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**Statement by Mr. Odonye and Mr. Essuvi on Islamic Republic of Afghanistan
(Preliminary)
Executive Board Meeting
November 6, 2020**

We thank staff for a comprehensive report and Messrs. Hosseini and Sassanpour for their informative Buff statement.

The COVID-19 pandemic has amplified Afghanistan's armed conflict and fragility and is testing the country's health and economic resilience. Economic activity has sharply contracted, and a further intensification of the pandemic could derail the incipient recovery and expand the fiscal and external financing needs. Against this backdrop, we support the authorities' request for a 42-months ECF arrangement to address the protracted balance of payment needs and to fight the health crisis. While agreeing that Fund's support would catalyze additional resources from other development partners, we urge the authorities to remain resolute on their commitment to implement strong policies to ensure sustainable and inclusive growth.

We welcome the authorities' renewed engagement with the international community to implement reforms under their updated national development framework. We see the upcoming donor conference as timely to help raise resources to meet the remaining financing gap. Like staff, we see scope for Fund-program that focuses on post-pandemic recovery and helps strengthen resilience. Preserving macro-financial stability, reversing the fiscal deterioration caused by the pandemic, protecting development spending, maintaining low debt and adequate level of international reserves, and ensuring price stability are the main focus.

We agree that advancing domestic revenue mobilization would be crucial to create fiscal space and undertake Afghanistan's social and development investment while also limiting the dependence on foreign aid in the medium-to-long term. In this regard, we would appreciate staff elaboration on why the authorities decided to postpone the much-needed introduction of the VAT. During the Board discussion of the sixth and last review under the 2016-2019, the authorities were encouraged to consolidate all large taxpayers under a fully

functional Single Large Taxpayers Office (SLTO). *Could staff elaborate on this important consideration and whether additional adjustments would be needed based on their experience?* On the expenditure front, we see merit on the authorities' decision to prioritize essential spending while enhancing the allocation of resources through the public expenditure review (PER) and strengthening the Supreme Audit Office (SAO). Furthermore, promoting transparent fiscal institutions that are anchored on a strong medium-term fiscal framework (MTFF), will be important to bolster fiscal discipline.

Addressing financial sector risks and vulnerabilities remains vital to support economic development. Despite the commendable actions of the Da Afghanistan Bank (DAB) under the weak banks plan, vulnerabilities remain in the system. To mitigate them, we encourage the authorities to strengthen their regulatory and supervisory framework. A notable work on this front is the establishment of the supervisory department to deal with unregulated financial institutions (hawalas), which we acknowledge, including money service providers and foreign exchange dealers that help better manage risks stemming from those activities.

Finally, accelerating structural reforms and strengthening the fight against corruption are fundamental to improve the business environment and promote a more inclusive growth. Afghanistan's prolonged instability continues to limit its efforts to implement the National Anti-Corruption Strategy. In this connection, we encourage more work on the various anti-corruption measures since the authorities are still far from winning this battle, in part, due to their weak institutional capacity. Building relevant institutions and human capacity would remain crucial while the authorities strengthen the criminal justice system and anti-corruption structures. Sustaining efforts on improving national coordination and implementation of AML/CFT preventive measures would shield the financial sector from illicit flows while restoring correspondent banking relationships. We also urge the authorities to continue improving the business environment to boost private investment.

With these comments, we wish the Afghanistan's authorities success in these challenging times.