

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No35745

Project Name	Afghanistan Urban Water Sector Project
Region	SOUTH ASIA
Sector	General water, sanitation and flood protection sector (100%)
Project ID	P087860
Borrower(s)	ISLAMIC REPUBLIC OF AFGHANISTAN
Implementing Agency	Afghan Urban Water Supply and Sewerage Company (AUWSSC)
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

As a result of lack of investment, conflict and drought during the last decades, and the very rapid urban growth in recent years, the water supply service in Afghan cities is of very poor quality. Only Kabul (more than three million people) and 13 towns with populations ranging from 1,000,000 to 50,000 have piped water supply systems serving a total of only about 60,000 connections, of which 35,000 in Kabul. Even if the concerted efforts of the Government and the support of several donors have resulted in improvements since 2002, the task ahead is daunting. Current access to piped water infrastructure is among the lowest in the world at around 18%, and because of poor operation and maintenance (O&M) the water service reaches an even lower share of the population. A vast majority of urban dwellers draw small quantities of water from generally unsafe boreholes and open wells, springs or streams. According to the National Risk and Vulnerability Assessment which surveyed about 6,000 households in urban areas in 2005, sources of supply can be broken down as follows: handpumps: 42%; open wells: 34%; piped water: 18%; and springs and surface water: 6% .

A sewerage system serves few apartment complexes in Kabul and covers less than 2% of its population; wastewater is only partially treated before being discharged off in the Kabul river. Septic tanks and vault latrines are not emptied regularly because of lack of suction trucks and as a result, septage spills over in drains. The vast majority of households rely on pit latrines. A rapidly declining share of the night soil produced is used by farmers. Intermittence of the piped service, inadequate water treatment and contamination of groundwater result in a precarious sanitary situation. Large quantities of solid waste are not collected and often pile up in streets. There is no specific facility to handle hazardous/medical waste.

The Central Authority for Water Supply and Sewerage (CAWSS) under the Ministry of Urban Development and Housing (MUDH) is responsible for the piped water supply and sewerage (WSS) service. CAWSS is a centralized authority, but due to communication difficulties with provincial towns during the period of conflict, its regional operations have acquired a certain degree of autonomy. There is no clear jurisdiction over point water supplies and on-site sanitation and several functional overlaps exist between CAWSS, and municipalities; the latter usually handle solid waste collection and on-site

sanitation through local Department of Sanitation. Current institutional arrangements do not allow for a clear separation of policy, supervisory and operational roles.

In 2005, CAWSS employed about 700 staff, of which 400 in Kabul. However, because CAWSS salaries cannot compare with that offered by NGOs and the private sector, qualified managers and staff can neither be retained nor be attracted. CAWSS operational, commercial and financial performance is still very poor and most of its branches, including Kabul, recover no more than 25% of O&M costs from sales revenues. A tariff increase was recently approved, but collections still remain very low, partly due to the inadequacy of the service provided. However, recent household surveys showed that users would be willing to pay for water service, which often ranked as their top priority. Under the Afghanistan Reconstruction Trust Fund (ARTF) funded WSS project, a Financial Support to Operations (FSO) was put in place in mid-2005 to help CAWSS complement its collection of user charges to meet current O&M expenditures, allow payment of salaries and energy bills on a more regular basis, and improve overall operational and commercial performance.

The Government is considering urban WSS as a top priority and indeed it is the largest component of the Urban National Priority Program. MUDH has prepared a Short-Term Program (STP - 2005-07) and is finalizing a Medium-Term Program (MTP - 2007-11) to channel efforts by donors who support the sector. The urban WSS sector has also been identified as a priority in the Interim Afghanistan National Development Strategy of January 2006 presented at the London Donor conference of February 2006; in particular as part of its effort to meet the Millennium Development Goals, the Government envisages that 50% of households in Kabul and 30% of households in major urban centers will have access to piped water by 2010. In 2003-2005, a total of about US\$50 million have already been invested in the urban WSS sector, mostly financed by the German Development Bank (KfW), IDA and USAID for emergency rehabilitation projects. Despite a difficult working environment, encouraging results are being achieved in Kabul and 12 provincial towns; also, implementation capacities have been built both in MUDH and CAWSS.

Recently, the Government took major steps on the policy and institutional fronts with the announcement of its Urban Water Supply and Sanitation Sector Policy, the formulation of an Urban Water Supply and Sanitation Sector Institutional Development Plan and the signing of a Presidential Decree to “corporatize” CAWSS. The Sector Policy states that “the urban water supply and sanitation sector shall be reformed and developed to improve the quality of life in all urban communities; by ensuring an equitable provision of potable water and wastewater services at an affordable price and on a sustainable basis, poverty will be reduced, health generally improved and economic development promoted”.

2. Objectives

The proposed project objectives will be to initiate actions to: (i) transform CAWSS into a technically viable operation; (ii) establish the financial sustainability of the Afghan Urban Water Supply and Sanitation Company (AUWSSC - CAWSS’ successor); (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 could be achieved and coverage further expanded in Kabul and provincial towns.

3. Rationale for Bank Involvement

The Government gives a high priority to IDA involvement in the urban and urban WSS sectors. Because of its strong in-country presence and development leadership in several other sectors, IDA is

well positioned to foster donor collaboration in the urban WSS sector and help accelerate urban development. IDA is already supporting several projects in the urban sector: (i) the US\$25 million Kabul Urban Reconstruction Project under implementation; (ii) the US\$41 million Short-term Urban WSS Project (financed by ARTF) under implementation, finances WSS investments in Kabul and 12 provincial towns; and (iii) an Urban Waste Management Project under preparation. The proposed Urban Water Sector Project will complement these activities, all aimed at improving living conditions in cities that are fast becoming a main engine of economic growth.

4. Description

To achieve these objectives, the proposed project will include three main components: (i) institutional development of AUWSSC; (ii) financial support to AUWSSC operations; and (iii) an extension of the Kabul water supply system. The proposed project will be financed in parallel by the KfW, while the German Development Agency GTZ will continue providing technical assistance to AUWSSC.

Institutional Development of AUWSSC. The project will support the corporatization of CAWSS that the Government is committed to complete by end 2006. AUWSSC will be managed by a Board of Directors, appointed by the Ministry of Finance and MUDH, which will include representatives of Government and key stakeholders. AUWSSC managers will be competitively recruited and offered fixed term contracts that will specify the performance to be achieved, and a market-based compensation package. The project will finance a technical advisor and a financial advisor to AUWSSC general manager and two operation advisors for regional operations; KfW and GTZ will finance operation advisors for Kabul and regional operations. During the interim period covered by the project (2007-09), water supply operations will be run by decentralized units of AUWSSC. Each decentralized units will enter into a memorandum of understanding with AUWSSC headquarters (AUWSSC/HQ) to specify the service standards to be achieved by the unit and the financial assistance to be provided by AUWSSC to complement operating revenue and develop infrastructure.

The project will also finance various consultancies, audits and training. Consultancies will include (i) specialized support to AUWSSC for procurement, accounting, financial management, commercial activities, social and environmental management and human resources management; (ii) social surveys, tariff and services to the poor studies, consultation and communication; and (iii) technical studies, detailed design and bidding documents for future WSS projects in Kabul and other urban centers, including possible future Public-Private Partnerships. Support to MUDH to develop its Urban Water Supply and Environmental Sanitation Department and carry out its policy and regulatory roles is provided under the ARTF financed project until end 2008.

Financial Support to AUWSSC Operations. The financial support to be provided to AUWSSC operations has been estimated on the basis of commercial and financial data that have started being generated by the ongoing ARTF supported WSS project, realistic targets for key performance indicators and reasonable adjustments of user charges. Between 2007 and 2009, AUWSSC will be entitled to claim the reimbursement of a declining percentage of its operating expenses, within agreed limits, and the reimbursement of salaries and bonuses paid to its management staff, also within agreed limits. External auditors will regularly confirm that expenses are eligible for reimbursement. A review, and if necessary a revision, of the amount and conditions of the financial support to AUWSSC will take place after 12 months of operation, when more reliable operating data are available.

Extension of the Kabul Water Supply System. The project will support the development of the first phase of the Logar II scheme, identified as a priority in a KfW-financed feasibility study of the expansion of the Kabul water supply system (January 2004). The same scheme had been appraised by IDA in 1978 but its implementation was stopped by the Soviet invasion in 1979. The Logar II project is expected to increase the number of connections from 33,000 in 2005 (serving 0.5 million people or 14 percent of the total population of 3.5 million) to about 70,000 in 2010 (serving 1.1 million people or 24 percent of a total population of 4.5 million). The scheme includes the development and equipment of a well field in the Logar aquifer located South of Kabul, the construction of a transmission line to a main reservoir and the construction of distribution network in a part of the city that is currently not served by CAWSS. IDA will finance the supply and laying of pipes for the production, transmission and distribution facilities and the installation of about 15,000 new connections and meters. KfW will finance the project in parallel and contribute to the drilling of boreholes, the supply and installation of electric and pumping equipment and construction of the reservoir; KfW should confirm its financial commitment by mid-2006. The KfW-financed engineering consultant responsible for the preparation of detailed designs and bidding documents and for construction supervision is already in place. Contractors are expected to mobilize early in July 2007 and all construction to be completed by end 2009. The improvement of sanitation in Kabul is the subject of other IDA and ARTF projects under implementation or preparation.

5. Financing

Source:	(US\$ million.)
BORROWER/RECIPIENT	0.0
INTERNATIONAL DEVELOPMENT ASSOCIATION	40.0
GERMAN DEVELOPMENT AGENCIES	24.5
Total	64.5

6. Implementation

AUWSSC will be the implementing agency for the project. As outlined in the Institutional Development Plan prepared by the Government in October 2005, CAWSS will become a public corporation, owner of the WSS assets, responsible for their development and for the overall quality of the WSS service provided in urban centers. The Presidential Decree to create AUWSSC that will replace CAWSS was signed and became effective in January 2006. Acting as asset holding company, AUWSSC/HQ will mostly be in charge of project preparation and implementation, financial management and oversight of its decentralized and autonomous Strategic Business Units (SBU). AUWSSC will also act as an operator for the small centers for which the creation of a SBU is not yet possible: its capacity to provide assistance to decentralized operations will also be strengthened through proper technical assistance and training.

Establishing AUWSSC project implementation capacity is one of the project objectives; however procurement and financial management functions will still have to be performed with the support of central, specialized units of the Government: the Afghanistan Reconstruction and Development Services (ARDS) of the Ministry of Economy for procurement and the Special Disbursement Unit (SDU) of the Treasury Department (Ministry of Finance) for financial management.

7. Sustainability

The project main objective is to develop the sustainability of urban WSS operations from technical, institutional, financial and environmental standpoints.

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

The lack of Government capacity to design and implement projects has been the most critical constraint affecting this and other sectors and temporary measures, such as the provision of Project Implementation Units, staffed by foreign consultants, have proven to be unsustainable. While there will be a continuing need for extensive technical assistance, the proposed project aims to reach sustainability by: (i) moving from a simple project to a more comprehensive sector approach; and (ii) investing in the development of the capacity of permanent institutions staffed by Afghan nationals to whom adequate training and financial incentives to perform would be provided.

9. Safeguard Policies (including public consultation)

Environmental and Social Management Framework. An environmental and social management framework based on the generic safeguard framework prepared for emergency operations in Afghanistan has been developed for the proposed project. Capacity for managing social and environmental issues related to the implementation of urban WSS projects will be built in MUDH and AUWSSC under the project and also through an institutional development project implemented by the newly created National Environmental Protection Agency (NEPA).

Environmental Assessment. Operational Policy 4.01 “Environmental Assessment” is triggered. Environmental impacts have been identified and addressed in the environmental assessments and management plans carried out as part of the KfW-financed feasibility studies for the expansion of the Kabul water supply system. Issues related to wastewater disposal and treatment have been analyzed in an IDA-funded Strategic Sanitation Plan for Kabul; on-site sanitation issues are planned to be addressed in the Urban Waste Management Project under preparation and sewerage issues in a follow up to the proposed project. The proposed project will improve water treatment, water quality monitoring, and importantly establish protection zones to ensure sustainability of the groundwater resources. AUWSSC will submit a draft groundwater management and protection plan of Kabul major aquifers after consultation with key stakeholders by mid 2007 and cause the Kabul Municipality and NEPA to take action for implementing its recommendations, no later than end 2007. Issues related to security of future bulk supply and inter-sectoral water allocation are being addressed in the study on long-term strategy for bulk water supply to Kabul and follow-up activities in Kabul and other major urban centers.

Land Acquisition. Although no resettlement is expected, Operational Policy 4.12 “Involuntary Resettlement” is triggered as there will be a need for limited land acquisition in the well field and the for the main reservoir. Also the maintenance of the right-of-way in a residential area for the transmission line is critical. The status of the land involved is being clarified and actions are being taken to acquire it in compliance with the land expropriation law and the above mentioned framework’s guidelines for compensation for the loss of land and livelihood in both formal and informal settlements. All land acquisitions are expected to be completed by mid 2006.

Social Assessment and Beneficiary Surveys. To complement social assessments and socio-economic surveys carried out as part of feasibility studies and under ongoing projects, a qualitative assessment of past experiences in community involvement and WSS related hygiene campaigns, and an

assessment of options to serve the poor and informal settlements will be carried out by the project. A particular attention will be paid to the potential for the employment of women as attendants at water kiosks and other jobs related to public water supply. A WSS household survey will also be carried out in Kabul jointly with the energy household survey by mid 2006; this survey will establish baseline data on the current situation, willingness and ability to pay for piped water, sanitation practices and awareness of their health-implications; it will also inform the design of AUWSSC future cost recovery policy. Several workshops have already taken place to consult with stakeholders on the objectives and components of the project. Consultations at the community level will also take place before and during actual project implementation.

Cultural Property. OPN 11.03 is triggered. The proposed project is unlikely to pose a risk of damaging cultural property. The Safeguards Framework includes a negative list that precludes any activity that would significantly damage nonreplicable cultural properties. The framework also includes guidelines for chance-finds of cultural property, so that appropriate procedures are followed.

Indigenous Peoples. OP 4.10 is not triggered. There are no groups classified as Indigenous Peoples in Afghanistan.

Projects on International Waterways. OP 7.50 is not triggered because the project only supports investments for abstraction of water from locally confined ground water aquifers and hence will not have any measurable impact on international waters.

10. List of Factual Technical Documents

- Feasibility Study for the Extension of the Kabul Water Supply System, inclusive of Social and Environmental Assessments (January 2004)
- Feasibility Studies for Water Supply and Sanitation in 22 Provincial Towns, inclusive of Social and Environmental Assessments (22 reports, March-October 2005)
- Strategic Sanitation Plan and Master Plan for Kabul, covering Solid Waste, On-site Sanitation, Sewerage and Drainage, inclusive of Social and Environmental Assessments (draft final, January 2006)
- Sanitation Strategy for Provincial Towns (March 2005)
- Scoping Strategic options for Kabul Bulk Water Supply – a Decision Support System Approach (draft final, February 2006)
- Institutional report for the urban water sector (March 2004)
- Financial report for Provincial Towns WSS (March 2005)
- CAWSS Financial Support to Operations (FSO) Operational Manual (July 2005)
- Environmental and Social Management Framework (draft final, March 2006)

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