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Islamic Republic of Afghanistan
Ministry of Finance
Chief of Staff
ریاست دفتر

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Mr. Jim Yong Kim
President
The World Bank Group
1818 H Street, NW
Washington DC, 20433
USA

RE: Inclusive Growth Development Policy Operation

Dear President Kim:

This letter lays out key elements of the Islamic Republic of Afghanistan's economic policy and institutional reform program. The Government of Afghanistan requests assistance from the World Bank Group in the form of a development policy operation to support priority reforms under this program.

Afghanistan has made huge strides in the past 16 years. Core democratic and government institutions have been established, macroeconomic stability has been maintained, and access to services has expanded substantially.

The formation of the NUG opened a new chapter of reforms in general and in the economic sector in particular. Afghanistan achieved 27 out of 30 of the reform benchmarks under Realizing Self-Reliance through Mutual Accountability Framework for 2015-2016. The other remaining 3 were also achieved, albeit with a delay. An IMF staff monitored program (SMP) was successfully completed and a subsequent extended credit facility (ECF) focusing on macroeconomic reforms is currently being implemented. A special Anti-Corruption Justice Center with a dedicated major crimes unit was established. Following a range of tax policy and administration reforms, revenue collection from normal streams increased by 16 percent in 2016 (and 25 percent when one-offs are included), surpassing the IMF target of 7 percent. This followed an impressive 22 percent increase of the 2015. As a share of the GDP, revenue has increased from a low of 8.7 percent in 2014 to nearly 11 percent in 2016. This is a notable achievement, considering the increasingly challenging environment.

Despite the progress outlined above, important challenges still remain. Since the drawdown of international security forces in 2014, growth rates have slowed substantially, security challenges have increased and investment has declined increasing unemployment and poverty rates. Challenges have been exacerbated by the ongoing returnee and internal displacement crisis, with large numbers of Afghans requiring resettlement after returning from overseas or fleeing domestic conflicts. With aid flows expected to decline over coming years, it will be vital for new sources of growth to be mobilized and new investment facilitated.

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In this context, the Government of Afghanistan is committed to further reforms to increase investment, generate adequate jobs for the young and growing population, and create new opportunities for excluded and vulnerable populations, including the displaced. A comprehensive strategy for achieving peace, and economic and social development is presented in the new Afghanistan National Peace and Development Framework (ANPDF). We are requesting World Bank support to vital institutional and policy reforms that underpin the new ANPDF priorities. These reforms are organized under two pillars: i) enhancing the policy framework to expand access to opportunities for the vulnerable; and ii) strengthening the policy framework for private sector development.

Enhancing the policy framework to expand access to opportunities for the vulnerable

The Government of Afghanistan is fully committed to ensuring a better future for Afghans including the 1.2 million internally displaced people and more than one million Afghans that returned to Afghanistan in 2016. Substantial efforts have been taken over the past year to provide immediate assistance to returnees and IDPs, including initiatives to provide immediate humanitarian and financial relief. Cabinet has recently approved a policy framework for IDPs and returnees that will ensure sustainable reintegration of displaced populations, addressing issues of equity, access to services, and access to land. The policy also establishes governance mechanisms for a coordinated whole-of-government policy response to the current crisis, under the ultimate leadership of the Cabinet and Council of Ministers.

Under this pillar, Cabinet has also recently approved important improvements to the legal framework for land management. The new Land Management Law is ratified through Presidential Decree which will establish an administrative system of land management in Afghanistan, facilitating access to secure land rights for all Afghans while reducing reliance on the over-burdened court system. The new Land Acquisition Law will substantially overhaul the framework for public land acquisition, introducing a range of important protections for landowners and occupants while still facilitating land acquisition for vital public purposes. Together, these laws will facilitate investment and private sector activity through the strengthening of property rights while explicitly enhancing protections against land-grabbing available to the vulnerable.

Finally, we are working to develop a financial inclusion strategy to expand access to financial services to many more Afghan households and firms. As a key step towards this goal, Da Afghanistan Bank has issued regulations governing electronic money institutions laying the foundations for technology-driven expansions in access to financial services, especially for those living in insecure and remote areas.

Strengthen the policy framework for private sector development

The ANPDF places high priority on private investment as the core driver of job creation. Government recognizes that private sector activity will play a vital role in driving growth and revenues in the context of lower aid inflows.

Accordingly, the High Economic Council recently approved a new Open Access and Competitive Provisioning Policy for fiber-optic telecommunications technology. This policy will address an



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immediate constraint to private investment in the sector and establish the foundations for new investment, increased competition, and improved access to fiber-optic services.

Cabinet also recently approved a new policy and legal framework for Public-Private Partnerships (PPPs) in Afghanistan. PPPs provide opportunities for mobilizing private capital in vital sectors in Afghanistan. International experience, however, has demonstrated the importance of an adequate policy and legal framework to manage risks to government and provide necessary certainty to investors. Among other things, the new PPP policy and law will ensure transparency and contestability in PPP contracts while also establishing requirements for the identification and management of any environmental risks.

In order to improve the business regulatory environment and reduce compliance costs facing firms, we have made important administrative changes to our business licensing regime. The Afghanistan Investment Support Agency has been merged into the Ministry of Commerce and Industry, allowing for important streamlining of business license processes. These changes are expected to reduce the time and costs associated with business licensing.

Finally, a new Income Tax Law is approved by Cabinet and Accountancy Law is ratified through Presidential Decree, which establishes a legal framework for accountancy services and the development of accounting capacity in Afghanistan. Over time, this is expected to facilitate investment, support financial sector development, reduce costs of accessing accounting capacity, and reduce opportunities for corruption.

Government is well aware of the potential environmental impacts of the above reforms, including intensified land use and pollution through new investment following improvements to the business environment. Reflecting this, Government will continue to strengthen the regulatory framework for environmental protection, including implementing new regulations for strengthened environment and social impact assessment processes and implementation of a new natural resources management strategy under the Ministry of Agriculture, Irrigation, and Livestock (MAIL).

Overall, Government is strongly committed to the ambitious program of reforms supported by this operation. We look forwards to working with the World Bank on our ongoing economic reform agenda over years to come.

I take this opportunity to thank the Word Bank Group for its continued support to Afghanistan.

Sincerely,

Eklil Hakimi
Minister