FROM: Vice President and Corporate Secretary

Afghanistan

Payments Automation and Integration of Salaries in Afghanistan (PAISA) Project

Project Appraisal Document

Attached is the Project Appraisal Document regarding a proposed grant to Afghanistan for a Payments Automation and Integration of Salaries in Afghanistan (PAISA) Project (IDA/R2019-0075/1), which is being processed on an absence-of-objection basis.

Distribution:
Executive Directors and Alternates
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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED GRANT

IN THE AMOUNT OF SDR 7.2 MILLION
(US$10 MILLION EQUIVALENT)

AND

A GRANT

FROM THE AFGHANISTAN RECONSTRUCTION TRUST FUND
IN THE AMOUNT OF US$35 MILLION

TO THE

ISLAMIC REPUBLIC OF AFGHANISTAN

FOR A

PAYMENTS AUTOMATION AND INTEGRATION OF SALARIES IN AFGHANISTAN (PAISA)
PROJECT

April 2, 2019

Finance, Competitiveness And Innovation Global Practice
South Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2019)

Currency Unit =	AFN	
AFN 75.425 =	US$1	
US$ 1.39798 =	SDR 1	

FISCAL YEAR

July 1 – June 30 (World Bank)
December 21 – December 20 (Government of the Islamic Republic of Afghanistan)

Regional Vice President:	Hartwig Schafer
Country Director:	Shubham Chaudhuri
Senior Global Practice Director:	Alfonso Garcia Mora, Michal J. Rutkowski
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Task Team Leader(s):	Ahmed Mohamed Tawfick Rostom, Aminata Ndiaye, Endashaw Tadesse Gossa

ABBREVIATIONS AND ACRONYMS

ACCRA	Afghanistan Central Civil Registration Authority
ACH	Automated Clearing House
AK	Asan Khedmat
AFMIS	Afghanistan Financial Management Information System
AFN	Afghan Afghani
AfPay	National Card and Mobile Wallet Scheme
AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
API	Application Programming Interface
APS	Afghanistan Payment System
ARTF	Afghanistan Reconstruction Trust Fund
ATS	Automated Transfer System
BCP	Business Continuity Plan
CDD	Customer Due Diligence
CE	Citizen Engagement
CGAP	Consultative Group to Assist the Poor
CPF	Country Partnership Framework
CPMI	Committee for Payments and Market Infrastructures
CRIT	Core Reform Implementation Team
CSC	Independent Administrative Reform and Civil Service Commission
CSTC-A	Combined Security Transition Command – Afghanistan
DA	Designated Account
DAB	Da Afghanistan Bank
DGT	Directorate General of Treasury
ECF	Extended Credit Facility
eNID	Electronic National Identity
FM	Financial Management
FSRRP	Financial Sector Rapid Response Project
GDP	Gross Domestic Product
GoIRA	Government of the Islamic Republic of Afghanistan
GP	Global Practice
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
G2P	Government-to-Person
HRM	Human Resource Management
HRMIS	Human Resource Management Information System
ICT	Information Communication Technology
IDA	International Development Association
ID4D	Identification for Development
IMF	International Monetary Fund
INT	Integrity Vice Presidency

IPF	Investment Project Financing
IP DPG	Incentive Program Development Policy Grant
ISM	Implementation Support Mission
IUFR	Interim Unaudited Financial Reports
KYC	Know Your Customer
LMA	Line Ministries and Independent Agencies
M&D	Martyrs and Disabled
M&E	Monitoring and Evaluation
MFI	Microfinance Institutions
MIS	Management Information System
MNO	Mobile Network Operators
MoCIT	Ministry of Communication and Information Technology
MoE	Ministry of Education
MoF	Ministry of Finance
MoLSAMD	Ministry of Labor, Social Affairs, Martyrs and the Disabled
MoPH	Ministry of Public Health
MSP	Mobile Salary Payment
MSPRT	Mobile Salary Payments Research Team
NPA	National Procurement Authority
NSIA	National Statistics and Information Authority
NTA	National Technical Assistance
PAFI	The Payments Aspects of Financial Inclusion
PAISA	Payments Automation and Integration of Salaries in Afghanistan
PASN	Pension Administration and Safety Net
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFEML	The Public Finance and Expenditure Management Law
PIU	Project Implementation Unit
POS	Point of Sale
PPSD	Project Procurement Strategy for Development
PSP	Payment Service Provider
RTGS	Real Time Gross Settlement
SAO	Supreme Audit Office
STEP	Systematic Tracking of Exchanges in Procurement
STP	Straight-Through Processing
TA	Technical Assistance
TAGHIR	Tackling Afghanistan's Government HRM and Institutional Reforms
TPM	Third Party Monitoring
UNDB	United Nations Development Business
URN	Unique Registration Number
USAID	United States Agency for International Development
USD	United States Dollar
VPP	Verified Payroll Program
WB	World Bank

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Afghanistan	Payments Automation and Integration of Salaries in Afghanistan (PAISA)	

Project ID	Financing Instrument	Environmental Assessment Category
P168266	Investment Project Financing	C-Not Required

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
25-Apr-2019	31-Oct-2024

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The PDO is to support the development of digital government-to-person payments in Afghanistan.

Components

Component Name	Cost (US$, millions)

Component 1: Biometric identification system for civil servants and pensioners	9.00
Component 2: Integration of the Identification, Verification and Payment Systems	14.00
Component 3: Expansion of financial services and access points	18.00
Component 4: Project management	4.00

Organizations

Borrower:	Islamic Republic of Afghanistan
Implementing Agency:	Ministry of Finance
	Da Afghanistan Bank

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	45.00
Total Financing	45.00
of which IBRD/IDA	10.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	10.00
IDA Grant	10.00
Non-World Bank Group Financing	
Trust Funds	35.00
Afghanistan Reconstruction Trust Fund	35.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
National PBA	0.00	10.00	0.00	10.00

Total	0.00	10.00	0.00	10.00

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024	2025
Annual	0.01	0.85	1.51	2.07	2.20	2.45	0.77
Cumulative	0.01	0.86	2.37	4.44	6.65	9.09	9.86

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Governance, Social Protection & Labor

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● High
4. Technical Design of Project or Program	● High

5. Institutional Capacity for Implementation and Sustainability	● High
6. Fiduciary	● Substantial
7. Environment and Social	● Low
8. Stakeholders	● High
9. Other	● Substantial
10. Overall	● High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes   [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes   [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✓
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description
The Recipient shall vest in: (a) MOF the overall responsibility for implementing Parts 1, 2(a) and 4 of the Project; and (b) DAB the overall responsibility for implementing Parts 2(b) and 3 of the Project. To this end, the Recipient shall establish and maintain, and cause DAB to establish and maintain, throughout the period of implementation of the Project, Project implementation structures with mandate, resources and composition satisfactory to the Association as set out in the Project Operations Manual

Sections and Description
The Recipient shall through MOF maintain throughout the period of Project implementation, the Joint Coordination Committee, chaired by MOF, with composition, mandate, resources, and terms of reference satisfactory to the Association, to be responsible for general oversight and coordination of the Project;

Sections and Description
The Recipient shall through MOF establish, by not later than three (3) months after the Effective Date, and maintain throughout the period of Project implementation, the Core Reform Implementation Team, chaired by MOF, with composition, mandate, resources under terms of reference satisfactory to the Association, to be responsible for, inter alia, coordinating and drafting the implementation plan for the government-wide salary payment reform and preparing the biometric enrolment plan.

Sections and Description
The Recipient shall through MOF and NSIA implement Part 1 in such a manner to ensure and take all other necessary steps to ensure that the legal and regulatory enabling environment for the BIS to be developed and adopted by the Recipient prescribes appropriate technical, process and design features that establish and strengthen data protection and privacy rights, including principles of proportionality and minimal data collection and disclosure, user control, network security and transparent and accountable data management and sharing as well as access management, and institutional and governance arrangements, guided by international good practices, including inter alia the Principles on Identification for Sustainable Development.

Sections and Description
The Recipient shall through MOF and MCIT establish, by not later than five (5) months after the Effective Date, and maintain, throughout Project implementation, and publicize the availability of a Project grievance redress mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to the Project and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.

Sections and Description
The Recipient shall, and shall cause DAB to, recruit, and maintain throughout the period of Project implementation, Project Implementation Staff for their Respective Parts in line with the requirements of the Project Operations Manual, including the detailed hiring procedure agreed upon between the Recipient and the Association, and with qualifications as well as terms of reference satisfactory to the Association.

Conditions

Type	Description
Effectiveness	the Recipient has prepared and adopted the Project Operations Manual in form and substance satisfactory to the Association;

I.   STRATEGIC CONTEXT

A. Country Context

1. **Substantial improvements in development outcomes have been observed in Afghanistan since 2001, particularly in expanded access to water, sanitation and electricity, education and health services**. Following the economic shock of the withdrawal of international troops, the Afghan economy has regained momentum as reforms have been implemented and confidence restored. However, some gains are now being eroded and risks are arising from the prospects of political instability around the 2019 Presidential elections. Business confidence is declining, and economic activity is slowing. Additional country risks arise from uncertainties regarding the duration of external security assistance. Civilian casualties remain at unprecedented levels: 10,459 killed or wounded in 2017 and 10,993 in 2018. Some areas of the country remain difficult to access because of insecurity.

2. **Real GDP growth, after accelerating to 2.7 percent in 2017 from a low of 1.5 percent in 2015, is projected to moderate to 2 percent in 2018 amid growing political and security concerns**. Growth is expected to accelerate further to 3.7 percent by 2021 assuming a smooth political transition after the 2019 elections. With the population growing at 2.7 percent, however, the projected growth path will not be strong enough to improve incomes and livelihoods for most Afghans. The poverty rate in Afghanistan has increased significantly: from 38 percent in 2011/12 to 55 percent in 2016/17. It is expected to remain high in the medium-term, driven by weak labor demand (despite an increasing labor force) and security-related constraints on service delivery. Living standards are further threatened by the worsening drought conditions and displacement (more than 1.7 million Afghans are internally displaced, and more than 2 million have returned to Afghanistan – mostly from Pakistan and Iran – since 2015).

3. **Stronger growth is predicated on improvements in security, political stability, steady progress with reform, and sustained aid.** With an extremely narrow private sector base, the economy relies on foreign aid and public expenditure. Business and consumer sentiments appear to be deteriorating, potentially reflecting expectations of political instability and violence associated with upcoming elections, stagnating economic activity and overall security situation. It is vital to focus on private sector led growth and revitalization of the economy to fill the void emerging from declining donor inflows. However, private sector development and diversification are constrained by political instability, weak institutions, inadequate infrastructure, underdeveloped financial sector, widespread corruption, and a difficult business environment. Afghanistan was ranked 167th of 190 countries in the 2019 Doing Business Survey and 177 out of 180 in Transparency International's 2017 Corruption Perception Index. Addressing avoidable constraints to private investment, including unnecessary regulatory barriers, increasing access to finance (especially for groups more vulnerable to instability, including SMEs, women, microenterprises) and prioritizing the sectors with greatest capacity to support increased growth, job creation, exports, and government revenues would be key to boost economic growth. Public expenditure constitutes 25.6 percent of GDP; however, foreign grants currently finance more than two-thirds of budget expenditure and substantial off-budget security needs. With aid expected to decline from around 46 percent of GDP in 2017 to 20 percent of GDP by 2030, and in the context of a rapidly growing population, new sources of growth, employment, revenues, and exports are desperately needed, as are savings from improved management of public expenditure.

4. **The ongoing negotiations present the possibility of a peace deal with the Taliban, with the potential for significant improvements in the security situation, service delivery, and investor confidence.** Stronger growth is predicated on such improvements as well as steady progress with reform, and sustained aid. Growth could also be enhanced by mobilizing investment in extractives, energy and connectivity, building and harnessing the skills of

Afghanistan's youth and women, and taking steps to realize the job creation potential of agriculture and agribusinesses.

5. **Afghanistan, with its consistently high rankings on the Global Climate Risk Index, is among the most vulnerable countries to the effects of natural hazards, including earthquakes, floods, landslides and avalanches, and climate change.** Climate change poses a significant threat to Afghanistan's natural resources, on which the majority of Afghans depend for their livelihoods. Annual average temperature is expected to increase by 1°C to 2.8°C by 2060 relative to current conditions. The expected rise in temperatures would increase incidences of heatwaves, and other climate-linked disasters, such as glacial lake outflows. Climate change is also expected to increase the frequency of heavy precipitation events, as well as contribute to earlier spring snowmelt, increasing risks of flash floods and landslides, and reducing the availability of water over the summer months. Floods are the most frequent natural hazard in Afghanistan and result in largest economic losses. On average, however, droughts cause US$280 million in economic damages to agriculture each year. The likelihood of more frequent and severe drought is increasing, especially in the northwest and southeast regions of the country.

B. Sectoral and Institutional Context

6. **Financial inclusion remains a remarkable challenge in Afghanistan and is constrained by the limited intermediation channels**. Financial inclusion has the potential to significantly impact on the living standards of the poor through several channels including microcredit, micro-insurance as well as formal and low-cost savings, payments, and remittance arrangements. In Afghanistan however, nine out of ten Afghan adults are financially excluded. As per the 2017 Global Financial Inclusion (Findex) survey, at least half of the Afghan adults do not have an account and cite the large travel distance to the nearest financial institution amongst the main barriers. The majority of bank and Microfinance Institutions (MFIs) branches are concentrated in only few provinces in Afghanistan (Figure 1). In other countries that have relatively low numbers of financial institutions, the number of access points per capita is much larger. For example, in Nepal or Bangladesh, the number of access points per 100,000 adults is 21 and 17 respectively, compared with 3 in Afghanistan (IMF Financial Access Survey, 2017).

Figure 1: Number of Bank and MFI Branches per 10,000 people (2014)
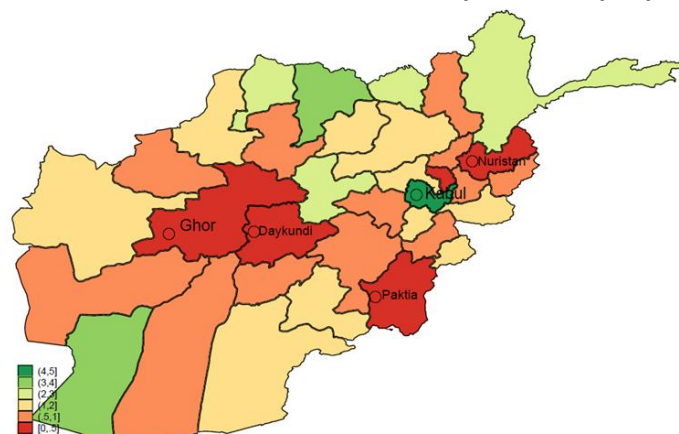

Data source: Da Afghanistan Bank (DAB), Microfinance Investment Support Facility for Afghanistan (MISFA)

7. **Penetration of digital finance is similarly very low, compared with peer countries, both in terms of access and usage.** The current level of transaction account ownership and electronic payment usage in Afghanistan is very

low compared to countries in Central or South Asia (Figure 2). According to the 2017 Global Findex survey, only 15 percent of adults in Afghanistan have a transaction account that allows for payments and storage of value. These accounts are held at financial institutions. Only 1 percent of adults use mobile phones to access their accounts. Account ownership and usage are different: some may own accounts but may not use them. Actually, only 58 percent of adults with an account made a single withdrawal in the past year.

Figure 2: Account ownership in Afghanistan (Findex, 2017)
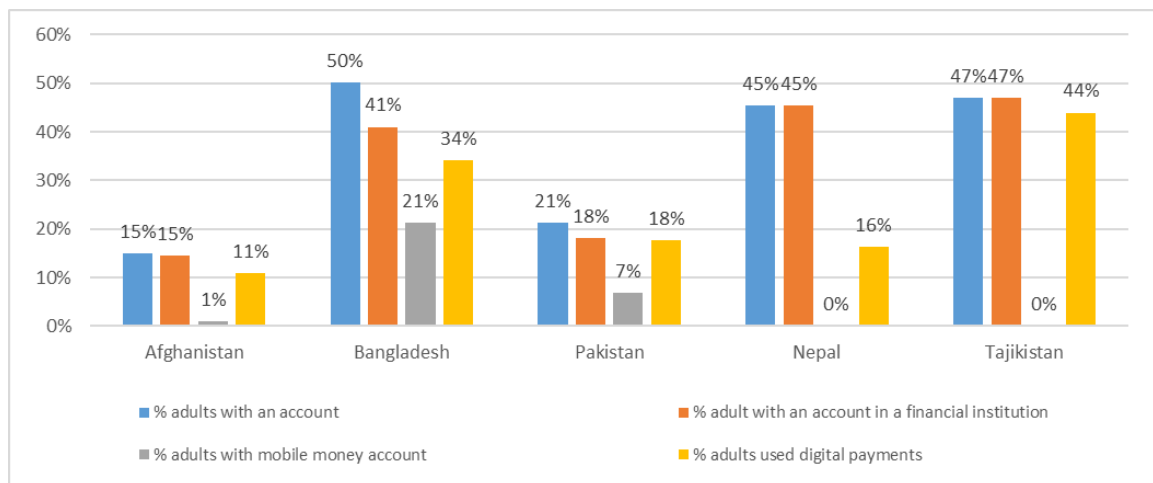
8. **Recourse to technology for the provision of financial services help overcome the main barriers to access and usage of transaction accounts in Afghanistan.** The biggest constraints reported by financially-excluded Afghans – cost of opening and maintaining an account, distance to an access point – can be addressed by financial technology solutions which play a pivotal role in bridging the inclusion gap and facilitate access to economic opportunities. Developing electronic payment, or digital payments, also emerges as an innovative approach to addressing the heightened security risks and frequent attacks on banks' branches, especially on pay day. The availability of digital payments represents an opportunity to induce the Afghan population to obtain transaction accounts, by increasing the value of owning such accounts[1].For financial institutions, it helps alleviate challenges associated with traditional, limited payment channels and provide scale for nationwide coverage of financial services.

9. **Digital finance also provides an opportunity to reduce the gender gap for financial inclusion.** As mentioned earlier, access to financial services is low in Afghanistan. Women are disproportionately affected by the lack of access to finance. Men are almost four times more likely than women to own an account at a formal financial institution. This is also true for women access to and usage of digital financial services. Only seven percent of Afghan women own a transaction account and four percent have made or received payments in the past 12 months (compared to 23 and 17 percent respectively for men; Findex 2017). In addition to above-mentioned issues, the lack of identification and mobility constraints, more pronounced for Afghan women, explain the low level of financial inclusion. The development of digital payments should address most of these, especially if the financial infrastructure enables the participation of women in the delivery of financial services.

10. **Since 2015, significant work has been undertaken to develop the financial infrastructure necessary to spur digital finance in Afghanistan**. The Afghanistan Payment System (APS), a switch for card and mobile wallet

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[1] The value of owning transaction accounts increases as owners can do more than storing value (e.g. paying for utility bills.)

transactions, enables ATM interoperability. However, the low number of access points have limited its impact. Initially formed as a consortium of commercial banks, the APS has recently been nationalized and amalgamated into the central bank (DAB). DAB is also about to launch the Automated Transfer System (ATS), comprising the Real Time Gross Settlement (RTGS) system for interbank settlements and an Automated Clearing House (ACH) for direct debits and credit transfers. By end-2019 Afghanistan is expected to have set up the infrastructure to enable interoperable automated payments across the entire banking system and non-bank payment service providers. To accompany these development, DAB issued in 2016 a regulation to regulate money services providers and payment system operators, to support electronic payments and digital financial services.

11. **The integration of large-volume, recurrent payment streams, such as government-to-person payments (G2P) into the digital financial space provides ample opportunity to scale-up the usage of digital payments in Afghanistan, in line with international experience.** The Payments Aspects of Financial Inclusion (PAFI) framework developed by the World Bank Group and the Committee for Payments and Market Infrastructures (CPMI) considers G2P payments as a "catalytic pillar" that can promote inclusion by directly providing transaction accounts to unserved and underserved end users. In Afghanistan, these mostly comprise civil service salaries and social safety net benefits. Electronic payment processing and delivery not only provide the government with the ability to audit the payments trail, monitor budget execution and improve expense forecasting, but also strengthen the country's financial institutions, foster financial inclusion and provide an impulse towards the development of cashless payments ecosystems. This is currently part of the Government of the Islamic Republic of Afghanistan (GoIRA) 3-year reform matrix supported by the Incentive Program Development Policy Grant (IP DPG; P164882). This has special significance in Afghanistan, where the armed conflict and deteriorated security have rendered dealing with cash insecure and costly. Moreover, facilitated person-to-government - payments can have the potential catalytic effect of facilitating transparent and effective revenue collection.

12. **Civil servants' salaries make up the most of G2P payments, and are predominantly cash-based and processed manually.** The Afghan civil service (excluding security sector) comprised 400,439 employees in 2017 with an equivalent cost of about US$800 million. Pensions represent the second largest G2P outflows in terms of amount paid to the recipient, while payments to Martyrs' survivors and Disabled are the second largest in terms of number of beneficiaries. The salary payment process is mostly manual. The general process – for all Line Ministries and Independent Agencies (LMAs) – is described hereafter. Based on the attendance sheets, line ministries and agencies prepare the M41 forms (payroll forms), which upon verification are used to complete the M16 forms (payment order). These forms are sent to MoF (Directorate General of Treasury - DGT) for Tashkeel ceiling controls.

- For employees paid through direct deposit, DGT manually instructs the Central Bank (DAB) to initiate a direct transfer from the government's payroll account to the accounts of the two partner commercial banks for the aggregate salary amount (all employees who have accounts in each bank). The respective commercial banks will liaise with DAB to be able to credit the individual employees' accounts.

- For employees paid by cash, DGT issues a check, drawn on the government's account at DAB, to a "bonded trustee", who cashes it out and distributes the money to the eligible civil servants on a prescribed pay day at their workplace. This model, in addition to incurring significant costs on the government's side, depends to a great extent on the honesty of bonded trustees. Currently 40 percent of salaries are paid in cash.

13. **Different approaches to G2P digitization have been tried and tested in Afghanistan; a comprehensive approach would enhance their effectiveness and scalability.** Previous and ongoing pilots and programs are summarized in Annex 3. The two large-scale ongoing initiatives are led by the MoE, and the Combined Security

Transition Command – Afghanistan[2]. PAISA will build on a related initiative supported under the Pension Administration and Safety Net (PASN, P113421) Project. Through the PASN project, the Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD) has put in place a new and automated mechanism of registration, verification, benefit determination, claims processing and benefit delivery through a Pension Management Information System (MIS), enabled with biometric verification of pensioners. Close to 153,000 pensioners have been registered in the MIS and are paid via bank account, of which 126,000 have been biometrically-verified[3]. The PASN project provided insights into the potential benefits that could be expected from setting up a robust digital payments platform (see Lessons Learned).

14. **Recently, the World Bank has been involved in discussions related to the Mobile Salary Payments (MSP) initiative at the MoE**, along with GoIRA stakeholders and the Mobile Salary Payments Research Team (MSPRT) which has been advising the government on this. The MSP project comprises of: (i) registering the biometric and personal information of MoE employees receiving salary payments; (ii) opening mobile money wallets for them; and (iii) paying the salaries into those mobile wallets. Mobile network operators (MNOs) have been contracted to conduct all three activities against a registration fee and a transaction fee; and in return have been requested to set up agent networks in the targeted provinces and secure adequate liquidity. The MoE has committed to the payments of salaries of 160,000 employees through mobile only. Contracts have already been signed with MNOs to cover 32,000 Ministry of Education payroll staff in the Kandahar, Nangarhar and Parwan provinces, out of which 20,000 are planned to be enrolled by mid-2019. The World Bank has been consulted on the technical aspects of this initiative, in the context of the overall MSP initiatives led by the government with the support of the MSPRT. Challenges associated with reliable identity verification at the time of registration and limited payment channels have posed many challenges for roll-out at this scale.

15. **End-to-end automation, leveraging digital financial services and use of biometrically-enabled digital IDs are the necessary ingredients to a comprehensive approach to streamlining G2P payments.** The *Action Plan for Developing Digital Finance in Afghanistan*, which was jointly prepared by the World Bank and GoIRA following 18 months of high-level policy dialogue on digital payments in Afghanistan and completed in April 2018, is informing PAISA's design. The proposed operation will address key challenges raised in terms of (i) governance and integrity of government cash payment systems; (ii) promotion of cashless (digital) payments; (iii) scale and delivery network by leveraging the private sector. The existing legal and regulatory framework would need to be strengthened to fill existing gaps in terms of data privacy and consumer protection.

16. **The proposed operation requires strong coordination within government and fits within a broader civil service reform agenda.** Proper sequencing between PAISA and parallel engagements related to civil servants is essential. The Tackling Afghanistan's Government HRM and Institutional reforms project (TAGHIR, P166978) project supports the establishment of a national Human Resource Management Information System (HRMIS) which is being developed by the Civil Service Commission (CSC) and will be essential to achieve full automation and reliability of salary payments. Once operational, PAISA would support the integration of relevant systems at MoF and DAB with the HRMIS. Meanwhile, the Education Quality Reform in Afghanistan project (EQRA, P159378) supports the improvement of the Education MIS, including through the automation and integration of information systems for financial management, human resources, and payroll. Given the synergies between TAGHIR and EQRA, the MoE has been designated as one of the first LMAs in which the HRMIS would be rolled out, and biometric registration of civil servants (as planned under PAISA) would be undertaken. The Ministry of Public Health (MoPH)

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[2] This concerns Afghan National Defense and Security Forces and Ministries of Defense and Interior employees.
[3] The Martyrs and Disabled Authority intends to initiate biometric registration and verification for up to 320,000 beneficiaries.

is another prime candidate for implementation, given the United States Agency for International Development (USAID)'s recent support to the development of an MIS and possible synergies in locations where government staff would be deployed for biometric registration. As part of project preparation, an agreement has been reached between the five government institutions that are responsible or have been involved in the broad civil service reforms: MoF, CSC, DAB, the National statistics and Information Agency (NSIA) and Asan Khedmat (AK)[4]. The Presidential Decree on Biometric Data Collection and Electronic Payments to Civil Servants, dated March 11, 2019, outlines institutional roles and responsibilities, and sets out a coordination framework.

C. Relevance to Higher Level Objectives

17. **Building a credible and transparent infrastructure for national payments is an identified priority of the GoIRA, highlighted in the Afghanistan 2017-21 National Peace and Development Framework which was presented in Brussels conference in 2017.** The Afghanistan Systematic Country Diagnostic (SCD, report No. 103421) identifies that improving and modernizing the national payment system and developing a digital finance framework are priority. The project also directly contributes to Pillar 2 of the World Bank Group's Country Partnership Framework (CPF) for Afghanistan for FY 2017-20 discussed by the Board on October 27, 2016 (report #108727-AF) which aims to support inclusive growth through a more stable and efficient financial system. PAISA supports the strengthening of the main government institutions that are responsible for government payments but also for financial inclusion. Moreover, the CPF recognizes the World Bank's support to MoLSAMD for the development of targeting and delivery systems for safety net interventions and, based on a pilot for the delivery of cash transfers through mobile network operators and banks, identifies digital payments as a transparent, safer and more efficient mechanism with immense potential for scalability. Finally, the project directly supports GoIRA's Economic Governance National Priority Program which was approved in November 2018.

18. **The PAISA project aims to leverage private sector investments in the provision of digital payment services.** PAISA supports building the foundational ecosystem for digital payments. The project design provides for an increased participation of the private sector as payment service providers (PSPs). The project will crowd-in private sector investments (including agent network development, connectivity enhancement, or digital payment applications) to support the sustainable development of electronic payments in Afghanistan. Through enhancement to the regulatory framework, private sector actors will also be able to play a larger role in terms of innovation and delivery of payment services. Furthermore, with the integration of private sector in the delivery of G2P payments as a potential revenue stream, the project will contribute to providing better clarity to PSPs on the long-term economics of digital finance, making the case for greater investments in this space in Afghanistan. Finally, PAISA will support transparent, competitively-awarded and performance-based incentives to private actors for G2P payment delivery, with the higher-level objective of scaling up access to digital financial services for all.

19. **Building resilience to natural disasters and climate change, including financial resilience, is also vital to safeguard development gains, reduce poverty, and foster sustainable development.** To that end, the digital finance platform developed under the project will integrate climate change considerations in the design and implementation, particularly to increase the capacity for digital payments in the case of natural disasters and other extreme events.

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[4] Based on the Presidential decree 264 from 22/04/2018, Asan Khedmat was mandated to implement the MSP program at the MoEn. Asan Khedmat is a one-stop shop for public services which is housed in the Ministry of Communication and Information Technology (MoCIT)

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

The PDO is to support the development of digital government-to-person payments in Afghanistan.

PDO Level Indicators

- Percentage of civil servants and pensioners biometrically registered and issued a unique identifier for payment purposes (of which female)
- Increased efficiency in government payments, as measured by the percentage of civil servants and pensioners who received government payments through electronic channels (of which female)
- Increased capacity for electronic payments, as measured by the number of active financial access points.[5]

B. Project Components

20. **The PAISA project aims to introduce a government-wide comprehensive framework for digital payment of salaries.** This proposed approach consists of: [Component 1] supporting the unique identification of civil servants and pensioners, which could be extended to other recipients of government transfers; [Component 2] integrating the identification system with the verification and payment systems – AFMIS (Afghanistan Financial Management Information System) and HRMIS – to achieve straight-through processing of salary payment instructions; [Component 3] providing support and incentives for the expansion of financial access points (cash-out and payment locations), as a move away from single-channel G2P payment delivery. The PAISA project will concern salary payments for civil servants only (excluding the military or police), and pension payments.

21. **Implementation of the PAISA project will be sequenced by components, by LMAs and geographically-phased.**
- Geographical implementation of component 1 will be phased to account for progress under TAGHIR, and the operational readiness across provinces and districts, as well as that of government entities. Given the ongoing MSP initiative at MoE, amongst other biometric registration efforts by multiple LMAs, the principles of compatibility, continuity, and collaboration are essential. The NSIA which will be soon merged with the Afghanistan Central Civil Registration Authority (ACCRA) has the mandate for spearheading biometric registration for civil servants.
- The planned integration of the biometric ID system (supported under component 1) with the HRMIS would start once the latter, supported by TAGHIR, is operational and rolled-out. In effect, PAISA and TAGHIR projects will run in parallel but will be fully coordinated, both in terms of implementation progress and systems (including technology). The implementation of PAISA will comprise two phases. In the first "interim" phase, the biometric ID database will be connected to the legacy MIS operated by individual ministries (at heterogeneous levels of advancement). In the second phase, the HRMIS will be operational

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[5] This indicator tracks all access points in the country and is derived as the sum of: (1) the number of branches of commercial banks and licensed Electronic Money Institutions; (2) the number of active agents of licensed financial institutions; (3) the number of in-service ATMs of commercial banks; and (4) the number of POS terminals accepting electronic payments.

and will act as the central hub connecting individual ministries with the biometric database to enable the de-duplication (unique identification) and biometric authentication of salary payment recipients.

Component 1: Biometric identification system for civil servants and pensioners (US$9 million)

22. **This component will support the biometric registration and issuance of a unique registration number (URN) to recipients of government salaries and transfers, which will be managed by NSIA.** NSIA will leverage existing registration, identity management, and data storage infrastructure as well as data collected in existing registries to enable the unique identification and accurate identity verification of civil servants and pensioners. To the extent technically feasible and allowed by data sharing frameworks, the existing biometric data of civil servants and pensioners (already collected inter alia, on behalf of the MoE[6], the CSC, and the Pensions Department) will be migrated into the NSIA-hosted registry as soon as NSIA has built up the data storage and management capacity to allow for de-duplication across records and facilitate biometric authentication at cash-out, if necessary. NSIA will undertake the registration of civil servants and pensioners, whose biometric data had not been captured or could not be migrated from existing registries. Biometric equipment and staff previously assigned to e-Tazkera registration will be deployed to register civil servants; and the staff and equipment[7] of the Pensions Department to the enrollment of pensioners. NSIA may authorize government agencies to carry out registration on its behalf, following the protocols, processes, and standards set by NSIA. A biometric enrollment plan will be jointly developed by NSIA, MoF, CSC and AK and communicated to all relevant LMAs. For further details, please see Annex 2.

23. **Although much of the technical infrastructure and equipment already exists to implement the project, the existing data and identity management capacity of NSIA, including its data protection and security practices, as well as the broader enabling environment for a robust and responsible identification system will need to be strengthened**. To this end, this component will support technical assistance to NSIA and other relevant stakeholders, hardware and software components (including upgrades and customization to the existing ID infrastructure), specialized trainings and other operational costs associated with the rollout of the biometric registration. In particular, this component will provide support to the following:

- **Establishment of a robust legal and regulatory framework** to govern the proposed biometric ID system, which sets out the purposes of the ID system, defines the role and duties of the NSIA, strengthens its governance and independence, sets out the scope of personal data to be collected, establishes appropriate data protection and privacy rights, creates a mandate for technology and vendor neutrality, and is harmonized with existing legal instruments. This activity will support the key recommendations of the comprehensive legal and regulatory assessment to be undertaken for the biometric ID system. GoIRA is fully committed to implementing reforms outlined by this assessment. The development of the legal and regulatory framework will be undertaken in parallel with biometric data collection and other project activities. The estimated timeframe for completion of this activity is 24 months.

- **Assessment of the existing eNID infrastructure and operational policies** to evaluate its readiness for use for the proposed biometric ID system for civil servants and pensioners. This "functionality assessment" aims to determine the upgrades, customizations and new technical components needed for the new ID

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[6] The ongoing biometric registration of MoE employees under the MSP initiative is conducted by select mobile network operators, contracted and supervised by AK. The data collected is currently stored with the individual mobile network operators, under the agreement that the data would be transferred to the Government, as soon as it had built up the necessary data storage and management capacity.
[7] If/where the biometric data of pensioners would need to be re-collected, this would be done during the biennial 'liveness verification' of pensioners, when pension recipients are mandated to visit an office of the Pension Department in person. Pensions are paid annually.

system's successful roll-out.

- **Development of the operational policies and technical implementation framework** for the biometric ID system, in line with international standards and good practices, including enrollment protocols and policies; standards for data collection, storage, management, authentication, etc.; grievance redress responsibilities and protocols.

- **Customization, configuration, and upgrading of technical components** related to the operation of the biometric identification system, including (i) the upgrade, customization, integration and testing of the central system and enrolment components; (ii) enabling interoperability between biometric ID system and the HRMIS; (iii) upgrading and operationalization of the authentication module; and strengthening of data security, data protection, and privacy-by-design features (development and/or installation, configuration, and customization of new applications/modules to enhance privacy and data protection of registrants)

- **Secure data management** by NSIA, including to ensure that best-practice data protection and cybersecurity practices and solutions will be deployed to minimize the risk of data misuse.

- **Quality assessment and import of already-collected biometric and personal data** of civil servants and pensioners, in collaboration between NSIA and other relevant government agencies (such as AK, CSC) and support the process of transferring already collected data.

- **Institutional strengthening of NSIA**, including via the deployment of international experts with experience in the design and implementation of similar systems, knowledge exchange with few relevant countries, as well as stakeholder workshops to enhance understanding and integration of global good practices in system design and implementation.

- **Operational costs associated with the biometric enrollment**. These include the specialized training of NSIA enrollment agents, as well as per diems and transport costs to conduct registration outside offsite, if applicable. Operational costs for biometric enrollment by government agencies collecting biometric information on NSIA's behalf will also be covered.

- **Development of a business continuity plan (BCP), and establishment of a data center for a disaster recovery site** to house all ICT components that would be deployed as part of the component. The space for the data center would be identified and provided by the NSIA. Given that the systems being deployed are critical and require a very high degree of operational reliability, a fully functional disaster recovery site with all the required ICT components that can serve as a back-up to the main site is necessary. The project would finance the establishment of a modern data center, including: data center preparation, power back-ups, access control systems; and establishment of system management processes and infrastructure.

- **Communications and outreach activities, including the development and implementation of a comprehensive communications plan** to foster registration and inform civil servants and pensioners about the biometric identification system, and the use of their data.

Component 2: Integration of the Identification, Verification and Payment Systems (US$14 million)

24. **The component will focus on the integration of various systems playing different roles in the salary payments**

process to achieve full-fledged straight-through processing (STP).[8] It will ensure that government departments responsible for the preparation and processing of payroll data are ready for process automation. MoF and DAB will be respectively responsible for implementing the below subcomponents.

Subcomponent 2a – Integration of Public Financial Management Infrastructure with Digital ID and Payments Ecosystems (US$6.5 million).

25. This subcomponent will support:

-   **System architecture design and development of roadmap for implementation of changes in MoF systems.** This is a prerequisite for the below procurement of new AFMIS module and system integration services. Based on a detailed stocktaking of hardware, software, data exchange mechanisms and interchange formats used in the processing of the government payroll, a low-level architectural blueprint for system integration and data flow will be designed and an implementation roadmap developed.

-   **Enhancement of payment workflow processing in AFMIS.** The enhanced module will support STP of salaries and other payments into bank accounts and mobile wallets through programmatic integration with the ATS and APS, as well as the new core banking system of DAB. The payment module will also include a function allowing temporary storage of basic payroll information (accounts and routing numbers) to facilitate salary payments for ministries and agencies where HRMIS has not yet been implemented. The system will allow digital circulation of electronically-signed M16 and M41 forms.

-   **Integration between HRMIS and AFMIS.** This activity will finance development of the necessary interfaces within MoF system to enable seamless transmittal of payroll information from the HRMIS. This complements a similar activity by the CSC under the TAGHIR project.

-   **In-depth diagnostics and development of integration roadmap for the MIS for Pensions and M&D**; **Integration between the Pensions MIS and AFMIS.** First, a roadmap will be supported to prepare a detailed action plan towards the automated transmittal of payment instructions from these MIS to AFMIS, and the introduction of more flexible payment options fully leveraging payments interoperability in Afghanistan. The upgrade to the MIS of both departments will also be supported to ensure smooth integration with AFMIS. Given its advanced stage, the integration of the Pensions MIS and the AFMIS will also be supported.

-   **Development of BCPs for the systems' components** and incorporation into the BCPs of relevant systems (at MoF, and HRMIS)

-   **Strengthening of government payment processing and management at MoF.** This activity will strengthen the Verified Payroll Program (VPP) unit in the MoF through the reform. This will include streamlining and updating business processes and procedures, transitioning to paperless document workflows, and enhancing IT and accounting skills.

Subcomponent 2 (b) – Integration of the National Payments Infrastructure with Digital ID Infrastructure (U$$7.5 million)

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[8] STP is defined by the Committee on Payments and Market Infrastructures as "automated end-to-end processing of payment transfers, including the automated completion of confirmation, matching, generation, clearing and settlement of instructions, without the need for re-keying or reformatting data"**.** Thanks to that, the government will be ready to process salary payments end-to-end, without any needs for manual interventions beyond legally-prescribed verification processes.

26. This subcomponent will support:

- **System architecture design and development of the roadmap for implementation of changes in DAB-operated systems.** It will comprise detailed stocktaking of hardware, software, data exchange mechanisms and interchange formats used in the processing of government payments, starting from the receipt of payment instructions generated by AFMIS. A low-level architectural blueprint for system integration and data flow will be designed; and a roadmap subsequently drafted to guide the blueprint's implementation, in line with the Presidential Decree on Biometric Data Collection and Electronic Payments to Civil Servants and the Recipient's Digital Foundation Strategy for Afghanistan (2019-2021)

- **Integration between the APS and the biometric ID database.** This activity will comprise the development of interfaces between the biometric database referred to in Component 1 and the national payment switch, allowing APS members to conduct Customer Due Diligence/Know Your Customer (CDD/KYC) checks and process payment authorization leveraging biometric information. The project will cover the costs of changes to the switching software, the purchase of additional equipment, development of API links between the two systems and consultancy work on the scheme rules for biometric KYC and cash-outs.

- **Integration between DAB's core banking system and financial institutions.** This activity will support the integration between the central bank's core banking, the ATS and the APS systems, with the view to attain full interoperability between bank accounts and mobile wallets, particularly for bulk payments.

- **AfPay scheme development.** This activity will support the national card and mobile wallet scheme—AfPay, to achieve compliance with international standards in terms of range of services provided, data security and consumer protection frameworks. In particular, this will include: (i) supporting the implementation of chip-and-pin; (ii) developing a lightweight acceptance mechanism, based upon QR-codes; (iii) strengthening the dispute resolution framework; (iv) securing connectivity with international card schemes; (v) supporting financial modelling with respect to interchange and service fees; and (vi) strengthening the brand and marketing outreach. The scheme will be extended to cover mobile wallets and interoperability between mobile money and card- and account-based instruments.

- **Development of BCPs for the systems' components** and incorporation into relevant systems' BCPs at DAB.

- **Institutional strengthening at DAB.** Providing technical assistance to DAB in strengthening APS' institutional capacity and DAB's Financial Inclusion, Financial Supervision and Payment Systems Departments, and other relevant operational departments' spearheading legal and regulatory reforms in the digital payments space. Support will be provided to DAB for project management, including social and fiduciary aspects.

- **Technical assistance to financial institutions.** Providing support for banks and other licensed and regulated financial service providers in integrating their core systems with the biometric-enabled APS including offering dedicated technical assistance and developing internal process and procedures.

Component 3: Expansion of financial services and access points (US$18 million)

27. **This component aims to ensure that, with the shift to electronic payments, civil servants—including those hitherto paid by "bonded trustees"— and pensioners can either: (i) withdraw cash from their account from safe and convenient locations; or (ii) use their account balance to make cashless payments for goods and services.** This component will be implemented by DAB and support the following:

- **Development of the access point expansion strategy.** This activity will produce a detailed roadmap of activities aimed at increasing the numbers of access points (ATMs, agents, merchants) in the areas most affected by financial exclusion. The document, based on market research and endorsed by all main stakeholders, would assist in determining the most promising partners in developing robust networks (e.g. microfinance institutions) and determine the optimal modes of engaging them.

- **Development of an agent/cash-out point monitoring platform**, which will monitor geographical coverage of existing financial access points and their liquidity, as well as contribute to addressing Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) concerns.

- **Expansion program for cash-out points.** This activity will offer incentives through competitive selection amongst financial institutions based on well-defined, transparent and publicly-available eligibility criteria to establish financial access points (agent locations, branches or ATMs), especially in underserved areas. Selection criteria will aim to ensure that an appropriate share of these access points comprises of women-owned businesses[9]. Financial institutions will be procured competitively with the Non-Consulting Services method. Incentives will be performance-based to reward outreach and good liquidity management, and will be phased out based on the "sliding scale" principle. The current single transaction fee (for cash out, borne by the customer) is about US$1-1.30 as per the ongoing MoE pilot. The estimated budget of this activity would be equivalent to two monthly free withdrawals for the current 40 percent of civil servants paid in cash - fully for about a year, and partially afterwards. For further details, please see Annex 2.

- **Expansion program for cashless payments.** Competitively-selected PSPs will receive financial incentives in exchange for expanding opportunities for paying electronically for purchased goods and services. Incentives will be higher for those present in remote or underserved areas, and help cover costs for up to the first 24 months of operation as a new payment channel. PSPs will be procured competitively with the Non-Consulting Services method. Incentives would proportionally decline afterwards. The project will provide reimbursement to banks and other PSPs that will deliver, free of charge or with deep discounts, low-cost Point of Sale (POS) devices[10] to merchants (retailers, pharmacies, other registered cash-intensive businesses) across all provinces, allowing them to accept mobile money and card payments. In addition, the project would cover the initial set-up fees and transaction charges and internet connectivity costs, subject to attaining a certain transaction volume. Additionally, this activity would support digitizing payment collection for utilities (e.g. electricity) that still do not accept cashless payments. For further details, please see Annex 2.

- **Communications, outreach and market development activities.** This activity will finance outreach activities to raise awareness about cash-out methods and locations, the benefits of electronic payments and the consumer protection measures afforded to the clients of financial institutions. The communication materials and channels will take into account literacy levels; targeted outreach to women will be supported. Market development efforts would include awareness-raising activities to collect new ideas from the industry, civil society, entrepreneurs and schools/colleges on how to expand digitization in Afghanistan.

- **Technical assistance and institutional strengthening.** This activity will finance TA for DAB (including APS) to support the creation of cashless ecosystems, regulatory reforms (e.g. certified merchants and agent banking), market assessment studies to identify promising approaches to expand agent networks (e.g.

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[9] Agents of financial institutions (or PSPs) are expected to be independent entrepreneurs (e.g. shops or tea stalls).
[10] This includes QR. This is linked to activities under component 2b.

using MFIs and building white-label agent networks); technical trainings, workshops and other TA activities to financial institutions to help enhance their product portfolio, liquidity management and agent network management.

- **This component will also support project implementation at DAB, including implementing support staff.** The project would support DAB in monitoring the performance of financial institutions supported under the expansion program for cash-out points and cashless payments.

Component 4: Project management (US$4 million)

28. This component will be implemented by MoF and support the provision of resources to carry out the coordination, administrative, social and fiduciary aspects of the project. In line with new requirements at MoF, staffing needs have been estimated for the project life. This component will also finance the undertaking of surveys and other activities related to the monitoring of project outcomes. Prior to the roll-out of electronic payments, a baseline survey would be carried out to record payments options and experience.

29. For field monitoring and grievance redress mechanism (GRM): AK will be mandated by MoF to monitor the implementation of the biometric registration and the salary payment process in the field. This would be in continuation of its current role in the MSP Initiative. In addition, given its terms of reference, AK will lead the development of a comprehensive GRM. The GRM would serve not only for PAISA's purpose, but also beyond the project's life to record and address grievances related to the overall system (identification and payment).

Project Components (in US$ million)	Project cost	% IDA Financing	%ARTF Financing
1. Biometric identification of civils servants and pensioners	9	22	78
2. Integration of the Identification, Verification and Payment Systems	14	22	78
3. Expansion of financial services and access points	18	22	78
4. Project Management	4	22	78
Total Project Costs	45	22	78
Front End Fees	---	---	---
Total Financing Required	45.0	22	78

C. Project Beneficiaries

30. **The primary PAISA beneficiaries are the Afghan civil servants and pensioners** whose biometric information will be managed by NSIA and who will be receiving payments electronically. Within government, MoF, DAB, and NSIA will be strengthened to undertake these important functions. PAISA's benefits will be felt across government entities in a gradual way to mirror the rollout of the HRMIS. However, the infrastructure that will be put in place will benefit the whole Afghan population who will have access to digital finance. In a country with very low levels of financial inclusion, the mass introduction of digital finance for G2P payments is an opportunity to provide access to financial services for a significant part of the population and in very diverse areas. Finally, the reforms and infrastructure investments through the project will also provide incentives to financial institutions to increase their current offering and introduce new, tailored financial services to a wide range of users.

D. Results Chain

PDO: support the development of digital government-to-person payments in Afghanistan

Problem statement: Civil servants predominantly paid in cash; low access to and usage of digital financial services in overall Afghan population (15% transaction account ownership and; 11% usage in past 12 months)

Problems	Activities	Outputs	Outcomes	
			Intermediate-Term	Longer-Term
Lack of uniform registration process and single repository for G2P beneficiaries Multiple, possibly incompatible biometric data systems Insecure data storage	1 Biometric identification: • Strengthen legal and regulatory environment for biometric data collection, use and storage • Finance hardware and software for data storage • Support authentication infrastructure for payment – possibly issuance of basic ID credentials (Paisa.ID) for just payment purposes. • Communications, outreach	• Biometric data registry in place for G2P payment recipients, compatible with other national ID systems • Adequate data storage and protection • Authentication infrastructure in place	Registration of civil servants and pensioners	Integrity of payment system Reduced incidence of fraud → Transparency and Efficiency of G2P programs
Required manual inputs in the payment process undermine its integrity and reliability	2.1 Integration of PFM, digital ID and Payments Infrastructure • Finance hardware and software for salary payment • Strategic roadmap for other G2P payments • Capacity building	IT purchases Roadmap for other G2P adopted Training/Recruitment	LMAs are able to process payments electronically Percentage of civil servants who are paid electronically	IT Infrastructure for digital payments enabled
Limited DFS offering by financial service providers Limited access points: 3 per 100,000 adults (FAS 2017) Lack of uptake of DFS (15% adults, Findex)	2.2 Integration of APS and Digital ID Infrastructure • Develop interfaces • Support financial service providers to integrate systems with APS	IT systems upgrades	Increased capacity of FI to offer digital financial products	Increased access and usage of digital payments
	3 Expansion of financial services and access points • support regulatory reforms for payment service providers • develop incentives to support access points expansion in underserved areas • support development of digital payment/financial products&services • Communications, outreach, financial education	Adoption of an enabling legal/ regulatory framework Incentives for payment network developed Digital financial products/services supported	Expanded network of agent (including female agents)	

Assumptions:

A1: Government commitment intact: NSIA officially mandated for biometric data collection

A2: HRMIS available and roll-out is ongoing

A3: Network connectivity available/ No resistance to biometric data usage

E. Rationale for Bank Involvement and Role of Partners

31. **The World Bank is well-positioned to lead this government-wide push to electronic payments, building on its engagement in financial sector in Afghanistan for over a decade.** An ongoing World Bank Advisory Services and Analytics (ASA) program - the Financial Sector Development Programmatic ASA (P157095) - has supported the assessment of a previous MSP pilot and the development of a digital finance roadmap. Relevant lending projects include the former Financial Sector Strengthening Project and Financial Sector Rapid Response Project (FSRRP,

P119047) which supports the development of a modern national payment system.

32. **PAISA will be implemented in the context of a broader reform agenda which is supported by other engagements through the World Bank and other development partners**. The Bank's current engagements related to PFM – including the Incentive Program Development Policy Grant (IP DPG) and TAGHIR – which directly supports reforms that are prerequisites for PAISA's successful implementation. In addition, PAISA will coordinate with other ongoing and pipeline projects within LMAs, such as EQRA. Similarly, PAISA will continue to work closely with other stakeholders – including donors and MSPRT - which have been engaged in supporting part of the digitization of government payments over the past years. During PAISA's preparation, stakeholder consultations have contributed to information-sharing with USAID which is supporting the development and operationalization of MIS in MoE and MoPH. Pending the operationalization of the HRMIS, the TAGHIR project and USAID will coordinate with PAISA for a possible integration of these systems with AFMIS. More generally, during project implementation, PAISA will continue to convene all parties involved to ensure a consistent, integrated, and effective approach.

F. Lessons Learned and Reflected in the Project Design

33. **The design of the proposed PAISA project has benefitted from the lessons and implementation experience of a number of salary automation pilots and the implementation of the PASN project in Afghanistan.**

   a. *An integrated approach that looks at identification, authentication and payment is necessary to reap the expected benefits from the G2P payment reform and ensure long-term sustainability*. The MSP pilot at MoLSAMD highlighted the importance of going beyond biometric identification to address the important challenges that hinder the achievement of synergies and cost efficiencies (such as updated payroll database, electronic processing and payment channels).

   b. *Government-wide ownership and leadership is critical*. Under the PASN, the lack of coherent approaches and collaboration between the various departments team slowed down project implementation. Under PAISA, the involvement of relevant stakeholders has been emphasized during project preparation to ensure buy-in, as well as the commitment of the leadership in the relevant LMAs who will provide the necessary motivation, guidance and oversight to those involved in the day-to-day implementation of PAISA. PAISA also leverages the strong relationships built with key partners within the MoF, but also with other institutions such as DAB, NSIA, MoLSAMD, etc.

   c. *A well-planned and executed outreach and communications campaign to raise awareness about the proposed payment reform is essential to ensure smooth implementation*. During the implementation of PASN, the discontent of pensioners in the initial stage of the transition period owed to a lack of understanding of (i) the process and requirements, and (ii) the time needed to transition from the legacy pension payment system to the automated and biometrically-enabled payment system. The planned outreach and communication campaign was never implemented. Learning from this experience, PAISA communication and outreach plans aims to ensure that stakeholders understand the intent, process, expected benefits as well as roles and responsibilities.

34. **The project also draws on the World Bank's Identification for Development (ID4D) analytical and global convening program.** The ten *Principles on Identification for Sustainable Development*[11], which have been endorsed by over 24 development partners, including the WBG, UN agencies, and private sector organizations, synthesize

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[11] See*: http://documents.worldbank.org/curated/en/213581486378184357/pdf/112614-REVISED-English-ID4D-IdentificationPrinciples-Folder-web-English-ID4D-IdentificationPrinciples.pdf

lessons learnt from around the globe about maximizing the benefits of identification systems for development while mitigating important risks. Key lessons include the following:

a. *Institutional mandates, roles and responsibilities of various ID system stakeholders should be clearly defined*, to ensure clear accountability and transparency.

b. *A comprehensive legal and regulatory framework is necessary* to safeguard data privacy, security, and user rights. Authorizations for data-sharing and access should be clearly defined and people's control over the use of their personal data should be maximized.

c. *The ID system should be designed according to the principle of proportionality and minimal disclosure*. Collecting only minimal data helps safeguard privacy and reduces the appeal of the registry to (cyber)criminals. In addition, the fewer data points are collected, the quicker and more cost-effective the enrollment process can be.

d. *To be robust, the ID system should ensure that each identity is unique.* Each person should be able to register only once, using one identity, and be issued a single, unique ID number. The use of biometric technology can help establish uniqueness, even when covering a very large population.

e. *Identities should be verifiable.* The ID system should offer a variety of identity verification and authentication options, based on the level of assurance required for a given transactions. Different databases and registries should be able to communicate with each other and/or exchange information related to identity verification in a timely and low-cost manner, subject to appropriate privacy and security safeguards.

f. *The system should use open standards and ensure vendor and technology neutrality*. ID stakeholders can draw on a range of technical standards that together cover virtually all aspects of the systems.[12] The use of open standards, robust ICT procurement guidelines, and open source solutions to the extent possible is critical for enabling market-based competition, innovation, and preventing vendor "lock-in".

35. **The experience of similar initiatives in other countries also indicates that recourse to an interoperable system derives the greatest benefits in the short and long-term.** While interoperability is not a requirement to launch electronic G2P payments, it has a significant impact in terms of: (i) adoption and usage of digital financial services by end-beneficiaries; and (ii) feasibility of new players entering the market to help in the delivery of G2P payments. In predecessor electronic payment efforts in Afghanistan, agreements have been negotiated with only one payment provider at a time in a "winner takes all" approach, which limits the G2P recipients' choice. In an interoperable finance market, G2P payers' decision to work through a designated provider for any reason would not affect the recipients' options to access funds. In its design, PAISA builds on the APS as the backbone for the payment infrastructure, to guarantee interoperability between MNOs, financial institutions and other PSPs.

36. **Finally, lessons learned from the experiences of India, Pakistan and Mexico[13] point to the role of incentives – or commissions in the case of India – for building digital payments ecosystems.** Incentives should be market-based and at least cover the cost of processing transactions. This will help develop a network of agents that are well trained, have adequate physical and digital cash, and are transaction-ready. Even more importantly, as the network of available agents expands and the volume of transactions increase, the cost of processing G2P payments

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[12] See, for example: World Bank (2017). Technical Standards for Digital Identity: Draft for Discussion. Available at: *http://pubdocs.worldbank.org/en/579151515518705630/ID4D-Technical-Standards-for-Digital-Identity.pdf*

[13] In India: Direct Benefit Transfer (DBT) payments and Bank Mitr Payment Networks; Pakistan, Benazir Income Support Programme (BISP); In Mexico, the National Bank for Savings and Financial Services (BANSEFI)

through an agent will decrease substantially and reduce the need for incentives. In the early stages, incentives are important for merchant development. As the digital payment ecosystem develops, the fee income for payment service providers and incentives can be phased out progressively to ensure limited disruption and adverse effects.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

37. The effective implementation of PAISA requires a three-tier implementation structure:

i. **An intra-governmental coordination committee, which comprises all relevant institutions that are involved in the broader civil service reform and payments reform agenda**. This committee seeks to ensure (i) coordination among all related initiatives (e.g. HRMIS or interim MIS) with PAISA; (ii) awareness of relevant institutions to be ready to support biometric registration efforts, amongst others. The "Joint Coordination Committee" which was established as per the Presidential Decree No (264), dated 22-Apr-2018 will play this role. This committee – which will become PAISA project's Steering Committee – was established in fulfillment to the Government's commitment under the E-Payment and Mobile Money pillar of the IP DPG. This committee currently includes all relevant key stakeholders that are involved in the E-payment space at the Deputy Minister Level and is chaired by MoF. With PAISA, membership to the committee will be extended to the NSIA and CSC.

ii. **A Core Reform Implementation Team (CRIT), which is comprised of MoF, DAB, CSC, NSIA and Asan Khedmat** was formally established by the Presidential Decree on Biometric Data Collection and Electronic Payments to Civil Servants, dated March 11, 2019. CRIT will be responsible for drafting the implementation plans for the government-wide salary payment reform and coordinating their implementation. Roles and responsibilities of each institution are presented in Annexes 1 and 2. These will be further spelled out in the Project Operations Manual, which will be finalized by Project effectiveness. The CRIT will be established under the oversight of the Steering Committee and chaired by MoF. Amongst immediate tasks, the CRIT will be mandated to prepare the biometric enrollment plan for component 1.

iii. **PAISA Project Implementation Team will be comprised of staff within MoF and DAB who will be responsible for the implementation of their respective components.** The project will be implemented through MoF (components 1, 2a and 4) and DAB (components 2b and 3). Within MoF, the DGT, which has been a key driver for reforming digital payments of civil servants, will be the anchor of PAISA. A Project Director will be appointed to oversee the activities under these components. For components 2b and 3, DAB will leverage the internal capacity that was developed under the FSRRP. The FSRRP Project Director will lead PAISA's activities within DAB. Both Project Directors will be members of the CRIT.

38. **There will be no separate Project Implementation Unit.** Focal points designated by MoF and DAB (implementation agencies), as well as NSIA and AK as beneficiary entities, will be supplemented by technical experts and contractual staff, as needed, to constitute the Project Implementation Team. This team will be responsible for drafting and applying the Project Operations Manual. A staffing plan is presented in Annex 1.

B. Results Monitoring and Evaluation Arrangements

39. **A strong M&E framework to systematically track inputs, outputs, and outcomes is integrated into the project design.** Progress on the proposed outcomes will be monitored through regular reporting by the implementing

agencies and through implementation support visits, including the midterm review which is expected to be around the 24th month after project effectiveness. MoF will be responsible for overall monitoring and evaluation (M&E), in close coordination with DAB and beneficiary entities. All data collected as part of the project will aim to improve the existing M&E systems in terms of salary payments but also access to and usage of digital finance systems. The project will also contribute to systematic data collection for key indicators, including with regards to agent networks. Standard data collection efforts will be complemented by:

    a.   A beneficiary feedback mechanism which will be integrated into the project and monitored throughout implementation. Citizen Engagement (CE) indicators have been included in the results framework. The source for the data will be the standard project reporting (including GRM reports) and surveys.

    b.   Surveys of a sample project beneficiaries to collect feedback along several dimensions. Surveys will be administered in the first year of implementation, at midterm and at end-project. Gender-disaggregated data will be collected. These could form the basis of any potential evaluation to contribute to knowledge creation around the important topics of identification, digitization, financial inclusion, and even possibly service delivery.

    c.   Routine collection of feedback from project beneficiaries will be included as part of the third-party monitoring (TPM) applicable to ARTF-funded projects, which will produce at least quarterly reports on the registration and salary payment process in the field. The project's M&E focal points will follow-up on such TPM reports, and report on the implementation of recommendations.

C. Sustainability

40. **PAISA is embedded into a comprehensive transformational policy agenda aiming at fostering national budget transparency, reforming governance of civil service and modernizing national payments architecture.** The comprehensive program hinges on policy-based financing and is linked to the areas of reforms covered under the IMF's Extended Credit Facility (ECF) to Afghanistan and the 2018 IP DPG. The high-level commitment and broad-based support for civil service and payments reforms ensure that these policy issues to which PAISA contributes (in particular the electronic payments for civil servants), are well coordinated and owned by relevant ministries. This will continue during project implementation.

41. **PAISA is anchored in key institutions that are responsible for implementing this reform agenda**. The issuance of the above-mentioned Presidential decree helps formalize the agreement between MoF, DAB, NSIA, CSC and Asan Khedmat, with regards to the role of each institution. The clear delimitation, yet complementarity between the TAGHIR and PAISA project is useful toward the sustainability of outcomes that will be achieved under these projects. PAISA will establish a sustainable framework to facilitate civil servants' salary payments across NSIA, MoF and DAB, leveraging technology and building virtual bridges across core functions of these institutions.

42. **PAISA's approach towards the development of digital payments leverages the private sector to promote a long-term approach.** The design favors the introduction of incentives to attract private sector investments and involvement in the delivery of payment services, especially in underserved locations, in the short and longer-term. The incentives are designed with a clear intent of withdrawal. The premise for the design is that the business case for network development is currently weak for private sector involvement and requires incentivization. However, with the voluntary enrollment of a large segment of the target population and the potential adoption of digital payments by their families, in the steady state scenario, the viability of business operations will be enhanced. It is expected that close to US$1 billion of salary and pension payments would move to electronic payments.

Experiences from other countries suggest that revenues generated from government fees relating to distribution of transfer payments, customer fees from remittances, and savings in operating costs from traditional business models (for financial institutions) would support financial sustainability. International experience on phasing out incentives is still developing and the full sustainability of agent networks for the distribution of G2P payments will be a function of the number of users (mass) and the volume of transactions.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

43. **PAISA's design has benefited from lessons learned from predecessor projects, as well as extensive consultation workshops with all relevant stakeholders**. The rationale for the proposed technical design is strong and was endorsed by the various stakeholders. Key elements have been included in the design to facilitate the transition between the MSP pilots and the large-scale digital G2P payments rollouts. These include: (i) implementation arrangements, with the decision of MoF to create a dedicated unit; (ii) strong coordination between MoF, DAB, LMAs, NSIA, CSC, and AK, as the most salient stakeholders.

44. **There is a clear rationale for public provision given the scope and objectives of PAISA, and the trickle-down benefits for G2P payment beneficiaries.** The digitization of government payments, is expected to result in improved delivery and efficiency for the government, stemming from improved control over payroll, reduced errors in the manual processing of salaries, increased transparency as well as lower transaction costs. PAISA thus also contributes to anti-corruption and transparency efforts, through the unique identification of G2P beneficiaries, automation and reduced occurrence of cash transactions. Moreover, digitized G2P payments, if done well, also benefit payment recipients through (i) reduced travel time and costs, and (ii) empowerment in how G2P beneficiaries use or save their funds. The digitization of G2P payments can help improve resilience to shocks for the most vulnerable segments of the population, and delivery of relief efforts by government and donors. This is especially important in Afghanistan, given its proneness to natural and climate-related disasters.

45. **There is growing evidence in the literature on the impact of government's transition to digital payments.**

   a. **The shift from cash to electronic payments yields substantial direct and indirect savings for G2P payees**. The World Bank's "Cost of Retail Payments" methodology refers to significant costs of manual processing and cash payouts, such as the cost of labor involved in the preparation and processing of payroll files, cash-in-transit costs or amounts lost to clerical errors. Taking fraud and indirect costs into account, an independent evaluation by Better than Cash Alliance found savings in excess of US$10m (over 10%) that were achieved thanks to the automation and electronic delivery of payments to health workers during the Ebola emergency in Sierra Leone. The same rate of savings (10%) were quoted by a 2009 study undertaken by the Consultative Group to Assist the Poor (CGAP). The study caveats that programs should have enough recipients and large enough payments to attract interest and permit efficiency.

   b. **Digital payments are a gateway for financial inclusion**. According to CGAP, the introduction of innovative digital financial services (through mobile phones) in over 80 countries have led to significant advances in accessibility and affordability. This, in turn, helped moved millions of poor customers from exclusively cash-based transactions to formal financial services (payments and transfers, as well as credit, savings, insurance), through secured digital platforms. Inclusion of a large number of Afghans into the formal financial system will reduce costs associated with informality, such as excess fees, impossibility to obtain

reliable credit scores, high costs of remittances and the economic cost of associated illicit fund flows. Research in Kenya also suggests that digital payment services dramatically lowered transaction costs in informal markets and improved households' resilience.

c. **There are several positive externalities**. Digital financial inclusion supports efficiency gains from moving to a cashless economy. It can reduce the risk of loss, theft, and other financial crimes posed by cash-based transactions, as well as the costs associated with transacting in cash (CGAP, 2015). By reducing the incidence of cash transactions (in large amounts on payday), PAISA will reduce the substantial direct and indirect costs to the economy associated with handling cash. Digital financial services support economic growth by enabling asset accumulation and, for women in particular, increasing economic participation (World Bank et al., 2014).

46. **The expected costs and benefits from PAISA are summarized below.**

Stakeholders	Benefits	Costs

Government	**1. Efficiency** of government payments: incidences of fraud, and transaction costs are reduced to a minimal level.
	    • Collection of biometric data as proof of life and for deduplication purposes.
	    • Reduced manual inputs for increased integrity of payroll
	    • Shorter payroll processing lead times
	2. Data Security and Protection
	3. Improved financial literacy, with the macro-economic benefits associated with improved domestic resource mobilization.
		1. **Biometric data collection**
		    • Hardware & software
		    • Outsourcing efforts
		    • Awareness campaigns
		2. Integrating systems
		    • **IT** infrastructure and systems development
		    • **TA** to stakeholders
		3. Incentives for agent network development

G2P recipient	**4. Savings** from travel cost and time to receive payments, carry out other transactions (bills, transfers, purchases). **5. Instant information** when salary is available **6. Improved access to financial services – including savings**	4. **Relative cash-out and payments costs** (relative to status quo) besides those covered by the project
Population at large	**7. Access to digital payments** (for agriculture payments, private sector salaries, etc.) **8. Improved access to finance** (thanks to greater outreach)	
MNOs	**9. New revenue streams**: previously relied on fees for transfer services; now finding uses beyond P2P is key to increasing the average revenue per user 10. **Customer retention/attraction** 11. **Regular** cash inflows **12. Increased Awareness** of G2P recipients raised – reduced marketing costs **13. Government performance-based incentives** for some of the costs described on the right.	**5. Developing agent network** **6. Liquidity** management to their agents **7. Branding/Marketing** to face competition with interoperability, including investments to improve network and promotional activities to gain new customers (e.g. free airtime) **8. Joining & cost associated with APS network**
Money Service Providers/ Certified merchants	**14. Transaction revenues** **15. Increased footprint** for their normal business, and possible increased sales from local population who would otherwise go to the city **16. Government performance-based incentives** for some of the costs described on the right.	**9. Joining & cost associated with APS network** 10. **Liquidity management** 11. **Taxation of transaction revenues**
Banks	**17. Increased financial literacy** **18. On payday, fewer people in branches**- with long lines,	12. **Joining & cost associated with APS network**

	thus improved customer service and security **19. Alternative financial services delivery channels – improved access in rural areas** **20.** Opportunity for **additional business -** liquidity management: providing cash to agents; transaction revenues (cashing out at ATMs) **21.** Lower transaction costs for debt and savings collection **22. Government performance-based incentives** for some of the costs described on the right.	**13. Loss of revenues (state banks mostly)**
Other	**23. E-commerce opportunities**	

47. **Based on preliminary data obtained from a sample of key stakeholders, a basic economic model was derived to estimate the economic rate of return for PAISA.** Key assumptions were derived based on available data and experience of relevant engagements (including MSP pilots). An important caveat is that there are challenges in accurately quantifying the economic impacts summarized above (especially financial inclusion) given data limitations, uncertainties regarding the scale and nature of impacts, and the complex channels through which project benefits will be realized.

- The Cost per beneficiary is lowest for bank account disbursement (AFN 35) and highest for direct cash disbursements "bonded trustees" (well above AFN 150). The cost per beneficiary for MNOs is about AFN 100. Savings from cash to electronic payments is thus AFN 115 per beneficiary.
- The potential savings for the government stemming from the removal of ghost workers from the payroll, reduced leakage in salary disbursements, and lower administrative costs is estimated at 8 percent of total payroll. This is quite conservative, given international experience of reduced leakages amounting to 10 percent alone. The experience with the PASN confirms this assumption.
- Starting from the fourth year of the project, it is expected that payment service providers would be able to derive additional revenues from other payment services now available (e.g. domestic remittances, utility bill payment). In our very conservative scenario, we estimate that only 5 percent of the target beneficiaries will use this service every month (up to 10 percent by end of the project).

48. **Over a 10-year horizon, we estimate the economic rate of return for the project to be 24 percent in the base scenario**, and 1 percent in a pessimistic scenario. In the pessimistic scenario, we account for only seven percent savings for the government and only two percent uptake in digital payments among target beneficiaries.

B. Fiduciary

(i)   Financial Management: Financial Management arrangements rely on country systems. Government budgeting processes will apply, and the project's budget will be part of the Government's annual budget. The accounting records will be maintained at the central level by the MoF in AFMIS based on M16s, and the DAB and the DGT of MoF will maintain detailed subsidiary records. The detailed FM Manual recently developed by the MoF with the help of World Bank for all IDA and ARTF projects will provide a comprehensive internal control framework. The internal audit of the project will be conducted by the Internal Audit Departments of MoF and DAB respectively and reports will be submitted to the World Bank within two months of the close of the semester. The project's financial statements will be prepared in accordance with cash-based International Public-Sector Accounting Standards and audited by the Supreme Audit Office, in accordance with the International Organization of Supreme Audit Institutions auditing standards. The audited financial statements will be submitted to the World Bank within six months of the close of the financial year. The existing FM team in DAB working under the FSRRP will have the

responsibility to manage the project's FM matters for components 2b and 3. One additional Senior Financial Management Specialist will be hired by the FSRRP to support the FM team. Similarly, the overall responsibility to manage the project's FM matters for components 1, 2a and 4 will rest with the FM team working under the Modernizing afghan State-Owned Banks (MASOB, P161348) project in MoF. Another Senior Financial Management Specialist will be hired and will be mainly responsible for all the FM aspects at MoF.

The project funds will flow through two separate pooled designated accounts (one each for MoF and DAB) in United States Dollar for both IDA and ARTF to be set up in Da Afghanistan Bank and controlled by MoF. Financing percentage for the project will be on pro rata basis, i.e. 22 percent by IDA and 78 percent by ARTF; disbursements from the grants will be made through advances, reimbursements and special commitments. Payments from the DAs will be made by check or bank transfer. Requests for payments from the DAs will be made by MoF and DAB to the Special Disbursement Unit in the MoF's DGT. Disbursements will be report based and the project will mainly use the advance method of disbursement where the funds will be front-loaded into the DAs based on 6 months cash forecast. The detailed FM arrangements and flow of funds are described in Annex 1.

(ii)   **Procurement:** Procurement for the proposed project will be carried out in accordance with the Bank's Procurement Regulations for Borrowers for Goods, Works, Non-Consulting and Consulting Services dated July 1, 2016 (revised November 2017 and August 2018) hereinafter referred to as "Procurement Regulations". The project will be subject to the Bank's Anticorruption Guidelines, dated October 15, 2006, and revised in January 2011 and July 1, 2016. A Project Procurement Strategy Document (PPSD) has been prepared. Since the Project envisage various Information Technology interventions, the Project will ensure that technical details are based on adequate assessment of existing hardware and software. There could be information sessions to better structure the procurement efforts during preparation. Based on PPSD, a procurement plan has been prepared which would set out the selection methods to be followed in implementation of procurement of goods, non-consulting and consulting services financed by the Bank. The Procurement Plan represents the time slice of first eighteen months of project implementation. It will be updated at least annually or as required; to reflect the actual project implementation needs and improvements in institutional capacity, through Systematic Tracking of Exchanges in Procurement (STEP) [World Bank's planning and tracking system].

As a marked departure from the usual PIU arrangements, the project would be integrated in existing structure of implementing entities, based on implementation experience the key implementing agencies MoF and DAB are adequately geared for undertaking procurements. There would however be need for an enhanced coordination between fiduciary and technology teams. As implementation is spread out over several entities a Project Operations Manual would be required to establish seamless workflows.

C. Safeguards

(i)   **Environmental Safeguards:** No environmental safeguards are triggered. The project does not include any physical works and will therefore not have any environmental impacts.

(ii) **Social Safeguards:** Project implementation will be accompanied by the implementation of communications and outreach campaigns to increase awareness and buy-in for the new identification and payment process, as well as to increase financial literacy. Surveys will be conducted at project effectiveness, at midterm and at project closing. In addition, MoF will establish a project-wide, effective GRMs to address grievances related to project activities. CE indicators have been included in the results framework.

(iii) **Other Safeguards:** None of the World Bank's safeguard policies are triggered. The project therefore has a safeguards risk rating of "Category C".

(iv) **Gender:** The total number of direct female beneficiaries is capped at the total number of female civil servants and pensioners. The project supports the development of a platform that can promote increased access to digital payments for both men and women. There is a significant gender gap in access to and usage of digital financial services in Afghanistan. While only 15 percent of the population owns a transaction account that allows for payments and storing value, the percentage is even lower at 7.2 percent for women. With regards to usage, only 2.6 percent of women received a digital payment in the past year, compared to 9 percent for the overall population. This gender gap can be attributed to many factors including: (i) distance to financial institutions, cost and lack of documentation such as ID, and (ii) lack of trust in and awareness about financial institutions. Given the existing gaps, the project through its various component, will thrive to promote access to and use of digital financial services for female civil servants and pensioners. This includes ensuring that biometric registration is gender-sensitive (female enrollment agents as feasible) and that payment points are able to serve women throughout the country. More specifically, in rural areas which are more conservative, the project will support the development of a network of female agents who would be able to exclusively serve female mobile money clients, if necessary. This would ensure that women do not remain financially excluded. Access to digital financial services for women will contribute to bridging the financial inclusion gap.

(v) **Climate Co-benefits.** PAISA's climate co-benefits are expected to be derived at three main levels: (i) reduced carbon emissions from lower levels of use of cash as with the uptake of digital payments, some routine transactions can be made digitally (printing and transportation costs); (ii) increased resilience by reducing over-reliance on cash in times of natural disasters. Digital payments are an alternative to the sole use of cash to provide relief to affected communities; and (iii) new opportunity for business models that are climate-friendly and green. The shift to digital payments significantly contributes to reduced needs to issue, circulate and dispose of cash, with its adverse impact on the environment including through lower carbon emissions. The reduced travel time for customers to access their accounts greatly contributes to climate benefits. Ultimately, improved access to financial services is also a mechanism to increase the accessibility, affordability of cleaner technology – thereby reducing adverse impact on climate change (e.g. pay-as you-go models for solar energy). Finally, increasing capacity for digital payments – including through the development of access points in currently underserved areas – will increase financial resilience to climate change and other extreme events. Amounts that will contribute towards climate benefits as described in the PAD relate to components 1 (disaster recovery site); 2 (development of BCPs); and 3 (development of access points). The total cost for these activities is US$20 million, of which IDA contribution is US$4 million.

(vi) **Grievance Redress Mechanisms:** Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit

http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service.   For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

V. KEY RISKS

49. **The overall risk rating for PAISA is high,** reflecting the pronounced (a) political and governance risks, (b) stakeholder risks, (c) sector policies and technical design risks, (d) institutional capacity for implementation and sustainability risks. Risks related to Fiduciary and Scarcity of IT talent (other) are rated substantial.

50. **Political and governance, macroeconomic and stakeholder risks are high** because of the country's fragile and deteriorating security environment, limited government capacity, overall fiscal uncertainties and high dependence on foreign aid. The high political and governance risks come from the possibility of a reversal of policy commitment and failure to go through with the necessary reforms that will affect the implementation of PAISA (such as national identification[14]). Previous experience also suggests that elections and political instability can have major negative impact on growth, investments, and fiscal outlook. These risks also feed into the security situation, which will have direct consequences on the ability to register and verify government payment beneficiaries, and to develop a countrywide agent network in support of a more efficient G2P payment process. In addition, the multiplicity of actors involved in mobile salary payments increases risks of achieving the PDO. Key mitigation measures are: (i) GoIRA's commitment to better coordinate reforms and initiatives related to the MSP agenda, through the issuance of Presidential Decree to establish a multi-agency coordination committee; (ii) broad-based and multi-stakeholder consensus on the approach for this operation; and (iii) close consultation during project preparation with MoF, DAB, NSIA, CSC and AK who have been designated as the Core Reform Implementation Team. Throughout implementation, coordination efforts will continue to solidify broad-based advocacy and support for the reforms. With regards to stakeholders, another important risk stems from possible issues with adoption of the new system and process (i.e. lack of uptake by civil servants due to lack of literacy or trust; or resistance to re-enroll given pre-existing but incompatible biometric registration initiatives, association with e-Tazkera). This risk will be mitigated through the roll-out of a communications and outreach campaign, in collaboration with all relevant stakeholders, to increase awareness, understanding and ultimately buy-in for the new registration and payment process.

51. **The risks associated with sectoral strategies and policies, and technical design are rated high**, and arise from the number of stakeholders (different government entities), the technicality and sequencing of the proposed approach, as well as reliance on reforms undertaken in other related areas (PFM, HRM). First, the project design is informed by and will support the implementation of the government's reform agenda on payment of civil servant salaries. The most important risk relates to delays in the development and operationalization of the HRMIS. For MoF, prerequisites for the digitization of salary payments are the confirmation of beneficiaries, and enhancements to the payment process and systems. Overall, there is a risk that implementation progress would be affected and slowed down by deficiencies in the regulatory environment affecting the overall project. Specifically, with regards to the biometric identification database, it is necessary for NSIA to develop the necessary legal and regulatory framework to address key gaps, including in terms of data protection. This risk will be mitigated by close coordination with other World Bank engagements and the leveraging of reforms initiated in other relevant

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[14] A key mitigation measure is the reliance on international standards for biometric data collection and storage, to ensure compatibility of biometric systems and ultimately ability to transfer data collected into a national identification system in the future.

engagements (TAGHIR, IP DPG, FSRRP, etc.). With regards to the infrastructure to deliver government payments, PAISA relies on the presence of a network of payment service providers. There remains a possibility that despite incentive programs designed and supported by the project, some areas would remain uncovered by an adequate network of cashless payment and cash-out points. The uptake of the proposed incentives, as well as the usage of digital payments are key for achieving the project's objectives. This risk will be mitigated by extensive consultations with industry to ensure key concerns are addressed. A related risk is the lack of uptake from the population, especially after incentives are withdrawn. This risk will be mitigated by communication activities, duration of proposed incentives, as well as development of an attractive value proposition (for further use of digital payments). Finally, limited mobile phone network coverage, challenges in electricity provision, as well as vulnerability of both to terrorism and conflict could affect the processing of digital salary payments and recipient's ability to access funds from their accounts. These experiences could dramatically reduce recipients' trust in the financial system and undermine any activities aimed at promoting cashless payments in Afghanistan. The risk will be mitigated by design of resilient business continuity plans, with larger than usual degrees of redundancy.

52. **The high risk for institutional capacity for implementation** comes from the heterogenous capacity of entities involved for salary payments, as well as the infrastructure requirements for project implementation. The large number of civil servants expected to be covered by the proposed project represent a diverse collection of agencies and departments, and some of them may be reluctant to collaborate with the implementing agencies for biometric data collection, data migration, or the adoption of the new payroll process. In addition to the sequencing and phasing of project implementation based on readiness, the project builds the capacity of institutions that will be responsible for the implementation of components (technical expertise will be hired to supplement existing human resources). Moreover, the implementation of the project will be sequenced in a way that minimizes concentration of high-risk implementation at the same time. The coordination needs are addressed by the appointment of the Core Reform Implementation Team. DAB and MoF have strong expertise in implementing World Bank projects.

53. **The substantial fiduciary and sustainability risks** arise from the lack of sufficiently qualified personnel at MoF to implement the core technical project activities. MoF has a strong record of implementing several ARTF and IDA projects and proposals, and as a result has decided not to set up a PIU, but rather to appoint current MoF staff to support project implementation in their respective capacities. Additional staff will be recruited by MoF (based on National Technical Assistance [NTA] scale) as well as qualified consultants to supplement the core MoF team in DGT to support the expected large volume of transactions. With regards to fiduciary requirements, the hiring and training of required staff to undertake fiduciary functions at MoF, and the centralization of procurement at MoF will help mitigate fiduciary risks.

54. **Scarcity of IT talent, especially with deep knowledge of cybersecurity, presents substantial risk ("Other risk").** The project will attempt to mitigate it through the utilization of off-the-shelf IT product and exploring the possibility of outsourced service delivery, as well as by leveraging its investments to build internal capacity of government agencies and incentivize hiring of skilled graduates. Technical assistance and institutional strengthening (including hiring of short-term expertise) will support beneficiary entities for the implementation of IT-intensive activities. The project activities also include dedicated TA to support NSIA and DAB on data security and privacy issues.

VI. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Afghanistan
Payments Automation and Integration of Salaries in Afghanistan (PAISA)

Project Development Objectives(s)

The PDO is to support the development of digital government-to-person payments in Afghanistan.

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
Unique identification of civil servants and pensioners for G2P payment purpose				
Percentage of civil servants and pensioners biometrically-registered and issued a unique identifier for payment purposes (Percentage)		0.00	50.00	95.00
Percentage of female civil servants and pensioners biometrically registered (Percentage)		0.00	50.00	95.00
Increased efficiency in government payments				
Percentage of civil servants and pensioners who received government payments through electronic channels (Percentage)		60.00	70.00	80.00
Percentage of female civil servants and pensioners who receive government payments through electronic channels (Percentage)		0.00	70.00	80.00
Increased capacity for digital payments				

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
Number of financial access points (Number)		2,890.00	3,000.00	3,500.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
1. Biometric identification system for civil servants and pensioners				
Unified biometric identification system for civil servants and pensions is developed and rolled-out (Text)		No	Yes	Yes
Legal and regulatory framework established, including for data protection (Text)		Inadequate	Legal and regulatory assessment completed	A comprehensive legal framework has been enacted
2. Integration of the Identification, Verification and Payment Systems				
Percentage of LMAs that are able to process payments electronically (Percentage)		0.00	50.00	70.00
Integration of AFMIS and HRMIS (Text)		no		yes
3. Expansion of financial services and access points				
Percentage of civil servants that are active users of digital payments (Percentage)		0.00	2.50	5.00
Percentage of female civil servants that use digital payments (Percentage)		0.00	2.50	5.00
Number of agents of licensed financial institutions (Number)		1,879.00	2,000.00	2,500.00
Number of female agents (Number)		180.00	200.00	250.00
4. Project Management				
Percentage of civil servants and beneficiaries that		0.00	75.00	75.00

Indicator Name	DLI	Baseline	Intermediate Targets	End Target
			1	
are satisfied with the level of service (Percentage)				
Women only - Satisfaction with level of service (Percentage)		0.00	75.00	75.00
Grievances addressed within stipulated time (Percentage)		0.00	80.00	80.00
Women only - Grievances addressed within stipulated time (Percentage)		0.00	80.00	80.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Percentage of civil servants and pensioners biometrically-registered and issued a unique identifier for payment purposes	This is the percentage of civil servants and pensioners who are biometrically-registered and received a unique identification number issued through NSIA and to be used for payment purposes	Quarterly	MoF and NSIA	The percentage of civil servants registered in the NSIA's dedicated biometric enrollment database	MoF
Percentage of female civil servants and pensioners biometrically registered	This indicator tracks progress for women only.	Quarterly	MoF and NSIA	The number of civil servants registered in the NSIA's biometric enrollment database	MoF

Percentage of civil servants and pensioners who received government payments through electronic channels	This is indicator will calculate the percentage of civil servants and pensioners receiving payments through electronic means including banks accounts as well as mobile wallets. This indicator will be disaggregated by gender.	Quarterly	MoF	MoF will provide this data based on the payroll database.	MoF
Percentage of female civil servants and pensioners who receive government payments through electronic channels	The current system makes it very difficult for MoF to get this disaggregated data. Baseline cannot thus be established. Nevertheless the end-project objective is to ensure that female civil servants and pensioners are not left behind when it comes to transition to electronic payments. 80 percent of women are expected to be paid through electronic channels by end-project (same distribution as overall beneficiaries). With systems upgrade and payment reforms, this indicator -tracking for omen only - will be updated during project implementation, at least annually.	Annual	MoF	MoF will provide this data based on the payroll database.	MoF

| Number of financial access points | The term " financial access points" is meant as the sum of: (1) the number of branches of commercial banks and licensed Electronic Money Institutions; (2) the number of active agents of licensed financial institutions; (3) the number of in-service ATMs of commercial banks; and (4) the number of POS terminals accepting electronic payments.

Once MFIs connect to APS, their branches will be included. | Quarterly | DAB | Number of registered payment agents with DAB | DAB |

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Unified biometric identification system for civil servants and pensions is developed and rolled-out	This indicator is meant to follow up on the progress towards setting up a national unified platform for biometric identification	Quarterly	MOF and NSIA	NSIA will report on this indicator	NSIA
Legal and regulatory framework established, including for data protection	A comprehensive legal framework should be developed that sets out the	Semi-annual	NSIA	Applicable legal and regulatory framework.	NSIA

	purposes of the ID system, defines the role, duties, governance and independence of the NSIA, sets out the scope of personal data to be collected, establishes appropriate data protection and privacy rights (assuming no general data protection and privacy framework is enacted), creates a mandate for technology and vendor neutrality, and is harmonized with existing legal instruments.				
Percentage of LMAs that are able to process payments electronically	This indicator will report on the progress towards the integration of the HRMIS, AFMIS and APS systems	Quarterly	MoF	MoF	MoF
Integration of AFMIS and HRMIS					
Percentage of civil servants that are active users of digital payments	This indicator measures the percentage of civil servants that have used digital payments at least once over a 12-month period. Digital payments will include but not be limited to: transactions via card, mobile and other digital platforms. Through a series of surveys,	Surveys : Mid-Term Review and Final Project Evaluation	Beneficiary Surveys	Surveys based on representative samples conducted	MoF

	this indicator will monitor usage of digital payments. This indicator tracks the adoption of digital payments, and monitors digital transactions.				
Percentage of female civil servants that use digital payments	This sub-indicator tracks outcome for women only.	Surveys : MTR and end-project	Beneficiary surveys	Surveys based on representative sample	MoF
Number of agents of licensed financial institutions	The number of active agents of licensed financial institutions offering, at the minimum, cash-in and cash-out services	Quarterly	DAB	List of agents	DAB
Number of female agents	Of which, owned or operated by women. 10 percent target of the total number of agents	Quarterly	DAB	list of agents	DAB
Percentage of civil servants and beneficiaries that are satisfied with the level of service	Percentage of civil servants and beneficiaries that are satisfied with the level of service	Surveys will be administered in the first year of implementation, at midterm and at end-project.	MoF and TPM	Surveys of with the primary beneficiaries (civil servants receiving payments through electronic means) to collect feedback along several dimensions.	MoF

Women only - Satisfaction with level of service		Beneficiary survey	MoF and TPM	Sample - beneficiary survey	MoF
Grievances addressed within stipulated time	This indicator measures effectiveness of citizen feedback mechanisms established under the Project. It measures the percentage of cases (including complaints and inquiries) that are addressed as per the standards agreed upon in the GRM procedures.	Quarterly	Reports from GRM database	GRM reports.	MoF
Women only - Grievances addressed within stipulated time	This indicator measures effectiveness of citizen feedback mechanisms established under the Project. It measures the percentage of cases (including complaints and inquiries) that are addressed as per the standards agreed upon in the GRM procedures.	Quarterly	GRM reports	GRM reports	MoF

ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Afghanistan
Payments Automation and Integration of Salaries in Afghanistan (PAISA)

A- Implementation arrangements

Steering committee

1.   The coordination across government agencies on high level policy issues relating to the project will be carried out under the "Joint Coordination Committee" that was established as per the Presidential Decree No (264), dated 22-Apr-2018. This committee will serve as PAISA's Steering Committee (SC). It was established in fulfillment of the GoIRA's commitment under the E-Payment and Mobile Money pillar under the Incentive Program Development Policy Grant (P164882). The committee includes all relevant key stakeholders that are involved in the E-payment space at the Deputy Minister level[15] and will be chaired by the MoF. For PAISA's purpose, membership to the Committee will be extended to the NSIA, given its primary role for biometric data collection and management and the CSC, given its role for the HRMIS. The SC will be responsible for ensuring the integration of all efforts to build the ecosystem for digital payments and E-money through including key policy and operational Government institutions, particularly MoF, DAB, NSIA, CSC and AK. The SC will provide high-level strategic guidance for the project and oversee the Core Reform Implementation Team (CRIT). The SC will serve as a mechanism to keep all stakeholders informed about implementation progress and challenges related to civil service reform.

Core Reform Implementation Team

2.   The Presidential decree Biometric Data Collection and Electronic Payments to Civil Servants, dated March 11, 2019, formally establishes a five-member CRIT that will narrowly be responsible for coordinating and drafting the implementation plan for the government-wide salary payment reform. the CRIT shall be established under the oversight of the SC and chaired by the MoF. The Team shall be comprised of DG-level representatives from MoF, DAB, NSIA, CSC and AK, including Project Directors. The CRIT will be responsible for drafting the operational implementation plans that directly relate to PAISA: the biometric enrollment plan, the cash-out deployment plan, the transition-to-electronic payment plan. These plans will be prepared with defined responsibilities in the process and timelines at the national level, in coordination and consultation with line ministries and government agencies. The CRIT will present all operational implementation plans and report progress to the SC. The CRIT will oversee their implementation by the PAISA Project Implementation Team.

PAISA Project Implementation Team

3. The project will be implemented through MoF (components 1, 2a and 4) and DAB (components 2b and 3) without the use of a PIU. MoF and DAB are the two project implementing agencies. A Project Director will be assigned to PAISA within Directorate General of Treasury - DGT -as the anchor for the salary payment process in Afghanistan. Similarly, at DAB, the FSRRP Project Director will be assigned to PAISA. Both Project Directors will be members of the above-mentioned Core Reform Implementation Team.

4.   Within MoF, the DGT has been the key driver for efforts on reforming digital payments of civil servants for the

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[15] The Committee is composed of the deputies of – Ministry of Defense, Ministry of Interior, MoCIT, Ministry of Higher Education and MoE, DAB, National Directorate of Security, Attorney General Office, Supreme Audit Office, Independent Directorate of Local Governance, and CSC.

past four years and has gained extensive experience in implementing projects for the digitization of the national financial management system. VPP unit within DGT is currently responsible for the overall payroll processing and will anchor the PAISA Project Management. VPP Staff will be tasked to follow on the day to day implementation of the project activities and coordinate efforts. The VPP team will be strengthened with the recruitment of technical staff (digital payment specialists) to ensure smooth implementation. For components 2b and 3, DAB will leverage the internal capacity that was developed as part of the efforts to build and modernize the national payments system under the FSRRP project. The FSRRP project team within DAB will coordinate efforts towards smooth implementation of the components under the project.

5.   Focal points designated by MoF and DAB for the implementation of the PAISA project – in addition to a limited number of supplementary technical experts and contractual staff will constitute the PAISA Project Implementation Team. This team will be responsible for preparing and applying a project operations manual that will delineate a project implementation plan, coordination modalities, financial management/ transfer of funds among main and supporting implementing entities, procurement, and M&E. MoF and DAB will have joint responsibility for developing the Project Operations Manual. Besides the two key implementing agencies, other institutions will be implementing partners or project beneficiaries, and would work with MoF and DAB (depending on project component) for the implementation of their relevant activity. These include:

- NSIA to lead on the reform of biometric data collection of civil servants and oversee biometric data collection, management and access for verification purposes.
- Asan Khedmat to develop and deploy a mechanism for coordinating and monitoring implementation of the biometric enrollment plan, and manage the grievance redress mechanism for civil servants.
- The State Ministry of Martyrs & Disabled Affairs to undertake diagnostics for M&D benefits.

Figure A1: Implementation arrangements
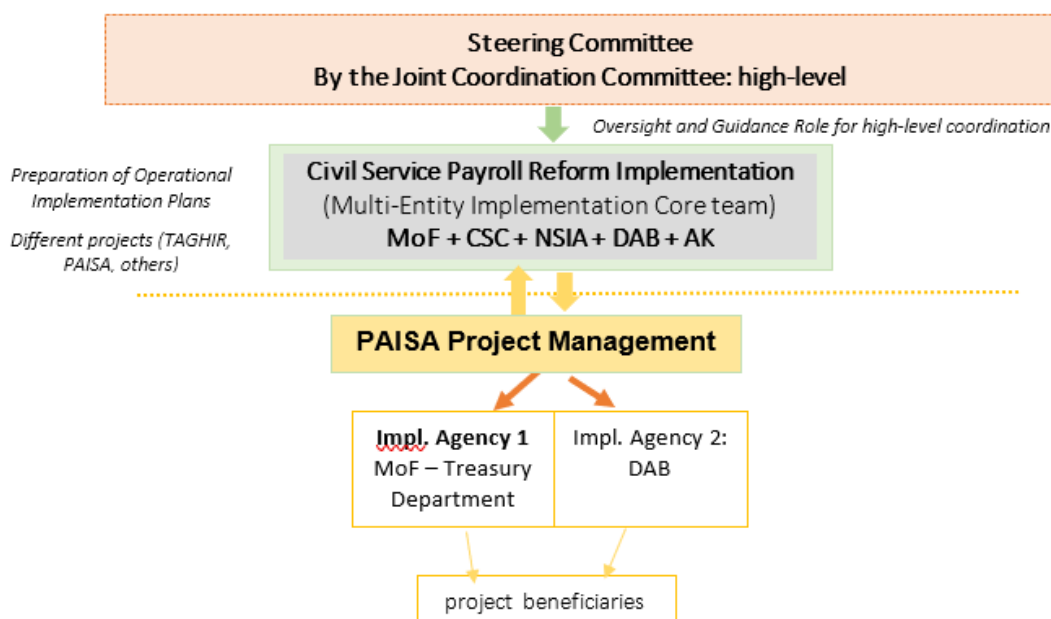
Implementation Support Plan

6.   The World Bank (WB) will support the implementation of the project through all implementing agencies, and

to some extent beneficiaries (such as NSIA and AK) and provide the technical advice necessary to facilitate the achievement of the PDO.

7.   Given the country capacity challenges, intensive support is required, particularly at project startup. The Bank team will support implementation through the following:

(a)   The Task Team Leaders will oversee the work program of, and work closely with MoF, DAB and other project stakeholders.

(b)   Involvement of World Bank colleagues from across Global Practices (GPs) both from the country office and other Bank offices to leverage comparative skills and provide regular support to the project on technical matters.

(c)   Supervision missions bimonthly, and formal implementation support missions twice in a year throughout the project implementation period.

(d)   The implementation support team will be comprised of the Task Team Leaders; and Task Team Members comprising specialists for: Identification, payment infrastructure, procurement, financial management, safeguards. For this project, extended cross-GP support will be particularly important, including governance and financial management colleagues (for liaison with TAGHIR to monitor HRMIS), but also other sector teams could also be leveraged during the phased rollout of the project to their counterparts in the LMAs.

(e)   GoIRA staff implementing the project will be provided with capacity support (as required) on World Bank operational processes and procedures, financial management, disbursement, and procurement guidelines, monitoring and evaluation (M&E), strategic communications, grievance redress, and project management.

B- Financial Management

8.   Afghanistan is a unitary government and has a centralized public financial management architecture. The Public Finance and Expenditure Management Law 2005 (PFEML) sets out the responsibilities, authorities, and obligations related to the management of public finance in the country. The MoF has a dominant role in preparing and managing the annual government budget. It is also responsible for treasury functions, Government financial reporting, and tax policy and administration. At the provincial level, Mustofiats as MoF representatives, perform treasury functions. The central line ministries have the mandate of countrywide public service delivery. Accordingly, they prepare and, after approval of the Parliament, execute their annual budgets. The central line ministries are also responsible for maintaining an internal audit function as required by the PFEML. The Supreme Audit Office Law 2013 requires the Auditor General to conduct the annual audit of the government accounts.

9.   The Public Expenditure and Financial Accountability (PEFA) assessment (July 2018) noted that the government maintained aggregate fiscal discipline by controlling expenditure within available resources, but the budget credibility remains poor and the overall control environment is weak. MoF uses the AFMIS to manage budget execution that includes budget control over spending. The expenditure authorities are centralized, which creates spending rigidities and hampers innovations in service delivery. The service delivery units have virtually no role in budget planning and execution. Over the last three fiscal years, approximately half of the development budget remained unspent. Although the prescribed internal control framework is reasonably detailed, compliance is varied. The control systems for payroll are insufficient and represent a major weakness for a significant proportion of expenditure. The asset and liability management and monitoring of fiscal risks displayed considerable gaps.

Project FM Arrangements

10. Overall financial management responsibility for the project will rest with the MoF and DAB. Both the implementing agencies have active projects with the World Bank (MASOB and FSRRP), and they have adequate

experience and capacity to implement the activities under the PAISA Project. The financial management arrangements have been re-assessed and found Satisfactory. Based on the current assessment, the overall financial management risk for the PAISA is assessed as "**Substantial**". This rating will be reviewed at every implementation support mission and will be adjusted accordingly.

11. *Personnel***:** The existing FM team in the FSRRP consists of a Senior Finance Manager and a Finance Manager which are both civil servants. Similarly, there is only one Senior Financial Management Specialist in the MASOB project. Considering the current workload, one Sr. FMS is proposed to be hired by both the projects who will mainly be responsible for PAISA FM activities and will also provide support to the FM team.

12. *Budgeting***:** MoF guidelines for budget preparation will be followed. The project budget will be prepared based on the procurement plan and annual work plan. The annual budget will be broken down into quarters to facilitate budget monitoring. Semi-annual IFRs will compare actual expenditures against those budgeted and will explain any significant differences.

13. *Accounting and financial reporting:* Cash basis of accounting will be followed for the project. Excel will be used for project accounting and reporting purposes by both the implementing agencies. The MoF will process payments and maintain records at the central level using the AFMIS in accordance with the Government's Treasury Accounting Manual. The semiannual IFRs will compare actual expenditures to budgeted expenditures and explain significant variances. Both the implementing agencies will submit IFRs to the World Bank within 45 days of the close of each semester. The following books of accounts and records will be maintained by the MoF and DAB:

     (a) Cash/ Bank Book – to record all cash/ bank receipts and payments
     (b) General Ledger – to record all receipts and payments
     (c) Asset Register – to maintain up to date record of assets procured
     (d) Invoice Register – to track payments
     (e) Contract Register – to record all contract payments
     (f) M-16 register - to record all the expenditures/ payments
     (g) Advance register - to record the advances made
     (h) Taminat Register - to record the amounts retained from the payment made to vendors

14. *Internal Controls***:** At MoF and DAB, there is proper segregation of duties and payment requests (M16s) are processed in a timely manner. The MoF with the help of World Bank has developed a comprehensive Financial Management Manual that will be applicable to all IDA and ARTF projects in Afghanistan. The said manual will be used for the all the FM aspects of the PAISA project. The manual includes details on the FM arrangements, internal controls, disbursement procedures, staffing arrangements at various levels, reporting lines, allotment and payment processes, documents retention and control mechanism at various levels, service standards for document processing and documentation requirements for grants.

15. The control mechanisms for the payroll processing and payments of civil recruits were assessed. The VPP unit within DGT is currently responsible for the overall payroll processing and will anchor the PAISA Project Implementation. Currently there are eight sub departments working under the VPP unit which are all civil servants. The VPP team will be strengthened with technical staff (e.g. digital payment specialists) to ensure smooth implementation of the PAISA project.

16. *Internal audit***:** Internal audit for the project will be conducted annually by the Internal Audit Departments of

the MoF and DAB. The annual internal audit reports will be submitted to the World Bank within 2 months of the close of the fiscal year.

17. *External audit*: The SAO, with the support of consultants, carries out the annual audit of all ARTF/World Bank-funded projects. The same audit arrangements will be used. The SAO will submit to the World Bank, annual audited project financial statements and Management Letters within six months of the close of the fiscal year. The financial statements of the project audit will be prepared by the MoF based on AFMIS records. There are common TORs for the audit of all projects that are reviewed by the World Bank annually.

18. There are no overdue audit reports, no overdue IUFRs and no ineligible expenditures under ongoing or closed projects implemented by the MoF and DAB.

19. *Monitoring of fiduciary performance and implementation support plan.* The fiduciary performance will be assessed through the following indicators: (a) timely and quality submission of quarterly IFRs; (b) maintenance of adequate books of records and supporting documents of project transactions; (c) timely submission of audited financial statements; (d) timely resolution of FM issues raised during Bank supervision, internal audit, external audit, and any other reviews; (e) maintenance of adequate internal controls; (f) timely processing of allotments/ payment requests and project expenditures; (g) adherence to service standards, etc . The Bank will carry out two FM reviews annually. The implementation support will include monitoring of fiduciary performance based on identified indicators, review of IFRs and audit reports, review of compliance with legal covenants, review of progress on agreed actions, and review of FM risks.

20. **Retroactive financing:** Following the request from MoF, it was agreed to provide for retroactive financing to facilitate the financing of expenditures up to US$150,000 for payments made against eligible expenditures incurred before project approval. This financing will be on pro rata basis, i.e. 22 percent by IDA and 78 percent by ARTF. Eligibility for retroactive financing is subject to various rules, among others adherence to the provision 5.1 and 5.2 of The World Bank Procurement Regulation for IPF Borrowers.

21. *Funds Flow:* The project funds will flow through two separate pooled designated accounts (one each for MoF and DAB) in United States Dollar for both IDA and ARTF to be set up in Da Afghanistan Bank and controlled by MoF. Financing percentage for the project will be on pro rata basis, i.e. 22 percent by IDA and 78 percent by ARTF; disbursements from the grants will be made through advances, reimbursements and special commitments. Payments from the DAs will be made by check or bank transfer. Requests for payments from the DAs will be made by MoF and DAB to the Special Disbursement Unit in the MoF's DGT.

22. Disbursements will be report based and the project will mainly use the advance method of disbursement where the funds will be front-loaded into the DAs based on 6 months cash forecast. Initial advance into the DAs will be provided by the Bank based on projections for the first 6 months. Subsequent advances will be based on actual expenditure incurred and forecast for the following semester as reported in the semi-annual IUFRs that will be submitted by the MoF and DAB to the Bank within 45 days of the close of each semester. The expenditure incurred during a semester against advance will also be documented in the Bank's system based on IUFRs. Further details regarding disbursements are provided in the Disbursement Letter. The below diagram shows the funds flow arrangements for the project.

FUND FLOW DIAGRAM
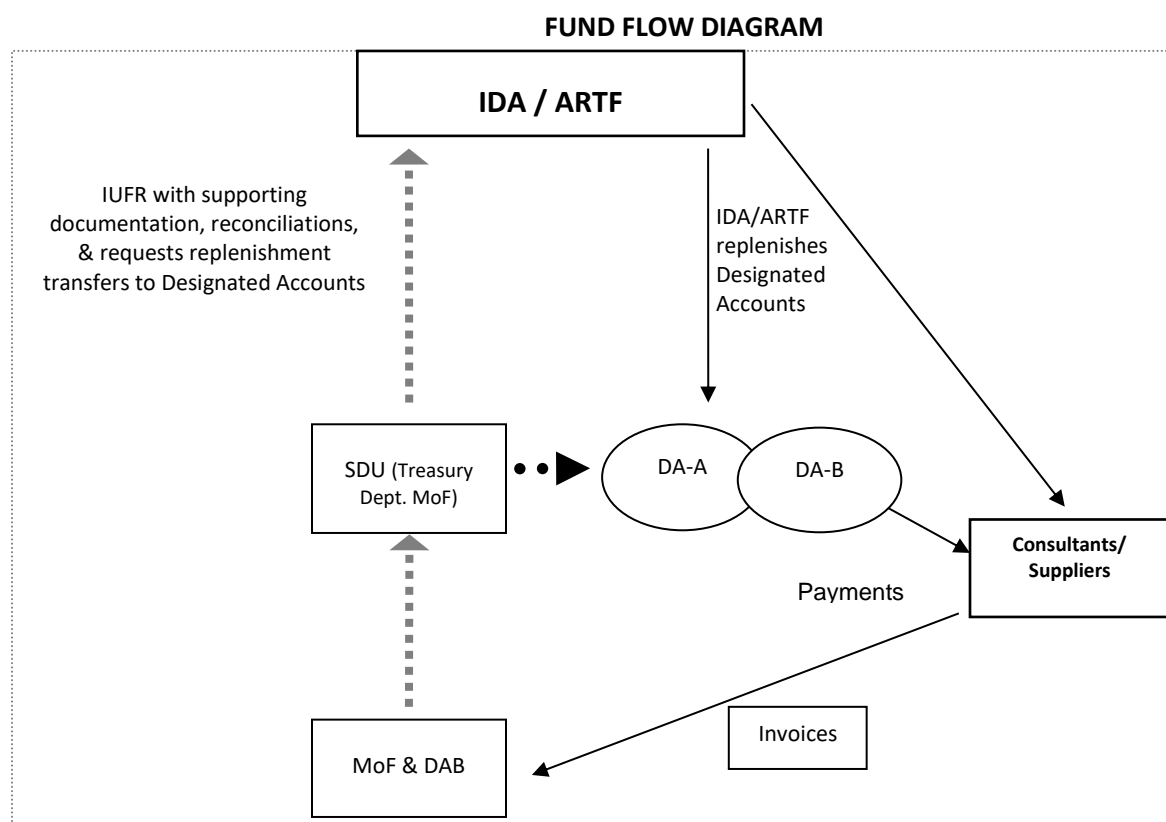
C- Procurement

23. Procurement will be carried out in accordance with the Bank's Procurement Regulations for Borrowers for Goods, Non-Consulting and Consulting Services and applicable to Investment Project Financing (IPF) hereinafter referred to as "Regulations" dated July 1, 2016 Revised November 2017 and August 2018. The project will be subject to the Bank's Anticorruption Guidelines, dated October 15, 2006. The World Bank's Standard Procurement Documents, Requests for Proposals, and Forms of Consultant Contract shall be used for Open International Competition. Goods, and non-consultancy services following Open National Competition shall be procured using agreed bidding documents for Afghanistan. In case of conflict/contradiction between the World Bank's procurement procedures and any national rules and regulations, the World Bank's procurement procedures will take precedence according to the Article 4(2) of the Procurement Law of the Islamic Republic of Afghanistan dated 27/06/1396 (September 17, 2016) published in the Official Gazette No.1223.

24. Procurement will be conducted by the MoF and DAB in accordance with the above Procurement Regulations for Borrowers. Based on the procurement capacity assessment, the procurement risk is rated **Substantial**. As a marked departure from the usual PIU arrangements, the project would be integrated in existing structure of implementing entities, based on implementation experience the key implementing agencies MoF and DAB are adequately geared for undertaking procurements. There would however be need for an enhanced coordination between fiduciary and technical/technology teams. As implementation is spread out over several entities a Project Manual would be required to establish seamless workflows. To mitigate the procurement risk, the World Bank procurement unit will provide training on procurement regulation to procurement staff of both MoF and DAB.

25. Borrower has prepared a Project Procurement Strategy for Development (PPSD) and a procurement plan for the first 18 months of implementation. All procurement using national procedures will be subject to the National Procurement Conditions as detailed in the Procurement Plan and use the agreed Model National Procurement documents for Afghanistan. The Project Operations Manual includes a section on procurement arrangements and details on the roles and responsibilities, service standards, and coordination steps of the different departments for procurement and contract management.

26. If the GoIRA decides to transfer the procurement functions and responsibilities to any other entities including NPA, a new capacity assessment will be required for effecting such changes in procurement management arrangements for the project.

27. **Systematic Tracking of Exchanges in Procurement (STEP) and procurement planning.** The project will implement STEP, a World Bank planning and tracking system, which would provide data on procurement activities, and establish benchmarks. Procurement Plan will be prepared in STEP and the same will be updated in agreement with the project team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

28. **Frequency of Procurement Supervision by the World Bank:** In addition to the prior review, supervision will be carried out by the Bank team. There will be two Implementation Support Missions (ISMs) per year and the Kabul and Dubai based staff will provide ongoing implementation support in between these missions.

29. **Procurement audit and review.** In addition to prior review, WB staff or WB-appointed Consultants will carry out post procurement review once per year and the GoIRA auditing institutions will do the procurement audit.

30. **Governance and Anticorruption.** All the contract opportunities and contract awards will be widely published in the Internet, NPA website, IAs website, and when required in United Nations Development Business (UNDB). Other actions are (a) alerting implementing agencies' officials/staff about any fraud and corruption issues; (b) alerting bidders against adopting fraud and corruption practices; (c) awarding contracts within the initial bid validity period, and closely monitoring the timing; (d) taking action against any corrupt bidder in accordance with the law of the GoIRA and informing the Bank's Integrity Unit (INT); (e) preserving records and all documents regarding public procurement, in accordance with the Procurement Law provisions; (f) publishing contract award information on United Nations Development Business (UNDB) online, NPA's website, and agencies' websites within two weeks of contract award; (g) ensuring timely payments to the suppliers/contractors/consultants and imposing liquidated damages for delayed completion; and (h) enforcing a procurement filing system.

31. **Grievance Redress Mechanisms – Complaints Handling:** With regard to procurement complaints, the implementing agency has already implemented a PPG and have knowledge of the World Bank procurement regulations. The Implementing agencies will inform the World Bank as soon as the procurement complaint is received and the outcome subsequently. MoF will prepare a comprehensive complaint handling mechanism that will be published in NPA and MoF websites. This mechanism should have a system to register and monitor the receipt and resolution of complaints, such as through the proposed hotlines. The progress of such action will be reviewed during supervision missions.

32. The implementing agencies will ensure that all invitations for bids, Expressions of Interest are given wide publicity using its own website, the NPA website, UNDB, and national newspapers. It will be mandatory to publish

all bidding and consulting opportunities in the Afghanistan e-Procurement portal *https://ageops.net*. Further for individual consultants, the Request for Expression of Interest/vacancy notice will be published on the following websites: *www.npa.gov.af*, *www.acbar.org*, *www.devnetjobs.org*, and *www.reliefweb.int*.

33. **Incremental Operating Cost (IOC):** IOC will be procured using the Afghanistan procurement law procedures. The operating costs will include operations and maintenance of equipment and vehicles, hiring of vehicles, office rent, costs of consumable, fuel, office utilities and supplies, and Bank charges, advertising expenses, training fees for individuals with prior agreement with the bank for professional development, but exclude any salaries and allowances of civil servants.

34. **Project Implementation staff/individuals:** Under each Project Component, financial resources allocated for Project Implementation Staff/Individuals costs have been identified with details of proposed positions and number, required minimum qualifications, time scale and fee/salaries. As per the Procurement Framework 2016, Procurement Regulations for IPF Borrowers July 2016, such Project Implementation Staff/Individuals contracted by Borrower are not treated as Individual Consultants for the project. These Project Implementation Staff/Individuals may be selected according to the hiring procedures agreed between the Bank and GoIRA for such activities. MoF and DAB will submit the TOR and selection details including proposed candidates to the Bank for review and clearance. It is noted that 'Individual Consultants' required for delivering a specific assignment under the project are different from Project Implementation Staff/Individuals. Individual consultants are hired when a team of experts is not required; no additional home office professional support is required; and the experience and qualifications of the individual are of paramount requirement for delivering the assignment. All Individual Consultants will be included in the Procurement Plan and their selection will be subject to provisions in the Procurement Regulations. The proposed staffing plan for the implementation team is presented below**.**

Position	Beneficiary entity	Duration (months)	Grade	Monthly gross salary (USD)	Budget (USD)
Chief Technical Specialist (3)	MoF, NSIA and DAB	18	Grade A Step 7	5,000	270,000
Senior Procurement Officer (2)	MoF and DAB	18	Grade C Step 4	1,200	43,200
Senior Financial Management Officer (2)	MoF and DAB	18	Grade C Step 4	1,200	43,200
Senior Project Monitoring Officer (1)	MoF	18	Grade C Step 4	1,200	21,600
Project Monitoring Officer (1)	NSIA	18	Grade C Step 4	1,200	21,600
Senior Project Monitoring Officer (2)	AK	36	Grade C Step 4	1,200	43,200
Safeguards Specialist (3) for grievances	AK, MoF and DAB	24	Grade C Step 4	1,200	86,400
Communications Specialist (2)	MoF and DAB	24	Grade C Step 4	1,200	57,600
				contingency	13,200
				TOTAL	**600,000**
				of which DAB	200,000

Detailed list of project activities

LIST OF ACTIVITES	Responsible	Planned Budget (USD $ Mn)	Procurement Type
Overall Project Implementation		45	
Component 1: Operationalization of a dedicated biometric identification system of civil servants and pensioners		9.00	
Functionality test for use of eNID infrastructure by PAISA	MoF (on behalf of NSIA)	0.25	Individual
Legal and Institutional assessment and enhancement of NSIA Charter and Standards for Biometric Data Collection	MoF (on behalf of NSIA)	0.5	Consulting Services
Assessment Framework for data exchange and collection+ standards +NSIA system readiness and related institutional strengthening	MoF (on behalf of NSIA)	0.75	Consulting Services
Biometric data migration and quality of Pensions department	MoF (on behalf of NSIA)	1.5	Consulting Services
Recruit international expertise for NSIA – for biometric standards development	MoF (on behalf of NSIA)	1	Individual
Upgrading Central System Enrollment Components (including software)	MoF (on behalf of NSIA)	1	Goods
Strengthening Data Security Design/Features	MoF (on behalf of NSIA)	1	Goods
Disaster Recovery Site	MoF (on behalf of NSIA)	2	Goods
Unallocated : contingency for further legal framework	MoF (on behalf of NSIA)	1	
Component 2: Integration of the Identification, Verification and Payment Systems		14.00	
Integration of HRMIS and AFMIS	MoF	0.5	Goods
APS Licenses Upgrades/ AfPay systesm development including hardware	DAB	3	Goods
Recruit international expertise for MoF VPP and APS – process, change management and systems assessment	MoF	1	Individual
Enhancement of payment workflow processing in AFMIS; AND Pensions MIS Integration with AFMIS (including Hardware)	MoF	2.25	Goods
Integration of ATS and APS including Hardware	MoF	1	Goods
Assessment of Systems Archtecture and Roadmap Implementation (MoF)	MoF	0.25	Consulting Services
Development of a Business Continuity Plans (BCPs) for the various systems components	MoF	1	Consulting Services
Strengthening of government payment processing and management at MoF	MoF	0.5	Consulting Services
Development of the architecture design and implementation roadmap for changes in DAB-operated systems	DAB	0.25	Consulting Services
Integration between the APS switch and the biometric ID database	DAB	1.25	Consulting

			Services
Integration between the banking system and e-money providers	DAB	1	Consulting Services
Development of a BCPs for the various DAB systems components	DAB	0.75	Consulting Services
Institutional strengthening at DAB	DAB	0.75	Consulting Services
Technical assistance to financial institutions	DAB	0.5	Consulting Services
Component 3: Expansion of financial services and access points		**18.00**	
Development of agent/cash-out point monitoring platform	DAB	0.5	Consulting Services
TA to develop standards and technical requirements for Integration of banking system and e-money providers	DAB	0.5	Consulting Services
Development of the access point expansion strategy	DAB	0.25	Consulting Services
Market development actviities		0.2	n/a
DAB to expand cash out /cashless network - phase 1	DAB	5.5	Consulting Services
DAB to expand cash out /cashless network - phase 2	DAB	5	Consulting Services
DAB to expand cash out /cashless network - phase 3	DAB	4	Consulting Services
Project implementation support to DAB (including APS)		0.4, Of which 0.2 for staff	
TA for communications and outreach FOR ALL PROJECT	MoF	1	Consulting Services
Unallocated contingency)		0.65	
Component 4: Project management		**4.00**	
Recruit/Appoint Project Staff (incl. Payment Specialist (MoF VPP), Biometric Expert (NSIA))	MoF/DAB/NSIA	0.4	Individual
other Project implementation costs, M&E (surveys), field monitoring and GRM	MoF/DAB/MCIT(AK)/NSIA	3.6	n/a

This annex provides further details into the implementation arrangements for the technical implementation of components 1 (for the purpose of biometric registration) and 3 (for the purpose of the roll-out of the incentives program for the expansion of cash-out points and cashless payments).

I. Overall Roles and Responsibilities of the Core Reform Implementation Team (CRIT)

The Presidential decree dated March 11, 2019 formally establishes the five-member Core Reform Implementation team, comprised of DAB, NSIA, CSC and Asan Khedmat. Overall roles and responsibilities within the CRIT are presented in this section; their specific role during the implementation of PAISA is presented in sections II and III.

Authority to Establish and Manage a Database with Biometric Identification of Civil Servants

- NSIA shall establish a database containing personal and biometric data of civil servants of the GoIRA and manage it.
- NSIA shall establish a legal and regulatory framework to govern the proposed biometric ID system, which sets out the purposes of the ID system, defines the role, duties, governance and independence of the NSIA, sets out the scope of personal data to be collected, establishes appropriate data protection and privacy rights, creates a mandate for technology and vendor neutrality, and is harmonized with existing legal instruments.
- NSIA shall determine the scope of data to be collected and set technical standards governing their collection, storage, exchange and access. In setting those standards, due consideration shall be given to data security, privacy of all registrants as per above-mentioned legal and regulatory framework and the use of international standards that allow for flexibility in the choice of equipment, software and algorithms provided, while avoiding dependence on a single vendor or a specific technology.
- NSIA may delegate the collection of biometric and personal information of civil servants to a third party, in which case the third party will be subject to the same data protection and privacy policies as NSIA, and will be required to collect and transfer to NSIA the information at the earliest. Upon transfer to NSIA, the third party will eliminate all records in their system.
- The biometric data and key personnel records collected for each civil servant shall be granted a URN in a dedicated registry that is to be maintained and managed by NSIA and should be the sole source for any biometric verification required to facilitate payroll processing for all civil servants of GoIRA.

Authority to Establish and Manage a Human Resources Management Information System

- CSC shall establish and manage a National HRMIS (NHRMIS), within one year of issuance of the Presidential decree.
- The NHRMIS shall include records of all civil servants of the Islamic Republic of Afghanistan. For each of those civil servants, it shall include their names, pay grades, institutional affiliations, history of service, details of their job contracts and any other information that the Commission shall deem relevant, called personnel records or details hereafter.
- Personnel records in the National Human Resources Management Information System shall have the abovementioned URN, which shall be in the Register of the Office of Information. Adding the URN address to the NHRMIS shall be done after identifying the consistency with the NSIA system, and in accordance with other key requirements with regards to personal data.

- CSC shall designate the list of civil servants whose personal data shall be collected and entered into the registry maintained and managed by NSIA and personnel details entered into the NHRMIS. All ministries and government agencies employing civil servants are instructed to share all the required information and data to facilitate the execution of this decree and avoid any parallel duplication of this national effort.

Integration of Identification, Payroll Management and Core Banking

- MoF, NSIA, CSC, and DAB shall collaborate to develop a framework that allows for the electronic processing of payroll transactions of civil servants through an integrated process.
- To this end, systems currently operated by those institutions should extend the possibility of programmatic access to their services through Application Programming Interfaces (APIs).
- NSIA shall establish technical standards for the APIs used in connection with systems operated by GoIRA.

Others

- MoF shall be responsible for integrating the Afghanistan Financial Management Information System (AFMIS) with the NHRMIS, and for streamlining and automating the salary payments process.
- DAB shall be responsible for integrating the systems operated by the Afghanistan Payment System (APS) with the biometrically-supported registry of civil servants developed by NSIA. For the Biometric Use of Electronic Financial Transactions, DAB will be the decision maker body.
- DAB, in its capacity as the financial system regulator, shall support the development of financial access points, to enable cash withdrawals for civil servants receiving their salaries into bank accounts or mobile wallets. MoF – in coordination with DAB - will provide financial incentives to financial institutions to facilitate the extension of financial access points, including branches, agents and ATM network, Mobile Money, Certified Merchant Services, Cash-out points and other new technologies and a well-defined, transparent and targeted framework that ensure enhancing outreach of financial services to remote and underserved areas.
- DAB, MoF and relevant other government agencies shall collaborate to encourage a greater use of cashless payment methods by civil servants in Afghanistan.
- Asan Khedmat is mandated to develop and deploy a mechanism for coordinating and monitoring implementation of this plan, and for managing the grievance redress mechanism for civil servants throughout the process, in full coordination with the Implementation Team.

II. On Biometric registration process and proposed authentication options

1. **The project will support the biometric registration and issuance of a unique registration number (URN) to recipients of government salaries and transfers, which will be managed by NSIA.** To prevent duplicative, excessively costly, and less secure biometric registration efforts across different parts of the government, a single government entity – NSIA – has been given the mandate for storing and managing all civil servants' and pensioners' biometric data – and a minimal set of personnel records – and for facilitating real-time biometric authentication of payment recipients. The proposed system will help ensure that each civil servant and pensioner is only registered under a single identity and is receiving payments once, supporting the transparency and integrity of transactions. Moreover, the system will also enable the use of biometric authentication for civil servants and pensioners (i.e. matching the fingerprint of the payment recipient at the time of cash-out with the fingerprint originally recorded in the registry) for financial transactions to help ensure that only the person the payment is intended for can access it, reducing opportunities for the mismanagement of payments. Additionally, the ID system will offer a variety of identity verification and authentication options,

such as the use of one-time-passwords, PINs, and other authentication mechanisms more suited to low-connectivity environments. The ID system will be implemented in a technology- and vendor-neutral manner and use open standards to reduce costs, prevent vendor lock-in, and facilitate interoperability with current and existing identification systems in Afghanistan.

2. **Institutional arrangements.** NSIA will be responsible for the collection, storage, and management of the biometric data of civil servants and pensioners in the context of this project. Recognizing the need for concerted commitment and effort from across public entities to ensure the successful enrollment of all civil servants into a dedicated biometric registry, NSIA will develop an enrollment plan in close collaboration with CSC, MoF, Asan Khedmat, as well as all relevant LMAs. NSIA will assess existing biometric registries of civil servants and agree with the concerned agencies on the timeline and technical details of any data migration.

3. To facilitate the unique identification of civils servants, LMAs will provide CSC with their personnel records, to be entered into the NHRMIS, maintained by CSC. These records will include, inter alia, the name, pay grade, institutional affiliation, employment history, term and conditions of employment, and other relevant details, as determined by CSC. CSC will make this data accessible to NSIA to facilitate the validation of personnel records against those collected and/or managed by NSIA and the subsequent seeding of URNs into HRMIS.

4. MoF will be responsible for implementing changes in the AFMIS allowing it to receive payroll data from the NHRMIS and automatically generate payment instructions to be processed by DAB, and for setting out technical standards for the digital M16 and M41 forms.

5. **Asan Khedmat** will be responsible for program monitoring and coordination of enrollment and will develop a GRM with other institutions and assist with grievance investigations if pertaining to errors in generating payment instructions and coordinate with MoF and DAB in resolving such implementation grievances.

6. DAB will be responsible for implementing changes in the systems operated by itself (ATS, APS, core banking) to enable seamless integration with the AFMIS and automatic processing of payment instructions generated by the AFMIS. In addition, it will be responsible through its subsidiary APS for:
    - Modifying the APS systems to support biometric authentication for financial institutions through the link with the ID system.
    - Creating appropriate scheme rules for biometrically-enabled payments and managing the AfPay card and mobile payments scheme.
    - Managing the incentive program for the expansion of cash-out points and acceptance of cashless payments.
    - Managing the financial services agents monitoring platform and taking action in case of escalated customer service complaints, lack of coverage in certain areas by cash-out points or instances of insufficient liquidity.
    - Managing market development activities and outreach campaigns.

A. Enrollment framework for civil servants during initial (mass) registration ('stock')

7. **Potential data migration of existing registries.** To the extent technically feasible and allowed by data sharing frameworks, the biometric data of civil servants and pensioners already collected, inter alia, on behalf of MoE, CSC, and the Department of Pensions will be migrated into the ID system managed by NSIA for de-duplication and use for authentication. The data will be transferred to NSIA, regardless of future re-usability, with the

quality assessment performed post fact. A data import and quality assessment will be performed on previously collected biometric data of former and current civil servants, including: 114,000 records collected and stored by the Pensions Department (now under MoF), 27,000 records stored by MNOs (Roshan, AWCC) on behalf of MOE/AK, and closer to 30,000 records stored by CSC. Depending on the outcome of this quantitative assessment of each individual record, it will be decided if that data record could be re-used.

8. All civil servants whose previously collected personnel records and/or biometric data are deemed not to be of sufficient quality, completeness, or integrity to facilitate the transparent, secure, and convenient delivery of digital salary payments will be re-registered by NSIA or by NSIA-approved and -certified third parties.

9. **Biometric registration by NSIA**. Biometric registration will be phased by provinces, with several registration points set up in convenient locations during "open enrollment days/weeks". In Kabul, enrollment will take place in ACCRA (e-Tazkera) offices as well as on-site, for instance, in ministries, schools, and health facilities using mobile enrollment kits, performed by trained NSIA (formerly ACCRA) personnel. Of the total of 2,000 NSIA employees countrywide trained for data collection, approximately 200 will be trained specifically on biometric data collection across provinces during the initial mass registration period. In Kabul, given that there are 110,000 civil servants to be registered overall, biometric registration would not be carried out concomitantly for all LMAs – as will be done in other provinces. In provinces, registration points can be set up in provincial/district government offices or other secure and conveniently located public facilities. Currently, NSIA has three staff in each district and provincial registration drives would be supported by additional NSIA staff trained in biometric registration from Kabul and other urban centers. The prioritization of provinces will be decided based on several factors, including headcount of LMAs, preponderance of cash payments, security, etc. NSIA, in coordination with the relevant public entities (those whose employees are to be registered), will communicate information about registration locations, timeline, and any documents needed for registration to civil servants/pensioners ahead of time.

10. **Biometric enrollment kits.** NSIA envisions the use of a mix of desktop/laptop-based kits for urban enrollments and the use of highly portable tablets for enrollment in rural/less secure areas. There are currently 256 operational biometric kits with NSIA (formerly ACCRA) and over 1,000 other biometric kits already available or in the process of being procured across various government entities. NSIA is committed to leveraging this existing biometric registration equipment and trained registration personnel to complete the registration of civil servants. Using fairly conservative calculations, whereby about 20 people would be registered by a single enrollment agent using a single kit in an 8-hour day, and assuming that a maximum of 200 kits and an initial estimate of 200 enrollment personnel expected be deployed to register civil servants, the entire civil servant population of 400,000 could be registered in about 180 working days (the arithmetic number of working days -100 - is adjusted for the geographical dispersion of civil servants across the territory, as well as the need to include days for verification of entries for example).

11. **Biometric registration by third parties.** Third parties may be contracted to carry out registration on behalf of NSIA, following the protocols, processes, and standards set by NSIA. For government agencies undertaking biometric enrollment on behalf of NSIA, the PAISA project will cover enrollment costs (same operational costs as NSIA). In case of biometric registration by private third parties, the PAISA project will not cover the enrollment/registration costs. For all, support will be provided to NSIA for the quality assessment and transfer of the collected biometric data.

Detailed enrollment process flow

a. **Validation against HR records and biometric capture:** By the start of the enrollment period, NSIA will have obtained the relevant personal details of the civil servant/pensioner from the national HRMIS server, or, if this is not yet operational, from the HR records of the respective LMAs. Civil servants will be asked to bring their Tazkera or other government-issued photo ID for registration/verification. The enrollment agent will retrieve the registrants' data listed in the HR records based on their Tazkera number, where this is available in the HR records, or, if this fails to produce a match, using their personal data (name, DOB). The enrollment agent will validate the employee data provided by the HR system against the data shown in photo ID/Tazkera of the registrant. The enrollment agent will record any additional personal details, as required by NSIA, scan and upload any supporting documents, as applicable and capture the registrant's photo, ten fingerprints, and iris.

b. **Validation of non-matching records:** Should there be some discrepancy between the data provided through the HRMIS/ HR records and the registrant's data as shown in their government-issued photo ID/Tazkera provided under step 1, the record will be flagged for further processing and sent for validation/confirmation to the LMA that employs the civil servant.

c. **De-duplication**: Enrolment packets will be transferred to the NSIA server in a secure manner. Once the packet crosses the validation stage, it is then sent for de-duplication check using the personal details in the packet, followed by a biometric data de-duplication. In case the biometric de-duplication fails, a manual adjudication check is performed to minimize the risk of a false rejection.

d. **URN issuance/confirmation**: Following a successful de-duplication, a URN is issued. The URN will be communicated by SMS/email/letter to the civil servant/pensioner.

B. Enrollment framework for continuous registration ('flow') of civil servants

12. In parallel with the registration of the current 'stock' of civil servants, permanent registration points will be designated to ensure that newly hired civil servants can continue to be registered. These permanent registration points will include e-Tazkera registration offices in urban centers, registration points serviced on certain days a month by itinerant (mobile) registration units in rural areas, and third-party registration agents.

13. Each newly hired civil servant will need to register with NSIA or one of NSIA's authorized third-party registration agents before he/she can receive his/her first salary. The enrollment process will follow the flow outlined above. Once the URN is generated and provided to the civil servant, this will be seeded into the NHRMIS to facilitate the processing of digital salary payments.

14. The PAISA project will not cover costs associated with continuous registration (flow).

C. Enrollment framework for pensioners

15. The re-capture of pensioners' biometric data, where needed, will take place in the offices/branches of the Pensions Dept. or any other location where pension recipients' biennial 'liveness verification' would normally be performed. NSIA will coordinate with Dept. of Pensions to ensure that each such location has the necessary biometric registration equipment and software, as well as staff trained in their use, to enable the re-capture of pensioners' biometric data in line with NSIA's own standards and protocols.

16. During the (re-)registration process, the pensioner's existing record/profile (as already captured by the Dept. of Pensions) will be accessed by the enrollment agent. The pensioner will be asked to re-validate the personal information associated with their record and the enrollment agent will make any updates (e.g. address, mobile

number, etc.) and scan any supporting documentation, as necessary. The personal data relevant to the NSIA biometric ID system will be electronically transferred or, if needed, transcribed by the enrollment agent into NSIA's digital registration form. The pensioner will be asked to provide any additional personal data required by the NSIA and provide his/her biometrics for re-capture.

D. Authentication framework and options

17. The system will enable the use of biometric authentication for civil servants and pensioners for financial transactions (e.g., matching the fingerprint of the payment recipient at the time of cash-out with the fingerprint originally recorded in the registry). Given the additional data protection and data security risks associated with real-time biometric authentication, the contexts in which it will be mandated for financial transactions, including cash-out, will need to be carefully assessed based on the risks associated with particular types of transactions, geographies, and payment recipients. In addition to biometric authentication, the ID system will offer a variety of identity verification and authentication options, such as the use of one-time-passwords, and other authentication mechanisms more suited to low-connectivity environments. Select authentication mechanisms are listed below.

18. **Biometric authentication option.** The payment recipient provides his/her URN and a biometric, which is verified against the biometric associated with the same URN in NSIA's data store for authentication. NSIA's system would return only a yes/no response to confirm or reject the authentication attempt. This process requires Internet connectivity to send the biometric packet and receive a response from the server. In addition to Internet connectivity, the effective provision of biometric authentication services will, inter alia, require:
    - The implementation of appropriate security and privacy protocols, such as the use of certified biometric devices that encrypt data as well as regular audits to address the increased privacy and data protection risks associated with the biometric data, including risk of biometric theft at the point of capture, transmission channel attacks, and the vulnerability of the central system with access to multiple vendors
    - A robust exception handling mechanism to enable authentication when Internet connection is not available and in the case of authentication failures (false rejection)
    - A mechanism for liveness detection/certification of the biometric to minimize risk of spoofing

19. **Authentication option using a mobile phone + one-time-password.** Under this option, the payment recipient would submit his/her URN and the authentication server would trigger an SMS to be sent to his/her registered mobile number with a one-time-password. Once this password is entered into the application used to authorize the attempted transactions (either on the recipient's phone or on the device of the agent of the MNO/bank), the transaction/cash-out would be authorized. This option could be used for mobile wallet transactions (with no cash out) and, in the case of cash-out with a live agent, it could be supplemented with validation of the mobile holder against a government-issued photo ID (e.g. paper Tazkera or e-Tazkera) by the agent.

20. **Authentication option using civil servant/pensioner URN + photo ID.** As long as civil servants' URN would be seeded into their records held by banks, MNOs, or other financial institutions, the financial institution's agent could match the URN provided by the civil servant to their account/wallet and verify the person's photo and personal data stored in the financial institution's system against the individual's government-issued photo ID (e.g. paper Tazkera or e-Tazkera).

E. Interoperability and integration with other systems

21. The ID system will be designed and implemented in a technology- and vendor-neutral manner and use open standards to reduce costs and prevent vendor lock-in. The data will be collected and stored in a manner to ensure its portability should a different vendor/solution provider be contracted at a future point in time. The ID system's design and implementation should also be done in a manner that enables interoperability with existing and future identification systems in Afghanistan.

22. The ID system will also need to exchange information with other information systems managed and used by a diverse set of public and private entities, including:
    - the HRMIS system (or the MIS systems of individual Ministries/entities):
        - Ideally, NSIA will be able to query the HRMIS to validate civil servants' personal data against the records stored in the HRMIS, to confirm whether a given registrant is indeed a civil servant
        - NSIA will also need to be able to integrate ('seed') civil servants' URN into the NHRMIS so that the employee's salary can be processed via the payroll module;
    - MIS/HR departments of individual LMAs (or the NHRMIS, if such a function/module is possible): ideally, NSIA should be able to send personal data and scanned images of documents to individual LMAs for validation using a direct, secure link and receive a response from these entities to confirm/reject the record(s) in question.
    - APS/DAB will coordinate with NSIA to establish a clear framework and identify feasible technology to facilitate biometric authentication at certain cash-out points using the recipient's UIN and biometrics for certain approved entities and financial institutions.

Table A2-1: Headcount of LMAs (2017)[16]

LMA	Employees
Ministry of Education	263,961
Ministry of Public Health	13,397
Ministry of Higher Education	12,073
Kabul Municipalities	8,183
Ministry of Haj and Religious Affairs	8,289
Ministry of Finance	7,599
Ministry of Agriculture	7,554
Ministry of Martyrs, Disabled and Social Affairs	7,246
Ministry of Interior	9,096
Independent Directorate of Local Governance	6,368
All Others	56,673
Grand Total	**400,439**

The Afghan civil service (excluding security sector) comprised 400,439 employees in 2017. The annual cost of the core civil service was about US$800 million in 2017.[17] The median salary is AFN10,000 and paid on a monthly basis. Pensions represent the second largest G2P outflows in terms of amount paid to the recipient, while payments to Martyrs' survivors and Disabled are the second largest in terms of number of beneficiaries. Pension payments represented AFN 10.8 billion (US$160 million) in 2018 and budgeted to reach AFN 12.7 billion (US$185 million) in 2019. The existing 152,909 pensioners are paid annually. Finally, the 281,114 Martyrs' Survivors and Disabled received AFN 16 billion in 2018 (US$235 million). The latter two G2P programs have been managed by the Ministry of Labor, Social Affairs, Martyrs and Disabled (MoLSAMD) until 2018.

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[16] The names of some of the LMAs have changed since the data was obtained.

[17] Aggregate expenditure on civilian salaries and allowances in 2016 was approximately AFN 65.84 billion (US$969 million), including allowances and overtime.

Starting 2019, the pension administration was transferred to MoF (Pensions Directorate General) while the State Ministry of Martyrs & Disabled Affairs, was created for the administration of M&D benefits.

III. On Expansion of Cash-out Points and Acceptance of Cashless Payments by Merchants

23. The PAISA Project aims to help the Government of Afghanistan to pay salaries of its civil servants into their bank accounts or mobile money wallets. However, receiving one's salary into account would be cumbersome if there is no way to withdraw the money in cash or use the account balance to make purchases. Unfortunately, currently bank branches, ATMs or mobile money agents are scarce in Afghanistan, and most shops, utilities, doctors or pharmacies do not accept cashless payments. For that reason, it is required that public support be provided for financial institutions to establish presence in remote areas. If this does not happen, other parts of the project (migration to salary payment into accounts/wallets) will not be feasible anymore, as civil servants would receive the salaries without being able to use that money in any meaningful way.

24. Different types of access points that can be used by recipients of civil service salaries to access their accounts will be supported, from bank branches and ATMs in urban areas to microfinance institutions and mobile money agents in more remote communities. Indeed, while Afghanistan has witnessed substantial development in mobile telephony coverage, with over 90% of the population being covered by GSM base station (according to the Ministry of Communications and Information Technology data), some gaps remain depending on the type of connectivity available, the latter will be relying either on smartphone apps communicating through the means of 3G/4G mobile connection, or on text message/USSD communication through 2/2.5G networks. Backup procedures, such as offline payment processing, will be considered to preserve the access to transaction account in the event of connectivity outage.

25. DAB, discharging its financial inclusion and 'market catalyst' mandates, will disburse that support, with day-to-day management of providers' selection, contracting and quality control delegated to the Afghanistan Payment System (APS). This is in line with international experiences, where subsidies for expanding financial access points to remote locations can be managed either by government agencies or banking associations/national switches. For instance, the Electronic Means of Payment Infrastructure Fund (FIMPE), subsidizing deployment of POS terminals in remote areas, is managed by an association of the largest acquirer banks. The national switch operator is implementing a cashless transactions incentive fund in Malaysia, while APS' British equivalent—LINK—has launched the Financial Inclusion Programme, consisting of subsidies for ATMs in rural locations.

26. Supported institutions will be chosen and contracted according to the principles presented in this document. However, the rules listed here should be considered indicative and will be confirmed by a market development committee convened by APS, which will be free to impose additional requirement and adjust the criteria.

A. Cash-out points

27. APS, in cooperation with the VPP unit of MoF will compile the list of locations where civil servants work. For every such location, APS will verify whether any ATM, bank branch or a full-time agent of mobile money provider/PSP exists in the vicinity (no more than 2.5km away), and whether that access point is capable of meeting the projected demand for cash (banknotes) on a usual payday. Based on this exercise, APS will compile a list of underserved locations, organized by province. For each of those locations, APS will also estimate the peak demand for cash on and around paydays.

28. Financial access points in the underserved locations will be established through procurement of a non-consulting service (establishment and maintenance of an interoperable financial access point in prescribed locations) from financial institutions operating in Afghanistan. Each province will be contracted separately. Interested financial institutions will be eligible to form joint-ventures and use reliable subcontractors.

29. For every province, the selected financial institution will commit to establishing an ATM, a bank branch or a full-time agent in each of the underserved locations on the list. The access point should be:
    - located no more than 2.5km away from the geographical coordinates of each underserved location as determined by APS;
    - be open for the public during hours convenient to civil servants of every working day of the year; APS will endeavor to provide indicative opening hours for each of the underserved locations;
    - ensure sufficient supply of cash to meet the projected demand on paydays;
    - able to offer at least two free cash-out operations per month for civil servants receiving their salaries through PAISA project;
    - levy charges for cash-in, cash-out and other services that are exactly the same as specified in the regular schedule of charges for the financial institution; the financial institution must not differentiate its charges on the basis of geography.

30. If the access point proposed by the financial institution in a given location is an ATM, the financial institution should also commit to securing the presence of its staff/agents at least once a month to handle account opening/closing transactions or any other administrative issues.

31. Each financial institution interested in providing the service in a particular province should submit the proposal detailing (1) the proposed locations and types of access points in each of the underserved areas and (2) the amount of lump-sum subsidy that will secure the establishment of access points as proposed in (1) and their continuous operation for the duration of three years.

32. Proposals will be evaluated separately for every province, and each financial institution will be able to decide which provinces it would like to bid for. The subsidy will be awarded to the institution that (1) meets the technical criteria as listed above and (2) submitted the lowest financial proposal.

33. Financial institutions are free to form consortia/joint ventures to bid for contracts in every province. It is permitted for an institution to bid for one province on its own while participating in consortium bids for other provinces. The bidding institution (or the lead member of a bidding consortium) should meet the following eligibility criteria:
    - **Licensing**: The FI must be duly licensed and have operated for at least two years;
    - **Governance/management:** FI's owners should be "fit and proper". It must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile.
    - **Compliance with national regulations:** The FI must be in good standing with its supervisory authority (i.e., it should meet all prudential and other applicable laws and regulations) and remain in compliance at all times.
    - **Business policies:** The FI should have well defined policies and written procedures for management of all types of relevant financial risks (liquidity, credit, currency, interest rate and market risk, as well as IT and cyber risks) and have operational guidelines for management of payment processors and associated

service providers.
- **Operational capacity**: The FI should demonstrate appropriate operational capacity, including technical capability and staffing.
- **Financial soundness:**
    - The FI must maintain capital adequacy prescribed by prudential regulations.
    - The FI must have adequate liquidity.
    - The FI must have an acceptable risk profile. It must maintain the value of its capital.
- **Interoperability:** The FI must be a member of the Afghanistan Payment System and other relevant payment systems operated by DAB.
- **Audit and internal controls:** The FI must have adequate internal audits and controls for its specific risk profile and handling of bulk payments.
- **Information systems:** The FI must have adequate management information systems and compliant with existing DAB and APS cybersecurity requirements.

34. The winning bidders will be paid the lump sum in half-yearly installments, subjects to adjustments with respect to their performance in discharging the contract. DAB will monitor their performance.

B. Onboarding merchants

35. The incentive programs for merchant onboarding will be based on the same premises as the program for cash-out points and will cover the same list of underserved locations. For each of the locations, the financial institution will have to commit to onboarding one or more merchants (a retail or service business), which will be equipped with everything that is needed to accept electronic payment for goods and services offered. The merchant would have to be:
- located no more than 2.5km away from the geographical coordinates of each underserved location as determined by APS;
- be open to the public during the regular business hours as customary in the location concerned;
- be involved in commercial activity that is relevant to the needs of civil servants working in the same location (examples: shops, pharmacies, travel agencies and ticketing booths; service providers—doctors, teachers, barbers, tailors, carpenters).

36. The proposals will be submitted and evaluated in the same format and manner as is the case for the cash-out points incentive program.

ANNEX 3: Stocktaking of relevant initiatives

Table A3-1: Existing initiatives for digital payments in Afghanistan

Year	Ministry	Beneficiaries	Locations	Financial institutions	Implementation partners	Funding
2018 - … (ongoing)	MoE	Civil servants, including teachers	3 provinces	Roshan AWCC	Asan Khedmat, MSPRT	GoIRA
2016 - 2017	MoLSAMD	3,500 civil servants	Kabul	Roshan	Asan Khedmat, MSPRT	USAID/FAIDA
2015 - … (ongoing)	Ministry of Interior Affairs (MoIA)	Fewer than 5,000 ANP officers	Paktika and other locations	AWCC /New Kabul Bank (NKB)	UNDP/LOTF CSTC-A	LOTF
2015	MoIA	10,000 ANP officers	3 provinces	AWCC/ NKB/Roshan	Chemonics	FAIDA
2015	MoPH	150 vaccinators	6 provinces	AWCC	UNICEF	-
2015	MoF	50 civil servants	-	AWCC	Chemonics	USAID/FAIDA
2015	n.a.	13,400 female trainees		AWCC	WFP	
2014	n.a.	8,762 food aid recipients		AWCC	WFP	
2013	MoE	324 teachers		AWCC/Roshan	Chemonics	USAID/FAIDA
..and with regards to existing payments via banks only						
Ongoing	MoLSAMD	114, 000 pensioners		Azizi Bank	World Bank	GoIRA World Bank
Ongoing	MoF LMAs	~60% of civil servants		Azizi Bank NKB	-	GoIRA
Ongoing	MoIA	ANP officers		NKB	UNDP/LOTFA	LOTFA
Ongoing	Ministry of Defense	ANA officers		NKB	CSTC-A	ANA TF

Table A3-2. Existing initiatives related to HRMIS and Biometric databases

Type	Agency	Remarks
HRMIS	CSC	Development of whole-of-government HRMIS (only for civil servants). Discussion on biometrics collection and hosting.
HRMIS and biometrics	MoPH	USAID Supported Health Sector Resilience Project: HRMIS complete (some modules, including payroll, still in development). Includes non-civil service staff (e.g. NGO-employed health workers). Biometrics collection for attendance started in Kabul HQ
HRMIS	MoE	USAID Capacity Building Activity: HRMIS and its roll out to five provinces EQRA World Bank Project: DLI 5 requires that the "integrated personnel database be established".
Biometrics	MoE	Biometrics for payouts collected by Roshan and AWCC
HRMIS and biometrics	MoIA Ministry of Defense	ANP, prison staff and armed forces HR details and biometrics information
Biometrics	Pensions Department	Collection of pensioners' biometric information
Biometrics	MoLSAMD	Plans to collect biometric information from recipients of M&D benefits, supported by UNMAS
Biometrics	UN agencies	SCOPE project by WFP and other initiatives—mostly for verification of cash transfers and food voucher recipients

ANNEX 4: Payroll Process and stakeholders

Table A4-1: Current payroll process for civil servants

	Collection/storage of biometric information	Compilation and management of the payroll file	Fund transfers	Fund use (cash-out, electronic payments)
Responsible institution		Line ministries District offices	MoF DAB	Bonded Trustees (BT, 40% of payroll); Banks chosen by LMA
Procedure	Ad-hoc collection	Ministries and district offices compile paper-based employee list. Paper M16/M41 forms forwarded to MoF.	Checks printed and forwarded to DAB to credit the reserve account of partner banks	• BT pay out cash to employees. • Employees paid through bank accounts withdraw money from branches/ATMs
Challenges	• Security issues (dispersed biometrics can be intercepted) • Multiple databases do not solve ghost workers' issue • No biometric standards enforced	• Slow process • Scope for fraud and errors in data entry • Fraud prevention costs staff time	• Lack of STP (automation) • Reduced efficiency of government's cash flow management	• Dependency on a single bank/financial institution per LMA • Low financial inclusion, high costs of obtaining cash (travel, wait time) • Unreliability of BT

Table A4-2: Mapping of the overhauled payroll process, with comprehensive approach (after PAISA and TAGHIR)

	Collection/ Storage of biometric information	Operation of the HRMIS	Civil servant onboarding, transfer, exit, payroll generation	Fund transfers	Fund use (cash-out, electronic payments)
Responsible institution	NSIA	CSC	LMAs District offices	MoF DAB	Any bank
Procedure	• Collection according to standards agreed upon by GoIRA, either by NSIA or third parties. • Storage with NSIA	CSC manages and operates the system	All HR transactions performed through HRMIS operated by CSC. LMAs are users of the system.	Digital M16/M41 automatically forwarded to AFMIS, which seamlessly sends payment instructions to DAB, funds paid into civil servant accounts registered with HRMIS	Civil servants pay digitally or withdraw cash from any agent/branch/ATM location.
PAISA Project contribution	• Support for ID system development • TA on best practices and regulatory issues		Development of ministry-specific HRMIS modules (if not covered by other engagements)	• Integration of HRMIS and AFMIS (AFMIS side) • Integration of AFMIS and DAB core banking	• Incentives for cash-out points • Optional biometric verification Equipment purchases and TA for DAB/APS
TAGHIR Project contribution		Development of HRMIS	• Implementation of HRMIS in LMAs • Integration of HRMIS and AFMIS (HRMIS side)		