

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

September 21, 2016
Report No.: 110915

Operation Name	Inclusive Growth Development Policy Grant
Region	SOUTH ASIA
Country	Afghanistan
Sector	Central government administration (100%)
Operation ID	P160544
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF AFGHANISTAN
Implementing Agency	
Date PID Prepared	September 21, 2016
Estimated Date of Appraisal	
Estimated Date of Board Approval	March 30, 2017
Corporate Review Decision	[Following the corporate review, the decision was taken to proceed with the preparation of the operation].

I. Key development issues and rationale for Bank involvement

In the context of an active insurgency and difficult macroeconomic environment, the Government of the Islamic Republic of Afghanistan continues to maintain a stable macroeconomic environment and pursue an ambitious program of policy reforms to support private sector investment, growth, and poverty reduction.

Resources provided through the proposed operation will help the GoIRA meet its development objectives as articulated in the new Afghanistan National Peace and Development Framework in the context of constrained tax revenues and declining aid. Policy reforms supported by the proposed operation will contribute directly to priorities of the ANPDF, and are aligned with National Priority Programs.

II. Proposed Objective(s)

The proposed operation supports a range of reforms under two pillars that are closely aligned with the Government's objectives: i) expanding access to economic opportunities; and ii) supporting private sector development. Reforms under the first pillar are intended to broaden access to economic opportunities to excluded populations in Afghanistan, including the rural poor, newly urbanizing populations, returnees, and the internally displaced. Reforms under the second pillar will facilitate growth of the private sector. Accelerated private sector development will support required job creation and the mitigation of macroeconomic imbalances potentially accompanying expected declines in aid.

III. Preliminary Description

Expanding access to economic opportunities: Land reforms will establish a sound governance framework for land management and public land acquisition, increasing the availability of land for settlement and investment in the context of rapid urbanization and internal displacement, protecting the property rights of disadvantaged groups, and establishing institutional mechanisms to resolve disputes. Reforms will enable increased agricultural development and help realize the positive potential of urbanization. Removal of customs duties on selected high-quality solar equipment will facilitate development of the market for solar products increasing access to electricity for communities and households excluded from grid access, especially in lagging rural areas. This will generate new economic opportunities and facilitate human capital development for rural and underserved populations.

Supporting private sector development: The adoption of a policy and regulations governing public-private partnerships will facilitate private investment in under-resourced infrastructure sectors, directly attracting investment and indirectly boosting private sector development through improved access to infrastructure. Reforms to allow private investment in fiber-optic infrastructure will both support growth of the telecommunications sector and assist broader private sector development through access to improved telecommunication services. Reforms to the income tax law will reduce compliance costs for firms and encourage tax compliance. The accountancy law will establish basic accountancy standards in Afghanistan, allowing the development of domestic accountancy services, increasing transparency and reducing corruption, and facilitating investment and financial sector development.

IV. Poverty and Social Impacts and Environment Aspects

Actions supported by the proposed operation are expected to have substantial positive poverty and social impacts. No policy actions supported by the operation are expected to have significant negative impacts or pose major risks to social or poverty outcomes. Land reforms will strengthen land rights and lead to a reduction in land related disputes and illegitimate expropriation which have previously had disproportionate negative impacts on the poor. Land reforms are also expected to benefit women, with traditional marriage certificates now recognized as valid proof of land ownership if land was part of the dower. Custom duty exemptions will lead to lower energy costs for the poor (who spend a proportionately higher proportion of their income on energy) and increased access to electricity, with expected positive impacts on livelihoods and social outcomes. ICT and PPP policy reforms are expected to mobilize private investment in infrastructure. Increased access to PPP-financed infrastructure may directly benefit poor households, depending on specific infrastructure investments. Indirectly, however, both reforms are expected to benefit the poor through new opportunities for private sector development and associated employment and income-generation benefits. Reforms to the Income Tax Law and the introduction of an Accountancy Law are expected to have indirect and positive benefits through improved prospects for private sector development.

Reforms supported by the operation are not expected to have significant direct environmental impacts. Reforms to land management are expected to facilitate investment and development, including of agricultural land, with potential negative environmental impacts. However, security of property rights may increase incentives for sustainable land management on behalf of land owners in some cases. Introduction of custom duty exemptions for renewable energy products

may have positive environmental impacts through reducing reliance on polluting energy sources (coal-fired generation, firewood, or kerosene).

V. Tentative financing

Source:	(\$m.)	
BORROWER/RECIPIENT	0.00	
IDA Grant	100.00	
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	100.00

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