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November 4, 2020

**Statement by Ms. Levonian and Ms. Edwards on Islamic Republic of Afghanistan
(Preliminary)
Executive Board Meeting
November 6, 2020**

We thank staff for their report and Mr. Hosseini and Mr. Sassanpour for their helpful Buff statement.

The ongoing conflict in the Islamic Republic of Afghanistan has posed significant challenges in recent years and has left Afghanistan highly vulnerable to external shocks such as the COVID-19 pandemic. The impact of the pandemic on Afghanistan's fragile economy has been severe. We recognize and support the authorities' policy response to the pandemic and welcome the decision to accommodate emergency health and social spending to protect the most vulnerable. However, we also recognize that the economic situation has deteriorated sharply since the last Extended Credit Facility (ECF) ended in December 2019.

Sustained efforts to safeguard macroeconomic stability, reverse fiscal deterioration, advance governance and structural reforms, support equitable social outcomes and promote inclusive growth are therefore necessary. In this context, we support the authorities' request for a 42-Month Arrangement Under the Extended Credit Facility (ECF), with access at 80 percent of quota (SDR 259.04 million).

Policies and measures envisaged under Afghanistan's 2021–25 development strategy, currently being finalized, should fully incorporate the thrust of the Fund program. We welcome the proposed program's emphasis on fiscal reforms, which are aimed at improving revenue collection and better control of public expenditure. On the revenue side, we note that the introduction of a VAT is now being considered, along with measures to reduce customs leakages. On the expenditure side, we support the undertaking of a Public Expenditure Review (PER) and the proposal to increase and improve efficiency on social spending.

We support staff's assessment that actions to enhance the functionality of public financial management are crucial, including the preparation of the Fiscal Strategy Paper (FSP), the

introduction of public investment management (PIM) regulations to improve the project management cycle and the oversight of public entities.

We note that Afghanistan's public debt is low although the risk of debt distress is "high." We note further that the capacity to repay the Fund remains adequate.

We recognize that risks to the program are high. The depth and duration of the global pandemic will have an important bearing on the success of the program, as will authorities' ability to make progress toward resolving Afghanistan's internal fragilities. Maintaining political stability and promoting good governance will be especially critical in this regard. **With that in mind, we note positively the progress made toward achieving political reconciliation.** A successful conclusion to these negotiations, and the peaceful environment it would enable, is a critical factor for facilitating the implementation of reform measures and boosting confidence and economic activity.

We strongly support the emphasis in the program on improving the business climate and urge the authorities to address the gaps and challenges in areas such as investment freedom, including starting business, enforcing contracts, and quality of judicial proceedings. With over 50 percent of the population below the poverty line and women excluded from several aspects of economic activity, addressing poverty, gender inequality and women empowerment should remain a top priority. The inclusion of Afghanistan's women and girls is foundational for ensuring long-term economic stability and growth.

Durable financial sector reforms are vital to banking system stability and economic development. In that regard, we support the authorities' plan to step up the implementation of reforms including the corporatization of licensed financial institutions, implementing recommendations from the AML/CFT National Risk Assessment (NRA) and building capacity for regulation and supervision of financial institutions. We note the actions that have been taken to improve governance and reduce corruption and encourage the authorities to pursue the agreed reform agenda in order to strengthen the capacity of anti-corruption institutions and reinforce the need for accountability in public spending. These efforts are critical for strengthening good governance and ensuring quality delivery of basic services for all.

Finally, we urge authorities and staff to continue working closely with all other implicated international financial institutions and bilateral donors. Ongoing coordination and information sharing will be crucial in order to ensure a successful conclusion to the ongoing program of reforms.