



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Apr-2019 | Report No: PIDC26542



BASIC INFORMATION

A. Basic Project Data

Country Afghanistan	Project ID P168446	Project Name 2019 Incentive Program Development Policy Operation (P168446)	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Board Date Jun 20, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

Program Development Objectives are: (i) strengthening the policy framework to support state effectiveness, private investment, and social inclusion; and (ii) improving the policy and institutional framework for public financial management

Financing (in US\$, Millions)

SUMMARY

Total Financing	400.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00
Total Non-World Bank Group Financing	300.00
Trust Funds	300.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

Afghanistan has been in almost constant conflict for over 35 years with no durable political settlement established. Gross Domestic Product (GDP) per-capita is among the lowest in the world, poverty is deep and widespread, and Afghanistan continues to perform poorly against many social indicators. Afghanistan remains heavily reliant on aid, which finances more than 70 percent of total public spending. The security situation remains dire, with insurgents controlling a significant number of districts, and civilian casualties from terrorist attacks at record levels. Despite continued aid-dependence the macroeconomic framework is adequate for the proposed operation, with government demonstrating sound fiscal and macroeconomic management over recent years. Inflation is moderate and fiscal deficits (after grants) have been contained. Presidential elections are scheduled for September 2019. Previous elections have led to significant disruption to policy processes and economic management. Ongoing peace discussions present enormous opportunities but are imposing short-term uncertainties on investors. Political uncertainty and drought led have led to slowing growth (estimated at around one percent over 2018).

Relationship to CPF

The proposed operation is fully consistent with the priorities and approach established in the World Bank's Country Partnership Framework (CPF) for Afghanistan (FY2017-FY2020) No. 109589-AF which was discussed by the Board on October 27, 2016. Building on a Systematic Country Diagnostic completed in 2016, the CPF is structured around three pillars: i) building strong and accountable institutions; ii) supporting inclusive growth; and iii) social inclusion. Reforms supported under both pillars of the proposed operation directly contribute to all three pillars of the CPF, through an emphasis on institutional, legal, and regulatory reforms that both expand access to economic opportunities to disadvantaged groups and support private sector development.

C. Proposed Development Objective(s)

Program Development Objectives are: (i) strengthening the policy framework to support state effectiveness, private investment, and social inclusion; and (ii) improving the policy and institutional framework for public financial management

Key Results

The proposed operation is expected to lead to: i) increased use of electronic money systems, including for the payment of taxes; ii) application of improved processes for appointment of civil servants and an increase in the number of female civil servants; iii) expansion of credit registry coverage; iv) reduced time and cost to acquire an electricity connection; v) progress towards implementing an administrative system for land management; vi) clear institutional responsibility for management of irrigation systems; vii) application of economic and gender analysis in selection of development projects; viii) tax administration and policy improvements; and ix) increased fiscal transparency on revenues and cash management.



D. Concept Description

Strengthening the policy framework to support state-effectiveness, private investment, and social inclusion: E-payment and mobile money reforms will support development of the regulatory framework for expanded access, including for payment of customs and tax dues. Civil service reforms will support retention of key skills and address long-standing issue of equity, while also encouraging the hiring of women civil servants. Business environment reforms will address insolvency procedures, encouraging investment, and address impediments to acquiring a business license. Power sector reforms will support lower costs of accessing electricity for commercial users. Land governance reforms will facilitate transition to an administrative system of land governance with clearer property rights. Water reforms will provide clarity regarding regulatory responsibility for management of irrigation management, facilitating expansion of irrigation infrastructure.

Improving the policy and institutional framework for public financial management: Reforms to public investment management will ensure that projects are aligned with government priorities and have undergone proper appraisal. Tax administration reforms will support the roll-out of fast track filing, establish dispute resolution mechanisms, and lay the foundations for implementation of VAT in 2021.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

Policy and institutional reforms supported by operation are likely to have significant positive or neutral poverty and social effects over the longer-term. Over time, improvements in the legal and institutional frameworks guiding water use and irrigation are likely to ensure more efficient utilization of scarce water resources, benefiting agricultural productivity with flow-on impacts to rural livelihoods via increased production and lower prices for basic food items. Improved management of water resources will shield farmers from negative water-related shocks, including those arising from the impacts of climate change. Several policy actions supported by the proposed operation are expected to have indirect positive poverty impacts through facilitating investment and private sector development. Business environment reforms, energy sector reforms, and land reforms should support economic growth and employment, with poverty benefits. Reforms to improve the effectiveness, efficiency, and accountability of government are likely to have indirect positive poverty effects. Civil service reforms supported by the operation do not involve any retrenchments. Reforms are expected to lead to improved efficiency and effectiveness in government operations, with resulting improvements in revenue mobilization and service delivery ultimately expected to support improved service delivery benefiting all citizens. Effective implementation of the administrative system for land management will, over time, mitigate land-related disputes and help rectify land-grabbing.

Environmental Impacts

Preliminary assessment of the policy and institutional reform actions supported by this operation suggest that they will have no significant effects on the environment, forests, or other natural resources. Supported land reforms may have potential positive and negative environmental impacts. Better security of land tenure under supported administrative reforms for land is expected to facilitate investment and development, including of agricultural land. Increased land use for agriculture and other purposes may lead to pollution and pressure on water resources, depending on the scale and type of new investment. But at the same time, security of property rights may increase incentives for sustainable land management on behalf of land owners in some cases. The Water Law will likely to have positive environmental impacts, including in mitigating the impacts of climate change. Reforms under the operation would provide the Government of Afghanistan with an underpinning policy and legal framework to broadly commit to more efficient use of water



resources, formulate a comprehensive investment program to furnish infrastructure and establish climate resilient agriculture practices. The Water Law would also provide environmental protection through addressing water pollution and groundwater management.

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APPROVAL

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Approved By

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