

**COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED  
SAFEGUARDS DATA SHEET (PID/ISDS)  
ADDITIONAL FINANCING**

**Report No.:** PIDISDSA19498

**Date Prepared/Updated:** 16-Sep-2016

**I. BASIC INFORMATION**

**A. Basic Project Data**

<b>Country:</b>	Afghanistan	<b>Project ID:</b>	P160073
		<b>Parent Project ID (if any):</b>	P119047
<b>Project Name:</b>	Financial Sector Rapid Response - Additional Financing (P160073)		
<b>Parent Project Name:</b>	Financial Sector Rapid Response Project (P119047)		
<b>Region:</b>	SOUTH ASIA		
<b>Estimated Appraisal Date:</b>	19-Sep-2016	<b>Estimated Board Date:</b>	27-Oct-2016
<b>Practice Area (Lead):</b>	Finance & Markets	<b>Lending Instrument:</b>	Investment Project Financing
<b>Borrower(s):</b>	Islamic Republic of Afghanistan		
<b>Implementing Agency:</b>	Da Afghanistan Bank		
<b>Financing (in USD Million)</b>			
<b>Financing Source</b>			<b>Amount</b>
IDA Grant			20.00
Total Project Cost			20.00
<b>Environmental Category:</b>	C - Not Required		
<b>Appraisal Review Decision (from Decision Note):</b>	The review did authorize the team to appraise and negotiate		
<b>Other Decision:</b>			
<b>Is this a Repeater project?</b>	No		

**B. Introduction and Context**

**Country Context**

Afghanistan has made substantial progress since the overthrow of the Taliban regime in late 2001. The National Unity Government formed in 2014 has embarked on an ambitious reform agenda to revitalize the economy. Despite a solid stride towards growth and stability, the economy remains under significant pressure. Economic growth has slowed, falling from 6 percent in 2011 to 1.5 percent in 2015. Declining global food, fuel and other commodity prices combined with weakening domestic demand in 2015 has resulted in a fall in inflation into negative territory. Consumer price inflation dropped to -1.5 percent, down from 4.5 percent in 2014. Poverty, however, has remained stubbornly unchanged mainly due to increasing income inequality. The medium-term outlook points to slow post-transition recovery. Real GDP growth is projected to increase to 1.9 and 2.9 percent in 2016 and 2017 respectively, conditioned on improvements in the security environment and strong reform momentum, which could help restore confidence in the economy.

### **Sectoral and institutional Context**

More efforts are needed to deepen the Afghan financial sector and boost the sector's efficiency. The banking sector is composed of 3 state-owned banks, 9 private full-fledged banks and 3 branches of foreign commercial banks. Overall financial intermediation in the country is very low. Total loans outstanding in the financial sector stood at AF 46 billion (equivalent to USD 678 million) as of end-June 2016. Banking sector assets to GDP and private credit to GDP ratios stood at an abysmal 22% and 3.7% respectively by end December 2015. The banking system experienced great turbulence in the aftermath of the fall of Kabul Bank in September 2010. A range of factors contributed to this failure including fraud, weak governance, inadequate legislative, regulatory and supervisory frameworks, weak supervision (including limited enforcement) and forbearance. Significant banking vulnerabilities remain. Asset quality has deteriorated significantly triggering DAB to invest more efforts to strengthen its oversight on operating banks: the ratio of non-performing loans to total gross loans continue to increase, reaching 17.1 percent in June 2016 against 6 percent in 2013. Furthermore, banks have highly dollarized balance sheets, with around two-thirds of both deposits and loans and advances being denominated in dollars. The Banking sector is just returning to profitability, with a reported profit of AF 3.3 billion (USD 49 million) for the first six months of 2016, compared with a net loss during the same period a year ago.

The authorities in Afghanistan recognize the importance of building an efficient and stable financial sector that is able to withstand the growing uncertainty and that can contribute to Afghanistan's growth and development goals. A sound financial sector is essential to support sustainable growth and poverty alleviation, through competition, innovation, economic diversification, and job creation. Constraints on economic growth include the potential costs of financial sector instability, gaps in the regulatory and supervisory frameworks, gaps in institutional capacity, the lost opportunities and costs arising from the lack of financial services for the country's firms and households, and lack of key financial services and financial markets. While the uncertain economic and security situation means that significant demand and supply side constraints to financial intermediation exist, the focus is to build the foundations of the financial sector and continue work towards these addressing key constraints to financial intermediation, such that, as and when conditions allow, the building blocks exist and the financial sector is able to respond appropriately to financing development priorities.

DAB's leadership has been focusing on ensuring increased attention to financial sector reforms. The DAB leadership is supporting building blocks for an efficient financial system and

strengthening the fundamentals for a more resilient financial sector in Afghanistan, including through the project's activities which support fundamental institutional capacity building and financial market infrastructure. Efforts to strengthen the financial sector currently focus on upgrading financial supervision capacity and strengthening the oversight capacity of the central bank and building market infrastructure. In addition, the Government is currently embarking on a comprehensive reform program supported under the Extended Credit Facility (ECF) which was approved by the International Monetary Fund Board on July 20, 2016. A key pillar of the program is to ensure soundness and efficiency of the financial sector. The scope of proposed activities under the AF will strengthen DAB's regulatory and oversight capacity. Moreover, focusing efforts towards achieving these objectives will also robustly complement the IMF's program, which is being closely coordinated by the Bank and IMF teams.

Since project effectiveness, the project has been rated in the satisfactory range respectively for both Implementation Progress (IP) and the progress towards achieving its Development Objectives (DO). The project was rated Moderately Satisfactory for DO and upgraded to Satisfactory for IP in the most recent Implementation Status and Results Report (ISR) dated July 26, 2016. Loan covenants have been fully complied with to date. As of end-July 2016, the project has disbursed a total amount of US\$13.3 million which represents about 52 percent of total project funds. Under the parent project, audits of the ten commercial banks were completed in June 2012 and actions plans developed. The Collateral Registry and the Public Credit Registry also became fully operational in 2013 and 2014 respectively. The Modernization of National Payment Systems is under way, with the setting up of an Automated Transfer System (ATS), National Card and Mobile Payment Switch (Afghanistan Payment System) and an Interbank Communication Network. The Afghanistan Institute of Banking and Finance is also being strengthened, with the implementation of the action plan that followed the Organizational Capacity Assessment finalized in September 2015. Based on current committed and disbursed amounts, 94 percent of the project funds have been utilized or are committed under ongoing procurement clearances, as of end-July, 2016.

### **C. Proposed Development Objective(s)**

#### **Original Project Development Objective(s) - Parent**

The Project's development objective is to assist DAB to develop actions plans for improved banking supervision and implement modern national payment system for efficient and transparent payment transactions.

#### **Current Project Development Objective(s) - Parent**

To assist DAB to develop action plans for improved banking supervision and to establish key building blocks of financial sector infrastructure: payment system, movable collateral registry, and public credit registry.

#### **Key Results**

### **D. Project Description**

The following changes are proposed in project components and financing:

☞ Component 1. Strengthening of DAB's capacity (Additional Financing of US\$0.5 million. The new proposed activities include providing technical assistance (TA) to DAB to

upgrade the internal audit functions and implement International Financial Reporting Standards (IFRS).

➤(€ Component 2. Development of the financial sector infrastructure (Additional Financing of US\$16 million). The revised Component 2 would cover broader activities to further support the development of financial sector infrastructure, including the improvement of internal Information and Communication Technology (ICT) systems of DAB to achieve full automation of core functions, improve operational reliability and enhance operational efficiencies.

➤(€ Component 3. Technical assistance and training for project implementation (Additional Financing of US\$3.5 million). The revised component 3 will include the roll-out of a comprehensive skills development program for technical and operational DAB staff, in addition to building capacity of relevant departments to facilitate the implementation of the proposed new project activities.

The project closing date of the parent project will also be extended to October 31, 2019.

#### **Component Name**

Component 1. Strengthening of DAB's capacity

#### **Comments (optional)**

#### **Component Name**

Component 2. Development of the financial sector infrastructure

#### **Comments (optional)**

#### **Component Name**

Component 3. DAB Skills development; Technical Assistance and Project implementation

#### **Comments (optional)**

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

### **F. Environmental and Social Safeguards Specialists**

Mohammad Arif Rasuli (GEN06)

Qais Agah (GSU06)

## **II. Implementation**

### **Institutional and Implementation Arrangements**

Current implementation arrangements will apply to the additional financing. Under these arrangements, the Project Implementation Cell (PIC) at DAB will continue to be responsible for the project implementation.

## **III. Safeguard Policies that might apply**

<b>Safeguard Policies</b>	<b>Triggered?</b>	<b>Explanation (Optional)</b>
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	

#### **IV. Key Safeguard Policy Issues and Their Management**

##### ***A. Summary of Key Safeguard Issues***

<b>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</b>
The Environmental category of the Project remains C, given that no significant environmental impacts are foreseen.
<b>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</b>
n/a
<b>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</b>
n/a
<b>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.</b>
n/a
<b>5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.</b>
n/a

##### ***B. Disclosure Requirements***

<b>If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.</b>
<b>If in-country disclosure of any of the above documents is not expected, please explain why:</b>

n/a

### ***C. Compliance Monitoring Indicators at the Corporate Level***

<b>The World Bank Policy on Disclosure of Information</b>			
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
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?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
<b>All Safeguard Policies</b>			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Have costs related to safeguard policy measures been included in the project cost?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [ <input type="checkbox"/> ]	No [ <input type="checkbox"/> ]	NA [ <input type="checkbox"/> ]

### **V. Contact point**

#### **World Bank**

Contact: Ahmed Mohamed Tawfick Rostom

Title: Sr Financial Sector Spec.

#### **Borrower/Client/Recipient**

Name: Islamic Republic of Afghanistan

Contact: Jabarkhail

Title: Head of Aid Management Directorate

Email: moheb.jabarkhail@budget.gov.af

#### **Implementing Agencies**

Name: Da Afghanistan Bank

Contact: Basharmal Pasarlay

Title: Project Director

Email: basharmal.pasarlay@dab.gov.af

### **VI. For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>

## VII. Approval

Task Team Leader(s):	Name: Ahmed Mohamed Tawfick Rostom	
<b><i>Approved By</i></b>		
Safeguards Advisor:	Name: Maged Mahmoud Hamed (SA)	Date: 20-Sep-2016
Practice Manager/ Manager:	Name: Marius Vismantas (PMGR)	Date: 20-Sep-2016
Country Director:	Name: Stephen N. Ndegwa (CD)	Date: 20-Sep-2016