

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

April 8, 2017
Report No.: 114793

Operation Name	Inclusive Growth Development Policy Grant
Region	SOUTH ASIA
Country	Afghanistan
Sector	Central Government Administration (100%)
Operation ID	P160544
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF AFGHANISTAN
Implementing Agency	
Date PID Prepared	April 8, 2017
Estimated Date of Appraisal	May 1, 2017
Estimated Date of Board Approval	June 13, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

In the context of an active insurgency and difficult macroeconomic environment, the Government of the Islamic Republic of Afghanistan continues to maintain a stable macroeconomic environment and pursue an ambitious program of policy reforms to support private sector investment, growth, and poverty reduction.

Resources provided through the proposed operation will help the GoIRA meet its development objectives as articulated in the new Afghanistan National Peace and Development Framework in the context of constrained tax revenues and declining aid. Policy reforms supported by the proposed operation will contribute directly to priorities of the ANPDF, and are aligned with National Priority Programs.

II. Proposed Objective(s)

The proposed operation supports a range of reforms under two pillars that are closely aligned with the Government's objectives: 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. Reforms under the first pillar are intended to broaden access to economic opportunities to excluded populations in Afghanistan, including the rural poor, newly urbanizing populations, returnees, and the internally displaced. Reforms under the second pillar will facilitate growth of the private sector. Accelerated private sector development will support required job creation and the mitigation of macroeconomic imbalances potentially accompanying expected declines in aid.

III. Preliminary Description

Enhance the policy framework to expand access to economic opportunities for the vulnerable: Reforms under the first pillar are intended to broaden access to economic opportunities to excluded populations in Afghanistan, including returnees, the internally displaced, the rural poor, and newly urbanizing populations. Adoption of a policy guiding response to the current IDP and returnee crisis will ensure coordinated and integrated whole-of-government action to provide immediate humanitarian relief and longer-term resettlement support. Land reforms will establish a sound governance framework for land management and public land acquisition, increasing the availability of land for settlement and investment in the context of rapid urbanization and internal displacement, protecting the property rights of disadvantaged groups, and establishing institutional mechanisms to resolve disputes. Reforms will enable increased agricultural development and help realize the positive potential of urbanization. Establishment of a regulatory framework governing e-money will support increased access to financial services, building the capacity of the vulnerable to manage negative shocks.

Pillar two: strengthen the policy and regulatory framework for private sector development: Reforms under the second pillar will contribute to improvements in policy conditions for private sector investment. Accelerated private sector development is critical for job creation and the mitigation of macroeconomic imbalances potentially accompanying expected declines in aid. The adoption of a policy governing public-private partnerships will help manage associated fiscal and other risks, indirectly boosting private sector development. Reforms to allow private investment in new telecommunication technologies will both support growth of the telecommunications sector and assist broader private sector development through access to improved telecommunication services. Reforms to the business licensing process and establishment of a one-stop shop for business licensing will reduce compliance costs and encourage investment. The accountancy law will establish basic accountancy standards in Afghanistan, allowing the development of domestic accountancy services, increasing transparency and reducing corruption, and facilitating investment and financial sector development.

IV. Poverty and Social Impacts and Environment Aspects

Policy actions relating to the internal displacement and returnee crisis and to land management are expected to have significant positive poverty and social effects. Positive social and poverty effects will be realized from the policy framework for returnees and IDPs through i) improved access to services as a result of improved documentation for currently undocumented displaced populations (IDPs and undocumented returnees); ii) improved data collection to target humanitarian and development interventions at communities most affected by the influx of displaced populations; iii) representation of IDPs and returnee populations within community governance mechanisms; and iv) cash grants to communities to generate income opportunities.

Land reforms are intended to address key weaknesses in land governance identified through extensive analytical work conducted by the Government, the World Bank, and other development partners. The new legal framework will strengthen land rights and over time mitigate land-related disputes and limit illegitimate expropriation. Land reforms are also expected to benefit women, strengthening recognition of women's land rights. International

experience with land reform in fragile states highlights important distributional risks arising from implementation of new legal frameworks, however. The new legal framework supported by the proposed operation offers some protections against these negative outcomes, but effective implementation will be vital and is being supported by a dedicated World Bank technical assistance project.

Reforms to the business environment, including reforms to business licensing, the telecommunications sector, and the introduction of a legal framework for accountancy, are expected to reduce costs and risks of doing business, contributing positively to growth and employment outcomes over time.

Reforms supported by the operation are not expected to have significant direct environmental effects. Reforms to land management are expected to facilitate investment and development, including of agricultural land, with potential negative environmental effects. However, security of property rights may increase incentives for sustainable land management on behalf of land owners in some cases. Government is working to strengthen the regulatory framework to manage negative environmental impacts. Notably, new Environment and Social Impact Assessment (ESIA) regulation is currently pending approval by Cabinet. A new Pesticide Law has been approved by Parliament. The Ministry of Agriculture Irrigation and Livestock (MAIL) has developed a Pest Management Plan (PMP) and Integrated Pest Management (IPM) approach. MAIL has also developed a National Natural Resources Management Strategy which it is seeking to implement with World Bank support.

V. Tentative financing

Source:		(\$m.)
BORROWER/RECIPIENT		0.00
IDA Grant		100.00
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	100.00

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