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Report No: RES23016

Restructuring PAPER

ON A

PROPOSED Project restructuring

of

KABUL MUNICIPAL DEVELOPMENT PROGRAM

 (Grant TF17016, US$110 million)

BOARD APPROVAL: APRIL 3, 2014

TO

THE ISLAMIC REPUBLIC OF AFGHANISTAN

November 13, 2017

Social, Urban, Rural & Resilience Practice

South asia region

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**ABBREVIATIONS AND ACRONYMS**

|  |  |
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|  |  |
| AFMISFMIDAKMKMDPPDO | Afghanistan Financial Management Information SystemFinancial ManagementInternational Development AssociationKabul Municipality Kabul Municipal Development Program Project Development Objectives |
|  |  |

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| --- | --- | --- |
| Regional Vice President: |  | Annette Dixon |
| Country Director:Senior Global Practice Director:  |  | Shubham ChaudhuriEde Jorge Ijjasz-Vasquez |
| Practice Manager/Manager: |  | Catalina Marulanda |
| Task Team Leader: |  | Deepali Tewari |

**AFGHANISTAN**

**Kabul Municipal Development Program (P125597)**

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| *SOUTH ASIA* |
| *Social, Urban, Rural and Resilience Global Practice* |
| . |
|  |  |  | Report No: | RES23016 |
| . |
| **Basic Information** |
| Project ID:  | P125597 | Financing Instrument:  | Investment Project Financing |
| Regional Vice President:  | Annette Dixon | Original EA Category:  | Partial Assessment (B) |
| Country Director:  | Shubham Chaudhuri | Current EA Category:  | Partial Assessment (B) |
| Senior Global Practice Director:  | Ede Jorge Ijjasz-Vasquez | Original Approval Date:  | 03-Apr-2014 |
| Practice Manager:  | Catalina Marulanda | Current Closing Date:  | 31-Dec-2019 |
| Team Leader(s):  | Deepali Tewari |  |  |
| . |
| Borrower: | Islamic Republic of Afghanistan |
| Responsible Agency: | Kabul Municipality (KM)  |
| . |
| **Restructuring Type** |
| Form Type:  | Full Restructuring Paper | Decision Authority:  | CD Decision |
| Restructuring Level:  | Level 2 |  |  |
| . |
| **Financing**  |
| Key Dates |
| Project | Ln/Cr/TF | Status | Approval Date | Signing Date | Effectiveness Date | Original Closing Date | Revised Closing Date |
| P125597 | TF17016 | Effective | 11-Apr-2014 | 11-Apr-2014 | 11-Apr-2014 | 31-Dec-2019 | 31-Dec-2019 |
| Disbursements (in Millions) |
| Project | Ln/Cr/TF | Status | Currency | Original | Revised | Cancelled | Disbursed | Undisbursed | % Disbursed |
| P125597 | TF-17016 | Effective | USD | 110.00 | 110.00 | 0.00 | 53.69 | 56.31 | 48.81 |
| . |
| **Policy Waivers** |
| Does the project depart from the CAS/CPF in content or in other significant respects? | Yes [ ] | No [ X] |
| Does the project require any policy waiver(s)? | Yes [ ] | No [ X] |
| . |
| **A. Summary of Proposed Changes** |
| The following changes are proposed: (i) an extension of the Grant closing date by 18 months from December 31, 2019 to June 30, 2021; (ii) reallocation of funds between Project components; (iii) update of the results framework, disbursement forecast, and implementation schedule; and (iv) transition to World Bank Procurement Regulations for Borrowers under Investment Project Financing, dated July 1, 2016 (Procurement Regulations). |
| Change in Implementing Agency | Yes [ ] | No [ X ] |
| Change in Project's Development Objectives | Yes [ ] | No [ X ] |
| Change in Results Framework | Yes [ X ] | No [ ] |
| Change in Safeguard Policies Triggered | Yes [ ] | No [ X ] |
| Change of EA category | Yes [ ] | No [ X ] |
| Other Changes to Safeguards | Yes [ ] | No [ X ] |
| Change in Legal Covenants | Yes [ ] | No [ X ] |
| Change in Loan Closing Date(s) | Yes [X ] | No [ ] |
| Cancellations Proposed | Yes [ ] | No [ X ] |
| Change to Financing Plan | Yes [ ] | No [ X ] |
| Change in Disbursement Arrangements | Yes [ ] | No [ X ] |
| Reallocation between Disbursement Categories | Yes [ ] | No [ X ] |
| Change in Disbursement Estimates | Yes [ X ] | No [ ] |
| Change to Components and Cost | Yes [ X ] | No [ ] |
| Change in Institutional Arrangements | Yes [ ] | No [ X ] |
| Change in Financial Management | Yes [ ] | No [ X ] |
| Change in Procurement | Yes [ X ] | No [ ] |
| Change in Implementation Schedule | Yes [ X ] | No [ ] |
| Other Change(s) | Yes [ ] | No [ X ] |
| Appraisal Summary Change in Economic and Financial Analysis | Yes [ ] | No [ X ] |
| Appraisal Summary Change in Technical Analysis | Yes [ ] | No [ X ] |
| Appraisal Summary Change in Social Analysis | Yes [ ] | No [ X ] |
| Appraisal Summary Change in Environmental Analysis | Yes [ ] | No [ X ] |
| Appraisal Summary Change in Risk Assessment | Yes [ ] | No [ X ] |
| . |
| **B. Project Status** |
| The Grant for the Kabul Municipal Development Program (KMDP) was approved on April 3, 2014 and was declared effective on April 11, 2014. The current closing date of the Grant is December 31, 2019. The objective of KMDP is to: (i) increase access to basic municipal services in selected residential areas of Kabul city; (ii) redesign Kabul Municipality (KM)’s Financial Management system; and (iii) enable early response in the event of an eligible emergency. The project comprises five components: (i) Infrastructure Upgrading Program; (ii) Redesign KM’s Financial Management System; (iii) Studies; (iv) Project Management, Works Design and Supervision; and (v) Contingency Emergency Response. Project implementation progress had slowed in 2016, but commitments have picked up since December 2016. As of November 5, 2017, US$73.40 million (67 percent) of the Grant is committed and US$53.70 million (49%) disbursed. The likelihood of achieving the project development objective (PDO) and implementation progress are rated as “Satisfactory” and “Moderately Satisfactory” respectively. KMDP has exceeded the Year 3 targets established at Appraisal for the first PDO element: 755,000 beneficiaries against a target of 426,000 beneficiaries; 2316 hectares against a target of 943 hectares. These targets have been exceeded because of a decline in unit upgrading costs since Appraisal. KMDP has covered more area, and therefore there are more beneficiaries. In the case of the second PDO element, the end of project target of the PDO indicator at Appraisal (delivery of the final report on FM reforms) has already been achieved: the final report was delivered in December 2016. A two-phased approach was adopted because of the complexity of institutional reforms and the complexity of procurement. At Appraisal, it was anticipated that this diagnostic report would be the basis to develop either a separate standalone project to implement the recommendations or implement a slice of the recommendations under this project either through reallocation of uncommitted funds or through additional financing. (see para # 65 (ii) PAD).The status of implementation of the project components is summarized below.Component A: Infrastructure Upgrading Program (US$85 million) - KMDP has delivered over 337 km of community roads, 457 km of community drains, 23 km of trunk roads, and 25 km of water supply pipes, as well as small parks and public open spaces. The upgrading works have generated over two million man-days of temporary employment through the execution of labor intensive works contracts. The average unit costs of upgrading are almost 18% lower than the estimates at appraisal, in large measure because of fierce competition due to a deterioration in economic opportunities. Goods procurement for US$20.0 million was dropped.Component B: Redesign of KM's Financial Management System (US$3 million) - All reports have been delivered. KM has automated its’s payroll system and payroll processing time has been reduced from 10 days to one day. Restructuring will enable the implementation of Accounting, Budgeting, HR, Inventory, Asset, Fleet, Procurement, and Revenue modules.Component C: Studies – Proposed to be dropped.Component D: Project Implementation, Design and Supervision - Recruitment to fill vacancies, as well as to augment the KMDP Team's capacity to expedite implementation, is underway and needs to be expedited.Component E: Contingency Emergency Response - This component has not been triggered by an emergency.The Project is in compliance with legal covenants as well as Bank fiduciary and safeguards policies. It is confirmed that there are no overdue audit reports and no outstanding audit issues. |
| . |
| **C. Proposed Changes** |
| . |
| **Development Objectives/Results** |
| **Project Development Objectives** |
| Original PDO |
| The Project Development Objectives are to: (i) Increase access to basic municipal services in selected residential areas of Kabul city; (ii) Redesign KM’s Financial Management system to support better service delivery; and (iii) Enable early response in the event of an eligible emergency. |
| **Change in Project's Development Objectives** |
| **Change in Results Framework** |
| Explanation:  |
| PDO level results to be achieved by the proposed Grant closing date, i.e., June 30, 2021, are: 1. Component A (Infrastructure Upgrading Program) - 3020 hectares (area to be upgraded increased to due to an increase in allocation for upgrading from US$65.0 million to US$91.5 million and after an analysis of implementation experience during the Mid Term Review June 2016).
2. Component B (Redesign KM’s FM System) - KM presents on its website annual financial statements as per international standards and a report providing expenditure details by types of services provided (changed from the completion of diagnostic reports).

Intermediate indicators have been revised in line with the changes in the project scope. |
| . |
| **Financing** |
| **Change in Loan Closing Date(s)** |
| Explanation: |
| The Grant closing date is proposed to be extended by 18 months to enhance project outcomes by fully utilizing Grant funds freed up by the cancellation of goods procurement, and the request by the Government to implement FM reforms at KM.:1. KMDP will need to execute additional works for US$26.50 million which will require time. Implementation experience makes clear that the Kabul contracting market for small contractors can absorb about US$9.20million per year. With US$65.26 committed as of September 17, 2017, KMDP will be require at least three years to execute the Grant, taking into account risks due to security, changes in leadership and a fragile operating environment.
2. Institutionalizing KM’s Financial Management System will also require time. Market conditions for consulting firms are less than optimal in Kabul. Experience has already highlighted the delays that come with frequent changes in leadership. This is fourth mayor since Appraisal, the third Minister of Finance, and the second Director General of Treasury.

This is the first extension of the Grant closing date. |
| **Ln/Cr/TF** | **Status** | **Original Closing Date** | **Current Closing Date** | **Proposed Closing Date** | **Previous Closing Date(s)** |
| TF-17016 | Effective | 31-Dec-2019 | 31-Dec-2019 | 30-Jun-2021 | 31-Dec-2019 |
| **Disbursement Estimates** |
| **Change in Disbursement Estimates** |
| Explanation: |
| The proposed disbursement schedule reflects disbursements to date and estimated disbursements for the remainder of the extended project period. |
| **Fiscal Year** | **Current (USD)** | **Proposed (USD)** |
| 2014 | 38,200,000.00 | 11,323,068.33 |
| 2015 | 18,700,000.00 | 11,771,158.39 |
| 2016 | 16,500,000.00 | 11,619,164.64 |
| 2017 | 12,300,000.00 | 26,200,295.00 |
| 2018 | 16,500,000.00 | 22,404,337.50 |
| 2019 | 7,800,000.00 | 14,367,204.00 |
| 2020 | 0 | 8,623,204.00 |
| 2021 | 0 | 3,691,568.14 |
| **Total** | 110,000,000.00 | 110,000,000.00 |
| . |
| **Components** |
| **Change to Components and Cost** |
| Explanation: |
| Grant funds are proposed to be reallocated between KMDP components as follows: 1. Increase in funding for Component A: Infrastructure Upgrading Program to US$91.5 million to expand the scope. The Appraisal allocation of US$85.0 million consisted of US$65 million for upgrading and US$20.0 million for Goods, and the new allocation for upgrading, US$91.5 million, will be an increase of US$26.5 million).
2. Increase in funding for Component B to US$6 million (an increase from the Appraisal allocation of US$3.0 million), so that Kabul Municipality’s Financial Management system can be strengthened to improve overall development effectiveness through support for rolling out the Afghanistan Financial Management Information system (AFMIS) to Kabul Municipality, including training, software license fees, the purchase and installation of servers /computers / printers, and training and capacity building.
3. Zero allocation for Component C: Studies.
4. Decrease in funding for Component D: Project Implementation, Design and Supervision to US$12.5 million (from the Appraisal allocation of US$17.0 million).
5. Component E. Contingency Emergency Response. No change - This component has not been triggered by an emergency
 |
| **Current Component Name** | **Proposed Component Name** | **Current Cost (US$M)** | **Proposed Cost (US$M)** | **Action** |
| Infrastructure Upgrading Program | Infrastructure Upgrading Program  | 85.00 | **91.50** | Revised |
| Redesign KM’s Financial Management System  | Redesign KM’s Financial Management System  | 3.00 | **6.00** | Revised |
| Studies |  | 5.00 | **0.00** | Marked for Deletion |
| Project Management, Works Design and Supervision | Project Management, Works Design and Supervision  | 17.00 | **12.50** | Revised |
| Contingency Emergency Response | Contingency Emergency Response | 0.00 | 0.00 |  |
|  | **Total:**  | 110.00 | 110.00 |  |
| . |
| **Other Change(s)** |
| **Change in Implementation Schedule** |
| Explanation: |
| KM’s KMDP Team has updated the timeline for project activities because of changes to Component A (Infrastructure Upgrading Program) and Component B (Redesign of KM’s FM System). For Component A US$65 million (71% of revised Component A allocation of US$91.5m) was committed by September 21, 2017. An extension in the time line is needed to complete upgrading works for the additional US$26.5 million in a complex and unpredictable operating environment. The security situation remains fluid, exacerbating the capacity of small contractors to deliver within the duration of their contracts. For example, the boundary of the “green zone” was recently expanded leading to additional road closures and traffic diversions, impacting the delivery of materials to works sites and delaying the work of contractors. Elections scheduled for July 2018 are also expected to contribute to further delays. These risks can be mitigated by a longer implementation period (based on experience with absorptive capacity), an increase in procurement, contract management and engineering staffing in the KMDP Team, and by transitioning to the Procurement Regulations, dated July 1, 2016. Procurement of emergency expenditures under Emergency Response Part of the Project will not be affected by transition to Procurement Regulations. Emergency response expenditures under Emergency Response Part remain to be procured in accordance with procurement methods and procedures set forth in Contingent Emergency Response Implementation Plan.  |

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| Project Name: | Kabul Municipal Development Program (P125597) | Project Stage: | Restructuring | Status:  | FINAL  |
| Team Leader(s): | Deepali Tewari | Requesting Unit: | SACKB | Created by: | Deepali Tewari on 17-Mar-2016 |
| Product Line: | Recipient Executed Activities | Responsible Unit: | GSU12 | Modified by: | Deepali Tewari on 6-Nov-2017 |
| Country: | Afghanistan | Approval FY: | 2014 |
| Region: | SOUTH ASIA | Financing Instrument: | Investment Project Financing |
| . |
| **Project Development Objectives** |
| Original Project Development Objective: |
| The Project Development Objectives are to: (i) Increase access to basic municipal services in selected residential areas of Kabul city. (ii) Redesign KM’s Financial Management system to support better service delivery.(iii) Enable early response in the event of an eligible emergency. |
| **Results** |
| Core sector indicators are considered: No | Results reporting level:  |
| . |
| **Project Development Objective Indicator (i) Increase access to basic municipal services in selected residential areas of Kabul city** |
| Status | Indicator Name | Corporate | Unit of Measure |  | Baseline | Actual(Current) | End Target |
| Revised | Number of beneficiaries from upgrading in both planned and unplanned areas that are upgraded. |  | Number | Value | 0.00 | 755000 | 1052660 |
|  | Date | 14-Feb-2014 | 21-Sept 2017 | 30-Jun-2021 |
|  | Comment |  |  |  |
| Revised | Number of people in urban areas provided with access to all season roads within a 500 meter range under the project. |  | Number | Value | 0.00 | 240352.00 | 500000.00 |
| Sub Type |
| Supplemental |
| **Project Development Objective Indicator (ii) Redesign KM’s Financial Management system to support better service delivery** |
| Status | Indicator Name | Corporate | Unit of Measure |  | Baseline | Actual(Current) | End Target |
| Revised | Public access to key financial information, in particular, the expenditure by type of services.  |  | Report published | Value | Qatia accounts prepared reporting expenditures against single line budget.  |  | KM presents on its website financial statements as per international standards and a report providing expenditure details by type of services provided.  |
| Date | 21-Jun-2017 |  | 21-Jun-2021 |
| **Intermediate Results Indicators for PDO (i) Increase access to basic municipal services in selected residential areas of Kabul city** |
| Status | Indicator Name | Corporate | Unit of Measure |  | Baseline | Actual(Current) | End Target |
| Revised | Area Upgraded |  | Hectare(Ha) | Value | 0.00 | 2316 | 3020 |
| Date | 14-Feb-2014 | 21-Sept-2017 | 30-Jun-2021 |
| Comment |  |  |  |
| Revised | Kilometers of community roads paved |  | Kilometers | Value | 0.00 | 337 | 560.00 |
| Date | 14-Feb-2014 | 21-Sept-2017 | 30-Jun-2021 |
| Comment |  |  |  |
| Revised | Kilometers of trunk road paved |  | Kilometers | Value | 0.00 | 23 | 37 |
|  | Date | 14-Feb-2014 | 21-Sept-2017 | 30-Jun-2021 |
|  | Comment |  |  |  |
| Revised | Kilometers of community drains lined |  | Kilometers | Value | 0.00 | 457.00 | 745.00 |
|  | Date | 14-Feb-2014 | 21-Sept-2017 | 30-Jun-2021 |
|  | Comment |  |  |  |
| Revised | Kilometers of trunk drains lined |  | Kilometers | Value | 0.00 | 0 | 0.00 |
|  | Date | 14-Feb-2014 | 21-Sept-2017 | 30-Jun-2021 |
|  | Comment |  |  |  |
| **Intermediate Results Indicators for PDO (ii) Redesign KM’s Financial Management system to support better service delivery** |
| Status | Indicator Name | Corporate | Unit of Measure |  | Baseline | Actual(Current) | End Target |
| New | KM’s Financial Management (FM) Framework  |  | Text | Value | MOF financial regulations used which are not specific to KM needs.  |  | FM framework, specific to KM needs and based on best practices, developed and implemented.  |
|  | Date | 30-Sep-2017 |  | 31-Dec-2018 |
|  | Comment |  |  |  |
| New | Implementation of Financial Management Information System (AFMS/FreeBalance) |  | Text | Value | Payroll module implemented. |  | Eight modules implemented (Accounting, Budgeting, HR, Inventory, Asset, Fleet, Procurement, Revenue)  |
|  | Date | 30-Sep-2017 |  | 31-Dec-2019 |
|  | Comment |  |  |  |
| . |