Minutes of ARTF Incentive Program Working Group Meeting
March 30, 2015

The ARTF Incentive Program Working Group (IPWG) convened on March 30, 2015 to discuss the Sixth Technical Review. The following agenda items were addressed: (1) Fiscal developments and the 2015 Government budget, (2) Recent trends and experiences in O&M management, (3) Sixth Technical Review and Disbursement recommendation, (4) Launching the preparation for the new ARTF Incentive Program (2015-17). These Minutes summarize the discussion and decisions reached.

(1) Fiscal Developments and the 2015 Government budget

Mr. Zia Haleemi, Director General of Budget, presented an overview of the 2015 budget, breakdown by different expenditure categories and financing sources (see presentation attached). DG Haleemi also updated the ARTF IPWG on recent discussions with the IMF on a Staff-Monitored Program (SMP):

- MoF and IMF have reached a staff-level agreement on the SMP. It is expected that the SMP will be concluded prior to the WB/IMF Spring meetings.
- The SMP includes an agreement on new revenue targets and a revenue reform package. Revenue measures include increases in taxes, tariffs and administrative fees as well as the introduction of a telecommunication tax. Enhanced efforts in taxpayer compliance and collection will accompany these measures. Overall, these measures are expected to increase revenue from Afs 100.1 billion in 2014 (8.6% of GDP) to Afs 120.4 billion (9.6% of GDP). The new revenue target is Afs 4.1 billion lower than budgeted.
- The Government also committed to exercise strict expenditure controls and contain non-priority spending. Contingency measures have been identified ("plan B") in case budget execution is not in line with plans. The mid-year budget revision will reflect a balanced budget.
- However, these targets are subject to a number of downside risks: some measures may fail to achieve parliamentary approval, others could invite increased tax evasion. Moreover, economic developments could undermine achievement of SMP targets. IP financing remains critical for balancing the 1394 budget.

(2) Recent trends and experiences in O&M management

MOF presented O&M expenditure trends, progress with achieving targets of the O&M facility, challenges in improving O&M management and lessons learnt (see presentation attached). MoF stressed that more technical assistance in Line Ministries would be needed for the next phase of the program. During the following discussion, MoF highlighted the critical role that the O&M facility played in both, (i.) preserving O&M spending in a constrained fiscal environment, and (ii.) improving O&M management in MoF and in Line Ministries. MoF regards the O&M facility as a successful initiatives and expressed desire to continue engagement on O&M under the ATF IP. The administrator suggested to organize a meeting with MoF to review experiences and challenges in more detail and to bring the results of this discussion into the next ARTF IPWG.

(3) Discussion of Sixth Technical Review and disbursement recommendations

The Administrator of the ARTF provided a brief overview of the 6th technical review of the ARTF IP (attached) which concluded:

- ***Revenue Matching Grant Scheme***: Domestic revenues in 1393 fell considerably short of the target and did not meet the minimum threshold for incentives in the Revenue Matching Grant scheme.
- **Structural Reform Scheme**: Since the last technical review the government has not furnished verification material to demonstrate the fulfillment of the five pending structural benchmarks for FY1393 (Civil Service Reform, Business licensing, and Trading across Borders, AML/CFT and Customs). As of March 25, 2015

allocations to structural benchmarks are discounted by 25 percent. The administrator urged the government counterparts to closely follow-up on the implementation of the pending benchmarks. MoF expects the benchmarks related to investment climate and AML/CFT to be implemented shortly while it expressed more pessimism with respect to customs and civil service reforms for this year as both will require more time for re-alignment with the priorities and plans of the new government.

- **Operations and Maintenance facility**: The baseline for 4Q 1393 was exceeded at the participating ministries level but not at aggregate level. This triggers disbursement of incentive funds of $33.6 million.

The ARTF IP working group endorsed the recommendation of the Administrator's 6th Technical Review to the ARTF management committee to disburse US$ 33.6 million in incentive funds out of the ARTF Incentive Program allocations for 1393.

(4) Launching the preparation for the ARTF IP 2015-17

The administrator launched the preparations for the new ARTF IP 2015-17. The new IP will be signed in conjunction with ARTF Financing Strategy 2015-2107 in June/July. As the on-going program, it will cover three years in alignment with the Government vision to reinforce multi-year budget planning.

The administrator suggested to organize the preparation process along the following three clusters:

- ***Stock-taking of experiences and discussion on lessons learnt:*** To this end, the administrator encouraged the ARTF IPWG to reflect on past experiences and requested both, the government and donors, to bring their thoughts and ideas to the next ARTF IPWG meeting. The Administrator will circulate some questions in advance of the meeting that could guide the discussion. In order to formalize and document the stocktaking exercise for future evaluations, the Administrator informed the ARTF IPWG of plans to conduct a mid-term review of the IP.

- ***Instrument design***: The preparations of the new IP will provide opportunity to re-think or confirm the instrument design of the IP (revenue matching grant, structural reform scheme and O&M facility). The administrator is currently developing a proposal for strengthening the O&M facility and the structural reform scheme that could improve accessibility to IP funds and help with better guiding funding decisions within the Recurrent Cost Window. As donors are contemplating channeling more funding through the Recurrent Cost Window, the IP instrument design needs to (i.) present a sufficiently viable and attractive option vis-a-vis the ad-hoc window and (ii.) preserve the integrity of the recurrent cost window, especially during times of fiscal stress.

- ***Content discussion – Structural Reform Scheme***: The administrator provided a quick overview over the process which would begin with an agreement on the focus areas of the Structural Reform Scheme and the gathering of first ideas for reform actions, around which further meetings will be organized. Ideally, the IP – both in design and content – would serve as the primary platform for donor policy dialogue on fiscal- and growth-related reforms. This will require a high level of coordination given on-going discussions on the implementation of the Government's reform strategy presented in London, the government's engagement with the IMF as well as individual efforts by donors to incentivize donor assistance. The ARTF IP will provide opportunity for both, cross-conditionality as well as complementarity to existing efforts and programs. MoF and the administrator assured that they will very closely coordinate the process with all stakeholders, especially with government counterparts, to ensure convergence of ideas and reform plans during this process. The administrator agreed to circulate guidelines for the formulation of IP structural benchmarks in advance of the next meeting.

Attendance:

Zia Haleemi, Momin Mansoor, Jawid Omar (Ministry of Finance), Michael Costa (Australian Embassy), Dan Rountree (US Treasury), Sepideh Keyvanshad (USAID), Emily Rupp, Amy Holman (US State), James Purcell, Chris Eleftheriades (DFID), Petri Lehtonen, Karin Boven (Nordic Countries), Phedra Morris (Canadian Embassy), Christine Toetzke (German Embassy), Rocco Busco, Michael de Knoop (EU Delegation), Claudia Nassif, Faruk Khan, Richard Hogg, Paul Welton, Omar Joya, Aman Farahi (World Bank Group).