

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

**Report No.:** PIDISDSC16922

**Date Prepared/Updated:** 28-Jan-2016

**I. BASIC INFORMATION**

**A. Basic Project Data**

<b>Country:</b>	Afghanistan	<b>Project ID:</b>	P157035
		<b>Parent Project ID (if any):</b>	
<b>Project Name:</b>	Afghanistan Technical Assistance Facility (P157035)		
<b>Region:</b>	SOUTH ASIA		
<b>Estimated Appraisal Date:</b>		<b>Estimated Board Date:</b>	25-Mar-2016
<b>Practice Area (Lead):</b>	Governance	<b>Lending Instrument:</b>	Investment Project Financing
<b>Sector(s):</b>	General public administration sector (100%)		
<b>Theme(s):</b>	Debt management and fiscal sustainability (20%), Macroeconomic management (20%), Public expenditure, financial management and procurement (60%)		
<b>Borrower(s):</b>	Islamic Republic of Afghanistan		
<b>Implementing Agency:</b>	Ministry of Finance		
<b>Financing (in USD Million)</b>			
	<b>Financing Source</b>	<b>Amount</b>	
	Borrower	0.00	
	Afghanistan Reconstruction Trust Fund	5.00	
	Total Project Cost	5.00	
<b>Environmental Category:</b>	C - Not Required		
<b>Concept Review Decision:</b>	Track I - The review did authorize the preparation to continue		
<b>Is this a Repeater project?</b>	No		
<b>Other Decision (as needed):</b>			

## B. Introduction and Context

### Country Context

Afghanistan achieved significant economic and social progress from a very low base between 2003 and 2012. Economic growth averaged 9.4 percent per year during this period, with per capita GDP reaching \$688 having increased five-fold since 2002. Key social and infrastructure indicators including school enrollment, life expectancy, and access to water improved markedly against a backdrop of: (i) an increase in revenues from 3 percent of GDP in 2002 to a peak of 11.6 percent in 2011; (ii) significant improvement in the Human Development Index including increased access to primary health care from 9 percent of the population to more than 57 percent; (iii) enhanced infrastructure connectivity through the construction of thousands of kilometers of national and regional highways and provincial roads, civil aviation services improvements, and a more than doubling of access to electricity; (iv) increased agricultural production as a result of an increase in functional irrigated land from 1.2 to 1.8 million hectares; (v) a thriving Information Communication Technology (ICT) sector; and (vi) the emergence of a strong and vibrant private sector boosting foreign investment in various economic sectors.

Today, the country stands at a critical crossroads - with international assistance declining gradually and domestic revenue mobilization falling short, the negative fiscal outlook threatens the foundations of Afghanistan's development progress. 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 2014. This has not been compensated by revenue mobilization which rather than increasing has decreased since 2012, contributing to depleted cash reserves and accumulating arrears. A key reason for this situation has been the country's continual reliance on international support at the expense of leveraging aid to foster sustainable solutions.

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 grants 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 waste 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. Urgent 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.

In this context, the new Government of Afghanistan has made realizing self-reliance its main priority. 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 Government has also committed to adjusting technical assistance away from one-time solutions or that which displaces local capacity or space for it to emerge, and towards technical assistance that builds up effective, sustainable systems. With the support of its partners, Afghanistan will increasingly design demand-driven and sufficiently resourced technical assistance around the needs of its national priority programs. This technical assistance should draw upon the world's collective knowledge of what meets state of the art standards so that donor aid can eventually move entirely towards programmatic, on-budget approaches with confidence that funds will be used efficiently.

This proposal responds to this commitment of the Government by providing a Policy Advisory Facility (PAF) – a government-owned and -implemented mechanism to fund targeted short term and specific technical assistance for core areas of policy reform, strategy development, or growing specialized capacity within government. This proposal recognizes that the Government's self-driven agenda to transform economic and social policy, undertake governance reforms, and establish citizen-centered service delivery requires not only sound technical support but also different ways to deliver that support.

### **Sectoral and Institutional Context**

The Ministry of Finance is increasingly advancing its ability to provide strategic management of the Afghan Government's development portfolio. Five reforms have been particularly critical. First, the Government has launched a public financial reform roadmap that is built around using the budgeting process to clarify and support national policy objectives rather than building budgets up from ministries' projects. Second, the national Cabinet has been organized into six development councils (equivalent to Cabinet Committees) whose purpose is to develop inter-ministerial and sectoral policy frameworks, regulatory rules, and technical design standards. Third, the ongoing Capacity Building for Results (CBR) reform process is ensuring that core ministries including Ministry of Finance, have clearer mandates, results oriented focus, well defined structures and are staffed by qualified, competitively recruited civil servants who can provide policy guidance and continuity. Fourth, the Ministry of Finance has formed a Macro Fiscal Policy Directorate (MFPD) tasked to provide fiscal policy advice through preparation of the Fiscal Strategy Paper (a pre-budget report setting out the macro-fiscal and policy framework); producing internal macroeconomic forecasts to better guide fiscal policy-making including the revenue and expenditure parameters in the budget; and producing a quarterly report of risks to the macro-fiscal framework. MFPD will sit across from the departments of Budget, Revenue, Development Policy, and Treasury and improve co-ordination among them. Finally, donors have begun to move into budget support built around policy reform conditions, and to align their funding to national priorities.

These reforms are intended to help the Government execute its "Realizing Self-Reliance" reform strategy - by significantly strengthening the alignment between national policy and Afghanistan's budgeting process on the one hand, and national policy and donor funding on the other. Functions previously performed by donors and consulting firms now need to be internalized within the Government's structure and skill mix, including a heightened ability to procure and manage specialized skills, and to produce independent analysis.

As the Ministry of Finance advances its structural reform agenda, its need for specialized contractor support will grow. This is especially the case in the interim as the ministry formulates its reform plans, and assistance needs become more specific, technical and led by the Government's plans. The purpose of the proposed facility is therefore to support the Ministry of Finance's reform planning through a mix of strengthened processes and substantive pieces of work. It consists of two main, inter-connected components that reflect the strengthened role of policy within the Ministry of Finance: (i) Strengthening Macro Fiscal Policy Management; and (ii) Strengthening Development Planning. Building an analytical capacity within the Ministry of Finance is considered a cross-cutting and indirect objective of the facility.

### **Relationship to CAS/CPS/CPF**

The proposed Policy Advisory Facility is relevant to both Government and Bank assistance strategies. It responds to several aspects of the Government's "Realizing Self-Reliance" reform strategy with which the ARTF strategy is aligned. These include: (i) reviewing the instruments of on-budget cooperation such as multi-donor trust funds to increase their programming flexibility and to ensure full alignment with government priorities; (ii) adjusting technical assistance to build up effective, sustainable systems; and (iii) increasing local content by investing in Afghan skills. The facility also provides direct support to the first pillar "building legitimacy and capacity of institutions" of the Bank's Interim Strategy Note for Afghanistan (FY12-14). Specifically, by supporting the design of policy reform and strategy development within government, the proposed Policy Advisory Facility aligns with the pillar's focus on: (a) strengthening institutions and processes associated with transparent and competent financial and economic management; and (b) improving the sustainability and performance of line ministries in providing essential services country-wide. Moreover, through support to development planning and implementation, the proposed facility is in alignment with each of the other two pillars of the ISN; namely equitable service delivery; and inclusive growth and jobs.

The proposed facility is timely in that it expands the range of knowledge instruments available to the Government as it strives to harness best practice towards its achievement of self-reliance. It will help Government to access knowledge (best practices) and facilitate the procurement of expertise (technical assistance). In this instance, technical assistance is understood as specific, short-term and highly technical consultancy – not continuous, across-board, advisory service or substitute for line positions. The facility will therefore not support staff or full-time consultants. While there are already a multitude of technical assistance facilities in Afghanistan, including those managed by the Bank such as under Advisory Services and Analytics (ASA) and the ARTF Research and Analysis Program (RAP) or Recurrent Cost Window(RCW), the proposed facility is distinguished by its centrality to Government's achievement of its "Realizing Self-Reliance" reform strategy. Specifically, the facility would allow Government to carry out more autonomous diagnosis and design of strategies, planning, preparation and policy in priority areas. The proposed facility will complement the Bank's knowledge and technical assistance work by covering areas, such as support to the new Development Councils, not currently supported by other Bank instruments. In particular, the facility will focus on areas where Government seeks to strengthen the alignment between national policy and budgeting, and internalizing within Government's structure and skill mix, functions previously performed by donors and consulting firms. The value-added by the Bank's financing of the proposed facility is in the provision of high quality technical oversight. All standard Bank fiduciary oversight and implementation support including monitoring the quality of outputs, will be in place for the proposed facility, as for any other ARTF-funded project. This would allow the Government to benefit from leading cross

global practice advice on the quality of products (as part of the Bank's contribution), whilst retaining ownership of outputs.

### **C. Proposed Development Objective(s)**

#### **Proposed Development Objective(s) (From PCN)**

The proposed development objective is to generate high quality knowledge products relevant to Afghanistan's macroeconomic policy and development planning.

#### **Key Results (From PCN)**

The indicators that would measure the direct and indirect contribution of the Project to the development objectives are:

- (a) Policy decisions are informed by analytical work and economic and fiscal analyses supported by the PAF.
- (b) In-house capacity is built in Ministry of Finance to lead analytical activities that feed into and support development planning and economic management.

### **D. Concept Description**

The proposed facility would have the following two inter-connected components for which retroactive financing would be applicable should Government want to facilitate urgent TA needs prior to effectiveness:

Component 1: Strengthening Macro Fiscal Policy Management [\$2.5M]. This component will be implemented by the newly-established Macro Fiscal Policy Directorate (MFPD) of the Ministry of Finance. It will help MFPD to effectively carry out its mandated activities, including provision of secretarial support to the High Economic Council chaired by the President. MFPD was established to improve fiscal policy making by consolidating expenditure and tax policy directly under the Minister of Finance, independent from the departments involved in administration of and executing budgeted revenue and expenditures, respectively.

Activities under this component will primarily include production of in-depth analytical studies and products on key areas relevant to fiscal policy and macroeconomic management. These analytical studies will significantly support MFPD to deliver on its mandate, i.e. provision of fiscal policy advice to the Cabinet and Ministry of Finance management team; coordinating the development of fiscal policy; providing oversight of the Government's mix of financing sources; establishing an early warning system of disbursement delays; and helping the government balance external financing with domestic revenue. Further, this component will support the MFPD to prepare macro-level costing of the next four-year economic development strategy, provide macroeconomic forecasts and continue to evaluate risks to the macroeconomic framework.

As guided by the "Realizing Self-Reliance" reform strategy, MFPD increasingly needs to be able to draw on its own analytical capacity to review and assess projections of global trends and translate them into meaningful decisions for policy making in Afghanistan, to respond to requests by line ministries for economic analysis of investment decisions, and analyze the trade-offs involved in the adoption of policy choices. The proposed facility will therefore further support MFPD by providing it with the technical resources to develop an economic quarterly meeting and development update in which Government and non-governmental analysts can exchange views and engage in discussions over critical issues in fiscal sustainability, economic growth and development.

Given that the MFPD is newly established and lacks resources to effectively undertake analytical activities, this facility will also support procurement of office equipment and computer systems (including both hardware systems and software applications) for MFPD. The proposed facility will not support the staffing of MFPD which will consist of a small number of senior staff. The Directorate's staffing needs are to be included in the Ministry of Finance's overall Tashkeel, and recruited through either the Capacity Building for Results (CBR) Facility or funded by the Government's operational budget.

Component 2: Strengthening Development Planning [\$2.5M]. This component will be implemented by the Development Policy Department (DPD) of the Ministry of Finance. It will help DPD to meet short-term technical assistance needs in support of its mandate of leading the development planning process in the country, including through the Development Councils and National Priority Programs (NPPs) to which DPD plays a secretarial role. Through this role and with the assistance of the proposed facility, DPD will be supported to better carry out economic management and national development policy-making contributing in the longer-term to job creation, PPP, and gender inclusivity. On the latter, through support to the development of NPPs the proposed facility will provide contributions to the NPP for women and support Government's Self-Reliance through Mutual Accountability Framework (SMAF) commitment for reporting against elimination of violence against women.

The proposed facility would enable DPD to prepare and work based on a twice-yearly updated and consolidated work plan to support the six newly established Development Councils which 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. This will help DPD ensure that the budget process follows the NPPs and becomes the primary instrument of government planning and performance management.

This component will further involve the preparation of gap assessments and other short term inputs by DPD to improve planning; develop performance metrics; and consult with international, national and subnational partners. The component will also support the Policy Analysis and Development Unit of DPD which is in need of strengthening and support to assist evidence-and-research based policy making.

The Policy Advisory Facility will be complemented by a Bank-executed Technical Assistance which will support MFPD to undertake core fiscal and macroeconomic analyses. The TA will primarily consist of providing advisory services and on-the-job training and coaching in core analytical areas such as growth forecasting, economic modeling, medium-term fiscal framework, revenue and expenditure forecasts, pension projections, etc. While the TA will focus on activities that are core to MFPD's daily work, this facility will support more in-depth studies and analytical reports which require extensive analyses and empirical exercise.

## II. SAFEGUARDS

### A. 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 Afghanistan's macroeconomic policy and development 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's safeguards policies are triggered.

### **B. Borrower's Institutional Capacity for Safeguard Policies**

NA

### **C. Environmental and Social Safeguards Specialists on the Team**

Mohammad Ateeq Zaki (GSURR)

### **D. POLICIES THAT MIGHT APPLY**

<b>Safeguard Policies</b>	<b>Triggered?</b>	<b>Explanation (Optional)</b>
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	

### **E. Safeguard Preparation Plan**

#### **1. Tentative target date for preparing the PAD Stage ISDS**

15-Mar-2016

#### **2. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS.**

NA

### **III. Contact point**

#### **World Bank**

Contact: Yousif Mubarak Elmahdi

Title: Senior Public Sector Specialis

Contact: Mohammad Omar Joya

Title: Economist

**Borrower/Client/Recipient**

Name: Islamic Republic of Afghanistan

Contact:

Title:

Email:

**Implementing Agencies**

Name: Ministry of Finance

Contact: Khalid Payenda

Title: Director General of Macro Fiscal Policy

Email: Khalid.payenda@gmail.com

**IV. For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>

**V. Approval**

Task Team Leader(s):	Name: Yousif Mubarak Elmahdi, Mohammad Omar Joya	
<b><i>Approved By</i></b>		
Safeguards Advisor:	Name: Maged Mahmoud Hamed (SA)	Date: 22-Feb-2016
Practice Manager/ Manager:	Name: Alexandre Arrobbio (PMGR)	Date: 23-Feb-2016
Country Director:	Name: Stephen N. Ndegwa (CD)	Date: 25-Feb-2016

1 Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.