PROJECT INFORMATION DOCUMENT (PID)
ADDITIONAL FINANCING

Report No.: PIDA26639

Project Name	ADDITIONAL FINANCING FOR SECOND CUSTOMS REFORM AND TRADE FACILITATION PROJECT (P155443)
Parent Project Name	Second Customs Reform and Trade Facilitation Project (P112872)
Region	SOUTH ASIA
Country	Afghanistan
Sector(s)	Public administration- Industry and trade (70%), Information technology (20%), General transportation sector (10%)
Theme(s)	Infrastructure services for private sector development (35%), Trade facilitation and market access (20%), Technology diffusion (20%) , Other public sector governance (15%), Regional integration (10%)
Lending Instrument	Investment Project Financing
Project ID	P155443
Parent Project ID	P112872
Borrower(s)	Ministry of Finance
Implementing Agency	Afghan Customs Department
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	23-May-2015
Date PID Approved/Disclosed	23-May-2015
Estimated Date of Appraisal Completion	14-May-2015
Estimated Date of Board Approval	11-Jun-2015
Appraisal Review Decision (from Decision Note)	The review did authorize to proceed with Negotiations, in principle

I. Project Context

Country Context

Afghanistan is a country with a total population of approximately 28.1 million. The Government of Afghanistan's (GoA) authority and capacity are weak, and continue to be effected by fragility and conflict, undermining its efforts in development, attaining self-reliance and reducing poverty. Furthermore, corruption is widespread and all signs indicate that the levels have 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.

Unprecedented political, security, and economic challenges since 2012 have affected Afghanistan's economic growth, resulting in a fiscal crisis. Domestic revenues fell to 8.4 percent of GDP in 2014 from a peak of 11.6 percent in 2011. Economic growth has too 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, the latter 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 agencies, including in particular the Afghanistan Customs Department (ACD) under the Ministry of Finance, are critical to tackling the fiscal, integrity and governance challenges facing the country.

Sectoral and institutional Context

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 cost/effectiveness ratio of ACD remains acceptable, at 0.58, and is well within international standards. Of the total number of declarations processed through the 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 posts within 30 minutes of lodging transit requirements, and clear Inland Clearance Depots (ICDs) within 2 hours for green channel declarations, which is within or close to the end of project target.

In spite of the progress, Afghanistan’s trade logistic performance declined substantially in 2014, with the Customs component of the Logistics Performance Index (LPI) decreasing 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. 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. 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 have to date 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.

ACD in particular still remains structurally weak as a Customs Agency; at the same time, potential exists to further increase the revenue collected. Fundamental weaknesses remain with respect to ACD’s mandate, its internal administration, operational systems, processes and procedures, its governance structure, and human resources capacity. The growth in Customs collection has stagnated and even declined over the last few years. ACD can be more effective and can further improve its revenue collection by increasing its border control over goods and people, and the vehicles carrying them.

The ACD plays a key role in collecting domestic revenue and given its important role in border management toward this goal, the ACD has received considerable donor support for infrastructure improvement and operational technical assistance. This has included the World Bank support for computerization of customs clearance operations under the ECMTFP and SCRTFP.

The proposed additional financing (AF) is required to bridge the ongoing Second Customs Reform and Trade Facilitation Project (SCRTFP) operation for the next 18 months, to allow the government more time to finalize 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 ACD project management team.

The activities to be funded through the additional grant would further support reform progress and strengthen the prospects for long term sustainability. 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 country Customs administrations; and further improvement of systems for monitoring Customs performance through the use of an automated executive dashboard and alerts mechanism.

The AF will also allow for preparatory work to commence on the design of a Trade Information Portal and National Single Window system. 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 roll-out of the World Customs Organization (WCO)'s extensive suite of e-learning modules. This will also enhance prospects for sustainability and e nsure project inputs can reach many more officials.

II. Proposed Development Objectives

A. Current Project Development Objectives – Parent

To improve the release of legitimate goods in a fair and efficient manner.

III. Project Description

Component Name

Countrywide computerization of Customs clearance operations

Comments (optional)

Component Name

Installation of executive information system for Customs allowing real time monitoring of operations

Comments (optional)

Component Name

Development of cross border Customs-to Customs (C2C) links to capture reliable information on cargo

Comments (optional)

Component Name

Provision of adequate Customs infrastructure to enable modernized operation

Comments (optional)

Component Name

Development of an adequate regulatory, administrative and institutional framework for Customs including updating and monitoring progress on the Customs five Year Plan

Comments (optional)

IV. Financing *(in USD Million)*

Total Project Cost:	21.50	Total Bank Financing:	21.50
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	21.50
Total	21.50

V. Implementation

ACD is the Implementing Agency (IA) for this project, while the MOF is the responsible agency; being the parent ministry of ACD. The ACD utilizes the services of an Implementing Partner (IP) UNOPS to execute SCRTFP financing. The IP performs all functions related to the project (SCRTFP) under directions of the ACD. Given that the Director General (DG) Customs has to also manage the day-to-day Customs operations, the DG Customs as Project Director (PD) will be assisted by Support and Development Directorate of ACD and a Team Leader (TL)/Chief Technical Advisor (CTA) from United Nations Office for Project Services (UNOPS). The Management Services Agreement (MSA) between the IA (ACD) and the IP (UNOPS) is being amended to cater to the additional financing. The World Bank has agreed with ACD's request to hire the services of UNOPS as the Implementing Partner following Single Source Selection procedures based on their past performance and the need to link with several UN agencies such as UNCTAD.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	

Natural Habitats OP/BP 4.04		✕
Forests OP/BP 4.36		✕
Pest Management OP 4.09		✕
Physical Cultural Resources OP/BP 4.11		✕
Indigenous Peoples OP/BP 4.10		✕
Involuntary Resettlement OP/BP 4.12		✕
Safety of Dams OP/BP 4.37		✕
Projects on International Waterways OP/BP 7.50		✕
Projects in Disputed Areas OP/BP 7.60		✕

Comments (optional)

The majority of environmental and social impacts of SCRTFP are generally related to generation development and rehabilitation of ACD's Facilities. Because the project will mostly finance the rehabilitation and expansion of an existing scheme, implementation of the project components is not expected to involve any significant adverse environmental or social impacts. However, there will be potential short term impacts which could be minimized, reduced and mitigated if relevant measures envisioned in the project ESMF are properly applied.

Specifically:

• The rehabilitation and expansion of the project relates to construction/rehabilitation of physical infrastructure and purchase of equipment for customs and transit. While some disruptions in day-to-day activities during construction may be inevitable, these impacts will be temporary. Furthermore, no land or other assets are expected to be required.

• The rehabilitation of the existing facilities will involve procurement and installation of necessary ICT equipment including design, supervision, and project management; and, provide continued technical assistance for the ongoing ACD restructuring, automation in the mentioned site. This is not expected to have any impact on environmental and social aspects.

Most potential environmental impacts are related to sitting of facilities (such as sub-stations), 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, mine risk and safety procedures all envisioned in the project ESMF (Attachment 5).

Also, operational level impacts should also be considered. Water and Sanitation in the rest areas, offices and facilities related to the Customs should be functioning well hygienically. Offices should have emergency exits, smoke detectors, fire extinguishers, guard rills, ramps for the disabled and etc. to be ensure Environmental Health and Safety issues during the facilities life time.

Training would also be needed for custom officers to identify legally banned toxic items, e.g., outdated pesticides, WHO banned items and etc. to inter the country.

VII. Contact point

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