



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 03-Aug-2017 | Report No: PIDISDSC18343



BASIC INFORMATION

A. Basic Project Data

Country Afghanistan	Project ID P159655	Parent Project ID (if any)	Project Name Fiscal Performance Improvement Support Project (FSP): (P159655)
Region SOUTH ASIA	Estimated Appraisal Date Aug 16, 2017	Estimated Board Date Oct 15, 2017	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) Islamic Republic of Afghanistan	Implementing Agency Ministry of Finance	

Proposed Development Objective(s)

To contribute to the improvement of domestic revenue mobilization and public expenditures management, and reinforcing a performance oriented management culture in the Ministry of Finance.

Financing (in USD Million)

Financing Source	Amount
Afghanistan Reconstruction Trust Fund	75.00
IDA Grant	25.00
Total Project Cost	100.00

Environmental Assessment Category C-Not Required	Concept Review Decision Track I-The review did authorize the preparation to continue
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Note to Task Teams: End of system generated content, document is editable from here.

Other Decision (as needed)



B. Introduction and Context

Country Context

Afghanistan is a deeply fragile and conflict affected state. It has been in almost constant conflict for over 35 years with no durable political settlement established. This has had a destabilizing effect on social cohesion, exacerbating ethnic divisions and weakening government institutions and rule of law. GDP per-capita is among the lowest in the world, poverty is deep and widespread, and social indicators are still at very low levels.

Following a sustained period of impressive development progress after the fall of the Taliban, Afghanistan is currently undergoing a difficult adjustment. With an influx of aid since 2002, Afghanistan sustained rapid economic growth and improvements against important social indicators for more than a decade. Annual growth averaged 9.4 percent between 2003 and 2012. Since the drawdown of international security forces in 2012, however, economic and social progress has substantially slowed. Aid flows decreased from around 75 percent of GDP in 2012 to 45 percent of GDP in 2015 (with the number of NATO troops declining from more than 130,000 in 2011, to around 15,000 by end-2014). Reduced aid and security presence led to a rapid weakening of demand, especially in construction and other service sectors, with follow-on impacts across the economy. Impacts were magnified by a disruptive and prolonged political transition following the disputed outcome of the 2014 election. Internal divisions within the National Unity Government slowed vital reforms and delayed the appointment of key officials, undermining policy certainty. Annual firm registrations have declined by more than half since 2012 while unemployment has increased (from 13.5 percent in 2008 to 22.6 percent in 2014), both reflecting falling confidence. With slowing economic activity, fiscal revenues declined from 11.6 percent of GDP in 2011 to 8.7 percent of GDP in 2014, before recovering slightly to 10.7 percent of GDP in 2016. Armed conflict in Afghanistan has claimed the lives of 26,512 civilians and injured 48,931 others between 1 January 2009 and 30 June 2017 and continues to cause severe harm to civilians across Afghanistan. The security situation is leading to reversals and increasing disparities in access to services.¹

Disparities in access to economic opportunities are both eroding recent gains against social indicators and contributing to fragility pressures. Afghanistan currently faces a humanitarian crisis arising from large numbers of return refugees (approximately 800,000 in 2016) and a large and growing internally displaced population (1.2 million). Unmanaged and rapid urbanization is driving rapid growth of informal settlements, and risks overwhelming urban services. Despite rapid economic growth since 2001, poverty has remained stubbornly high, with the poverty rate increasing from 36 percent in 2012 to 39 percent in 2014. Increases in poverty have been concentrated in geographically and economically isolated regions – especially the Southwest. This period has also seen growing inequality, with real per capita consumption declining by 2 percent for the poorest 20 percent of the population, little change for the bottom 40 percent, and the richest 20 percent experiencing a 9 percent increase. There are also important disparities between rural and urban areas, with poverty rates about 16 percentage points higher in rural areas. Recent evidence from household surveys suggests that access to services is declining among the poor.

¹ Afghanistan Protection of Civilians in Armed Conflict Midyear report 2017, United Nation Human Rights <https://unama.unmissions.org/protection-of-civilians-reports>.



With an undiversified productive base, the economy remains reliant on aid. The private sector is extremely narrow, with employment concentrated in low-productivity agriculture. Investment since 2001 has focused around the aid-driven contract economy. Private sector development is constrained by weak institutions, inadequate infrastructure, widespread corruption, and a difficult business environment (Afghanistan was ranked 183rd of 190 countries in the 2017 Doing Business Survey). Limited private sector activity presents important threats to macroeconomic stability over the medium-term, in the context of continued declines in aid. Foreign grants currently finance more than two-thirds of budget expenditure and substantial off-budget security needs. A large trade deficit of around 38 percent of GDP in 2016, is also financed almost entirely by aid inflows. With aid expected to decline from around 46 percent of GDP in 2017 to 20 percent of GDP by 2030, and in the context of a rapidly growing population, new sources of growth, employment, revenues, and exports are desperately needed.

Sectoral and Institutional Context

Afghanistan has made significant progress in establishing a functioning and credible Public Financial Management (PFM) system that has contributed to increasing revenues from about US\$130 million in 2002 to over US\$1.5 billion. The legal framework underpinning PFM (Public Finance and Expenditure Management Law and Public Procurement Law) has been established. The Government's PFM performance is generally portrayed as one in which public finances are, by and large, used for their intended purposes as authorized by the budget, which is processed with transparency and where the fiscal aggregates are well controlled. This is demonstrated by Afghanistan's 2013 Public Expenditure and Financial Accountability (PEFA) scores, which were above the average for low-income states and fragile contexts, and equaled middle-income country results for control, reporting, and external scrutiny.

Despite these considerable gains, the Government of Afghanistan (GoA) continues to experience certain pressing challenges in PFM associated with standards of timely transaction processing, accounting and reporting; maintaining an effective internal audit function; budget execution and revenue collection processes; alignment of budgets with policy priorities, revenue mobilization and challenges with the public procurement system, etc. Challenges extend beyond core PFM, some of which are outlined below.

Public expenditure management in Afghanistan is faced with credible challenges. Budget execution remains low at around 75 percent, with the low execution rate being the result of inefficiencies in budget planning, poor appraisal of development projects, protracted procurement processes, and overall low government capacity. Further, the operations and maintenance of public assets are reportedly weak, constraining the delivery of public services. Public expenditure is currently not aligned with the fiscal sustainability objectives of the government. This is ever more important in Afghanistan, because public spending is expected to grow over the medium-term, while resources are projected to remain tight.



Improving revenue collection is central to Afghanistan’s self-reliance² agenda, but remains constrained. 2016 domestic revenues reached 10.8 percent of GDP, while expenditure was 26.9 percent of GDP, with the deficit largely financed through development partner grants. GoA has recently taken policy and administrative measures to increase domestic revenue collection. A 10 percent telecom services fee was introduced in 2016, and a VAT is planned for implementation by 2020. However, a narrow tax base, low capacity, weak internal controls, and a decentralized tax administration remain significant challenges. GoA also faces a difficult trade-off balancing enhanced compliance measures with a conducive business environment.

Presently, Afghanistan has 50 non-financial state-owned enterprises (SOEs) which account for only 2 percent of national revenues and about 4 percent of GDP. 15 of these SOEs are corporatized and commercialized (state-owned corporations or SOCs) and 3 are state-owned commercial banks (SOCBs). Non-financial SOEs operate in strategic sectors such as energy, mining, and telecom. No diagnostic study to date appears to have properly documented the size and the market concentration of each SOE in the sub-sectors in which they operate (competitive or potentially competitive). Despite the direct and indirect support that SOEs receive from the budget in the form of subsidies, equity injections, deferred taxes, other payment arrears and loan guarantees, their ultimate performance remains weak.

Afghanistan currently relies on unsustainable donor-financed project consultants (often called ‘second civil service’) to execute core government programs. This reliance has eroded government capacity and impedes the use of country systems to build accountability, fight corruption, mobilize domestic revenue and attract investment. There is a shortage of skilled staff capable of developing and applying procedures and establishing institutions. Professional training for the public sector, especially for experts and managers, and training resources in general are insufficiently available.

The Government recognizes that it is critically important to address these challenges, all of which impact negatively on service delivery. In this regard, the GoA’s PFM Road Map provides significant opportunities to build on previous progress and further strengthen Afghanistan’s PFM system. The Road Map is underpinned by a 5-year rolling Fiscal Performance Improvement Plan (FPIP). The proposed Fiscal Performance Improvement Support Project (FSP) which constitutes the consolidated implementation arm of the FPIP, is intended to provide critical inputs in the form of upfront investments drawn directly from FPIP work plans.

Relationship to CPF

The FSP is aligned with Pillar 1 of the Country Partnership Framework (CPF) 2017-2021 - Building Strong and Accountable Institutions. The overall objective of this pillar is to contribute toward the Government’s long-term goals of state building and self-reliance, and tackling the underlying drivers of fragility by strengthening the institutional and regulatory framework for service delivery, strengthening planning, and fiscal and public financial management (PFM). The project is closely aligned with all three objectives within this pillar, namely: improved public financial management and fiscal self-reliance; improved performance of key government ministries and municipalities; and improved service delivery through enhanced citizen engagement with the state.

² The Government presented its vision for building self-reliance in the context of declining international assistance to the international community at the London Conference in December 2014.



C. Proposed Development Objective(s)

To contribute to the improvement of domestic revenue mobilization and public expenditures management, and reinforcing a performance oriented management culture in the Ministry of Finance.

Key Results (From PCN)

The key results of the FSP are based around the strategic objectives of the PFM Road Map. These are as follows:

- Improvement in the technical and administrative efficiency of resources, represented by an increase in budget execution.
- Improvement in fiscal self-reliance and sustainability, represented by an increase in domestic revenue mobilization.
- Fiduciary systems in stronger adherence to rules and procedures, represented by a reduction in ineligibility proportion in the recurrent cost.
- Improvement in core institutional capacity, represented by a reduction in the number of long-term technical assistants.
- Performance management streamlined over time, measured by regular reporting on performance.

D. Concept Description

The FSP will broaden the reach and consolidate – into one project – World Bank support to MOF³. The FSP will continue to strengthen core financial and fiscal management systems and reward operational achievements emanating from the FPIP. In line with the FPIP, FSP would also provide support beyond core PFM including revenue, HR reform and macro-fiscal. In this sense, the FSP will have a comprehensive reach, providing support across all departments involved in the implementation of the FPIP – adding functional departments such as admin and HR and engaging with relevant departments outside of MOF including the Supreme Audit Office and NPA).

The FSP will be based on the work plans of the FPIP and organized around complementary investment components that represent the PFM cycle. These components will support Government-executed technical assistance, capacity building, and IT infrastructure. The categorization of components around the PFM cycle is important for purposes of clarity and coordination. The FSP includes a multitude of joined-up actions along thematic lines between departments. In this sense, the capacity of some teams to achieve their goals will depend on actions by other teams. Coordination will therefore need to be both systematized and incentivized. For purposes of the latter, the FSP will include a Disbursement-Linked Indicator (DLI)-based component that will further reinforce the performance based nature of the FPIP management process. Under this component, funds would be disbursed upon achievement of specific process-oriented FPIP targets.

³ The Bank currently supports several investment operations within MOF – key amongst these are the: Second Public Financial Management Reform Project (PFMR-II), Second Customs Reform & Trade Facilitation Project, and Technical Assistance Facility (TAF) Project.



SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Mainly Kabul, Based in Ministry of Finance. Provincial coverage to be determined before project appraisal.

B. Borrower’s Institutional Capacity for Safeguard Policies

The Ministry of Finance (MoF) have engaged with the World Bank over many years in related sectors and projects/programs. However the Ministry has limited experiences of social and environmental management and need capacity building support, particularly on Citizen engagement (CE) component, functional Grievance Redress Mechanisms (GRM) etc.

C. Environmental and Social Safeguards Specialists on the Team

Shankar Narayanan, Social Safeguards Specialist
Obaidullah Hidayat, Environmental Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	TBD	Given the nature of proposed project scope, no environmental and social safeguards impacts are foreseen. However, under complementary investment components, the project has deemed IT refurbishment activities which may have negligible Environmental and Social impacts, if at all. The scope of IT refurbishment activities is not clear at concept stage. In case of any social and environmental sensitive schemes being considered during appraisal, the project will carry out necessary environmental and social assessment followed by preparation of necessary safeguards management instruments.
Natural Habitats OP/BP 4.04	No	Given the scope and overall objective of the program this policy is not triggered
Forests OP/BP 4.36	No	Given the scope and overall objective of the program this policy is not triggered.
Pest Management OP 4.09	No	Given the scope and overall objective of the program this is policy is not triggered.
Physical Cultural Resources OP/BP 4.11	No	Given the scope and overall objective of the program this is policy is not triggered.
Indigenous Peoples OP/BP 4.10	No	There are no indigenous people in the project area as defined by OP/BP 4.10.
Involuntary Resettlement OP/BP 4.12	No	The project is not expected to have any land/asset impact as no civil works will be undertaken under this



project. The project work consists of fiscal management reforms, physical and IT infrastructures activities. Therefore, OP/BP 4.12 is not triggered.

However, the borrower will require to establish a two-way interaction between beneficiaries and ministry to discuss fiscal management reforms. Citizen engagement (CE) component, functional Grievance Redress Mechanisms (GRM), and stakeholder engagement processes as appropriate would be in place during project design and implementation stages. Should any of the project interventions result in staff retrenchment or organizational rightsizing, care shall be taken to ensure adequate consultation with those affected and design of packages that adequately address human resource management standards as applicable.

The overall social risks of the project are low.

Safety of Dams OP/BP 4.37	No	N/A
Projects on International Waterways OP/BP 7.50	No	N/A
Projects in Disputed Areas OP/BP 7.60	No	N/A

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Aug 15, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

TTL anticipates the Safeguards team being a key member of the Task Team from Concept Note Development onwards. Before project appraisal, the Project Implementing Agency at the Ministry of Finance, will conduct an initial environmental and social screening and scoping of the confirmed civil works investments to ensure that further safeguards studies are required. In the event, if sought necessary the client will conduct safeguards assessment which will be subject to review by the Bank.



CONTACT POINT

World Bank

Paul Welton, Yousif Mubarak Elmahdi
Lead Financial Management Specialist

Borrower/Client/Recipient

Islamic Republic of Afghanistan
Moheb Jabarkhail
Program Co-ordinator, Focal Point World Bank Portfolio
moheb.jabarkhail@mof.gov.af

Implementing Agencies

Ministry of Finance
Khalid Payenda
Senior Advisor to Minister of Finance
khalid.payenda@mof.gov.af

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Paul Welton, Yousif Mubarak Elmahdi
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Approved By

Practice Manager/Manager:	Pazhayannur K. Subramanian	18-Jul-2017
Country Director:	Wezi Marianne Msisha	12-Aug-2017