



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 20-Feb-2020 | Report No: PIDC28795



BASIC INFORMATION

A. Basic Project Data

Country Afghanistan	Project ID P172211	Project Name 2020 INCENTIVE PROGRAM DEVELOPMENT POLICY GRANT (P172211)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date Jun 18, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

Program Development Objectives are: 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

Financing (in US\$, Millions)

SUMMARY

Total Financing	400.00
------------------------	--------

DETAILS

Total World Bank Group Financing	110.00
World Bank Lending	160.00
Total Non-World Bank Group Financing	243.00
Trust Funds	243.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

Afghanistan has been in almost constant conflict for nearly 40 years with no durable political settlement established. Gross Domestic Product (GDP) per-capita is among the lowest in the world, poverty is deep and widespread, and Afghanistan continues to perform poorly against many social indicators. Afghanistan remains heavily reliant on aid, which finances more than 75 percent of total public spending. The security situation remains dire, with insurgents controlling a significant number of districts, and civilian casualties from terrorist attacks at record levels. Despite continued aid-dependence the macroeconomic framework is adequate for the proposed operation, with government demonstrating sound fiscal and macroeconomic management over recent years. Inflation is moderate and fiscal deficits (after grants) have been contained. The results of recent presidential elections have been contested, posing risks of political instability. Previous elections have led to significant disruption to policy processes and economic management. Ongoing peace discussions present enormous opportunities but are imposing short-term uncertainties on investors. Political uncertainty has led to slow growth (estimated at around 2.9 percent in 2019).

Relationship to CPF

The proposed operation is fully consistent with the priorities and approach established in the World Bank's Country Partnership Framework (CPF) for Afghanistan (FY2017-FY2020) No. 109589-AF which was discussed by the Board on October 27, 2016. Building on a Systematic Country Diagnostic completed in 2016, the CPF is structured around three pillars: i) building strong and accountable institutions; ii) supporting inclusive growth; and iii) social inclusion. Reforms supported under both pillars of the proposed operation directly contribute to all three pillars of the CPF, through an emphasis on institutional, legal, and regulatory reforms that both expand access to economic opportunities to disadvantaged groups and support private sector development.

C. Proposed Development Objective(s)

Program Development Objectives are: 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

Key Results

The proposed operation is expected to lead to: i) an increase in the volume of tax and customs duties paid electronically; ii) an increase in the proportion of civil servants included in the HRMIS; iii) an increase in the proportion of customs and procurement staff receiving cadre allowances; iv) an increase in the proportion of tax clearance certificates that are issued digitally; v) an improvement in doing business scores against obtaining construction permits; vi) a reduction in the electricity utility's debt-to-equity ratio and reductions in technical losses; vii) expansion of the administrative land system; viii) a reduction in the proportion of the budget allocated to contingency reserves and an increase in the proportion of contingency reserves available in responding to natural disasters; ix) clarification of regulatory responsibilities of the Ministry of Mines and Petroleum and the Afghanistan Oil and Gas Authority; x) an increase in the proportion of large development projects undergoing full economic analysis prior to approval; xi) increased use of electronic tax filing; xii) allocation of O&M expenditure in accordance with policy guidelines; and xiii) increased adherence with international standards for audit independence.



D. Concept Description

Strengthening the policy framework to support state-effectiveness, private investment, and social inclusion: E-payments and mobile money reforms will support integration of central bank, government, and commercial bank systems for expanded access, including for payment of customs and tax dues. Civil service reforms will support retention of key skills while also ensuring integrity of payroll and addressing corruption in civil service hiring. Business environment reforms will address constraints to renewing business licenses and obtaining construction permits. Land governance reforms will facilitate transition to an administrative system of land governance with clearer property rights.

Improving the policy and institutional framework for public financial management and fiscal sustainability: Power sector reforms will support the financial sustainability of the utility through sustainable tariff rates and improved governance. Reforms to management of contingency reserves will enhance the capacity of government to respond to climate change shocks. Reforms to public investment management will ensure that projects are aligned with government priorities and have undergone proper appraisal. Tax administration reforms will support the roll-out of electronic payment.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Policy and institutional reforms supported by operation are likely to have significant positive or neutral poverty and social effects over the longer-term. Several policy actions supported by the proposed operation are expected to have indirect positive poverty impacts through facilitating investment and private sector development. Business environment reforms and land reforms should support economic growth and employment, with poverty benefits. Reforms to improve the effectiveness, efficiency, and accountability of government are likely to have indirect positive poverty effects. Civil service reforms supported by the operation do not involve any retrenchments. Reforms are expected to lead to improved efficiency and effectiveness in government operations, with resulting improvements in revenue mobilization and service delivery ultimately expected to support improved service delivery benefiting all citizens. Effective implementation of the administrative system for land management will, over time, mitigate land-related disputes and help rectify land-grabbing. Energy sector reforms may have some negative poverty impacts through increased tariff rates. A thorough poverty and social impact assessment is ongoing and will be completed by corporate review.

Environmental, Forests, and Other Natural Resource Aspects

Preliminary assessment of the policy and institutional reform actions supported by this operation suggest that they will have no significant effects on the environment, forests, or other natural resources. Supported land reforms may have potential positive and negative environmental impacts. Better security of land tenure under supported administrative reforms for land is expected to facilitate investment and development, including of agricultural land. Increased land use for agriculture and other purposes may lead to pollution and pressure on water resources, depending on the scale and type of new investment. But at the same time, security of property rights may increase incentives for sustainable land management on behalf of land owners in some cases. Reforms to the construction permit regime will include focus on appropriate land use and management of pollution. Reforms to the management of contingency reserves are expected to have positive environmental impacts through increasing capacity of government to pre-emptively manage negative climate shocks.



CONTACT POINT

World Bank

Tobias Akhtar Haque
Senior Economist

Borrower/Client/Recipient

Ministry of Finance
Habib Zadran
Deputy Minister
habib.zadran@mof.gov.af

Implementing Agencies

Ministry of Finance
Habib Zadran
Deputy Minister
habib.zadran@mof.gov.af

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Tobias Akhtar Haque
----------------------	---------------------

Approved By

Country Director:	Henry G. Kerali	03-Mar-2020
-------------------	-----------------	-------------