



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 28-May-2020 | Report No: PIDA29648



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Afghanistan	P174234	Afghanistan COVID-19 Response Development Policy Grant (P174234)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
SOUTH ASIA	15-Jul-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Islamic Republic of Afghanistan	Ministry of Finance		

**Proposed Development Objective(s)**

The development objectives and pillars of the operation are: i) strengthening the policy framework to support relief and recovery for vulnerable people and firms; and ii) strengthening the policy framework for recovery and resilience in infrastructure provision.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	200.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	100.00
World Bank Lending	100.00
<b>Total Non-World Bank Group Financing</b>	100.00
Trust Funds	100.00

**Decision**

The review did authorize the team to appraise and negotiate



## **B. Introduction and Context**

### Country Context

The COVID-19 pandemic is having significant negative health, social, and economic impacts in Afghanistan. As a result of the COVID-19 crisis, the economy is expected to contract by around five percent in 2020, while revenues are expected to fall by around 30 percent from budgeted levels. Even as revenues fall, Afghanistan faces additional expenditure needs of deal with the impacts of the crisis. The COVID-19 pandemic is exacerbating daunting existing challenges. 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. Ongoing peace discussions present enormous opportunities but add to short-term uncertainties facing investors.

### 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 mitigating the short-term impacts of the COVID-19 crisis on firms and households while establishing conditions for longer-term recovery and resilience. A Performance and Learning Review of the CPF was completed in 2019. The CPF period was extended an additional two years to cover FY21 and FY22 with revisions to the results matrix to reflect increased emphasis on climate resilience, women's empowerment, and private investment.

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

The development objectives and pillars of the operation are: i) strengthening the policy framework to support relief and recovery for vulnerable people and firms; and ii) strengthening the policy framework for recovery and resilience in infrastructure provision.

### Key Results

Policy actions supported by the proposed operation are expected to lead to: i) an expansion in bank credit to small and medium enterprises as a share of total bank lending; ii) an increase in the number of issued mobile wallets for e-money, to both men and women; iii) an increase in the proportion of healthcare workers with access to personal protective equipment; iv) an increase in the number of schools provided with training and awareness raising on gender-based violence; v) a reduction in total public sector arrears to the energy utility; and vi) an increase in the volume of safe water supplied by utilities in main urban centers.



## **D. Project Description**

The proposed operation will support the Government of the Islamic Republic of Afghanistan (GoIRA) in managing the impacts of the COVID-19 pandemic. Afghanistan is facing a major public health and economic crisis as a result of COVID-19. The proposed DPO is fully aligned with government's eight-point plan for COVID-19 response and the World Bank's broader rapid response. It will support vital policy and institutional reform measures under two pillars: i) strengthening the policy framework to support relief and recovery for vulnerable people and firms; and ii) strengthening the policy framework for recovery and resilience in infrastructure provision. The proposed operation will be supported by an IDA grant of US\$100 million and a US\$100 million grant from the Afghanistan Reconstruction Trust Fund (ARTF).

Under the first pillar (strengthening the policy framework to support relief and recovery for vulnerable people and firms) the proposed operation will support: i) changes to the regulatory framework to reduce provisioning requirements for loans that are covered by risk guarantees, facilitating increased access to finance for small and medium-sized enterprises; ii) changes to the regulatory framework to allow remote opening of e-money wallets and an increase in limits on digital transaction numbers and values, facilitating wider use of e-money, potentially including for social protection programs; iii) the issuance of guidelines to health facilities ensuring adequate protection of healthcare workers, including through enhanced infection prevention, management of personal protective equipment, and disposal of medical waste; and iv) the approval of an action plan to raise awareness and begin to address gender-based violence in schools, encouraging resumed attendance when educational institutions are re-opened following the COVID-19 crisis.

Under the second pillar (strengthening the policy framework for recovery and resilience in infrastructure provision), the proposed operation will support: i) approved revisions to the Partnership Agreement between the Ministry of Finance and the electricity utility including measures to reduce public sector arrears to the utility, ensure the protection of utility staff, and support improved financial performance through the COVID-19 crisis; and ii) the approval of Emergency Response Plans for main urban water utilities, ensuring their capacity to maintain services through the current crisis and building their resilience to respond to future disasters.

## **E. Implementation**

### Institutional and Implementation Arrangements

The Ministry of Finance is the delegated implementing agency and will be responsible for the overall monitoring and evaluation of the program. MOF has previous experience with monitoring results of World Bank Development Policy Operations and will work closely with specific agencies with key policy responsibilities under the program, including: the energy utility, the central bank, the Ministry of Health, the Ministry of Education, and the Ministry of Energy and Water. Results indicators for the program have been selected based on data availability and generally rely on currently-available data sources.

## **F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

### Poverty and Social Impacts

Reduced provisioning requirements for risk guarantees from the Afghan Credit Guarantee Foundation will support survival of MSMEs through the COVID-19 crisis, bringing employment benefits including to the poor. Simplified procedures for opening mobile wallets and increased transaction limits are expected to have neutral or positive welfare effects over time by facilitating the use of electronic money and deepening financial inclusion. Facilitating the use of e-



money and e-transactions may also help to reduce the financial inclusion gender gap. An important reason for this disparity is the cultural constraint to women traveling in some areas, preventing them from visiting offices for financial services. Expanded access to e-money and digital payments for women would help address these constraints. Measures to improve the protection for healthcare workers and the management of infectious medical waste should have neutral poverty impacts. The approval of guidelines for the protection of healthcare workers should not have negative poverty impacts, as they are very unlikely to lead to job destruction due to increments in labor costs. If properly implemented, the guidelines will reduce the chances of healthcare workers and the general public being infected with COVID-19, allowing households to avoid out-of-pocket medical expenses, while strengthening the capacity of the health system to respond to the COVID-19 crisis. The Gender Based Violence Action Plan approved by the Minister of Education is expected to have positive social and poverty effects, if implemented and enforced. Successful implementation of the plan will have a direct positive social effect, by protecting students and staff from the negative consequences of gender-based violence. Effective implementation of the gender-based violence action plan may also have a positive poverty and household welfare effect by removing an important deterrent to parents sending their children to school. Measures to support the continued provision of essential infrastructure services are likely to have positive effects on the poor. Measures to ensure the financial sustainability of the electricity utility should allow continued access to electricity and expanded access over time, including the poor. Although the clients of the five largest water utilities represent only 30 percent of the urban population, close to 40 percent of these clients live below the poverty line. Any improvements in quality and reliability of service will therefore have a positive poverty impact.

#### Environmental, Forests, and Other Natural Resource Aspects

Overall, the prior actions supported by this operation are not expected to have significant negative effects on the environment, forests, or other natural resources. Some positive environmental effects might occur as a result of some policy actions. Measures to support the resilience of water utilities will ensure broader access to clean water and sanitation, reducing risks of COVID-19 infections. Reforms to support the continued operation of the electricity utility will ensure continued access to electricity for households, avoiding reliance on environmentally damaging and hazardous methods for heating and cooking (such as open fires). Reforms to facilitate the use of electronic billing and payment systems can potentially have marginal positive environmental effects by reducing paper billing. Reforms to protect health sector workers and improve medical waste management are also important in reducing infection and limiting pollution as a result of improper disposal of PPEs and medical waste. While it is not expected that any of the policy actions supported by the proposed operation will have negative effects on natural resources, the country framework is adequate to manage such effects should they emerge. With support from the World Bank, NEPA is receiving capacity building and technical assistance to enable NEPA to properly implement the ESIA Regulation. Government recently adopted a Natural Resource Management Strategy, which gives priority to using forests, pastures, and other natural assets sustainably. The Ministry of Agriculture Irrigation and Livestock is also being supported to develop a roadmap to mainstream integrated landscape management approaches in investment programs.

#### **G. Risks and Mitigation**

The overall risk rating for the operation is high. Political and governance risks are high. An agreement has recently been reached regarding formation of a new government following the 2019 Presidential elections. Implementation of this agreement is likely to lead to changes of staff in key agencies and broader restructuring of government agencies. Such changes may weaken the capability of government to fully implement supported reforms. This risk is partly mitigated through the capacity of the World Bank to provide ongoing technical support through sectoral investment projects, including in health, education, water, energy, and the financial sector. Macroeconomic risks are high. Afghanistan's macroeconomic outlook is subject to substantial downside risks. More severe and protracted economic impacts of the



global COVID-19 crisis would have serious implications for growth, revenues, and – potentially – international grant support. Macroeconomic risks are further exacerbated by weaknesses in the financial sector including potential fiscal risks arising from state-owned banks. Risks are partly mitigated by government’s previously demonstrated capacity to maintain overall macroeconomic stability in the context of revenue declines, through effective expenditure control and maintenance of the monetary policy framework. Risks associated with institutional capacity for implementation and sustainability are high, with the public sector in Afghanistan is characterized by highly uneven and thinly spread technical capacity and frequent turnover in senior staff. Capacity is also likely to be highly overstretched as Government works towards managing the current COVID-19 crisis, including through partial government shut-downs and restrictions on mobility. Security risks are high. Continued insurgent activity represents another source of risk to achievement of program outcomes. Deterioration in the security situation could divert government capacity and policy attention from supported reforms, impede the provision of technical assistance, disrupt monitoring arrangements, or undermine the achievement of expected results. These risks are somewhat mitigated through the program’s focus on policy actions that should show positive impact even in the context of ongoing conflict. Previous experience has shown that the Bank can successfully monitor and support implementation of reform programs even in a difficult security environment.

## **CONTACT POINT**

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**APPROVAL**

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**Approved By**

Country Director:	Henry G. Kerali	01-Jun-2020
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