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Report No: ICR00005631

IMPLEMENTATION COMPLETION AND RESULTS REPORT

IDA-D2830

ON A

GRANT

IN THE AMOUNT OF SDR27.5 MILLION

(US$40 MILLION EQUIVALENT)

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

FOR THE

Modernizing Afghan State-Owned Banks Project
December 09, 2021

Finance, Competitiveness And Innovation Global Practice
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2021)

Currency Unit =	AFN
AFN95.5 =	US$1
US$1.4 =	SDR1

FISCAL YEAR
July 1 - June 30

Regional Vice President:	Hartwig Schafer
Country Director:	Melinda Good
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ABBREVIATIONS AND ACRONYMS

ANPDF	Afghanistan National Peace and Development Framework
BoD	Board of Directors
BMA	Bank-e-Millie Afghan
BoS	Board of Supervisor
CPF	Country Partnership Framework
DAB	Da Afghanistan Bank
ECF	Extended Credit Facility
FBs	Foreign Commercial Banks
FSRRP	Financial Sector Rapid Response Project
GRM	Grievance Redress Mechanism
HEC	High Economic Council
IMF	International Monetary Fund
ISR	Implementation Supporting Report
MSP	Money Service Provider
NKB	New Kabul Bank
NPL	Non-Performing Loans
NPRM	National Program to Reform and Modernize Financial Sector in Afghanistan
PAD	Project Appraisal Document
PB	Pashtany Bank
PSC	Project Steering Committee
SAFI	Strengthening Afghanistan’s Financial Intermediation
SBs	State-Owned Banks
SCD	Systematic Country Diagnostic
SOE	Statements of Expenditure
ToC	Theory of Change
TOR	Terms of Reference
TPMA	Third Party Monitoring Agent

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DATA SHEET

BASIC INFORMATION

Product Information

Project ID	Project Name
P161348	Modernizing Afghan State-Owned Banks Project
Country	**Financing Instrument**
Afghanistan	Investment Project Financing
Original EA Category	**Revised EA Category**
Not Required (C)	Not Required (C)

Organizations

Borrower	Implementing Agency
ISLAMIC REPUBLIC OF AFGHANISTAN	Ministry of Finance

Project Development Objective (PDO)

Original PDO

The proposed project development objective is to enhance the corporate governance and operational efficiency of the supported Afghan state-owned banks, thereby contributing to their improved financial soundness and outreach.

FINANCING

	Original Amount (US$)	Revised Amount (US$)	Actual Disbursed (US$)
World Bank Financing			
IDA-D2830	40,000,000	9,489,204	7,620,319
Total	**40,000,000**	**9,489,204**	**7,620,319**
Non-World Bank Financing			
Total	**0**	**0**	**0**
Total Project Cost	**40,000,000**	**9,489,204**	**7,620,319**

KEY DATES

Approval	Effectiveness	MTR Review	Original Closing	Actual Closing
28-Mar-2018	10-Apr-2018		28-Mar-2023	31-May-2021

RESTRUCTURING AND/OR ADDITIONAL FINANCING

Date(s)	Amount Disbursed (US$M)	Key Revisions
05-Apr-2021	7.62	Change in Loan Closing Date(s) Cancellation of Financing Reallocation between Disbursement Categories Change in Implementation Schedule

KEY RATINGS

Outcome	Bank Performance	M&E Quality
Unsatisfactory	Satisfactory	Modest

RATINGS OF PROJECT PERFORMANCE IN ISRs

No.	Date ISR Archived	DO Rating	IP Rating	Actual Disbursements (US$M)
01	25-Jul-2018	Satisfactory	Satisfactory	.76
02	13-Mar-2019	Satisfactory	Moderately Satisfactory	1.82

03	16-Apr-2020	Satisfactory	Moderately Satisfactory	4.57
04	17-Oct-2020	Unsatisfactory	Unsatisfactory	6.26
05	10-May-2021	Unsatisfactory	Unsatisfactory	7.62

SECTORS AND THEMES

Sectors

Major Sector/Sector	(%)
Information and Communications Technologies	**27**
ICT Services	27
Financial Sector	**73**
Banking Institutions	66
Public Administration - Financial Sector	7

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)
Private Sector Development	**62**
ICT	62
ICT Solutions	62
Finance	**100**
Financial Stability	100
Financial Sector oversight and policy/banking regulation & restructuring	100

ADM STAFF

Role	At Approval	At ICR
Regional Vice President:	Annette Dixon	Hartwig Schafer
Country Director:	Shubham Chaudhuri	Melinda Good
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I. PROJECT CONTEXT AND DEVELOPMENT OBJECTIVES

This ICR was prepared during a period of political and security turmoil in Afghanistan which culminated in the collapse of the Afghan government on August 15, 2021. *Given that the project had already closed and in light of an ongoing political and humanitarian crisis, the ICR team was not able to interact with any of the government counterparts, project team or state-owned banks involved in implementation. This ICR has therefore been prepared based on the review of project documents and interviews with relevant World Bank staff (i.e., task team leaders, team members, technical experts, program leaders, etc.) and interactions with project stakeholders prior to August 15, 2021. Under these circumstances, it was not feasible for the ICR to fully assess the sustainability of some of the project achievement at policy level or operational levels at State-Owned Banks in the context of the Taliban takeover.*

A. CONTEXT AT APPRAISAL

Context

Macroeconomic Context

1. **As outlined in the Project Appraisal Document (PAD), at the time of the project appraisal in 2018, Afghanistan has experienced substantial improvements in development outcomes since 2001 but with growing insecurity.** The annual economic growth rate was projected at 2.6 percent in 2017 (from 2.2 percent in 2016). Growth was expected to edge up to 3.2 percent in 2018 (assuming no further deterioration in the security environment). Poverty rate had increased from 36 percent in 2011/2012 to 39.1 percent in 2013/2014 and was expected to remain high in the mid-term. Stronger growth was predicated on improvements in security, political stability, steady progress with reform, and continued high levels of aid flows.

Sectoral and Institutional Context

2. **The banking sector dominated the financial sector as of the end of 2016.** Banking sector assets represented 21 percent of GDP. The sector consisted of 15 banks (9 private banks, 3 Stated-Owned Banks (SBs) and 3 branches of foreign commercial banks (FBs)), with total assets of US$4 billion, customer deposits of US$3.6 billion and a gross loan portfolio below US$0.7 billion. Apart from banks, there were 4 insurance companies, 994 licensed money service providers (MSP) and 2,104 licensed foreign exchange dealers.

3. **The banking sector suffered from the collapse of Kabul Bank in 2010.** The Kabul Bank crisis was driven by pervasive corruption and impunity and shook public trust in the banking system and the justice system. Kabul Bank was then the largest bank in the country, holding 34 percent of total banking assets and savings of nearly one million Afghans, totaling more than US$1.3 billion[1]. The collapse was caused by weak oversight and corruption of all governance functions of the institution, which allowed endemic and disguised related party transactions and fraudulent loan origination to fester, which in turn led to the eventual loss of over 92 percent – or approximately US$861 million - of its loan book. The detection of fraud had led to a run on the bank, resulting in withdrawal of US$500 million of deposits within just a few days[2]. The Afghan government eventually bailed out the Kabul Bank with US$825 million funded from the central bank reserves. After Kabul Bank was put into receivership in 2011, its best-quality assets were transferred to New Kabul Bank (NKB) which was fully owned by the Afghan government. The other two SBs were Pashtany Bank (PB) and Bank-e-Millie

[1] Kroll, "Final Audit Report for Kabul Bank, Book 2: Reporting" (March 14, 2012).
[2] Kabul Bank Conservatorship, "Report and Recommendations."

Afghan (BMA). The Kabul Bank crisis and its aftermath underscored the need to improve the health of the financial sector, especially considering continuing pressures on deteriorating asset quality and its vulnerability to exchange rate risk in light of substantial dollarization of banks.

4. **SBs were systemically important for the Afghan economy because of their outreach and widespread retail presence and the potential to play a larger, catalytic role in financing the Afghan economy.** At project design, the three SBs accounted for 27 percent of total banking sector assets (US$1.2 billion) and owned more than 2.2 million accounts, representing close to 25 percent of the banking sector's demand and savings deposits. Given their outreach potential, especially in peri-urban and rural areas, SBs were well placed to cater to the most credit-constrained market segments, typically small and medium enterprises (SMEs), businesses and households in rural areas and the agricultural sector. Market failures and high transaction costs made these segments "unbankable" for private banks. Moreover, NKB was the depository of 500,000 government employee accounts and a primary formal channel for remittances from the Afghan diaspora to their families.

5. **With regards to financial intermediation however, SBs were severely lagging.** Their share in total lending stood an abysmally low 6 percent as of June 2017, highlighting their limited contribution to growth through financing of productive investments. Similarly, SBs' potential contribution to financial inclusion never materialized. Two SBs had already joined the Afghanistan Payment System (APS - the national cards payment switch) which was supported by the World Bank-funded Financial Sector Rapid Response Project (FSRRP) that could lead to expanded access to financial services. Discussions were ongoing for the remaining SB to join, and given its network, this could significantly boost financial access points.

6. **Further, SBs' financial performance was weak, and constraints to the current operating and business model continued to imply latent fiscal risks.** There had been repeated rounds of asset write-downs and recapitalizations over more than a decade for BMA and PB, as well as a state bailout for NKB, which totaled approximately US$185.5 million. Pressures on capital requirement remained high for all three SBs. Reported net income for these SBs were driven by non-operational and non-recurring income (i.e., NPL recovery, sale of assets and revaluation effects), which was unsustainable. Net operating income was driven by investment income from the purchase of central bank's (i.e., Da Afghanistan Bank - DAB) capital notes, therefore even a slight deterioration in the operating environment or interest spread on the investment portfolio would have adversely impacted financial sustainability.

7. **Poor performance of SBs could be attributed to weak governance structures and inadequate risk management practices.** This included difficulty in filling top positions with competent candidates; oversight challenges related to MOF's role as the owner of the banks and DAB's role as the regulator/supervisor and related institutional coordination; lack of clear mandate and business plans to properly function as banks; and high operational risk and inefficiencies. The widening skills and technological gap between SBs and other market players explained SBs' inability to compete with private banks. More details are summarized below:

- **Poor governance practices.** Institutional arrangements related to the composition of the General Assembly and Board remained weak, leading to incomplete oversight bodies in two of the three SBs, as well as the absence of important committees (including Audit and Risk) in all SBs. Further, SBs' adoption of existing corporate governance law and regulations, which were deemed sufficient for the country's level of financial development, was severely lacking. Critical governance functions were not performed in SBs. Finally, MoF lacked the capacity to exercise its ownership rights, which had impeded the adequate definition of a mandate for SBs and implementation of a corresponding business strategy.
- **Poor credit risk management.** All three banks suffered from politicized underwriting practices, pervasive and disguised insider and related party lending and poor contract enforcement that led to substantial losses of credit

risk assets. While BMA maintained a rudimentary loan book and had some limited credit risk assessment and underwriting capacities, the corresponding policies, procedures and institutional structures, as well as HR capacities were weak and in need of reform. NKB and PB had regulatory restrictions on lending activity and no discernible credit risk management capacity and lacked the corresponding institutional arrangements.

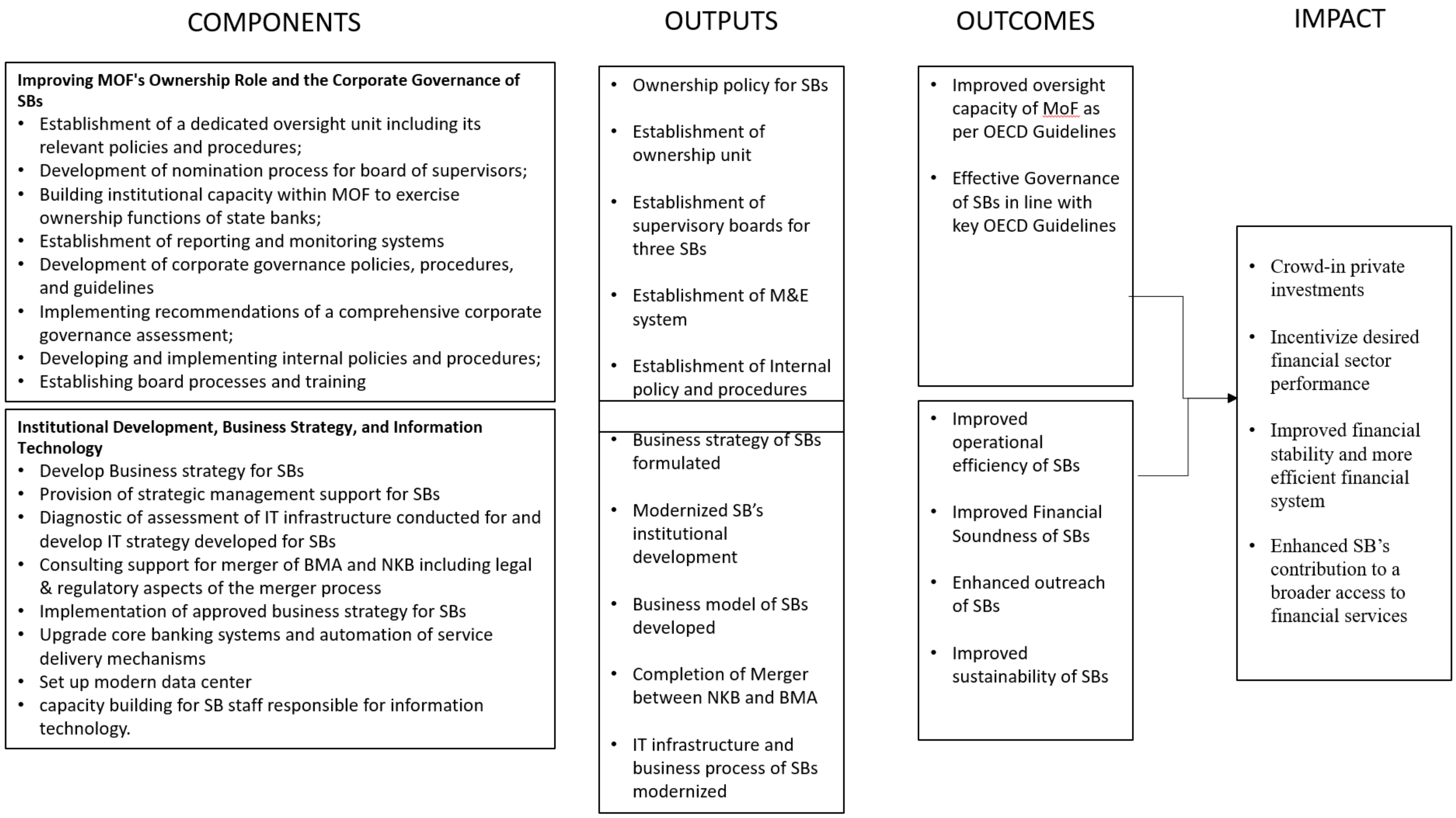
- **Constraints to senior level staffing, as well as management and staff capacity.** All three SBs suffered from prolonged unfilled vacancies in senior management and operational positions, which led to critical gaps in their organizational structure. Delays in appointment were due to lack of a clear staffing strategy – including the definition of competitive compensation and performance management regimes – and inability to obtain the regulator's approval of the few prospective candidates. Furthermore, staff capacity in technical areas was lacking in all three SBs, despite a significant headcount as a share of their operations. Deficiencies included significant gaps in SBs' ability to adequately originate, manage and recover credit risks. Staff capacity challenges were compounded by critical gaps in the organizational structure (i.e., internal control and risk management), and inadequate policies for essential HR elements, such as performance management, training, and staff rotation.
- **Obsolete IT systems and infrastructure.** The IT infrastructures for all three SBs were implemented over ten years ago, and were well past their recommended life and, in many cases, were no longer supported by the vendors. The physical infrastructure for housing these systems was primitive and could no longer support the level of operational reliability expected from modern banking systems. Under such situation, SBs would not be able to take advantage of the then ongoing modernization of the national payments systems under the FSRRP Project to offer efficient and diversified financial services to individuals and businesses. All SBs needed proper IT infrastructure upgrades to ensure continuous business operations and functioning.

8. **The aftermath of the Kabul Banking crisis had created a sense of urgency for the government to address the weaknesses in the financial sector and to improve regulatory capacity and oversight.** At the request of the government, the project preparation commenced with the highest level of support from DAB and MoF. The project design also aligned with IMF 's Extended Credit Facility, as well as other development partners, in the domain of fiscal and financial reforms and corporate governance to ensure synergies to the reform agenda.

Theory of Change (Results Chain)

9. **The Theory of Change (ToC) was not presented in the PAD, given that ToC was not a mandatory section at the time of project preparation, and has been prepared for the purposes of this ICR based on the project documents (Figure 1).** The project was designed to address structural issues summarized in the previous paragraphs including the weak governance structure and inadequate capacity and risk management practices of SBs, in order to enhance SB's overall contribution to the access to finance agenda, improve financial stability and financial system efficiency in the long run.

Figure 1: Theory of Change at Appraisal



Critical TOC Assumptions	
1	The Project would be aligned with the US$45 million, 3-year IMF Extended Credit Facility (ECF) that focused on institution building, fiscal and financial reforms, and measures to combat corruption to lay the foundations for scaled up private sector development. Such alignment ensures commitment from government, and visibility for both Bank and Fund with Government reforms.
2	The project would also complement other development partners with synergies to the reform agenda. (i.e., Asian development bank and DFID in the domain of corporate governance and DFS, US Treasury in compacting to government)
3	The project would work closely with the steering committee of the Afghanistan Reconstruction Trust Fund (ARTF), which was a multi-donor trust fund administered by the World Bank, also the largest budget support TF for Afghanistan. By doing so, the project would be kept on the agenda of ARTF as part of ensuring visibility for the reform and aligned incentives for the government. It would also add conditionality in case of slow progress with the reform agenda.
4	The project would ensure continuous buy-in with reform champions in the government, including DAB and MOF to ensure both the commitment at supervisory level and at the ownership level at the state-owned banks.

Project Development Objectives (PDOs)

10. As per the financing agreement dated April 10, 2018, the Project Development Objective was to *enhance the corporate governance and operational efficiency of the supported Afghan state-owned banks, thereby contributing to their improved financial soundness and outreach.*

Key Expected Outcomes and Outcome Indicators

11. **PDO Level Indicators:**

- Effective Governance of SBs in line with key OECD guidelines
- Increased outreach of SBs (measured by number of SBs clients served)
- Improved operational efficiency of SBs (Measured by System uptime)
- Improved Financial Soundness of SBs (SBs meet the central bank's minimum capital requirements)

12. **Intermediate Level Indicators:**

- Improved oversight capacity of MoF as per OECD Guidelines
- Improved efficiency (Measured by average adjusted Operating Income Margin)
- Improved Soundness of SBs (Measured by average adjusted ROE)
- All senior management functions have been filled and performance contracts in place for CEOs
- Percentage point increase in SB client satisfaction rate (disaggregated by gender) over baseline survey
- Increase in the number of Digital Financial Services users in SBs (disaggregated by gender)
- Savings in Staff time
- Improved credit risk management policies

Components

Component 1: Improving MOF's Ownership Role and the Corporate Governance of SBs (US$7 million)

13. **Provision of technical assistance and advisory services:**

- ***to the MOF to strengthen the exercise of its ownership functions of SBs through, inter alia:*** (i) establishment of a dedicated oversight unit including its relevant policies and procedures; (ii) development of nomination process for board of supervisors; (iii) building institutional capacity within MOF to exercise ownership functions of state banks; (iv) establishment of reporting and monitoring systems; and (v) development of corporate governance policies, procedures, and guidelines; and
- ***to the MOF, DAB, and SBs to strengthen the corporate governance of SBs through, inter alia:*** (i) implementing recommendations of a comprehensive corporate governance assessment; (ii) developing and implementing internal policies and procedures; (iii) establishing board processes and training.

Component 2: Institutional Development, Business Strategy, and Information Technology (US$30 million)

14. **Supporting technical assistance and capacity building activities designed to:**

- ***strengthen and modernize SBs through, inter alia:*** (i) development of a business strategy for each SB; (ii) provision of strategic management support; and (iii) conducting a diagnostic assessment of information technology infrastructure and developing an information technology strategy for SBs;
- ***support institutional development and business model through, inter alia:*** (i) provision of consulting support for the consolidation of BMA and NKB, including addressing the legal and regulatory aspects of the merger process; and (ii) implementation of the approved business strategy for SBs; and
- ***support modernization of information technology infrastructure and business process of SBs through:*** (i) upgrading of core banking systems and automation of service delivery mechanisms; (ii) setting up a modern data center; and (iii) capacity building for SB staff responsible for information technology.

- ***support the required critical and immediate IT maintenance to the bank's IT infrastructure to mitigate risks of operational failures***. Activities included renewal of expired licenses, replacement of obsolete – critical equipment including network equipment.

Component 3: Project Implementation and Monitoring (US$3 million)

15. **In absence of a standalone project implementation unit, the Component 3 aimed to provide necessary funding for building the required capacity and leveraging specific expertise to support of implementation and coordination of the project at the MoF and SBs.** This included hiring of experts to complement the existing MoF team dedicated to the project and the development of a robust monitoring and evaluation system to be used by the MoF and other stakeholders to assess implementation progress.

B. SIGNIFICANT CHANGES DURING IMPLEMENTATION (IF APPLICABLE)

Revised PDOs and Outcome Targets

16. PDO and outcome targets were not revised

Revised PDO Indicators

17. PDO indicators were not revised

Revised Components

18. Project components were not revised.

Other Changes

19. **In June 2020, SDR20,328,158 was cancelled at the request of the government to release funds for its emergency response to COVID-19 pandemic.**

20. **In February 2021, a level two restructuring was conducted to facilitate early project closure at the request of the government.** Specifically, this included: i) cancelation of undisbursed balance of SDR1,743,786.26; ii) change in the project closing date from March 28, 2023 to May 31, 2021; and iii) a standard four-month disbursement grace period following the project closure (i.e., through September 30, 2021).

Rationale for Changes and Their Implication on the Original Theory of Change

21. A series of unforeseen events, including the COVID 19 pandemic, government's policy shifts and coordination issues regarding SB reforms, as further explained below, disrupted implementation of the original project design. The Project became effective on April 10, 2018 with committed amount of SDR27.5 million (US$40 million equivalent) and the original project closing date of March 28, 2023. In June 2020, SDR20,328,158, or 73 percent of the committed funds, was cancelled at the request of the government to release funds for its emergency response to COVID-19 pandemic. This cancellation meant that the planned re-engineering of SBs operations was no longer possible. It is worth noting that delays with the prerequisite assessments for IT investments as well as the merger of merger of Bank-e-Millie Afghan and New Kabul Bank had also made the project more vulnerable to cancellations. Under the circumstances, where only limited funds remained available, the intention was to focus the remainder of the project to support the merger of BMA and NKB as the priority reform. Finally, on February 28, 2021, the Ministry of Finance requested the World Bank to cancel the undisbursed balance and close the project early through a project restructuring.

II. OUTCOME

A. RELEVANCE OF PDOs

Assessment of Relevance of PDOs and Rating

22. The PDO was *highly* relevant to the government priorities and with the WBG country strategy, both at project appraisal and project closure. The Afghanistan National Peace and Development Framework (ANPDF) had identified providing credible system of banking regulation and oversight as a priority. The ANDPF had highlighted SBs as key area for reform to improve their financial and commercial sustainability, increase their efficiency and enhance the institutions' contribution to a broader access to financial services or a wider segment of Afghan society and economy. The Afghanistan Systematic Country Diagnostic (SCD) had stated that improving banking sector confidence, through enhanced accountability and stronger governance was a precondition for economic stability and would be critical to boosting job creation and growth. The SCD also pointed to the need to exercise effective regulatory and prudential oversight of the overall financial sector, with a focus on enforcement, to help avoid the recurrence of financial crises. Further, the project directly contributed to the Pillar 1 and 2 of the FY17-20 Country Partnership Framework (CPF) discussed by the Board on October 27, 2016. Pillar 1 of the CPF aimed to build strong and accountable institutions, while Pillar 2 of the CPF aimed to support inclusive growth through a more stable and efficient financial system and improve access to finance to MSMEs. At project completion, the SBs have not been able to play their role in financing the country's growth. The emphasis on institutional reforms and strengthening of governance in MoF and SBs, as well as improving operational efficiency of SBs were still highly relevant to ANDPF, the SCD and Pillars 1 and 2 of the CPF. Despite the fact that this project (along with a number of others in the Afghanistan portfolio) experienced substantial cancellation amounts to release funds in support of Governments response to COVID-19 and ultimately an early project closure, the reform of the SB sector remained critical structural reform prompting the government request continued World Bank support in this area (i.e., merger of NKB and BMA) under a different project. Therefore, the PDO remains highly relevant to government priorities and WBG strategy to build accountable institutions, as well as support inclusive growth through a more stable and efficient financial system.

B. ACHIEVEMENT OF PDOs (EFFICACY)

Assessment of Achievement of Each Objective/Outcome

23. **The project has achieved one (1) out of the four (4) PDO indicators and one (1) out of eight (8) intermediate results indicators based on the most recent results framework's update as of March 31, 2021.** The list of the project PDO and intermediate level indicators and achievement status is recorded in Table 2. For more details see Annex 7.

Table 2. Summary of Indicators and Achievement Status

Indicators	Unit of Measure	End Target Value	End Actual Value	Achievement
PDO Level				
Effective Governance of SBs in line with key OECD guidelines	Text	Fully compliant with key chapters	Board composition: Five-member board in place in one bank, one bank only has three members and the other four.	Under-achieved
Increased outreach of SBs (measured by number of SBs clients served)	Number (Thousand)	3,200	1,920	Under-achieved
Improved operational efficiency of SBs (Measured by System uptime)	Percentage	99	99	Achieved
Improved Financial Soundness of SBs (SBs meet the central bank's minimum capital requirements)	Percentage	100	62.34	Under-Achieved
Intermediate Level				
All senior management functions have been filled and performance contracts in place for CEOs	Text	All senior management functions are filled in SBs; Performance management contracts in place for CEOs.	There were still vacant senior management positions of State Banks as of August 15, 2021 Performance contracts for the CEOs of the three Banks were approved by supervisory boards of each of the three banks.	Under-Achieved
Improved oversight capacity of MoF as per OECD Guidelines	Text	Fully operational ownership unit	Partially operational ownership unit	Under-Achieved
Improved Soundness of SBs (Measured by average adjusted ROE)	Percentage	10	9.17	Almost Achieved
Improved efficiency (Measured by average adjusted Operating Income Margin)	Percentage	77	68	Under-Achieved
Percentage point increase in SB	Percentage	15	N/A	Under-

client satisfaction rate (disaggregated by gender)				Achieved
Increase in the number of Digital Financial Services users in SBs (disaggregated by gender)	Percentage	15	7.3	Under-Achieved
Savings in Staff time	Percentage	50	N/A	Under-Achieved
Improved credit risk management policies	Yes/No	Yes	Yes	Achieved

24. **Despite the under-achievements of the PDO and intermediate indicators, the ICR will also assess in depth the achievements of the expected project outcomes from the following aspects: i) enhanced corporate governance of SBs, ii) enhanced operational efficiency of the SBs, iii) improved financial soundness, and iv) improved financial outreach.** These assessments are to demonstrate the other tangible benefits that the project had achieved that were outside the scope of the PDOs and yet coherent with the project's long-term outcomes. Finally, while the cancellation of funds in support of Government COVID-19 and subsequent early closure have affected the project ability to achieve the planned objectives, as described earlier and in the subsequent sections, other operational and political economy issues inhibited achievement of some of the stated objectives.

Enhanced Corporate Governance of SBs

25. **Key achievements of the project included establishment of the ownership policy and ownership unit, strengthening of supervisory boards, approval of CEO performance contracts and initiating standardized SB reporting.**

- ***Establishment of Ownership Policy for State-owned Banks.*** The project successfully supported development of the ownership policy which defined the purposes and mandate of state banks and defined MoF's requirements for the corporate governance of SBs, the procedures for appointing the members to the Boards of Supervisors (BOS), and disclosure and reporting requirements.
- ***Establishment of Ownership Unit.*** The project supported establishment of the Ownership Unit[3] at the MOF with dedicated staff, albeit consultants, to cover legal, governance, banking, and business aspects of SB's financial operations in accordance with the Ownership Policy.
- ***Strengthening of supervisory boards at each of the three SBs.*** While the project initially supported appointment of five members on the SB's BOS', as required by the Ownership Policy, at project completion only PB was compliant with this requirement. In addition, there was a high turnover of directors with prolonged periods of time between new appointments[4].
- ***Approval of performance contracts for CEOs of the three SBs.*** The project supported the development of performance contracts for the three SB CEOs, including related consultation, which resulting in the signing of the three contracts in January 2020.
- ***SBs' reporting to the Ownership Unit.*** The project supported the development of the reporting framework aimed at standardizing SB's quarterly reporting. While the initial reports were informative and provided useful updates on the developments in SOBs, the data provided by the three banks was not always provided consistently and included gaps which limited the analysis of their performance.
- ***Development of other policies.*** With the support of the project, the Ownership Unit has also developed the

[3] The Ownership Unit also served as the *de facto* project implementation unit with responsibilities for project management, including procurement, financial management, safeguards.
[4] For details see section on "factors affecting project implementation".

following policies: i) Compensation and Remuneration Policy for the Supervisory Board Members of the SOBs; ii) Conflict Resolution Policy; and iii) Reporting and Monitoring Framework for SOBs which were important for the governance and oversight of SOBs. However, at project closure, these policies were still pending MOF approval.

Enhanced operational efficiency of SBs

26. **The planned re-engineering of SB's operations based on defined mission and business strategy has not progressed during the project life.** The planned diagnostic assessment of the three SBs aimed at examining the existing infrastructure gaps, subsequent development of the policy for SB IT modernization, and finally business plans for each of the SBs were not completed during the project life due to delays with project implementation. Without these activities, most of the required IT upgrades could not be funded. Instead, the project had focused on supporting emergency IT infrastructure investments. Notable project investments supported under the project included: i) the procurement and installation of new IT equipment and the necessary software in PB to secure its database and backup servers; and 2) the procurement of a new core banking system for NKB (Flexcube) in 2020, although the full installation has been delayed, in part due to contested issues regarding some of the deliverables between MoF/BMA and the consultant. The only indicator measuring the operational efficiency was the "system uptime" embedded in the PDO indicator, which was achieved. Alternative information and indicators to measure system efficiency (i.e., number of server licenses that are current vs. those that are outdated in each SB, number of equipment that are up-to-date vs the ones that need to be fixed/out of services in each SB, etc.) could not be assessed due to the ongoing political and humanitarian crisis that resulted in lack of access to project stakeholders.

27. **Merger of SBs.** The SB Strategy had envisioned that once the phase I of the Strategy, which focused on institutional strengthening had taken place (i.e., activities around corporate governance and institutional capacity), phase II would be launched to merge BMA and NKB to create efficiency, capitalize on synergy effects in operation and maximize the strategic value of the two SBs. However, the merger process was delayed, in part due to the shifts in government's policy direction, including an alternative *ad hoc* proposal by the Office of the President for the merger of NKB and PB before reverting back to the original approach outlined in the Strategy. The project thus only managed to support the development of the preparatory activities for the merger, including the government's blueprint for the merger and detailed terms of references for merger due diligence. The process on the merger blueprint was affected by coordination issues between MOF and the Office of the President, which at one point resulted in development of two parallel and uncoordinated merger blueprints, substantially delaying implementation. The MOF version of the blueprint was ultimately formalized as the official version and the blueprint served as a detailed guidance for the merger activities and specified the vision and goals for the merger. Further, at project closure, the procurement process for the requisite due diligence of BMA and NKB ahead of their merger had commenced with the request for an expression of interest (REOI) but was unfortunately not finalized. The Bank was requested to consider supporting the merger process under the *Strengthening Afghanistan's Financial Intermediation* (SAFI) project subject to satisfactory progress and received a letter for SAFI project restructuring to accommodate this activity. The process was interrupted with the collapse of the government which paused implementation of all projects.

Improved financial soundness of SBs

28. **The SBs were evaluated based on self-reported financial soundness indicators, including capital adequacy, asset quality, earnings, profitability and liquidity.** All three banks had exceeded capital adequacy and liquidity requirements of DAB primarily due to limited or no lending activity, while struggling with profitability. BMA's NPL significantly

deteriorated in 2020, largely matching the sharp increase in NPLs across the banking sector, primarily as a result of COVID-19 which affected economic activity and repayment capacity, although it could also indicate potential weaknesses in its credit risk management process. BMA and NKB's earnings and profits have decreased by a large extent while PB's earnings marginally increased over the years.

Improved financial outreach of SBs

29. Despite some improvement financial outreach of SBs remained limited. The share of deposits and loans increased from 25 percent and 6 percent in 2016 to 27.96 percent and 11 percent respectively between 2016 and Q32020, with only one bank being active in lending. It is worth noting that financial intermediation in Afghanistan is amongst the lowest in the world with credit to GDP ratio of 3.3 percent and industry loan to deposit ratio of only around 15 percent. While the SBs' total share of depositors stood at 41.98 percent (in part due to preferential treatment by government with processing government salaries) the share of borrowers was a mere 4.52 percent of the market. Thus, the relatively high number of depositors did not result in more substantive share of borrowers. This was mainly attributed to the fact that two out of the three SBs did not have license for loan operation as a result of insufficient capacity. In terms of the network, the total number of branches for 3 SBs increased from 164 (40 percent of the market) to 170 (41 percent of the market) between 2016 and Q32020. However, as the only banks with lending portfolio BMA had only 34 branches in 2020. The SBs had a smaller network of ATMs comparing the industry.

Justification of Overall Efficacy Rating

30. Overall, the project had significant achievement on the corporate governance front; therefore, the achievements on the enhanced corporate governance of SBs are rated *substantial*. While the associated PDO indicator "*Effective Governance of SBs in line with key OECD guidelines*" was not achieved, the project managed to facilitate development of ownership policy for the SBs and the establishment of the ownership unit, strengthening of supervisory boards at each of the three SBs, development and approval of performance contracts for the three SBs, as well as the framework for SBs reporting to the ownership units. While some of these initial achievements will still require strengthening and institutionalization considering the challenging political economy, they also constituted important achievements.

31. The achievements regarding enhanced operational efficiency, financial soundness and financial outreach of SBs were insignificant. On the operational efficiency, the re-engineering of SB's operations based on defined mission and business strategy has not been achieved given that neither the strategy for IT modernization nor the SB's business strategy were developed. These strategies were also linked to disbursement conditions[5] which were not met thus limiting project's ability to support some of the planned investments. As a result, the project support in this area was limited to emergency IT infrastructure investments such as renewal of expired licenses, replacement of obsolete equipment (e.g., servers network equipment, NKB's core banking system) which were deemed critical for SB operations and planned during the

[5] Out of a total of six disbursement conditions (applicable to Component 2b), two remained incomplete: i) *Ministry of Finance has issued a policy for modernizing the IT infrastructure of the State-Owned Banks in accordance with the recommendations of the diagnostic assessments carried out under Component 2(a) of the project*; and ii) *A business plan for each State-Owned Bank has been prepared in alignment with the Government Strategic Vision for State-Owned Banks approved by the HEC in December 2017 and has been approved by their respective General Assemblies.* The following disbursement indicator remains partially met: *The Recipient, through MOF, shall have appointed at least five members to serve as members on the board of supervisors for each SB, in full compliance with the Presidential Decree above and relevant regulations of DAB.* While initially all three banks had five SB members rendering the disbursement indicator met at the time, lack of continued compliance was linked to high turnover of directors and difficulties in recruiting qualified candidates.

design stage. The subsequent commencement of merger activity was continuously delayed due to complex political economy issues.

32. **The financial soundness indicators showed adequate capital requirements for all three SBs but revealed deterioration in loan portfolio quality for the one SB engaged in lending activities, although largely in line with the overall banking sector trend as a result of COVID-19.** The earnings of all three banks remained low with two out of the three SBs experiencing deterioration of the profitability indicators compared to 2016, and liquidity did not change much during the project implementation period but remained high overall. It is worth mentioning that both high CAR and liquidity was largely due to the absence of lending, which is supposed to be the core activity of banks in general.

33. **On the financial outreach, the project did not facilitate increase in SB's lending activities.** Despite a growth in the deposit base, the lending base had decreased. There was only a slight increase in branches network for all three SBs. Both the total number of branches and the number of ATMs seemed inadequate compared to the size of the country.

34. **Based on the above, the project efficacy is rated as *Negligible*.**

C. EFFICIENCY

Assessment of Efficiency and Rating

35. **The project only had a qualitative economic and financial analysis at project design; therefore, it is not possible to reassess the net economic benefits by re-calculating the net present value and economic rate of return.**

36. **The project suffered from a number of obstacles that substantially reduced efficiency.** This included the political economy of the reform of state-owned banks, including high turnover of key counterparts (i.e., four Ministers of Finance), inter-agency coordination, and shifts in government policy all of which were under the government control and which resulted in considerable implementation delays. The objective circumstances that negatively affected implementation include political and security instability in Afghanistan and the Covid-19 pandemic which were outside of the project control. The latter resulted in cancellation of over 70 percent of originally committed funds which effectively disabled the project from achieving original objectives. Thus, a combination of political and security situation and COVID-19 contributed to poor project efficiency.

37. **Based on the above, project efficiency is rated as *Negligible*.**

D. JUSTIFICATION OF OVERALL OUTCOME RATING

38. **While the project remained substantially relevant to Afghanistan CPF, the achievements were limited and the efficacy is rated as *negligible***. Despite the significant achievements on the corporate governance front, the operational efficiency, financial soundness, and outreach were negligible, mainly due to the fact that a significant portion of the project activities were not completed due to implementation delays and early project closure. The efficiency is also rated *negligible* mainly given the lack of political support, implementation delays, and COVID-19 all of which contributed to cancellation of over 70 percent of originally committed project funds and ultimately early project closure. Finally, the recent Taliban take-over will likely lead to the reassessment of the project relevance, since there is high degree of uncertainty regarding the sustainability of accomplishments under the project under the new political regime.

39. **Based on the above, the overall rating is *Unsatisfactory*.**

E. OTHER OUTCOMES AND IMPACTS (IF ANY)

Gender

40. **The project activities did not have an impact on gender.** This is in part due to the project focus on institutional structural reforms. While the project indicators included SB's outreach to women, the prior structural reforms were prerequisites for such outcomes.

Institutional Strengthening

41. **The project contributed to the institutional strengthening of both government, Central Bank and all the SBs.** Both DAB and three SBs received trainings on topics ranging from corporate governance to financial inclusion and participated in study tours funded by the project. Further, the project also increased capacity within the Ministry of Finance during project implementation, albeit temporarily. At project design, given the lack of technical capacity the MOF agreed to onboard external consultants to staff the ownership unit, manage project implementation and provide relevant technical expertise (e.g., banking, procurement). However, given that MOF solely relied on external consultants as key staff of the ownership unit without measures to complement the unit with permanent civil servants who could work side-by-side with consultants and benefit from on-the-job training prior to consultants' departure at project closing, the MOF did not manage to retain any long-term institutional capacity and continuity. The MOF would, therefore, have been compelled to rebuild the technical capacity of the ownership unit from scratch irrespective of the government's collapse.

Mobilizing Private Sector Financing

42. **Despite the fact that one of the long-term visions of the project was to attract private investment and incentivize productive financial sector performance through specific, targeted and time-bound interventions, as at project closing, the project did not attract any private sector financing.** In order to achieve this goal, the governance, management, operations and financial health of SBs would have needed to be improved, their operational efficiency further enhanced, and the merger activities completed thus making SBs more attractive to private investment.

Poverty Reduction and Shared Prosperity

43. **The project did not have direct impact on poverty reduction and shared prosperity.** This is in part due to the nature of the project which focused on structural institutional reform whose impacts, once implemented, would have had longer term, and somewhat indirect, effects to poverty reduction and shared prosperity.

III. KEY FACTORS THAT AFFECTED IMPLEMENTATION AND OUTCOME

A. KEY FACTORS DURING PREPARATION

44. **Strong political support combined with concerted efforts with International Monetary Fund (IMF).** The government had identified the potential fiscal risks attached from SB failures and provided timely response by embarking on a major reform agenda for SBs to mitigate macro risks, strengthen the financial sector and enhance financial intermediation. The project had gained the highest level of support from DAB and MOF at design stage. The aftermath of the Kabul Bank crisis had created a sense of urgency for the government to address the weaknesses in the financial

sector and to improve regulatory capacity and oversight. Further, one of the SBs, the PB, had started to experience issues associated with capital inadequacy and poor asset quality, which were indicative of a broader potential threat to financial stability. In addition, financial inclusion ranked prominently on the government agenda in light of the attempts to digitalize civil servants' salaries to ensure robust payment modalities. In parallel, in July 2016, IMF Board approved its third Extended Credit Facility Program (ECF, US$45 million) to Afghanistan, a key pillar of which was to ensure soundness and efficiency of the financial sector through strengthening of the regulatory and supervisory framework and contemplating the resolution of the Kabul Bank Crisis. Given these aligned objectives, the Bank and IMF had joined forces during both project design and implementation to facilitate the needed reforms.

B. KEY FACTORS DURING IMPLEMENTATION

Strengthening of the Board of Supervisors (BoS) for three SBs

45. SBs have often suffered from high turnover of directors, combined with substantial time lag required to recruit qualified candidates and secure DAB's approval. In the earlier stage of the project, the project had successfully supported the appointment of five members for each of the three SBs, meeting the project disbursement condition. However, during FY2020, three positions became vacant (2 for BMA and 1 for NKB). The recruitment process was challenging as the pool of candidates with the relevant skills within Afghanistan was limited. In April 2021, three potential candidates were identified by MoF and SBs. Their names were submitted to DAB for the required review and approval, but they were rejected by DAB due to their insufficient qualifications. The World Bank team had recommended MoF to verify minimum criteria for the selection of candidates with DAB to ensure that all nominated candidates met a set of pre-agreed objective criteria prior to nomination of candidates for DAB's "fit and proper" assessment. During the last project supervision mission prior to project completion, MoF confirmed that it had identified new candidates for the vacant position and submitted them to DAB for consideration. This action was also supported under the 2021 Incentive Program Development Policy Grant (IPDPG). However, the appointment process was interrupted with the fall of the government. Despite the progress, as at project completion, only PB was compliant with this requirement, while both NKB and BMA still had vacancies on their BoS.

46. In addition to the BoS positions, SBs also lacked other senior management positions. For example, none of the SBs had a deputy Chief Executive Officer. SBs also reported some vacant positions in compliance, risk and internal audit. DAB had introduced new requirements for the key positions, such as professional certifications, and SBs were still in the process of recruiting qualified candidates in line with these requirements at project completion.

Delays with Merger Planning

47. The project was based on the Government's commitment to implement the adopted SB Strategy, which was agreed with the World Bank and IMF and adopted by the Government in 2017. The Strategy outlined a phased approach for SB reforms towards financial sustainability, private sector participation and improved access to finance. It included the consolidation and operational reform including merger of NKB and BMA to strengthen the prospects for private sector participation, with parallel strengthening of PB until a later phase including consideration for the merger into a single SB, crowding in private sector, or expansion of business activities to include origination of risk assets.

48. The Strategy was based on well-documented technical assessments conducted as part of a study in 2017, discussed with key stakeholders including MoF, DAB and SBs. According to the study, BMA retained a regular banking license, while both NKB and PB continued to have restrictions on lending with declining business models relying on non-lending activities which are unsustainable in the medium term. NKB came out of the resolution process of Kabul Bank and would be considered for merger in any scenario to deal with the image and legacy issues. BMA remained comparatively the strongest SB given and was better placed to acquire NKB than PB, combining its lending capacity with NKB's depositor base and outreach potential. The merger of BMA and NKB would create efficiency, capitalize on synergy effects in operation, as well as immediate commencement of lending operations to the real sector, maximizing the strategic value of post-merger BMA. Pursuant to the Strategy, the President had instructed the merger of NKB with BMA as a top reform priority.

49. However, in 2020, there was a temporary shift in policy direction within the government with the newly proposed merger between NKB and PB instead, contrary to the adopted Strategy which envisaged merging NKB and BMA. This change was proposed by the Office of the President without apparently sufficient consultation with the MOF which was formally the lead agency for the implementation of the merger. The Bank conducted extensive consultation with relevant stakeholders including the IMF, MOF, SBs and DAB following the proposal, with conclusions supporting the original approach outlined in the Strategy given that: i) according to DAB's prudential assessments both NKB and PB were considered relatively weaker along with having restrictions on lending activities; ii) the proposed merger would concentrate risks further in a single entity when the two banks lack complementarity in their banking activities; iii) additional capital injection might be required to enable PB to acquire NKB; iv) both NKB and PB had a relatively weak market position and lack correspondent relationship with international banks; and v) commencement of lending operations would take considerably longer in case of the merger of PB and NKB, in part due to weak credit risk management capacity in absence of credit operations in the past.

50. The Government subsequently reverted to the original approach from the approved Strategy supporting the merger of BMA and NKB, although implementation delays continued. Coordination issues between the MOF and the Office of the President led to the preparation of two separate and uncoordinated blueprints for the merger of two banks. On substance, neither approach initially addressed originally agreed required prior operational and financial due diligence as the key prerequisite for the merger and instead appeared to emphasize business continuity and IT solutions without prior assessment of the business need and the future business model of the merged bank. The original approach was to secure the support of a qualified external transaction advisor/consultant to conduct an operational and financial assessment of the BMA and NKB ahead of strategic decisions related to their merger and this had also been formalized as one of the actions the IMF's Extended Credit Facility. Such due diligence was needed to redefine the merged bank's business model (e.g., staffing plan, rationalization of branch network, IT system, legal issues) and thus facilitate more informed planning and investment decisions. While in the end the government decided to prioritize the hiring of a qualified external consultant, in line with their commitments under the IMF program, a full year had been virtually lost and the project had already been slated for early closure on May 31, 2021. At the request of the MOF, the Bank team supported preparation of a comprehensive terms of reference for the due diligence process at a short notice, ensuring close coordination with IMF, DAB and SBs. The procurement process for the due diligence started in April 2021 with World Bank's procurement and technical Hands-on Expanded Implementation Support (HEIS) at the request of the MOF. Given the project closure in May 2021, the Bank had continued to support the procurement of consultant for the requisite due diligence under HEIS with due consideration for the government's request to continue with the financial support under the under the restructured Strengthening Afghanistan's Financial Intermediation (SAFI) Project subject to satisfactory progress with the procurement process. Further delays were experiences with the shortlisting process and the process was disrupted with the fall of the government on August 15, 2021.

COVID-19

51. The COVID-19 pandemic led the Government of Afghanistan to reassess its priorities. As a consequence, at the request of the government over 70 percent of project funds (SDR20,328,158) were cancelled in June 2020 and redirected to support government's emergency response to COVID-19 pandemic. Afghan's economy has also contracted as a result COVID-19 and led to a sharp decline in government revenues. The pandemic delayed policy dialogue and interrupted overall project implementation.

Frequent Counterpart Changes and Other Political Economy Challenges

52. **The project experienced several changes of counterpart during project implementation and lacked continuous political support during most of the project implementation.** This may be in part attributed to high turnover of MOF leadership including four different ministers in a period of three years and what appeared outsized role of the Office of the President in operational issues (see para 27). While there was always nominal support for the project implementation, the project suffered from major delays due to previously mentioned shifts in policy direction or lack of proactivity at policy level. Most project gains were made early on with the development of ownership policy and establishment of the Ownership Unit. However, as the SB reform process subject to favorable political economy, implementation momentum faded, including due delays in late 2019 due to political uncertainty associated with the contested presidential election which also affected operations and responsiveness of the MOF. A major challenge to the project was the cancellation of over 70 percent of originally committed funds in June 2020 and subsequent protracted political decisions regarding the technical approach for the merger, which were required for the project restructuring following the cancellation. In light of lack of progress over the subsequent six months, the MOF requested early closure and cancellation of undisbursed balance. It was only upon the appointment of a new minister that a request was made for continued Bank support with SB reforms under SAFI project (as described in the earlier section discussing the merger).

BANK PERFORMANCE, COMPLIANCE ISSUES, AND RISK TO DEVELOPMENT OUTCOME

A. QUALITY OF MONITORING AND EVALUATION (M&E)

M&E Design

53. **The quality of the M&E design is rated *Modest*.** While there was no theory of change at project design, this was not a requirement at the time of project design. Further, the results framework included a relatively high number of the PDO and intermediate indicators which in the hindsight appear overambitious given that it required many prior structural reforms of SBs (e.g., market outreach indicators) and the achievement of some of the indicators was difficult to interpret and verify by the project team as they were self-reported by SBs. Also, some indicators did not appear to match some of the long-term outcomes of the project. For example, the operational efficiency of SBs was measured by the system uptime, which was an indicator to measure efficiency of the IT systems rather than the operational efficiency of the SBs. Even though the project aimed to enhance the IT infrastructure of the SBs, the ultimate objective was to improve the operational efficiency of these SBs, not just the IT system efficiency. Overall, the project could have benefited from a more rigorous theory of change developed during implementation (as it was not a requirement during the design stage) that specified the number of planned interventions that lead to desired outcomes, as well as the causal link among the inputs, activities, outputs and outcomes. While the operation intended to support the key structural reforms, at the time of design it seemed reasonable, albeit challenging, to expect that the operation could deliver the stated results indicators. However, in the hindsight, opportunities could have been considered for a more incremental results framework, from the outset or with revisions considered during implementation, resulting in fewer indicators directly relevant to project interventions focusing on structural reform of SBs (e.g., corporate governance reform, merger) as the prerequisites for the achievement of other, otherwise technically valid, indicators.

M&E Implementation

54. **The M&E implementation was rated *Modest***. Although the results framework was regularly updated during the implementation missions, the quality of the reported results was unreliable. For example, on the "*improved financial soundness of SBs*" indicator, the actual results shown on March 31, 2021 was 62.34 percent, while the calculation methodology would only lead to numbers that are multipliers of 33 percent given that the project involved three banks. If one out of three banks met the minimum capital requirements, the result should be 33 percent; if two out of three banks met the requirement, the result should be 66 percent. The number 62.34 falls outside of the possible results range, and the project was not able to explain the reason as the numbers were self-reported by SBs. Some of the results reported in the results framework also contradicted the information from the Ownership Unit which reported that all SBs had met the minimum capital requirements by DAB. These contradictions may be attributed to misunderstanding of the indicators and/or data quality, overall casting doubt in the reliability of some of the reported information.

55. **Further, the project had originally planned several actions for M&E implementation which were not fully realized in part due to early project closure.** The project had planned to receive quarterly reports with results for output and outcome indicators from the SBs. While the project did regularly report on the results framework as reflected in ISRs, the delays with development and operationalization of the reporting framework for SBs which was adopted only in 2020 has affected the M&E capacity as the first and only comprehensive SBs performance Report was prepared only in early 2021 (for Q3 2020). Further, a beneficiary mechanism was supposed to be integrated into the project through an indicator on citizen engagement as well as client's satisfaction of services provided by SBs. A baseline client satisfaction survey was supposed to be conducted within 6 months of project effectiveness. However, as at project closure, no client satisfaction survey was conducted by the project.

56. **Despite these shortcomings and based on the availability of the SB performance report Q3, 2020, the project was able to institute a M&E mechanism to start collecting more structured information from SBs.** While the data was incomplete, the performance report obtained data about the financial performance, financial standings, corporate governance status, and key changes in business and activities of all three SBs and was a good start for institutionalizing SB reporting. The reporting and monitoring framework was established in 2020 and circulated to the banks for standardizing the data collection methods and intended to be collected on quarterly basis. This is one of the biggest achievements from the project regarding M&E implementation.

M&E Utilization

57. **There was no evidence on whether the monitoring data collected under the project was utilized other than for the purpose of the project reporting.** There was no information on whether the data was relevant to any decisions or resource allocations during project implementation. Further, towards the end of the project an M&E framework was established with the vision to provide quarterly monitoring of these SBs, but the sustainability of this system is currently at risk in the context of the current political and humanitarian crisis.

Justification of Overall Rating of Quality of M&E

58. **Based on the above, the ICR assigns an overall rating of *Modest* to the quality of M&E.** This is due to the complexity of the results framework, the suitability of PDO indicators, the quality of the results tracking, the underachieved M&E implementation actions and the lack of evidence that M&E data was being used for decisions or resource allocation.

ENVIRONMENTAL, SOCIAL, AND FIDUCIARY COMPLIANCE

Safeguards

59. **Most of the activities conducted by the project had limited environmental or social risks.** There was no disposal of IT equipment and only maintenance work was carried out, which did not have any environmental impact. The project had not progressed to the merger phase which would have likely resulted in redundancies, though plans were underway to ensure alignment with safeguards requirements.

60. **The project had envisioned to conduct client surveys with the beneficiaries and get feedback from these beneficiaries, especially from MSMEs, agriculture, agro-based, rural sectors, as well as the unbanked population of the country (especially women).** However, at project closure, no client survey was conducted, and client satisfaction rate was not captured either by the ISR or by the SB performance report conducted by the ownership unit. The project had also envisioned to establish an effective Grievance Redress Mechanism (GRM) to address grievance related to project activities. While the implemented project activities focused on structural reforms related to corporate governance, procurement of IT and preparation for the merger, no activities interfacing directly with SB employees or the wider population were observed given the nature of the project. However, at project closure, no SBs had adopted the GRM. It is worth noting that the project developed a conflict resolution policy aimed at institutionalizing complaints handling in each of the three SOBs as part of social safeguards requirements which was not implemented due to early closure.

Financial Management

61. **The financial management of the project is rated as *Moderately Unsatisfactory***. The FM performance rating ranged from Moderately Satisfactory to Moderately Unsatisfactory while the FM risk rating was remained Substantial during the three years life of the project. The project was compliant with the financial reporting and had been submitting the Interim Unaudited Financial Reports (IUFRs) in time, except for a few. The project management team (PMT) was not able to submit the final SOE of the project on time and remained overdue due to the collapse of the government on August 15, 2021. The Bank received the last two years' audit reports with an average delay of four months due to a delay by the government auditors beyond the project's control. The Bank had received a qualified audit opinion in FY2018 mainly due to contract management issues relating to the recruitment of consultant supporting MoF during project preparation and before project effectiveness. In 2019, the Bank received acceptable audited financial statements. The audit of the FY2020 was in process of completion by the Supreme Audit Office (SAO), but the report was not finalized and submitted to the Bank due to the collapse of the government. In terms of internal control, the PMT has shared an internal audit report for FY 2018, while no report was shared for the rest of the years. The internal auditor had also identified some control weaknesses, which were discussed, and actions were agreed with the project management team. During the past two missions, the World Bank FM team noted control weakness in procurement and contract management, overpayments to consultants, transfer of liquidated damages to the MoF revenue account, and non-deduction of the correct amount of taxes by the PMT. These weaknesses had been discussed with the PMT for their follow-up action to resolve. However, at project closure, the following items are still outstanding on the financial management side: i) reimbursement of liquidity damages of US$2,469 and US$823 from the government treasury account; ii) full recovery of the excess amount paid to a consultant; iii) sharing the refund voucher and bank statements for the US$4,500 recovered from the consultant; iv) sharing the internal audit report of FY19, FY2020; and v) responding to all the audit observations of FY 2019 along with supporting documents.

62. **The Bank's role in administering fiduciary management of the project was assessed as strong.** Over the three years of project life, the World Bank conducted three FM supervision reports that were filed in the World Bank's system. The performance ratings were candid, the issues were highlighted and followed-up and the project was provided requisite implementation support. However, there were delays in completing the agreed FM actions during the last two years of implementation and the project FM rating was downgraded. The task team supported the project to address the issues to improve fiduciary performance. The audit reports were reviewed in time, and action plans were agreed to implement audit recommendations. During the COVID pandemic, the Bank continued periodic supervision and transaction reviews based on scanned copies of the documents. In addition, the Bank employed Third Party Monitoring Agent to conduct transaction reviews and certify SOEs during the pandemic. All fiduciary issues were tracked through the Bank's Compliance Management System during the last year of implementation.

Procurement

63. **The procurement performance of the project is rated *Moderately Unsatisfactory*.** The project experienced a lot of delays in the procurement on key functions from the beginning of the project. Key staff of the project management team including the banking expert and project director were hired in August 2017 and January 2018 respectively. The procurement plan, Terms of References (TOR) for international advisory services and project steering committee were finalized in July 2018, but the actual procurement for the international advisory services was not finalized until August 2019. A senior procurement specialist was recruited within the ownership unit in January 2019 and resigned in December 2020 due to uncertainty related to project continuation. Further, the procurement process for the critical IT equipment for the SBs were also delayed, which increased the operational risk for the project, arising from obsolete technology. After significant efforts from the World Bank and the Government, the procurement for NKB's critical IT equipment has been finalized in August 2019 though full installation has not been fully finalized by project closure, in part due to dispute between MOF/BMA and the vendor. Considering numerous unfinished procurement packages and cancellation of the majority of project funds, there was also no new procurements in 2020 and 2021 with the exception for one procurement activity for the engagement of the consultancy firm in support of the merger of NKB and BMA. During the same period, all other planned procurement activities were either canceled or procured, though some of the payments were still pending for three activities at project closure, which have been listed in the previous paragraph on financial management.

A. BANK PERFORMANCE

Quality at Entry

64. **The ICR rates the project's quality at entry as *Satisfactory*, for the following reasons.**

65. **The Project was suitably designed and fit the context and priorities of the country and its financial sector, especially the legacy issue raised from the Kabul banking crisis that are directly caused by weak corporate governance and financial soundness.** The government had identified the macroeconomic risks derived from SB's poor performance and weak operational structures, as well as the contagion risk from the Kabul Bank crisis to the financial sector and committed to mitigate these risks by strengthening the financial sector and enhance financial intermediation. The PDO combined the need to address the corporate governance and operation efficiency of the SBs within the short- and medium term, with the longer-term vision to achieve financial outreach and soundness. As stated earlier, the results framework appeared overambitious. The project also fitted well with the Afghanistan's National Peace and Development Framework (ANDPF) that highlighted the area of SB reform to improve their sustainability, increase their efficiency and enhance the institution's contribution to a broader access to finance.

66. The project design was based on sound analytical work and engagement with the government since 2016. Key analytical work that informed the project included a corporate governance assessment for SBs and the Afghanistan banking sector review. The Afghanistan banking sector review assessed the existing legal and regulatory framework for banks in the country and covered various aspects including: i) legal and regulatory framework of banking/financial system, ii) corporate governance framework, iii) risk management in Afghanistan banking sector and DAB supervision. The review highlighted the need to deal with the legacy problems associated with the Kabul Bank crisis, including improving corporate governance and enhance risk management of the banks. Some of the recommendations provided by the review, including improving the effectiveness of Banks' risk management systems and establishment of ownership policy for SBs, formed the foundation of the design of the project. A more detailed corporate governance assessment for the three SBs was also conducted following the review, which is elaborated in the following paragraph.

67. The corporate governance assessment for the three SBs was conducted in 2017 to assess the different aspects of the corporate governance. This included the exercise of ownership rights by the state, the commitment to good corporate governance principles, the structure and operation of BoS and executive Board, the control environment, the transparency and disclosure, as well as the shareholder's rights. The assessment had recommended the government to focus on closing the skill gap and strengthen the primary government institutions in the SBs, with special focus on: i) the exercise of ownership functions by the state, ii) proper appointment and strengthen the function of the BoS, iii) enable fully operational management capacity and internal control functions, and iv) creating and enabling environment for SBs to adequately operate in. These recommendations were used to inform the project design.

Quality of Supervision

68. The ICR rates the quality of supervision as *Satisfactory*.

69. Bank teams have consistently provided considerable implementation support with continuous interaction with the Ownership Unit and regular interaction with SBs and MOF as well as DAB when required. The first task team leader (TTL) was based in Washington, DC but traveled frequently to Afghanistan, including a 3-months short-term assignment to provide hands-on support for the government and the project implementing unit and engage in policy dialogue. The World Bank task team leadership (TTL) changed once. Both project team leaders provided hands-on implementation support, identified bottlenecks in project implementation, and advised the counterparts on strategic and operational issues in a timely manner. The project has undertaken regular field supervision missions since project effectiveness until December 2019 and the outbreak of the COVID-19 pandemic which disrupted implementation and resulted in cancellation of the majority of project funds exacerbating delays caused by the political economy constraints. While there was no formal supervision mission resulting in issuance of Aide Memoire between March 2020 and April 2021, the team was providing virtually daily implementation support to MOF team along with active official correspondence addressing burning issues and regular filing of ISRs. This was due to political economy which delayed the implementation of the merger and the pandemic shifting the government priorities and resulting in cancellation of over 70 percent of project funds putting the project at risk and requiring project restructuring, which could not be completed until the technical approach for the merger was agreed. Nevertheless, the Bank team's concerted efforts played a pivotal role for initiating preparation for the merger in line with the original approach. The last formal supervision mission was conducted in March 2021, two months before the new project closing date, in a virtual format. The project did not have a mid-term review that was originally planned in September 2020, given the previously mentioned cancellation which took place in June 2020 and resulting shifts in project and government priorities. All the Aide Memoires and ISRs were comprehensive and addressed the key issues, as well as list of activities to be followed up as next steps. The project team also consistently followed up on actions and communicated any outstanding items to the government and Bank management in a timely and consistent basis. Despite the fact that the Bank team could not travel to the country in person, following the outbreak of the pandemic, the TTL kept frequent communication with the counterpart virtually, both with the MOF officials and project management team, as well as with the key stakeholders**.**

Justification of Overall Rating of Bank Performance

70. The overall rating of World Bank Performance is rated as *Satisfactory*, based on the above ratings of quality at entry and quality at supervision.

D. RISK TO DEVELOPMENT OUTCOME

71. Political Risk: At project design, the project had high-level political support from the MOF and DAB. Both institutional champions believed the importance of addressing the legacy issues associated with SBs in order to create a more efficient and inclusive banking sector. They helped accelerate the different reforms to ensure success approval of the project, as well as the achieving of the legal covenants that allowed the project to enter into phase II of the implementation. However, the project suffered from high turnover in the government counterparts. Every time when there was such change, the team would need to re-establish the relationship and re-advocate the importance of the project to the counterparts. The reception of Bank's advocacy efforts and the responsiveness also differed with each new counterpart. As a consequence, the project did not always have the high-level support, which became the bottleneck in addressing some of the issues that the project was experiencing. The sudden change of merger plan from merging NKB with BMA to NKB with PB in contravention to the adopted Strategy and without prior consultation was one example. Despite the ultimate decision to revert back to the government's original plan precious time was lost and the project had faced cancellation of the majority of resources in the context of shifting policy priorities aimed at tackling the pandemic ultimately leading to project cancellation. The ongoing political and humanitarian crisis has yet again shifted priorities risking few of the project gains and adding a high level of uncertainty regarding the needed reform of the SB sector.

LESSONS AND RECOMMENDATIONS

72. Projects supporting corporate restructuring could benefit from a streamlined results framework. The project included a relatively high number of PDO and intermediate indicators which in the hindsight appear overambitious given that it required many prior structural reforms of SBs (e.g., market outreach indicators), while the achievement of some of the indicators was difficult to verify by the project team as they were self-reported by SBs. For similar projects in the future, opportunities could be considered for a more streamlined and incremental results framework with fewer indicators directly relevant to project interventions focusing on structural reform (e.g., corporate governance reform, merger) as the prerequisites for the achievement of other indicators which, while technically valid, might be beyond the scope of the initial reforms and difficult to monitor and achieve.

73. Concerted efforts by international development partners and successful leveraging of parallel policy reform operations had reinforced the Bank's efforts on the reform agenda embedded in the project. The IMF, for example, has made long-standing efforts in establishing macroeconomic stability and laying foundations for structural reforms. The 2011 ECF attempted to seek resolution of the Kabul Bank, including privatizing the NKB. It also contained measures to start addressing corruption, strengthen banking system, and build a sound and effective financial sector that can facilitate private sector activity. The 2016 ECF escalated such efforts and aimed to ensure soundness and efficiency of the financial sector through strengthening of the regulatory and supervisory framework and contemplating the resolution of the Kabul Bank Crisis. The World Bank was able to leverage the IMF ECF to facilitate some of the reform agenda, including the approval of the ownership policy, as well as the approval for the merger between NKB and BMA, and finally agreeing the required due diligence prior to the merger. The project subsequently also leveraged the World Bank's 2021 Incentive Program Development Policy Grant to support efforts to appoint the missing SB Board members; while this approach revived the recruitment process it was ultimately stopped due to collapse of the government. Overall, the project demonstrated the importance of combining investment project financing with other parallel operations in support of critical reforms.

74. Implementation of complex SB reforms requires strong political support while frequent re-assessment of political commitments combined with high-level policy dialogue could help mitigate some of the risks. The project had experienced frequent change of counterparts during project implementation and lack of needed political will to reform the politically complex SB sector. The high-level political support that the project gained in the preparation stage had helped to ensure a successful project approval, effectiveness, as well as project's initial achievements in some of the legal covenants. However, the MOF leadership had changed four times between April 2018 and project closure and there were often interventions from the Office of the President in project implementation without sufficient coordination, both jeopardizing project continuity. While the Bank team spent a lot of effort in re-establishing relationships and providing implementation support, it appears that ultimately there was lack of sufficient political will to ensure uninterrupted implementation of structural SB reforms. To mitigate similar risks for politically complex projects in fragile environments in the future, a consideration should be given to more frequent reassessment of political commitment including assessing options for earlier project restructuring or closure when needed.

75. Time-bound action plan should complement high-level strategies. The project was based on the approved SB strategy, including a five-year strategic approach to the reform and management of the SBs and relying on high-level next steps to facilitate reform. Such a high-level strategies should ideally be complemented with a more granular time-bound action plans, enabling a more efficient monitoring of implementation progress as well as political commitment.

76. Weak institutional knowledge retention due to project management staffing structure. While an official department of the MOF with a mandate to oversee SBs, the Ownership Unit was staffed by consultants recruited under the project, primarily due to limited capacity within the civil service. This means that virtually none of the Ownership Unit's key functions were conducted by civil servants. Upon departure of the consultants at project closure there was no technical capacity in the MOF to sustain SB oversight activities. While it was not realistic for the civil servants to undertake this activity single-handedly from the outset and thus the decision to rely on consultants was justified in the context of the project and limited capacity in Afghanistan, the Ownership Unit should have also comprised of civil servants who could benefit from on-the-job trainings, ensuring a proper handover from the consultants to trained civil servants by the end of the project.

ANNEX 1. RESULTS FRAMEWORK AND KEY OUTPUTS

A. RESULTS INDICATORS

A.1 PDO Indicators

Objective/Outcome: To enhance the corporate governance and facilitate consolidation of the supported SOB

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Effective Governance of SBs in line with key OECD guidelines	Text	Non-compliant 31-Dec-2017	Compliant 28-Mar-2023	Compliant 31-May-2021	Board composition: Five member board in place in one bank, one bank only has three members and the other four. 31-Mar-2021
Comments (achievements against targets):					

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Increased outreach of SBs (measured by number of SBs clients served)	Number (Thousand)	2,206.00 30-Jun-2017	3200.00 28-Mar-2023	3,200.00 31-May-2021	1,920.00 31-Mar-2021

Of which percentage of female clients	Percentage	9.00	15.00	15.00	9.52

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Improved operational efficiency of SBs (Measured by System uptime)	Percentage	90.00 30-Jun-2017	99.00 28-Mar-2023	99.00 31-May-2021	99.00 31-Mar-2021

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Improved Financial Soundness of SBs (SBs meet the central bank's minimum capital requirements)	Percentage	33.00 30-Jun-2017	100.00 28-Mar-2023	100.00 31-May-2021	62.34 31-Mar-2021

Comments (achievements against targets):

A.2 Intermediate Results Indicators

Component: Component 1: Improving Corporate Governance of SOBs and Facilitating Their Consolidation

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
All senior management functions have been filled and performance contracts in place for CEOs	Text	Vacancies in senior management functions of SBs. No Performance contract in place.	All senior management functions are filled in SBs; Performance management contracts in place for CEOs	All senior management functions are filled in SBs; Performance management contracts in place for CEOs	There are still vacant senior management positions of State Banks. Performance contracts for the CEOs of the three Banks were approved by supervisory boards of each of the three banks.
		31-Jan-2018	28-Mar-2023	31-May-2021	31-Mar-2021

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Improved oversight capacity of MoF as per OECD Guidelines	Text	No ownership unit	Fully operational ownership unit	Fully operational ownership unit	Partially operational ownership unit
		30-Jun-2017	28-Mar-2023	31-May-2021	31-Mar-2021

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Improved Soundness of SBs (Measured by average adjusted ROE)	Percentage	3.40 30-Jun-2017	10.00 28-Mar-2023	10.00 31-May-2021	9.17 31-Mar-2021

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Improved efficiency (Measured by average adjusted Operating Income Margin)	Percentage	65.00 30-Jun-2017	77.00 28-Mar-2023	77.00 31-May-2021	68.00 31-Mar-2021

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Percentage point increase in SB client satisfaction rate (disaggregated by gender)	Percentage	0.00 30-Jun-2017	15.00 28-Mar-2023	15.00 31-May-2021	0.00 31-Mar-2021

Comments (achievements against targets):

Component: Component 2: Project Implementation and Monitoring

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Increase in the number of Digital Financial Services users in SBs (disaggregated by gender)	Percentage	0.00 30-Jun-2017	15.00 28-Mar-2023	15.00 31-May-2021	7.30 31-Mar-2021

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion
Savings in Staff time	Percentage	0.00 30-Jun-2017	50.00 28-Mar-2023	50.00 31-May-2021	0.00 31-Mar-2021

Comments (achievements against targets):

Component: Component 3: Project Implementation and Monitoring

Indicator Name	Unit of Measure	Baseline	Original Target	Formally Revised Target	Actual Achieved at Completion

Improved credit risk management policies	Yes/No	No 31-Dec-2017	Y 28-Mar-2023	Yes 31-May-2021	Yes 31-Mar-2021
Comments (achievements against targets):					

B. KEY OUTPUTS BY COMPONENT

Objective/Outcome 1 To enhance the corporate governance and facilitate consolidation of the supported SOB	
Outcome Indicators	1. Effective Governance of SBs in line with key OECD guidelines
Intermediate Results Indicators	1. All senior management functions have been filled and performance contracts in place for CEOs 2. Improved oversight capacity of MoF as per OECD Guidelines 3. Improved credit risk management policies
Key Outputs by Component (linked to the achievement of the Objective/Outcome 1)	1. SB policy 2. Establishment of ownership unit 3. Establishment of supervisory boards for three SBs 4. Establishment of M&E system 5. Establishment of internal policies and procedures
Objective/Outcome 2 Increased operational efficiency, outreach and financial soundness of SBs	
Outcome Indicators	1. Increased outreach of SBs 2. Improved operational efficiency of SBs 3. Improved Financial Soundness of SBs
Intermediate Results Indicators	1. Improved Soundness of SBs 2. Improved efficiency 3. Percentage point increase in SB client satisfaction rate (disaggregated by gender) 4. Savings in Staff time 5. Increase in the number of Digital Financial Services users in SBs (disaggregated by gender)
Key Outputs by Component (linked to the achievement of the Objective/Outcome 2)	1. Merger blueprint established 5. Emergency IT infrastructure procured

ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION

A. TASK TEAM MEMBERS

Name	Role
Preparation	
Ahmed Mohamed Tawfick Rostom	Task Team Leader(s)
Rehan Hyder, Mohammad Asif Qurishi	Procurement Specialist(s)
Syed Waseem Abbas Kazmi	Financial Management Specialist
Sunita Kikeri	Peer Reviewer
Michael J. Goldberg	Peer Reviewer
Eva M. Gutierrez	Peer Reviewer
Abayomi A. Alawode	Peer Reviewer
Anu Bakshi	Counsel
Jose De Luna-Martinez	Peer Reviewer
Victor Manuel Ordonez Conde	Team Member
Juan Carlos Alvarez	Counsel
Ilias Skamnelos	Peer Reviewer
Pasquale Di Benedetta	Team Member
Aza A. Rashid	Team Member
Stefan Mario Queck	Team Member
Mohammad Arif Rasuli	Environmental Specialist
Zakir Hussain Gulzari	Team Member
Huria Sunbol Waheed	Team Member
Qais Agah	Social Specialist

Ahmad Shakeeb Safai	Counsel
Folad Hashimi	Team Member
Leila Aghabarari	Team Member
Karol Karpinski	Team Member
Andreas Grimminger	Team Member
Aminata Ndiaye	Team Member
Najla Sabri	Team Member
Harish Natarajan	Team Member
Martin Melecky	Peer Reviewer
Yousif Mubarak Elmahdi	Peer Reviewer
Supervision/ICR	
Andrej Popovic	Task Team Leader(s)
Aimal Sherzad	Procurement Specialist(s)
Akbar Ali Mohammadi	Financial Management Specialist
Michael J. Fuchs	Team Member
Alexander S. Berg	Team Member
Mohammad Arif Rasuli	Environmental Specialist
Aminata Ndiaye	Team Member
Kaoru Chikushi	Team Member
Saidel Mayar	Team Member
Edda Mwakaselo Ivan Smith	Social Specialist
Zainab Kakar Arya	Team Member

B. STAFF TIME AND COST

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		
FY17	27.504	253,864.81
FY18	32.693	295,108.17
FY19	3.800	24,255.44
FY20	.680	1,512.59
Total	**64.68**	**574,741.01**
Supervision/ICR		
FY17	.350	1,282.68
FY19	18.214	202,795.00
FY20	21.387	181,647.42
Total	**39.95**	**385,725.10**

ANNEX 3. PROJECT COST BY COMPONENT

Components	Amount at Approval (US$M)	Actual at Project Closing (US$M)	Percentage of Approval (US$M)
Component 1: Improving MOF’s Ownership Role and the Corporate Governance of SBs	0	7.00	0
Component 2: Institutional Development, Business Strategy, and Information Technology of SBs	0	30.00	0
Component 3: Project Implementation and Monitoring	0	3.00	0
Total	**0.00**	**40.00**	**0.00**

ANNEX 4. EFFICIENCY ANALYSIS

No efficiency analysis is conducted at project completion due to the fact that there was no economic and financial analysis conducted at project preparation.

ANNEX 5. BORROWER, CO-FINANCIER AND OTHER PARTNER/STAKEHOLDER COMMENTS

In light of the ongoing political and humanitarian crisis in Afghanistan the counterpart comments are not available.

ANNEX 6. SUPPORTING DOCUMENTS (IF ANY)

N/A

ANNEX 7. Project's Achievement of Results Indicators

The project has achieved one (1) out of the four (4) PDO indicators and one (1) out of eight (8) intermediate results indicators. Importantly, this assessment needs to be considered in the context of early project closure of around two years before the original closing date which affected the project's ability to achieve the intended outcomes

The indicator "*Effective Governance of SBs in line with key OECD guidelines*" was not achieved given that SBs were only partially compliant with the guidelines. The compliance was measured by the following aspects: 1) Board composition: SB must have Boards with at least 5 Board Directors in line with fit and proper DAB requirements; 2) Majority of the Board must be independent according to DAB definition of independence and Board operations; 3) Board meetings should be conducted monthly, with at least 25 percent of board meetings on strategic issues, hence balancing between strategic and operational issues; and 4) Board approves strategy and risk management guideline and sets executive renumerations that are competitive with commercial competitors. At project closure, only PB had 5 Board Directors. Bank-e-Millie Afghan had three Board Directors and New Kabul Bank had four Board Directors, which resulted in partial achievement of the indicator.

The indicator "*Increased outreach of SBs*", which was measured by number of SBs clients served, was under-achieved by 40 percent. Towards the beginning of the project implementation (December 2018), the number of clients served had increased from the base line of 2.2 million to 2.3 million, though not linked to a specific project activity. However, this number had declined by 24 percent in December 2019 due to the combination of the factors including: i) the three SBs had lost some clients who were civil servants given that the government had redirected their salaries mobile money operators, and ii) some dormant accounts were closed. The number of the clients have remained unchanged since then and only increased to 1.9 million in March 2021, which was still 40 percent below the end target. The percentage of female clients was 9.52 percent, which was also 36 percent below the end target.

The indicator "*Improved operational efficiency*", which was measured by system uptime, has reached the target of 99 percent. The system uptime was calculated by dividing the total time (in hours) when all critical IT systems were available for use by the total time when all critical IT systems were expected to be available (except for planned closures due to specific bank holidays and scheduled maintenance). At project design, average SB's IT system up time was only 90 percent *vs.* the international standard of 99 percent. This was due to the outdated applications and licenses combined with issues associated with power connectivity. The project supported the procurement of IT equipment that purchased power batteries, core banking applications for the NKB, as well as updating the licenses for BMA. All these have led to the improvement of the system up time from 90 to 99 percent at project closing.

The indicator "*Improved financial soundness of SBs*" was measured by percentage of SBs that meet the central banks' minimum capital requirements (i.e., capital adequacy ratio) was underachieved by 38 percent. DAB requires that all banks shall maintain regulatory capital to risk-weighted asset ratio of not less than 12 percent and a core (tier 1) capital to risk-weighted asset ratio of 6 percent[6]. At project design, one out of the three SBs (33 percent) had met such requirements and the project had envisioned that all SBs would have met the requirements by project closure.

[6] https://dab.gov.af/sites/default/files/2018-12/CapitalAdequacyRegulation_EN20122016116123725533253325.pdf

The project achieved one (1) out of eight (8) intermediate results indicators. The project achieved the indicator "*improved credit risk management policies*", given that the project developed the risk management, internal audit and internal control policies and manuals and provided trainings to staff to enhance their capacity to implement these functions. Other intermediate level indicators were not met, in part likely due to early project closure.