

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED
SAFEGUARDS DATA SHEET (PID/ISDS)
APPRAISAL STAGE**

Report No.: PIDISDSA17462

Date Prepared/Updated: 08-Jun-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Afghanistan	Project ID:	P157035
		Parent Project ID (if any):	
Project Name:	Afghanistan Technical Assistance Facility (P157035)		
Region:	SOUTH ASIA		
Estimated Appraisal Date:		Estimated Board Date:	30-Jun-2016
Practice Area (Lead):	Governance	Lending Instrument:	Investment Project Financing
Sector(s):	General public administration sector (100%)		
Theme(s):	Debt management and fiscal sustainability (20%), Macroeconomic management (20%), Public expenditure, financial management and procurement (60%)		
Borrower(s):	Islamic Republic of Afghanistan		
Implementing Agency:	Ministry of Finance		
Financing (in USD Million)			
	Financing Source	Amount	
	Borrower	0.00	
	Afghanistan Reconstruction Trust Fund	5.00	
	Total Project Cost	5.00	
Environmental Category:	C - Not Required		
Appraisal Review Decision (from Decision Note):			
Other Decision:			
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

Afghanistan stands at a critical crossroads that risks undermining the country's recent development gains. The political, security and economic transition undergone since 2012 has led to a marked regression in economic growth which fell sharply to 1.5 percent in 2015, as compared to an average 9.4 percent growth experienced in the pre-Transition period (2003-2012). Domestic revenues fell sharply between 2012 and 2014, leading to an increase in budget deficit which was partly financed by drawdown of cash reserves and accumulation of arrears. Business and consumer confidence has been strongly affected, and signs of a strong recovery are not in sight. While Government surpassed its 2015 revenue target, medium-term prospects for fiscal stability depend heavily on donor grant commitments as potential for revenue mobilization continues to be outpaced by the country's long-term financing needs.

Afghanistan still relies heavily on foreign aid which has been critical to financing job creation, and service delivery. Aid has dominated the Afghan economy for the past decade. Total estimated on and off budget spending was estimated at about \$9 billion in 2013, roughly 55 percent of GDP. Donor grant financing was about 45 percent of GDP. This was down from 60 percent of GDP in 2009. At present, aid finances a large part of security costs, except for about \$500 million per year contributed by the Government from domestic revenues. Aid also finances large parts of essential services including education, health, infrastructure investment, and the Government administration. The extraordinary level of aid also means that it finances large parts of economic activity and employment in Afghanistan. At the same time, such high aid flows have encouraged rent-seeking and corruption, aid dependence, and use of parallel systems to circumvent limited Government absorptive capacity.

Aid is already down from peak levels and is projected to be drawn down further in the medium term, to about 25 percent of GDP by 2018. As a result, fiscal sustainability has become a serious risk. Action is therefore needed in the area of expenditure prioritization - to restore fiscal stability and safeguard development progress. To address the medium term challenge of reducing dependence on external assistance, it will also be critical that more aid be channeled through the budget so it can be coordinated and prioritized together, and more goods and services can be procured within Afghanistan to boost the economy.

After several decades of wars and civil strife, building an effective state - one that can provide security and services to the people - has been at the heart of the reconstruction effort in Afghanistan. The Afghan Government reform programme, entitled "Realizing Self-Reliance: Commitments to Reforms and Renewed Partnership" provides a credible framework for improving security, political stability, economic and fiscal stabilization. The programme includes plans to advance good governance, including electoral reform and strengthening democratic institutions, promoting the rule of law, and respect for human rights, particularly in relation to women and girls, fighting corruption and the illicit economy including narcotics. These reforms are intended to pave the way for enhanced private sector investments and sustainable social, environmental and economic development. Specifically, building the country's public administration capacity to accelerate aid utilization, provide faster and better services, and ensure transparency and accountability of public expenditure is a top priority for the Government in taking the reconstruction agenda forward and in winning back the trust of its citizens.

At the London Conference on Afghanistan in 2014, the International Community reaffirmed its Tokyo commitment of providing sixteen billion US dollars through 2015, and sustaining support, through 2017, at or near the levels of the past decade. Going forward, the International Community reiterated its commitment, as set out in the Tokyo Declaration, to direct significant and continuing but declining financial support towards Afghanistan's social and economic development priorities through the Transformation Decade (2015 to 2024). Further, the International Community reaffirmed that its ability to sustain support for Afghanistan depends upon the principle of mutual accountability and the Afghan Government delivering on its commitments under the Tokyo Mutual Accountability Framework (TMAF) process.

The Government faces significant challenges in managing these reform processes as transition moves forward. As donors begin to reduce funding there is a growing urgency to change the role of aid. Significantly this includes reorienting technical assistance to support Afghan priorities as articulated in the budget and planning systems. This is will be critical for reforming development planning and management including improving strategic management, consolidating and streamlining priorities, and reducing development costs to increase cost effectiveness. Government will therefore face an increasing responsibility for the formulation of evidence-based policy making. To that end, while aiming for self-reliance is a long term goal, Afghanistan still needs to complement existing capacity with external specialized knowledge and expertise.

The Government of Afghanistan, represented by the President and the Minister of Finance, demands specialized expertise. This is especially required in the areas of macro fiscal policy management, budget prioritization, and development planning, which is not readily available in-house. This reflects the highly technical and specific nature of expertise required for the types of activities to be undertaken which will need to draw upon the world's collective knowledge of what meets state of the art standards. This necessity also responds to the current and increasingly difficult context in Afghanistan, whereby instability-induced emigration of qualified professionals is a growing trend.

Sectoral and institutional Context

The Government recognizes that improvement in fiscal planning and management is crucial for the long-term development of Afghanistan and has made significant progress on fiscal and Public Financial Management (PFM) reforms. In this context, the Government has committed itself to: (i) Aligning aid with national priorities; (ii) Improving the credibility of the national budget and ensuring that the budget responds to development priorities by allowing policy makers to see the full landscape of income and expenditure. This includes recording all donor spending in the national budget, even if not directly spent through the treasury; (iii) More on-budget assistance; and (iv) Improving budget execution of on-budget programs. These measures will be supported by Government efforts to remove bottlenecks to routing more funds on-budget and to scale-up development partner support through the budget.

The Ministry of Finance (MOF) is increasingly advancing its ability to provide strategic management of the Afghan Government's development portfolio. For this purpose there has been a reorganization of two Directorates in MOF. The first relates to the reorganization of the national Cabinet into six development councils (equivalent to Cabinet Committees). The purpose of these councils for which the Program Implementation and Coordination General Directorate (PICGD) of MOF acts as secretariat, is to develop inter-ministerial and sectoral policy frameworks, regulatory rules, and technical design standards. The second relates to the creation of

a Macro Fiscal Performance Directorate General (MFPD) in MOF. Within MOF, MFPD is tasked to improve coordination including with PICDG and the Directorates of Budget, Revenue, and Treasury. Towards this end, MFPD is required to provide fiscal policy advice through preparation of the Fiscal Strategy Paper (an annual pre-budget report setting out the macro-fiscal and policy situation), MFPD is also to produce internal macroeconomic forecasts to better guide fiscal policy-making including the revenue and expenditure parameters in the budget, and to produce a quarterly report of risks to the macro-fiscal framework.

The inaugural Five Year rolling Fiscal Performance Improvement Plan by the Government of Afghanistan is the vehicle for the implementation of the PFM Roadmap II. It presents a sequenced team-based plan within a Performance Management Framework (PMF). The development of this plan has been a Government driven process with a high degree of ownership over the proposed reforms. This Five Year Plan covers the full spectrum of reforms, from developing a fiscal policy framework to guide the budget, analysis of fiscal space, and adopting a medium term expenditure framework with a consolidated national budget. It further includes improved cash management and commitment controls, with upgraded systems that integrate procurement, contract management and cash management, and improved reporting and audit of public expenditure. An inaugural Five Year Plan has been established and the performance management cycle has commenced. The cycle involves the publishing of a consolidated Five Year Plan at the beginning of the year. This is followed by a mid-year assessment of progress against plans, and an annual performance assessment with a published performance report on plans. Finally, an updated Five Year Plan is developed based on the previous years performance at the beginning of the following year. The initial Five Year Plan covers all teams in the MOF and will be implemented following a performance management system that focuses on improving the performance of teams. This process has involved a detailed risk analysis at the activity level for each Five Year Plan and a gap analysis of technical assistance and support needs, by team. The MOF has created a Performance Management Team (PMT) to facilitate this process.

As MOF advances this structural reform agenda, its need for specialized knowledge support will grow. This is especially the case in the interim as MOF formulates specific reform plans, policies and strategies for which technical assistance needs become more acute and require the production of specific independent analysis. The purpose of the proposed Technical Assistance Facility (TAF) is therefore to support MOF's reform planning. Specifically the TAF is required to support the implementation of the Five Year Plan for two Directorates General. The TAF is proposed to provide a flexible facility that allows MOF to quickly procure the necessary inputs including (but not limited to) skills, to support strengthened processes and substantive pieces of work contributing specifically to strengthening: (i) Macro Fiscal Policy Management; and (ii) Budget Planning. The TAF will be completely aligned with MOF's Five Year Plan and its performance management system, ensuring a high level of Government ownership over the TAF.

This form of technical assistance is consistent with Government's commitment to gradually reduce its reliance on consultants. Consultants facilitated by the TAF will be short term (up to 6 months) and contracts will be output based. Moreover, this type of technical assistance is markedly different from the longer term technical assistance frequently used in Afghanistan to substitute or duplicate line civil service functions. That type of technical assistance will not be supported by the TAF because it is targeted to be gradually reduced by Government through initiatives such as the Capacity Building for Results (CBR) Project. By being embedded in the

core Directorates of MOF and not in a standalone Project Implementation Unit (PIU), the TAF will be directly contributing towards this goal.

C. Proposed Development Objective(s)

Development Objective(s)

The development objective is to strengthen the fiscal management and the budget planning performance of the Government of Afghanistan.

Key Results

The following are the proposed PDO Level Results Indicators for the TAF:

- (a) PI-14.2 (PEFA 2016) Fiscal forecasts are prepared.
- (b) PI-15.3 (PEFA 2016) Fiscal outcomes are reported.
- (c) PI-16.3 (PEFA 2016) Strategic plans and medium-term budget are aligned. (PI-12.2: PEFA 2011)

The PMF adopted by the MOF for the implementation of its overall Five Year Plan constitutes the broader or programmatic Results Framework to which TAF contributes. A dedicated Results Framework, drawn from the PMF, has also been developed for the purposes of TAF. This is linked to activities from the Five Year Plan pre-identified to be covered by MFPD and PICGD through TAF in its first year of implementation. This "living" framework provides a snapshot of TAF's contribution to the overall PMF both in terms of depth and time, and will be updated (from within the overall PMF) in line with evolving priorities and as additional activities are identified (from within the Five Year Plan). Consistent with the PMF, TAF results are framed around improved performance of the two Directorates. Therefore, rather than being focused on outputs, results are proposed to be focused on performance linked to progress on the aspirational targets and the target grades under the Five Year Plan performance management system in place across MOF.

D. Project Description

The TAF will have the following two inter-connected components that will support select activities drawn from the Five Year Plan for MFPD and PICGD. Retroactive financing would be applicable for some Year 1 TAF activities identified as urgently required ahead of Project effectiveness.

- (a) Component 1: Supporting the Continuous Improvement of the Performance of the Macro Fiscal Performance Directorate General (MFPD) [\$3.9M]. This component is focused around supporting MFPD to effectively carry out its mandated activities set out in detail in its Five Year Rolling Plan. In addition to undertaking macroeconomic and fiscal analysis, the MFPD has been assigned to provide the High Economic Council (HEC) chaired by the President of the Islamic Republic of Afghanistan with secretarial support. In order to improve fiscal policy and management, MOF has consolidated expenditure and tax policy decisions under the MFPD, independent of the Directorates involved in their administration and execution. The MFPD has thus been assigned to provide evidence-based advice on tax policy, expenditure decisions and overall fiscal sustainability issues. The Directorate also responds to requests by line ministries for economic analysis of investment decisions and development projects.

Activities under this component will primarily include procurement of in-depth studies and analysis contributing towards fiscal policy and macroeconomic management led by MFPD. The component will also support the establishment of MFPD through the provision of limited infrastructure (office equipment, computer systems etc.) and professional development opportunities for MFPD staff.

Specific activities will be identified within the frame of MFPD's Five Year Plan, including:

- (i) Mobilize short-term experts and manage consultancies on key topics related to fiscal sustainability (fiscal forecasts and reporting on fiscal outcomes, adoption of fiscal strategy), tax policy, economic management, political economy aspects of public policy in fragile countries, and other sector-specific studies such as on Operation and Maintenance (O&M) management;
- (ii) Mobilize short-term experts to support MFPD to produce on-demand analytical inputs and provide advice for the Cabinet, HEC, Economic Development Council, and Tax Policy Development Committee -- for which MFPD is assigned to provide analytical and secretarial support;
- (iii) Mobilize short-term experts to help ensure that strategic plans and medium-term budget are aligned e.g. estimating medium-term expenditures, preparing macro-level costing of the next four-year economic development strategy, and issuing guidance on budget preparation;
- (iv) Mobilize short-term experts for the preparation of medium-term macroeconomic forecasts and evaluation of the risks to the forecast for the overall macroeconomic framework;
- (v) Convene economic quarterly meetings in which Government and non-governmental analysts can exchange views and engage in discussions over critical issues in fiscal sustainability, economic growth and development; and
- (vi) Procurement of office equipment, computer systems (including both hardware systems and software applications) and relevant professional development opportunities to support the work of the MFPD.

(b) Component 2: Supporting the Continuous Improvement of the Programs Implementation and Coordination General Directorate (PICGD) [\$1.1M]. This component is focused around supporting PICGD to effectively carry out its mandated activities set out in detail in its Five Year Rolling Plan, including provision of support to the Development Councils and National Priority Programs (NPPs) to which PICGD plays a secretarial role. Within this role, PICGD is to improve economic management and national development policy-making.

Activities under this component will primarily include the preparation of twice-yearly updated and consolidated work plans to support the six newly established Development Councils. These are intended to provide a forum for related ministries to develop strategic frameworks and prioritize programs (built around results) to increase efficiency in budgetary allocations.

Specific activities will be identified within the frame of PICGD's Five Year Plan, including:

- (i) Mobilize short-term experts and manage consultancies to support the development of work plans and costed strategies for sectors as identified by the Development Councils, NPPs and the upcoming National Development Strategy (NDS);
- (ii) Mobilize short-term experts and manage consultancies to help ensure that strategic plans and medium-term budget are aligned e.g. supporting PICGD in the strengthening of the budget process to align the budget objectives with NPPs and the upcoming NDS;
- (iii) Support the PICGD in enhancing the budget as the primary instrument of Government for development planning and improving coordination with donors on development financing e.g.

- issuing guidance on budget preparation;
- (iv) Mobilize short-term experts for the development of performance metrics for Government institutions to track progress towards the achievement of objectives set in the NDS;
- (v) Mobilize short-term experts for the preparation of gap assessments and other short term inputs by PICGD to improve development planning; and
- (vi) Procurement of computer systems (including both hardware systems and software applications) to support the work of the PICGD.

Component Name

Component 1: Supporting the Continuous Improvement of the Performance of the Macro Fiscal Performance Directorate General

Comments (optional)

Component Name

Component 2: Supporting the Continuous Improvement of the Programs Implementation and Coordination General Directorate

Comments (optional)

E. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project focuses on generating high quality knowledge products, with a view to informing and improving macro fiscal policy management and budget planning. The proposed activities do not include any physical works and are not expected to have any adverse social and environmental impacts. Consequently, none of the World Bank safeguards policies are triggered.

F. Environmental and Social Safeguards Specialists

Mohammad Ateeq Zaki (GSURR)

II. Implementation

Institutional and Implementation Arrangements

A higher level objective of the TAF is to contribute to Government's commitment to gradually reduce the reliance on external technical assistance. In this context, the TAF will not be located within a separate out-sourced PIU structure but will test direct recipient implementation. A streamlined, simple system using existing MOF core functions will be put in place to manage the TAF. This involves MFPD in the overall lead with responsibility for coordinating and managing the TAF on behalf of MOF.

As the TAF will be managed by MFPD rather than by a dedicated PIU, MFPD will ensure adequate staffing is in place to manage it. The Director General (DG) of MFPD will act as Project Manager of the TAF. The PMT for the Five Year Rolling Plans which sits in MFPD and is under the overall direction of the DG of MFPD will provide dedicated staff to the operational functions of TAF under the performance management system, and will liaise with the MOF corporate areas (Finance and Administration, Procurement) on TAF operations.

MFPD will also technically lead the implementation of Component 1: Supporting the Continuous Improvement of the Performance of the Macro Fiscal Performance Directorate General. MFPD will work closely with PICGD which is technically leading on Component 2: Supporting the Continuous Improvement of the Programs Implementation and Coordination General Directorate.

Implementation coordination between the two Directorates will be ensured through MFPD's role in MOF where it is responsible for improving coordination amongst several Directorates including PICGD but also Budget, Revenue, and Treasury. Moreover, the TAF will be overseen by the existing Core Group in MOF which will act as an overall steering committee and make strategic decisions related to the TAF's work program (drawn from the Five Year Plan). The Core Group which currently meets on a weekly basis is chaired by the Minister of Finance and includes respective heads of Directorates of MOF (including MFPD and PICGD) as well as an Advisor to the President of the Islamic Republic of Afghanistan.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
NA
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
NA
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
NA

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
NA
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
NA

B. Disclosure Requirements

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.
If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level

The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]

V. Contact point

World Bank

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VII. Approval

Task Team Leader(s):	Name: Yousif Mubarak Elmahdi, Mohammad Omar Joya	
<i>Approved By</i>		
Practice Manager/ Manager:	Name: Alexandre Arrobbio (PMGR)	Date: 09-Jun-2016
Country Director:	Name: Stephen N. Ndegwa (CD)	Date: 09-Jun-2016