

Document of  
The World Bank

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Report No: 57776-AF

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT

IN THE AMOUNT OF SDR 25.5 MILLION  
(US\$ 40 MILLION EQUIVALENT)

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

FOR A

NATIONAL EMERGENCY RURAL ACCESS PROJECT (NERAP)

November 15, 2010

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective October 31, 2010)

Currency = Afghani ( AFN)  
Unit  
AFN 45.25 = US\$1  
US\$ 1.57179 = SDR 1

## FISCAL YEAR

March 21 – March 20

## ABBREVIATIONS AND ACRONYMS

ARTF	Afghanistan Reconstruction Trust Fund
DA	Designated Account
ESMF	Environmental and Social Management Framework
IC	Implementation Consultant
ISN	Interim Strategy Note
JSDF	Japan Social Development Fund
M&E	Monitoring and evaluation
MPW	Ministry of Public Works
MRRD	Ministry of Rural Rehabilitation and Development
MTR	Mid-term review
NEEP	National Emergency Employment Program
NERAP	National Emergency Rural Access Project
NGO	Nongovernmental organization
NRAP	National Rural Access Program
PDO	Project development objective
PIU	Program implementation unit
UNOPS	United Nations Office for Project Services

Vice President:	Isabel M. Guerrero
Country Director:	Nicholas J. Krafft
Sector Director:	John Henry Stein
Sector Manager:	Michel Audige
Task Team Leader:	Mesfin Wodajo Jijo

**AFGHANISTAN**  
**NATIONAL EMERGENCY RURAL ACCESS PROJECT (NERAP)**  
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**AFGHANISTAN**

**NATIONAL EMERGENCY RURAL ACCESS PROJECT**

**Additional Financing Datasheet**

<b>Basic Information - Additional Financing (AF)</b>			
Country Director:	Nicholas Krafft	Sectors:	Transport Roads
Sector Manager:	Michel Audige	Themes:	and Highways,
Sector Director:	John Henry Stein		Agriculture
Team Leader:	Mesfin W. Jijo		Marketing &
Project ID:	P118828		Trade (Rural
Expected Effectiveness Date:	02/01/2011		Services &
Lending Instrument:	ERL		Infrastructure)
Additional Financing Type:	Cost overrun	Environmental category:	B
		Expected Closing Date:	12/31/2013
		Joint IFC:	N/A
		Joint Level:	N/A
<b>Basic Information – Original Project</b>			
Project ID:	P103343	Environmental category:	B
Project Name:	National	Expected Closing Date:	12/31/2010 N/A
	Emergency Rural	Joint IFC:	N/A
	Access Project	Joint Level:	
Lending Instrument	ERL		
<b>AF Project Financing Data</b>			
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant <input type="checkbox"/> Guarantee <input type="checkbox"/> Other: Proposed terms:			
<b>AF Financing Plan (\$m)</b>			
<b>Source</b>		<b>Total Amount (\$m)</b>	
Total Project Cost:		70	
Cofinancing: (to be secured)		30	
Borrower		-	
Total Bank Financing:		40	
IBRD		-	
IDA		40	
New		40	
Recommitted		-	
<b>Client Information</b>			

**Recipient:** Islamic Republic of Afghanistan  
**Responsible Agency:** Ministry of Public Works (MPW); Ministry of Rural Rehabilitation and Development (MRRD)  
**Contact Person:** Mr. Abdul Satar Salim, National Coordinator NRAP  
 Telephone No.: +93-79-9306173  
 Email: [salim@nrp.org](mailto:salim@nrp.org)

**AF Estimated Disbursements (Bank FY/\$m)**

FY	2011	2012	2013	2014
Annual	7	14	14	5
Cumulative	7	21	35	40

**Project Development Objective and Description**

**Original project development objective:** to assist the Recipient in enabling the population living in its rural areas to benefit from year-round access to basic services and facilities through the rehabilitation and maintenance of rural access infrastructure under the Recipient's national Rural Access Program.

**Revised project development objective:** *Not Applicable*

**Component A: Improvement of Secondary Roads** consisting of (i) rehabilitation and reconstruction of secondary rural roads, (ii) emergency repair works to roads and bridges, (iii) implementation of environmental & social management framework, and (iv) implementation support technical assistance.

**Component B: Improvement of Tertiary Roads** consisting of (i) rehabilitation and reconstruction of tertiary rural roads, (ii) emergency repair works to roads and bridges, (iii) routine maintenance works, (iv) implementation of environmental & social management framework, and (v) implementation support technical assistance .

**Component C: Institutional Strengthening, Project Management & Program Development.**

**Safeguards and Exception to Policies**

Safeguard policies triggered:	
Environmental Assessment (OP/BP 4.01)	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Forests (OP/BP 4.36)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Pest Management (OP 4.09)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Physical Cultural Resources (OP/BP 4.11)	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Involuntary Resettlement (OP/BP 4.12)	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Projects on International Waters (OP/BP 7.50)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Projects in Disputed Areas (OP/BP 7.60)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the project require any exceptions from Bank policies?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Have these been approved by Bank management?	<input type="checkbox"/> Yes <input type="checkbox"/> No



<b>Conditions and Legal Covenants</b>		
<b>Grant Agreement Reference</b>	<b>Description of Condition/Covenant</b>	<b>Date Due</b>
Article IV Additional Condition of Effectiveness	The Recipient shall, through MPW and MRRD, have entered into contracts satisfactory to the Association for the engagement of the Implementation Consultant.	Complied with
Section V.1 of Schedule 2	The Recipient shall establish the National Coordination Unit and appoint a project administrator with skills, qualifications, experience and terms of reference satisfactory to the Association.	Complied with
Section V.2 of Schedule 2	The Recipient shall establish a fully functioning MIS for the project.	Complied with <sup>1</sup>
Section V.3 of Schedule 2	The Recipient shall, through MPW and MRRD, enter into a contract satisfactory to the Association for the engagement of the Capacity Building Consultant.	Complied with
Section I.B.1 of Schedule 2	The Recipient shall adopt and thereafter implement the Project in accordance with the Project Implementation Manual, which includes a financial management sub-manual and a procurement sub-manual.	Complied with

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<sup>1</sup> The MIS has been developed and it is at testing stage, in preparation to fully launching it.

# Project Paper

## I. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide an additional grant in an amount of SDR 25.5 million (US\$ 40 million equivalent) to the Islamic Republic of Afghanistan, National Emergency Rural Access Project (P103343) (H344-AF). Upon the Board's approval of the additional grant, the closing date of Grant H 344-AF would be extended from the current December 31, 2010 to December 31, 2013.

2. The proposed additional grant would help finance a portion of the project cost overrun due to circumstances that have arisen during implementation. There would be no changes to the project's development objective, results framework and implementation arrangements. The target for length of tertiary rural roads rehabilitated has increased by 29% following detailed surveys of rehabilitation schemes during implementation. The project is co-financed by the Afghanistan Reconstruction Trust Fund (ARTF) grant TF 95297 (US\$ 50 million). Additional financing in an amount of US\$ 30 million to cover the balance funding gap is being sought from ARTF

## II. Background and Rationale for Additional Financing

### 2.1 Background

3. The National Rural Access Program was launched by the Government of Afghanistan (GoA) in 2003 to support rehabilitation of rural infrastructure and livelihoods. The first phase of the program received funding support from IDA, ARTF and JSDF totaling US\$112 million. The program has evolved considerably since then. On December 13, 2007, an IDA grant (H344) of SDR 71.4 million (US\$ 112 million equivalent) was approved to support the National Emergency Rural Access Project (NERAP). The project's development objective is to assist the Recipient in enabling the population living in its rural areas to benefit from year-round access to basic services and facilities through the rehabilitation and maintenance of rural access infrastructure under the Recipient's National Rural Access Program. The project finances (i) rehabilitation of secondary rural roads, with the Ministry of Public Works (MPW) as the implementing agency; (ii) rehabilitation of tertiary rural roads, with the Ministry of Rural Rehabilitation and Development (MRRD) as the implementing agency; and (iii) project implementation support technical assistance and capacity building of MPW and MRRD. The Grant H344-AF became effective on November 17, 2008; the current (original) grant closing date is December 31, 2010.

4. On September 8, 2009, the ARTF Management Committee approved a funding request of US\$ 50 million for co-financing the project. The ARTF Grant Agreement for the first tranche of US\$30 million was signed and declared effective on October 20, 2009; the current grant closing date is December 31, 2011.

### 2.2 Project Implementation Performance



5. Project implementation progress has been much slower than envisaged at project appraisal, primarily due to IDA grant effectiveness delays and rapidly deteriorating security beginning in 2008.

6. To address the weak capacity of the two implementing agencies, MPW and MRRD, their engaging UNOPS as project Implementation Consultant (IC) was an additional condition of effectiveness for H 344. Negotiation of the contracts with UNOPS and approval by government authorities took a long time, leading to almost one year delay in grant effectiveness.

7. Deteriorating security since early 2008 has had a profound impact on the implementation timetable and delivery costs of the project. First, deteriorating security conditions at many sub-projects prevented the project staff from carrying out detailed surveys and other field work to prepare designs for road rehabilitation schemes. Second, the security conditions at sites of works has also affected the ability of contractors to execute contracts, particularly for contracts in less secure areas, resulting in higher contract prices and contract completion time overruns. Third, security concerns have significantly diminished the interest of international consulting firms to participate in bidding for technical assistance work in Afghanistan; the project encountered great difficulties in the engagement of a consultant for capacity building of the two project implementation units in MPW and MRRD respectively, as shortlisted firms declined to participate.

8. The security challenges notwithstanding, the project is moving forward steadily, albeit at a slower pace. The project was rated as “Moderately Satisfactory” for DO and IP. As of November 2010, 80% of IDA grant H344 and 94 % of TF 95297 have been disbursed. The project’s implementation progress by component as of September 30, 2010 was as follows:

*Improvement of Secondary Roads (Moderately Satisfactory):* The overall physical progress of rehabilitation works contracts was about 51%.

*Improvement of Tertiary Roads (Moderately Satisfactory):* The physical progress of the rehabilitation works as of September 30, 2010 was about 58%. Piloting of routine maintenance, intended to be carried out through direct contracting with communities assisted by NGOs, has been delayed due to the declining interest of the NGOs to assist communities in managing these contracts.

*Institutional Strengthening, Project Management & Program Development (Moderately Unsatisfactory):* The project encountered great difficulties in engaging a consulting firm for MPW/MRRD’s capacity building technical assistance; two rounds of invitation failed, as shortlisted firms declined to submit proposals out of security concerns. A consultant (SMEC) finally responded and was selected in May 2010, but it is having difficulty to mobilize as the proposed personnel declined the offer out of security concerns. The upgrading of the existing M&E and MIS systems is completed and implementation will be launched shortly. The procurement process of hiring an individual to carry out a technical audit is under way.

The table below shows the progress toward achieving the project targets for key intermediate outcome indicators:

**Table 1: Overall Status of NERAP Implementation**

	All Subprojects		Completed		Awarded and On-going		Design and Procurement Stage	
	Km	Cost (\$m)	Km*	Cost (\$m)	Km	Cost (\$m)	Km	Cost (\$m)
Secondary	1,105	111.9	422	28.4	254	30.4	429	53.1
Tertiary	1,197	50.3	450	13.7	462	22.6	284	14.0

<b>Total</b>	2,302	162.2	872	42.1	716	53.0	713	67.1
<b>% of total</b>	100	100	38%	26%	31%	33%	31%	41%

\*refers only to fully completed contracts

9. **Fiduciary Management:** the mid-term review rated Financial Management moderately unsatisfactory on account of inadequate internal controls, mainly pertaining to MRRD, and an action plan was agreed with the implementing agencies to address the identified inadequacies (Annex 3). MRRD and MPW have completed all agreed actions. Currently, the project has no outstanding audit reports or ineligible expenditures, and no unresolved fiduciary issues.

10. **Safeguard Management:** the midterm review rated Safeguard Management moderately unsatisfactory on account of mainly inadequate staffing in the MPW. MPW immediately took steps and forwarded to the Bank a proposal to strengthen its safeguards unit. The proposal is under review by the Bank team.

### 2.3 Rationale for Additional Financing

11. **Revised Project Costs:** The June 2010 IDA mid-term project review mission reviewed the overall implementation progress and the pending project activities and commitments, and re-assessed the project financing requirements vis-à-vis the amounts of funding support secured from IDA and ARTF to date. The original project costs estimate was US\$ 137 million when the IDA grant H 344 was approved; the project costs estimate was subsequently revised to US\$ 162 million in May 2009 in connection with the preparation of the ARTF funding proposal. The mid-term project review updated the project costs at about US\$ 232 million. The total project cost increase of US\$ 70 million comprises (a) an increase of US\$ 36.9 million (53%) for secondary roads works (Component A.1); (b) an increase of US\$ 9.3 million (13%) for tertiary roads works (Component B.1); (c) an increase of US\$ 21.5 million (31%) for implementation support (Components A.4 and B1.5); and (d) an increase of US\$ 2.3 million (3%) for Component C. The table below shows the updated project costs by component.

**Table 2: Updated Project Costs (June 2010, million US\$)**

Components	Original Nov 2007	Revised May 2009	Updated June 2010
<b>Component A</b>			
A.1 Secondary Roads Works	67.4	75.0	111.9
A.2 Emergency Maintenance Works	2.8	2.8	2.8
A.3 Environmental & Social Management Plans, Monitoring & Evaluation	0.2	0.2	0.2
A.4 Implementation Support (IC & PIU)	7.7	14.2	25.6
<b>Total Component A</b>	<b>78.1</b>	<b>92.2</b>	<b>140.5</b>
<b>Component B</b>			
B.1 Tertiary Roads Works	31.5	41.0	50.3
B.2 Emergency Maintenance Works	2.8	2.8	2.8
B.3 Routine Maintenance Works	8.0	8.0	8.0
B.4 Environmental & Social Management Plans, Monitoring & Evaluation	0.4	0.4	0.4

<b>Components</b>	<b>Original Nov 2007</b>	<b>Revised May 2009</b>	<b>Updated June 2010</b>
B.5 Implementation Support (IC & PIU)	9.4	10.8	20.8
<b>Total Component B</b>	<b>52.1</b>	<b>63.0</b>	<b>82.3</b>
<b>Component C</b>			
C.1 Rural Roads Management System	0.6	0.6	3.0
C.2 Institutional Capacity Building	2.8	2.8	2.8
C.3 Project Management Support	3.4	3.4	3.4
<b>Total Component C</b>	<b>6.8</b>	<b>6.8</b>	<b>9.2</b>
<b>Grand Total</b>	<b>137.0</b>	<b>162.0</b>	<b>232.0</b>

12. The original project costs estimate was based on preliminary information on an indicative pipeline of sub-projects, and a unit cost of US\$29,000-54,000 per kilometer. The project cost overrun is attributable to four factors that have arisen during project implementation: (i) use of higher design standards for secondary roads; (ii) security related increases in contract prices and time overruns; (iii) delayed engagement of capacity building consultant precipitated by deteriorating security in the country, necessitating the continued involvement of the Implementation Consultant (UNOPS); and (iv) foreign exchange losses due to the appreciation of the local currency (for payments of works contracts ) against the US\$.

13. Except for the use of higher design standards, the other three factors are outside the control of the project implementing agencies.

14. *Higher Road Standards:* During project preparation and appraisal, an understanding was reached with MPW and MRRD that rehabilitation of rural roads would be guided by a basic access approach. However, no specific design standards for basic access roads were developed and agreed; the appraisal cost estimates were made using \$29,000-54,000 per kilometer based on the cost data of the previous phase of the NRAP, which had a strong emphasis on labor-intensive road rehabilitation, with the aim of generating rural employment. During implementation, MPW and MRRD have used the secondary and tertiary road standards which are higher than needed for basic access roads. The engineering estimates derived from the detailed design using such standards have progressed up to about \$50,000/km for tertiary roads and above \$100,000/km for secondary roads. Discussions have been ongoing with MPW and MRRD on the development and adoption of rural road standards commensurate with the basic access approach. Agreement was reached with MPW and MRRD that they shall, by no later than December 31, 2011, develop, adopt and implement a roads network planning and prioritization mechanism, including basic rural access standards and roads specifications, satisfactory to the Bank in the selection of secondary and tertiary roads for reconstruction, rehabilitation and/or maintenance works.

15. *Extended Involvement of Implementation Consultant:* To build the capacity of MPW and MRRD in program planning, implementation management, and program monitoring and evaluation, the project includes a provision for capacity-building technical assistance, with the aim of reducing dependence on the Implementation Consultant. Unfortunately, two rounds of invitation failed, because shortlisted firms declined to submit proposals out of security concerns; a consultant was finally selected in May 2010, but is having difficulty to mobilize its team, as proposed personnel declined to mobilize for security reasons. As the envisaged capacity building of MPW and MRRD has so far not yet begun, continued involvement of the Implementation Consultant (UNOPS) for the extended project implementation period becomes necessary. UNOPS has a unique advantage in mobilizing logistics and security arrangements as needed, which other firms have found extremely difficult. Because the works are delayed, the implementation

support services need to be extended by 2.5 years until the project works are completed. An agreement was reached with MPW and MRRD that they shall extend the Implementation Consultant’s (IC) Contract for the extended period of the Project, with the IC to take greater responsibility in planning, quality control/quality assurance, fiduciary management and monitoring and evaluation functions, and incorporate same in the amended IC contract.

16. *Exchange Rate Loss:* The project’s works contracts are paid in local currency (Afghani). Since project approval, there is a cumulative 10 % appreciation of the local currency against the US\$, leading to an estimated exchange loss of about US\$12 million.

17. Based on the updated project costs, and the funding secured to date from IDA and ATRF, there is a funding gap of US\$70 million, of which US\$30 million is being sought from ARTF. The proposed additional IDA financing of US\$40 million will help to close the funding gap facing the project.

18. The National Rural Access Program is a government-owned national priority program and is closely aligned with the Afghanistan National Development Strategy, the IDA’s Interim Strategy for Afghanistan, and the ARTF Financing Strategy endorsed by all ARTF donors. The proposed additional financing is crucial to enable the project to continue its implementation and achieve its development objectives and outcomes, and enable the Government to fulfill commitments made to the rural communities. The proposed additional financing is considered to be the most suitable instrument to respond to the project cost overrun expeditiously.

### III. Proposed Changes

19. This Project Paper seeks approval for an additional financing of US\$40 million. Upon the Board’s approval of the additional grant, the closing date of Grant H 344 would be extended by three years to December 31, 2013. The project’s development objective, project design and implementation arrangements remain the same. The project’s results framework and monitoring indicators have been updated to reflect the extended project implementation period and the increased length of tertiary rural roads to be rehabilitated under the project (Annex 1).

20. Allocation of the proceeds of the proposed additional financing is shown in the table below:

**Table 3: Project Financing Plan (US\$ million)**

Component	IDA		ARTF		Total
	Original	Proposed AF	Original	Proposed AF	
Improvement of Secondary Roads	53.1	28.0	39.0	20.4	140.5
Improvement of Tertiary Roads	52.1	12.0	11.0	7.2	82.3
Institutional Strengthening	6.8			2.4	9.2
Total	112.0	40.0	50.0	30.0	232.0

Disbursement from the proposed additional grant would be from a single disbursement category covering goods, works, consultants’ services, training, routine maintenance grants, and incremental operating costs for the project, which is used for IDA grant H344. A separate Designated Account in USD, to be opened with the Da Afghanistan Bank and managed by the Special Disbursement Unit in the Treasury Department of the Ministry of Finance for the benefits of the project, with ceiling of advance equivalent to 4 months' worth of expenditures to be paid out of the DA, will be established for this additional financing. As with the original project, disbursements for the additional financing will continue to be on

transaction based, and documentation of expenditures incurred will be based on Statement of Expenditures (SOE) and/or Summary Sheets. The SOE thresholds under the original grant will continue for the additional financing. To facilitate payment, a separate float account, to be opened in USD at the Da Afghanistan Bank, with a ceiling of advance of USD 1 million, will be established for the additional financing and managed by the Implementation Consultant. This float account will be subject to the same disbursement procedures as a designated account, including, but not limited to, minimum application size, supporting documents requirement, frequency of reporting eligible expenditures paid from the float account, etc. The additional financing would be on standard IDA grant terms and will finance 100 % of project expenditures, including taxes.

#### **IV. Appraisal Summary**

21. During appraisal of the proposed additional financing, agreements have been reached that: (i) MPW and MRRD shall, by no later than December 31, 2011, develop, adopt and implement a roads network planning and prioritization mechanism, including basic rural access standards and roads specifications, satisfactory to the Bank in the selection of secondary and tertiary roads for reconstruction, rehabilitation and/or maintenance works; (ii) MPW and MRRD shall, by no later than December 31, 2011, establish a robust input price database and costs estimation system, satisfactory to the Bank; and (iii) MPW and MRRD shall extend the Implementation Consultant's (IC) Contract for the extended period of the Project, with the IC to take greater responsibility in planning, quality control/quality assurance, fiduciary management and monitoring and evaluation functions.

22. The project risks identified during the preparation of the original project remain the same during project implementation. The risk of further project cost overruns would be mitigated through measures to ensure suitable design standards for subprojects at the design stage. The security risk is outside the control of the implementing agencies and can only be closely monitored and adaptive measures undertaken to respond on a continuous basis. The Operational Risk Assessment Framework and mitigation measure is given in Annex 2.



Intermediate Results and Indicators												
Intermediate Results Indicators	Core	Unit	Baseline Original Project Start (12/08)	Progress to Date (July 2010)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2010	2011	2012	2013				
<b>Intermediate Results 1: <a href="#">Click here to enter the Revised Intermediate Results Statement 1</a></b>												
Km of secondary rural roads rehabilitated	<input checked="" type="checkbox"/>	km	0					770	Quarterly	MPW/ Progress Report	MIS MPW	IDA targets only
Km of tertiary rural roads rehabilitated	<input checked="" type="checkbox"/>	km	0					845	Quarterly	MRRD/ Progress Report	MIS MRRD	IDA targets only
Running meters of culverts, retaining walls and bridges to be rehabilitated for secondary roads		m	0					700	Quarterly	MPW/ Progress Report	MIS MPW	IDA targets only
Running meters of culverts, retaining walls and bridges to be rehabilitated for tertiary roads		m	0					16,400	Quarterly	MRRD/ Progress Report	MIS MRRD	IDA targets only
No. of labor days generated by MPW through rehabilitation work		days	0					1,080,000	Quarterly	MPW/ Progress Report	MIS MPW	IDA targets only
No. of labor days generated by MRRD through rehabilitation work		days	0					1,300,000	Quarterly	MRRD/ Progress Report	MIS MRRD	IDA targets only

<b>Intermediate Results 2: Click here to enter the Revised Intermediate Results Statement 2</b>												
A rural access policy and strategy is in place by the MTR	<input type="checkbox"/>	Text	Non-existent			Strategy developed			Once	NCU	NCU	
A maintenance scheme is in place by the end of 2nd year	<input type="checkbox"/>	Text	Non-existent			Mechanism in place			Once	MRRD	MIS MRRD	
No. of engineering & social development students who successfully complete internships with NRAP		No.	0	50	100	200	400	500	Yearly	MRRD/MPW	MIS MRRD/MPW	
An improved and interactive M&E system established at each PIU along with an improved MIS		Text	Non-existent			Fully integrated MIS in place			Once	NCU	MIS MRRD/MPW	
Cost estimation system developed		Text	Non-existent				System in place		Once	MIS MRRD/MPW	MIS MRRD/MPW	
Basic Access Road Standard developed		Text	Non-existent			Standard developed and in use			Once	NCU	NCU	
Gender-Inclusive Rural Access Planning implemented		Text	Non-existent				Pilot implemented in four provinces		Once	MRRD/MPW/Progress report	MIS MRRD/MPW	
NRAP rural road network planning and prioritization system developed		Text	Non-existent				System developed and in use		Once	NCU	MIS MRRD/MPW	



**Annex 2: Operational Risk Assessment Framework**  
**Islamic Republic of Afghanistan**  
**National Emergency Rural Access Project**

**Acronyms**

AF	Additional Financing	M&E	Monitoring and evaluation
ARD	Agriculture and Rural Development	MPW	Ministry of Public Works
ARTF	Afghanistan Reconstruction Trust Fund	MRRD	Ministry of Rural Rehabilitation and Development
BRA	Basic Rural Access	MTR	Mid-term review
CAO	Central Accounting Office	NERAP	National Emergency Rural Access Project
DPG	Development Policy Grant	NRAP	National Rural Access Program
EQUIP	Education Quality Improvement Project	NSP	National Solidarity Program
ESMF/P	Environmental & Social Management Framework/Plan	PCR	Physical and Cultural Resources
GA	Grant Agreement	PDO	Project Development Objectives
IA	Implementing Agency	PFM	Public Finance Management
IC	Implementing Consultant	PRT	Provincial Reconstruction Team

**Project Development Objective(s)**

The project development objective (PDO) is *to assist the Recipient in enabling the population living in its rural areas, to benefit from year-round access to basic services and facilities through the rehabilitation and maintenance of rural access infrastructure under the Recipient's National Rural Access Program*

PDO Level Results Indicators:	1. Reduced travel time of beneficiaries living along the improved road to first available schools and health care facilities, as well as administrative services
	2. Increased no. of trips taken by beneficiaries living along the improved road to first available schools and health care facilities, as well as administrative services
	3. Reduced difference in prices of key consumption <sup>2</sup> and production commodities <sup>3</sup> between the beneficiary villages and the nearest town <sup>4</sup>
	4. Percentage of population whose community is located within 2 km of an all-season road

<sup>2</sup> Wheat and kerosene oil

<sup>3</sup> Fruits and vegetables

<sup>4</sup> Trend of price change will be compared with the control groups

Risk Category	Risk Rating	Risk Rating Explanation	Risk Description	Proposed Mitigation Measure	Status C= complete, O = ongoing, NYD = Not yet due, N/A = Not Applicable
<b>1. Project Stakeholder Risks</b>					
<b>1.1 Stakeholder</b>	High	<p><b>High Impact:</b> Implementation experience so far has shown average construction costs as much as double the expectation at appraisal.</p> <p><b>Highly likely:</b> Construction costs substantially above appraisal estimates have been seen in the large majority [x%] of road sections completed so far. Over-runs have been particularly large and frequent on secondary roads (under MPW).</p> <p>Political pressures on MRRD &amp; MPW will remain strong to invest in roads despite low ranking according to the agreed criteria.</p> <p>Some donors' domestic constituencies will continue to favor certain regions or ethnic communities in use of their funds.</p>	<p>a. Exceeding the basic access standards, non-transparent selection of individual roads, and preferential treatment of regions will undermine the objective of providing basic access to as many communities as possible at minimum cost.</p> <p>b. MPW &amp; MRRD will continue to arbitrarily include roads without regard to agreed objective criteria for prioritization.</p> <p>c. Some donors may continue to show preference to some regions over others.</p>	<p>a. Develop a Basic Rural Access Standard (BRAS) supported under the Additional Financing (AF), and ensure approval of each design document submitted based on that standard, and <b>include this in the grant agreement as a covenant.</b></p> <p>b. Formalize the existing criteria for <b>Network Planning and Prioritization</b>, to be applied consistently by both ministries and sanctioned in all future donor funding agreements, including that of the AF.</p> <p>c. IDA, in its dialogue with other donors, will continue to argue for adherence to objective criteria for prioritization.</p>	<p>NYD</p> <p>NYD</p> <p>O</p>

2. Operating Environment Risks					
2.1 Country	High	<p>Afghanistan is currently a “high likelihood / high impact” context in terms of country risk. The formal systems of the state are penetrated by a variety of informal networks and vested interests. The most powerful of these are based on the opium economy. The state itself is a fragile coalition of interest groups, mostly anchored in particular ethnic groups, factions, parties or geographical areas.</p> <p><b>Key risks include cabinet reshuffles, impacting on key policies or project implementation.</b></p> <p><b>Systemic Fraud &amp; Corruption:</b> Corruption continues to be widespread and pervasive. Afghanistan’s ranking in Transparency International’s Corruption Perceptions Index has slipped from 176 out of 180 countries surveyed in 2008 to 179 out of 180 countries surveyed in 2009.</p>	<p><b>a. Politics, Security &amp; Governance:</b> Escalating insurgency-related violence has increased the level of fragility in the political and governance environment, while also impacting ability of the government to deliver services and programs (district accessibility very low: 9/364 = safe). Volatility expected through end 2010 with parliamentary elections. <b>Key risks include impact on project implementation and ability to supervise in parts of the country.</b></p> <p><b>b. Environment:</b> Environmental/Social Impact Assessments (ESIA) are required under an Environment Law and EIA Regulation. The National Environmental Protection Agency (NEPA) has assumed responsibility for enforcing environmental laws and policies, including the ESIA system, but lacks adequate technical capacity in environmental/social management. <b>Key risks include the long-term environmental &amp; social impacts of extractive industries.</b></p> <p><b>c. Civil Society Capacity:</b> NGOs continue to play a critical role in delivering government services, especially in health, education, and rural development. Accessibility and security have nevertheless declined. In addition, government oversight of NGO activities has constrained freedoms.</p> <p>d. Afghan media continue to grow and diversify. But the freedom of the media and access it gets to information is much smaller outside Kabul than in the capital.</p> <p>The use of the internet and mobile phones</p>	<p>a. Mitigation of this risk is beyond IDA’s scope. However, it will continue to monitor developments closely and will modify programs if necessary. Third-party monitoring and remote sensing/GPS are used increasingly for monitoring &amp; supervision.</p> <p>Political governance risk is outside IDA’s scope. Impact on corruption at project level is medium, but it can be partially mitigated through fiduciary ring-fencing (see below).</p> <p>b. The Bank adopts a pragmatic approach to project design &amp; implementation involving an Environment &amp; Social Management Framework (ESMF) and ESIA. In addition, the Bank is pursuing a Strategic Environmental Assessment of the mining sector and a Country Environmental Assessment (institutional &amp; policy review).</p> <p>c. The Bank continues to advocate NGO and private sector involvement in program implementation. The Bank has on-going dialogue with civil society through NSP, EQUIP, BPHS among other programs.</p> <p>d. EXT Kabul interacts frequently with Afghan media organizations and promotes transparency of Bank operations through Public</p>	

			<p>continues to grow rapidly and has broadened the flow of news and other information, particularly for urban Afghans.</p> <p>e. Independent oversight of public expenditures remains weak. Parliament lacks a dedicated Public Accounts Committee to review CAO financial statements and compliance reports and follow-up is rare. Ministries themselves, for lack of capacity, are slow in responding to audit reports and CAO itself lacks adequate capacity. <b>Key risks include weakening of government commitment to maintaining sound fiduciary environment.</b></p> <p><b>Fiduciary Management:</b> The legal framework for project financial management (PFM) is robust and modern. In 2005 new laws and regulations were introduced for both public finance and expenditure legislation and procurement. Implementation is supported by extensive training and the development of implementation tools. The legal framework for external audit has not been reformed, so project audits are done with help of internal technical assistance and under INTOSAI audit standards.</p> <p>The Afghan budget covers practically everything under the Government's control and responsibility. The core budget classification system provides a rough picture of general government activities. The budget broadly reflects the principles of comprehensiveness, unity and consistency for revenues and expenditures flowing through the government system. All Bank operations and other donor funds entrusted to Government</p>	<p>Information Centers in Herat and Kabul.</p> <p>The Bank will continue to work on governance and anti-corruption work, supporting the High Office of Oversight.</p> <p>e. IDA, through technical assistance in public financial management, will support capacity building of the Public Accounts Committee members, the CAO and the finance department of line ministries.</p> <p>The Bank also reinforces TA through policy conditionality on DPG series and the ARTF Incentive Program. The Bank also has significant leverage on government through its administration of the ARTF, which channels significant funds towards the budget.</p>	
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			<p>for implementation are included in the budget. Expenditures are controlled by the centralized integrated financial management information system, whereby all operations are subject to appropriation, allotment and supplier validity checks.</p> <p>Recurrent cost appropriations are generally fully executed. Donor funds, once collected, flow unimpeded to investment projects. Annual budgets for these and domestic funded investment projects tend to be overstated, and unspent balances of all investment projects are carried forward. The execution rate of the capital budget has been low.</p> <p>The Government has consistently met the annual fiscal reporting requirements of its own legislation and has reliably distributed end-year budget execution reports to both executing agencies and the IMF and other stakeholders.</p> <p>A Procurement Policy Unit (PPU) has now been established under MOF to ensure the implementation through the creation of secondary legislation, standard bidding documents, provision of advice, and creation of the necessary information systems for advertising and data collection. "Rules of Procedure for Public Procurement" which details the better implementation of the Procurement Law has been issued by MOF as circular number PPU/C005/1386 dated April 12, 2007.</p> <p>The Procurement Appeal and Review mechanism is in place and the Manual of Procedures for "Procurement Appeal and Review" has been issued by MOF as circular number PPU/N001/1385 on March 18, 2007.</p>	<p>The WB and IMF monitor economic and fiscal management closely through HIPC, DPG and PRGF programs.</p> <p>Until the capacity of the line ministries are developed a central procurement facilitating unit Afghanistan Reconstruction and Development Services (ARDS) has been created which is supported by international procurement consultants for facilitating large value procurement exceeding \$USD 200,000</p>	
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<p><b>2.1 Institutional Risk (sector &amp; multisector level)</b></p>	<p>Medium-l</p>	<p><b>High Impact</b> Achievement of the PDO depends very much on the quality of the institutions managing the rural access program.</p> <p><b>Less likely</b> At the start of the original NEEP/ NRAP program the two implementing ministries had very limited capacity, but they have learned from the experience of 7 years of implementing rural access projects with strong support from the donor community, including technical assistance and training. This growing capacity reduces their performance risk, especially as regards MRRD.</p>	<p><b>a. Ownership and Commitment:</b> The Government strategy fairly formulated the rural access program. However, it did not specify a champion to lead its implementation. This resulted in lack of coordination – several institutions (MRRD, MPW, MoF, provincial construction teams, etc.), programs (provincial and regional highway programs, NRAP, NSP, PRTs, etc), and donors have been involved in the road sector with no central coordinating body, or an integrated road network master plan.</p> <p>b. In many instances provincial construction teams have selected, without advance notice, roads that had already been designed and construction contracts awarded by NERAP agencies, causing a lot of professional time and money in developing subprojects to be wasted.</p> <p><b>c. Institutional Capacity and Culture:</b> The two implementing ministries have different mandates, organizational cultures and institutional interests. MPW in particular suffers from weak leadership and sense of organizational ownership, and slow response to critical issues affecting programs and projects.</p> <p>The NERAP objective is more relevant to MRRD, and MRRD shows a stronger sense of ownership.</p>	<p>a. The government has launched a cluster approach for coordinating ministries with interlinked functions. The new approach has begun to show some improvement in coordination of investment programs.</p> <p>b. The two IAs have launched an effort to establish a database of the country’s road network in coordination with all actors, so that implementers can carry out informed investment planning within their own mandates. A network planning, subproject identification and prioritization system will be developed under the additional financing.</p> <p>c. The Cluster ministries’ program documents endorsed at the Kabul conference have set milestones for each ministry; but it is in its early days. The government has endorsed the recommendation of a June 2010 stakeholders’ workshop to create a unified road agency, a project implementation unit outside the civil service structure, able to offer staff an attractive package. The project extension to be funded by the AF will serve as a feedback source for this initiative. At MTR, the Bank team recommended two separate projects, one for each IA, taking the corporate culture into account.</p>	<p>0</p> <p>0</p> <p>0</p>
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3. Implementing Agency Risks (including FM & PR Risks)					
3.1 Capacity	Medium-I	<p><b>High Impact</b> While IC and both IAs have some competent and dedicated managers, they are few and may not stay. Loss of continuity in staffing runs a risk of delayed procurement and poor quality results at high cost, undermining achievement of the PDO.</p> <p>Weak internal controls may lead to misappropriation of funds and delay in preparation and submission of acceptable financial reports, and these will have consequent effects on disbursements and implementation progress.</p> <p><b>Less likely</b> The IC is now well established, the capacity-building consultant is mobilized, and the PIU structure has been strengthened with the incentive of a good compensation package. As a result the risk of high staff turnover is lessened.</p> <p>IAs are now more familiar with IDA procurement guidelines; the IAs are aware of their gaps in cost estimation and have started to update input prices monthly and estimates are now improving.</p> <p>The use of centralized accounting and payments and the processing all transactions through the full set of government budget implementation</p>	<p><b>a. Accountability and oversight:</b> In both ministries project management functions, fiduciary capacity and monitoring remain weak. So far they have fallen mostly to the IC.</p> <p>b. As already noted above, subproject selection and prioritization still lacks transparency, even though MRRD and MPW have each adopted appropriate evaluation criteria.</p> <p><b>c. Resources:</b> There remains a risk that IAs and IC may fail to attract and retain staff in sufficient numbers and with adequate skills.</p> <p><b>d. Processes and systems:</b> Protracted procurement due to staff shortage and low capacity among bidders remains a key risk to PDO. Inconsistent application of the declared criteria for bid evaluation is also a concern. Delay in procurement may affect project performance and outputs, erode confidence of donors and other stakeholders, and reduce interest of contractors and suppliers.</p> <p>e. The absence of an adequate internal financial control system may delay preparation and submission of acceptable financial reports, with effects on disbursements and implementation progress.</p> <p>f. The current engineering design is set up for higher standard roads and unless modified may take disproportionate time and resources to prepare.</p> <p>g. The current cost estimating system is not based on researched productivity standards,</p>	<p>a. The project is designed for the IAs to take more implementation responsibilities from the international consultants, as capacity increases.</p> <p>b. (As noted above) Setting up a Network Planning and Prioritization System will be included in the GA as a covenant.</p> <p>c. Bank team will mitigate implementation risks by close monitoring of the IC's performance and ensuring that it assigns the necessary staff, and by staying flexible to amend the contract to suit project needs.</p> <p>d. The IDA team provides periodic training tailored to addressing emerging issues in fiduciary management. A dedicated capacity building consultancy service has been launched under the original funding. A procurement specialist independent from IA, strict follow up of the agreed business standards, and regular workshops for contractors will aim to create awareness among bidders on Bank procurement guidelines and steps open to them to report any mishandling of procurement.</p> <p>e. Rather than use the Designated Account, the Team will maximize direct payments to consultants. An FM Agent at the Treasury of MoF will be responsible for</p>	<p>0</p> <p>NYD</p> <p>0</p> <p>0</p> <p>0</p> <p>0</p>



		<p>rules and systems lower the risk of misuse and mis-reporting.</p> <p>Moreover, during the implementation of IDA projects under the same agencies, there has been good compliance with FM requirements except for late audits.</p>	<p>and input prices have not been updated until recently. Without improvement, the <b>risk of large cost overruns persists.</b></p>	<p>MoF will be responsible for processing payments, transaction recording and reporting. An Audit Agent at the Control and Audit Office will be responsible for external audit of the project.</p> <p>f. Standards will be set for basic rural access and the related survey and design procedures.</p> <p>g. A robust input price database and cost estimation system will be established within each IA.</p>	<p>NYD</p> <p>NYD</p>
3.2 <b>Govern-ance</b>	High	<p><b>High impact</b> A haphazard subproject identification process risks undermining the provision of equitable standards of basic rural access.</p> <p>Until a solid M&amp;E system is put in place, progress and outputs may not be tracked, evaluated and reported with reasonable certainty</p> <p>The project objective remains at risk as long as it is hostage to side interests</p> <p><b>Highly likely</b> The risks regarding prioritization of subprojects have been identified above.</p> <p>The current M&amp;E is far from serving the purpose.</p> <p>Project interests are likely to be</p>	<p><b>a. Ownership:</b> As noted above, the lack of a clear champion to lead the implementation leaves the several institutions and donors involved in the road sector with no central coordinating body.</p> <p>Providing and improving basic access is part of the formal mandate of one of the two IA's but not of the other. The difference in their interests and organizational cultures is a continuing risk. It is highly likely that they will compete rather than coordinate with one another. This makes it hard to establish a common MIS and M&amp;E reporting system.</p> <p><b>b. Decision making:</b> Until subproject identification is made more transparent, it risks lending itself to inequitable distribution of resources, undermining the credibility of similar future subprojects and ultimately of the whole program. Agencies' interests may prevail over the interests of the intended beneficiaries: the rural population</p>	<p>a. A unified road agency will be set up.</p> <p>b. (As noted above) Setting up a Network Planning and Prioritization System will be included in the GA as a covenant</p> <p>c. Work will be speeded up to</p>	<p>NYD</p> <p>NYD</p>

		undermined by agencies' interests,- as evidenced by the strong tendency to bypass the basic access principle and move away from low-standard road construction.	<b>c. Accountability and oversight</b> Efforts by an international consultant to establish an adequate monitoring and evaluation system to report performance have so far yielded less than satisfactory results. It remains a work in progress.	establish an effective M&E system.	0
<b>3.3 Fraud &amp; Corruption</b>	Medium-l	<p><b>High impact</b> If the IA's allow the project to be dominated by a few contractors, they could easily get overstretched and delay the project, while other capable smaller contractors might be crowded out. Delayed procurement and payments would tarnish the project's image.</p> <p><b>Less likely</b> Few contracts will be packaged to suit large contractors, so the risk is small. IAs are now more familiar with WB procurement rules, and procurement business standards are agreed and followed up in a timely way.</p>	<p><b>a. Prevalence of Fraud and Corruption:</b> There is a tendency to package contracts so that they suit only a particular group of bidders. Where contract packaging targets few contractors, smaller contractors may gradually vanish. This encourages oligopoly among a few contractors who may eventually control the market and force prices up.</p> <p>b. Delays in bid evaluation and lengthy contractors' payment processes lend themselves to the risk of rent-seeking practices, and discourage contractors from participating further.</p>	<p>a. IDA will continue to work with the IAs on packaging to maximize participation by the majority of capable contractors.</p> <p>b. The agreed business standards will be followed up strictly, and recourse to the complaint handling mechanism will be made easier.</p>	0  0
<b>4. Project Risks</b>					

<p><b>4.1 Design</b></p>	<p>High</p>	<p><b>High impact:</b> Substandard road construction risks undermine the objectives of providing year-round access.</p> <p>The PDO is likely to be undermined by lack of coordinated effort.</p> <p>In-house capacity is key to the sustainability of similar projects in the future.</p> <p><b>Highly likely:</b> There is inadequate presence of the independent supervising consultant at project sites.</p> <p>The two IAs continue to have different style of work and less interest to work together.</p> <p>A dedicated capacity building activity is underway.</p>	<p><b>a. Scope/ Coverage Complexity:</b> Adequate site supervision has proved to be difficult for the geographically scattered hundreds of contracts, some in insecure areas. Inadequate supervision may tempt contractors to compromise on quality.</p> <p><b>b. Technical and Institutional Arrangement Complexity:</b> Difficulty in coordinating two implementing agencies with different mandates and culture. As one project and objective, coordination is the centerpiece of the NERAP success, but seems to have been lacking</p> <p>c. IC approach may not encourage IAs to build sustainable in-house capacity and ownership. As the program expands, so should the capacity of the IAs. In reality the IC continues to do most of the implementation activity, especially in MPW, and the capacity transfer under the current style is very slow.</p>	<p>a. Encourage community based monitoring, and use of <i>complementary</i> satellite technology, look into ways to enhance site level supervision by the IC.</p> <p>b. Set up a unified road agency</p> <p>c. Intensify the capacity building consultant’s work with measurable milestones.</p>	<p>NYD</p> <p>NYD</p> <p>0</p>
<p><b>Social &amp; Environmental</b></p>	<p>Medium-l</p>	<p><b>High Impact:</b> Mishandling of the physical and cultural resources through project activities is a concern for stakeholders including donors-causing a threat to sustainable development. Uncontrolled disposal affects valuable lands and livelihood</p> <p>The loss of property and involuntary settlement tarnish project image</p> <p>Communities could go as far as halting the project to express feelings against some practices by the project’s workforce.</p>	<p><b>a. Environmental:</b> Uncontrolled disposal of unsuitable/excess construction materials causes loss of agriculture land, pollution, etc. Contractors may not reinstate used quarry sites, which may degrade top soil and ground water resources at the site.</p> <p><b>b. Social:</b> The lack of knowledge by the IAs and contractors on physical and cultural resources may cause undue handling of them and is a key risk.</p> <p>The culture in rural areas is a constraint: (i) to get genuine reaction of the project-affected persons during the consultation process; (ii) the presence of a large workforce may create tension with the local community for fear of</p>	<p>a. Strengthen the Safeguard units of the IAs through continuous capacity building and awareness activities on environmental and other safeguard issues. The design and Safeguard teams will work more closely in addressing the applicable environmental laws at the design stages, by selecting proper quarry sites and reinstating the sites as stated in the ESMP, designating disposal sites, and including clauses in the contract that will obligate the contractor to safely dispose of waste.</p> <p>b. Adequate consultation will be</p>	<p>0</p> <p>0</p> <p>0/NYD</p>

		<p><b>Less likely:</b> Improvement of most existing roads does not generate large volumes of waste; new construction is limited.</p> <p>Not much new land is required.</p> <p>Contractors are entirely national and understand the local cultures</p>	<p>disrupting religious and cultural values; (iii) objections of local community to contractors' using female labor. A risk is that the opportunity is missed for women to economically empower themselves through participation in income earning activities.</p>	<p>stressed, including one on one for project-affected persons, understanding the local culture and norms, disseminating this knowledge during bidding and pre-construction, and following up during supervision.</p> <p>The NERAP management plans to draw from successful experiences of other projects as regards female engagement in rural access projects</p>	<p>NYD</p>
4.2 Program & Donor	Low	<p><b>Low Impact:</b> Even cancelled, a sub project is still executed by other programs</p> <p><b>Less likely:</b> Different programs have recognized the need to coordinate with each other to avoid duplication in planning and some started to coordinate with each other</p>	<p>In adequate coordination with other program results in duplication of efforts and resources – at design or procurement stages</p>	<p>Continue the effort to coordinate planning with other relevant programs.</p>	<p>0</p>
Delivery Quality	High	<p><b>High Impact:</b> The absence of reliable M&amp;E will undermine accountability of the borrower credibility of the project and deny full support from donors</p> <p>Higher standards result in cost overrun and high cost overrun limits the ability of the project to deliver the outputs hence the objectives</p> <p>Substandard road construction undermine the objectives of providing year-round access</p> <p>In the absence of a regular maintenance all year access will not be sustainable</p>	<p><b>a. Measurability:</b> The absence of reliable M&amp;E is inability to measure outcomes and a subsequent erosion of donors confidence is a key risk</p> <p><b>b.</b> The design of the project did not operationalize the basic access principle into standards and specifications, thus higher standard roads were designed and implemented</p> <p><b>c. Contract management:</b> Inadequate site supervision arrangement may tempt contractors to use materials of substandard quality and to compromise on the specifications.</p> <p><b>d. Sustainability:</b> The basis for cost estimation during design of the project was</p>	<p>a. The finalization and implementation of the ongoing M&amp;E work will be speed up.</p> <p>b. A basic access road standard put in place.</p> <p>c. Encourage community-based monitoring, and use of satellite <i>complementary</i> technology</p> <p>d. Establish a robust input price database and cost estimation system within the IAs.</p>	<p>0</p> <p>NYD</p> <p>NYD</p> <p>NYD</p>

		<p><b>Highly likely:</b> Though delayed, establishment of a reliable M&amp;E system is in progress.</p> <p>The IAs still show the tendency to build higher standards of roads than is required for a basic access</p> <p>There is only a skeletal independent supervision team</p> <p>A maintenance system is yet to be established and piloted, the prospect of sustainable maintenance funding is not yet clear</p>	<p>estimation during design of the project was unrealistic and the outputs cannot be achieved within the original budget, thus requiring more funding. This jeopardizes the objective of providing basic access at a minimum cost.</p> <p>e. Risk to sustainability of the assets developed due to absence of asset management system in place and the required funding. In the absence of a routine maintenance, a basic access standard will only sustain a short period and the asset will quickly be lost.</p>	<p>e. Speed up the setting up of a routine maintenance system.</p> <p>f. Deepen the on-going dialogue on setting up a road maintenance funding mechanism.</p>	<p>0</p> <p>0</p>
<p><b>4.3 Other Risks</b> 4.3.1 Weak local contractors' capacity in delivering outputs on time and to quality</p>	Medium-l	<p><b>High Impact:</b> The delivery in time and quality ultimately depends on the local construction industry</p> <p><b>Less likely:</b> More and more contractors are joining the market and their delivery capacity is visibly improving.</p>	<p>For relatively small contracts in NERAP, the absence of capable local contractors will largely reduce the possibility of achieving the project objective.</p>	<p>Maximize the use of the on-going capacity building component to train contractors, and package contracts appropriately, so as to attract more firms to the project.</p>	<p>0</p>

**A - Proposed Rating before Decision Meeting<sup>5</sup>:**

Project Team	Risk Rating: Preparation	Risk Rating: Implementation	Date	Comments
Overall Risk	High	High		

**B - Review by IL Risk Team for Decision Meeting**

Risk Team	Risk Rating: Preparation	Risk Rating: Implementation	Date	Comments
Overall Risk	High	High		

**C. Final Decision Meeting Rating:**

Appraisal Decision Chair	Risk Rating: Preparation	Risk Rating: Implementation	Date	Comments
Overall Risk				

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<sup>5</sup> For Track II Operations only.

### Annex 3: Financial management Action Plan

Recommendation	Action Required	Proposed Dates	By Whom
A consolidated annual budget for the project broken down by components and period should be prepared.	To ensure a robust budget monitoring system	July 15, 2010	MRRD/ UNOPS
Bank book and fixed assets register should be maintained for payments made out of the Special Account. Monthly reconciliation with DAB records should be carried out.	To ensure maintenance of relevant books of accounts	July 15, 2010	MRRD/ UNOPS
Relevant consolidated monthly financial reports should be prepared for the project as a whole going forward.	To ensure preparation of relevant monthly financial reports	Continuous	MRRD, MPW, NCU, UNOPS
The ineligible expenditures of \$808,522 reported in the SY1387 should be resolved and a response to the audit observations should be received at the earliest.	To ensure timely management response and action to fiduciary issues	July 15, 2010	MRRD, MPW, NCU, UNOPS
Supporting documentation for the unsubstantiated expenditures of \$633,324 should be provided to the Bank for review.	To ensure maintenance of adequate supporting documentation for all project expenditures	July 15, 2010	MRRD, MPW, NCU, UNOPS
Operational advances outstanding for more than 4 months of Afs 258,140 and all outstanding personal/ salary advances of Afs 772,771 should be cleared at once. Project should further ensure that no personal advances are given from project funds going forward.	To ensure that funds are used only for project-related purposes, adequate control over petty cash imprest and timely monitoring of project advances	July 15, 2010	MRRD
Petty cash funds of the PPF amounting to Afs 37,353 should be cleared.	To ensure proper accountability over project petty cash funds	July 15, 2010	MRRD
Project should communicate with MoF seeking clarification regarding obligation of UNOPS to deduct taxes from contractors' payments.	To ensure that there is clarity with respect to UNOPS' obligation on withholding tax	July 15, 2010	NCU
Project should submit a proposal to the World Bank with respect to taking over of FM responsibilities from the IC.	To ensure that the project takes the initiative to prepare a proposal in line with what was agreed	July 15, 2010	MRRD/MPW/ NCU
Project should ensure that the time taken to process payments is kept within a reasonable limit, i.e. a maximum of 14 days from the receipt of an invoice.	To ensure that project expenditures are processed in a timely manner	Continuous	MRRD/MPW/ UNOPS
FMR for the 4 <sup>th</sup> quarter of SY1388 should be submitted at the earliest.	To ensure compliance with FM covenants	July 15, 2010	MRRD/MPW/ NCU/UNOPS

