Report Number: ICRR0023111

1. Operation Information

Operation ID P172211	**Operation Name** 2020 INCENTIVE PROGRAM
Country Afghanistan	**Practice Area (Lead)** Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) IDA-D6130,TF-B2572	**Closing Date (Original)** 30-Jun-2021	**Total Financing (USD)** 379,847,057.03
Bank Approval Date 07-May-2020	**Closing Date (Actual)** 30-Jun-2021	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	160,000,000.00	220,000,000.00
Revised Commitment	380,000,000.00	220,000,000.00
Actual	379,847,057.03	220,000,000.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The Afghanistan 2020 Incentive Program Development Policy Grant (IP-DPO) was the third of three successive operations supporting common objectives. The Program Document (PD, p.3) states the program development objectives (PDOs) as: “(i) strengthening the policy framework to support state effectiveness, private investment, and social inclusion; and (ii) improving the policy and institutional framework for public financial management and fiscal sustainability.” These are the same as the PDOs from the first two IP-DPOs in 2018 and 2019, with the addition of "and fiscal sustainability" (the TTL reported that this was added at review because it was the specific objective of the action regarding the energy utility and the general objective for several other policy actions; neither the PD nor the ICR discussed the rationale for this addition).

For the purpose of this ICRR, as for the 2019 IP-DPO, PDO1 is disaggregated into the following sub-objectives:

1. Strengthen the policy framework to support state effectiveness;
2. Strengthen the policy framework to support private investment;
3. Strengthen the policy framework to support social inclusion.

In addition, PDO2 is disaggregated into the following sub-objectives:

1. Improve the policy and institutional framework for fiscal sustainability;
2. Improve the policy and institutional framework for financial management.

b. Pillars/Policy Areas

As for the 2018 and 2019 IP-DPOs, the operation was structured around two pillars.

Under Pillar 1, "strengthening the policy framework to support state effectiveness, private investment, and social inclusion," the policy actions (PAs), representing prior actions for the initial International Development Association (IDA) Grant and tranche triggers for the complementary grant from the Afghanistan Reconstruction Trust Fund (ARTF), supported the three policy areas (sub-objectives) of strengthening the policy frameworks to support state effectiveness (PAs 1-4 in Table 1), private investment (PAs 5-6), and social inclusion (PA 7).

PAs under Pillar 2, "improving the policy and institutional framework for public financial management and fiscal sustainability," focused on energy administration (PA8) and climate resilience (PA9), which addressed the sub-objective of fiscal sustainability, and additional measures in support of the objective of improved financial management, comprising public investment (PA 10), tax administration (PA 11), budgeting (PA 12), audits (PA 13), and fiscal transparency and accountability (PA 14).

Table 1: Objectives and Prior Actions for Afghanistan (Third) 2020 Incentive Program Development Policy Grant

Objective 1: Strengthening the policy framework to support state effectiveness, private investment, and social inclusion
Strengthen the policy framework to support state effectiveness
PA 1: To simplify tax payment procedures Government integrates systems for e-payments (the ATS, APS, ASYCUDA, SIGTAS, and the core banking system / Da Afghanistan Bank (DAB)).
PA 2: To strengthen expenditure control and combat corruption the Independent Administration Reform and Civil Service Committee (IARCSC) has issued a procedure requiring the rollout of a new human resource management information system (HRMIS).
PA 3*: To support implementation of the new civil servants law: a) the high-level pay committee approves cadre allowances for procurement and customs cadres based on cadre

regulations and pay policy; b) Afghanistan Customs Department (ACD) advertises 40 positions for competitive hire under new cadre regulations for grades 3-6; c) IARCSC approves a competency pay framework for teachers in accordance with pay policy specifying methods and instruments for competency verification.
PA 4*: To support improved institutional arrangements in the hydrocarbons sector: i) Cabinet approves the Administrative Regulation under Chapters II and III of the 2017 Hydrocarbons Law regarding the roles and responsibilities therein assigned to Ministry of Mines and Petroleum (MoMP) and the Afghanistan Oil and Gas Regulatory Authority (AOGRA); ii) AOGRA is operationalized through the appointment of its Chief Executive Officer (CEO).
Strengthen the policy framework to support private investment
PA 5*: To support private sector development, the Ministry of Finance (MOF) and the Ministry of Industry and Commerce (MOIC) will create a link between SIGTAS (Afghanistan Revenue Department (ARD's) information technology system) and Afghanistan Central Business Registry (ACBR's) database to facilitate the digital issuance of tax clearance certificates (TCCs) and their utilization for business license renewals.
PA 6: To support private sector development Kabul Municipality (KM) has approved rules of procedures under the Kabul Urban Design Framework (KUDF) and new Municipalities Law to significantly reduce the time required to obtain a construction permit.
Strengthen the policy framework to support social inclusion
PA 7*: To improve land administration: i) Cabinet approves and submits to the National Assembly a new Land Survey Law; ii) the Minister of Urban Development and Land approve new cadaster procedures; and iii) the Minister of Urban Development and Land approves specifications for a new land information system, including requirements for gender-disaggregated recording of data.
Objective 2: Improving the policy and institutional framework for public financial management and fiscal sustainability
Improve the policy and institutional framework for fiscal sustainability
PA 8*: To improve the sustainable operations of the National Energy Utility of Afghanistan (DABS): i) the Minister of Finance approves the conversion to equity of DABS outstanding debt to MOF; ii) Cabinet approves new articles of incorporation for DABS to strengthen governance; and iii) DABS board approves revisions to the tariff structure.
PA 9: To strengthen resilience to climate change shocks, new regulations are gazetted governing utilization of the existing contingency funds establishing standard operating procedures, clearly defining eligible expenditures, including for weather-related events, and establishing reporting requirements.
Improve the policy and institutional framework for financial management
PA 10*: To improve public investment management (PIM), new PIM regulations are gazetted establishing a regulatory framework for project appraisal and approval based on economic, strategic fit, and gender analysis.
PA 11: To improve tax administration ARD issues a circular mandating e-filing for all large taxpayers and selected sectors in the medium taxpayer office (MTO) and small taxpayer office (STO).
PA 12*: To underpin implementation of the new operations and maintenance (O&M) policy, Cabinet approves a 2021 executive budget in accordance with the budget norms and guidelines for three asset categories in at least five ministries.

PA 13*: To strengthen audit independence, Cabinet approves and submits to the National Assembly a revised Supreme Audit Office (SAO) law in line with international good practice and consistent with relevant provisions of the constitution and the public finance and expenditure management law.
PA 14: To improve fiscal transparency and accountability, MOF publishes on its website full data on expenditures over the past five years at the line-item level.

*Tranche release condition (others are prior actions).

c. Comments on Program Cost, Financing and Dates

Program cost was estimated at USD 380 million over eleven tranches, of which USD 160 million was to be financed as a grant from IDA and USD 220 million as a grant from the ARTF, a multi-donor funding mechanism for reconstruction support, which had been brought in to support the second IP-DPO. Actual disbursement amounted to USD 379,847,057, of which USD 159,847,057 from IDA and USD 220,000,000 from ARTF.

The program document (PD, para. 12), financing agreement and grant agreement provided for an initial disbursement of USD 160 million from IDA and USD 40 million from ARTF, based on four prior actions., each based on satisfying a tranche release trigger. The TTL reported that USD 220 million of ARTF funds was disbursed as anticipated in the PD (para. 27): an initial ARTF tranche of USD 40 million and nine [though stated as ten] subsequent tranches of USD 20 million each, totaling USD 220 million. One planned ARTF tranche of USD 20 million was not disbursed due to failure to satisfy the tranche release conditions regarding Public Investment Management regulations.

Tranche disbursements were completed by November 15, 2020 (PD, para. 12), as expected, and the project closed on June 30, 2021, as expected.

3. Relevance of Design

a. Relevance of Objectives

Relevance to country context

The 2020 IP-DPO was the last in a series of three stand-alone operations designed to support the Government’s three-year program of policy reforms. This was a reasonable strategy to build momentum for reforms in a coordinated way in the face of high uncertainty and risk due to the fragility of the Afghan state, exacerbated by controversy surrounding the 2019 Presidential election and the Covid-19 pandemic (PD, paras. 2-3; ICR, para. 4). Policy reforms supported by the operation were relevant to key areas identified as critical (PD, para. 5), including civil service reforms, improvements to the business regulatory environment, improved resilience to natural disasters, and strengthened public financial management and tax administration.

Relevance to country development strategy and Country Partnership Framework (CPF)

The PDOs were directly aligned with the government's strategies as stated in the Afghanistan National Peace and Development Policy Framework (ANPDF) and Fiscal Performance Improvement Plan. These strategies were intended to continue and deepen the reforms undertaken under reconstruction since the fall of the Taliban in 2001. Despite substantial progress, the economy, society, and political stability remained subject to fragility, conflict and violence (FCV). However, the objectives were set at a very high level, making it difficult to measure and achieve them within the time frame of a single operation. More modest or focused objectives would have been better aligned with the scope of the prior actions. This was particularly the case with the "state effectiveness" objective, given that "Afghanistan remained a poor fragile state" with "major constraints in the capacity of its civil service" (ICR for IP-DPO2, paras. 3 and 7).

The objectives were consistent with the three pillars of the World Bank Group's CPF (FY17-FY20): (i) building strong and accountable institutions; (ii) supporting inclusive growth; and (iii) social inclusion (PD, para. 86)

b. Relevance of Prior Actions

Rationale

IP-DPO3 was well designed to build on momentum established in the two preceding IP-DPOs. Of the 14 PAs (see Table 1), with a total of 21 actions/sub-actions, over half followed through on actions supported in IP-DPO2 to implement or deepen the reforms. The addition of fiscal sustainability as a specific aspect of public financial management was appropriate in view of Afghanistan's heavy dependence on foreign assistance. The actions were generally incremental steps appropriate to strengthening the policy and institutional framework under FCV conditions. The design of three successive stand-alone operations rather than a pre-determined series recognized the limitations imposed by FCV status. Nonetheless, progress was subsequently overwhelmed by the overthrow of the government in August 2021.

Neither the ICR nor the PD provided an explicit results chain/theory of change for any of the objectives. Expected results were stated under the specific actions, and most actions drew on appropriate analytical underpinnings. Only one PA is rated unsatisfactory in terms of its relationship to a clear sequence leading to the stated objectives.

Objective 1: Strengthening the policy framework to support state effectiveness, private investment, and social inclusion

Strengthen the policy framework to support state effectiveness

PA 1 (*Government integrates systems for e-payments*) followed through on development of the regulatory framework in the two preceding IP-DPOs, which clearly stated the expected results as follows: "allowing for digital payment of taxes and customs duties will lead directly to increased efficiency and transparency in government finances, reducing opportunities for corruption and leakage"; and "interoperability of banks and mobile network operators will also support expansion in financial inclusion, higher levels of consumer protection, and strengthened DAB powers of oversight" (PD2 for IP-DPO2, para. 32). Integrating the various government payments systems together with the core banking system directly supports the objective of state effectiveness by simplifying tax payment procedures. Rating: Highly satisfactory.

PA 2 (*the IARCSC has issued a procedure requiring the rollout of a new HRMIS system*) was related to previous measures to strengthen expenditure control and combat corruption in the civil service. Although the HRMIS and the problem of "ghost" workers had not been mentioned in previous documentation, IP-DPO2 had indicated that more "competitive recruitment" would be expected to result in improved quality of the civil service by reducing political interference. This action (together with PA 3) represented an appropriate step forward in a results chain toward a more effective civil service. Rating: Satisfactory.

PA 3 (*a. the high-level pay committee approves cadre allowances for procurement and customs cadres based on cadre regulations and pay policy; b. ACD advertises 40 positions for competitive hire under new cadre regulations for grades 3-6; c. IARCSC approves a competency pay framework for teachers in accordance with pay policy specifying methods and instruments for competency verification*) explicitly carried forward the process of civil service reform undertaken in the previous operations to support implementation of the new civil servants law in the areas of pay and competitive hiring. The ICR provided an implicit results chain by stating that more competitive recruitment and "more rational pay and remuneration structure [would] reduce incentives for corruption and ensure the retention of qualified staff," thereby improving the cost-effectiveness of the civil service. Rating: Satisfactory.

PA 4 *(a. Cabinet approves the Administrative Regulation under Chapters II and III of the 2017 Hydrocarbons Law regarding the roles and responsibilities therein assigned to MoMP and AOGRA; b. AOGRA is operationalized through the appointment of its CEO*) was introduced as a step toward implementing the 2017 Hydrocarbons Law. This was intended to promote the objective of supporting state effectiveness by improving institutional arrangements in the hydrocarbons sector through "interinstitutional checks and balances between the ministry and the regulator… in order to ensure rigorous oversight, limit discretion, and curtail opportunities for regulatory manipulation and corruption" (PD3, para. 54) and represented a reasonable (albeit somewhat indirect) step in an implicit results chain. Rating: Moderately satisfactory.

Strengthen the policy framework to support private investment

PA 5 (*MOF and the MOIC will create a link between SIGTAS (ARD's IT system) and ACBR's database to facilitate the digital issuance of TCCs and their utilization for business license renewals*) was newly introduced in this DPO (the two previous DPOs did not mention business licensing) to help translate the growing use of e-filing of taxes (see PA 1) into improvements in the business environment. The PD (para. 39) stated the problem ("slow and unreliable processes for obtaining a TCC are cited as a major constraint to doing business") and (para. 42) the expected results from linking the issuance of TCCs to electronically filed taxes by businesses: "digital TCCs will reduce the time and costs associated with obtaining both a TCC and renewing a business license while reducing scope for discretion and corruption." While this appears to be a logical results chain, there were no clear analytical underpinnings that indicated the magnitude of the problem and the likely benefits to Afghanistan from addressing it (the *Doing Business Reform Memorandum* cited in the PD, Table 4, focused on financing constraints). Rating: Moderately satisfactory.

PA 6 (*KM has approved rules of procedures under the KUDF and new Municipalities Law to significantly reduce the time required to obtain a construction permit*) was intended to streamline the costly and time-consuming regulations that contribute to the extremely high cost of obtaining construction permits in Afghanistan (PD, para. 43). However, it was also noted that this cost is "driven primarily by requirements to construct private water sources and septic tanks due to lack of water infrastructure in the country," and that "70 percent of the buildings in Kabul are built illegally," whether through bribes or simply ignoring the regulations. No analytical base was cited to establish that private investment in Afghanistan was in fact being significantly deterred by construction permit requirements. Hence there was no clear results chain from this PA to the objective of private investment (the main stated expected result being "an improvement in Afghanistan's Doing Business score against the indicator for 'dealing with construction permits'"; PD, para. 46). It should be noted that using DB indicators to ascertain country-specific reform priorities is not advised. Rating: Unsatisfactory.

Strengthen the policy framework to support social inclusion

PA 7 (*to improve land administration: a. a new Land Survey Law; b. new cadaster procedures; and c. specifications for a new land information system, including requirements for gender-disaggregated recording of data*) continued efforts from the previous DPO to modernize land administration away from the court-based system, which led to "systemic discrimination against women [and] under-recognition of women's land rights with negative impacts in terms of access to services, access to finance (by using land as collateral), and economic empowerment" (PD, para. 47). Improving the authentication of property rights and cadaster procedure was expected to improve access to land, especially for women, including use of property to leverage finance for business (ICR, para. 23). The PA included reasonable first steps toward land administration reform. While these measures might help open opportunities for women, the likelihood that greater social inclusion (for which this is the only relevant PA) would result is unconvincing. Rating: Moderately Satisfactory.

Objective 2: improving the policy and institutional framework for public financial management and fiscal sustainability

Improve the policy and institutional framework for fiscal sustainability

PA 8 (*a. conversion to equity of DABS outstanding debt to MOF; b. new articles of incorporation for DABS to strengthen governance; and c. DABS board approves revisions to the tariff structure*) supported the objective of fiscal sustainability (newly added in this operation) through measures to enhance the sustainability of operations of DABS. DABS' financial performance had deteriorated from profitability to losses in 2018 and 2019, "with implications for private sector development and perceptions of state effectiveness," as well as overall fiscal sustainability (PD, para. 56). The expected results of the policy reforms were "improved governance and financial management of DABS … lead[ing] to financial sustainability and improved access to electricity over time" (PD, para. 59; drawing on the 2017 World Bank "Financial Evaluation of Da Afghanistan Breshna Sherkat-DABS" and the parallel "DABS Planning and Capacity Support Project"). Although insufficient without a broader fiscal sustainability strategy [which is not discussed in the PD or the ICR], this PA was a reasonable step in that direction that was also relevant to the operation's objectives for state effectiveness and private investment. Rating: Moderately satisfactory.

PA 9 (*new regulations are gazetted governing utilization of the existing contingency funds establishing standard operating procedures, clearly defining eligible expenditures, including for weather-related events, and establishing reporting requirements*) was intended to address "Afghanistan's capacity to respond effectively to natural disasters, [which] is being constrained by weak management of existing contingency reserves" (PD, para. 60). The 2018 World Bank report (P162117) on "Climate Change Impacts on Hydrology and Agriculture" highlighted the increasing natural disaster risks associated with climate change. The PA was expected to result in an increase in the [limited] "proportion of reserves available to support response to natural disasters… in terms of human costs, economic damages, and pace of recovery" and avoid having to declare a state of emergency to mobilize funds (PD, para. 60). The action was directly related to the PDO of improving financial management to better cope with growing risks to fiscal sustainability, including from climate change. Rating: Satisfactory.

Improve the policy and institutional framework for financial management

PA 10 (*new PIM regulations are gazetted establishing a regulatory framework for project appraisal and approval based on economic, strategic fit, and gender analysis*) explicitly followed through on steps taken in the preceding two IP-DPOs to subject new project proposals to well-defined financial, economic, and gender analysis. PA 10 was to institutionalize strategic fit guidelines that had been circulated with the 2020 budget, to help implement the government's "ambitious program of Public Investment Management reform" (PD, para. 65). Implementation of these regulations was expected to result in "improvements in efficiency and effectiveness of development expenditures" (PD, para. 67). The gender criteria were expected to result in projects that would better "address the different and often more-serious constraints to service access and economic empowerment faced by women" (PD, para. 64). Although the need for "strengthening the capacity of stakeholders of the PIM process to play their respective roles" was also mentioned, it was not specified how the capacity-building would be effected. Rating: Satisfactory.

PA 11 (*ARD issues a circular mandating e-filing for all large taxpayers and selected sectors in MTO and STO*) carried forward measures in the previous IP-DPO that mandated e-filing for the banking and telecommunications sectors in the Large Taxpayer Office (LTO) by requiring e-filing for all large taxpayers and for certain other sectors in the MTO and STO. The PD (paras. 68-72) stated that e-filing results in reduced cost and time in filing taxes, contributing directly to the PDO by raising tax administration efficiency, compliance, and revenues, particularly to realize the expected gains from introduction of a value-added tax. Rating: Highly satisfactory.

PA 12 (*Cabinet approves a 2021 executive budget in accordance with the budget norms and guidelines for three asset categories in at least five ministries*) was designed to further implement the new O&M policy, which was piloted under the preceding IP-DPO in four ministries in preparing the 2020 budget. "The policy action expanded the newly developed budget notes and guidelines for highways, in addition to vehicles and buildings, which was supported through previous operations," and was expected to result in "protect[ing] assets built over years of high aid inflows" (ICR, para. 29). The PD (para. 29) stated that "progressive rollout of the O&M policy is expected to lead to greater efficiency in O&M expenditure," indicating that further implementation measures were planned. Rating: Satisfactory.

PA 13 (*Cabinet approves and submits to the National Assembly a revised SAO law*) was intended to bring Afghanistan "in line with international good practice and consistent with relevant provisions of the constitution and the public finance and expenditure management law" (PD, p. 31, PA #13). The 2020 IP-DPO focused more explicitly on corruption in the public sector than the previous IP-DPOs, which nonetheless observed corruption as a pervasive problem. Based on the 2017 International Organization of Supreme Audit Institutions Development Initiative Performance Measurement Framework Assessment for Afghanistan and the 2018 Afghanistan Public Expenditure and Financial Accountability (PEFA) Assessment, oversight by the SAO was heavily constrained by its lack of independence from the executive, lack of immunity, and lack of constitutional provisions relating to external audit. Eventual passage and implementation of the law to be submitted under PA 13 was expected to result in "oversight institutions [being able] to operate independently and free from interference" (PD, para. 77). Although the further measures needed to realize that result were not yet articulated, the revised law represented an appropriate step toward addressing the problem of corruption, which undermines sound financial management. Rating: Moderately satisfactory.

PA 14 (MOF *publishes on its website full data on expenditures over the past five years at the line-item level*) complemented actions taken under the previous IP-DPO to publish revenue reports. The importance of improving fiscal transparency and accountability was highlighted in the 2018 World Bank "PEFA

Assessment" and the International Budget Partnership "Open Budget Index 2017." Improved transparency and availability of expenditure data was expected to result in enhanced dialogue between Government and international partners and thereby increase the prospects for further international assistance. Publication of expenditure as well as revenue data directly contributes to accountability and sound financial management. Rating: Satisfactory.

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

Sixteen indicators/sub-indicators were used to measure the results of the 14 PAs. All were measurable (all but one quantitative), although "data sources are not clearly outlined either at the project preparation stage or during implementation" (ICR, para. 17). They "captured key outcomes from the supported policy actions given the FCV context" (ICR, para. 18), though they were not adequate for capturing achievement of the PDOs, which had been stated at very high levels (e.g., "state effectiveness, private investment, and social inclusion"). Seven of the indicators are rated as Moderately Satisfactory; four as Satisfactory or Highly Satisfactory; and five as Unsatisfactory or Moderately Unsatisfactory).

Due to the Taliban takeover in August 2021, "assessment of progress against results has been constrained by the inability to engage with the Taliban interim administration and the cessation of reporting against key statistical indicators" (ICR, para. 15), and hence the ICR was only able to indicate "likely achievement" of the targeted results.

Table 2: Results indicators by Objective and PAs; baseline and target values; status and achievement

Results indicator (RI)	**Asso-ciated PAs**	**RI Rele-vance**	**Baseline** (Dec. 2019)	**Target** (2021)	**Actual at target date**	**Likely achievement***	**RI Achievement rating**
Objective 1: Strengthening the policy framework to support state effectiveness, private investment, and social inclusion							
RI 1: Volume of tax and customs dues paid using electronic payments	PA 1	HS	0%	20%	Unknown	Partial*	Modest
RI 2: Proportion of civil servants included on the HMRIS	PA 2	S	25%	100%	Unknown	Unlikely*	Negligible
RI 3: Proportion of customs and procurement staff receiving cadre allowance	PA 3	MU	0% men 0% women	25%/25%	Unknown	Unlikely*	Negligible

RI 4: Number of hydrocarbons sector regulations and contract templates jointly developed by the MoMP and AOGRA and approved by Cabinet	PA 4	MU	0	5	Unknown	Unlikely*	Negligible
RI 5: Proportion of business license renewals issued based on ACBR receipt of digital tax clearance certificates	PA 5	S	0%	40%	Unknown	Unlikely*	Negligible
RI 6: Doing Business score against acquiring construction permits	PA 6	U	34.5	40	Unknown	Unlikely*	Negligible
RI 7: Number of municipal districts in which an administrative land system is operating	PA 7	MU	1	2	Unknown	Unlikely*	Negligible
RI 8: Sex-disaggregated land registry data available a/	PA 7	MS	No	Yes	No	Not achieved	Negligible
Objective 2: Improving the policy and institutional framework for public financial management and fiscal sustainability							
RI 9: Technical losses as a proportion of network generation	PA 8	U	17.3%	15%	Unknown	Unlikely*	Modest
RI 10: Contingency fund allocations as a percentage of limits established under the Public Expenditure and Financial Management (PEFM) law	PA 9	MS	140%	< 100%	Unknown	Unlikely*	Negligible
RI 11: Proportion of contingency reserve eligible for use in responding to natural disasters _b/	PA 9	MS	3%	50%	Unknown	Unlikely*	Negligible
RI 12: Proportion of new projects of over USD 7.5 million approved for implementation in the discretionary development budget that have undergone economic and gender analysis	PA 10	MS	75%	100%	Unknown	Unlikely*	Negligible
RI 13: Proportion of LTO, MTO and STO clients that make use of e-filing.	PA 11	MS	35% (LTO), 0% (MTO), 0% (STO)	100% (LTO), 6.5%	Unknown	Likely to be achieved*	Negligible

				(MTO), 9.3% (STO			
RI 14: Budgetary allocations for O&M expenditures included in contingency reserves.	PA 12	S	100%	50%	Unknown	Unlikely*	Negligible
RI 15: Number of the Mexico Declaration Principles with which the Afghanistan SAO legal framework complies	PA 13	MS	2	6	Unknown	Unlikely*	Negligible
RI 16: Number of downloads of the public expenditure database	PA 14	MS	0	100	Not published	Not achieved	Negligible

* Likely extent of achievement (in the absence of currently available data).

a/ Listed in ICR as a sub-indicator under RI 7.

b/ Listed in ICR as a sub-indicator under RI 10.

Objective 1: Strengthening the policy framework to support state effectiveness, private investment, and social inclusion

RI 1 (*volume of tax and customs duties paid using electronic payments*) extended the corresponding RI from IP-DPO2 to include tax payments as well as customs duties. This was a clearly defined and measurable indicator of progress in implementing the new regulatory framework for digital payments (PA 1), with a well-defined results chain leading to improvement of state effectiveness. The baseline was credible and the target clear, with data available on a regular basis. Rating: Highly Satisfactory.

RI 2 (*proportion of civil servants included in the HMRIS*) measured the extent to which the civil service was transitioning to a new system intended "to strengthen expenditure control and combat corruption" (PA 2), and hence part of the results chain to the objective of increasing state effectiveness. The baseline was credible and the target clear, with data available on a regular basis. Rating: Satisfactory.

RI 3 (p*roportion of customs and procurement staff receiving cadre allowance*) similarly tracked the extent to which remuneration was providing appropriate incentives, as part of PA 3. However, while measurable with data available, this represented an input rather than an indicator of actual effectiveness. There was no indicator for two of the three sub-actions under PA3 (competitive hires and teachers). Rating: Moderately unsatisfactory.

RI 4 (*number of hydrocarbons sector regulations and contract templates jointly developed*) tracked only the extent to which regulations were being developed (PA 4). While part of initial steps to implement the Hydrocarbons Law, the results chain to increased state effectiveness was unclear. Nor was it clear whether the target of 5 represented a minimal or significant proportion of the regulations and templates that would be required to achieve the intended results. Rating: Moderately unsatisfactory.

RI 5 (*proportion of business license renewals issued based on ACBR receipt of digital tax clearance certificates*) measured the extent to which digital TCCs were being used to renew business licenses (PA 5), as part of the results chain to reduce the cost of doing business in pursuit of the objective of supporting private investment. From a baseline of 0, the target was clear and measurable. Rating: Satisfactory.

RI 6 (*Doing Business score against acquiring construction permits*) was directly related to PA 6 but lacked a clear value chain to the objective of supporting private investment, in the absence of evidence that investment in Afghanistan was being constrained by construction permits. Although Doing Business scores have the advantage of being readily available, they may reflect perceptions that do not necessarily track the actual challenges faced by the private sector. Rating: Unsatisfactory.

RI 7 (*number of municipal districts in which an administrative land system is operating*) continued the RI from IP-DPO2 and – while appropriate as an indicator of improved state effectiveness and social inclusion — remained problematic in that the result depended on implementing the Land Survey Law and new land information system (supported under PA 7), which was unlikely to be completed and applied within the time frame of the operation. The baseline of 1 in 2019 was questionable in that the ICR (Annex 1) for IP-DPO2 reported 0 as both the 2018 baseline and the status as of end 2020. Given the complexity and long term of land administration reform, it might better have been left to a sequence of actions and more robust indicators in a dedicated project, rather than a one-year DPO. Rating: Moderately unsatisfactory.

RI 8 (*sex-disaggregated land registry data available*) was a qualitative (yes/no) sub-indicator for implementation of a new land information system under PA 7 that indicated whether it could be used to support social inclusion by providing data related to gender. It represented a necessary first step toward policies to promote social inclusion through land ownership, although the results chain to that outcome remained unspecified. Rating: Moderately satisfactory.

Objective 2: Improving the policy and institutional framework for public financial management and fiscal sustainability

RI 9 (*technical losses as a proportion of network generation*) bore no direct relation to the measures under PA 8 to improve DABS' financial position and governance, nor to the objective of improving the framework for public financial management. While it may have been chosen as being measurable and available, an indicator related to DABS' financial status would have been more relevant. Rating: Unsatisfactory.

RI 10 (*contingency fund allocations as a percentage of limits established under the PEFM law*) was a reasonable indicator of whether the new contingency fund regulations supported under PA 9 were being implemented, and thus of improved public financial management. However, the target was for a *decrease* in the contingency fund share to no more than the mandated "three percent of the total budgeted expenditures to be allocated to a single-year contingency reserve" (PD, para. 61), which had been exceeded by 40 percent at baseline. This would work against the stated objective of increasing the amount of contingency funds available to cope with natural disasters; however, RI 11 compensated for this by including the proportion of funds available for natural disasters, which could yield a net increase in the amount. The indicator was measurable, with data available. Rating: Moderately satisfactory.

RI 11 (*proportion of contingency reserve eligible for use in responding to natural disasters*) was directly related to the objective of improving fiscal sustainability by making sufficient "reserves available to support responses to natural disasters" (PD, para. 60) without having to declare a national emergency in order to mobilize previously unallocated funds. The targeted increase from 3 percent to 50 percent of contingency reserves available for natural disasters was sufficient to offset the 29 percent targeted decrease from bringing contingency fund allocations down to their legal limit (PA 9). Nevertheless, the actual **amount** of contingency funds available for natural disasters would have been a more direct measure of the desired result. The indicator was measurable, with data available. Rating: Moderately satisfactory.

RI 12 (*proportion of new projects of over USD 7.5 million approved for implementation in the discretionary development budget that have undergone economic and gender analysis*) was carried over from IP-DPO2 and was intended to track implementation of a new regulatory framework (PA 10) to improve the alignment of projects with policy priorities and counter political determination of project selection. It would have been better supplemented with an indicator on whether such analysis in fact led to the desired results. While the indicator was measurable, the baseline of 75 percent in 2019 was inconsistent with the 2020 year-end status of 60 percent reported in the ICR (Annex 1) for IP-DPO2, making the target of 100 percent by end 2021 questionable (the previous target for 2020 was 50 percent). Rating: Moderately satisfactory.

RI 13 (*proportion of LTO, MTO, and STO clients that make use of e-filing*) extended the corresponding RI from IP-DPO2 to include MTO and STO clients, as well as LTO. Presumably because the data available covered all clients in each office, not specific sectors that were targeted by PA 11, the indicator was broader than the sectors targeted for the MTO ("roughly 6.5 percent of active MTO taxpayers"; PD, para. 71) and STO, though suitable for the LTO. A direct indicator of the desired result of increased tax revenues through easier filing would have been desirable to confirm that e-filing is indeed associated with increased revenue (as implicitly assumed). Rating: Moderately satisfactory.

RI 14 (*budgetary allocations for O&M expenditures included in contingency reserves*) was an improvement over the RI in IP-DPO2 for O&M in that it reflected whether the new budget guidelines supported under PA 12 were being implemented to begin shifting O&M expenditures away from reliance entirely on contingency funds to the budget process (PD, para. 76). Direct budgeting for O&M would contribute to the stated PDOs of improving public financial management and fiscal sustainability. The indicator was measurable, with data available. Rating: Satisfactory

RI 15 (*number of the Mexico Declaration Principles with which the Afghanistan SAO legal framework complies*) indicated the extent to which the revised SAO law supported by PA 13 conformed to the Mexico Declaration, of which “six of the eight principles … to ensure SAO independence “ were included in the law, intended to “protect SAO staff and leadership against retaliatory action in performing their formal duties and increase independence of budget and HR practices” (ICR, para. 30). This was a rather indirect measure of the desired result of reduced corruption through greater independence of the SAO in exercising oversight, but in the absence of more direct measurable indicators, represented “an appropriate first step.” Rating: Moderately Satisfactory.

RI 16 (*number of downloads of the public expenditure database*) complemented the IP-DPO2 indicator of revenue report downloads as an indicator of the ready availability and use of such data, resulting in greater transparency of public financial management. Nevertheless, it did not necessarily reflect the intended outcome of more responsive international assistance, nor did it distinguish number of users from downloads. From a baseline of nil, the target was clear and continuously measurable. Rating: Moderately satisfactory.

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Strengthening the policy framework to support state effectiveness, private investment, and social inclusion

Rationale

Efficacy is assessed on the basis of information available at the time of the ICR, which was issued on June 22, 2022. The fall of Afghanistan to the Taliban in August 2021 made it impossible to obtain data on most of the results indicators, and meant that few of the results are likely to be sustained. The overall lesson is that the risks of operating in a fragile environment will sometimes result in failure. The ICR assessed one RI as not achieved and rated all but two of the other RIs as “unlikely” to be achieved. This section reviews only those actions and indicators on which some information was provided.

On RI 1, the ICR for IP-DPO2 (p. 20) found that 84.3 percent of customs duties were transferred by electronic payment as of end 2020. Customs duties account for only a portion (unspecified) of total tax and customs revenues. According to the ICR, "it appears reasonable to expect that the Taliban continued to collect these revenues, though unclear to what extent electronic filing systems were maintained." Achievement: Modest.

The ICR stated that the qualitative RI 8 (sex-disaggregated land registry) was not achieved.

Likely achievement of all other indicators is rated as Negligible.

Rating

Unsatisfactory

OBJECTIVE 2

Objective

Improving the policy and institutional framework for public financial management and fiscal sustainability

Rationale

Although RI 9 (technical losses as a proportion of network generation) was considered unlikely to have been achieved (Annex 1 of the ICR reports the latest status as 17.3 percent, same as the baseline), it was irrelevant to the PDOs. Nonetheless, the ICR (para 25) provided relevant supplementary information that the "policy action was successfully implemented through: i) conversion of debt to MOF equity in line with the Partnership Agreement; ii) implementing the governance provision of the State-Owned Corporations law through cabinet approval of the new Articles of Incorporation for DABS, and iii) adjustment to tariff structure to improve financial sustainability of DABS." Although the governance provisions are unlikely to have been implemented, effecting the debt to equity conversion and tariff increase may be considered to represent Modest progress.

Likely achievement of all other indicators is rated as Negligible.

Rating

Unsatisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

Efficacy of both objectives is rated as Unsatisfactory, with only one indication of Modest achievement of relevant targets under each objective.

Overall Efficacy Rating

Unsatisfactory

6. Outcome

Rationale

The policy actions were appropriately designed to build on momentum established in the two preceding IP-DPOs. The actions were generally incremental steps appropriate to strengthening the policy and institutional framework in the FCV context, yielding a rating of Satisfactory for relevance of PAs.

Efficacy Is rated as Unsatisfactory based on unlikely or negligible achievement of all but two indicators of progress in implementing actions, due to the downfall of the government in 2021 and takeover by the Taliban.

a. Rating

Unsatisfactory

7. Risk to Development Outcome

“Risks to sustainability are high across all policy areas covered by the operation, and substantial backsliding has already taken place” due to the August 2021 takeover by the Taliban (ICR, para. 45). Suspension of foreign assistance, on which Afghanistan depended heavily, worsened financial and economic constraints and is likely to impede effective provision of infrastructure and services. Subsequent non-payment of civil servants makes further implementation unlikely. Access to information and data is constrained by the inability of the World Bank to interact with the Taliban Interim Administration.

Risks are lowest with respect to measures that facilitate revenue collection. “Absent the political changeover, the prospects for sustained implementation of reforms seemed highest with respect to the progress made in electronic payment of customs duties, fast-track tax filing…” (ICRR for IP-DPO2, p. 23). Collection of revenue is important for the current regime, and “anecdotal evidence shows that reforms related to facilitation of tax filing such as the e-filing were sustained even after the political crisis of 2021” (ICR, para. 46). Nevertheless, departure and non-payment of civil servants are likely to undermine the capability to maintain the systems put in place.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Prior experience and lessons learned: As the third in a series of stand-alone but linked development policy operations, this IP-DPO explicitly built on the experience of the first two (2018 and 2019) IP-DPOs. Lessons applied from the preceding operations included use of an innovative design that linked a series of ten tranches (after the initial disbursement) to specific triggers (with diminishing value in the event of delays), and designation of a single government implementing partner (MOF) that can “work closely with specific agencies with key policy responsibilities under the program” (PD, para. 113).

Selection of prior actions and results indicators: The actions selected for this IP-DPO series were satisfactory and “aligned with the ANPDF, which was developed through extensive consultations with civil society and the private sector” (PD, para. 88). The ICR for the 2018 IP-DPO (pp. 14-15) noted that it was recognized that some PAs would only provide initial steps toward objectives, not directly generating the desired outcomes within a limited time frame, and that continuing support was being provided through other projects to achieve desired outcomes (ICRR for IP-DPO3, section 8a).

The design was informed by prior experience and analytical work. In particular: reform of e-money and digital payments drew on the 2018 World Bank report on “Developing Afghanistan’s Mobile Money and Financial Technology"; implementation of civil service reform was based on several analytical studies and functional reviews; electricity reforms implemented recommendations from the 2017 “Financial Evaluation of Da Afghanistan Breshna Sherkat-DABS"; the 2013 “Land Governance Assessment Framework Afghanistan” informed reforms of land administration; and public financial management reforms were based on “Afghanistan: Development and Efficient PIM System,” “ARD Tax Administration: Re-Organization and Modernization Proposal 2016- 2021,” and several other studies. “Technical assistance provided under World Bank/ARTF investment projects was utilized to ensure that policy actions would be implemented in accordance with international good practices” (ICR, para. 41).

Selection of results indicators was constrained by the short one-year time horizon and the need to focus on proof of impact of policy actions that often represented small steps in a longer-term sequence. Furthermore, the relevance of five of the RIs was less than satisfactory, and the lack of a clearly articulated results chain made it difficult for the indicators to reflect actual achievement of the broad objectives.

Consultation with development partners and major stakeholders: The bulk of the funding came through the multi-donor trust fund, ARTF, which provided a strong basis for coordination with the other donors involved, ongoing since its establishment in 2002. The program was “closely coordinated with ARTF partners and the International Monetary Fund through the Incentive Program Working Group – a donor coordination mechanism” (ICR, para. 41) that provided a “forum for policy dialogue on key revenue, public financial management, and structural reforms, between the government, the World Bank, and ARTF donors,” which include 34 partners (https://www.artf.af/who-we-are/about-us#governance).

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

Monitoring: The methodology of disbursing in small successive tranches provided a framework for regular monitoring of progress in meeting the tranche release requirements. The “World Bank team remained closely engaged and provided extensive technical assistance to ensure implementation of prior actions and tranche release conditions. Given WBG extensive on the ground presence, [the] project team was well aware of capacity constraints and provided timely hands-on project support including mobilization of expert support on various policy actions” (ICR, para. 43). However, the monitoring and evaluation framework was difficult to maintain under the deteriorating security situation. Furthermore, some “results indicators were not being actively tracked even prior to the major deteriorations in security conditions” (ICR, para. 44).

Adaptation: Designing the series as stand-alone operations rather than trying to predetermine the policy actions over a three-year period was intended to allow for annual adaptation to circumstances as they evolved in the high-FCV environment. Most of the policy actions in this third operation carried forward initial steps that were successfully undertaken in the first two IP-DPOs (digital payments, civil service reform, digital issuance of TCCs, land administration, project appraisal, O&M policy, fiscal transparency).

Mitigation: Implementation risks were mitigated largely through technical assistance and support provided through other World Bank operations. These measures were insufficient to counter the political and security risks.

Consultation: The ARTF (discussed above) provided a sound basis for ongoing coordination with the other donors involved. “Through strong relationships with key agencies, the team was able to track progress with reforms, coordinate between government and other development partners [and] engage in high-level policy dialogue" (ICR, para. 43).

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

The design was adequatley based upon extensive prior consultations for the ANPDF, prior analytical work, and experience of the prior IP-DPO. Implementation through the innovative multi-tranche approach was moderately satisfactory, undermined by the deteriorating political situation and difficulties maintaining the monitoring and evaluation framework.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

Available evidence indicates that the negative effects of Taliban policies and practices have overwhelmed any positive social and poverty impact that the operations might have had.

b. Environmental

No evidence available.

c. Gender

Available evidence indicates that the negative effects of Taliban policies and practices have overwhelmed any positive gender impact that the operations might have had.

d. Other

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10. Quality of ICR

Rationale

The ICR provides a record of the project's context, design, and achievements. It provides a summary table of the prior actions and triggers with their associated results indicators, showing baseline, target, and achieved values (Table 2 and Appendix 1). However, there is no explicit results chain or theory of change to show how the actions were to lead to the expected results and achievement of objectives. There is only a cursory discussion of the overall relevance of PAs (paras. 13-14) and RIs (paras. 15-17). Furthermore, the sources of data are not shown, making it difficult to assess the quality of the evidence (most appear to be from the agencies involved). Analytical underpinnings are summarized in Table 3.

While the ratings are consistent with ICR guidelines, the discussion of efficacy (paras. 19-31) is more descriptive than analytical. Discussion of how outcomes might better have been achieved is curtailed by the dominant reality of the overthrow of the government and the absence of data since August 2021.

The ICR would have benefited from copy-editing.

a. Rating

Modest

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Unsatisfactory	Unsatisfactory	

Bank Performance	Moderately Satisfactory	Moderately Satisfactory
Relevance of Results Indicators	---	Moderately Satisfactory
Quality of ICR	---	Modest

12. Lessons

Absence of a clear results chain inhibits adaptation and evaluation in a series of stand-alone DPOs. Having three stand-alone operations to support the Government's three-year program of policy reforms rather than an integrated three-DPO series was a reasonable strategy to be able to assess which reforms would be viable in the face of high uncertainty and risk due to the fragility of the Afghan state, and to adapt accordingly. However, the lack of a clearly articulated results chain made it difficult to assess what follow-on actions would be needed to build on initial reform steps and how these would lead to achievement of the PDOs (which were stated at a relatively high level). Evaluation of the likelihood that the ultimate objectives would be reached would have been facilitated by clear articulation of further follow-on measures that would be supported through further and parallel operations.

There are limits to the extent to which risks can be mitigated in an FCV context. While the "general risks associated with the security and political situation were clearly identified in the risks section, the program document was frank that these risks could only be 'somewhat' mitigated through design decisions. The specific security and political risks that developed in the course of program implementation could neither have been reasonably predicted, nor realistically mitigated" (ICR, para. 47).

Reforms that boost state revenue collection are relatively likely to be sustained in an FCV context. **"**Anecdotal evidence shows that reforms related to facilitation of tax filing such as the e-filing were sustained even after the political crisis of 2021" (ICR, para. 46). State motivation to sustain revenue collection is likely to be higher than to maintain other reforms with less immediate or obvious results.

13. Project Performance Assessment Report (PPAR) Recommended?

No