Minutes of ARTF Incentive Program Working Group (IPWG) Meeting
5th technical review meeting
December 17, 2017
The World Bank Afghanistan

The ARTF Incentive Program Working Group (IPWG) convened on December 17, 2017 to discuss the fifth Technical Review of the ARTF IP 2015 – 2017. These minutes summarize the presentation of the technical review and disbursement recommendations, main points of discussion, as well as next steps.

(1.) Overall macro-fiscal policy framework:

Economic activities remain subdued, but are expected to modestly improve over the medium-term. Economic growth moderately picked up to 2.2 percent in 2016 and is projected at 2.6 percent for 2017. Fiscal performance is improving, with stronger revenue performance and improved budget execution. Domestic revenues will likely exceed the annual budget target of Af 152.5 billion by the end of the fiscal year. Over the medium term, growth is expected to pick up modestly and is projected 3.2 percent in 2018. Performance under the IMF-supported Extended Credit Facility has been satisfactory. The macro-fiscal policy framework, while subject to substantial downside risks from political and security environments and international aid flows, remains broadly adequate for continued disbursement.

(2.) Revenue Matching Grant:

Total domestic revenue collection has reached Af 145 billion at the end of November, 2017. Annual revenue collection is projected to exceed the annual target of Afs 152.5 billion agreed with the IMF. Thus, the administrator expects the government to earn additional incentive funds under the revenue matching grant. A detailed review of the revenue matching grant will be held in next Technical Review of the IP in 2018.

(3.) Structural Reform Scheme:

2016: Three 2016 benchmarks continue to face significant risk of delay. 2016 reforms in Customs HR reform (#1), Customs Enforcement (#2) and Pension Policy (#7) are unlikely to earn any incentive funds.

2017: Two benchmarks—Tax Policy (#4) and Provincial Budgeting (#9)—are expected to be completed by the end of 2017, subject to verification assessment by the administrator. Three benchmarks—Land Management (#5), Doing Business (#6), and External Audit (#10)—have been making steady progress and are expected to be completed by early 2018 and one benchmark—electronic payment (#8)—is expected to be completed by mid-2018. Two benchmarks on customs (#1) and (#2), one benchmark on pension and social benefits (#7) reforms face significant risks of delay, largely due to the prolonged delay in their 2016 benchmarks.

Benchmarks met in 5th technical review: DG Revenue presented the two benchmarks related to the ARD that were met - 2016 tax policy benchmark (#4) with delay and 2017 tax administration benchmark (#3) on time. A Two-month discount is applied to the 2016 tax policy benchmark requiring the revision of the Income Tax Law, using the Cabinet approval of the draft law as the completion point—as stipulated by the benchmark.

DG budget presented progress on the 2017 provincial budgeting benchmark (#9) which is met, however not assessed and included in the 5th review.

(4.) Operations and Maintenance Facility:

A detailed review of O&M activities in 2017 and O&M expenditure will be conducted in the next technical review once aggregate spending in 2017 is determined. The baseline O&M spending for 2017 stands at Af 21.04 billion and annual spending exceeding the baseline will earn incentive funds from the O&M Facility by a factor of 1.5. Af 23.34 billion have been budgeted for civilian O&M expenditures—under code 22—for 2017, and Af 18.4 billion Afs have been executed at the end of November. It is unlikely that there will be disbursement against O&M in 2017. MoF, IPWG and the Administrator agreed to further discuss shortcomings on qualitative and policy aspects of O&M spending. O&M spending has largely remained constant in terms of percent spending of the overall spending as well as civilian recurrent spending. This poses a significant risk that past investments and assets are not maintained.

(5.) Disbursement Recommendations:

The ARTF IP Working Group endorsed the disbursement recommendation of $46.152 million.

(6.) Other Business:

IPWG expressed interest in convening around the overall subnational planning and budgeting work that is currently underway. The newly formed Policy Action and Coordination Platform (PACT) will follow this up.

(7.) Participants:

Ministry of Finance: DG Budget, Zahid Hamdard; DG Revenue, Habib Zadran; DG Monitoring, Sajed Taqwa; Mr. Nasrullah Durrani; Mr. Najibullah Nail; Mr. Jahadullah; Mr. Waleed Rashid; Mr. Sayed Khalid; Mr. Farid Ahmad. Shafi Haqmal. Zabi Malikzada.

World Bank: Tae Hyun Lee, TTL IP. Aman Farahi.Andras Bodor. Zahid Hatam. Rebekah Lee. Ahmed Rostom. Connected through video: Claudia Nassif; Bernard Haven. Hasan Zaidi;

ARTF Working Group Partners: Uwe Gehlen (German Embassy). Elise Refuse (Embassy of Canada). Nate Tenny (USAID). Barbara eggers (EU). Mohammad Zia (Australian Embassy). Richard Taylor, Romal Sanjeeda (DFID). Sulaiman Salehi (KFW). Niina Tenhio (Embassy of Finland)
Connected through video: Lene Hansen (KFW consultant)