans for the IT industry; and supporting at least 10 government agencies to make government information and services available on the mobile phone.

A F G H A N I S T A N 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 April 20, 2011, 32 donors had contributed over \$4.3 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 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



Digital energy meters have been shipped to Kabul, Aybak and Mazar-e-Sharif, and their installation is in progress.

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 \$2.29 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 40 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 62 percent 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 investment have been very strong with 65 percent of total investments disbursed as of March 20, 2011. However, during the start of SY1390, commitments and disbursements were very low

compared to a similar period in SY1389. 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 April 20, 2011 (SY1390), there were 19 active projects funded through ARTF, with a combined available commitment value of over \$446.84 million. Full details of investment activities are provided in the ARTF Quarterly Reports available at www.worldbank.org/artf.

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.

For last few quarters, the project's progress has been very slow. The suspension of pole delivery by the Ministry of Energy and Water (MEW) for several months, the non-issuance of customs exemption certificates, the complexity around the issuance of amendment of LCs, as well as the overall security situation have caused the project to be significantly delayed.

The physical progress of the Kabul rehabilitation work is slow with only about 74 percent of the work completed as of May 2011. In Mazar, distribution work is only 46 percent complete, while the substation work at Aybak and Mazar are 58 percent complete.

Despite delay in overall implementation, digital energy meters have all been shipped and their installation is already in progress. The Customer Care center has also been completed and handed over to DABS. DABS is now able to provide improved service to its customers through this center.

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 was 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 Mahipur 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. 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 the energy efficiency activities of the Ministry of Energy and Water through the setting up of an Energy Efficiency Unit. The World Bank is funding the salaries of Energy Efficiency Engineers at MEW, including a recently hired Energy Efficiency Advisor (National). 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 EE Unit will work in the area of promoting energy efficiency and demand-side measures, including the implementation of some pilots. It will also work towards preparing and implementing a communication strategy for creating awareness among consumers. The EE Unit has started its fieldwork, and some buildings have been audited.

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.

Two other activities in the energy





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

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) identifying 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 this quarter where physical progress increased

from 68 percent to 77 percent and disbursement rose from 55 percent to 57 percent as of end of May 2011. The construction work is expected to be completed in July 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.

The government has requested the ARTF Management Committee for additional financing of \$2.3 million to cover the cost overrun of civil works and consultancy services, as well as to finance preparatory activities for the Second Phase of the project (KURIP II). The government has already submitted a request for financing through the ARTF.

Afghanistan On-Farm Water Management Project (\$41 million Grant): This pilot project is designed to support on-farm water management investments in five regions (Herat, Bamyan, Nangarhar, Balkh, and Kabul) covering a total of 175 irrigation schemes in approximately 50,000 ha. The project will assist farmers to adopt improved farm practices that increase agricultural production and productivity.

In the past few months, all 5 Area Teams have started their activities in the field. A total

of 23 Irrigation Associations have been established so far in these regions, and in every Irrigation Association farmers have paid substantial membership fees. Technical surveys have also been completed in 11 irrigation schemes. A group of technical staff along with their designs visited the Water Management Training Institute in Lahore, Pakistan, where their designs were checked by Pakistani experts and given a clean bill of health. Five designs for irrigation demonstration plots have also been established to disseminate improved water-saving techniques.

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 apply for 'line' civil service posts in areas such as financial management, procurement, human resource management, policy and administration. This program directly funds about 150 senior level government positions in about 20 ministries, mostly focused on common functions. Since late 2010, the program has focused capacity efforts in fewer ministries by supporting selected ministries to recruit larger numbers of MCP's. These positions are filled through a transparent and merit based recruitment process managed by the Independent Administrative Reform and Civil Service Commission (IARCSC). This program ends in December 2011.

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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