

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB2060

Project Name	Private Sector Development Support Project
Region	South Asia
Sector	Private Sector Development
Project ID	P090928
Borrower(s)	Islamic Republic of Afghanistan
Implementing Agency	Ministry of Commerce/ Afghanistan Investment Support Agency (AISA)
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD
Safeguard Classification	<input type="checkbox"/> S ₁ <input checked="" type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input type="checkbox"/> TBD
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1. Key development issues and rationale for Bank involvement

The growth of private enterprise is key to poverty reduction in Afghanistan. Donors have thus far aided in establishing the pre-conditions for a developing economy but aid alone cannot build long-term nor lasting economic growth. The private sector must be engaged in order to preserve the gains made so far. There is considerable private entrepreneurial activity in Afghanistan but much of this is informal. The challenge of private sector development is to expand legal entrepreneurial activity and a shift from an informal and often illicit business environment to a formal contract-based private sector.

Presently, there are considerable opportunities for expanding legal entrepreneurial activities by reviving traditionally important products, such as carpets and dried fruits. Moreover, the Government is keen to see a broadening of the production and export base of Afghanistan through the emergence of new products. However, several constraints stand in the way of realizing these opportunities, the most important being limited formal access to finance; scarcity of land available for development, deficient infrastructure services, lack of management and technical business skills in the private sector, and the perceived high political and business risk associated with Afghanistan. These relate to four broad reform challenges (Table 1).

Table 1 : Summary of Private Sector Development Constraints

Constraints (see Annex 2 for Details)	Reform Challenge
Scarcity of serviced land for development.	1. Providing land and infrastructure
Inadequate and unreliable power supply	
Poor security	2. Reducing and mitigating political and business risks and uncertainty
High political and business risk environment	

Lack of management and technical business skills	3. Providing financial and non-financial business development services
Limited formal access to finance	
Costly and inefficient transportation and trade logistics	4. Forging external links
Absence of metrology, standards, testing and quality infrastructure	

- *Providing land and infrastructure.* There is an urgent need to make land accessible and provide basic infrastructure – power, roads, water and telecommunication. Multiple disputes on land title severely restrict the purchase and sale of commercial property. This challenge can be addressed on parallel tracks – overall improvements in the state of infrastructure and in availability of land (which is a long-term agenda) and targeted provision of land and basic infrastructural services through an enclave/zone approach.
- *Providing financial and non-financial business development services.* There is a need to make available credit and non-financial business services that are critical to enterprise growth. The latter includes supply of trained labor and managers, business advisory services, quality testing and improvement services, and logistical services.
- *Reducing and mitigating political and business risks and uncertainty.* It will be important to reduce and mitigate the risks faced, or perceived, by investors. This includes not only the risks associated with political instability, poor law and order and overall insecurity but also the uncertainties caused by other factors such as unclear property rights (esp. on land), and lack of clarity and predictability in the policy, legal and regulatory framework for private sector development.
- *Forging external links.* The development of the enterprise sector will depend considerably on the growth of external linkages in both trade (developing export markets) and investment (attracting foreign, including Diaspora, investment). Added to this will be Afghanistan’s success in becoming a land bridge between Central and South Asia and beyond.

Despite the involvement of many donors in facilitating private sector development activities, large gaps remain. The proposed Private Sector Development Support (PSDS) project is designed to fill gaps left by other donors and help Afghanistan address the most important constraints to private investment. The interventions proposed are based on the World Bank Group’s on-going analytic and advisory program on PSD issues, national priorities articulated in the Government’s National Priority Program on PSD, and specific requests from the Government for assistance. It takes into account the work of other donors and complements their activities.

2. Proposed objective(s)

The over-arching objective of the project is the creation of productive jobs and broad-based growth. The specific goals that will contribute to this are:

- Enhance the provision of land and infrastructural services for enterprise development
- Enhance capacity in the private sector to develop and implement projects
- Foster innovations (such as new products, processes and markets) and linkages between enterprises (between foreign and domestic enterprises, and within the domestic enterprise sector, between large and small, and urban and rural, enterprises)
- Enhance the capacity of government agencies to analyze PSD issues, and develop and implement PSD-related strategies, policies and programs

3. Preliminary description

To achieve these objectives, the project would include four main components:

Component 1: Development of industrial estates. The Government of Afghanistan has identified industrial estate development as an important plank of its private sector development strategy. It plans to develop industrial estates in various parts of Afghanistan in an effort to engender regional balance in industrial growth. It also proposes to involve the private sector in the development and operation of the estates. This will require an appropriate policy, regulatory and institutional framework. The government has requested World Bank Group assistance in developing such a framework. A new department has been created within AISA to manage the Government's industrial estate development program. Infrastructure development in the first cohort of industrial parks has commenced, with USAID support.

This component will support the Government's industrial estate development program in two areas:

- Technical assistance to help develop a policy, regulatory and institutional framework for industrial park development, including private sector participation in the development and maintenance of such parks.
- Infrastructure development in selected industrial parks: At present funding is being considered for the proposed park at Kamari.

Component 2: Business Development Services. Private sector representatives and government officials repeatedly identify the lack of basic business skills in the private sector as a major constraint to enterprise development. There is significant demand for business development services (BDS) in Afghanistan but there are few providers – mostly NGOs - and among those that do exist there is a general lack of capacity in terms of quality and scope. Most of the training is for simple vocations (e.g. sewing and carpentry) with very little for business plan development, marketing, customer services or strategic planning. On the demand side, the single most important need revealed by the above-mentioned assessment is assistance with business plan development. In regions with strong industrial and/or domestic trade sectors, there is considerable demand for marketing training. There is some demand for specialized training (such as in computer science, agricultural management, construction services etc.).

This component will support the provision of business development services. The facility will be designed such that, over time, it spins off activities to private providers. It may also serve as a clearing house where providers already exist. The design of this component will be coordinated with IFC's PEP-MENA facility, the TA facility for SME development in the Middle East and North Africa region. Some of the BDS will focus on the enterprises located in the industrial parks but the services will be available to the broader enterprise sector.

Component 3: Institution building for private sector development. This component will support institution building in the public sector to strengthen the legal, policy, regulatory and institutional framework for private sector development. It will help build long-standing capacity to formulate and implement policies and programs aimed at supporting private sector development. The component will be designed such that it ensures the development of long-standing indigenous capacity. Support will be provided through two windows. The first window will support capacity building for two pre-identified agencies, the Ministry of Commerce and the Afghanistan Investment Support Agency (AISA). The second window will consist of a competitive fund, which is not earmarked for particular uses but will be allocated to government agencies according to pre-determined criteria. A central ministry, such as the Ministry of Finance or Commerce, will administer this fund to which individual government agencies may apply.

MIGA has developed a business plan for AIDA based on a detailed needs assessment carried out in the fall of 2004. The project will fund the implementation of several elements of the plan. The Ministry of Commerce has prepared a restructuring plan as part of the Priority Reform and Restructuring (PRR) process. The plan lists three major objectives for the ministry: a) establishing the legal, regulatory and institutional framework for enhanced private sector development, b) providing the enabling physical infrastructure for PSD (including industrial parks); and c) promoting business creation and business development (including export promotion). This component will provide support in implementing the plan. In particular, it will support the proposed PSD directorate that will deal with the legal and regulatory framework, and promotional policies and programs, for PSD. The design of the component will build upon the work of DFID advisors working in the Ministry.

Component 4: Start-up costs of a Fund for small and medium enterprises. The project may provide funds to the Government of Afghanistan to finance its contribution to a Fund being set up, with OPIC assistance, for small and medium enterprises. The Government contribution is intended to cover the start-up costs of the Fund.

4. Safeguard policies that might apply

OP 4.01 Environmental Assessment would be triggered. The project involves the building of an industrial park. Associated environmental and social impacts would be identified and addressed in an Environmental Assessment (EA) and Environmental Management Plan (EMP), which are expected to bring out the site specific issues and ways of mitigating them.

10. **OP 4.12 Involuntary Resettlement** may be triggered. Due to expansion/construction works, resettlement issues may arise, but they are expected to be limited. A Social Assessment

(SA) will be carried out to identify the adverse impacts can be anticipated. The SA will include a mitigation plan for the rehabilitation of those affected.

5. Tentative financing

Source:		(\$m.)
Borrower		Nil
International Development Association		20
	Total	20

6. Contact point

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