Minutes of ARTF Incentive Program Working Group (IPWG) Meeting
December 15, 2016

The ARTF Incentive Program Working Group (IPWG) convened on December 15, 2016 to discuss the Third Technical Review of the ARTF IP 2015 – 2017. These minutes summarize the discussion, decisions, as well as next steps.

(1.) Overall macro-fiscal policy framework

The economy continues to be affected by on-going conflict and political instability. Growth in 2016 remains low. Counting on continued growth in the construction sector, projections show a marginal increase in economic growth to 1.2 percent in 2016. However, the fiscal position is improving. Domestic revenues amounted to Afs 113.4 billion as of end-October 2016, nearly 21 percent higher than the figure recorded for the same period last year. Public expenditures increased by 8 percent over the same period, however, the execution rate of the development budget, which was 35 percent as of end October 2016, is lower by around two percentage point's y-o-y.

The medium-term outlook points towards a slow recovery with considerable down-side risks. The fiscal outlook will remain sensitive to even marginal changes in revenue collection or grant receipts.

After the successful completion of a Staff Monitored Program in April, the Government entered into a new a three-year Extended Credit Facility (ECF) with the IMF in July, 2016. The program under ECF will focuses on institution building, fiscal and financial reforms, and measures to combat corruption. The first review of the program is scheduled for early February.

Overall the macro-fiscal policy framework remains robust and adequate for continued disbursements through the Incentive Program.

(2.) Revenue Matching Grant and O&M Facility

The technical review documents presents revenue and O&M trends up until October 2016. Indications for domestic revenue mobilization and O&M spending are encouraging and the Government is expected to supersede the quantitative benchmarks in both schemes. The 2016 revenue and O&M assessment will be concluded in early 2017, once budget data is reclassified and accounts are closed.

(3.) Structural Reform Scheme

Sice the last review in March 2016, the Government met two 2015 reforms benchmarks with delay, and three 2016 benchmarks within the indicated timeline. Benchmarks include reforms of the investment climate, tax policy, tax administration, and provincial budgeting. The Administrator shared the verification protocols as part of the technical review document prior to the meeting.

The Administrator and GoIRA counterparts provided a brief update on the completed and pending 2015 and 2016 benchmarks. The Administrator noted that substantive progress was achieved in reforming the tax administration well as the business licensing systems. The latter is particularly remarkable given the difficult political economy constellations which have blocked licensing reforms for the past years. In combination with the parallel efforts of streamlining tax payment procedures, these represents important milestones in lifting critical constraints to doing business in Afghanistan. In order to assure the impact of these measures, the meeting suggested to closely monitor the change management process within ARD and MOCI and proposed to field a process tracking and client satisfaction survey in early 2017.

Overall, it is expected that the remaining 2015 pending benchmarks will be met prior to the close of the year. Indeed, GoIRA counterparts informed the meeting that two more 2015 benchmarks have been completed since the draft technical review was circulated (revenue administration and pension reform). Most of the pending 2016 benchmark are in advanced stages of completion and appear to be on-track.

However, the Administrator raised concerns over the sluggish progress of pension reforms. GoIRA counterparts informed the IPWG about a discussion on the reform proposal in a recent cabinet meeting in which members of the cabinet showed broad support to the idea of reforming pension, albeit at much lower ambition than the proposed. MoF and MoLSAMD received guidance to focus on administrative to improve the efficiency of the pension system rather than on parametric reforms which would be needed to ensure the fiscal sustainability of the pension system. While IPWG members agreed that the administrative reforms (which are reflected in the first part of the pension reform benchmark) important, the recent cabinet discussion calls the Government commitment to more wide-reaching pension reform into question. The Administrator therefore requested GoIRA counterparts to confirm the future direction of the reform and to decide whether pension reforms should remain part of the IP program.

Finally, meeting members agreed that the 2017 benchmark for revenue administration reforms requires more specificity. MoF will submit a proposal after the holidays for consideration.

(4.) Disbursement Recommendations

The ARTF IP Working group endorsed the disbursement recommendation of $83.5 million.

(5.) Other Business

.

- The next review meeting is planned for February 2017
- Meetings in January will discuss the future course of pension reforms and progress in developing e-payment systems

(6.) Next steps

.

- The Administrator will authorize the withdrawal of $83.5 million through the Recurrent Cost Window

- MoF will organize a press conference and outreach activities to increase the visibility of the IP following the meeting.

- MoF and the Administrator will organize meetings on pension reforms and e-payment systems in January.

- MoF will propose more precise language to the 2017 IP trigger on revenue administration reforms over the course of January

Participants:

Lehtonen Petri (Embassy of Finland for Nordic +), Sulaiman Salehi (KFW), and Ulrike Meier (Germany Embassy), Tony Salamone (US Treasury), Niaz Shinwari (USAID), Elise Rafuse (Canadian Embassy), Yunei Kim (Australia) Michael Blyth (DFID), DG Shirzad, Zia Haleemi, Naveed Niaz, Haseena Rahaman, Omar Durani, Shamsulhaq Noor (MoF), Paul Welton, Richard Hogg, Mohammad Wali Ahmadzai, Aman Farahi and Claudia Nassif (World Bank)