



**MINUTES**  
**ARTF Incentive Program Working Group Meeting**  
**11<sup>th</sup> March 2020**

**Agenda item #1: Management of Political Risks**

- **World Bank** updated the IPWG on outcomes of the World Bank Concept Review meeting held on the 27<sup>th</sup> February. The main question arising from the meeting was how to deal with potential major political uncertainty in a context where non-disbursement could drive fiscal instability and exacerbate fragility. Disruption of basic government functions, including delays in establishment of a Cabinet, could prevent the completion of several policy actions.
- **World Bank** suggested three possible approaches to addressing this challenge:
  1. **Business as usual.** IP-DPG would proceed to World Bank board approval as planned and following current design. If major political disruptions prevent the completion of policy actions, ARTF resources would be withheld and could be made available through other programs or a new emergency budget support operation.
  2. **Flexibility to modify Tranche Release Conditions throughout the year.** The IP-DPG documentation could be modified to provide for modification of Tranche Release Conditions following World Bank Board approval, subject to approval from the ARTF Management Committee. The World Bank would agree with Government and IPWG specific conditions under which post-approval changes to TRCs could be considered, centered on major political disruption undermining the functioning of Cabinet and the capacity of government to undertake Cabinet-level actions (such as approving regulations and legislation). If such conditions were met, TRCs could be altered to reflect administrative-level policy actions that could proceed even without a sitting Cabinet with formal constitutional authority. Revisions to policy actions would be agreed with full participation of the IPWG.
  3. **Splitting the IP-DPG into two operations.** The IP-DPG could proceed to World Bank board approval including only the four Prior Actions associated with US\$160 million of IDA. A separate operation would be prepared later in the year (i.e. November) to mobilize the ARTF allocation of US\$243 million, through approval by the ARTF Management Committee. ARTF resources would be mobilized against a set of Prior Actions (already completed) that would ideally include all those actions included in the current documentation as TRCs. However, the World Bank with IPWG would have flexibility to alter the actions prior to approval if major political disruption made this necessary.
- **World Bank offered its assessment of the options, and recommended Option Two to the IPWG.** The costs and benefits of each option are outlined in the following table.



	Benefits	Costs/Risks
<b>Option 1</b>	<ul style="list-style-type: none"> <li>Provides complete certainty as to reform expectations.</li> <li>Generates strong incentives to progress reforms regardless of political context.</li> </ul>	<ul style="list-style-type: none"> <li>Political disruptions that undermine the functionality of Cabinet would prevent several actions from being achieved, leading to substantial ARTF resources being undisbursed and potentially impacting fiscal stability and capacity of government to meet immediate payment needs.</li> <li>World Bank may face delays in preparing and gaining approval to any emergency budget support project, placing fiscal stability of government at risk.</li> <li>Complete and inflexible dependence on Cabinet-level decisions for mobilizing much-needed budget support may have perverse political impacts and be used to game outcomes by various parties to political negotiations.</li> </ul>
<b>Option 2</b>	<ul style="list-style-type: none"> <li>Provides relative certainty as to reform expectations with a single pre-approved reform program</li> <li>Provides flexibility to adjust the reform program ONLY under extreme political circumstances beyond the control of government.</li> </ul>	<ul style="list-style-type: none"> <li>Slightly weakens incentives to progress reforms regardless of political context.</li> </ul>
<b>Option 3</b>	<ul style="list-style-type: none"> <li>Provides full flexibility to adjust policy actions through the year.</li> <li>Allows certainty of disbursement.</li> </ul>	<ul style="list-style-type: none"> <li>Full flexibility to adjust the reform program may weaken incentives for implementation.</li> <li>Reduced certainty and credibility with high discretion over content of reform program.</li> <li>Delayed disbursement against all TRCs until a second operation was approved in November would create major cash-flow problems for government</li> </ul>

- **World Bank** asked IPWG members to present these options to capitals and provide feedback as soon as possible. Given time pressures in preparing the operation, World Bank asked for immediate feedback if possible major objections to the preferred option (Option 2).
- **World Bank** noted that further discussions are planned with the World Bank Policy Team (OPCS) to discuss and refine the wording and framing of policy actions. The World Bank team noted that they are hoping to preserve the substantive content of all Policy Actions, but that wording changes may be required.

## **Agenda item #2: Progress against policy actions**

- **World Bank** circulated the attached draft Policy Action Monitoring Matrix and updated IPWG members on progress against Policy Actions.



- **Ministry of Finance** noted potential risks to completion of the Prior Action relating to Cabinet approval of the Public Investment Management Regulations, given that a Cabinet schedule has not been set and it is not clear when Cabinet will again sit given current political negotiations.
- **World Bank** noted that delays to completion of Prior Actions represents a major risk, as the Board cannot approve the operation until all Prior Actions are complete. Delays would prevent the operation from being approved in the current World Bank fiscal year, leading to the loss of IDA resources. World Bank suggested the following course of action for managing this risk.
  1. Careful monitoring of the situation over the next two weeks. If Cabinet resumes normal operation, the current Prior Action can be retained and the PIM regulations approved and gazetted.
  2. If, after two weeks, Cabinet is not sitting and the PIM Regulations cannot be approved by Cabinet:
    - The PIM Regulation Prior Actions will be moved to a Tranche Release Condition;
    - An additional Prior Action will be added to the program for the publication of line-item expenditure data through the World Bank Open Budget Portal using the BOOST database;
    - ARTF allocations against each TRC will be adjusted to reflect the higher number of TRCs (increase number of TRCs from nine to ten, reduced tranche amount against each TRC from US\$27 million to US\$24 million).
- **IPWG members present at the meeting** endorsed the proposal in-principle, noting that feedback from Capitals may be required. The World Bank requested immediate feedback from all IPWG members on the proposal within one week and noted that the team is willing to discuss with IPWG members bilaterally on request.

### Agenda item #3: Other business

- **Ministry of Finance** updated IPWG members on recent significant changes in senior-level staff within the Ministry of Finance revenue and customs departments. World Bank noted that such changes pose risks to continuity and implementation of major planned reforms, including VAT implementation that will need to be carefully managed by Government.
- **Ministry of Finance** updated IPWG on planned restructuring of the Ministry of Finance. IPWG members noted that it would be desirable for Government to:
  - Carefully consider the implications of substantial restructuring to the timeframes for implementation of reform programs, including the Incentive Program and implementation of the VAT;
  - Carefully consider the benefits of any restructuring against the likely costs in terms of administrative delays and disruptions;



- Communicate intentions early to development partners and embassies to avoid the emergence of negative perceptions during a crucial period leading up to the 2020 Pledging Conference.
- **World Bank** noted that we will be coordinating with the IMF to raise the issue of Ministry of Finance restructuring with the Minister of Finance and potentially the President.

**Actions:**

- IPWG members to provide feedback on the proposal for risk management as soon as possible.
- IPWG members to provide feedback on the proposal for managing risks around the PIM Regulation given current disruptions to Cabinet business.

World Bank requests that any major potential issues with either proposal be raised immediately (within one week).

**Attachments:**

- Current policy action monitoring matrix

*All attachments are available in the shared folder.*