



# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 08-Feb-2018 | Report No: PIDISDSA22512



**BASIC INFORMATION**

**A. Basic Project Data**

Country Afghanistan	Project ID P161348	Project Name Modernizing Afghan State-Owned Banks	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 10-Feb-2018	Estimated Board Date 28-Mar-2018	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) ISLAMIC REPUBLIC OF AFGHANISTAN	Implementing Agency Ministry of Finance	

Proposed Development Objective(s)

The proposed project development objective is to enhance the corporate governance and operational efficiency of the supported Afghan state-owned banks, thereby contributing to their improved financial soundness and outreach.

Components

Component 1: Strengthening the ownership role of MoF and the corporate governance of SBs

Component 2: Supporting institutional development and business strategy of SBs as well as the modernization of IT systems

Component 3: Supporting project implementation and monitoring

**Financing (in USD Million)**

Financing Source	Amount
IDA Grant	40.00
<b>Total Project Cost</b>	<b>40.00</b>

Environmental Assessment Category

C - Not Required

Decision

The review did authorize the preparation to continue

Other Decision (as needed)



## B. Introduction and Context

1. **Afghanistan's economic growth rates have contracted since 2014 and near-term growth prospects remain challenged**, following the reduction in international assistance, and the drawdown of the multi-national security forces with the corresponding declines in public spending. Whereas annual GDP growth averaged 9.4 percent between 2003 and 2012, it slowed to 1.3 percent in 2014 and 2015. Growth recovered slightly in 2016 to 2.4 percent. Continued comparatively slow growth reflects the impact of weak confidence on investment in the context of insecurity, political instability and a challenged institutional context. Afghanistan remains also susceptible to external shocks. Agriculture output is estimated to have declined by 0.5 percent in 2016 due to unfavorable weather conditions, curtailing consumption as most Afghans are dependent on agricultural income. The services and industry sectors recorded a modest growth of 1.4 and 2 percent respectively. Elevated levels of dollarization and a narrow financial sector weaken the monetary transmission channels. Growth is projected to slightly pick up to 2.4 percent in 2017, and increase to 3.4 percent in 2018. Although encouraging, higher growth rates are required to sustainably improve per capita incomes and reduce poverty levels. Afghanistan remains heavily aid dependent; its fiscal outlook is challenging and sensitive to the level and modality of aid commitments. At current expected aid levels, there is limited fiscal space over the coming years for programs to stimulate aggregate demand and spur increased growth. New sources of growth are needed to support government revenues in the context of an expected normalization of aid levels over the longer-term and generate foreign exchange reserves to finance Afghanistan's massive import bill.

2. **While Afghanistan' short-term economic prospects are marred by risks and uncertainties, long-term macroeconomic sustainability will require structural transformation and institution building.** In the short term, risks to economic growth are mostly related to adverse domestic or regional security developments, political instability, weak implementation of economic policies, and lower levels of international development assistance. In the long-term, economic growth will remain depressed unless institution building efforts and reforms accelerate, amongst others to address poorly functioning markets, weak performance in international Doing Business, Competitiveness and Transparency assessments, and attract private investments. Disparities in access to markets and economic opportunities are eroding recent gains in social indicators, as well as are contributing to persistent fragility pressures. With an average annual population growth rate of 3 percent and an estimated 400,000 individuals entering the labor market each year, new sources of growth are needed to provide quality employment opportunities for the expanding workforce. Opportunities for structural transformation are few in the short-term due to low levels of human capital, substantial infrastructure deficits; but, in the long-term, Afghanistan has considerable potential in agriculture, extractive industries and leveraging its geographical location through ICT connectivity.



## B. Sectoral and Institutional Context

3. **Afghanistan's financial sector remains in need of major reforms in order to contribute to sustainable macroeconomic growth and increased financial inclusion.** Access to finance is dramatically low. Only an estimated 10 percent of adults own bank accounts- This figure is much lower for women- only 3.8%; lending to the private sector represents only 3.5 percent of GDP. Banks' operational capacity generally is poorly developed with low levels of efficiency and only a nascent automation of customer services, processes and control procedures. Risk management practices and structures are scarcely developed in most institutions leading to low levels of loan portfolios and – historically - substantial credit risks. Low efficiency and high risk-management costs have contributed to poor outreach and low profitability, challenging the business model of the sector. SBs, which can potentially make an important contribution to increase the availability of financial services and credit for under-served sectors of the economy, are struggling to play this role. Their track record has been particularly weak in terms of (credit) risk management and operational efficiency. Poorly developed risk management capacity and structures have resulted in significant portfolio losses and repeated needs for recapitalizations over time. Over-staffing and a lack of efficient and automated processes, as well as poor training has contributed to high operational (unit) costs, while negatively affecting customer services quality and increasing transaction costs. Hence, Afghanistan requires a more diverse, profitable and efficient financial sector, which can sustainably provide inclusive financial services to the broadest possible segment of Afghan society and economy, and thereby support job creation and economic growth. Well-functioning SBs could become a significant part of this reform process.

4. **Access to finance in Afghanistan is abysmal with low intermediation and outreach indicators.** Credit to private sector is very low – barely 4 percent of GDP – and has not shown any improvement in the last several years. Moreover, the sector's loan-to-asset ratio remains below 15 percent. Just two-thirds of formal enterprises report having access to a bank account; and only around 2 percent of firms use bank loans to finance investments. The financial underdevelopment is also reflected in low financial inclusion rates with only 10 percent of Afghan adults holding accounts in formal financial institutions. This access rate is well behind or barely on par with regional peers and other fragile and conflict-affected countries such as India (53 percent), Vietnam (30 percent), or Iraq (11 percent). The exceptionally low penetration rates are reflective, partially, of the very limited networks most banks operate, particularly the private institutions. These banks' activities are concentrated in the three largest urban centers of the country – Kabul, Herat, and Mazar – Sharif, which account for two-thirds of their branch network and essentially the totality of their lending operations. Currently, there are eight provinces in which private banks are not present at all and another six which are served by only one private institution. As a result, service-points ratios are exceptionally low in terms of population served and geographic reach of coverage for the banking sector as a whole. Only SBs have an extensive branch network.

5. **SBs have the largest outreach among all the banks in Afghanistan but provide only limited financial inclusion and fail to support access to finance.** With about US\$1.2 million in assets SBs account for 27 percent of total banking sector assets and thus constitute a crucial component of the sector. However, despite its historically implied mandate SBs' intermediation activity is marginal and the loan portfolio equals less than 3.5 percent of total assets, equivalent to about US\$40 million at the end of 2016. SBs could catalyze the lending to those sectors in need of funding, but they have failed to reach their lending potential and support improved access to finance - which is vital for SMEs, job creation and economic growth. Though SBs' as a whole operate the most extensive branch network of the banking system, accounting for a total of 164 outlets, equivalent to 40 percent of the banking sectors network, and covering the entire national territory, their intermediation activity is minuscule compared to their expected potential. On the other hand, the network has allowed SBs to deliver essential banking and payment services (including salary payments) in all provinces in Afghanistan. Particularly NKB's network covers the whole country with offices in all provinces. However, while SBs have an extensive traditional brick & mortar branch network, Alternative Delivery



Channels are not at all developed. For example, SBs' Automated Teller Machines (ATM) network is almost-non-existent.

6. **The financial system of Afghanistan is dominated by private banks.** As of end-2016 the banking sector consists of 15 banks with total assets of US\$4 billion, customer deposits of US\$3.6 billion and a gross loan portfolio below US\$0.7 billion. Banking sector assets represent 21 percent of GDP. The sector is composed of: three State-owned Banks (SBs) which hold 27 percent of banking assets and account for 27 percent of deposits and 6 percent of total loan portfolio, respectively; nine full-fledged Private-Owned Banks maintaining 65 percent of banking sector assets, 92 percent of loan portfolio and 65 percent of the sector deposits; and finally, 3 branches of Foreign commercial Banks (FBs) with a 9 percent asset share, a 1 percent share of loan portfolio and 8 percent deposit share. All banks in the three categories are regulated and supervised by the Central Bank of Afghanistan (Da Afghanistan Bank – DAB). The non-bank financial sector is negligible. Only four operating insurance companies are offering limited general insurance services. The formal microfinance sector, comprised of 5 microfinance institutions (MFIs), manages a total loan portfolio equivalent to almost 20 percent of the banking sector's loan portfolio (US\$124 million as of end-April 2017). While the microfinance sector has grown significantly in the past decade its outreach remains modest.

7. **Overall, Afghanistan's banking sector remains underdeveloped and vulnerable as it copes with systemic challenges uncovered by the collapse of Kabul Bank in 2010.** While banks are highly liquid, credit growth is sluggish. Credit to the private sector expanded by only 6 percent in 2015 and 5 percent in 2016, which barely offset the 6.6 percent contraction in 2014. Confidence in the banking sector is yet to fully recover from the Kabul Bank crisis in 2010, during which massive fraud led to a run on the country's then largest bank, necessitating a government bailout (equivalent to 5 percent of Afghanistan's GDP in 2010). Just before its collapse, Kabul Bank held 34 percent of total banking assets in Afghanistan, almost three times the amount of its closest competitor. Weak oversight and corruption of all governance functions of the institution allowed for endemic related party transactions and fraudulent loan origination which in turn led to the eventual loss of over 92 percent – or approximately US\$861 million - of its loan book. The Kabul Bank crisis and its aftermath underscores the need to improve the health of the financial sector especially considering continuing stresses from deteriorating asset quality and substantial dollarization of banks. Non-performing loans of the overall banking sector have steadily increased over the past four years and by end of June 2017 it had reached 16.9 percent, a record high since the Kabul Bank crisis. At the same time, around 69 percent of bank loans and 66 percent of deposits are denominated in US dollars. While banks are required to keep reserves at DAB in Afghanis only, their capacity to lend in local currency is severely constrained.

8. **SBs' financial performance has been historically weak, and constraints to the current operating and business model continue to imply latent fiscal risks.** There have been repeated rounds of asset write-downs and recapitalizations over more than a decade for BMA and Pashtany Bank, as well as the state bailout for NKB. However, as of end-2016, all three SBs complied with minimum CAR requirements. Over the past decade, the cumulative capital contributions to SBs have totaled approximately USD185.5 million, of which 57 percent corresponded to recapitalizations of NKB (2017), 35 percent to share capital increases and equity injections of Pashtany Bank (2008, 2014 and 2015) and the remaining 8 percent to share capital increases in BMA (2012). However, while currently CAR compliant, pressures on capital levels remain high. Reported positive net income for FY2016 in all three banks is substantially driven by non-operational or non-recurrent



income, including recovery of NPLs, the sale of assets and revaluation effects. Net operating income is negative or barely break-even for two SBs; for the third institution, the equivalent ROA would be approximately 0.3 percent as per 2015 audited financials. Furthermore, for all SBs, the net operating income is driven by investment income from the purchase of DAB capital notes. Consequently, even a slight deterioration in the operating environment or interest spread on the investment portfolio will adversely impact financial sustainability.

9. **Poor credit risk management has historically undermined financial performance.** BMA and Pashtany Bank over the last decade have suffered severe equity losses as the result of poorly originated, controlled and recovered credit risks. In particular, related party lending as well as constituency driven credit origination and non-commercial considerations in the granting of loans undermined the portfolios' viability, as much as the overall vulnerability of borrowers to external shocks. NKB, in turn is the institutional remnant following the bail-out of depositors in the wake of the collapse of Kabul Bank. In all cases politicized underwriting practices, insider and related party lending and poor contract enforcement led to substantial losses of credit risk assets; even in the face of formally established best practice policies and procedures as in the case of Kabul Bank. At present only BMA maintains a rudimentary loan book and has some limited credit risk assessment and underwriting capacities. However, the corresponding policies and procedures, and institutional structures, as well as HR capacities are weak and in need of reform. For their part NKB and Pashtany Bank have no discernible credit risk management capacity and lack the corresponding institutional arrangements.

10. **Besides the weak credit and risk management capacity, poor governance practices are among the severe deficiencies that have enabled and perpetuated the underperformance of SBs.** Institutional arrangements related to the composition of the General Assembly and Board remain weak, leading to incomplete oversight bodies in two of the three SBs, as well as the absence of important committees (including Audit and Risk) in all SBs. Furthermore, adoption by SBs of existing corporate governance law and regulations, which are deemed sufficient for the country's level of financial development, is still severely lacking. Critical governance functions are hence not performed in SBs. Finally, the Ministry of Finance (MoF) lacks the capacity to exercise its ownership rights, which has impeded the adequate definition of a mandate for SBs and implementation of a corresponding business strategy.

11. **Constraints on senior level staffing, as well as management and staff capacity has led to the absence of vital organizational functions.** At present, all three SBs suffer from prolonged unfilled vacancies in senior management and operational positions, including in 'C-Level' roles and heads of risk management. The appointment of senior management in SBs has been delayed by a lack of a clear staffing strategy – including the definition of competitive compensation and performance management regimes – and inability to obtain the regulator's approval of the few prospective candidates. Furthermore, the capacity of staff in technical areas is lacking in all three SBs despite a significant headcount in proportion to their operations. In particular, risk management capabilities are not developed in any of the SBs at present. The deficiencies include significant gaps in their ability to adequately originate, manage and recover credit risks. Staff capacity challenges are compounded by critical gaps in the organizational structure in areas such as internal control and risk management, and a poor approach to essential HR elements, such as performance management, training, and staff rotation.



12. **Obsolete Information Technology (IT) systems and infrastructure not only add to efficiency constraints but also compound operational risks.** The three SBs have varying levels of sophistication of IT infrastructure, which, except in the case of NKB, are inadequate to offer modern financial services comparable to those provided by other banks in the region and also within Afghanistan. The IT infrastructure in all three institutions is reaching obsolescence and need to be urgently upgraded. NKB, given its legacy as the bank used for salary payments of government employees, built a modern IT infrastructure and developed several digital distribution channels. BMA and Pashtany Bank have implemented certain elements of core IT infrastructure in terms of an integrated core banking solution. They have, however, not developed any digital distribution channels and have offered only basic branch-based financial services. Still, for all three SBs, the IT systems were implemented over ten years ago, and are well past their recommended life and in many cases are no longer supported by the particular system vendors. The physical infrastructure for housing these systems is very primitive and currently cannot support the level of operational reliability expected from modern banking systems. This, when placed against the ongoing modernization of the national payments system components under the FSSRP project, will lead to the SBs being unable to take advantage of these systems to offer efficient and diversified financial services to individuals and businesses.

### C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The proposed project development objective is to enhance the corporate governance and operational efficiency of the supported Afghan state-owned banks, thereby contributing to their improved financial soundness and outreach.

Key Results

- a. **SBs' Governance** –Effective governance of state banks; Measured by: compliance with the key chapters of OECD Guidelines on Corporate Governance of State-Owned Enterprises identified as priority implementation areas (Fully staffed ownership unit and five-member boards in place; key internal control policies implemented)
- b. **SBs' Operational Efficiency** – Improved Cost efficiency; *Measured by System uptime*)
- c. **SB's Financial Soundness** (*Measured by adequate capital requirements*)
- d. **SB's Outreach** (measured by number of SBs clients served; of which percentage of female clients)

### D. Project Description

13. **The proposed project seeks to undertake the modernization of SBs in Afghanistan, to address the underlying deficiencies of the country's financial sector and thereby fostering economic growth and job creation.** The project will address different areas of constraints in its interventions. First, in order to address the weaknesses in SBs' governance, risk management, and performance the project will promote sound ownership practices and effective, transparent and credible governance arrangements and business practices. Improved operational discipline, policies and procedures and enforcement of international governance arrangements will lead to increased transparency and institutional credibility, and improved performance. Second, to increase efficiency and effectiveness, improve financial sustainability and strengthen the outreach of SBs, the project will support the reform process through the consolidation of the SB sector, the implementation of clearly defined business strategies and the upgrading of SBs' IT systems. A commercial approach to efficiency and risk management will support financial sustainability, whereas a clear focus on enhancing financial inclusion will





support the development aims of the SBs and GoIRA. Finally, the modernization of system infrastructure will underpin the efforts in governance and business development by improving institutional arrangements, increasing efficiency and allowing for reduced transaction costs.

14. **The project design is informed by GoIRA’s vision for the financial sector, and the SBs in particular as outlined in the long-term strategy for SBs endorsed by HEC.** Through strengthening the ownership oversight of SBs by MoF and upgrading their operational framework, as well as improving their IT infrastructure, the project aims to contribute to fostering the stability and operational efficiency of the institutions and thereby enhance financial intermediation in Afghanistan. In doing so, the project seeks to contribute to addressing some of the key financial sector constraints discussed above and ultimately contribute to boosting inclusive growth, in particular by enabling investments and job creation by MSMEs. Importantly, the project’s results-based financing supports the design through a set of mid-level reforms that are critical to achieving the project objectives.

15. **The project will include the following three components:** i) Strengthening the ownership role of MoF and the corporate governance of SBs, (ii) Supporting institutional development and business strategy of SBs as well as the modernization of IT systems and business processes of SBs; and (iii) Support for project implementation and monitoring.

***Component 1: Strengthening the ownership and oversight role of MoF and the corporate governance of SBs***

***1-1: Strengthening the ownership and oversight role of MoF (USD 3 million)***

16. A well-designed and well-staffed ownership entity for SBs in MoF is expected to provide substantial benefits to the governance of the institutions and their financial and operational performance.

17. This subcomponent will finance TA for MoF to establish the legal and institutional framework, as well as the institutional set-up and will allow MoF to establish a dedicated unit for the oversight over its equity interests in SBs. The assistance will strengthen MoF institutional capacity to exercise adequate ownership functions and the regular monitoring of the financial performance of SB. Furthermore, the support will allow MoF to draft legislation and to prepare guidelines and regulations as to the mandate and the functions of the organization unit in charge of overseeing SBs.

18. The project would establish interim and end-project targets for improving SBs governance and the overall ownership function of the government, and provide clear disbursement incentives for the authorities to ensure proper sequencing and achieve tangible and measurable results against these targets. The project steering committee in coordination with the ownership unit at the MoF will determine the modernization action plan with prioritizing and sequencing the key steps, specifying the roles and the responsibilities of different parties, projecting budget implications, and setting a timeline for the task of restructuring and consolidation to be completed. While some actions could be developed immediately, others such as building capacity would take time and, therefore, those activities need to start in due course without delay.

***1-2: Strengthening the corporate governance of SBs (USD 4 million)***





19. A primary focus of the subcomponent will be to close the governance loopholes in the SBs. Subcomponent 1-2 will seek to strengthen the major governance functions in the institutions, through supporting MoF in adequately staffing and training the board of supervisors, audit and risk management committees and senior management of SBs.

20. Support under subcomponent 1-2 will aim at reviewing current deficiencies, develop processes and structures to address short-comings, establish policies and procedures, identify legal options to enhance the effectiveness of governance structures and independence from influences of outside stakeholders, and design and implement a comprehensive capacity-building (including training) plan. An initial corporate governance assessment of the SBs to identify the primary gaps with regards to the adoption of good international practices in the corporate governance of SBs is being finalized. The assessment will provide concrete recommendations (along with implementation priorities and roadmap) with the aim to increase accountability and transparency, improve performance and meet the economic and social objectives of the banks. In addition, the governance structure will have to establish the three lines of defense: risk management, internal audit, and internal controls and ensure that the chief risk officer and the chief internal auditor reporting lines will have secured access to the board when and if needed.

21. This subcomponent will provide support to MoF and the SBs in implementing these recommendations and addressing the outlined governance issues through specialized TA. This subcomponent's activities will complement the reforms planned under the government strategy for SBs and the remaining components of this project TA.

***Component 2: Supporting institutional development and business strategy of SBs as well as the modernization of IT systems***

22. While subcomponent 2-1 will fund immediate and critical TA to support the SBs, funding under subcomponents 2-2 and 2-3 will be subject to agreed disbursement conditions to ensure proper sequencing of the project components with initial focus on reforms in corporate governance of the state banks to be followed by critical investments to enhance their operational efficiency.

***2-1: Building institutional capacity of banks and supporting IT modernization strategy of SBs and immediate IT maintenance (US\$7 million)***

23. This sub-component aims to provide specialized TA resources to support the institutional capacity building of the three institutions, particularly the development of business strategies and capacity to execute upon the mandate. Activities for each SB will include: (a) devising and aid implementation of the detailed business strategy going forward, (b) evaluating the optimal operational size and resources allocation and design the corresponding adjustment strategy and implementation plan, and (c) providing strategic and management support to the institution during the transition process. Furthermore, product development efforts, policy and procedure reforms and training will be geared toward substantially improving the risk management capacities of the institutions, especially with regards to the origination, management and recovery of credit risks and the management of portfolio risks. Brand positioning support will complement other change management efforts.

24. Based on the result of the IT stocktaking and diagnostics, an IT strategy for all three SOBs will be developed, considering both the previous exercise, and the business strategy developed as part of subcomponent



2-2. The IT strategy will facilitate the integration across business processes between BMA and NKB and sharing of IT facilities across the Pashtany Bank and the merged entity.

25. Furthermore, the activities undertaken under the component will benefit from on-going financial sector modernization efforts supported under the Financial Sector Rapid Response Project (FSRRP – national credit infrastructure and payment systems platform), as it will allow to improve the origination, management, and recovery of credit assets and reduce transaction costs., the project will seek to achieve synergies with the FSRRP project and identify training that can be delivered by the Afghanistan Institute of Banking and Finance (AIBF).

***2-2: Supporting the institutional development and implementation of business plans (US\$8 million)***

26. In line with GoIRA approved strategy, specialized technical assistance will be provided to accompany the consolidation effort, specifically the envisaged absorption of NKB by BMA and the rationalization of Pashtany Bank. With regard to the former, specialized M&A capacities will be deployed to (a) identify and address the legal and regulatory aspects of the process, (b) support the design and implementation of adjustment measures to scale and size of the joined enterprises, including identifying required resources levels, (c) devise the roadmap for the implementation of the business strategy and support implementation, and (d) provide hands-on support and guidance to management during the transition process. Furthermore, the component will provide specialized consulting support for the re-positioning of the brand and the development of customer-centric approaches in product design and delivery. Subcomponent 2-2 is subject to disbursement conditions: funding for planned activities will be made available after the completion of key corporate governance enhancing policies.

***2-3 Supporting the Modernization of IT Systems and Business Processes of SBs (US\$ 15 million)***

27. The component’s change management efforts undertaken under subcomponent 2-1 and 2-2 will be supported by a comprehensive investment in the modernization of the IT systems and business processes of SBs. Hard-ware configurations, systems and soft-ware capacities have reach ‘end-of-life-cycle’ stage and are in urgent need of up-grading or replacement in order to safeguard the banks operational capacity, particularly in terms of data security and integrity, record keeping and documentation, processing ability, and customer services. Specifically, the envisaged up-grading of core-banking systems, automation of service delivery, and expansion of delivery channels/mechanisms will assist in the roll-out of additional products and the outreach to marginalized segments and sectors, especially outside the urban centers.

28. The implementation of the roadmap is to contain the following three components: (i) procurement and implementation of up-to-date core banking systems for the merged entity and the Pashtany Bank; this would encompass implementation of modern transaction banking suites and an ERP solution, including its general ledger, HR and financial management components; (ii) set-up of a modern data centre; (iii) ongoing capacity building for SOB staff responsible for IT and business processes.

29. Component 2-3 is subject to disbursement conditions: investments in IT modernization will only proceed upon the finalization of a robust IT assessment of SBs and preparation of a strategy for the modernization of IT infrastructure in SBs (these activities will be funded under subcomponent 2-1). Such IT investments would also



require banks to have already advanced significantly in strengthening governance, developed robust and well-defined business plans, and decided on the SBs' operational model.

**Component 3: Support for Project Coordination, Implementation and Monitoring (US\$3 million)**

30. This component will provide support for the monitoring and coordination of project activities undertaken by various beneficiary institutions (SBs and MoF). It will also help develop a robust monitoring and evaluation system to be used by the MoF and other stakeholders to assess implementation progress. It will also provide necessary funding for building the required capacity and leveraging specific expertise to support of implementation and coordination of the project at the MoF and state banks.

**E. Implementation**

Institutional and Implementation Arrangements

31. The Administration and Finance Directorate (AFD) at the MoF, which is currently responsible for the oversight of all state-owned enterprises will be the responsible for implementing the project on behalf of the GoIRA. A Project Steering Committee (PSC) will be formed, and chaired by the Deputy Minister, in charge of the Administration and Finance Directorate. The PSC would provide overall guidance on key implementing decisions and project planning, and oversee overall implementation progress. Responsibility for project management will be entrusted to a dedicated Project Management Team (PMT) attached to the AFD and lead an experienced Project Director (PD) with adequate and relevant knowledge of WBG operations. The PD will be supported by a Chief Technical Specialist (CTS) and a Banking Expert (BE) with strong knowledge of and experience in the Afghan Banking Sector. Subject to operational needs, PMT would be strengthened with dedicated expertise in procurement, financial management and gender to build the required capacity within AFD and ensure smooth implementation. PMT will closely coordinate activities with the SB ownership unit to be set-up as part of activities under subcomponent 1-1, once it is established. As per MoF requirements, a standalone Project Implementation Unit (PIU) will not be set up.

**F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

Most of the project activities will be implemented in the country capital Kabul and could also be extended to some provincial branches (possibly including but not limited to Balkh and Kandahar). However, the activities themselves will not have any direct environmental impacts and thus there is no need to trigger any safeguard policies. The project team will ensure the development of an effective GRM system to respond to any grievances. Since the project does not directly affect the population and focuses on the efficiency of state-owned banks, possible grievances would likely be limited to banks' staff and clients who are adversely affected by the project.



**G. Environmental and Social Safeguards Specialists on the Team**

Mohammad Arif Rasuli, Environmental Safeguards Specialist  
Qais Agah, Social Safeguards Specialist

**SAFEGUARD POLICIES THAT MIGHT APPLY**

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

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.  
n/a



5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

**B. Disclosure Requirements**

**C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)**

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

**All Safeguard Policies**

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Have costs related to safeguard policy measures been included in the project cost?

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

**CONTACT POINT**

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**APPROVAL**

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