

Public Disclosure Authorized

AFGHANISTAN Incentive Program Development Policy Grant (P168446)

ARTF Grant No. B0377

Update on Disbursements from the Afghanistan Reconstruction Trust Fund

1. In line with the World Bank's operational policy on *Development Policy Financing*, disbursement of a multi-tranche loan is conditioned on: (a) satisfactory implementation of the program supported by the loan, including compliance with the program's tranche release conditions; and (b) maintenance of a satisfactory macroeconomic policy framework. This document summarizes the progress made to the tranche release conditions (TRCs) for the release of a US\$300 million Afghanistan Reconstruction Trust Fund (ARTF) grant under the Incentive Program Development Policy Grant to the Islamic Republic of Afghanistan.

2. The Program is supported by a SDR 72.2 million (US\$100 million equivalent) IDA grant and a US\$300 million grant from the ARTF. The IDA financing was approved by the Executive Directors on June 20, 2019 and the ARTF grant financing was approved by the ARTF Management Committee on June 17, 2019. The Program has been progressing on track. The first tranche of US\$100 million of IDA grant is associated with three prior actions and was released on July 8, 2019 upon the Program's effectiveness. The ten TRCs for the release of the ten tranches of US\$30 million each of ARTF grant have been met by the Borrower. In addition, the Bank finds the macroeconomic policy framework of the Borrower satisfactory and consistent with the objectives of the Program for the purposes of releasing the tranches associated with the ten TRCs of the Program.

Public Disclosure Authorized

### Background

3. The Program supports continued progress with key reforms under the Afghanistan National Peace and Development Framework (ANPDF). Reforms supported by the operation are organized under two pillars: (i) strengthening the policy framework to support state effectiveness, private investment, and social inclusion; and (ii) improving the policy and institutional framework for public financial management. The Program is the second in a series of three planned operations aligned with Government's current three-year program of policy reforms.

4. The Program utilized innovations to the standard Development Policy Financing (DPF) design, within the current framework of the Bank's DPF Policy. First, the Program is composed of eleven tranches. The first tranche of US\$100 million of IDA grant is associated with three prior actions and was disbursed on July 8, 2019 upon the Program's effectiveness. Ten tranches of US\$30 million each of ARTF grant have been released upon the fulfillment of each tranche release condition.

### Macroeconomic Policy Framework

5. The macroeconomic policy framework is adequate but remains exposed to substantial downside risks. Growth has reached 2.9 percent in 2019, up from 1.8 percent in 2018. Recovery from drought is supporting moderate growth amid growing uncertainty over recent presidential elections and intensifying insecurity. Fiscal policy remains prudent, with a small budget deficit of 1.1 percent of GDP in 2019. Inflation remains moderate and foreign exchange reserves remain equal to more than eleven months of import cover. The macroeconomic outlook is subject to substantial downside risks that were presented to the Executive Directors on June 20, 2019: (i) fiscal and external stability heavily hinges on aid

flows which finance over half of budget and most of the large trade deficit; (ii) further deterioration in the security and political situation would severely undermine confidence and dampen growth. On the other hand, recent developments towards a peace agreement with the Taliban provide some cause for cautious optimism regarding prospects for an improvement in the security situation.

### **Progress Against Tranche Release Conditions Associated with ARTF Grant Financing**

6. **The Program is on track, with all ten TRCs fulfilled before the targeted Completion Date (November 15, 2019).** Timely completion of all TRCs allowed full disbursement of all associated tranches. Three TRCs under the first pillar of the Program support private investment through the national roll-out of e-money and mobile payments, reduced time and costs of obtaining electricity through reform of the power utility, and reforms to progress the establishment of an administrative land management system. Seven TRCs under the second pillar support public financial management through: i) strengthened management of public investment projects; ii) improved Operations and Maintenance (O&M) expenditure; iii) improved tax administration; and iv) strengthened fiscal transparency through publication of regular revenue and cash management reports. Below are the ten TRCs with respective fulfilment dates:

**Condition 1:** To develop a regulatory framework for e-money and digital payments: i) Da Afghanistan Bank (DAB) issues a circular to operating banks and MOF issues a circular to tax and customs directorates and provincial offices allowing for electronic payment of customs and tax dues; and ii) DAB issues a circular requiring participation of all mobile money providers, payment card issuers, and acquiring banks in Afghanistan Payment System to enable interoperability. [Fulfilment: April 9, 2019]

**Condition 2:** To reduce the costs and time requirements of accessing electricity, Da Afghanistan Breshna Sherkat's (DABS) Senior Management Group: i) approves simplified subscription procedures for commercial and industrial customers; ii) establishes a fast-track center for large customers in Kabul; and iii) approves a formal written procedure to regularly review and manage domestic and international power purchase agreements (PPA) including through the establishment of a multi-disciplinary team with the mandate of managing such contracts. [Fulfilment: November 10, 2019]

**Condition 3:** To improve land administration the Supreme Court and the Ministry of Urban Development and Land (MUDL) sign a protocol transferring responsibility for deed registration to MUDL in Herat city. [Fulfilment: October 24, 2019]

**Condition 4:** To improve public investment management the circular for the 2020 budget: i) includes detailed guidelines on financial, economic, and gender analysis; and ii) specifies that no new project proposal of greater than US\$ 7.5 million will be approved for further appraisal through the discretionary budget for 2020 without strategic fit analysis and no new project of greater than US\$7.5 million will be approved for implementation without project appraisal including financial, economic, and gender analysis. [Fulfilment: July 2, 2019]

**Condition 5:** To improve tax administration, the Ministry of Finance (MOF) issues a circular to make fast-track tax filing mandatory for banking and telecommunication sectors in the large taxpayer office (LTO) and available for optional use in the medium taxpayer office (MTO). [Fulfilment: 28 April 2019]

**Condition 6:** To improve tax administration, a Tax Dispute Resolution Board is equipped with five board members and a secretariat. [Fulfilment: 6 August 2019]

**Condition 7:** To strengthen tax policy Cabinet approves Value-Added Tax (VAT) regulations, including proposed exemptions by Harmonized System (HS) product code and refund procedures. [Fulfillment: November 12, 2019]

**Condition 8:** To underpin implementation of the new O&M policy, a MOF circular mandates the use of revised norms for civilian vehicles and buildings in at least the four pilot ministries in preparing the 2020 budget. [Fulfillment: 24 October 2019]

**Condition 9:** To improve transparency MOF publishes fortnightly revenue reports on its website that: i) provide full disaggregated tax and customs performance data at the level of collection points; and ii) track progress against government revenue targets. [Fulfillment: November 15, 2019]

**Condition 10:** To improve accountability and quality of cash-management, the cash management committee meets at least every 21 days and publishes minutes of decisions taken at those meetings on its website within seven days of the meeting. [Fulfillment: November 15, 2019]

## **Conclusion**

7. In view of the satisfactory implementation of the Program, including compliance with the TRCs, as described in Schedule I, Section II, Part C of the ARTF Grant Agreement, and maintenance of a satisfactory macroeconomic policy framework, the Bank, as Administrator of the ARTF, has informed the Borrower of the availability of the ten tranches associated with TRCs in the amount of US\$300 million. Disbursement of the ten tranches is consistent with ARTF Management Committee's decision on June 17, 2019, which approved ARTF financing for the Program, subject to the fulfilment of conditions as described in the ARTF Grant Agreement. The Implementation Completion Report will be presented to the Board after the closing of the program on May 15, 2020.