

AFGHANISTAN RECONSTRUCTION TRUST FUND

THIRD NATIONAL SOLIDARITY PROJECT (NSP III) (TF98459)

Proposal to the ARTF Management Committee For Second Tranche Allocation of US\$250 million

MC Meeting Date: September 13, 2011

Applicant:	Islamic Republic of Afghanistan
Brief Description:	The NSP III will fund the following activities: (a) establishment and capacity building of Community Development Councils (CDCs) and their federations (cluster CDCs); (b) continuing roll-out of the NSP to about 10,320 communities not yet covered by the program and scaling up support for local economic and social development through provision of repeater block grants to about 17,400 rural communities; and (c) program implementation management support, including program monitoring and evaluation.
Project Development Objective (PDO):	To build, strengthen and maintain Community Development Councils (CDCs) as effective institutions for local governance and social-economic development.
PDO Performance Indicators:	The PDO performance indicators are as follows: <ul style="list-style-type: none"> • Minimum of 70% of sampled communities recognize CDCs as the legitimate and representative institution of communities; • Minimum of 60% of sampled CDCs perform their functional mandates in the areas of community development and coordination, and conflict resolution; • Minimum of 70% of sampled communities have successfully implemented community investment subprojects; • Minimum of 70% of sampled women representatives in the CDCs take active part in decision-making related to community development; and • At least 50% of total beneficiaries are female
Output targets for this application	Under this funding, NSP III intends to achieve the following targets: <ul style="list-style-type: none"> • NSP IIIA - Roll out to 6,700 new communities • NSP IIIB - Repeater block grants to 6,250 communities
Sector:	Livelihoods & Social Protection: Community Led Development
Location:	Countrywide
Total Project Cost	US\$1,506 million over five years: IDA (US\$40 million), ARTF and bilateral funding (US\$ 1,302 million), and community contribution (US\$ 164 million).
Amount Requested for ARTF MC Approval	Blanket approval of US\$250 million for SY1390 and SY1391 with US\$100 million immediate drawdown. This funding request has been discussed with the Ministry of Finance (MoF) and Ministry of Rural Rehabilitation and Development (MRRD).
Implementing Agency	Ministry of Rural Rehabilitation and Development (MRRD)

Implementing Period:	Five years (until September 30, 2015)
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Reviewed and Cleared by the Administrator	Loan Department; Legal Department; Country Management and Sector Management Units

I. Introduction

1. The National Solidarity Program (NSP) is the flagship project of the Government of Afghanistan (GoA), facilitating local governance and providing urgently needed community based productive and social infrastructure in a demand-driven manner. The third phase of the National Solidarity Program (NSP III) builds on NSP I and II and aims to: (a) establish and build capacity of Community Development Councils (CDCs) and their federations (cluster CDCs); and (b) continue roll-out of the NSP to the remaining communities not yet covered by the program to achieve national coverage; and scale up support for local economic and social development, through provision of repeater block grants to communities that have fully utilized their first grant allocation, and completed the respective sub-projects. The overall project implementation is managed by the Ministry of Rural Rehabilitation and Development (MRRD), while Facilitating Partners (FPs) mobilize communities; facilitate community level elections; and provide CDCs capacity building support and technical guidance for managing block grants and planning and implementing subprojects at the village level.

2. The estimated cost of NSP III is US\$1,506 million over a five year period. Out of this the International Development Association (IDA) provided US\$40 million equivalent (SDR 27.2 million). The program's financing plan envisaged the ARTF and bi-lateral support of US\$1,302 million to cover the remaining funding requirement. An IDA Grant (H6030) of SDR 27.2 million (US\$40 million equivalent) for the National Solidarity Project (NSP III) was approved by the IDA Board of Executive Directors on June 29, 2010. The IDA grant was signed on August 10, 2010 and became effective on October 6, 2010. As of August 25, 2011, the IDA grant had disbursed US\$12.98 million. Withdrawal applications amounting to US\$14.5 million are currently being processed by the Ministry of Finance.

3. On September 15, 2010, the Management Committee (MC) of the ARTF approved the first tranche of US\$250 million to finance NSP III for the SY1389 to SY1390 period. The ARTF grant became effective on January 24, 2011. As of July 31, 2011, about 8,900 communities¹ had been contracted to the Facilitating Partners (FPs). The NSP III financial position is shown in Table 1 below:

Table 1: First tranche of ARTF Grant as of August 25, 2011

Description	Amount in US\$ million
Disbursements/Expenditures	89.3
Withdrawal Applications being processed by the World Bank	30.5
Withdrawal Applications being processed by the Ministry of Finance	43.9
Total Disbursements/Expenditures	163.7
Commitments (Block Grants, FPs' contracts, and management support)	61.3
Available Balance/Uncommitted	25.0

4. As of August 25, 2011, the total NSP III disbursements/expenditures (i.e., US\$163.7 million) and commitments (i.e., US\$61.3 million) amounted to US\$225 million. Out of this, about US\$145 million is for the rollout block grants, US\$67 million for FPs contracts and US\$13 million for the program implementation support. The balance of US\$25 million is projected to be fully disbursed and/or committed by November 30, 2011.

5. This application seeks ARTF MC's approval of a second tranche of US\$ 250 million to cover the NSP III expenditures for the period from December 2011 to December 2012, with an immediate drawdown of US\$100 million. The second tranche will ensure the program's continued roll-out to 6,700 new communities and provision of repeater block grants to 6,250 eligible communities.

6. Donor funding for the NSP has been strong. To date, ARTF has provided US\$867.5 million (US\$168 million for NSP I, US\$449.5 million for NSP II, and US\$250 million for NSP III). As NSP III has entered

¹ These include 2,600 first block grants communities carried forward from NSP II, which closes in September 2011; and another 6,300 rollout communities under the NSP III.

into its second year, provision of ARTF funding support is both urgent and crucial in order to maintain implementation momentum and mitigate the risk of disrupting program facilitation.

II. Project Description

Project Development Objective and Key Indicators

7. Overall, NSP III builds on NSP I and II; and aims to build, strengthen, and maintain CDCs as effective institutions for local governance and social-economic development. Specifically, over the five year period, the project aims at: (a) establishing and building capacity of CDCs and their federations (cluster CDCs); (b) rolling out the NSP to about 10,320 new communities; and (c) scaling up support for local economic and social development, through provision of repeater block grants to about 17,400–rural communities; and (d) providing program implementation management support.

8. The key PDO outcome indicators are as follows:

- Minimum of 70% of sampled communities recognize CDCs as the legitimate institution and representative of communities;
- Minimum of 60% of CDCs perform their functional mandates in the areas of community development and coordination, project implementation and conflict resolution;
- Minimum of 70% of sampled communities have improved access to services (transport, irrigation, water supply etc);
- Minimum of 70% of sampled women representatives in the CDCs take active part in decision-making related to community development; and
- At least 50% of total beneficiaries are female.

9. Under the requested second tranche of US\$250 million from the ARTF, the NSP III targets are to: (a) rollout to 6,700 new communities; and (b) provide repeater block grants to approximately 6,250 communities, which have fully utilized their first block grants and completed the respective sub-projects.

10. The progress towards achieving both the outcome and output indicators will be monitored through monthly and quarterly progress reports, prepared by the MRRD/NSP, and circulated to donors and other stakeholders. The Results Framework for NSP III is attached as Annex 1.

Project Components

11. Component 1: Capacity building of CDCs (US\$291 million): The objective of this component is to establish CDCs and build their capacity to: (a) function as a village level governance body for continued empowerment of village communities, bringing their voices into the government decision-making process for sub national development planning, resource allocations and delivery of rural development programs; and (b) facilitate communities' participation in the various sectoral programs operating in rural areas (rural roads, irrigation, horticulture and livestock, water supply, education, health, microfinance and etc.), harnessing benefits of synergy and complementarily among various programs, maximizing development outcomes and reducing delivery costs.

12. To enable CDCs perform their roles, capacity building will focus on: (i) participatory planning of community development priorities; (ii) community governance and accountability systems, and processes and mechanisms for conflict resolution; (iii) participatory planning for broad-based community recovery from conflict; (iv) gender awareness and enhancing women's effective involvement in the economic and social activities of the communities; (v) community participatory monitoring of programs being implemented in their localities; (vi) basic bookkeeping and contracting for management of community-implemented investment schemes; and (vii) communication with subnational and national government.

13. The expected outcome of this component is to have effective CDCs, capable of performing their roles as village governance bodies; and facilitating local socio-economic development activities.

14. Component 2: Community Grants for Economic and Social Development (US\$1,093 million)².

This component will provide block grants to communities to finance priority investment schemes (subprojects) for rural and social development. The NSP III has set the targets for provision of first block grants to about 10,320 newly established CDCs and repeater block grants to about 17,400 existing CDCs that were operating under NSP I and II and that have successfully utilized their first block grant and are maintaining completed subprojects. These targets are subject to revision based on the actual implementation progress on the ground, the need to reach new communities, and the availability of funding resources. Modification of project's outcome targets will be assessed during the mid-term project review planned for September 2012.

15. The block grant amount for each CDC is determined by the number of families multiplied by the entitlement of US\$200 per family, up to the maximum of US\$60,000 per community. The average block grant per community under the NSP II is US\$33,500. This amount has been used as the basis for estimating the block grants needed for NSP II as well.

16. Component 3: Project Implementation Support (US\$122 million): This component will cover expenditures associated with the overall program management by MRRD, which provides implementation oversight, including the salaries of all contract staff engaged by MRRD to work for NSP, Technical Assistance (TA) needed to support MRRD's Program Management Office (PMO) for NSP, and MRRD's incremental operating costs (IOC) pertaining to NSP, costs associated with monitoring and evaluation of the program, and an agreed share of salaries of MRRD contract staff, who perform certain headquarters functions for the MRRD as a whole.

Project Cost and Financing Plan

17. The total project costs for the NSP III is US\$1,506 million, with the following breakdown:

Project Component	Amount (US\$ million)
(i) Capacity building of CDCs	291.0
(ii) Community Grants for Economic and Social Development	1,093.0
(iii) Project Implementation Support	122.0
Total	1,506.0

III. Current project implementation status

(a) Background

18. The NSP I became effective April 5, 2004 and closed March 31, 2007. NSP II, which became effective on May 15, 2007, and has fully disbursed both the IDA and ARTF grants, will be closed on September 30, 2011. The Government's Implementation Completion Report (ICR) for the NSP II will be prepared by MRRD by December 31, 2011. The Bank will prepare its ICR for NSP II and share it with all stakeholders by March 31, 2012. So far, it is estimated that about 2,631 communities will not be reached by the closing date of NSP II. These remaining communities will be added to the roll out for national coverage (first block grants) planned under the NSP III.

(b) Current rollout status

19. Overall, the NSP has made remarkable progress. The World Bank supervision mission of May 2011 rated the progress towards achieving the development objective as Satisfactory. Since its inception, NSP has established over 27,800 elected CDCs, disbursed about US\$1.2 billion toward more than 58,400 rural infrastructure projects, of which over 46,000 have been completed. Most of the subprojects are related to productive and social infrastructure, including water supply and sanitation (24%), rural roads (26%), irrigation (19%), power (12%) and education (10%). As of July 31, 2011, the cumulative number of communities that had received the first block grant under the NSP was 27,981. About 19,000 of these

² This includes communities' contributions of US\$164 million

communities have fully utilized their first block grants and completed the respective sub-projects, hence are eligible for the repeater block grants. Table 2 below shows cumulative achievements under the NSP I, II and III.

20. The first follow-up survey undertaken by Harvard University between May and October 2009, showed that NSP: (a) creates avenues for women's participation and involvement in economic activities; (b) increases participation by men in local governance; (c) increases community responsiveness to women's needs; (d) increases access to basic services (e.g., drinking water, electricity, and rural roads); (e) improves communities perceptions of government; (f) decreases the out-migration of households within a community; and (g) improves perceptions of the economic situation. The second follow-up survey is on-going and its report will be completed by December 2011.

Table 2: Project rollout status as of July 31, 2011

Activity	NSP I (closed March 2007)	NSP II through April 30, 2011	Cumulative NSP I and NSP II
Communities contracted	17,223	5,957	23,180
Communities mobilized	16,914	5,615	22,529
CDCs elected	16,502	5,993	22,495
CDCs with CDPs	16,263	6,163	22,426
Subproject proposals received	27,555	23,620	51,175
Subproject proposals approved	26,603	24,554	51,157
Subprojects completed	10,410	35,745	46,155
CDCs with completed block grant	1,057	18,064	19,121

NSP IIIA Update – Rollout to New Communities as of July 31, 2011

Activity	NSP IIIA	Cumulative to IIIA
Communities contracted	6,303	29,483
Communities mobilized	5,452	27,981
CDCs elected	5,364	27,859
CDCs with CDPs	4,580	27,006
Subproject proposals received	7,428	58,603
Subproject proposals approved	7,277	58,434
Subprojects completed	36	46,191
CDCs with completed block grant	9	19,130

(c) Budget execution for SY1389

21. The original budget of US\$291 million for SY1389 was reduced to US\$231 million during the mid year review process. The total disbursements during the first six months of SY1389 were only US\$43.5 million, which represented 18.8 percent of the annual revised budget. However, disbursements picked up during the second half of SY1389. The total expenditures at the end of the SY1389 reached US\$208.4 million, which was equivalent to 90 percent of the revised budget.

(d) Implementation of High Risk Areas Strategy (HRAS)

22. Under NSP III, the program is rolling out to communities in insecure areas. The HRAS focuses on delivering the NSP in low security areas by underscoring community consent and maintaining community security and provides facilitating partners (FPs) more flexibility in implementation such as using a distance model for community facilitation. FPs are also provided with additional resources to cover their expenses in operating in insecure areas. The NSP program management now assesses security and access in all areas of Afghanistan on a 6 monthly basis, according to custom-designed criteria. The HRAS is applied to communities in insecure areas.

23. **Transition and Sustainability of CDCs:** Under the leadership of the Ministry of Finance, agreement has been reached among the key ministries (MRRD, IDLG, IEC and MAIL) to promote a sustainable role for CDCs in the development of rural Afghanistan. This vision was introduced at the Kabul Conference in July 2010, and it entails a gradual transformation of the CDCs into village councils with roles and responsibilities that will continue beyond the end of the donor-financed NSP. The Bank is making efforts to ensure CDCs are used as entry point and/or facilitate the implementation of other World Bank projects, starting with the ARD sector. These include the Horticulture and Livestock Project (HLP), the National Rural Access Project (NRAP), the Afghanistan Rural Enterprise Development Program (AREDP), the On-farm Water Management Project (OFWMP) and the up-coming Agricultural Input Supply Project (AISP).

IV. Request for Second ARTF Tranche Release

This proposal seeks ARTF MC's approval of a second tranche of US\$250 million to cover the NSP III expenditures for the period of December 2011 – December 2012, with an immediate drawdown of US\$ 100 million. The proposed use of the second tranche and the immediate drawdown is shown in the table below.

Project Component	Amount (US\$ million)
(i) Capacity building of CDCs	58.0
(ii) Community Grants for Economic and Social Development	174.0
(iii) Project Implementation Support	18.0
Total	250.0

24. The first-drawdown of US\$100 million will be allocated as follows:

Project Component	Amount (US\$ million)
(i) Capacity building of CDCs	23.0
(ii) Community Grants for Economic and Social Development	70.0
(iii) Program Implementation Support	7.0
Total	100.0

25. Upon the ARTF MC's approval of an immediate drawdown of US\$ 100 million, the table in paragraph A. 2 of Section IV of Schedule 2 to the ARTF Grant Agreement of TF 098459 will be amended as follows:

Category	Amount of the Grant Allocated (Expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
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(1) Goods, works, consultants' services, training, Block Grants and Incremental Operating Costs* for the Project	340,900,000	100% of amounts disbursed by MRRD for Block Grants, and 100% of amounts disbursed for all other Eligible Expenditures
(2) Remuneration of MRRD Contractual Staff**	7,770,000	40%
(3) Incremental Operating Costs of MRRD***	1,330,000	100%
TOTAL AMOUNT	350,000,000	

V. Project Implementation Arrangements

(a) Institutional and implementation arrangements

26. The three tier project implementation arrangements remain the same. At the national level, MRRD provides general oversight and the Program Management Office (PMO) manages implementation. At the provincial level, NSP outsources project implementation to Facilitating Partners, while NSP Provincial Management Units (PMUs) closely monitor FP performance. The FPs mobilize communities to form CDCs; provide CDCs technical guidance for managing block grants; and planning and implementing subprojects at the village level. At the village level, communities prioritize and implement subprojects through CDCs. The CDCs ensure a high level of accountability and transparency to the ultimate beneficiaries; as they continue to be the primary units responsible for the planning and execution of the subprojects. The CDC is a community-based decision making body that includes as office bearers a chairperson, vice-chairperson, secretary, and treasurer. A project management committee and a procurement committee are also often established to support the CDC.

27. In order to improve implementation performance, NSP III has adopted the following changes: (i) further decentralization of program management to the provinces; (ii) a reduction in the role of international technical assistance; (iii) enhanced monitoring (input/output) of FP performance; (iv) simplified implementation arrangements, including the procurement of FP's contracts for repeater block grants; (v) increased involvement of women in decision making process and project implementation; (vi) adopted strategy for project implementation in high risk areas; and (vii) piloting clustering of CDCs.

(b) Procurement arrangements

28. Procurement for the project will be administrated in accordance with the World Bank's Guidelines: "Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011; and "Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011; and the provisions stipulated in the procurement section of the Financing Agreement (FA). In addition, the World Bank's "Guidelines on Preventing and Combating Corruption in Projects Financed by IBRD Loans and IDA Credits & Grants" dated October 15, 2006, as revised in January 2011 has been shared with the recipient. The World Bank's Standard Bidding Documents (SBD), Requests for Proposals (RFPs), and Forms of Consultant Contract (FCC) will be used. Civil works and goods following National Competitive Bidding (NCB) procedures shall be procured using the agreed SBDs for Afghanistan. In case of conflict/contradiction between the World Bank's procurement procedures and any national rules and regulations, the World Bank's procurement procedures will take precedence. This is consistent with the Article 4(2) of the Afghanistan's Procurement Law of July 2008 (Amendments in January 2009 incorporated). The

general description of various procurements under different expenditure categories are described in the Annex 2 – Procurement Plan for ARTF Grant.

29. The procurement of FPs for repeater block grants has been simplified as follows: (a) in districts where a satisfactory performing FP already exists, the FP will be contracted on single source selection (SSS) basis; (b) in districts, which are rated highly or extremely insecure and there does not exist a satisfactory performing FP, or the existing satisfactory FP is unwilling to take on board additional work, then any existing FP can be contracted on SSS after expressing interest and demonstrating the capacity to deliver services; (c) in districts, which are deemed relatively secure and there does not exist a satisfactory performing FP, or the existing satisfactory FP is unwilling to take on board additional work, then the highest ranking satisfactory FP in the same province will be offered the contract on SSS basis; (d) in districts, which are deemed relatively secure and there is no satisfactory performing FP in the province, then all satisfactory FPs in the nation will be requested to submit expressions of interest – if only one FP expresses interest, then this FP will be contracted, just like SSS method. But, if more than one expressions of interest are received, then the highest quantitatively ranking FP will be contracted, just like SSS method; and (e) if no FP can be contracted under the above stated alternative options, then open competition will be used. In all cases of SSS, there shall be no need for the FPs to submit a short technical proposal (STP). It is envisaged that these simplified procurement arrangements will enable the MRRD/NSP expedite the delivery of the second block grants to the eligible 12,000 communities.

30. Since, NSP III is financing thousands of community subprojects, which are not known *ex-ante*, and majority of them are below the prior review threshold, a detailed procurement plan for the block grants cannot be provided in advance. In cases where CDCs agree to pool their resources to finance joint relatively larger subprojects, which may require prior review of the Bank, the NSP Procurement Manual shall be used as a guide. The contracts for FPs will be procured and financed from the capacity building budget of the project, using the Consultants' Guidelines. The procurement of consulting services (including contract staff of NSP/MRRD) and non-consulting services for the project management support will be as per the agreed procurement plan.

(c) Financial management arrangements

31. A Public Financial Management (PFM) performance rating system has been developed for Afghanistan by the World Bank's Public Expenditure and Financial Accountability (PEFA) multi-agency partnership program, which includes the World Bank, IMF, EC, and other agencies. Afghanistan's ratings against the PFM performance indicators portray a public sector where financial resources are, by and large, being used for their intended purposes as authorized by a budget that is processed with transparency and has contributed to aggregate fiscal discipline. The Bank's supervision May 2011 rated the NSP FM performance as Moderately Satisfactory.

32. Fund Flows: Fund management for NSP III will follow existing GoA procedures. As with all public expenditures, payments from the ARTF grant will continue to be routed through MoF. The FMA will assist MoF in executing and recording project payments. The ARTF designated account (DA) is being operated by the Special Disbursement Unit (SDU) in the Treasury Department of the MoF. Requests for payments from DA funds will continue to be made by MRRD to the SDU. In addition to payments from DA funds, MRRD would also request the SDU to make direct payments to consultants or consulting firms, and special commitments for contracts covered by letters of credit. Such requests will follow the World Bank procedures. All withdrawal applications for the ARTF grant proceeds, including replenishment, reimbursement, and direct payment applications, will be prepared and submitted to the World Bank by SDU of the MoF.

33. Accounting and Reporting: The FMA is currently using a computerized accounting system to maintain relevant accounting records and generate quarterly reports on NSP's activities. This system is also used for the financial management of block grants to communities. There is also a computerized accounting system that records all expenditures paid out from the operations fund float account. The system follows the categories in the government Chart of Accounts, with sub-categories established to facilitate expenditure monitoring and preparation of Statement of Expenditures (SoEs).

34. There is also an integrated Financial Management Information System (FMIS) in place. The FMIS is used for monitoring and evaluating the project's activities, to ensure a close link between physical progress reporting and financial reporting; and to support the validity of the expenditures. MRRD FD also maintains a database to record transactions that are initiated and paid from the grant account. Reports and details of these transactions are communicated to NSP FD for consolidation.

35. The Financial Management Manual (FMM) that was used under NSP II has been updated by the FMA/MRRD Finance Department to reflect additional measures under NSP III. The FMM provides guidelines for project activities, including: (a) specific requirements for communities benefiting from block grants; and (b) establishes a project financial management system in accordance with standard Afghan government policies and procedures. It also includes: (i) roles and responsibilities of FM staff; (ii) documentation and approval procedures for payments; (iii) project reporting requirements; and (iv) quality assurance to ensure adequate internal controls and procedures that are in place are followed.

36. Disbursement Arrangements: ARTF funds will continue to be channeled through a segregated DA denominated in US Dollars that has been opened at the Da Afghanistan Bank (Afghanistan's central bank). Advances will continue to be made to the DA, and current ceiling of advance to the DA will be maintained for the proposed second tranche of US\$250 million. Other disbursement methods, such as reimbursement, direct payment and special commitment will also continue to be made available to the project. Disbursements will continue to be made on the basis of SoEs and/or other statements in a format and content acceptable to the Bank. Withdrawal applications will be submitted on monthly basis.

37. A float account has been opened to facilitate block grants payments to communities. Another float account has been set up to facilitate payments of operational expenditures. These float accounts are maintained and operated by the NSP FMA; and are maintained at the Da Afghanistan Bank. The payments to the communities for block grants will be made from the float account by the FMA. The block grant payments will be made into the CDCs' accounts maintained at DAB branches, or commercial bank branches in the provincial centers, in the absence thereof.

38. Audit of Project Funds: The Auditor General, supported by the Audit Agent, continues to be responsible for auditing the accounts of all IDA/ARTF-financed projects. Annual audited project financial statements together with the annual consolidated financial statements will be submitted within six months of the close of GoA's fiscal year. NSP's consolidated financial statements will consist of the financial statements of the IDA credit/grant, ARTF grant and other bilateral donor grants.

39. Bank funded projects already implemented or currently being implemented by MRRD (NSP I & II, FCRP, NEEP I, NEEPRA, NERAP and RWSSP) have no overdue audit reports. The key issues raised in the projects' previous audit reports have been resolved satisfactorily. These included ineligible expenditure claims and expenditures for which adequate documents were not presented to the auditors. The ineligible expenditure claims have now been refunded by the project.

40. Entity Responsible for Audit: Ministry of Rural Rehabilitation and Development (MRRD).

(d) Monitoring and Reporting

41. NSP III's monitoring and evaluation (M&E) will continue to provide data and information to relevant stakeholders, regarding the project's implementation progress and its impact. The Results Framework (see Annex 1) provides the priority target indicators for M&E. For NSP III, there are four areas of particular importance: (i) progress of the project cycle; (ii) CDC institutional development; (iii) technical quality of subprojects; and (iv) fiduciary management.

42. NSP III management is primarily responsible for the overall M&E of the project. NSP III has continued to improve the quality and depth of the M&E. For example, the Information Communication and Technology (ICT) method, involving the use of smart mobile phones (GPS enabled) to monitor subprojects in the high risk areas. Further, NSP is finalizing the recruitment of a firm to provide independent third party monitoring services. Input monitoring has been introduced to ensure that FPs have adequate skilled staff in the field. Community Participatory Monitoring (CMP) has been adopted.

43.NSP III has launched its Grievance Redress Mechanism (GRM) and it has been functioning since January 2011. Since its launch, some 532 grievances have been received by the respective offices, including HQ and field offices. From the 532 grievances received, 265 are of social nature (including the ten cases of land acquisition referred to above), 47 are procurement related, 110 are financial, and 65 are technical and 45 are related to process delays. About 40 cases are still under process, and some of these are reported to be very complicated, hence have been referred to MRRD authorities, for further action.

(e) Environmental and Social Safeguards

44.The environment and social safeguard unit has been moved from the Engineering to the Operations Department; and reports directly to Director of Operations, which already seems to result in more diligence in monitoring of safeguards implementation. The senior social safeguard position was filled in June 2011. The ESMF has been translated in to Dari and Pashto languages and disclosed and disseminated to FP Safeguards focal points. Training materials for ESMF have been developed. FPs are currently applying the ESMF social screening guidelines for sub-projects, documenting consultation with affected people and land donation/acquisition during sub-project identification stage. Focal Officer(s) for implementing, monitoring, and reporting of the ESMF have been appointed.

45.NSP III strictly follows critical social development principles of inclusion, participation and transparency. Gender issues are being mainstreamed in all components of NSP III, based on the Gender Strategy developed using lessons learned from NSP I and II. The project has recruited Gender Advisor and Gender Specialist to spearhead the above process. Proactive measures are being taken to increase women’s active participation throughout the project cycle. This includes: (i) encouraging gender-balanced staffing for FPs and NSP offices; (ii) providing gender-related training sessions; (iii) involving women in consultations, decision-making, and monitoring processes; and (iv) sensitizing the communities, including religious and tribal leaders of the role of gender in development.

(f) Sustainability and Critical Risks

46.The overall risk rating for NSP III is “Substantial”. The following table summarizes some key project design and implementation level risks, mitigation measures and corresponding ratings.

Risks	Risk Mitigation measures	Risk Rating w/ Mitigation
Capture by local elites and misuse of community funds	<ul style="list-style-type: none"> • External facilitation of CDC elections which are carried out by secret ballot and the participatory sub-project planning process • Community Participatory Monitoring helps communities monitor their own development activities and strengthen horizontal accountability 	M
Corruption at the CDC level	<ul style="list-style-type: none"> • Conduct social audits so communities can openly review and question project expenditures • Provincial/district branches of the DAB and /or private banks are used wherever possible and use of ‘hawalla’ dealers is only allowed in exceptional cases, and reimbursements to the ‘hawalla’ is made after receiving confirmation that funds have been transferred to communities • Statement of expenditures will be submitted for each CDC after 50%, 70% and 100% of the block grant is utilized • FPs to be joint signatories of CDC Bank accounts • Complaints Handling System will be strengthened • Mobile phone applications with GPS to be used to verify physical progress of project implementation which will be matched with financial reporting 	S
Corruption at the FP Level	<ul style="list-style-type: none"> • Monthly supervisory meetings with FPs and field visits by NSP PMUs to project sites and meetings with CDCs • FP input and contract monitoring system in place and strengthened 	M

Risks	Risk Mitigation measures	Risk Rating w/ Mitigation
Corruption at NSP Level	<ul style="list-style-type: none"> • Presence of FM Agent at the Treasury of MoF, responsible for processing payments, transaction recording and reporting • Financial Management and Block grant management is outsourced to a Financial Management Agent (Deloitte) • Financial Management Reports prepared quarterly • Regular fiduciary oversight by task team • FM and procurement reviews during project supervision missions • Utilization of Bank approved financial management manual, ensuring that the financial management of the project is in accordance with the manual • Prior review of contracts and annual post procurement reviews • Annual audits by Control and Audit Office • Minimize use of Designated Account, maximize direct payments to consultants 	M
Delays in block grant disbursement and payment to FPs	<ul style="list-style-type: none"> • Separate float accounts for block grants • Regular coordination with MoF, MRRD Finance to ensure timely processing of FP contracts • Standard operating procedures at each step monitored by NSP • Management of FP Dept. strengthened & regular meetings with FPs • Coordination with DAB to ensure cash flow at provincial branches 	M
Insufficient mobilization of donor funds	<ul style="list-style-type: none"> • Encourage donors to make multi-year commitments • MRRD to actively engage with donors to seek additional support • MRRD/NSP to hold monthly meetings with existing donors 	S
Decreasing security	<ul style="list-style-type: none"> • High Risk Areas Strategy developed to allow for further simplified procedures based on field realities • FPs paid higher facilitation costs for highly/extremely insecure areas • Third party monitor hired to carry out supervision in high risk areas 	H
Poor quality of infrastructure and lack of sustainability	<ul style="list-style-type: none"> • All subproject proposals include an operations and maintenance plan and FPs to provide community members training on O&M • Engineering quality of projects monitored by NSP engineers at the provincial level and with the use of ICT for quicker data transfers • Standards developed for technical training to FP engineers • Third party evaluation of the technical quality of infrastructure 	S
NSP contract management of FPs is weak	<ul style="list-style-type: none"> • Monthly tracking of FP performance by FPMD • An international consultant and one national consultant hired to assist NSP HQ with FP contract management • NSP MIS database has been strengthened and provides more accurate information on FP progress in the field • Input monitoring introduced to ensure FPs provide adequate staffing at the field level 	S
Slow disbursement	<ul style="list-style-type: none"> • After a slow start when new CDCs are being mobilized, disbursements pick up 6-8 months when first installments of block grants are disbursed • Improved capacity at NSP, FPs, and CDC level after seven years of project implementation 	M

List of Annexes

Annex 1: Results Monitoring Framework

Annex 2: Procurement Plan for ARTF Financing