



## 1. Operation Information

**Operation ID**

P176137

**Operation Name**

2021 IP-DPG

**Country**

Afghanistan

**Practice Area (Lead)**

Macroeconomics, Trade and Investment

**Non-Programmatic DPF**
**L/C/TF Number(s)**

IDA-D8510,TF-B5789

**Closing Date (Original)**

30-Jun-2022

**Total Financing (USD)**

131,072,400.00

**Bank Approval Date**

24-Jun-2021

**Closing Date (Actual)**

30-Jun-2022

**IBRD/IDA (USD)**
**Co-financing (USD)**

Original Commitment

432,000,000.00

300,000,000.00

Revised Commitment

132,000,000.00

0.00

Actual

131,072,400.00

0.00

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## 2. Program Objectives and Pillars/Policy Areas

### a. Objectives

The Implementation Completion and Results Report (ICR, para. 10) and Program Document (PD, p. 3) stated the program development objectives (PDOs) and pillars as: i) supporting sustainability, inclusivity, and transparency in public finances and the civil service staffing; and ii) strengthening the institutional and



regulatory framework to support recovery from COVID-19 through management of risks and improved governance.

Although “recovery from COVID-19” was indicated as an ultimate outcome, none of the policy actions (PAs) or results indicators (RIs) were directly related to COVID-19 or to recovery per se; rather, they addressed governance and risk management in public utility companies and state-owned banks and enterprises (SOEs). The ICR (para. 11) also stated that “reforms under Pillar I were designed to improve the regulatory and governance framework.” Hence improving governance and the regulatory framework was a strategy used under both PDOs/pillars to achieve the basic objectives.

While the measures related to civil service staffing had fiscal implications taken as a whole, some of the associated results indicators did not track the budgetary impact per se, and the civil service reforms can be considered as an intermediate step toward the public finance objective, which can be considered separately. Taking into account the actual focus of the PAs, the PDOs are disaggregated as follows for the purpose of this ICR Review (ICRR):

1. Supporting sustainability, inclusivity, and transparency in civil service staffing;
2. Supporting sustainability, inclusivity, and transparency in public finances;
3. Improving governance, sustainability and risk management in public utilities and state-owned enterprises.

## b. Pillars/Policy Areas

The policy areas broadly carried forward several aspects of the objectives of the preceding set of three Incentive Program Development Policy Operations (IP-DPOs): supporting state effectiveness; fiscal sustainability; and public financial management (ICRR for Afghanistan 2020 IP DPG P172211, Table 1). Under Pillar 1 (“supporting sustainability, inclusivity, and transparency in public finances and the civil service staffing,” as stated in the PD, para. 28), PDO 1 and PAs 1-3 (see Table 1) expanded implementation of the civil servants law, which was introduced and supported under the previous IP-DPO series. PDO 2 and PAs 4-9 carried forward the second objective of the previous series: “improving the policy and institutional framework for public financial management and fiscal sustainability.” PAs 5-7 focused on the tax system. Under PDO3 (corresponding to Pillar 2 as stated in the PD, para. 28: “strengthening the institutional and regulatory framework to support recovery from COVID-19 through management of risks and improved governance”), PAs 10-11 related to previous actions to improve institutional arrangements and sustainability in the energy and oil/gas sectors, while PAs 12-13 introduced a new element of strengthening oversight and risk management in state-owned banks and other enterprises.

Table 1: Objectives and Prior Actions for Afghanistan 2021 Incentive Program Development Policy Grant

Policy Actions
<b>Objective 1: Supporting sustainability, inclusivity, and transparency in civil service staffing</b>
PA 1: To strengthen public sector sustainability and governance, the Cabinet has approved a Tashkeelat regulation establishing a unified process for annual approval of Tashkeel positions across all Government agencies.
PA 2: To strengthen public sector sustainability and governance: (a) the Cabinet has approved norms and guidelines to reduce and standardize 'incentive' salaries in the civil



service, with application to be overseen by the civil servants' incentives review committee; and (b) the Ministry of Finance has approved 2022 Budget Execution Guidelines which fully reflect these norms and guidelines.

PA 3: To improve civil service integrity and inclusion, the Cabinet has approved: (a) an amendment to the Regulation on the Civil Servant's Code of Conduct to explicitly include definitions of and sanctions for corruption and sexual harassment aligned with relevant laws; and (b) new procedures for handling complaints against harassment of women in the workplace for all budgetary units.

**Objective 2: Supporting sustainability, inclusivity, and transparency in public finances**

PA 4: To strengthen the sustainability of pensions, the Cabinet has approved regulatory changes and submitted draft legislation to the Parliament to: (a) introduce a new defined contribution pension scheme for a class of public servants; and (b) correct the existing legacy pension schemes by (i) rationalizing survivor benefits, and (ii) introducing a discounted lump sum benefit payment option.

PA 5: To support value-added tax (VAT) implementation, the Afghanistan Revenue Department (ARD) has issued a circular mandating VAT registration for eligible firms and individuals and establishing a registration process based on the use of digital national IDs.

PA 6: To simplify tax administration, Cabinet has approved amendments to the VAT law to eliminate the Business Receipts Tax, including below the VAT threshold.

PA 7: To ease tax compliance, the Minister of Finance has approved relevant procedures mandating the use of e-signatures (a) when documenting physical and/or documentary examinations of goods and declarations in the information system; and (b) in the issuance of tax clearance certificates (TCC).

PA 8: To strengthen public financial management: (a) the Cabinet has approved a new public financial management (PFM) reform strategy; (b) the Ministry of Finance (MoF) has completed a survey of fixed assets in at least three (3) pilot ministries; and (c) MoF and Da Afghanistan Bank (DAB) has established an automated connection between the Afghanistan Financial Management Information System (AFMIS) and Automated Transfer System (ATS) systems to facilitate electronic payments for staff and contractors.

PA 9: To improve fiscal transparency, the MoF has published full quarterly expenditure data (for the period Q1 2020 – Q1 2021) at the line-item level and a full report regarding the utilization of COVID-19 response expenditures.

**Objective 3: Improving governance, sustainability and risk management in public utilities and state-owned enterprises**

PA 10: To improve sustainability of the energy utility, the National Electricity Utility of Afghanistan's (DABS's) senior management group has approved the implementation of a short-message service (SMS) billing systems in at least three major cities.

PA 11: To strengthen institutions for gas sector governance, Afghanistan Oil and Gas Regulatory Authority has been operationalized through the appointment of all seven members of its high board through a transparent and competitive process in accordance with the provisions of the 2017 Hydrocarbons Law.

PA 12: To strengthen oversight of state-owned banks, the supervisory boards of three state-owned banks are operationalized through recruitment of at least five members to each board through competitive and transparent processes outlined in the Ownership Policy.



PA 13: To strengthen fiscal risk monitoring, the Ministry of Finance has published a report on the financial status of the five largest SOEs/State-Owned Corporations (SOCs) and an assessment of major fiscal risks arising from the SOC, state-owned business (SOB), and public-private partnership (PPP) portfolio.

Of the 13 PAs, only the three prior actions (i.e., none of the tranche release triggers) were completed before the operation was suspended in August 2021). There was a total of 17 actions/sub-actions (two of which directly follow through on actions supported in the preceding IP-DPO).

### **c. Comments on Program Cost, Financing and Dates**

Program cost was estimated at US\$ 432 million over eleven tranches, of which SDR 92 million (US\$ 132 million equivalent) was to be financed as a grant from the International Development Association (IDA) and US\$ 300 million was to come from a grant from the Afghanistan Reconstruction Trust Fund (ARTF), a multi-donor funding mechanism for reconstruction support, which had been brought in to support the previous series of IP-DPOs. The program document (PD, para. 103) financing agreement and grant agreement provided for an initial disbursement of SDR 92 million from IDA based on three prior actions and ten tranches of US\$ 30 million from ARTF, each based on satisfying a tranche release trigger. Actual disbursement amounted to US\$ 131,072,400 from IDA and nil from ARTF, due to suspension of the operation following the Taliban takeover of the government.

## **3. Relevance of Design**

### **a. Relevance of Objectives**

#### **Relevance to country context**

As noted above (section 2.b), the objectives were consistent with and built upon objectives from the previous IP-DPO series, which were “designed to support the Government’s three-year program of policy reforms” (ICRR, P172211, section 2.a). However, the PD (paras. 2-3) put these longer-term objectives of institution-building, governance, and PFM in the context of more recent political and economic challenges that aggravated fragility, conflict and violence (FCV) in Afghanistan: “frequency of Taliban attacks on Afghan security forces and civilians recently reaching record levels”; United States intention to “withdraw all troops by September 11, 2021”; “uncertain” future of international grant support; two percent contraction of the Afghan economy in 2020; revenue shortfall around 20 percent of targets in 2020; “very low investor confidence”; and “Government spending heavily disrupted by the COVID-19 crisis” (para. 20). Understating the outlook as “uncertain” and “challenging,” the PD focused on measures that would continue to “help Afghanistan maintain reform progress, manage mounting fiscal challenges, and support economic recovery” without explicitly stating the need for new measures to deal with the clear increase in FCV. Nevertheless, the PD (para. 109-113) did recognize that the very high risks would be “only somewhat mitigated by the program’s focus on policy actions that should show positive impact even in the context of ongoing conflict.”

The PD (paras. 4, 25) recognized the private sector’s importance to the stated desired outcome of “recovery from COVID-19” and that it was weak and faced with many challenges. But it did not explain why there was no explicit objective or PAs to carry forward the previous IP-DPO series’ measures to “strengthen the



policy framework to support private investment.” It only expressed a general expectation that the reforms would “indirectly facilitate private sector development through addressing the institutional, governance, and fiscal sustainability risks that are currently constraining investment” (para. 28).

### **Relevance to country development strategy and CPF**

As in the previous IP-DPO series (ICRR P172211, section 3.a), the PDOs were aligned with the government’s strategies as stated in the Afghanistan National Peace and Development Policy Framework (ANPDF) and Fiscal Performance Improvement Plan (FPIP) (PD, para. 27). These strategies were intended to deepen the reforms undertaken since the fall of the Taliban in 2001. The PD (para. 80) stated that “the proposed operation is fully consistent with the priorities and approach established in the World Bank Group’s Country Partnership Framework (CPF) (FY17-FY20) ... and the Performance and Learning Review, which extended the CPF to FY22.” The PAs supported the CPF pillar of “building strong and accountable institutions”.

The PD (paras. 80-82 and Annex 5) noted that the World Bank program in Afghanistan had been adjusted to respond to the pandemic and that the proposed operation was consistent with the WBG’s COVID-19 Crisis Response Approach Paper (June 2020). According to the Bank, despite growing FCV risks, the World Bank was not in a position to change course without precipitating the economic and social crisis that international assistance was seeking to mitigate. World Bank support was intended to help “operationalize the Government’s response strategy in close coordination with other development partners and humanitarian agencies while building a stronger nexus between the humanitarian and development support....The World Bank response is aligned with the three interlinked phases - *Relief, Restructuring, and Resilient Recovery*” - of the Additional Financing for and Restructuring of the COVID-19 Emergency Response and Pandemic Preparedness Project (PD, para. 3)."

## **b. Relevance of Prior Actions**

### **Rationale**

Following the model of and lessons learned from the previous IP-DPO series, this operation was the first of a series of three stand-alone operations rather than a pre-determined series, in view of the limitations imposed by Afghanistan’s fragility. In any event, disbursements under the program from the ARTF were suspended upon the overthrow of the government in August 2021.

Although neither the ICR nor the PD provided an explicit results chain/theory of change, each prior action clearly stated the underlying constraints and expected results, and most actions drew on appropriate analytical underpinnings or followed through on steps initiated in previous IP-DPOs. The actions were sufficiently specific and limited for their targeted results to be feasible within the time frame of the operation.

### **Objective 1: Supporting sustainability, inclusivity, and transparency in civil service staffing**

PA 1 addressed a problem identified in the PD (paras. 30-1) that control of government expenditures on civil servants (*Tashkeel*) was being undermined as “line-ministries have increasingly obtained direct approval of their tashkeel proposal from the Office of the President without prior review” and that there was no formal tashkeel approval process or calendar for hiring.” The regulation required to be adopted as a tranche release condition would “(i) define clear process steps for establishment of tashkeel positions linked to the budget calendar; (ii) clarify institutional arrangements through the approval process; and (iii) establish requirements for



including vacant tashkeel positions in the overall tashkeel ceiling and budget envelope,” representing a major contribution to the objective and to Objective 2 (fiscal sustainability). Rating: Satisfactory.

PA 2 was a response to the problem that the wage bill had become increasingly distorted by unsustainable growth in allowance spending which was being approved through an uncoordinated and inconsistent process, creating opportunities for patronage (PD, para. 35). The PA was designed to set up a process and committee “to review and rationalize current allowance spending across the civil service....[and] to phase out a number of costly and poorly managed schemes through which selected civil servants are provided with pay and allowances that far exceed standard entitlements”. This supported the objective of increased transparency and sustainability in civil service staffing, as well as contributing to Objective 2 (fiscal sustainability). Rating: Satisfactory.

PA 3 responded to what the Bank referred to as “major problems of widespread corruption and allegations of sexual exploitation and abuse and sexual harassment” identified in the PD (para. 41). The measures were appropriate as a first step to address real and perceived concerns about workplace safety among women and their families and contributed to redressing Afghan women’s low participation in the civil service. This furthered the objective of improved inclusivity and sustainability in the civil service. Rating: Moderately Satisfactory.

## **Objective 2: Supporting sustainability, inclusivity, and transparency in public finances**

PA 4 sought to contain surging government pension expenditures, from 0.5 percent of the GDP in 2017 to one percent of the GDP in 2020 and which were expected to increase to 1.4 percent of the GDP by 2024 under the existing “defined benefit” scheme (PD, para. 38). Without reform, pension expenditures to civil servants (who are mostly in the top income quintile) would crowd out critical service delivery and development needs with regressive negative impacts on the poor and vulnerable. According to the Bank, the new ‘defined contribution’ pension mechanism is financially sustainable by design,” with further reforms planned to “enhance the sustainability of the legacy scheme over the coming years” (PD, para. 39). The measures also contributed to Objective 1 (sustainability of civil service staffing). Rating: Satisfactory.

PA 5-7 included measures to address declining revenues by improving tax administration and compliance.

PA 5 was critical to support the planned implementation at the end of 2021 of a value added tax (VAT) as “a cornerstone of the government’s revenue strategy [to]... bring additional revenues equal to 0.6 percent of GDP” (PD, para. 46). Although this would represent only a 5 percent addition to the existing revenue base of 12.3 percent in 2021 (PD, para. 23), it represented an important step toward broadening the revenue base. Rating: Satisfactory.

PA 6 was intended to avoid the administrative burden to both the ARD and small and medium companies of maintaining the previous sales tax (BRT) alongside the VAT, which would initially apply only to large firms. Besides “freeing up capacity [of ARD] to focus on effective implementation of the VAT, removal of the BRT was also expected to reduce a significant compliance burden facing smaller firms, without substantially impacting overall revenues” (PD, para. 51; the foregone revenues were estimated at only “0.6 percent of forecasted revenue collections for 2022”). Rating: Satisfactory.

PA 7 was introduced to reduce the “unnecessary delays and... opportunities for discretion and petty corruption” due to “parallel paper trails or partly manual approval processes [that] remain in place for most of the automated processes” (PD, para. 52). Enabling e-signatures would make possible further steps to continue the gains made by the “ARD and the Afghanistan Customs Department... in automating their business processes in





recent years,” but does not ensure that parallel paper trails would in fact be eliminated. Rating: Moderately Satisfactory.

PA 8 was needed to replace the previous PFM reform strategy, which had expired in 2020, and to “establish high-level PFM reform objectives and goals...coalesce donor support...and monitor and track progress,” based on recommendations of a series of strategic Public Financial Management Roadmaps (PD, para. 56). The “progress in establishing core PFM systems was constrained by “limited interoperability [of AFMIS] with other government payment systems” and the absence of asset registries needed to advance management of operations and maintenance (O&M) expenditures (PD, para. 55). Asset surveys were needed to better document actual maintenance requirements and thereby improve the efficiency of O&M expenditures (PD, para. 58). The actions were directly relevant to the stated constraints. Rating: Satisfactory.

PA 9 carried forward measures under previous IP-DPOs to improve transparency by publishing cash management, revenue, and expenditure reports. The 2018 Public Expenditure and Financial Accountability Assessment (PEFA) identified “important gaps,” with only ‘C’ and ‘D’ scores for fiscal transparency indicators (PD, para. 59). The action to publish full quarterly expenditure and revenue data at the line-item level, as well as a consolidated annual COVID-19 expenditure report, would help address these shortcomings and improve “access to information regarding the use of public funds [which] is critical to maintaining continued international donor support” (ibid.). Rating: Satisfactory.

### **Objective 3: Improving governance, sustainability and risk management in public utilities and state-owned enterprises**

PA 10 was a step toward redressing the high commercial losses (16.6 percent) due to “ineffective” collections by the power utility, Da Afghanistan Breshna Sherkat (DABS) (PD, para. 63). Along with high technical losses (17.4 percent), DABS’s financial performance deteriorated from a profit of 6.5 percent in FY2014 to an operating loss of 18.6 percent in FY2018, aggravated during the COVID-19 crisis, due to reduced consumption and delayed bill payments. Introduction of SMS billing was expected to contribute to reduction in commercial losses (1.6 percentage points over two years; PD, para. 66) and thereby to the objective of improved sustainability by “eliminat[ing] the need for paper-based invoicing, shortening payment times, and reducing the incidence of unnecessary disconnections (PD, para. 65). Rating: Satisfactory.

PA 11 followed through on measures in the previous IP-DPO to establish a “dedicated and independent sector regulatory agency (the Afghanistan Oil and Gas Regulatory Authority, or AOGRA)” (PD, para. 68). Investment and sustainability in the hydrocarbons sector was being constrained by an “incomplete regulatory framework and by the need to fully consolidate and operationalize its institutional structure and governance mechanisms” (ibid.). The action was “an essential step” in this process of improving governance, although it does not necessarily ensure that the objectives of appropriate regulations, effective oversight, and management of corruption and other risks will be achieved. Rating: Moderately Satisfactory.

PA 12 was a step toward addressing the problem of weak management of SOBs, [which] has led to repeated rounds of asset write-downs and recapitalizations (PD, para. 71). Although SOBs have small loan portfolios, [they] account for around 29 percent of total banking sector assets and play a critical role in providing banking and payment services (including to civil servants) (ibid.). The government had taken a number of steps to strengthen oversight and governance of state-owned banks over recent years, including introducing Boards of Supervisors to strengthen corporate governance – a disbursement condition under the Modernizing Afghan State Owned Banks Project (PD, para. 72). The action was intended to improve oversight by addressing the problem of vacant positions, which “undermined their capacity to fully execute prescribed functions” (ibid.),



although this would only indirectly address the core problem of weak management at the SOB level. Rating: Moderately Satisfactory.

PA 13 addressed the concern that unexpected realization of fiscal risks across the SOC, SOB, and PPP portfolio posed important challenges to Afghanistan's fiscal position (PD, para. 75). Financial oversight and data availability is highly variable across the portfolio [52 state-owned enterprises/companies (SOE/SOC), 3 SOBs and 6 public-private partnerships [PPP] under contract], with no unified mechanism for monitoring and reporting on fiscal risks. Publishing the financial status of the largest SOCs and assessing the fiscal risks was a relevant step toward the objective of better managing risk in state-owned enterprises by putting pressure on management to be more accountable, though it does not ensure that management behavior would change to achieve the result of better risk management. Rating: Moderately Satisfactory.

## Rating

Satisfactory

## 4. Relevance of Results Indicators

### Rationale

The operation used 14 results indicators (RIs; three of them disaggregated by gender) to track implementation and results of 13 PAs. The RIs were generally appropriate to track impact of the PAs (with two exceptions), though not necessarily of progress toward of the operation's objectives.

<b>Table 2: Results indicators by Objective and PAs; baseline and target values; status and achievement</b>							
<b>Results indicator (RI)</b>	<b>Associated PAs</b>	<b>RI Relevance</b>	<b>Baseline (2020)</b>	<b>Target (2022)</b>	<b>Actual (2022)</b>	<b>Actual as % of targeted change</b>	<b>RI Achievement rating</b>
<b>Objective 1: Supporting sustainability, inclusivity, and transparency in civil service staffing</b>							
RI 1: Proportion of new tashkeel positions (disaggregated by gender) approved through a unified, transparent process	PA 1	S	0%	90%	Unknown	Nil	N
RI 2: Allowances as a share of wage bill expenditures	PA 2	S	25%	22%	Unknown	Nil	N
RI 3: Number of Ministries/Agencies provided with training on the revised Code of Conduct and on procedure for handling complaints.	PA 3	U	0	10	Unknown	Nil	N





<b>Objective 2: Supporting sustainability, inclusivity, and transparency in public finances</b>							
RI 4: Percent of new entrants to the public service (civil service and armed forces, but excluding National Technical Assistants, NTAs) over the previous year enrolled in a defined contribution pension program	PA 4	MS	0%	90%	Unknown	Nil	N
RI 5: Number of registered VAT taxpayers (gender disaggregated for individuals and entrepreneurs)	PA 5	S	Overall: 0 Women: 0	Overall: 700 Women: 10	Unknown	Nil	N
RI 6: The time required to prepare, file, and pay value added or sales tax, profit tax and labor taxes and contributions	PA 6	MU	270 hours	230 hours	Unknown	Nil	N
RI 7: TCCs with digital signatures as a proportion of total TCCs issued (gender disaggregated for individuals and entrepreneurs)	PA 7	MU	Overall: 0 Women: 0	Overall: 50% Women: 50%	Unknown	Nil	N
RI 8: Digital examination reports as a proportion of goods declarations selected for examination	PA 7	MS	0%	50%	Unknown	Nil	N
RI 9: Proportion of government payments processed electronically	PA 8	MU	0%	75%	Unknown	Nil	N
RI 10: Audited financial data on COVID-19 expenditures is publicly available	PA 9	S	No	Yes	No	Nil	N
<b>Objective 3: Improving governance, sustainability and risk management in public utilities and state-owned enterprises</b>							
RI 11: Commercial losses as a percentage of supply	PA 10	MS	16.6%	15.0%	Unknown	Nil	N
RI 12: Number of regulations and contract templates for the natural gas value chain developed by AOGRA and approved by the appropriate legal authority	PA 11	MS	0	3	Unknown	Nil	N
RI 13: SOB corporate	PA 12	MS	No	Yes	Unknown	Nil	N



governance requirements specified in the State-Owned Banks Ownership Policy are met								
RI 14: Afghanistan score against PEFA indicator PI-10.3 on fiscal risk reporting	PA 13	MS	D	C	Unknown	Nil	N	





Source: ICR table 2.

### **Objective 1: Supporting sustainability, inclusivity, and transparency in civil service staffing**

RI 1 (*proportion of new tashkeel positions [disaggregated by gender] approved through a unified, transparent process*) directly measured compliance with the new regulations, which supported the objective of transparency and sustainability in civil service hiring. The baseline was nil and the indicator was measurable. Rating: Satisfactory.

RI 2 (*allowances as a share of wage bill expenditures*) directly measured the desired outcome of a decrease in the relative importance of uncontrolled allowances in the wage budget, although it was not clear how much impact this would have on the overall level and sustainability of the wage bill. It was measurable, with a clear baseline and target. Rating: Satisfactory.

RI 3 (*number of Ministries/Agencies provided with training on the revised Code of Conduct and on procedure for handling complaints*) was an indirect indicator of progress toward the desired outcome of reduced corruption and harassment among civil servants. It only tracked whether training in the Code of Conduct was being offered, not the extent of participation or changes in behavior and other results. Rating: Unsatisfactory.

### **Objective 2: Supporting sustainability, inclusivity, and transparency in public finances**

RI 4 (*percent of new entrants to the public service over the previous year enrolled in a defined contribution pension program*) directly measured implementation of the associated PA and the resulting impact on the objective of increased sustainability of pensions – though it captures only the marginal effect with respect to new civil servants. The baseline was nil and the indicator was readily measurable. Rating: Moderately Satisfactory.

RI 5 (*number of registered VAT taxpayers, gender disaggregated*) was a reasonable indicator of initial success during the limited time period of the operation in implementing the new VAT with respect to compliance. The rationale for gender disaggregation was not stated (PD, para. 48), but it presumably reflected the concern over women's limited participation in the private sector (PD, para. 4), as well as their contribution to revenues. Rating: Satisfactory.

RI 6 (*the time required to prepare, file, and pay value added or sales tax, profit tax and labor taxes and contributions*) was relevant to the objective of simplifying tax administration and transparency through the VAT law, which was to replace the BRT system for smaller enterprises. The indicator was intended to



track the reduced burden on small business from exempting them from the BRT while bringing them under the BAT, but the Doing Business indicator involved is based on the what is in the regulations rather than actual experience. A complementary indicator of revenue collected would have been desirable to track the impact on the fiscal sustainability objective. Rating: Moderately Unsatisfactory.

RI 7 (*TCCs with digital signatures as a proportion of total TCCs issued, gender disaggregated*) tracked implementation of PA 7 to facilitate tax compliance, which in turn would contribute to the objective of increased budgetary sustainability. The indicator measured results with respect to ease of issuing TCCs; however, it did not directly measure the outcome in terms of compliance or fiscal impact. The rationale for gender disaggregation was unclear, given the negligible participation of women in businesses and taxation and the absence of PAs specific to gender. The baseline was nil, and the indicator was measurable. Rating: Moderately Unsatisfactory.

RI 8 (*digital examination reports as a proportion of goods declarations selected for examination*) likewise measured the effect of implementing PA 7 on digital examination reports in order to eliminate parallel paper trails and thereby reduce administrative costs. Rating: Moderately Satisfactory.

RI 9 (*proportion of government payments processed electronically*) tracked implementation of one of three sub-actions of PA 8 with respect to inter-connectivity in order to process government payments more efficiently. It did not capture approval of a new PFM strategy and survey of fixed assets. Rating: Moderately Unsatisfactory.

RI 10 (*audited financial data on COVID-19 expenditures is publicly available*) was a reasonable indicator of continued progress toward the objective of increased transparency in public finances, especially in view of public concerns over management of COVID-19 funds (PD, para. 59). Rating: Satisfactory.

### **Objective 3: Improving governance, sustainability and risk management in public utilities and state-owned enterprises**

RI 11 (*commercial losses as a percentage of supply*) was a suitable measure of the impact of PA 10 on cost recovery of the energy utility, though changes in the loss rate could not necessarily be attributed solely to that action. The indicator was measured by the utility and baseline data was available. Rating: Moderately Satisfactory.

RI 12 (*number of regulations and contract templates for the natural gas value chain developed by AOGRA and approved by the appropriate legal authority*) was suitable to indicate if PA 11 was being implemented and the AOGRA was operational. While this would represent a step toward the objective of improved governance, it did not necessarily mean that the institution was strengthened sufficiently to yield the desired result of enhanced recovery from COVID-19. Rating: Moderately Satisfactory.

RI 13 (*SOB corporate governance requirements specified in the State-Owned Banks Ownership Policy are met*) was a reasonable indicator of whether implementation of PA 12 to appoint supervisory board members was yielding results in terms of improved SOB governance through compliance with requirements. It was assumed that improved compliance would contribute to the ultimate objective of ensuring sustainability of SOBs. Rating: Moderately Satisfactory.

RI 14 (*Afghanistan score against PEFA indicator PI-10.3 on fiscal risk reporting*) was relevant to the underlying weaknesses identified in the Public Expenditure and Financial Accountability (PEFA) assessment and thus to whether the actions under PA 13 were successful in improving Afghanistan's



rating in the next assessment. The availability of data for the RI was contingent on a subsequent PEFA being undertaken, which was not guaranteed. Rating: Moderately Satisfactory.

## Rating

Moderately Satisfactory

## 5. Achievement of Objectives (Efficacy)

No information available

### Overall Achievement of Objectives (Efficacy) Rationale

Following the takeover by the Taliban in mid-August, 2021, the operation was suspended and there was a complete “cessation of reporting by authorities against key statistical indicators” (ICR, para. 17). The ICR (para. 19) concluded that “none of the results indicators were achieved, and outcomes even further deteriorated due to substantial policy reversal...and suspension of the project.”

### Overall Efficacy Rating

Highly Unsatisfactory

## 6. Outcome

### Rationale

Although the relevance of PAs was Satisfactory, the Highly Unsatisfactory efficacy rating mandates an overall outcome rating of Highly Unsatisfactory.

### a. Rating

Highly Unsatisfactory

## 7. Risk to Development Outcome

**Achievement of outcomes was completely compromised by Taliban rule of Afghanistan.** Steps toward inclusivity of women have been reversed. Gains in institution-building have been compromised by the





“exodus of human capital” as well as by Taliban administration, and the “financial and economic crisis... has undermined confidence in the banking sector” (ICR, para. 27).

## **8. Assessment of Bank Performance**

### **a. Bank Performance – Design**

#### **Rationale**

##### **Rationale**

The design was based on lessons from prior analytical work (especially the 2018 PEFA and Public Financial Management Roadmaps; PD, Annex 6) and experience with the previous IP-DPO series. The PD explained the rationale for and expected results of the PAs and identified key risks, although it could not have anticipated the severity of the security and political risks, for which mitigation was beyond the scope of the operation.

##### **Lessons from prior experience**

The operation drew on the experience of the previous IP-DPO series, in particular that the FCV situation made a sequence of stand-alone but related operations preferable to a pre-planned set of three and “that the combination of Prior Actions and Tranche Release Conditions is a successful mechanism for motivating reform effort throughout the year” (PD, para. 29). The PD (para. 29) also noted that a highly consultative process with senior government officials, development partners, and technical teams was important to build ownership and commitment to implementation, and that World Bank technical assistance... through parallel investment and analytical engagements was critical to facilitate implementation, although it did not cite domestic consultations specific to this operation apart from the Afghanistan National Peace and Development Policy Framework (ANPDF).

##### **Results chain**

The PD provided detailed explanations of the context, rationale and expected results for each PA, but neither the PD nor the ICR provided an explicit results chain linking each action or set of actions to the intended results and expected outcomes.

Although the PD’s discussion of inclusivity of women focused almost exclusively on the civil service, no RIs measured women’s participation in the civil service, and RIs were gender-disaggregated only with respect to taxation (VAT registrants and TCCs issued), for which there were no gender-related actions.

##### **Risk identification and mitigation**

Although the PD (para. 2) recognized that the United States’ announced intention to withdraw troops by September 2021 presented “substantial risks of further Taliban advances,” it considered the security and political risks mainly under the rubric of “macroeconomic risks, [which] include: i) major political instability and violence following any withdrawal of international security support; ii) rapid declines in security or civilian aid, which would undermine fiscal sustainability and investor confidence; iii) major policy changes



following the formation of any new government....” Lacking any instruments to mitigate the growing security and political risks, the operation attempted to focus on measures to help “Afghanistan maintain reform progress, manage mounting fiscal challenges, and support economic recovery” (PD, para. 4).

The ICR (para. 37) noted that the “potential for serious deterioration and major negative impacts on program results was clearly flagged at the stage of Board approval.”

The PD (para. 24) explicitly recognized the high risk of debt stress, aggravated by the risks of “aid shortfalls, the fragile security situation, political uncertainty, domestic revenue shortfalls, and exchange rate depreciation.” To help mitigate the risk of aid withdrawal, the operation included actions for increased transparency through the “publication of fiscal data, including on COVID-19 response expenditures....[and] publication of information on contingent liabilities and fiscal risks arising from SOEs and PPPs” (PD, para. 24).

In the context of fiscal risks posed by severely deteriorating revenues and grants (PD, para. 19), the program was altered to focus on fiscal consolidation.

### **Stakeholder consultation and coordination with Development Partners**

Although the PD (para. 29) touted the benefits of consultation, it did not indicate whether consultations were undertaken specifically for this operation, stating only that “reforms supported by the operation are aligned with the ANPDF, which was developed through extensive consultations with civil society and the private sector” (PD, para. 83).

It did state that “this operation has been developed in close collaboration with development partners, particularly through the ARTF donor group,” and that “discussions have been held with the IMF and all ARTF development partners, including multilaterals such as European Union (EU) and Asian Development Bank (ADB) as well as bilateral partners participating in the ARTF” (PD, para. 84).

## **Rating**

Moderately Satisfactory

## **b. Bank Performance – Implementation**

### **Rationale**

#### **Monitoring**

Monitoring was undertaken in collaboration with the ARTF donor group. None of “the ten tranche release conditions were... met before August 15, 2021, and the entire operation was paused immediately after Taliban takeover and was later suspended” (ICR, para. 14).

#### **Adaptation**



Following the Taliban takeover, “the World Bank’s Board of Executive Directors supported... an immediate Transfer Out of \$280 million of uncommitted ARTF funds to World Food Programme (WFP) and United Nations Children’s Fund (UNICEF) for humanitarian gap financing, following a decision by ARTF donors” (ICR, para. 41).

## Rating

Satisfactory

### c. Overall Bank Performance

#### Rationale

The operation was designed and implemented under difficult conditions of rising insecurity and political, economic and fiscal uncertainty, posing challenges beyond the scope of the operation. Design is rated as Moderately Satisfactory and Implementation as Satisfactory (albeit limited to suspending the operation and seeking to shift to humanitarian funding; hence the overall rating is weighted toward MS).

### Overall Bank Performance Rating

Moderately Satisfactory

## 9. Other Impacts

### a. Social and Poverty

The negative effects of Taliban policies have overwhelmed any potential positive effects of the operation.

### b. Environmental

No evidence available.

### c. Gender

The negative effects of Taliban policies have overwhelmed any potential positive effects of the operation.

### d. Other



N.a.

## 10. Quality of ICR

### Rationale

The ICR provided an adequate account of consequences of the Taliban takeover for the operation and World Bank support. It did not discuss how the World Bank might better have dealt with the recognized risk of rising insecurity with the planned exit of the United States, stating only that “the severity of this crisis could not have been anticipated” (para. 20).

Although the ICR (para. 15) asserted that “most of the policy actions had a direct causal link to achieving the objectives,” it provided no details or results chain. The ICR’s assertion (para. 16) that the PAs under the second Pillar “focused on the recovery from COVID-19 economic shock” does not appear warranted by the actual content of the PAs concerned (tax reforms to address revenue shortfalls under COVID-19 came under the first Pillar).

No data were available for analysis of impact, and the ICR appropriately concluded that none of the targets were achieved.

### a. Rating

Modest

## 11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Highly Unsatisfactory	Highly Unsatisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Modest	

## 12. Lessons

**Severe security and political risks in an FCV context require scenario planning and adaptation as well as recognition.** Designing a series of standalone operations, rather than a unified programmatic series, was a suitable approach to limiting the time frame for implementation of actions and maximizing adaptation in each



successive operation. Given the risk of collapse following the imminent United States withdrawal, the PD “was frank that these risks could only be ‘somewhat’ mitigated through design decisions” (ICR, para. 37). Scenario planning is important to set out options in such FCV situations. The ICR (para. 35) observed that it might have been prudent to forego major reforms such as introduction of a VAT that “would only materialize in the medium term.”

### **13. Project Performance Assessment Report (PPAR) Recommended?**

No