



1. Project Data

Operation ID
P160544

Operation Name
Inclusive Growth DPG

Country
Afghanistan

Practice Area(Lead)
Macroeconomics, Trade and Investment

L/C/TF Number(s)
IDA-D2060

Closing Date (Original)
22-Jun-2018

Total Financing (USD)
102,811,740.55

Bank Approval Date
13-Jun-2017

Closing Date (Actual)
22-Jun-2018

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	100,000,000.00	0.00
Revised Commitment	100,000,000.00	0.00
Actual	102,811,740.55	0.00

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2. Project Objectives and Policy Areas

a. Objectives

The objective of the Inclusive Growth Development Policy Grant (DPG) as set out in the Program Document was to: (i) enhance the policy framework to expand access to economic opportunities for the vulnerable; and (ii) strengthen the policy and regulatory framework for private sector development (Program Document, page 5).



b. Pillars/Policy Areas

The operation had two pillars reflected in the PDO.

Pillar 1: enhance the policy framework to expand access to economic opportunities for the vulnerable. This included: adopting a policy addressing the country's internally displaced persons (IDP) and returnee crisis; reforms to the legal governance framework for land management and public land acquisition; and establishing a regulatory framework supporting financial inclusion through e-money. These initiatives were to broaden access to economic opportunities to excluded populations in Afghanistan, including returnees, the internally displaced, the rural poor, and newly urbanizing populations.

Pillar 2: strengthen the policy and regulatory framework for private sector development. This pillar included: adopting a policy governing public-private partnerships; reforms allowing private investment in new telecommunications technologies; reforms to the business licensing process; and the establishment of a legal framework for accounting practice and the accountancy profession. These initiatives were to contribute to improvements in policy conditions for private sector investment, supporting job creation, growth, and increased revenues over time.

c. Comments on Program Cost, Financing, and Dates

Program cost and financing. The IDA commitment under the operation was US\$100 million. It was fully disbursed.

Dates. The operation was approved on June 13, 2017, and became effective and closed on June 22, 2018.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The operation was relevant to country needs, government strategy and the World Bank Group's Country Partnership Framework (CPF) for FY17-FY20. Following a period of strong growth, largely driven by NATO military presence and significant transfers from the donor community, the country had been facing reduced aid and security presence, slowing economic activity and declining fiscal revenues over the previous five years, and this was likely to continue to be the case. The DPG provided budget support while being conditioned to government priorities and the CPF. It was in line with key elements of a recent national development policy framework, notably social inclusion and private sector development, and it was set within a broader multi-donor engagement to support recurrent spending which was managed by the World Bank. The operation supported all three pillars of the CPF – building institutions, supporting inclusive growth, and promoting social inclusion.

Rating

High



b. Relevance of Design

The results chain was straightforward with prior actions that were likely to accelerate processes that plausibly would facilitate the creation of economic opportunity and private sector development, while emphasizing bottlenecks that vulnerable groups were likely to face, for instance absence of formal land ownership records. In some instances, target indicators were not clearly specified (see section 9a). A stand-alone operation instead of a programmatic series was chosen in view of a fluid political and security situation, and an uncertain macroeconomic outlook. Growth prospects were considered limited, albeit positive, in the short run, and the fiscal outlook challenging. Still, fiscal sustainability analysis undertaken by the Bank suggested that non-security aid commitments would be sufficient to meet growing expenditure needs. Support was also provided by the IMF under a three-year extended credit facility arrangement to consolidate gains in macroeconomic management and structural reform. Conditional on continued reform progress and realization of expected aid levels, Afghanistan's macroeconomic framework was deemed adequate for the operation, while recognizing substantial downside risk.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To expand access to economic opportunities for the vulnerable

Rationale

This objective was to be achieved by adopting a policy framework addressing the crisis arising from the influx of returning migrants and growing numbers of IDPs; improving fairness and efficiency in land governance; and facilitating access to financial services through e-money.

Policy framework for return migration and IDPs. A cross-government policy framework guiding a coherent policy response to the ongoing displacement and returnee crisis was approved by the government as a prior action. It aimed at registering undocumented returnees arriving through major border points, and providing them with identification documents, facilitation services for re-establishing businesses; and community-level assistance to mitigate conflicts.

As a result, four major border points providing certificates (that gain access to the other services) were opened as intended. However, they are not yet fully operational due to still inadequate biometric registration at other border points. Reintegration information centers have been established in 17 provinces (with a



target of 25 in 2019). Effective implementation of community-level assistance was underway but constrained due to the large number of returnees and IDPs.

Land management system. The government approved and submitted to the National Assembly a land management law intended to improve security of tenure for the various categories of land users and provide more accessible procedures for formal titles to be issued; and a land acquisition law intended to ensure fairness and efficiency in the acquisition of land for public purposes.

Submission of both laws to the National Assembly were prior actions. They subsequently came into force by Presidential Decree. In Afghanistan, the constitution allows for laws to be passed by Presidential Decree when Parliament is not in session. Once Parliament is again sitting, the laws have to be formally ratified. The laws come into effect in practice as soon as the Presidential Decree is signed.

As a result, the number of landholders currently without formal land ownership records provided with formal ownership through the administrative processes established under the new land management law had reached 2100 by the closing of the operation, exceeding the target of 500. In addition, gender disaggregated records of land ownership are now maintained in the digital registration system, achieving the target.

An estimated 70 percent of land acquisitions are provided with public notice through media at least 6 months in advance of acquisition and social impact assessment, partially achieving the target of moving from zero to 100 percent. However, the Ministry of Urban Development and Land does not yet have adequate systems in place to fully verify this estimate. That was being prepared under the Bank's Land Administration System Project.

Financial services. The Central Bank issued new regulations governing electronic money institutions supporting the development of e-money systems and expanded access to financial services as a prior action. As a result, the number of registered non-bank electronic institutions under those new regulations rose from zero to 3, meeting the target. However, there was a minor shortcoming with the results indicator (see Section 9a).

Rating
Substantial

Objective 2

Objective

To strengthen the policy and regulatory framework for private sector development

Rationale



This objective was to be achieved by establishing a policy and legal framework to better manage risk under public-private partnerships; by adopting an open access and competitive provisioning policy to encourage new private investment in fiber-optic technology; unifying processes to reduce the cost and time taken for investment licensing and business registration; and introducing a new accountancy law to establish the legislative basis for a regulated accounting profession in Afghanistan and thus addressing important constraints to private sector development in the country.

Public-private partnerships. The government approved a public-private partnership (PPP) policy and approved and submitted to the National Assembly a PPP law, establishing a policy and legal framework for PPPs (prior action). The law subsequently came into force through a Presidential Decree. The results indicator – that 100 percent of PPP transactions with invitations for expressions of interest are published on PPP unit website – has so far only been achieved in five out of ten cases. The reason was that of the five not recorded on the website, two unsolicited and negotiated proposals were received before the law came into force, but they still comply with the law. Three unsolicited and negotiated proposals that comply with the law were received after the law came into force. Thus, although the target was not met for technical reasons, the broader objectives of the policy and law were met.

Competition in telecommunications. The country's High Economic Council approved an open access and competitive provisioning policy, allowing mobile network operators to invest in national and metropolitan fiber-optic networks, and the policy has been published on an official government website (prior action). The results indicator - the share of fiber-optic network (by value of investment) under management of the state utility (Aftel) declining from 100 percent to less than 80 percent – has so far not been achieved. Aftel was still the only provider, but completion of private investments planned or underway are expected to reduce public ownership to 80 percent.

Business licensing. The Ministry of Commerce unified processes for investment licensing and business registration within the new Afghanistan Central Business Registry (prior action). However, the results indicator – a decline in the average number of days taken to renew a business license from 120 days to 25 days – included tax clearance as well as business licensing: the former required 120 days to process, while the latter required 2-3 days. The reform included only business licensing, which fell to a few hours, while tax clearance remained outside the reform and still was at 120 days. While the time taken to renew a business license fell, it still also required 120 days for tax clearance.

Establishing an accounting profession. The Recipient's Cabinet has approved and submitted to the National Assembly a new Accountancy Law to establish the legislative basis for a regulated accounting profession in Afghanistan, and the law was adopted by Presidential Decree March 2017 and approved by Parliament July 2018. The results indicator was an increase in the number of Afghan national and resident accountants with accreditations recognized under the accountancy law. The actual achievement was an increase from an estimated 20 to 79, compared to a target of at least 100, in part reflecting slower-than-expected certification of practicing accountants and accounting students.



Rating
Modest

5. Outcome

Relevance of objectives was rated **high**, reflecting its strong alignment with the Bank’s CPF, government policies, and country challenges. Relevance of design was rated **substantial**, taking into account a logical results framework as well as mostly reasonably ambitious targets and an acceptable macroeconomic framework. Efficacy was rated **substantial** for one objective and **modest** for the other. The outcome rating of **moderately satisfactory** indicates moderate shortcomings in the operation's achievements of its objectives.

a. Outcome Rating

Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating

Political and governance risks, as well as macroeconomic risk, were rated high. The former reflect an uncertain security situation and power-sharing arrangements in government, which may have implications on policy as well as stability within the bureaucracy. The macroeconomic outlook includes significant uncertainties related to the country’s heavy dependence on aid and implications of any variations in external support on fiscal sustainability and service delivery. Capacity risks remain across agencies, but are mitigated in part by linked technical assistance such as the Afghanistan Land Administration System Project that is working to continue processes of recording land acquisition and enforcing compliance of legal requirements.

a. Risk to Development Outcome Rating

High

7. Assessment of Bank Performance

a. Quality-at-Entry

The project was strategically relevant – it provided budget support while focusing on measures to expand private sector development, future revenue mobilization, and social protection. The operation focused on a series of immediate interventions that were underpinned by complementary investment projects, as well as technical assistance and advisory services that supported the longer time horizon implied by some results targets. The operation also drew on lessons learned under prior development policy operations (DPOs) in



Afghanistan, notably that the DPO could be an effective tool to focus government decision making in a volatile environment, and it drew on ongoing Bank and USAID technical assistance that informed the design of the policy actions. The choice of a stand-alone development policy operation also reflected legitimate concern about the risks of engagement, as well as the need for budget and policy support. The results framework was straightforward, although some of the targets under Objective 2 may have been too ambitious.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

With permanent in-country presence, the Bank team was able to work closely with the government and development partners on the ground during policy implementation and react quickly to provide advice in a situation of continuing armed conflict, occasionally compensating for cancelled missions. In doing so, existing structures for coordination with government and donors appear to have been used effectively to ensure progress. That said, implementation did encounter challenges: several changes over time in sector teams influenced implementation as the team priorities shifted, causing some disruptions in implementation. This may have contributed to the issues with M&E design mentioned in Section 9a, at least some of which could have been adjusted drawing on the experience during implementation (for instance PPP, business licensing reform and certification of accountants).

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The operation was conceived and implemented during an unstable time with increasing refugee returns, other IDP issues, and political tensions within government. These factors must have affected borrower performance. Still, the ICR points out that government commitment to the policies being pursued under the operation remained strong, reflected in that all areas experienced progress.

Government Performance Rating

Satisfactory

b. Implementing Agency Performance

Not assessed.



Implementing Agency Performance Rating

Not Rated

Overall Borrower Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The results framework was designed with a logical causal link between actions and expected results. However, in a few instances, output indicators were used when outcome level results would have required a longer time horizon that did not fit into the timeframe of the operation. Some indicators were ambiguous: the PPP indicator excluded unsolicited proposals and direct negotiations; the indicator for business licensing included tax clearance, influencing the baseline and target; the indicator for electronic money reform likewise was unclear about the baseline and target; and data systems for public land acquisition were incomplete.

b. M&E Implementation

The Ministry of Finance was given responsibility for M&E of the operation. Both the Ministry and the Bank team in the field tracked indicators against policy goals (targets) on a continuous basis. Regular meetings between the Bank team and government officials on the ongoing work program was the routine in Kabul.

c. M&E Utilization

Use of information from the M&E process was used to coordinate with concerned units in the government, and to identify need for technical assistance support (notably in the case of the land authority).

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

No safeguard policies were discussed in the ICR.



b. Fiduciary Compliance

No fiduciary issues were discussed in the ICR.

c. Unintended impacts (Positive or Negative)

None noted.

d. Other

None noted.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	High	High	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Satisfactory	Satisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

IEG agrees with the lessons presented in the ICR, as summarized below

DPOs may be more effective when coordinated with other ongoing operations and advisory services. The operation supported a set of complex reforms across a broad range of sectors, achieving reasonable outcomes. Emphasis was placed on complementarity of the operation with ongoing investment projects and DPOs that provided incentives to implement the reforms, as well as contributions from relevant analytical work. Such processes help to focus scarce government capacity on key policy priorities.



Good working relationships between Bank staff and government agencies are critical to proactively managing risks. In this case, there was good staff continuity across most areas. However, in the case of work to support the accountancy profession, a better handover process ensuring greater consistency between Bank teams on implementation of the accountancy law could have enabled new Bank staff in this area to support a better outcome.

Results frameworks need enough attention during design to ensure indicators have appropriate baselines and targets. In the case of this operation, for instance, the indicator for renewal of business licenses turned out to have a baseline and target that were not meaningful for measuring results on business licensing.

In addition, IEG adds another lesson.

Policy operations can be effective in expediting the drafting and executive review of laws, paving the way for parliamentary approval. A previous IEG learning product on policy operations found that in many cases, prior actions supporting laws submitted to legislative bodies were unsuccessful as the laws submitted were not approved by the time of the operation's closure. In this case, the process of approval by Presidential Decree when Parliament was not in session sped up the process of adoption so that targeted results could be achieved during the operation.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides an adequate discussion of the rationale of the operation to allow for an assessment of the results and ratings of the operation. It offers a thorough discussion of efficacy, and in various places, assessment of the results framework. These are useful observations, and drawing a distinction between the short term and longer term implications for implementation would have further strengthened the analysis.

a. Quality of ICR Rating Substantial