1. Key development issues and rationale for Bank involvement
Afghanistan, ravaged by chronic conflict and political instability for the last two decades, under the Transitional Interim State of Afghanistan (TISA) is on the sure but slow and challenging path of reconstruction. Fiscal sustainability is vital for TISA’s effectiveness. TISA is improving revenue collection by reforming its tax system and customs administration, initially, through “high yielding” measures that can be easily administered. Customs revenues contributed nearly US$50 million to TISA tax revenues in FY-02 (~60 percent of the total)—this can be improved further. Customs’ revenue collection has been severely constrained by the under-valuation of goods, depressed formal trade, an absence of a bonded mechanism for movement of trade cargo and general cargo insurance, an excessive number of other fees and levies, cumbersome procedures, poor communications and infrastructure, lack of an effective central tax authority, and a poorly paid and trained customs administration. This has also led to widespread smuggling and corruption including a substantial trade in contraband and narcotics. To rectify the situation, a new customs legislation/decree is on the anvil. Department of Custom (DoC) has sought “Priority Reform and Restructuring Status (PRR) and prepared a restructuring plan (including a detailed assessment of its infrastructure and human resource needs) for customs trade and transport reform with technical assistance from donors (including DFID, USAID, EU, GTZ, and ADB). DoC has so far revised some documentary systems and procedures, started a civil service reform process and training for customs brokers, and improved some infrastructure improvements. It is considering implementation of a mechanism for bonded movement of cargo (various options such as police protected convoys on fixed corridors using advance payments and notification systems are being considered). As part of the overall financial sector reforms it
is looking into availability of credible insurance. A feasibility study is also planned to look at possible choices for an automated customs declaration and information management system. TISA has specifically requested Bank’s assistance in this area. The proposed project will focus on the development of the most essential physical infrastructure for Customs and technical assistance, particularly for policy development, to ensure effective implementation of TISA’s custom reform program. The proposed project will assist in delivering the Bank’s current Transitional Support Strategy (TSS) for Afghanistan by helping enhance TISA’s effectiveness, improve revenue mobilization, and enable private sector development. The Bank has developed considerable expertise in assisting countries to streamline customs and transit regimes, and reducing trade costs—at present it is undertaking 80 trade facilitation projects in developing countries worth US$4.6 billion. It is also a key partner in the UN trade facilitation initiative on land-locked countries. Similar on-going Bank programs in some of Afghanistan’s neighboring countries can help the development of beneficial regional and bilateral integration initiatives for customs and transit. The Bank can help provide the necessary expertise and long-term continuity required for DoC’s reform agenda; and, can also provide the necessary funding for the substantial infrastructure and training necessary for successful implementation. Bank experience suggests that projects of this nature require coordinated and mutually reinforcing action in many policy areas. Therefore the proposed project’s design will aim to integrate the efforts of relevant ministries and donors involved in the reform program.

2. Proposed objective(s)
The project development objective is to: provide TISA emergency assistance to start establishing a more efficient customs and transit regime. This will be a first step in support of TISA’s short-term goal to increase the collecting capacity of customs and to reduce corruption and smuggling, and the medium to long term goal of decreasing transaction costs to trade. The project will achieve this through improvements in: (a) key customs and related transit infrastructure and communications; and, (b) the capacity for customs and transit administration. During project preparation, specific performance indicators will be developed with TISA based on an agreed data collection framework (also considering the paucity of available base line data). These indicators will measure achievement of the project and the overall goals in the following areas: customs revenue collection; quality of customs services; transparency and corruption; annual number of customs declarations; transit and customs related transaction costs to trade; volume of commercial trade activity, etc.

3. Preliminary description
The proposed project will complement the assistance being provided by other donors, and will include three components which will be phased as the various transit corridors are developed and secured: (i) improving and developing physical infrastructure (including equipment) at seven border crossing stations (at Torkham, Spinboldak, Zaranj, Islam Killah, Torghundi, Hairatan & Sher Khan Bander), four inland clearance depots (at Jalalabad, Mazar-e-Sharif, Kandahar & Konduz), Kabul customs Inland Customs Depot, five transit checkpoints, customs facilities at Kabul Airport, and training facilities in Kabul [$23 million], (ii) improvements to the customs communication systems [$2 million], and (iii) technical assistance [$5 million]. Key areas to be covered by the Technical Assistance are: management and implementation assistance to support the Customs Modernization and Reform Steering; automated customs data systems/MIS; trade and transport documents and procedures; legislation for freight forwarding; transit-related
financial and insurance capacity; feasibility studies for the development of options like the bonded transit or convoy systems; and, capacity building and training, etc.

4. Safeguard policies that might apply
The project is not expected to have significant negative environmental or social impacts. The infrastructure improvement and development activities will comprise buildings such as customs facilities and warehouses, as well as parking areas for trucks. Environmental impacts associated with civil works will be managed through standard operating procedures described in an implementation manual. Land acquisition is not foreseen, since civil works will be on existing government land. Whether acquisition of additional land is required and/or whether existing government land is encroached upon, will be assessed during project preparation.

5. Tentative financing
Source: ($m.)
BORROWER/RECIPIENT 0
INTERNATIONAL DEVELOPMENT ASSOCIATION 30
Total 30

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