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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT

IN THE AMOUNT OF SDR15.3 MILLION  
(US\$ 21.5 MILLION EQUIVALENT)

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

FOR A

SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT

May 28, 2015

Trade and Competitiveness Global Practice  
South Asia Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective April 30, 2015)

Currency Unit = Afghani  
 AFN 57.93 = US\$1  
 US\$1.40642 = SDR 1

## FISCAL YEAR

December 21 – December 20

## ABBREVIATIONS AND ACRONYMS

ACD	Afghanistan Customs Department	IUFRs	Interim Unaudited Financial Reports
AF	Additional Financing	LPI	Logistics Performance Index
ARTF	Afghanistan Reconstruction Trust Fund	MOCI	Ministry of Commerce and Industries
ASYCUDA	Automated System for Customs Data	MOF	Ministry of Finance
BCP	Border Crossing Point	MOI	Ministry of Interior
C2C	Customs-to-Customs	MOPH	Ministry of Public Health
CP	Customs Police	MOU	Memorandum of Understanding
CTA	Chief Technical Advisor	MSA	Management Services Agreement
CURE	Customs Reform Unit	NCB	National Competitive Bidding
DA	Designated Account	NEPA	National Environment Protection Agency
DC	Direct Contracting	NPV	Net Present Value
DG	Director General	NS	National Shopping Procedures
DM	Deputy Minister	NSW	National Single Window
DPS	Declaration Processing System	NTBs	Non-Tariff Barriers
EIA	Environment Impact Assessment	O&M	Operations and Maintenance
EIS	Executive Information System	PC	Policy Committee
ERP	Enterprise Resource Planning	PCA	Post-clearance Customs Audit
ESMP	Environment and Social Management Plan	PD	Project Director
ESMF	Environmental and Social Management Framework	PDO	Project Development Objective
FMR	Financial Monitoring Reports	PFM	Public Finance Management
FY	Fiscal Year	PM	Project Manager
FYP	Five Year Plan	PSC	Project Steering Committee
GoA	Government of Afghanistan	PWP	Project Work Plan
G2G	Government to Government	RFP	Request for Proposal
GAAP	Governance Accountability Action Plan	SAR	South Asia Region
GAC	Governance and Accountability	SBD	Standard Bidding Document
GDP	Gross Domestic product	SCRTFP	Second Customs Reform and Trade Facilitation Project
HR	Human Resources	SIA	Social Impact Assessment
IA	Implementing Agency	SY	Solar Year
IDA	International Development Association	TA	Technical Assistance
ICB	International Competitive Bidding	TER	Technical Evaluation Report
ICD	Inland Clearance Depot	TIP	Trade Information Portal
ICT	Information and Communication Technology	TL	Team Leader
IDA	International Development Association	TOR	Terms of Reference
IERR	Internal Economic Rate of Return	TRSU	Tariff, Research and Statistics Unit
IOC	Incremental Operating Cost	UNCTAD	United Nations Conference on Trade and Development
IP	Implementing Partner	UNOPS	United Nations Office for Project Services
IS	International Shopping Procedures	VCAAs	Vulnerabilities to Corruption Assessments

ISN	Interim Strategy Note	WCO	World Customs Organization
ISR	Implementation Status and Results	WTO	World Trade Organization

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Country Director:	Robert J. Saum
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**AFGHANISTAN**  
**ADDITIONAL FINANCING FOR**  
**SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT (SCRTP)**  
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## ADDITIONAL FINANCING DATA SHEET

*Afghanistan*

*ADDITIONAL FINANCING FOR SECOND CUSTOMS REFORM AND TRADE FACILITATION  
PROJECT ( P155443 )*

*SOUTH ASIA*

*GTCDR*

Basic Information – Parent									
Parent Project ID:		P112872			Original EA Category:		B - Partial Assessment		
Current Closing Date:		30-Jun-2015							
Basic Information – Additional Financing (AF)									
Project ID:		P155443			Additional Financing Type (from AUS):		Scale Up		
Regional Vice President:		Annette Dixon			Proposed EA Category:				
Country Director:		Robert J. Saum			Expected Effectiveness Date:		20-Jun-2015		
Senior Global Practice Director:		Anabel Gonzalez			Expected Closing Date:		31-Dec-2016		
Practice Manager/Manager:		Esperanza Lasagabaster			Report No:		PAD1482		
Team Leader(s):		Hasan Afzal Zaidi, Khaleda Atta							
Borrower									
Organization Name		Contact		Title		Telephone		Email	
Project Financing Data - Parent ( Second Customs Reform and Trade Facilitation Project- P112872 ) ( in USD Million)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P112872	IDA-H5680	Effective	25-May-2010	28-Jun-2010	28-Dec-2010	30-Jun-2014	30-Jun-2015		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Canceled	Disbursed	Undisbursed	% Disbursed

P112872	IDA-H5680	Effective	XDR	33.30	33.30	0.00	33.29	0.01	99.96
<b>Project Financing Data - Additional Financing ADDITIONAL FINANCING FOR SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT ( P15544 3 )(in USD Million)</b>									
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input checked="" type="checkbox"/>	IDA Grant				
<input type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/>	Other				
Total Project Cost:		21.50		Total Bank Financing:		21.50			
Financing Gap:		0.00							
<b>Financing Source – Additional Financing (AF)</b>								<b>Amount</b>	
BORROWER/RECIPIENT								0.00	
International Development Association (IDA)								21.50	
Total								21.50	
<b>Policy Waivers</b>									
Does the project depart from the CAS in content or in other significant respects?							No		
Explanation									
Does the project require any policy waiver(s)?							No		
Explanation									
<b>Team Composition</b>									
<b>Bank Staff</b>									
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Specialization</b>	<b>Unit</b>					
Hasan Afzal Zaidi	Team Leader (ADM Responsible)	Transport Specialist		GTIDR					
Khaleda Atta	Team Leader	Strategy and Operations Officer		GTCDR					
Aimal Sherzad	Procurement Specialist	Procurement Specialist		GGODR					
Asha Narayan	Financial Management Specialist	Senior Financial Management Specialist		GGODR					
Abdul Raouf Zia	Team Member	Senior Communications Officer		SAREC					



Asif Ali	Team Member	Senior Procurement Specialist		GGODR	
Asta Olesen	Team Member	Senior Social Development Specialist		GSURR	
Charles Kunaka	Peer Reviewer	Senior Trade Specialist		GTCDR	
Chau-Ching Shen	Team Member	Senior Finance Officer		WFALN	
Clayton Bryant Kerswell	Peer Reviewer	Senior Trade Facilitation Specialist		GTCDR	
Enrique Fanta Ivanovic	Peer Reviewer	Senior Trade Facilitation Specialist		GTCDR	
Gerard McLinden	Team Member	Lead Specialist		GTCDR	
Ghulam Farid	Team Member	Program Assistant		SACPK	
James Orehmie Monday	Environmental Specialist	Senior Environmental Engineer		GENDR	
Juan Carlos Alvarez	Counsel	Senior Counsel		LEGES	
Michel Zarnowiecki	Team Member	Consultant		GTIDR	
Mohammad Arif Rasuli	Safeguards Specialist	Senior Environmental Specialist		GENDR	
Mohammed Ajmal Askerzoy	Team Member	Operations Officer		GTIDR	
Victor Manuel Ordonez Conde	Team Member	Senior Finance Officer		WFALN	
Yusuf Hussain	Team Member	Consultant		GTIDR	
Extended Team					
Name		Title	Location		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Afghanistan	Wilayat-e Nimroz	Zaranj			
Afghanistan	Wilayat-e Nangarhar	Towr Kham			

Afghanistan	Herat	Toraghundi			
Afghanistan	Wilayat-e Takhar	Wilayat-e Takhar			
Afghanistan	Wilayat-e Kandahar	Spin Boldak			
Afghanistan	Wilayat-e Nimroz	Wilayat-e Nimroz			
Afghanistan	Wilayat-e Balkh	Mazar-e Sharif			
Afghanistan	Wilayat-e Khost	Khost			
Afghanistan	Kabul	Kabul			
Afghanistan	Wilayat-e Nangarhar	Jalalabad			
Afghanistan	Herat	Herat			
Afghanistan	Wilayat-e Kandahar	Ghulam Hasan Khan			
Afghanistan	Herat	Kafir Qala			
Afghanistan	Badakhshan	Ishkashem			
Afghanistan	Faryab	Aqina			
Afghanistan	Faryab	Andkhai			
Afghanistan	Kabul	Kabul International Airport			
Afghanistan	Wilayat-e Balkh	Shahrak-e Hairatan			
<b>Institutional Data</b>					
<b>Parent ( Second Customs Reform and Trade Facilitation Project-P112872 )</b>					
<b>Practice Area (Lead)</b>					
Transport & ICT					
<b>Contributing Practice Areas</b>					
<b>Cross Cutting Topics</b>					
[ ] Climate Change					
[ ] Fragile, Conflict & Violence					
[ ] Gender					
[ ] Jobs					
[ ] Public Private Partnership					
<b>Sectors / Climate Change</b>					
Sector (Maximum 5 and total % must equal 100)					
Major Sector	Sector	%	Adaptation	Mitigation Co-	

			Co-benefits %	benefits %
Transportation	General transportation sector	50		
Public Administration, Law, and Justice	Public administration- Industry and trade	31		
Information and communications	Information technology	19		
Total		100		
<b>Themes</b>				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Trade and integration	Trade facilitation and market access	58		
Trade and integration	Technology diffusion	14		
Financial and private sector development	Infrastructure services for private sector development	14		
Trade and integration	Regional integration	14		
Total		100		
<b>Additional Financing ADDITIONAL FINANCING FOR SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT ( P155443 )</b>				
<b>Practice Area (Lead)</b>				
Trade & Competitiveness				
<b>Contributing Practice Areas</b>				
Governance, Macro Economics & Fiscal Management, Transport & ICT				
<b>Cross Cutting Topics</b>				
[ ] Climate Change				
[X] Fragile, Conflict & Violence				
[ ] Gender				
[ ] Jobs				
[ ] Public Private Partnership				
<b>Sectors / Climate Change</b>				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and	Public administration-	70		

Justice	Industry and trade			
Information and communications	Information technology	20		
Transportation	General transportation sector	10		
Total		100		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Financial and private sector development	Infrastructure services for private sector development	35		
Trade and integration	Trade facilitation and market access	20		
Trade and integration	Technology diffusion	20		
Public sector governance	Other public sector governance	15		
Trade and integration	Regional integration	10		
Total		100		
Consultants (Will be disclosed in the Monthly Operational Summary)				
Consultants Required? Consultants will be required				

<b>Summary of Proposed Changes</b>	
<p>The proposed additional grant would help finance the costs associated with scaling up of existing project activities supporting reform progress and assist to strengthen the prospects for long term sustainability. Activities to be financed include: rollout of automation to the remaining border crossing points (BCPs) and inland clearance depots (ICDs); continued refurbishment, rehabilitation or new construction of selected Customs infrastructure; the provision of technical assistance and capacity building in key areas such as human resources, customs valuation, post clearance audit (PCA), and risk management; improved mechanisms for cooperation with neighboring Customs administrations, including real time data exchange; and further improvement and enhancement of systems for monitoring Customs performance through the use of an automated executive dashboard and alerts mechanism. The additional financing will also allow work on the design and implementation of a National Single Window (NSW) system and national Trade Information Portal (TIP) to commence. To ensure that the newly constructed Customs Training Academy can provide a strong basis for ongoing skills development, the additional financing (AF) will also be used to support the development of a national training curriculum and the preparation of relevant training materials as well as the rollout of the World Customs Organization (WCO)'s extensive suite of e-learning modules.</p>	
Change in Implementing Agency	Yes [   ] No [ X ]

Change in Project's Development Objectives	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Results Framework	Yes [ <input checked="" type="checkbox"/> X ] No [ <input type="checkbox"/> ]					
Change in Safeguard Policies Triggered	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change of EA category	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Other Changes to Safeguards	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Legal Covenants	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Loan Closing Date(s)	Yes [ <input checked="" type="checkbox"/> X ] No [ <input type="checkbox"/> ]					
Cancellations Proposed	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Disbursement Arrangements	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Reallocation between Disbursement Categories	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Disbursement Estimates	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change to Components and Cost	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Institutional Arrangements	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Financial Management	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Procurement	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Change in Implementation Schedule	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
Other Change(s)	Yes [ <input type="checkbox"/> ] No [ <input checked="" type="checkbox"/> X ]					
<b>Development Objective/Results</b>						
<b>Project's Development Objectives</b>						
Original PDO						
To improve the release of legitimate goods in a fair and efficient manner.						
<b>Change in Results Framework</b>						
Explanation:						
Indicators were discussed with the client and it was agreed to add new indicators and previous indicators that were not deemed appropriate and highly dependent on external factors were deleted.						
<b>Compliance</b>						
<b>Covenants - Additional Financing ( ADDITIONAL FINANCING FOR SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT - P155443 )</b>						
<b>Source of Funds</b>	<b>Finance Agreement Reference</b>	<b>Description of Covenants</b>	<b>Date Due</b>	<b>Recurrent</b>	<b>Frequency</b>	<b>Action</b>
				<input type="checkbox"/>		

Conditions					
Source Of Fund		Name		Type	
IDA		Extension of Management Service Agreement		Effectiveness	
Description of Condition					
The Management Service Agreement has been extended in a manner satisfactory to the Association to cover the entire period of Project implementation.					
Risk					
Risk Category				Rating (H, S, M, L)	
1. Political and Governance				High	
2. Macroeconomic				Substantial	
3. Sector Strategies and Policies				High	
4. Technical Design of Project or Program				Moderate	
5. Institutional Capacity for Implementation and Sustainability				Substantial	
6. Fiduciary				High	
7. Environment and Social				Low	
8. Stakeholders				Substantial	
9. Other				High	
OVERALL				High	
Finance					
Loan Closing Date - Additional Financing ( ADDITIONAL FINANCING FOR SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT - P 155443 )					
Source of Funds			Proposed Additional Financing Loan Closing Date		
IDA Grant			31-Dec-2016		
Loan Closing Date(s) - Parent ( Second Customs Reform and Trade Facilitation Project - P112872 )					
Explanation:					
Request for Additional Financing for 18 months to scale up the activities under the parent project.					
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
IDA-H5680	Effective	30-Jun-2014	30-Jun-2015	31-Dec-2016	30-Jun-2015
Allocations - Additional Financing ( ADDITIONAL FINANCING FOR SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT - P155443 )					

Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement %(Type Total)
			Proposed	Proposed
IDA	XDR	Goods, works, consultants' services, training, and Incremental Operating Costs	21.50	100.00
		<b>Total:</b>	21.50	
<b>Appraisal Summary</b>				
<b>Economic and Financial Analysis</b>				
Explanation:				
No change				
<b>Technical Analysis</b>				
Explanation:				
No change				
<b>Social Analysis</b>				
Explanation:				
No change				
<b>Environmental Analysis</b>				
Explanation:				
No change				
<b>Risk</b>				
Explanation:				
No change				

## **I. Introduction**

1. This Project Paper seeks the approval of the Executive Directors to provide an additional grant in the amount of US\$ 21.50 million to the Afghanistan Second Customs Reform and Trade Facilitation Project (SCRTP), P112872, H-568-AF, and to extend the closing date of the original project from June 30, 2015 to December 31, 2016.
2. The proposed additional grant is required to bridge the financing gap in the ongoing Second Customs Reform and Trade Facilitation Project (SCRTP), in order to achieve the Project Development Objective more fully and support the Government in finalizing its long term priorities for customs and trade facilitation reform. In parallel, the grant would help finance the costs associated with scaling up of activities that are necessary for the preparation of the next phase of the project and will maintain the existing structure so as to not disband the capacity that has been built in the client agency's project management team.
3. The activities to be funded through the proposed 18 month Additional Financing (AF) would further support reforms to further strengthen the prospects for long term sustainability. These activities would include: continued rollout of automation to the remaining border crossings and inland clearance depots (ICDs); continued refurbishment, rehabilitation or new construction of selected Customs infrastructure; the provision of technical assistance and capacity building in key areas including human resource management, customs valuation, post clearance audit (PCA), and risk management, which are essential to the introduction of modern approaches to customs administration; improved mechanisms for cooperation with neighboring countries' Customs administrations; and further improvement of systems for monitoring Customs performance through the use of an automated executive dashboard and alerts mechanism.
4. The AF will also support preliminary works for the design of a Trade Information Portal (TIP) and National Single Window (NSW) system<sup>1</sup>. Both initiatives will contribute to enhanced transparency and consistency in the application of regulations and will ensure all border management agencies, including those that have not undertaken extensive reform programs, are able to contribute to improving trade facilitation performance. To ensure that the newly constructed Customs Training Academy is able to provide a strong basis for ongoing skills development, the AF will also support the development of a national training curriculum and the preparation of relevant training materials as well as the rollout of the World Customs Organization (WCO)'s extensive suite of e-learning modules. This will also enhance prospects for sustainability and ensure project inputs can reach many more officials.

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<sup>1</sup> Upon implementation, the National Trade Information Portal will provide traders with all relevant rules, regulations, fees, forms and procedures associated with import, export and transit activities, through one user friendly and easy to search website. This activity will be jointly led by the ACD and the Ministry of Commerce & Industry but will involve all relevant border management agencies. The National Single Window system is a World Trade Organization (WTO) commitment and will ultimately electronically connect Customs with all relevant border management agencies to streamline regulatory requirements and eliminate unnecessary duplication.



5. The proposed AF will continue to support implementation of the Customs-related benchmarks of the Afghanistan Reconstruction Trust Fund (ARTF) Incentive Program, and any future policy dialogue related to revenue mobilization.

## **II. Background and Rationale for Additional Financing in the amount of US\$ 21.5 million**

6. The proposed AF is consistent with the Bank's Interim Strategy Note (ISN) for Afghanistan (FY 12-14). It contributes directly to Pillar 1 - Building the Legitimacy and Capacity of Institutions, and Pillar 3 - Inclusive Growth and Jobs (Regional Integration and Strengthening the Business Environment). More recently, as part of its Strategic Dialogue with the government, the Bank has highlighted the need for broader and deeper reforms and identified further improvements in Customs administration as one of a number of the prerequisites<sup>2</sup> for restoring fiscal stability. This AF is also consistent with the Government's commitment made during the London conference in December 2014 to strengthen enforcement and fight corruption in Customs<sup>3</sup>. Furthermore the AF addresses key GoA national priorities: (i) citizen engagement is addressed through the grievance mechanism whereby traders and brokers are able to lodge complaints when faced with challenges and provide feedback on services received; and (ii) gender inclusion is also taken into consideration through the development of a methodology to monitor the level of impact of changes in regulations and policies on women traders.

### **Country Context**

7. Afghanistan continues to face formidable development challenges, as fragility and conflict continue to undermine Government's capacity and effort to restore the state's legitimacy, attain economic self-reliance and reduce poverty. Furthermore, corruption is widespread and all indications suggest that the level has increased in recent years. Afghanistan remains highly dependent on international aid (45 percent of GDP in 2013). The national development budget has been entirely donor-financed, with donors also financing a significant share of the Government's recurrent operating budget. Afghanistan's domestic revenue to GDP ratio continues to remain very low.
8. Since 2012, these unprecedented political, security, and economic challenges have had an adverse effect on Afghanistan's economic growth and fiscal performance. Domestic revenues fell to 8.4 percent of GDP in 2014 from a peak of 11.6 percent in 2011. Economic growth fell sharply from an annual average of 9.4 percent during 2003-12 to 1.5 percent in 2014. This economic slowdown is mostly attributed to the drop in private sector investments and weaknesses in tax and customs enforcement, the latter of which is a continued focus of this project. The new government has declared its commitment to address these challenges as outlined in its paper "Realizing Self Reliance: Commitments to Reforms and Renewed Partnership", that was presented at the London Conference on Afghanistan in December 2014. Continued reform efforts in key revenue collection

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<sup>2</sup> Afghanistan Policy Notes, Priorities for the New Government, October 2014

<sup>3</sup> Realizing Self Reliance. Commitment to Reforms and Renewed Partnerships, London Conference on Afghanistan, December 2014

agencies, including the ACD, are critical to tackling the fiscal, integrity and governance challenges facing the country.

## Project Performance

9. The US\$ 50.48 million Second Customs Reform and Trade Facilitation Project (SCRTP) was approved on May 25, 2010, and became effective on December 28, 2010. The project assists the Afghanistan Customs Department (ACD) consolidate the customs modernization process, improve governance, and improve the processing and clearance of legitimate goods in a transparent, fair and efficient manner.
10. Though the economy and government administration continue to face formidable challenges, the SCRTP has demonstrated some progress. Project implementation and progress toward achieving the Project Development Objective (PDO) has been to date satisfactory. Key performance indicators are currently on track, and in some cases, have already exceeded end targets.

**Table 1: SCRTP Project Ratings**

Project Performance		
ISR Date:	May 2014	November 2014
Development Objective (DO):	Moderately satisfactory	Satisfactory
Implementation Progress (IP):	Satisfactory	Satisfactory
Project Management:	Moderately satisfactory	Satisfactory
Financial Management:	Moderately satisfactory	Satisfactory
Procurement:	Moderately satisfactory	Satisfactory
Monitoring & Evaluation:	Moderately satisfactory	Moderately satisfactory

11. In terms of Customs revenue collection performance, the effective rate of collection (consolidated duties and taxes collected by ACD per declaration) or fiscal productivity has risen from a baseline of 8.76% to 12.8% in 2014, far exceeding the end of project target of 9.34%. The economic cost per declaration increased from a baseline of US\$ 8.20 to US\$ 15.1 per declaration (the end of project target is to stay below US\$ 15)<sup>4</sup>. While this increase is unfortunate, the indicator only makes sense in an environment of stable economic and trade performance. As staffing and other administrative overheads are largely fixed, it is not possible to reduce in line with economic and trade activity. In a period of declining economic and trade activity, as has been seen since the drawdown of international forces, it is natural to see this indicator increase. The cost/effectiveness ratio (total cost divided by total revenue collected) of ACD remains acceptable, at 0.58, and is well within international standards. Of the total number of declarations processed through the Automated System for Customs Data (ASYCUDA) Risk Management System (RMS), 5.5% of declarations were detected as non-compliant. The end of target value agreed with ACD is 7%. Most shipments clear border crossing posts within 30 minutes of lodging transit requirements, and clear ICDs within 2 hours for green channel declarations, which is within or close to the end of project target.

<sup>4</sup> The reason why the target is higher is that Customs will need qualitative improvements, which have a cost in terms of annual budget. The USD figure of 15 is rather low by international standards.

12. In spite of the progress, Afghanistan's trade logistic performance declined substantially in 2014. The Customs component of the Logistics Performance Index (LPI) decreased from a score of 2.22 and ranking of 104 in 2010 (baseline) to a score of 2.16 and ranking of 137 (out of 160 countries surveyed) in 2014 (the end of target is 2.4 and ranking between 85 and 95). Afghanistan's Customs LPI ranking had climbed as high as 99 in 2012. Improvements to Customs and Border Management processes were the main factors driving the past improvements in Afghanistan's ranking. However, the recent decline is more likely attributed to a deteriorating security and governance environment and the decline in economic activity resulting from the drawdown of the international troops, a deteriorating security situation, and a protracted election process result.
13. It is also partly due to other countries making more rapid progress in recent years. The LPI score for Customs also incorporates the performance of other border management agencies that to date have not made significant reform progress. This will be addressed in the AF financed project as it includes activities that will address transparency and efficiency issues affecting other border management agencies.
14. The conduct of the programmed user satisfaction survey was delayed, and only one survey has been administered to date due to security issues. A user satisfaction baseline of 6.5 out of 10 was established, and an end of target of 7 out of 10 was agreed with ACD. The second survey is expected to commence by the end of May 2015.
15. The project's implementation progress has remained satisfactory.
  - (i) Countrywide computerization of customs clearance operations: ASYCUDA implementation continues to make strong progress. Thirteen (13) Customs locations are currently covered by the system. Connecting the one remaining location at Abu Nasr Farahi in Farah province is currently underway and expected to be operational by the end of May 2015. The ASYCUDA system was implemented at Khost in September 2014. As a result of recent activity fourteen sites will be fully automated by the current project's closing date against a target of eleven sites. In addition, apart from Nimroz, all the remaining Custom locations are now connected to the web-based ASYCUDA system. Value added modules including risk management/selectivity, entry/exit gate control, valuation, and vehicle declaration modules are now functional and will be progressively implemented in the coming months. The domestic transit module is now operational on eight key transport corridors, while the international transit module now covers all major international transit corridors. Full rollout to remaining sites is considered essential to lifting revenue collection performance as evidence suggests unscrupulous traders are diverting shipments to non-ASYCUDA sites to avoid close scrutiny.
  - (ii) Installation of the executive information system for Customs which allows real-time monitoring of operations has been completed and the development of an executive information/alert system is progressing satisfactorily. In addition, the ASYCUDA Management Information System (MIS) module has been piloted and is now being rolled-out. Relevant reports generated by the system are now being prepared and key

information is being provided to ACD and Ministry of Finance (MOF) management via short message service (SMS).

(iii) Development of possible options for cross-border customs-to-customs cooperation has progressed satisfactorily. The Customs to Customs (C2C) cooperation component has progressed satisfactorily with formal data exchange through secure email commencing between Afghan and Pakistani Customs since November 1, 2013. Both Afghanistan and Pakistan are currently finalizing modalities for real time data exchange. A C2C Cooperation Agreement was signed between Afghanistan and Tajikistan and all the necessary preparatory work for real time data exchange has been completed and tested. Data exchange is expected to commence immediately after the signing of the formal technical protocols between the two countries. Negotiations are also underway between Afghanistan and Iran for a similar C2C agreement. Once completed, the data exchange arrangements will be instrumental in combatting fraud and undervaluation of imported goods.

(iv) Provision of selected customs infrastructure to facilitate the adoption of modern operations has progressed well. Out of approximately 50 infrastructure development contracts awarded to date, 12 large and 36 smaller value contracts have been completed. The larger contracts that will be covered under the proposed AF include: construction of a new Khost Custom House, including a link road, parking, buildings, warehouses and utilities; an administration building and truck parking at Kandahar; warehouses, link roads and remaining truck parking at Jalalabad; warehouses and truck parking at Nimroz; truck parking at Andkhoy; a boundary wall for the new Farah Custom House; internal roads and truck parking at Kabul Custom house; and a feasibility study for construction of a container freight station at Jalalabad.

(v) Work to support the development of a regulatory, administrative, and institutional framework for Customs based on international standards is progressing satisfactorily. The project is assisting ACD in the development and implementation of an adequate regulatory, administrative and institutional framework for Customs. A Customs Strategic Five Year Plan has been prepared. Substantial progress has been made in preparation of a Customs Modernization Action Plan, cargo tracking regime, Post Clearance Audit implementation plan, Risk Management policy and procedures, and standard operating procedures for cargo examinations. Work is also proceeding on capacity building for the Valuation Department.

16. The ACD has demonstrated its commitment through its successful implementation of the activities under current IDA financing, totaling close to US\$ 50.5 million over the last four years.
17. Results achieved have contributed to GOA reform efforts aimed to increase fiscal revenues. Relative to five years ago in 2010, Customs processes are now more consistent and transparent, facilitating legitimate international trade and significantly improving the business environment, while allowing Customs to focus greater attention on tackling smuggling and other illicit cross-border activities. However, it appears that the substantial progress made earlier in improving Customs management and operational

effectiveness has now reached a plateau. Further productivity and efficiency increases are unlikely to be realized without additional reforms in several key technical areas, and unless complementary structural reforms are introduced. The proposed activities to be financed under the AF will support these technical and structural reforms and will contribute to building and sustaining reform momentum.

18. The Government has demonstrated its commitment to continue and accelerate the Customs reform agenda. This commitment has been clearly expressed by the President as well as the Minister of Finance who has pledged to continue to accelerate the reform and modernization effort, agreed to implement the Customs Action Plan, strengthen enforcement capabilities, and combat corruption in the Afghanistan Customs Department (ACD). The President's Office has also issued a decree barring other agencies from unnecessarily interfering in Customs and border management matters.
19. The World Bank continues to play a central role in providing technical leadership and coordinating efforts of international donors on Customs reform. IDA's global expertise and financing on grant terms provide the necessary leverage for reform, and its convening power is highly valued by the Government. World Bank financing also empowers the Government to play an active leadership role and overcome domestic resistance to change.
20. Additional financing is the most appropriate Bank vehicle to meet the Client's needs and maximize development impact. The 18 month timeframe meets the requirements laid down in OP 10.00, Investment Project Financing, paragraph 29 as additional funds will support: (i) the financing gap based on the imminent closing of the current project; and (ii) the scaling up of impact and development effectiveness based on expanding the scope of some key current activities in preparation of the project's next phase. The original project (SCRTEP) covered a wide view of necessary key areas for reform. As such, the proposed additional activities now can be accommodated within the current project components and the existing implementation structure. Different instruments were considered, including the development of a new project, but were rejected because the government needed more time to finalize its long term priorities for customs and trade facilitation reform.

## **Project Risks and Mitigating Measures**

21. A detailed risk assessment and management strategy was prepared by the team during the preparation of the SCRTEP. The team has reviewed the original strategy and updated the relevant risk status where required. Macro-economic and governance risks continue to be the same as those applicable to all projects currently being implemented, under preparation or being planned for Afghanistan.
22. Afghanistan has recently undergone a political, security and economic transition which exposes the country and this operation to high risk. Many of these risks cannot be mitigated. The design of this project acknowledges the complex risk situation and attempts to mitigate as many risks as possible. Risks that can be somewhat effectively mitigated by this project include social and environmental risks, technical design of

project, institutional capacity for implementation and sustainability, fiduciary risks, and stakeholder risks. The operation directly addresses economic and development risks at country level but several factors outside of the control of the team can undermine the impact of this operation (e.g., political and security risks, and weather volatility). Risks and options for risk mitigation are described in Annex 5.

23. **Security risks:** The security situation has deteriorated over the past several years, and has become even more challenging after the difficult transition period of presidential elections and foreign troops drawdown. The operation acknowledges these risks but their mitigation is beyond the scope of this project.
24. **Political Economy and Governance risks:** Political uncertainty and instability could continue due to the coalition government, where the difference between the two sides could undermine smooth functioning of public affairs. The design of the project, being reform agnostic, is mostly confined to operational level interventions. Furthermore, policy level support for Customs reforms is being provided through the ARTF Incentive Program.
25. Moreover, the Customs reform progress could slow as the attention of decision-makers shifts increasingly to other issues, e.g., security, political power struggle, etc. However, given the macro economic situation, the government is focused on improving domestic revenue collection. Hence, improvement to the performance of the Customs and revenue department continues to be a high priority for the government.
26. **Economic risks:** The Government is passing through a difficult economic transition, with a fall in domestic revenues of 8.4 percent of GDP in 2014 from a peak of 11.6 percent in 2011. Economic growth has also fallen sharply from an annual average of 9.4 percent during 2003-12 to 1.5 percent in 2014. This is mostly attributed to the economic slowdown and weaknesses in tax and customs enforcement. Moreover, the economy is susceptible to exogenous shocks such as changes in weather and international prices, especially for food and fuels. The new government has declared its commitment to address these challenges as outlined in its paper “Realizing Self Reliance: Commitments to Reforms and Renewed Partnership”, that was presented at the London Conference on Afghanistan in December 2014. The ongoing dialogue of the government with the World Bank through its ongoing analytical work on economic and fiscal issues is aimed at supporting the government in managing economic risks. Beyond this dialogue component, the ongoing ARTF Incentive Program is geared to improving economic and fiscal management.
27. **Programmatic risks:** The reform program supported by the proposed operation may face headwinds due to capacity constraints and weak policy coordination. However, the DPG actively counteracts coordination failure by encouraging ministries to use the DPG itself as an instrument for coordination. The proposed DPG also mitigates overall implementation and coordination failure risks by ensuring that technical assistance is provided at all levels of government concerned with the implementation of the reforms. To this end, the DPG team works very closely with sector TTLs throughout the DPG period (see Table 2 in Section IV).

28. **Fiduciary risks:** Fiduciary risks are considered substantial. However, at the project level, these are to a large extent mitigated by using the services of the United Nations Office for Project Services (UNOPS), who have a robust financial management system in place. In order to mitigate high fiduciary risks, UNOPS has already strengthened its oversight of the procurement function, by ensuring that country, regional and Headquarters level procurement committees review all bids.
29. **Implementation risks:** Through the current project, substantial progress has been achieved with ACD, however, given the inherent challenges in Afghanistan, capacity in ACD still remains an issue. ACD continues to face challenges with regards to processes and procedures, internal administration, and human resources capacity. For this reason it is proposed that in the context of this Additional Financing, the services of the United Nations Office for Project Services (UNOPS) as the implementing partner (IP) of ACD are maintained. The ACD has committed to utilize this period to develop an implementation transition strategy, and build its capacity to eventually take on the core project implementation functions at the end of this AF Project.
30. As it is expected that UNOPS will continue as the Implementing Partner of ACD, it is agreed with the Government that the existing Management Services Agreement (MSA) between ACD and UNOPS will be extended to cover the Project implementation period, subject to prior review by the World Bank. The existing Inter Agency Letter of Agreement (IALA) between UNOPS and UNCTAD is also then expected to be extended till closing date of the AF, with the agreement of the ACD and the World Bank. The extension of ACD-UNOPS MSA will be a condition for declaring the project effective by the World Bank.
31. **Social and Environmental risks:** As in the case of SCRTFP, this Additional Financing Project is not expected to have social and environmental impacts. The Bank adopts a pragmatic approach to project design & implementation involving an Environment & Social Management Framework (ESMF) and site specific Environment and Social Management Plan (ESMP). Since 2004, the Bank has undertaken extensive training programs for project staff and government counterparts working on social and environmental issues. Other risk mitigation measures are discussed in the social and environmental sections above.
32. **Stakeholder risks:** The main stakeholder risk to the operation is resistance to reform by internal stakeholders. As in the case of SCRTFP, this Additional Financing project will assist the government in carrying out adequate consultations with the affected groups and the private sector, as well as identify issues and ways forward. Technical assistance extended to the project also includes the development of a communications strategy to inform the relevant stakeholders of the expected reforms agenda.
33. Continued donor support is crucial for reforms to be effective. During the London Conference in December 2014, the international partners committed to providing the required support to Afghanistan. The government has in turn committed to tackle corruption, strengthen governance, and increase fiscal revenue. A possible risk is that donor support wanes if the government reneges on these commitments. The project will

continue to assist the government by indirectly helping it to meet its fiscal targets. The project will also continue to support the government by improving coordination through the Informal Customs Network.

34. The Systematic Operations Risk-Rating Tool (SORT) assessment is provided in Table-2 below:

**Table 2: Systematic Operations Risk-Rating Tool (SORT)**

<b>Risk Categories</b>	<b>Rating (H, S, M or L)</b>
1. Political and governance	H
2. Macroeconomic	S
3. Sector strategies and policies	H
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	H
7. Environment and social	L
8. Stakeholders	S
9. Other (Security)	H
<b>Overall</b>	H

35. In keeping with arrangements established during SCRTFP, the Bank will continue to provide intensive project implementation support to ACD. Project monitoring will be based on regular supervision missions, monthly and quarterly progress reports from the implementing partners and ACD/MOF reports to the World Bank. The project team will conduct implementation support missions at least once every four months, with subject specialists visiting as and when required.
36. Supervising projects in Afghanistan continues to pose a challenge. This challenge has increased significantly over the last few years due to the deteriorating security environment. Field visits are now practically impossible, especially to insecure locations in Khost, Farah, Kandahar and Nimroz. However, technology has been used and will continue to be used to monitor construction activities, including use of video recording of construction activities and during quality control testing. The Bank has already gained experience in using TPM for ARTF projects, and this experience will be utilized for putting in place a TPM supervision mechanism by the end of 2015.
37. The matrix of risk assessment is attached as Annex-5.

#### **Governance and Accountability Action Plan (GAAP)**



38. The GAAP for SCRTFP assesses the susceptibility to revenue leakage at each of 13 major activities and around 40 component process steps of the customs clearance process, such as assessment, payment and post release verification. It further assesses the difficulty of implementing remedial measures at each step due to weaknesses in policy, institutional capability, human resources and procedures. GAAP assessments were undertaken for SCRTFP at the time of project inception in 2010, at a mid-year review in May 2013, and again in April 2015. The mid-year review revealed an overall reduction in revenue leakage vulnerability of 26% due to the implementation of a weighted mean of 15% of recommended remedial measures. By April 2015, vulnerability had decreased by a total of 29% with implementation of remedial measures also at 29%. This reveals that progressing in closing revenue leakage vulnerabilities has slowed during this period of 2013 - 2015 compared to 2010 - 2013, even when the shorter time frame is taken into consideration, and in spite of key remedial measures. This suggests that unscrupulous traders, brokers and customs officials are “gaming” the system for which a fresh set of remedial measures is required.
39. The GAAP Analysis also reveals that the most significant improvements in the 2010-2013 period were in the arrival, landing and reporting process and the payment of duty process, where susceptibility to corruption decreased by 48% and 67%, respectively. But in the following period, 2013-2015, both process areas improved only marginally to 50% and 69%, respectively. It can be hypothesized that these two processes were major drivers of reduced overall corruption susceptibility in the clearance process and increased revenue collection in 2010-2013, and their stagnation in the later period, 2013-2015, had a role to play in overall marginal improvement in corruption susceptibility and stagnant or declining revenue collection. While this hypothesis needs to be validated by future GAAP assessments, an inference can be made that in order to improve the arrival, landing and reporting process and the duty payment process, improvements are required in border control, reduction of the practice of port shopping, weighing in motion, interaction with other line ministries and agencies involved in border control and goods clearance, and customs data exchange with neighboring countries and trading partners.
40. The comparative analysis is attached as Annex-2.

### **III. Proposed Changes:**

41. The summary of the proposed level 2 restructuring (no PDO changes) with the AF is summarized in Table 3.

**Table 3: Proposed changes with the Additional Financing**

<b>Component</b>	<b>Proposed changes</b>
1. Countrywide computerization of Customs clearance operation through implementation of Automated System for Customs	Scaling up ASYCUDA World rollout to remaining offices. Rollout of Risk Management Module to additional Customs offices. Rollout of the valuation module.

Data (ASYCUDA).	Support the establishment and upkeep of communications i.e. VSAT. Technology Integration i.e. configuring and programming the integration of bar code readers, biometrics, plate readers etc. Development of IT and business continuity strategy. Development of strategy on sustainability of ASYCUDA unit in ACD.
2. Installation of executive information systems for Customs allowing real time monitoring of operations	No change. The ASYCUDA dashboard is already installed. United Nations Conference on Trade and Development (UNCTAD) will continue to provide the necessary technical support to ACD for identification of alerts, and generating required reports.
3. Development of possible options for cross border Customs-to-Customs Cooperation, including data sharing between Afghanistan and its bordering countries	UNCTAD is providing the necessary technical support to ACD for setting up real time data links with Pakistan, Tajikistan and Iran. The Additional Financing will continue to support ACD in establishing necessary links with other Customs administrations.
4. Provision of selected Customs infrastructure to enable modernized operations.	ACD was unable to initiate some infrastructure development sub-projects due to a shortage of funds. Some of these activities will be undertaken through the proposed Additional Financing. These include construction of a data center, construction of boundary wall of ICD at Abu Nasr Farahi and Aqina, link road and internal roads at Kandahar and Weesh, temporary conex offices at Ghazni, Paktika and Aqina, etc.
5. Technical assistance to the Customs Department to support the development of an adequate regulatory, administrative and institutional framework for Customs, such as improvement of laws and procedures; review of Customs clearance procedures; improvements to risk management and control requirements in the computerized framework; informing the Customs role in collaborative border management; and setting up of a trade information portal and National Single Window system.	Feasibility study for technological equipment. Feasibility of development of National Single Window and legal framework. Technical assistance on risk management, valuation, legislative review, enforcement, etc. Study to develop plan for Business Process Reengineering (BPR) and for Enterprise Resource Planning (ERP) system. Operational support to ACD through hiring of national consultants. Communications and public awareness campaigns.

## **Brief descriptions of additional activities**

**Component 1:** Countrywide computerization of Customs clearance operation through implementation of ASYCUDA.

42. Following satisfactory rollout of ASYCUDA under SCRTFP, over 95% of all formal trade is now processed through the automated system. The goal now is to continue the rollout to cover the remaining locations. This is particularly important as traders tend to divert trade to border posts that are not automated in an effort to bypass Customs control. Completion of the up-grading to ASYCUDA World will be undertaken to enable further development of the system's valuation, examination, risk management/selectivity, and post release review functionality that is needed to reduce revenue leakage. The project will also continue to provide support for nation-wide ASYCUDA systems communication, procurement of computer equipment and software licenses, power supply robustness, and compensation augmentation for the ACD ASYCUDA team.
43. Robustness of ACD's declaration processing capability, in a fragile and insecure environment, is an important consideration. While local data backup is currently being undertaken, this is inadequate for a large number of possible natural and man-made disasters. Live remote data back-up in different seismic zones with seamless switchover and a disaster management plan will be developed to address this shortcoming. An IT Strategy comprising technological obsolescence management, support and maintenance, and information security will also be developed. A plan will also be developed to secure sustainability of the ACD ASYCUDA Unit once the project is completed, which will include human resource management, certification and on-going needs for UNCTAD support.
44. Disaster Recovery and Business Continuity: With the ASYCUDA World system now responsible for processing approximately 95% of all import and export declarations, both the ACD and the trading community have become heavily dependent on the system. As such, system reliability and availability have become an important issue with any system downtime resulting in delays and additional costs for traders and data irregularities for the Ministry of Finance. To date both the production and back-up servers are physically housed in Kabul making them particularly vulnerable. In keeping with established good ICT practice it is prudent to establish a fully functioning and well equipped Disaster Recovery Center at a separate location. Such a center will ensure business continuity and adequate data back-up in the event of a natural disaster or any unforeseen event that might take the production server and related hardware out of operation. The sub-component will therefore finance the fit out of an appropriate remote site, the procurement of required generators (for the site and operational locations) and uninterrupted power supply equipment as well as back up servers with sufficient capacity to maintain business continuity. In addition, in order to adequately monitor network performance, the sub-component will also finance the procurement of appropriate ICT infrastructure monitoring tools.

***Component 2:*** Installation of executive information systems for Customs

45. The Executive Dashboard information system, which provides real-time alerts and management reports in order to improve governance and mitigate chances of corruption, has been completed through the current SCRTP. In the next stage alerts and triggers will be operationalized as part of ACD workflows in order to monitor and improve performance of ACD departments. Technology components like dash cameras, motion cameras, weigh in motion machines, scanners, electronic seals, cargo tracking, license plate readers and biometric/bar code readers can have a significant impact in terms of reducing revenue leakage, particularly when integrated into ASYCUDA, and will be technically evaluated.

***Component 3:*** Provision of possible options for cross border Customs-to-Customs Cooperation, including data sharing between Afghanistan and its bordering countries.

46. Customs to Customs (C2C) data exchange plays an important role in validating declarations. Under SCRTP, email exchange of transit data with Pakistan has been initiated and a MoU has been signed with Tajikistan. Real time data exchange between the two countries is expected to commence very soon. Going forward it will be important to continue progress toward the vision of real time data exchange with all trading partners. In the near term, the project will continue to support ACD's efforts to finalize a C2C MoU with Iran and start real time data exchange with Pakistan Customs. Over the course of the project other activities will also be financed in support of Afghanistan's efforts to seek cooperation with other key countries.

***Component 4:*** Provision of selected Customs infrastructure to enable modernized operations.

47. A number of Customs locations have been identified for rehabilitation and/or improvement. Some of these were planned to be completed earlier, but were postponed due to funding limitations. The designs and bid documents for most of these have already been prepared. Due to the short time frame of the Additional Financing operation, the larger construction contracts cannot be undertaken at this stage. However, ACD/UNOPS are planning to procure the small and medium sized contracts within four to six months of project effectiveness. These contracts include the construction of a data center in Kabul, construction of internal roads, boundary walls, smaller administration and accommodation buildings at Weesh, Ghazni, Paktia, Abu Naser Farahi, Paktika, and Aqina. The project will also finance the construction of a water supply system at Weesh and the Customs Training Academy at Kabul.

***Component 5: TA to the Customs Department to support the development of an adequate regulatory, administrative and institutional framework for Customs***

48. This component will provide technical assistance to the Customs Department to support the development of an adequate regulatory, administrative and institutional framework for Customs, such as: improvement of laws and procedures, review of Customs clearance

procedures, improvements to risk management and control requirements in the computerized framework, informing the Customs role in collaborative border management, and establishment of a Trade Information Portal and National Single Window system.

49. The following activities will be undertaken:

- (i) Comprehensive legislative review of Customs Law, and related laws, leading to suggested amendments to the Customs Law;
- (ii) Preparation of implementation plans for the setting up of an enforcement (vigilance) wing in Customs; and
- (iii) Strengthening of the Valuation, Tariff, Post Clearance Audit (PCA), Risk Management, and Customs Reform Management Unit (CRMU) divisions in the ACD.

**50. Business Process Reengineering (BPR) and Enterprise Resource Planning (ERP).**

Other than streamlining the core ACD process of customs declaration processing, support functions comprising human resources management, inventory and asset management, procurement, financial management and business analytics need to be strengthened in order to improve overall organizational performance and make it more robust. A Business Process Reengineering (BPR) and Enterprise Resource Planning (ERP) study will be undertaken to develop a plan to support process strengthening and ERP implementation. This work is of particular importance for ACD in order to better manage its division of responsibilities with the Ministry of Finance (MoF).

**51. Technical Assistance to support the adoption of international standards for Customs administration.**

While the ACD has made significant progress on the adoption of modern practices and procedures, much additional work is still required to ensure the full and effective implementation of a range of new and improved procedures in line with international standards and accepted good practice approaches. This work will require considerable external inputs, as experience in other countries facing systemic change has shown, therefore will require international consultancy support over the life of the project.

52. The proposed work will complement the project's investment in building the capacity of the Customs Academy and will support Afghanistan's compliance with the provisions of the new WTO Trade Facilitation Agreement. It is proposed that the work will focus on eight areas of critical importance to customs operational effectiveness, namely: risk management and intelligence; WTO valuation; prevention and detection and establishment of an enforcement wing in ACD; the development of an administrative appeal system; a trusted trader regime; client service standards; advance rulings for HS and value; and support for post clearance audit.

53. The international consultancy input for this assignment would include technical inputs towards the completion of the individual tasks, as well as project management for the overall capacity enhancement program. Given the broad scope of reform activities to be

covered by the consultancy and the wide range of individual skills required, consideration could be given to hiring a firm to undertake these assignments. It is also envisaged that an experienced project manager would oversee the work program, monitor progress on task clusters, provide quality assurance over deliverables, ensure any interdependencies are identified, and manage project communication with the ACD.

54. **Customs Academy and Training Support.** The ACD has recently built a modern training academy with state of the art facilities and residential accommodation for over 100 staff. Customs administration is, however, a complex and highly technical area of public administration and, unlike many professional disciplines, there are few opportunities available to gain professional qualifications relevant to customs administration. As such, most customs administrations throughout the world invest heavily in internal staff development and training. While ACD staff attend various courses provided by the Department and small numbers of staff can attend programs offered periodically by development partners, to date there has not been a comprehensive human resource development strategy in place to address competency gaps that impact negatively on organizational performance. The project will therefore finance the conduct of a detailed competency assessment, the development of a comprehensive training curriculum, and the preparation of up-to-date training materials. Once appropriate materials have been prepared and piloted, the project will also support the training of trainers in core customs disciplines. In order to allow ACD staff to avail themselves of the suite of high quality e-learning packages available through the World Customs Organization (WCO), the sub-component will also finance translation of the relevant modules into Dari and Pashtu.
55. Key activities associated with the sub-component will fall under three broad task clusters: 1) the development of a Human Resource Development Strategy and Implementation Plan; 2) the preparation of a comprehensive training curriculum and training materials; and 3) training of trainers and development of the ACD Customs Academy. Terms of Reference will be developed by the ACD for this work.
56. The work on a Human Resource Development Strategy would involve taking into account internal human resource management systems as they relate to the professional development and performance management of staff and how such practices can contribute to enhancing professional competencies. For example, the extent to which staff mobility and career advancement policies assist or hamper competency development opportunities should be assessed.
57. Based on the Human Resource Development Strategy a comprehensive training curriculum would need to be prepared, addressing the most critical training and development needs of the ACD. The curriculum should address the hiring procedures and the development needs of new staff joining the ACD as well as officials who are already serving in the Department, and should include management and leadership development needs as well as pure technical training requirements. Once agreement is reached on the curriculum, a series of comprehensive learning materials would be developed covering agreed content areas.

58. In order to ensure long term sustainability, attention will be paid to developing a pool of part time and full time trainers skilled in the delivery of the materials prepared under the project. Training of trainers will involve content skills specific to the modules/courses prepared by the firm as well as general presentation and training skills focused on adult learning principles. More advanced training should be provided to academy personnel including training needs assessment techniques, adult learning theory, monitoring and evaluation techniques, competency based training principles, basic curriculum design and blended learning approaches.

## **National Trade Information Portal and National Single Window**

### **Trade Information Portal**

59. The project will finance the implementation of a national Trade Information Portal (TIP) which will provide a single user friendly website where comprehensive and up to date information on all tariff and non-tariff measures applied at the time of import, export or transit is readily accessible to traders. The Portal will also provide the capacity to inform and obtain feedback from the trading community and a simple vehicle to allow traders to comment on pending regulatory changes.
60. The establishment of the Portal will be a joint undertaking between the ACD and the Ministry of Commerce and Industry (MOCI). It will make use of the World Bank Trade Information Portal Toolkit which is a product specially designed to be adaptable to different countries and that comprises documentation, support and implementation methodology.
61. Experience suggests that once established, many countries do not devote sufficient resources to maintaining the website and information soon becomes out of date. To avoid this problem, significant attention will be paid to developing sustainable systems and Service Level Agreements with participating agencies. The project will also finance the hiring of two local staff: one as content coordinator and one as the Portal webmaster. The officials will invest in training of local ACD and MoCI staff to assume these roles on completion of the project. In addition, the TIP will consider lessons learned from previous similar attempts from other donors and take into account any existing information resource base to leverage and build off of the data stocktaking efforts of the past.

### **National Single Window**

62. Achieving meaningful trade facilitation gains requires comprehensive “whole-of-border” reform initiatives and effective cooperation, information sharing, and genuine collaboration among all border management agencies. As a result of earlier investments under the two previous customs reform projects, the ASYCUDA World customs processing system is now operating successfully at all major ICDs and BCPs. Over 90%

of all customs declarations are now processed through the system. In line with international standards and WTO requirements, the Government is now committed to developing and implementing a National Single Window (NSW) system, which will allow traders to submit all import, export and transit information required by all key regulatory agencies via a single electronic gateway instead of submitting essentially the same information numerous times to different government entities, many of which still rely heavily on paper based systems. The proposed system will effectively link all relevant agencies to the ASYCUDA World system and allow the simultaneous processing and clearance of all permits, licenses, certificates, approvals and customs requirements via one integrated gateway.

63. The introduction of modern technologies and approaches that will accompany the implementation of the NSW will require significant capacity building efforts in the ACD, participating agencies and the trade community. Work will therefore also focus on the development of a capacity development plan with specific attention to the skills development necessary to operate and manage the NSW and more generally in the participating agencies and the private sector.
64. Preparation of the Blueprint is expected to take approximately four months. Once the Blueprint has been prepared and agreed with government, attention will then shift to procuring an appropriate ICT system and related hardware requirements. Implementation is expected to take two years with participating agencies progressively added to the NSW. The first agency to be integrated into the NSW will be the Ministry of Commerce and Industry. The Additional Financing project will, however, only finance the preparatory work. Financing for the procurement and customization of the NSW is not included in the proposed AF project. The development and implementation itself of the NSW is a long term undertaking and is beyond the scope of the proposed AF project. The preparatory work, however, will mean that, if further support is provided by either the World Bank or other development partners, the key decisions will have already been made which will result in a significant saving in deployment time and a much higher level of understanding amongst officials of the ACD and participating agencies.
65. Detailed description of the Trade Information Portal and National Single Window can be seen in Annex-4.

**Table-4: Project Cost by Component**

**(For more detailed breakdown, refer to Annex-3)**

	<b>Component Description</b>	<b>Amount (USD)</b>
A	Countrywide computerization of Customs clearance operations	7,133,095
B	Installation of executive information system for Customs allowing real time monitoring of operations	-
C	Development of cross border Customs-to Customs (C2C) links to capture reliable information on cargo	254,753
D	Provision of adequate Customs infrastructure to enable modernized operation	5,960,044



E	Development of an adequate regulatory, administrative and institutional framework for Customs, including updating and monitoring progress on the Customs five Year Plan	8,152,108
	<b>TOTAL</b>	<b>21,500,000</b>

## IV. Appraisal Summary

### Economic Analysis

66. The original economic analysis of SCRTFP expected the project to render a Net Present Value (NPV) of US\$ 1.44 billion over a 20 year period, a corresponding NPV of US\$ 760 million over a 10 year period, and an internal Economic Rate of Return (ERR) of roughly 146%. The updated analysis indicates an ERR ranging between 120-170%. Although this seems extremely high, however a comparison of the ERRs across similar World Bank and other projects reveals that customs and trade facilitation projects have enormous economic impacts.
67. This analysis assumes that most of these ERRs are calculated using a 50% reduction of clearance and transit times as a result of the project. In the case of SCRTFP, the clearance and transit times have come down by approximately 40%. The ex-post ERR for similar projects in Pakistan and Mongolia is 624% and 200%, respectively. Therefore, the range estimated for Afghanistan does not seem excessively high. Furthermore, for an economy like Afghanistan which is at a very early stage of economic development, the marginal value of gains due to any intervention will be high. The analysis also mentions that the potential economic gains of an improvement in outcome indicators is an increase in cargo values by (i) 0.1 - 0.5% as a result of lower administrative costs, (ii) 0.5 - 0.8% as a result of shorter clearance times, and (iii) 0.2% as a result of lower inventory costs due to lower variability of clearance time.

### Implementation Arrangements

68. No major changes to the implementation arrangements are envisaged except the following.
69. *Project Oversight by the Project Steering Committee (PSC)* – The PSC will remain headed by the Minister of Finance but will allow him / her to also designate a nominee. Typically, the nominee should be the Deputy Minister of Finance for Customs and Revenue. The composition of the PSC will change in that the three remaining Deputy Ministers of Finance will no longer be required to sit on the PSC, and instead, the Directors General of the Ministry of Finance for Treasury and Budget, will both be invited to join. The PSC will meet at minimum once a year.

70. In addition to the Project Steering Committee (PSC), for technical oversight a Technical Committee will be notified. This Technical Committee (TC) will be led by the Director General (DG) of ACD and comprise the HQ based Directors (Technical, Operations, Enforcement and Support & Development), Director ASYCUDA, CTA/ Team Lead/PM UNOPS, Field Coordinator UNCTAD, and any other member co-opted by the DG of ACD. Terms of Reference (TOR) for the TC will be agreed after declaration of project effectiveness.
71. The DG of ACD as the Project Director (PD) will be supported by the Directorate of Support and Development in coordinating and managing the day to day activities of the project, along with the SCRTFP TL/CTA, and his other relevant ACD and MOF Directors.

### **Financial Management**

72. The FM arrangements under the project are satisfactory. These have been re-assessed and the same arrangements will apply to the additional financing as well. As Implementing Partner, UNOPS will continue to support ACD in managing the financial aspects of the project.
73. **Staffing** – Currently, UNOPS has one project FM staff (national position). Previously, UNOPS had an international FM position for the project, but this position is currently vacant. The national FM staff has good experience working on this project and has been able to carry out the FM functions without support, so an international position is no longer deemed necessary under the project. However, given the work load and considerable liaison work with MoF, it is recommended that UNOPS hire one additional national FM staff (mid-level position).
74. Regarding ACD, it currently has one national FM staff for the project. Two national staff were originally proposed for ACD, of this one position remains vacant. As the Designated Account (DA) ceiling is proposed to be increased and more expenditures are expected to be managed through ACD, it is recommended that ACD hire a project FM staff (mid-level position) who will work along with the current FM staff to maintain relevant books of records for the project, process ACD payments, manage, reconcile and periodically replenish the ACD designated account, and liaise with MoF departments as necessary. The TOR for the position will be reviewed by the Bank.
75. **Budgeting** – The project will follow MoF guidelines for budget preparation. The budget will be based on the procurement plan and annual work plan. The annual budget will be broken down into quarters to facilitate budget monitoring. Actual expenditures will be monitored against quarterly budgets and reported to the Bank.
76. **Accounting** – All accounting is centralized at MoF in AFMIS (Afghanistan Financial Management Information System). Accounting for funds routed through the float account and other disbursements made to UNOPS will also be done by UNOPS. UNOPS uses ATLAS accounting software to record and report project transactions, and to reconcile the float account. UNOPS will ensure that there is segregated accounting for funds

received under the current grant, and for funds that will be received under the new grant for additional financing. In addition, ACD FM staff will continue to maintain required subsidiary books of records (bank book, petty cash book, consultants' register, etc.) for ACD transactions. ACD will also maintain separate books of records for each grant.

77. **Reporting** – Consolidated quarterly Interim Financial Reports (IFRs) will continue to be submitted for the project. UNOPS will assist ACD in preparing and submitting the consolidated IFRs. The quarterly IFRs will include the Statement of Cash Receipts and Payments, Statement of Uses of Funds by Project Activity, comparison of actual to budget expenditures & explanation of significant variances, and bank accounts' reconciliations. The IFRs will be due within 45 days from the end of every quarter (based on Afghan fiscal year).
78. **Funds flow** – The existing funds flow arrangements will continue. The current float account operated by UNOPS will receive funds from the new grant as well. UNOPS will ensure funds received under each grant are tracked separately for accounting, reporting, reconciliation and acquittal purposes.
79. The ACD designated account is maintained at DA Afghanistan Bank (the central bank) and the authorized signatory is MoF. The DA has a current ceiling of US\$25,000. As ACD is expected to manage more expenditures under the additional financing, it has been agreed to increase the DA ceiling from US\$25,000 to US\$100,000. However, to keep accounting simple, a new DA will be opened under the new grant and the full ceiling amount will be paid from the new grant. ACD will continue to pay expenditures from the existing DA until the entire current advance is utilized, and submit a documentation application to acquit the advance under IDA H568.
80. One of the challenges to smooth disbursements has been the lengthy approval process within MoF. Efforts are being made to streamline this process, as this is critical to ACD assuming more implementation responsibilities. As a first step, it has been agreed with the key focal staff in the relevant departments in MoF that a joint workshop will be held with participants from the budget and treasury departments of MoF, UNOPS and the World Bank to present the disbursement arrangements and documentation requirements under this project to everyone involved in the process. Given that these arrangements are slightly different for this project compared to other Bank projects, such a workshop is expected to greatly enhance the understanding and as a result, bring improvements to the process.
81. The float account will follow report based (IFR) disbursement method, whereas the designated account will follow traditional SOE-based disbursement method. For the float account, advances will be made based on 6 months forecast of expenditures. Every quarter, a documentation application will be submitted along with the quarterly IFRs. For the designated account, replenishments will be made based on actual expenditures paid out from the DA. Replenishment application should be submitted preferably monthly, and at least quarterly.

82. **Internal controls** – All payments to UNOPS, to the float account and payments from the designated account will follow standard processes within MoF. All project payments within UNOPS are subject to review and approval of the centralized finance department of UNOPS. The internal control mechanism is satisfactory.
83. Internal audit within UNOPS will be carried out by its own internal audit department. For ACD, the internal audit will be done by the Internal Audit department of MoF.
84. **External Audit** – Annual project audit for all World Bank funded/ administered projects is done by the Supreme Audit Office of Afghanistan with technical assistance from an internal audit firm. The financial statements for the audit are prepared by MoF. This arrangement will be followed for ACD transactions.
85. For UNOPS transactions, the annual audit will be carried out by private auditors hired by UNOPS and the financial statements for the audit will also be prepared by UNOPS. This arrangement is in place, and audits for two fiscal years have already been done. Both the ACD and UNOPS audits will follow the government fiscal year (Dec 21 to Dec 20), and the audited financial statements will be submitted within 6 months from the end of the fiscal year. The responsible agency for the audits is MoF.
86. The above arrangements are adequate for the additional financing. There are no outstanding audit reports, no outstanding IFRs and no ineligible expenditures under projects that were implemented or currently being implemented by MoF.

**Table 5: IDA Financing by Category of Expenditure (US\$ million)**

<i>Expenditure Category</i>	<b>Amount of the Grant Allocations</b>	<b>Financing Percentage</b>
(1) Goods, works, consultants' services, training, and Incremental Operating Costs <sup>5</sup>	21.50	100 %
<b>Total</b>	<b>21.50</b>	<b>100%</b>

### **Procurement Management**

87. The Procurement arrangements under the project are satisfactory. As the implementing partner, UNOPS has been responsible for managing all procurement activities, with ACD represented throughout the process. UNOPS have their own robust systems in place. In

<sup>5</sup> For purposes of this paragraph, the term "Incremental Operating Costs" means incremental expenses incurred on account of Project implementation, support and management including the rental of office space, the operation, maintenance, rental and insurance of vehicles, fuel costs, communications supplies and charges, advertisement expenses, books and periodicals, office administration and maintenance costs, bank transaction charges, utility charges, domestic travel, per diem and project allowances of Recipient's civil servants, but excluding salaries of officials and staff of the Recipient's civil service.

addition to obtaining ACD approval and WB No Objection Letter (NOL) for all procurements within prior review threshold, approval is also obtained from regional and Head Quarters based Procurement Review Committees. These have been re-assessed and the same arrangements will apply to the additional financing as well, with UNOPS continuing to support ACD in managing the procurement aspects of the project.

88. For the proposed AF a procurement plan has been agreed upon with the recipient, and all contracts will be awarded in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised January 2011.

### **Environmental Safeguards Inputs**

89. Activities under the proposed AF will continue to follow the updated Environment and Social Management Framework (ESMF). The AF of SCRTFP retains the original environmental category 'B' and no new safeguard policies are triggered.
90. The majority of environmental and social impacts of SCRTFP are generally related to generation, development and rehabilitation of ACD's Facilities; thus, the implementation of the subproject activities is not expected to cause any significant adverse environmental or social impacts. However, there will be potential short term impacts on some local communities and the local environment which could be minimized, reduced and mitigated if relevant measures envisioned in the project updated ESMF are properly applied.
91. Most potential environmental impacts are related to the setting of facilities such as substations, construction activities and the possible presence of mines. Assessment and mitigation of potential impacts will be addressed through the application of environmental codes of practices, and mine risk and safety procedures that have been envisioned in the project ESMF by the project management team and particularly by the Safeguards Focal Officer. Of course the overall responsibility is with the ACD and the Ministry of Finance.
92. Operational level impacts should also be considered. Water and Sanitation in the rest areas, offices and facilities related to the ACD facilities should be functioning hygienically. Offices should have emergency exits, smoke detectors, fire extinguishers or fire hydrants, guard rails, ramps for the disabled, etc., to ensure Environmental Health and Safety issues during the facilities' life time.
93. Training would also be needed for custom officers to identify legally banned toxic items, e.g., outdated pesticides, WHO banned items, etc.
94. SCRTFP team and the ACD have updated the old version of the ESMF and will reemploy the Safeguards Focal Officer. World Bank Safeguards staff can help enhance

the capacity of relevant ACD and project staff (particularly the safeguards Focal Officer) to properly implement the ESMF if needed.

## **V. World Bank Grievance Redress**

95. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS> . For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org) .

**Annex 1: Revised Results Framework and Monitoring Indicators**  
**AFGHANISTAN: ADDITIONAL FINANCING FOR THE SECOND CUSTOMS**  
**REFORM AND TRADE FACILITATION PROJECT**

Revisions to the Results Framework		Comments/ Rationale for Change
<b>PDO</b>		
<i>Current (PAD)</i>	<i>Proposed</i>	
To improve the release of legitimate goods in a fair and efficient manner.	No change	
<b>PDO indicators</b>		
<i>Current (PAD)</i>	<i>Proposed change</i>	
<u>Effectiveness</u> Performance 1. Time for clearance (Customs only)  2. Rate of detections	1. End of Target values revised. Otherwise no change.  2. No change, but will be reviewed after six months	
<u>Efficiency</u>  1. Effective rate (fiscal productivity of Customs) 2. Economic cost per declaration  3. Cost savings to business due to reformed customs systems.	Deleted Deleted Significant change.  New indicator	This will be replaced by one indicator i.e. "Cost saving to business due to reformed customs systems". This is a superior measure of reform progress and is tied closely to the gains for key project beneficiaries. The methodology to be used was designed by DEC and successfully employed to measure the contribution of trade facilitation projects elsewhere.
<u>Fairness</u> User satisfaction 1. Customs Component Indicators from the Logistics Performance Index (LPI) 2. Subjective user satisfaction surveys	1. This indicator is dropped  2. No change	LPI ranking is influenced in part by the performance of other countries. Furthermore LPI survey is not conducted every year, and has a lag, i.e. the results of current LPI indicate previous year's performance.
<b>Intermediate Results indicators</b>		
<i>Current (PAD)</i>	<i>Proposed change</i>	
(i) Countrywide computerization of Customs Clearance operations  Disaster Recovery Center (DRC)	Increase in number of offices from 11 to 16 where ASYCUDA and wider modules deployed  DRC implemented	ASYCUDA has already been deployed at 14 locations. Increase in the number of locations to be connected through ASYCUDA system, DRC necessary to ensure business continuity and sustainability of WB investments.

Revisions to the Results Framework		Comments/ Rationale for Change
(ii) Installation of executive information systems for Customs allowing real time monitoring of operations	Executive information system installed. Alerts identified, and SOP prepared for taking action on alerts	No change
(iii) Development of possible options for cross border Customs-to-Customs (C2C) Cooperation	Real time data exchange between Afghanistan and Tajikistan and Afghanistan and Pakistan C2C MoU with Iran	
(iv) Provision of selected Customs infrastructure to enable modernized operations	Increase in number of facilities to be improved/rehabilitated.	
(v) Technical assistance to support the development of an adequate regulatory, administrative and institutional framework for Customs	Technical assistance and support for the following additional areas provided Customs Academy Implementing BPR and ERP Feasibility Study for technological equipment and technology integration	These are activities to be taken up with the additional financing.
Development and implementation of a Trade Information portal.	Deployment of Trade Information Portal	
Preparation of a National Single Window (NSW) Blueprint.	Delivery of NSW Blueprint and scope and content agreed with the Government.	



## REVISED PROJECT RESULTS FRAME WORK

PDO Level Results Indicators <sup>6</sup>	Core	UOM <sup>7</sup>	Baseline Original Project Start (2010)	Progress To Date (2015) <sup>8</sup>	Target Values		Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2015	2016				
1. Time for clearance (Customs only)	<input type="checkbox"/>	Minutes	Inland Clearance (avg) 148 minutes. Border Clearance (avg) 36 minutes	Inland Clearance (avg) 120 minutes. Border Clearance (avg) 30 minutes	Inland Clearance (avg) 115 minutes. Border Clearance (avg) 30 minutes	Inland Clearance (avg) 105 minutes. Border Clearance (avg) 27 minutes	Year	ASYCUDA Customs MIS Physical Observations	Support & Development Directorate, ACD /UNOPS/UNC TAD	
2. Rate of detections	<input type="checkbox"/>	percent	5.5% irregularity detection of total declarations processed through ASYCUDA risk management system (RMS)	5.5% irregularity detection of total declarations processed through ASYCUDA risk management system	7% irregularity detection of total declarations processed through ASYCUDA risk management system	7% irregularity detection of total declarations processed through ASYCUDA risk management system	Year	ASYCUDA Customs MIS Physical Observations	Support & Development Directorate, ACD /UNOPS/UNC TAD	The End Target values have not been changed because in the new customs offices connected to the RMS the initial non-compliance detected will be low.
3. Cost savings to business due to Customs reform and modernization.			Baseline can be retroactively calculated using clearance time in 2010.	To be retroactively calculated.	To be retroactively calculated.			ASYCUDA data.	ACD with WB supervision.	

<sup>6</sup> Please indicate whether the indicator is a Core Sector Indicator (for additional guidance – please see <http://coreindicators>).

<sup>7</sup> UOM = Unit of Measurement.

<sup>8</sup> For new indicators introduced as part of the additional financing, the progress to date column is used to reflect the baseline value.

4. Subjective user satisfaction surveys	<input type="checkbox"/>	Number	Average score of 6.5 out of 10.	Average score of 6.5 out of 10	Average score of 7 out of 10	Average score of 7 out of 10	Year	Periodic Surveys	Support & Development Directorate, ACD /UNOPS/UNC TAD	
<b><u>Beneficiaries</u></b>										
Project beneficiaries,	<input checked="" type="checkbox"/>	Number	Not applicable							
Of which female (beneficiaries)	<input checked="" type="checkbox"/>	Number				Methodology for measuring impact of policy changes on female traders developed				

Intermediate Results and Indicators												
Intermediate Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (2010)	Progress To Date (2015)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2015	2016	2	2				
							0	0				
							1	1				
							X	X				
<b>Intermediate Result 1: Countrywide computerization of Customs Clearance operations</b>												
1. Countrywide computerization of Customs Clearance operations		Text	Declaration Processing System (DPS) operational at five locations (i) Kabul ICD, (ii) Kabul Airport, (iii) Herat, (iv) Mazar, and (v) Kunduz  Inland transit operational at 5 axis (i) Torkhum-Jalalabad-Kabul, (ii) Islamqala-Herat-Kabul, (iii) Hairatan-Mazar-Kabul, (iv) Sherkhan Bander-Kunduz-Kabul, and (v) Torghundi-Mazar-Kabul.	<i>Declaration and wider modules</i> deployed at fourteen regional offices and border posts. Entry exit gate control module operational at Kabul, Jalalabad, Andkhoy, and Herat ICDs. Further rollout underway. Risk Management System operational at seven locations. Valuation module operational at two locations. Vehicle clearance system deployed. All major inland and international transit routes covered through transit module.	ASYCUDA Operational at 15 Custom offices Risk Management operational at 9 locations Valuation module operational at 4 locations	ASYCUDA Operational at 16 Custom offices Risk Management operational at 11 locations Valuation module operational at 6 locations			Year	ASYCUDA reports/ACD/UNCTAD	ACD/ASYCUDA	
Disaster Recovery Center (DRC)		Text	No DRC	No DRC	Bid Docs prepared and bids advertised	DRC Implemented			Six months	Monthly/quarterly	ACD/UNOPS	

Intermediate Results and Indicators												
Intermediate Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (2010)	Progress To Date (2015)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2015	2016	2017	2018				
										progress reports		
<b>Intermediate Result 2:</b> Installation of executive information systems for Customs allowing real time monitoring of operations												
2. Installation of executive information systems for Customs allowing real time monitoring of operations	<input type="checkbox"/>	Text	No information system available	Executive information system functioning in ACD HQ. Data migration complete. Selected SMS alerts being generated. Standard reports developed, while customized reports under development. Expansion underway.	Standard Alerts identified and generated. SOP for follow up action prepared	Standard Alerts and reports internalized. SOPs implemented.			year	ASYCUD A Reports	ACD/ASYCUDA	
<b>Intermediate Result 3:</b> Development of possible options for cross border Customs-to-Customs (C2C) Cooperation												
3. Development of possible options for cross border Customs-to-Customs (C2C) Cooperation	<input type="checkbox"/>	Text	No Customs-to-Customs (C2C) Cooperation	Exchange of data through secure emails started on November 1, 2013 between ACD and Pakistan Customs. Real time data exchange expected by June	Real time data exchange between Afghan and Tajikistan Customs and Afghan and Pakistan Customs.	C2C MoU between Afghanistan and Iran signed.			year	Progress reports and implementation support missions	ACD/UNOPS/UNCTAD	

## Intermediate Results and Indicators

Intermediate Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (2010)	Progress To Date (2015)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2015	2016	2017	2018				
				2015. MoU for C2C signed between Afghan and Tajik Customs, and formal data exchange expected soon. Negotiations underway with Iran for signing of C2C MoU								
<b>Intermediate Result 4:</b> Provision of selected Customs infrastructure to enable modernized operations												
4. Provision of selected Customs infrastructure to enable modernized operations	<input type="checkbox"/>	Text	Baseline not required	Works at Khost, Jalalabad, Nimroz, Kandahar and Andkhai ICDs completed and handed over. In total 50 large and small civil works completed.	Contracts awarded for at least 8 sub-projects	Agreed Infrastructure completed				Monthly and quarterly progress reports. Implementation support missions	ACD.UNOPS	
<b>Intermediate Result 5:</b> Technical assistance to support the development of an adequate regulatory, administrative and institutional framework for Customs												
5. Technical assistance to support the development of an adequate regulatory, administrative and institutional framework for Customs	<input type="checkbox"/>	Text	Baseline not required	Following achieved to date: i. New Customs Strategic Plan. ii. PCA reinvigorating strategy including implementation	Terms of reference prepared for (i) National Single Window Feasibility, (ii) Trade Portal development (iii)	Contract awarded for (i) National Single Window feasibility, (ii) Trade Portal development (iii) Technology equipment			year	Monthly and quarterly progress reports. Implementation support missions	ACD/UNOPS	

## Intermediate Results and Indicators

Intermediate Results Indicators	Core	Unit of Measurement	Baseline Original Project Start (2010)	Progress To Date (2015)	Target Values				Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2015	2016	2017	2018				
				plan. iii. Policy paper for effective deployment and use of Mobile Verification Teams (MVT) by the ACD. iv. Dubai Workshop Action Plan v. New examination policy and procedures including examination reports. vi. Capacity building of valuation section. vii. Paper on improving Customs Broker registration. viii. HR reforms and remuneration etc. ix. Cargo tracking etc.	Technology equipment feasibilities.  International experts hired for Legislative review, strengthening of PCA, valuation and risk management and enforcement	feasibilities.  Legislative review completed.  Action Plan for setting up enforcement wing completed						

## Annex 2: GAAP Analysis

	Description of Activity	Baseline (2010)		5/1/2013		Difference from baseline		4/1/2015		Difference from baseline	
		Ease	Importance	Ease	Importance	Ease (%)	Imp (%)	Ease	Importance	Ease (%)	Imp (%)
1	Arrival/ Landing/ Reporting	10	42	6	22	60%	52%	6	21	60%	50%
2	Immediate Customs control	5	33	4	22	80%	67%	3	5	60%	15%
3	Compliance Checks	7	51	6	40	86%	78%	5	28	71%	55%
4	Detection and reporting	4	21	4	18	100%	86%	4	18	100%	86%
5	Processing and adjudication of violations	11	9	9	9	82%	100%	8	9	73%	100%
6	Assessment	10	3	9	3	90%	100%	8	2	80%	67%
7	Payment of duty	13	18	5	6	38%	33%	4	5	31%	28%
8	Exit	3	12	2	9	67%	75%	2	9	67%	75%
9	Transit	7	6	7	6	100%	100%	7	6	100%	100%
10	Warehousing	13	18	11	15	85%	83%	9	9	69%	50%
11	Re-export	21	1	21	1	100%	100%	12	0	57%	0%
12	Post release verifications	20	19	20	19	100%	100%	19	18	95%	95%
13	Customs investigations	7	9	7	8	100%	89%	6	8	86%	89%
	<b>Total</b>	<b>131</b>	<b>242</b>	<b>111</b>	<b>178</b>			<b>93</b>	<b>138</b>		
			<b>Improvement</b>	<b>85%</b>	<b>74%</b>			<b>71%</b>	<b>71%</b>		

### Annex 3: Detailed Description of Activities and Costs

#### Detailed Description of Activities and Costs

Sr. No.	Description of Activity	Amount (US\$)
<b>Component-1: Country wide computerization</b>		
1	All modules of ASYCUDA (UNCTAD component)	4,000,000
2	Oracle Software for ASYCUDA	1,000,000
3	Development of IT and business continuity strategies, ASYCUDA unit sustainability, power supply, ERP, and office management feasibility	100,000
4	Internet services to Regional Customs	500,000
5	Procurement of IT equipment for ACD/ASYCUDA	600,000
	<b>Sub-total</b>	<b>6,200,000</b>
<b>Component -2: Customs to Customs Cooperation and Data Exchange</b>		
1	Activities relating to C2C	200,000
	<b>Sub-total</b>	<b>200,000</b>
<b>Component 4: Provision of Selected Infrastructure</b>		
1	Construction of Inside Roads at Weesh BCP	609,070
2	Construction of Water Supply at Weesh BCP	50,000
3	Construction of inside Roads at Kandahar ICD	950,000
4	Connecting Jalalabad Customs to Public Power Line	300,000
5	Mobile offices (Connexes) various locations	200,000
6	Construction of Customs Admin building Paktia ICD	700,000
7	Construction of Boundary wall at Abu Nasr Farahi	500,000
8	Construction of Admin Buildings at Abu Nasr Farahi, Paktika & Aqina (Preparatory Work)	100,000
9	Construction of Boundary wall at Aqina BCP	120,000
10	Repair, paint, signage, IT cabling etc. of Kabul airport and selected customs offices	200,000
11	Water supply at Kabul for ANCA	50,000
12	Preparatory work for Construction of Accommodation/hostel for customs staff at various Custom locations	100,000
13	Construction of Data Center at Kabul, including all necessary equipment	800,000
	<b>Sub-total</b>	<b>4,679,070</b>
<b>Component - 5: Technical Assistance</b>		
1	Feasibility Study for Technological Equipment	100,000
2	Procurement and installation of Weighbridges/ Weigh-in-motion systems at major Customs stations	900,000
3	Installation of Control Cameras	100,000



4	Installation of finger print scanners for brokers/officers and barcode readers for BCP officers	400,000
5	Single Window feasibility and legal framework	800,000
6	PCA, TRSU, ICU, CRMU, Valuation, legislative review, Risk Management, Enforcement, etc.	1,000,000
7	Consultancy Services & Allowances to ACD	1,200,000
8	Customs Uniform	100,000
9	Communication & Public awareness	300,000
10	Project Staff, Operational Cost & other exigencies	1,200,000
11	Operationalization of ANCA	700,000
12	Technical Assistance for ANCA	800,000
	<b>Sub-total</b>	<b>7,600,000</b>
<b>Misc. Operational Costs</b>		
1	Travel for ACD/ASYCUDA staff	300,000
2	Procurement of soft skin and armored vehicles and communication equipment for ACD enforcement	800,000
3	Contingencies	500,000
4	Agency overhead and Support charges for UNOPS	1,220,930
	<b>Sub-total</b>	<b>2,820,930</b>
	<b>Grand Total</b>	<b>21,500,000</b>

## **Annex 4: National Trade Information Portal and National Single Window**

### **Trade Information Portal**

1. In most developed countries, trade related information is readily available across a number of websites maintained by government agencies responsible for a particular aspect of trade regulation. However, in many developing countries, including Afghanistan, such agency specific websites do not exist and even when they do they are often incomplete, out of date, poorly maintained, and/or the content may not cover the entire spectrum of information that traders need to obtain to ensure compliance with import, export or transit requirements. It is therefore desirable to create a single platform where all the information relating to trade from all the various agencies is aggregated under one site and is readily available for searching and viewing. For WTO members or countries in the process of acceding to the WTO, establishing a Trade Information Portal will assist them to comply with the transparency commitments included in the new WTO Trade Facilitation Agreement.
2. The establishment of a portal requires all relevant rules, regulations, procedures, fee schedules, and forms from all border management agencies to be identified and posted on the website. This work can be extremely resource intensive but is a critical first step in the process of reforming, simplifying and rationalizing border management systems and procedures. Experience suggests that such an approach can deliver significant benefits, including higher levels of voluntary compliance from traders and radically shortening the implementation timetable associated with more complex initiatives such as the development of a national single window. Such an approach is also in line with international good practice and contributes to the longer term objective of achieving automated submission and processing of all import, export and transit requirements in both Customs and non-Customs agencies.
3. The project will therefore finance the implementation of an Afghanistan Trade Information Portal which will provide a single user friendly website where comprehensive and up to date information on all tariff and non-tariff measures applied at the time of import, export or transit is readily accessible to traders. The Portal will also provide the capacity to inform and obtain feedback from the trading community and provide a simple vehicle to allow traders to comment on pending regulatory changes.
4. The establishment of the Portal will be a joint undertaking between the ACD and the Ministry of Commerce and Industry and will make use of the World Bank Trade Information Portal Toolkit, which is a product specially designed to be adaptable to different countries and that comprises documentation, support and implementation methodology.

### **National Single Window**

5. While improving the performance of the ACD remains a high priority for the government, it is only one of many agencies involved in the processing and clearance of goods. Evidence from across the world suggests that in most countries the Customs administration is directly responsible for no more than one-third of regulatory delays. Data from the World Bank's Logistics Performance Indicators (LPI) suggests that logistics professionals across the world rate their level of satisfaction with customs much higher than that of other border management agencies. This highlights the need to focus attention on reforming and modernizing the systems and procedures employed by border management agencies

other than customs, including Health, Agriculture, Commerce, Quarantine, Police, Immigration, Standards, and myriad other organizations involved in regulating trade flows.

6. While much criticism of border clearance delays and high costs is correctly directed at customs officials, the fact is that it is not uncommon for over 30 different government agencies to play some a role in the processing and clearance of goods. Global experience suggests that clearance times are largely determined by the performance of the weakest link in the border processing chain. It matters little if customs declarations can be submitted and processed electronically if a raft of documents still needs to be taken by hand to other agencies, then examined and approved before the goods are finally released.<sup>9</sup> Achieving meaningful trade facilitation gains therefore requires comprehensive “whole-of-border” reform initiatives and effective cooperation, information sharing, and genuine collaboration among all border management agencies.
7. As a result of earlier World Bank investments under the two previous customs reform projects, the ASYCUDA World customs processing system is now operating successfully at all major ICDs and BCPs. Over 90% of all customs declarations are now processed through the system. In line with international standards and WTO requirements, the government is now committed to developing and implementing a National Single Window system. This will allow traders to submit all import, export and transit information required by all key regulatory agencies via a single electronic gateway instead of submitting essentially the same information numerous times to different government entities many of which still rely heavily on paper based systems. The proposed system will effectively link all relevant agencies to the ASYCUDA World system and allow the simultaneous processing and clearance of all permits, licenses, certificates, approvals and customs requirements via one integrated gateway.
8. The development of a National Single Window is, however, a complex undertaking that needs to be carefully planned and implemented in a phased manner. The preparatory phase of this work will focus on the design and establishment of the necessary enabling environment for successful implementation and will focus specifically on the development of an implementation “Blueprint”. The Blueprint will cover nine inter-related clusters of work considered essential for successful implementation, including:
  - Legal and Regulatory framework review;
  - Governance and Operational Model options;
  - Revenue model and Fee Structure for sustainable long term operation;
  - Technical and functional architecture and specifications;
  - Service Level Agreements for participating agencies;
  - Business process reengineering, change management and communication strategy;
  - Design of a risk management strategy and model for participating agencies; and
  - Design of a capacity building strategy and plan for the NSW, the operating entity, participating agencies and traders.
9. The legal and regulatory review will analyze the current legal and regulatory framework for trade and related areas that will govern the functions and operations of the electronic NSW. The analysis will

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<sup>9</sup> UNCTAD has estimated that a single trade transaction may easily involve 30 parties, 40 documents, 200 data elements, and require the resubmission of 60–70 percent of all data at least once.

focus on identifying gaps and impediments in laws and/or regulations that will adversely impact the functioning of the NSW. In consultation with the Government counterparts and other stakeholders, this activity will prepare recommendations for corrective actions including the draft amendments to laws and regulations or new regulations.

10. The governance and operating model work will prepare a decision making framework for government that will assist them to decide on an appropriate governance and operational model for the NSW. The strengths, weaknesses and risks of each option will be identified and analyzed in relation to Afghanistan's ambitions and operating environment. Once government has made key decisions on the operational and governance model, work will commence on the service specifications for the ACD as lead agency. The specifications will likely involve providing assistance to prepare all the required operating and contractual documentation including, but not limited to, detailed Terms of Reference for bidding, model contracts, service level agreements, and/or company/organizational charters.
11. As sustainability of the NSW will be a key consideration, a great deal of attention will be paid to defining an appropriate User-Fee Structure for the NSW. This work will take into account international experience in establishing this structure as well as WTO rules and disciplines. The User-Fee is expected to cover at a minimum the costs of the operation and maintenance of the NSW as well as any incremental costs to participating government agencies. As a key element of this work, this activity will determine and gain agreement on an appropriate revenue sharing model to ensure all participating stakeholders are reimbursed for administrative expenses incurred as a result of their participation in the NSW system.
12. As the NSW will be heavily focused on the use of ICT to facilitate integration of activities much attention will be paid to determining the most appropriate functional and technical architecture for the LNSW taking into account the following elements a) International practices in other NSW implementations; b) WTO requirements; c) Industry trends in technology and infrastructure platforms; and d) Technology and infrastructure environments in participating government agencies and in Afghanistan in general. Once the technical and functional architecture has been agreed with government counterparts, attention will be paid to preparing technical and functional specifications suitable for the preparation of bid documents for the NSW system.
13. International experience suggests that the success of major ICT system implementation is heavily dependent on user acceptance of system functionality. In order to support effective implementation, it will be necessary to work with stakeholders (including those in the private sector) to develop appropriate service level standards for the NSW. As service level standards are only of true value when they can be measured and monitored, attention will also be paid to developing a monitoring framework and methodology to ensure that service levels are kept and bottlenecks identified.
14. The NSW will necessarily introduce a new level of automation and modernization in all participating agencies for the issuances of permits, licenses and permissions necessary for import, export, and transit of goods. Currently, other than ACD, the level of automation is very low with most agencies relying heavily on outdated and inefficient paper based systems and procedures. As such, before any introduction of automation a reengineering exercise will need to be undertaken in each participating agency to optimize business processes related to the issuances of permits, licenses and permissions and to fully leverage the possibilities and potential of the NSW. This activity will, in collaboration with the

participating agencies reengineer business processes for automation; define automation strategies and plans for the agencies; and develop individual change management strategies and plans. While each participating agency will have its own specific and unique requirements, it is expected that the NSW will standardize and harmonize similar business processes, procedures, data definitions and other related items as much as possible across all participating agencies. International good practices and data standards will also be used as applicable.

15. The individual change management strategies and plans for each of the participating agencies will form components of an overall change management and communications strategy and plan for the implementation of the NSW covering all stakeholders (participants and users). This activity will also incorporate a robust training strategy and plan to ensure all users including traders are adequately trained to use the system post implementation and on an ongoing basis thereafter.
16. In order to ensure streamlined and integrated activities between participating agencies, it is necessary to apply modern risk based approaches to the processing and clearance of goods. Work will therefore be done to develop the capacity of participating agencies to apply modern risk management approaches to the issuances of permits, licenses and permissions necessary for import, export and transit of goods. As part of the capacity building effort in the individual agencies, this activity will develop initial risk management profiles and develop both an agency specific and overall risk management model for the NSW.
17. The introduction of modern technologies and approaches that will accompany the implementation of the NSW will require significant capacity building efforts in the ACD, participating agencies and the trade community. Work will therefore also focus on the development of a capacity development plan with specific attention to the skills development necessary to operate and manage the NSW and more generally in the participating agencies and the private sector.
18. Preparation of the Blueprint is expected to take approximately four months. Once the Blueprint has been prepared and agreed with the Government, attention will then shift to procuring an appropriate ICT system and related hardware requirements. Implementation is expected to take two years with participating agencies progressively added to the NSW. The first agency to be integrated into the NSW will be the Ministry of Commerce and Industry. The Additional Financing project will, however, only finance the preparatory work. Financing for the procurement and customization of the NSW is not included in the proposed AF project.

## Annex 5: Project Risk Assessment

Risk	Original Risk Rating	Status during Implementation	Current Risk Rating
<b>Sector Governance Risks</b>			
High level of interference by central and provincial authorities and other power holders in Customs affairs continues	High	<p>The overall improvement in Customs systems and processes, including automation, has considerably reduced central and provincial interference in Customs. Although fiscal interference is now negligible, there is still some influence in Human Resources (in terms of hiring and firing) and general administration of customs by provincial authorities. This risk still remains, but the impact has reduced to some extent due to the following:</p> <ul style="list-style-type: none"> <li>• The Customs Modernization Workshop held in June 2012 brought all relevant stakeholders together to agree to the role, mandate and future of Customs. The outcome of the workshop was the Customs Action Plan, which has become the medium to long term blueprint for Customs modernization. This action plan has been agreed to by key stakeholder Ministries i.e. the Ministry of Finance, Ministry of Interior and Ministry of Commerce &amp; Industry. President Ashraf Ghani reiterated his Government's commitment to implementing the Customs Action Plan during his speech at the London Conference on Afghanistan in December 2014. Implementing the Customs Action Plan is also a benchmark under the ARTF Incentive Program.</li> <li>• Immediately after assuming office, President Ghani issued a decree, barring other agencies from undue interference in Customs affairs.</li> <li>• A revised MoU signed between the Ministry of Finance and Ministry of Interior on Border Management.</li> </ul>	High
Political commitment to reform, the overall GAAP slackens, and complex policy and legislative measures do not get approved	High	While political commitment to reform has remained high, the transition period (international troops drawdown and prolonged election process) did have an impact as important and key policy level actions were not undertaken during this period. However, since the formation of the National Unity Government, the commitment to reform has been reiterated at the highest level.	High
Reform implementation is completed but reversed due to: lack of real ownership and buy-in from the government at different levels; reaction from ACD and related Agencies' staff	Substantial	<p>No roll back of the actions undertaken during implementation was witnessed</p> <p>ARTF IP and IDA DPG are used as policy instruments to make reforms sustainable.</p>	Substantial
<b>Project Risks</b>			

<b>Risk</b>	<b>Original Risk Rating</b>	<b>Status during Implementation</b>	<b>Current Risk Rating</b>
Computerization is not supported; post clearance audits not working; e-links not working; risk management techniques not made part of Customs control processes	Moderate	The risk of loss of support for computerization has not materialized. In fact computerization has exceeded the targets set at the onset of the project. The ASYCUDA Risk Management/selectivity model is also functioning successfully at seven major Custom offices, and further rollout continues. Similarly, the ASYCUDA valuation module is now operational at three offices and rollout to additional offices continues.	Moderate
Management and administrative improvements are not institutionalized	High	Progress on implementing management and administrative improvements has been slow. However, these are now gaining momentum through (i) the establishment of the Customs training academy and (ii) formulation of a comprehensive HR policy.	High
Cross border coordination is not possible due to technical or political impediments	Substantial	Customs to Customs (C2C) cooperation arrangements between Afghanistan and neighboring countries has progressed well, with data exchange through secure email between Afghan and Pakistan Customs underway since 2013. Efforts are underway for real time data exchange to start by end June 2015. Similarly a C2C MoU between Afghanistan and Tajikistan was signed in 2014, and preparatory work for real time data exchange has been completed. An MoU for C2C between Afghan and Iranian Customs is also in an advanced stage of negotiations with a draft MoU already exchanged. The MoU is expected to be signed within 2015.  However volatility in the region due to various factors continues to pose possible impediments.	Substantial
Growing insecurity prevents project implementation such as construction of facilities	Substantial	While the security situation has presented challenges, the risk identified at the start of the project has largely not materialized during the SCRTFP. The construction of Customs facilities even in highly insecure areas like Khost, Kandahar, Nimroz and Farah were completed successfully by using innovative methods, use of local resources, etc. While projects have been delayed due to insecurity, all construction activities have been completed successfully.	High
Assets are destroyed, once provided. The ICT facilities, including the VSAT and Microwave links, could become potential targets, especially outside of Kabul.	Moderate	This risk has not materialized under the current project.	Moderate
ASYCUDA implementation stops due to UN pullout based on staff security concerns	Substantial	This risk has not materialized. Rollout to new locations is being managed by National staff and an impressive local capacity has been built within the ACD ASYCUDA Unit.	Substantial

<b>Risk</b>	<b>Original Risk Rating</b>	<b>Status during Implementation</b>	<b>Current Risk Rating</b>
Possible Fraud and corruption in procurement	Substantial	While there have been few complaint cases to date, the possibility of fraud and corruption during procurement remains substantial. UNOPS has strengthened its procurement oversight, by ensuring greater involvement of the Afghanistan Operations Office reviewing nearly all procurements. Based on the relevant thresholds, all procurements are reviewed by either the regional or HQ procurement committees. The Grievance Redressal System is being further improved. The Bank will also continue robust due diligence of all procurement activities.	Substantial
UNOPS contract not extended		There is a new risk that the newly formed National Procurement Committee may not approve of the extension of the UNOPS contract in line with the closing date of this additional financing. This is based on the recent experience of another World Bank project which also used similar arrangements. However, the team has reasonable assurance from the ACD that the contract will be extended. The government has agreed to an effectiveness condition for this AF that requires them to extend the MSA to cover the full period of implementation.	Substantial
<b>Overall Risk Rating</b>	<b>High</b>		<b>High</b>