

**PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING**

Report No.: PIDA46270

Project Name	Second Public Financial Management Reform Project (PFMRP II) - Additional Financing (P150632)
Parent Project Name	Public Financial Management Reform II (P120427)
Region	SOUTH ASIA
Country	Afghanistan
Sector(s)	Public administration- Financial Sector (100%)
Theme(s)	Public expenditure, financial management and procurement (95%), Other public sector governance (5%)
Lending Instrument	Investment Project Financing
Project ID	P150632
Parent Project ID	P120427
Borrower(s)	Islamic Republic of Afghanistan
Implementing Agency	Ministry of Finance
Environmental Category	C-Not Required
Date PID Prepared/Updated	27-Dec-2015
Date PID Approved/Disclosed	28-Dec-2015
Estimated Date of Appraisal Completion	14-Dec-2015
Estimated Date of First Grant Approval	15-Jan-2016
Appraisal Review Decision (from Decision Note)	The review did authorize to proceed with Negotiations, in principle

I. Project Context

Country Context

Afghanistan, is at a crossroads in its development, with economic growth declining and poverty incidence stubbornly high. Significant economic and social progress was achieved from a very low base between 2003 and 2012. Economic growth averaged 9.4 percent per year and key social and infrastructure indicators including school enrollment, life expectancy, and access to water improved markedly. However, poverty incidence nationwide remained stagnant. The political, security and economic transition since 2010 has led to a marked decline in economic performance and threatens the foundations of stability and progress in Afghanistan. Economic growth fell sharply to 1.5 percent in 2014 and a fiscal crisis unfolded with declining revenues leading to depleted cash reserves and accumulating arrears. As such, Afghanistan faces tremendous development challenges. GDP per-capita is among the lowest in the world, poverty is deep and widespread, and social indicators are still at very low levels.

Sectoral and institutional Context

Despite the challenges faced by Afghanistan, with assistance of IDA and other donors, the government has made significant progress in establishing a functioning Public Financial Management (PFM) system under the direction of Ministry of Finance (MOF), whose leadership has been the single, most crucial enabling factor for the implementation of government budgeting. The legal framework underpinning PFM (Public Finance and Expenditure Management Law and Public Procurement Law) has been established and the government's PFM performance is generally portrayed as one which public finances are, by and large, used for their intended purposes as authorized by the budget which is processed with transparency and where the fiscal aggregates are well controlled. Effective PFM remains of key importance to Government, given the overriding current need to prioritize interventions within tight budget constraints. The new government has declared its commitment to address Afghanistan's development challenges, through its paper "Realizing Self Reliance: Commitments to Reforms and Renewed Partnership" presented at the London Conference in December 2014. In this paper, good PFM is recognized as a key building block towards self-reliance and consequently, a new five year PFM strategy is now under development for the period 2016 – 2020. The early outline shows the key PFM priorities of Government on which the new strategy will focus. In the acute aid-dependency environment projected for the mid-term, well performing public financial management (PFM) systems are an indispensable pillar of state operations. It is vital to maintain the momentum of the current good PFM performance during the period in which a new PFM Strategy is being developed.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

The proposed PDO is to strengthen public financial management through effective procurement, treasury and audit structures and systems in line with sound financial management standards of monitoring, reporting and control.

B. Proposed Project Development Objectives – Additional Financing (AF)

To further strengthen the efficiency and effectiveness of Afghanistan's procurement, treasury, and audit systems.

III. Project Description

Component Name

Procurement Reform

Comments (optional)

This component will support the National Procurement Authority (NPA), which was created through a Presidential Decree in 2015. The Procurement Policy Unit (PPU), Special Procurement Committee (SPC) and the Afghanistan Reconstruction and Development Services (ARDS) have been merged into the NPA. The NPA is based in the Administrative Office of the President (AOP). The main activities of this component include:

- Capacity building in Line Ministries and Provinces
- Institutional support and sustainable development of public procurement

Component Name

Financial Management Reform

Comments (optional)

Component 2: Financial Management Reform: This component aims to support high level PFM

performance and build the staff and institutional PFM capacity. The main activities include:

- Treasury operations and systems development
- Human resources capacity development
- Professional accountants organization development

Component Name

Audit Reform and Performance

Comments (optional)

Component 3: Audit and Reform Performance: this component focuses on institutional reforms in internal audit and capacity building to improve management oversight. The main activities include:

- Internal audit capacity development
- Internal audit institutional development
- Internal audit information technology development
- Direct audit support – grant audits
- Direct audit support – line Ministries
- Policy advice to the Auditor General and coordination
- Training support
- Infrastructure support (IT center, databases and officer furnishing)
- Public account committee strengthening
- Preparatory activities for future audit reforms

Component Name

Reform Management

Comments (optional)

Component 4: Reform Management: this component focuses on reform within the MoF. Its main activities include;

- Strengthening Monitoring and Evaluation
- Strengthening of MoF Human Resource Management Department
- Project management
- Other institutional strengthening and capacity building activities

Component Name

Revenue Mobilization

Comments (optional)

Component 5: Revenue Mobilization: this is a newly added component to the AF-PFMR II, which is the top priority of the new PFM road map. The Government is committed to ambitious targets for tax collections. Therefore, additional support is needed to achieve these targets. The main activities of this component include:

- Maintenance of computerized tax system (SIGTAS)
- The implementation of initiatives such as risk based compliance
- Preparing for VAT
- Establishing the new organizational structure

IV. Financing (*in USD Million*)

Total Project Cost:	42.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
Afghanistan Reconstruction Trust Fund			42.00
Total			42.00

V. Implementation

Implementation arrangements of the original project will be maintained under the Additional Financing. Overall responsibility for project implementation is vested in the Ministry of Finance (MOF). The existing implementation arrangements include a Project Steering Committee (PSC) chaired by the MOF consisting of representatives of Treasury, Internal Audit, and the Supreme Audit Organization (SAO). The National Procurement Authority has joined the PSC as the successor organization to Afghanistan Reconstruction and Development Services (ARDS)/ Procurement Policy Unit (PPU). The Afghanistan Revenue Department will also join the PSC given the planned incorporation of a revenue component during the period of additional financing. The Reform Management and Implementation Unit (RIMU) of the Ministry of Finance reports to the PSC and prepares implementation plans, annual budgets, and project reports and monitors and evaluates project results.

The financial management arrangements as designed under the original project are operating satisfactorily, and will continue without any change under the additional financing.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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