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Report No: 48272-AF

**PROJECT PAPER**

**ON A**

**PROPOSED ADDITIONAL FINANCING**

**IN THE AMOUNT OF SDR 4.6 MILLION  
(US\$ 6.81 MILLION EQUIVALENT)**

**TO THE**

**ISLAMIC REPUBLIC OF AFGHANISTAN**

**FOR THE**

**EMERGENCY CUSTOMS MODERNIZATION  
AND TRADE FACILITATION PROJECT**

**April 28, 2009**

**Sustainable Development Department  
Afghanistan Country Management Unit  
South Asia Region**

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## CURRENCY EQUIVALENT

(As of April 21, 2009)

Currency Unit = Afghani  
US\$1 = Afghani 52.39

## GOVERNMENT FISCAL YEAR

March 21 – March 20

## ABBREVIATIONS AND ACRONYMS

ACD	Afghanistan Customs Department	IOC	Incremental Operating Costs
ANDS	Afghanistan National Development Strategy	IP	Implementing Partner
ANSA	Afghan National Standards Authority	ISN	Interim Strategy Note
ARTF	Afghanistan Reconstruction Trust Fund	ISR	Implementation Status and Results Report
ASYCUDA	Automated System for Customs Data	MoC&I	Ministry of Commerce and Industries
DA	Designated Account	MoF	Ministry of Finance
DCA	Development Credit Agreement	MSA	Management Services Agreement
DPS	Declaration Processing System	O&M	Operations and Maintenance
EC	European Commission	PDO	Project development objective
FYP	Five Year Plan	PRR	Priority Reform and Restructuring
GoA	Government of Afghanistan	SOE	Statement Of Expenditure
HR	Human Resources	SY	Solar Year
IALA	Inter Agency Letter of Agreement	TA	Technical Assistance
IBRD	International Bank for Reconstruction & Development	TF	Trade Facilitation
ICD	Inland Clearance Depot	TRSU	Tariff, Research and Statistics Unit
ICN	Informal Customs Network	UNCTAD	United Nations Conference on Trade and Development
ICT	Information and Communication Technology	UNIDO	United Nations Industrial Development Organization
IDA	International Development Association	UNOPS	United Nations Office for Project Services
IMF	International Monetary Fund	WTO	World Trade Organization

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**PROJECT PAPER DATA SHEET**

Date: April 28, 2009 Country: Islamic Republic of Afghanistan Project Name: Emergency Customs Modernization and Trade Facilitation Project (ECMTFP) Additional Financing Project ID: P114572		Team Leader: Amer Zafar Durrani Sector Director/Manager: John Henry Stein/Michel Audigé Country Director: Nicholas J. Krafft Environmental Category: C			
Recipient : Islamic Republic of Afghanistan Responsible agency: Afghan Customs Department (ACD)					
Estimated disbursements (IDAFY/US\$ m)					
FY	2009/10				
Annual	6.81				
Cumulative	6.81				
Current closing date: June 30, 2009 Revised closing date: December 31, 2010					
Does the restructured or scaled-up project require any exceptions from Bank policies? Have these been approved by Bank management? Is approval for any policy exception sought from the Board?				<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Revised project development objectives/outcomes:  <p align="center">The project's development objective remains the same: to: (i) provide the recipient with emergency assistance in the establishment of a more efficient customs and transit regime; (ii) assist the recipient's efforts to increase, in the short term, through the reduction of customs irregularities and inefficiencies the collecting capacity of the ACD and other collection agencies; (iii) assist the recipient's efforts to decrease, in the medium to long term, trade transaction costs through improvements in key customs and related transit infrastructure and communications and improvements in customs and transit administration; and (iv) assist the recipient in laying the basis for a functioning customs service and taking appropriate measures to facilitate its international trade.</p>					
Does the scaled-up or restructured project trigger any new safeguard policies? No					
For Additional Financing					
<input type="checkbox"/> Loan <input type="checkbox"/> Credit <input checked="" type="checkbox"/> Grant For Loans/Credits/Grants: Total Bank financing: SDR 4.55 million (US\$ 6.81 million equivalent) Proposed terms: Standard IDA Grant terms.					
Financing Plan (US\$ m.)					
	Source	Local	Foreign	Total	
	Recipient	-	-	-	
	IBRD/IDA	-	6.81	6.81	
	Others	-	-	-	
	Total	-	6.81	6.81	

## **I. INTRODUCTION**

1. This Project Paper seeks the approval of the Executive Directors to provide an additional grant in an amount of SDR 4.55 million (US\$ 6.81 million equivalent) to Afghanistan for the Afghanistan Emergency Customs Modernization and Trade Facilitation Project (ECMTFP) (P083906) which is supported by IDA Credit 3844-AF. If approved, the additional financing will be accompanied by an extension of closing date for the Project to December 31, 2010.

2. The proposed additional financing (grant) would help finance a funding gap for selected core project activities included in the original project scope. The project's development objectives, results framework and outcome indicators, and implementation arrangements remain the same.

## **II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING**

### **Background**

3. Since the fall of Taliban regime in late 2001, Afghanistan has embarked upon an extremely challenging path of nation building and reconstruction. There has been solid progress in establishing sound macroeconomic management, in provision of education and basic health services, and in rehabilitation of the basic infrastructure of roads, irrigation and power. However, the high incidence of poverty, security, governance and capacity weaknesses, and the illicit opium cultivation and increasingly entrenched narcotics industry, remain the daunting challenges facing Afghanistan.

4. Afghanistan remains highly dependent on international aid. The national development budget has been entirely donor-financed. Donors also finance a significant share of the Government's recurrent operating budget. Despite improvements in the past several years, Afghanistan's domestic revenue to GDP ratio (7 percent in 2007, excluding drug economy) is still one of the lowest in the world.

5. Afghanistan's domestic revenues are primarily from two sources: customs and domestic taxation. Customs collections (tax and non tax) make up about 55 percent of the total revenues in 2006/2007. Enhanced revenue mobilization has been one of the Government of Afghanistan's (GoA's) highest priorities. In 2003, the Government with donor assistance developed a Customs Reform and Modernization Strategy and a Five-Year Plan for the Afghan Customs, the two main thrusts being: (a) reforming customs administration for better valuation, assessment, collection and reduced leakages, and (b) facilitating trade and transit to expand the customs revenue base.

6. To support GoA's effort, an IDA Credit of SDR 21.6 million (US\$ 31.0 million equivalent) was approved on December 23, 2003 and became effective on March 22, 2004. The project's development objectives (PDOs) are to: (i) provide the recipient with emergency assistance in the establishment of a more efficient customs and transit regime; (ii) assist the recipient's efforts to increase, in the short term, through the reduction of customs irregularities and inefficiencies the collecting capacity of the Afghanistan Customs Department (ACD) and the other collection agencies; (iii) assist the recipient's efforts to decrease, in the medium to long term, trade transaction costs through improvements in key customs and related transit infrastructure and communications, and improvements in customs and transit administration; and (iv) assist the recipient in laying the basis for a functioning customs service, and taking appropriate measures to facilitate its international trade.

7. The project finances: (1) construction and /or rehabilitation of physical infrastructure of customs and transit; (2) acquisition and installation of information technology, communications, and power generation equipment for the border and inland customs/transit facilities; equipment for the Afghan National Standards Authority (ANSA), office supplies, furniture, and vehicles; (3) rehabilitation of the Ministry of Commerce and Industries' (MoC&I) physical infrastructure in Kabul for departments working on trade facilitation and for the ANSA; (4) technical assistance to ACD for (i)

the development of customs and transit related legislation, codes, and procedures; (ii) development and phased implementation of an automated customs processing system (ASYCUDA); and (iii) restructuring and capacity building of ACD; and (5) technical assistance to MoC&I for trade/transit/transport facilitation and strengthening of the ANSA.

8. The project’s key outcome indicators are: Customs revenue collected; trade volume; number of customs declarations; declarations per staff; and truck release time.

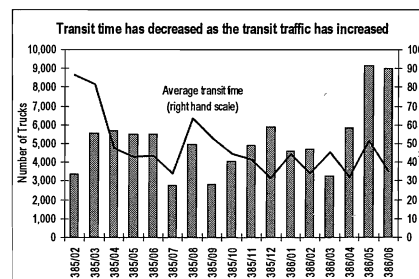
9. The project is implemented by the ACD with UNOPS providing overall implementation management support. The Management Services Agreement between UNOPS and the ACD was signed on July 31, 2004 and became effective on November 5, 2004. UNOPS in turn entered into an Inter-Agency Letter of Agreement (IALA) with UNCTAD on October 22, 2004 (for the ASYCUDA development) and with UNIDO on December 9, 2004 (for development of standards). The actual project start-up was delayed by about one year. Consequently, the credit closing date was extended by 18-months on September 19, 2007, from December 31, 2007 to June 30, 2009. Key Project data is given in Table 1 below:

<b>Board Approval Date</b>	December 23, 2003	<b>Original Credit Amount</b>	US\$ 31.2 million
<b>Effectiveness Date</b>	March 22, 2004	<b>Amount Disbursed</b>	US\$ 32.15million <sup>1</sup>
<b>Original Closing Date</b>	December 31, 2007	<b>UNOPS Start Date (IP)</b>	November 28, 2004
<b>Revised Closing Date</b>	June 30, 2009	<b>UNIDO Start Date (IALA)</b>	December 29, 2004
<b>MTR Date (Actual)</b>	April 2006	<b>UNCTAD Start Date (IALA)</b>	December 14, 2004

### Project Performance

10. The Project’s progress towards achievement of its development objectives has been rated satisfactory. Overall implementation progress has been satisfactory over the last two Implementation Status and Results (ISR) report periods. Financial management was rated moderately satisfactory in the two previous ISRs due to delay in the submission of the project audit report for SY 1386.

11. Project activities have made a major contribution to GoA efforts to increase fiscal revenues. Through the assistance of the project, ACD has been able to increase Customs revenue collection from US\$ 50million in Solar Year SY 1382 (2003-4) to over US\$ 360 million<sup>2</sup> in SY 1387 (2008-9)—this is more than 600 percent increase in five years. Over the past two years Customs revenues have increased by about 25 percent year-on-year. Customs efficiencies have increased: 150 declarations per staff and US\$ 1,230 per declaration in March 2009 against the project baseline of 91 declarations per staff and US\$ 500-600 per declaration. While trade volume has increased to US\$ 5.6 billion<sup>3</sup> from US\$ 2 billion in 2003, truck release times have decreased. For example, at Torkham border 91 percent of trucks are cleared in fewer than 90 minutes, down from 1080 minutes in 2003, and at Kabul ICD average truck release time went down from 428 minutes to 106 minutes. The success in increasing revenue collection and decrease in truck release times can significantly be attributed to the automation of customs processing by implementation of ASYCUDA,



<sup>1</sup> Increased from original amount due to higher SDR to USD conversion

<sup>2</sup> Projected Figures until the end of 1387 (March 2009), based on the data given by Tariff, Research and Statistics Unit, ACD for first 8 months of SY1387 (November 2008); includes 10 percent of total projected import value for non-TRSU/Eurotrace stations, plus 28 percent of this total for exemptions, plus 5 percent of the overall import figure thus calculated for value of exports.

<sup>3</sup> Same as footnote 2, above

which not only increases the speed of customs processing but reduces the opportunities for rent seeking behavior through removal of the human element of the customs transaction. ASYCUDA is now covering four major transit routes, and four main ICDs (including Kabul Airport).

12. The project has also helped in strengthening the institution through policy changes, streamlining and harmonization of various administrative and Customs procedures including development of more than 30 different procedures and regulations, as well as 20 forms and reporting formats, assistance in tariff classification, valuation and transit, and technical advice on trade and transit agreements. The project also helped in establishing the Customs Training Unit. More than 1000 staff have participated in 59 courses on various subjects, organized by the Training Unit. In addition, to help provide a professional environment for ACD, more than 56 facilities have been rehabilitated, constructed or functionally improved, including construction of Headquarters for Customs and Revenue, Jalalabad ICD, Border Posts at Hairatan etc.

13. Summary of the overall project results framework showing the current status is given below:

**Table 2: Results Framework**

Summary	Performance Indicator	Baseline Value (09/2003)	Progress Value (Projected) (03/2009)	Target Value (Dec 2007 - End of Original Project )	
Measuring ACD's Performance at the National Level	Customs revenue	USD 50-60 million	USD 361 million <sup>4</sup> .	USD 280 million	
	Declarations per staff	91	150	200	
	Revenue/declaration	USD 500-600	USD 1,352	USD 700	
	ASYCUDA Implementation	Transit	Nil	597,238 <sup>5</sup> T1s More than 75 percent (by value) transit axis covered	50 percent covered.
		Declaration	Nil	34,120 electronic declarations	50 percent covered.
Measuring trade and transit regime	Trade volume	USD 2.0 billion/year	USD 4.44 billion/year	USD 5.0 billion/year	
	Truck release time	Kabul ICD: 1080 min (overall) 428 min (customs) Kabul airport: na Border Stations: na	Towrkham Border: 91 percent of trucks cleared in fewer than 90 mins (including customs time). Customs time not measured separately.)  Performance measurement at Islamqala completed, and report under preparation. Overall customs performance measurement not carried out nationally due to security issues.	Kabul ICD 90 min  Border Stations 40 min (customs)	
	Logistics Perception Index	Na	Score = 1.21 Rank = 150	Ranking improved to 130	

Source: Training, Research and Statistics Unit, Afghan Customs Department, Government of Afghanistan

<sup>4</sup> Same as footnote 2, above

<sup>5</sup> Actual figure as of November, 2008. Projection note possible due to lack of historical data.

## **Performance of UNOPS.**

14. UNOPS has performed well as an Implementing Partner (IP) to provide services in accordance with the terms and conditions set in the Management Services agreement (MSA) and agreements with UNCTAD and UNIDO. It has executed the overall financial management, audit and procurement responsibilities of the project in full compliance with the internal requirements of UNOPS as well as requirements of the project including any reporting obligations.

## **Financial Management**

15. The current financial management arrangements for the project have been reassessed by IDA and found to be adequate. The assessment also indicated that the overall financial management risk rating for the project remains substantial.

16. The project has an over due audit report for SY1386 (ending March 20, 2008). The annual external audits for all IDA and ARTF funded operations in Afghanistan are carried out by the Auditor General (Control and Audit office) with the support of a firm of public accountants selected through international competitive bidding for a period of 3 years at a time. Selection of the audit firm for the period of SY 1386-1388 encountered considerable delays, causing a shift of the timetable for completing all project audits for SY1386 by June 30, 2009. On account of the concrete arrangement and timetable in place for completing the audits for SY 1386, IDA granted on December 19, 2008 a waiver of BP 10.02 remedies in regard to delaying the presentation of new operations and extending closing dates for ongoing operations. There are no other unresolved major financial management issues. The existing disbursement methods and expenditure reporting arrangements are satisfactory and would continue to remain in effect.

## **Procurement Management**

17. The procurement management is generally satisfactory but further improvement is needed. Procurement under the proposed additional financing would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" (dated May 2004; revised October 2006); "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" (dated May 2004; revised October 2006); and the provisions stipulated in the Financing Agreement. The World Bank's Standard Bidding Documents, Requests for Proposals, and Forms of Consultant Contract will be used. The selection of individual consultants will be as per UNOPS procedures. These procedures are in line with Section V Consultant Guidelines for Selection of Individual Consultants. The UNOPS contract format for Individual Consultants will be used. In case of conflict/contradiction between IDA's procurement procedures and any national/UNOPS rules and regulations, IDA's procurement procedures will take precedence.

18. A detailed procurement plan has been prepared by the UNOPS (Implementing Partner) indicating description of the packages, estimated prices, method of procurements, requirement of IDA review, expected bids/proposal opening, etc.

19. An amendment to the existing MSA with the UNOPS, on a single source basis, would be needed to provide for some additional inputs to support the enhanced scope of work resulting from the proposed additional financing. Modification to the existing MSA contract with UNOPS will be cost effective than hiring a new implementing partner for the additional financing. The UNOPS team has been instrumental in the good performance of this project and continuity of the team would be critical for continued good performance. The fraud and corruption clause and audit clause as agreed between UN Agencies and World Bank will be included in the proposed amendment.

## **Involvement of Other Development Partners in the Reform Program**

20. In addition to the assistance provided by IDA, during the last five years, other international development partners of GoA have contributed to ACD's reform agenda. An Informal Customs Network (ICN) has been set up in this regard, to effectively coordinate activities of various donors in the sector to develop synergies and reduce overlap. Currently, the Border Management Task Force (BMTF) of the Government of United States (US), US Assistance for International Development (USAID), European Commission (EC), the Canadian Government, United Nations Assistance Mission in Afghanistan (UNAMA) and the World Bank are active members of the ICN which has a rotating chair. The ICN has started frequent interactions with the ACD, MoF and more generally the GoA with a view to coordinating donor efforts and influencing GoA policy to improve efficiency and impact of the overall Customs reform effort.

### **Rationale for Additional Financing**

21. The Customs Five Year Plan (FYP) in 2003 required a total donor assistance of approximately US\$ 100 million. The activities under the original ECMTFP were appraised to cost US\$ 50.3 million in 2003. However, due to limited IDA resources at the time of appraisal, only SDR 21.6 million (US\$ 31.0 million) were made available. It was envisaged if other donors are not able to finance this gap at the time, IDA could consider funding the gap through a subsequent operation.

22. Between 2003 and 2008, two changes occurred: (a) construction costs soared and doubled in Afghanistan with overall 'delivery' costs tripling in some areas; and (b) with improved needs assessment and rising costs, the financing requirement for the implementation of the overall national customs modernization and reform program increased manifold. Thus, despite the presence of two other significant long term donors (the Government of United States and the European Commission) and some other smaller donors<sup>6</sup>, the GoA has been struggling to secure funding support for the revised FYP for Customs. On March 19, 2008 the GoA requested IDA to provide additional financing in the amount of US\$ 40 million for the project.

23. While the project has made significant progress toward increasing Customs revenues as an emergency operation, there are concerns that considerable diversion of potential customs revenues is taking place by provincial Governors and others. A recent Vulnerability to Corruption Assessment indicates a strong perception that corruption within customs is a major issue. Besides the issues pertaining to compliance with customs procedures, valuation of goods, border management, and systems of controls, political interference is common in the Customs, with allegations of political appointments, rehiring of dismissed staff under pressure from provincial Governors, and preferences to individuals with nexus to political parties. Following an internal management review of the project and the Government's request for additional financing, there is now a consensus on the following: (i) Customs governance is central to IDA's engagement in the customs sector; (ii) automation of Customs system through ASYCUDA could reduce chances of corruption by reducing human interaction; and (iii) the main instrument for supporting customs reform in Afghanistan would be a combination of policy dialogue and possibly a new lending operation, with the latter being contingent upon GoA undertaking a concrete program of customs reform that address the governance issues in the sector. As a result, the management has approved to proceed with additional financing in the amount of US\$ 6.81 million to finance the funding gap for (i) selected core project activities which were most critical to achieving the development objective of the ongoing project; and (ii) activities which had the risk of being disrupted due to dispersion of activity project teams (such as ASYCUDA).

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<sup>6</sup> UK-Department For International Development (DFID), Government of Italy, United Nations Development Program (UNDP), Asian Development Bank (ADB) and Government of Japan.

24. The GoA was appraised of this internal review process and its implications—primarily, a longer than anticipated processing period for the required financing. It informed IDA that in view of the critical nature and importance of the project, to keep the core project activities going in FY 2008, it has provided interim financing of US\$ 5 million while the IDA processed the additional financing (US\$ 5-7 million). Additionally, it also requested IDA to retroactively reimburse this interim funding upon effectiveness of the additional financing. After an appraisal of the needs of the core project activities, the project team is now seeking an additional financing of US\$ 6.81 million, with a provision for retroactive financing of US\$ 5 million for eligible expenditures incurred after March 1, 2008, for which all necessary waivers have been obtained (refer to Section VII).

### III. PROPOSED CHANGES

25. This project paper seeks approval for an additional financing of US\$ 6.81 million. The closing date would be extended by 18 months from June 30, 2009 to December 31, 2010. The project's development objectives, results framework and outcome indicators, and implementation arrangements remain the same. The project activities to be funded through this additional financing and the costs associated with them are elaborated below.

#### Core Activities Supported By The Additional Financing and Their Costs

26. The core activities supported by the additional financing will include further rollout of ASYCUDA Declaration Processing System (DPS) and Transit modules, including technical assistance provided by UNCTAD, completion of the on-going construction of the remaining civil works at Jalalabad Inland Clearance Depot (ICD)<sup>7</sup>, continued technical assistance provided to ACD by the Customs Regional Advisors on operational and procedural issues. Additionally, technical assistance by UNCTAD on key trade facilitation activities including WTO accession, review of transit agreements and improvement in the freight forwarding industry will be provided to MoC&I. Operational support provided by UNOPS to ACD, ANSA, UNIDO and UNCTAD (for both ASYCUDA and TF) will be covered by these funds. Table 3 below provides the activity based summary of these costs that will be supported through this additional financing.

<b>Table 3 – ACTIVITY-WISE SUMMARY</b>		
<b>Sr. No.</b>	<b>Description</b>	<b>Amount (US\$)</b>
1	ACD Technical Assistance and Operational Support	1,129,843
2	Infrastructure	1,563,156
3	UNOPS Operational Support	658,043
4	ACD ICT Support	128,019
5	ASYCUDA Operational Support	1,235,759
6	UNCTAD ASYCUDA Direct Transfer for Technical Assistance	1,197,130
7	Trade Facilitation Operational Support	354,424
8	UNCTAD Trade Facilitation Direct Transfer for Technical Assistance	358,870
9	ANSA/UNIDO Operational Support	183,736
	<b>TOTAL</b>	<b>6,808,980</b>

### IV. MANAGING PROJECT RISKS

27. A detailed risk assessment and management strategy was prepared by the team during the preparation of the ECMTFP. Security, outcome and implementation risks were separately managed as

<sup>7</sup> Earlier Bank had agreed to fund the construction of the Khost ICD. Engineering Designs etc. were completed by UNOPS, however due to highly adverse security situation, no physical activity could commence, and instead it was agreed that remaining works at Jalalabad ICD will be undertaken at the earliest.

part of this strategy. The team has reviewed this original risk management strategy and updated the relevant risk management status where required, and the updated strategy is presented below.

### Security Risks Management

<b>Risk</b>	<b>Status during project implementation</b>
Insecurity prevents the construction of facilities and implementation of the project	The risk has not materialized. All construction activities initiated under original project have been completed successfully. However undertaking new construction in east and south-east poses high risks. The project has mitigated this risk by prioritizing investments in more secure areas.
Assets are destroyed, once provided. The ICT facilities, including the VSAT and Microwave links, could become potential targets, especially outside of Kabul.	The risk has not materialized. There has been no report on project assets being targeted or destroyed so far. The project opted against microwave technology and relies totally on VSAT and VHF communications; the installations for which are more locally placed and can be better protected. However the risk still remains.

### Outcome Risks Management

<b>Risk</b>	<b>Status during project implementation</b>
Increased smuggling and loss of revenue	The overall successful reforms have resulted in tighter control over movement of goods especially at border points where automation has taken place. Although revenue collection has increased, some trade has been diverted to certain border crossings where systems are not automated and revenue is being lost. This risk is being mitigated through further rollout of ASYCUDA to cover all trade axis of the country.
Resistance by the major vested interests at the provincial level	The overall improvement in Customs systems and processes including automation has considerably reduced provincial interplay in Customs. Although fiscal interference is now negligible there still exists some influence in Human Resources (in terms of hiring and firing) and general administration of customs by provincial authorities. This risk still remains and will be addressed by GoA as a condition for consideration of any further follow on financing by the IDA. In this respect a Governance and Anti-Corruption Assessment/Vulnerabilities to Corruption Assessment is in progress which will result in a corruption mitigation strategy implemented by the ACD.
Resistance by Afghan truckers to through transit	Through (international) transit is not yet operational as part of the reforms, however, ground work has been completed to implement the international transit (T2). The risk still remains but once T2 is implemented a risk assessment will be undertaken to evaluate the related risks for mitigation.
Corruption within the customs service	Substantial risk exists but improved customs processes and systems, particularly through automation, is helping to mitigate this risk to a certain extent as less human interaction is now occurring. In this respect a recent ICT audit was undertaken, which identified areas of high risk and assessed the impact of corruption if the risk were to realize. Additionally, a Governance and Anti-Corruption Assessment/Vulnerabilities to Corruption Assessment is in progress which will result in a corruption mitigation strategy for the ACD. The outputs of this assessment will also help in any future intervention by the IDA.
Impact of forthcoming Elections	The impact of forthcoming elections on the project is assessed to be moderate - as the scope of project has already been finalized.

<b>Risk</b>	<b>Status during project implementation</b>
	With no counterpart funding, the risk of counterpart fund diversion is not there. It is also expected that all major procurements will be completed before elections.

### **Implementation Risk Management**

<b>Risk</b>	<b>Status during project implementation</b>
Infrastructure constructed but improved systems not introduced	This risk currently exists. Improvement in infrastructure, over time, has brought about substantial improvements in systems and processes. However, Customs ordinary budget allocations are low by any international standards hampering the ongoing PRR implementation, HR capacity development, introduction of rewards/incentive mechanism and maintenance of infrastructure. Increased recurrent budget allocations for Customs will help in improving the system by introduction of incentives/rewards, capacity development, and infrastructure maintenance. The Bank team is currently engaged in a policy dialogue with the government to increase such allocations.
Information and Communications Technology (ICT) is not technically sustainable	This risk remains. The core human resource capacity for ICT is being improved through various capacity building programs. However, due to low recurrent budget the remunerations offered to staff are not competitive in the market and high employee attrition rates are occurring. Similarly, the low budget allocations will have implications for O&M and up gradation of ICT equipment. Recently an ICT audit was conducted which highlighted a number of areas of concern for the Afghan Customs Department it also included the likelihood and impact if such concerns were to realize. Dialogue on increased allocations for the ACD is ongoing which will help in sustaining its ICT infrastructure.
Lack of adequate donor coordination in program implementation with resulting fragmented support	This risk has been mitigated substantially with the formation of an Informal Customs Network (ICN) of donors. The ICN has been meeting regularly to coordinate implementation activities and develop synergies for a concerted effort. Since the formation of ICN the donors are more aware each others activities and investments made by others.

28. As part of the preparation of this additional financing the team completed an ICT Audit of the customs automation undergoing at the ACD, specifically looking at the governance and anti-corruption aspects. This is the first step to assembling the overall governance and corruption risk management matrix to be agreed with the GoA as part of the ongoing sector dialogue as well as condition for considering any follow-on IDA support. The audit provides an analysis of the revenue leakage opportunities within the overall environment (including automation) based on the functionality, current functions, corruption opportunity (impact and possibility) and future functions. A key finding of the audit is that for customs automation to deliver on its perceived role in improving governance and thwarting corruption, ACD needs to move effectively to institutionalize ASYCUDA. This additional financing request directly assists in mitigating this risk.

## **V. CONSISTENCY WITH COUNTRY ASSISTANCE STRATEGY**

29. This proposed additional financing is fully aligned with the first pillar of the Afghanistan Interim Strategy Note (ISN)<sup>8</sup>, i.e., building the capacity of the state and its accountability to its citizens to ensure the provision of services that are affordable, accessible and of adequate quality.

30. The project is also in conformity with the priorities listed in the Afghan National Development Strategy (ANDS), which lays down a National Action Plan for 2009 to 2013. The ANDS specifically recognizes the benefits derived through the introduction of ASYCUDA in reducing transit times, encouraging and promoting trade and tracking customs collection. Under the Economic Governance & Private Sector Development pillar of the ANDS, the government commits to applying Customs regulations consistently across the country and to achieving an average time for importing and exporting goods in line with best practices in the region. It also highlights the importance of revising the Afghanistan Pakistan Trade and Transit Agreement (ATTA) negotiated and ratified in 1965. Similarly under the infrastructure pillar, the ANDS stresses to improve trade and transit documentation procedures.

## **VI. ECONOMIC ANALYSIS**

31. The viability of this additional financing has been appraised on the basis of the original ECMTFP viability approach, i.e., both on conventional economic costs, and benefits in terms of its contribution to GoA's overall reform strategy. Economic analysis alone cannot encompass the potential benefits that the project will have in reinforcing and widening the authority of the Afghan Government across the country. By helping complete the ECMTFP activities this additional financing will contribute to enhancement of Government revenue, trade and economic activity and transit facilitation. Additionally, based on current trade projections and using the original ECMTFP methodology specific economic benefits from the project, as a result of streamlining customs and transit procedures and systems, are estimated at US\$ 63.8 million<sup>9</sup>.

## **VII. FINANCIAL TERMS AND CONDITIONS FOR THE ADDITIONAL FINANCING**

32. The proposed additional financing would be provided on standard IDA grant terms. The Government has requested for retroactive financing of US\$ 5 million for eligible expenditures incurred after March 1, 2008, to allow uninterrupted continuation of selected project activities. As this amount exceeds the ceiling and duration for retroactive financing set under OP 8.00, the Bank Management has approved the exceptions to normal limits for retroactive financing under this additional financing, subject to Board approval of the additional financing.

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<sup>8</sup> Existing ISN covered the period FY07 to FY08. A new ISN has been drafted, and has been reviewed by the Bank's Operations Committee on April 13, 2009. Board consideration is expected on June 4, 2009

<sup>9</sup> Primarily due to savings from Truck time savings, Cargo time savings, Cargo loss reduction and Cargo handling cost reduction