RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

AFGHANISTAN NEW MARKET DEVELOPMENT PROJECT

GRANT

April 11, 2011

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

February 22, 2016

TRADE AND COMPETITIVENESS GLOBAL PRACTICE (GTCDR)
SOUTH ASIA REGION

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ABBREVIATIONS AND ACRONYMS

ANMDP  Afghanistan New Market Development Project
BDS    Business Development Services
FM     Financial Management
FNMD   Facility for New Market Development
GoIRA  Government of Islamic Republic of Afghanistan
GIZ IS  GIZ International Services
IDA    International Development Association
MOCI   Ministry of Commerce and Industry
MOF    Ministry of Finance
NPC    National Procurement Commission
PDO    Project Development Objective
PMU    Project Management Unit
PSD    Private Sector Development
SME    Small and Medium Enterprise

Regional Vice President: Annette Dixon
Country Director: Robert J. Saum
Senior Global Practice Director: Anabel Gonzalez
Practice Manager/Manager: Esperanza Lasagabaster
Task Team Leader: Khaleda Atta / Guillemette Jaffrin
AFGHANISTAN
AFGHANISTAN NEW MARKET DEVELOPMENT PROJECT (ANMDP)

CONTENTS

A. SUMMARY 5
B. PROJECT STATUS 5
C. PROPOSED CHANGES 6
**DATA SHEET**

**Afghanistan**

*Afghanistan New Market Development (P118053)*

**SOUTH ASIA**

*Trade & Competitiveness*

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**Basic Information**

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<thead>
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<th>Project ID:</th>
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<td>Regional Vice President:</td>
<td>Annette Dixon</td>
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<tr>
<td>Country Director:</td>
<td>Robert J. Saum</td>
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<td>Senior Global Practice Director:</td>
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<td>Practice Manager/Manager:</td>
<td>Esperanza Lasagabaster</td>
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<td>Team Leader(s):</td>
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**Borrower:** Ministry of Finance  
**Responsible Agency:** MOCI

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**Restructuring Type**

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**Financing (as of 04-Jan-2016)**

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**Policy Waivers**
Does the project depart from the CAS/CPF in content or in other significant respects?  

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Does the project require any policy waiver(s)?  

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### A. Summary of Proposed Changes

This restructuring is proposing a first time six month, no cost closing date extension, i.e. up to August 31, 2016. The extension will enable Ministry of Commerce and Industry (MoCI) to complete all remaining activities under the project including: (i) processing of remaining reimbursement payments owed to SMEs under the main FNMD matching grants component; (ii) finalizing results monitoring for firms with grant activities still under process; and (iii) completing an impact evaluation of the FNMD through an independent firm.

### B. Project Status

In 2010, the Government of the Islamic Republic of Afghanistan (GoIRA) requested World Bank assistance on a private sector development program targeting SMEs to encourage business development and implement their own initiatives for growth. The US$22 million International Development Association (IDA) grant for the Afghanistan New Market Development Project (ANMDP) became effective on July 12, 2011. The project development objective (PDO) of ANMDP is to help in the revitalization of private sector activities in the four major urban cities of Kabul, Mazar-e-Sharif, Jalalabad and Herat through provision of business development technical assistance to support private firms initiatives to gain market knowledge, improve product quality and processing technologies, and increase their presence in domestic and export markets.

The Project has two main components:

**Component 1: Facility for New Market Development (FNMD) - US$18 million**

This main component of the project entails a cost-sharing program to provide support to Small and Medium Enterprises (SMEs) and business associations with access to business development services (BDS) in order to enhance their productive capacity and encourage innovation and export development through product and/or market diversification. Operating on a reimbursement basis, FNMD provides matching grants against eligible expenditures incurred by participating firms and business associations for activities aimed at developing and implementing business plans to access new markets through market research, product development, acquisition of new technologies and adoption of quality standards. Other aspects include a marketing and communications program, skills building workshops and supplementary support to businesses for developing their plans. Upon completion of its three year management consultancy contract, the main FNMD implementation partner GIZ International Services (GIZ IS) confirmed the strategic relevance and strong demand for the program among the private sector in its final technical review as documented in its draft final report to MoCI on February 2, 2016. GIZ IS reported a preliminary qualitative and quantitative assessment of key achievements reached on FNMD targets including: 376 SMEs and 54 business associations directly assisted, an average of 24 percent increase in beneficiary firms' sales across the four target cities and 1,506 jobs created of which 30 percent for women.

Given the small number of grant agreements with FNMD beneficiaries which are either still ongoing or completed but pending final reimbursement payments at the time of GIZ IS’ contract completion (less than five percent of all signed agreements), the PMU decided to absorb a core team from the FNMD management team into the MoCI PMU for added support. The proposed extension period would allow the PMU to complete the remaining pending obligations under the FNMD component to enable a proper project closure with the submission of a final project Implementation Completion Report. Approximately $1.5 million remains under this component.
Component 2: Project Implementation Support and Technical Assistance to Ministry of Commerce & Industry (MoCI) - US$4 million

Through this component, a Project Management Unit (PMU) has been established and staffed with the requisite resources for most of the project implementation period. In addition to the hiring of core PMU staff (Deputy Project Director, Project Officer, Financial Management (FM) and Procurement Officers and other key required support staff across the four target cities), several technical staff have also been funded under the project to support capacity development of MoCI. This has included for example a national Doing Business advisor, a Consultant on Strategy, Planning & Donor Relations, various sectoral advisors for the SME Directorate and a head of Research Department for MoCI. Another example of support under this component has included a study tour to Tunisia in the early days of implementation for the PMU to witness and learn from a similar World Bank funded private sector development operation. Approximately $2.5 million remains under this component.

Other Details:
Overall, implementation progress across both components of the project have been satisfactory to date and the project objectives remain achievable. The project has a Satisfactory rating for the PDO and Moderately Satisfactory rating for the Overall Implementation Progress as of the last Implementation Status and Results Report. As of January 20, 2016, the project has disbursed approximately US$15.2 million, or 78 percent of the total IDA grant, with an estimated US$4 million remaining which includes loss of grant funds based on currency exchange fluctuations over the life of the project.

Despite overall good progress in meeting project objectives, there have been some implementation challenges faced over the life of the project which have caused setbacks. This includes observed weaknesses in project management and in particular with regard to fiduciary capacities. As a key step toward addressing some of these issues, the Minister of Commerce has provided full authorization to the Deputy Minister for Trade for full oversight and authority over the day to day management of the project. In addition, FM issues have mostly been resolved and the Ministry has already taken action to bring in a new FM Specialist with a new Procurement Specialist under recruitment. In addition, key actions are being taken to bring swift improvement to overall project management.

The MoCI and the Bank have agreed on a clear action plan to avoid further delay in implementation and enable close monitoring during the remainder of the implementation period. There are no overdue audit reports for the Grant.

C. Proposed Changes

Financing

Change in Loan Closing Date(s):

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Upon receipt of an official request from the Ministry of Finance dated January 19, 2016, the closing date of the grant is proposed to be extended for the first time by six months from February 29, 2016 to August 31, 2016. The purpose of the extension is to ensure that all ongoing and pending activities are completed by project closing and allow government additional time to decide on the next phase of the project.