



AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)

Management Committee Meeting

Monday July 9, 2018

MINUTES OF MEETING

MC MEMBERS

Ministry of Finance (MOF)

- Mr. Aman Farahi, DG Policy Analysis
- Ms. Sheela Samimy, Sr. Aid Coordination Specialist

United Nations Development Programme (UNDP)

- Mr. Jocelyn Mason

United Nations Assistance Mission Afghanistan (UNAMA) (*observer*)

- Mr. Toby Lanzer
- Mr. Atul Gupta

WORLD BANK (ADMINISTRATOR)

- Mr. Shubham Chaudhuri, Country Director
- Mr. Wali Ahmadzai, Operations Officer
- Ms. Katie Blanchette, Operations Officer
- Mr. Tae Hyun Lee, Lead Country Economist
- Mr. Bernard Haven, Public Sector Specialist
- Mr. Saidel Mayar, Operations Officer
- Ms. Shuglah Hellali, Operations Officer
- Mr. Najibullah Ziar, Operations Officer

1. APPROVAL OF MEETING MINUTES

The ARTF Management Committee (MC) approved the meeting minutes from the last in-person meeting held on March 12, 2018.



2. ADMINISTRATOR'S REPORT ON FINANCIAL STATUS OF ARTF

The Administrator presented a report on the financial status of the ARTF parent trust fund (cash position and net balance) as projected through of July 31, 2018. (Appended.)

The ARTF began FY 1397 (2018), the first year of the new 2018-2020 financing strategy period under the approved Partnership Framework and Financing Program, with a negative net balance. As of December 21, 2017 (the end of the previous financing strategy period), the ARTF parent trust fund had a cash balance of USD 446.92 million and had outstanding commitments of USD 749.08 million, which led to a negative net balance of USD 302.16 million. (See Table 1, which was also presented in the PFFP approved at the June 25, 2018 meeting of the ARTF Steering Committee). The Administrator explained that the negative net position reflected the conservative approach to managing, and accounting for, ARTF resources. The “outstanding commitments” total reflected the accumulation of all approvals from the 2015-2017 financing strategy period for which actual transfers from the ARTF parent fund to specific child trust funds had not yet been made. The Administrator records all commitments upon approval, even those covering forward tranches for which a legal agreement will not be signed until some point in the future. (Note that once the legal agreement for a project has been negotiated and signed, funds for that project are transferred to a child trust fund account. A transfer to a child trust fund account “locks” the funds under a project.)

Based on actual contributions received to date, as well as contributions that are currently being processed pursuant to signed agreements, the Administrator projects that contributions totalling USD 170 million will have been received from ARTF donors during the first seven months (December 22, 2017 – July 31, 2018) of the PFFP period, increasing the cash available. Total commitments and cash outflows during the same period are projected to result in a negative net balance of USD 802 million, and a negative cash balance of USD 175 million. The Administrator explained that in actual practice, the trust fund cannot hold a negative cash position. If additional donor contributions were to be received by the end of July 2018, the contributions would offset the projected negative cash balance. If sufficient anticipated contributions are not received in July, signature of grant agreements for pending commitments can be delayed until sufficient funds are available, in line with the approved PFFP. The Administrator re-emphasized that there is a degree of asymmetry in the financial reporting, because all commitments are reported as actual as soon as the Management Committee approves them, even though they are not legally binding until a grant agreement is signed. By contrast, to ensure accurate and conservative reporting, the Administrator does not record pledges in financial reports.

The Management Committee endorsed the Administrator's report on the financial status of the ARTF.

3. REQUEST FOR APPROVAL: Afghanistan Incentive Program Development Policy Grant (US\$ 210 million)



The ARTF Administrator requested the Management Committee to approve USD 210 million financing for the Afghanistan Incentive Program Development Policy Grant (IPDPG). This proposed ARTF grant will be co-financed with an IDA grant of USD 90 million equivalent which was approved by the World Bank Board of Executive Directors on June 14, 2018.

The Administrator explained that the initiative presented for approval is one element of the evolution in the ARTF Recurrent Cost Window (RCW) outlined in the approved PFFP. Currently, the ARTF-RCW comprises (unconditioned) baseline support, an Incentive Program, and an Ad Hoc Payments Facility. All current and planned elements of the ARTF-RCW, including the IPDPG presented for approval, represent “budget support” as opposed to “investment financing”, meaning that funds are not earmarked within the GoIRA budget for specific activities, but rather are unearmarked and available for general budget support. Moving forward, baseline support will be phased out, and the proportion of incentivized funds is being increased with the introduction of the new IPDPG. (A fiscal stability fund will be developed in the coming months to preserve some of the stabilizing features of the existing baseline support, and the financial intermediary functionality of the existing Ad Hoc Payments facility will be preserved.)

The Pillars and Program Development Objectives of the IPDPG are: (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. Key reform areas supported under the grant are as follows: (i) Governance and state-effectiveness reform-civil service reform and digital payments/e-money; (ii) Promoting growth and investment-Doing Business reform, power utility reform, water/irrigation management; (iii) Social inclusion/Displacement crisis-issuance of property documents/land governance; (iv) Improved revenue administration- E-tax filing roll-out and reforming taxpayer categorization; (v) Expenditure efficiency and quality-strengthened public investment budget preparation, and operations and maintenance expenditure improvement.

The Administrator outlined benefits of the IPDPG, including the harmonization of IDA and ARTF policy based programming and expansion beyond the limited fiscal policy scope of the current IP. The Administrator reported that at the June 14 presentation of the IPDPG, the World Bank Board approved the IDA-funded portion of the program, and supported the initiative as a uniquely fit for purpose instrument for FCV contexts like Afghanistan. In response to a query, the Administrator confirmed that IDA funds are also unearmarked under the terms of the legal agreement. The IDA funds specifically cover three prior actions, whilst the Management Committee is asked to approve the first tranche of seven forward actions for completion prior to November 2018 (with an incentive value of USD\$ 30 million each, or USD\$ 210 in total). Disbursement depends on performance. The World Bank provides implementation assistance to support delivery, and the Ministry of Finance is ensuring close cooperation with responsible line ministries, notably by signing memoranda of understanding with line ministries for specific reforms. If an action is not completed by



the deadline, an incentive may still be paid upon later delivery, although with reductions that increase with every month past the original target date. If an unpaid balance remains in May 2019, the funds will be reabsorbed by the ARTF parent trust fund.

In response to a query, the Administrator explained the iterative process of selecting IPDPG priorities, with input solicited from GoIRA and World Bank teams and from development and bilateral partners. Discussions are coordinated with the European Union's State Building Contract (SBC) through GoIRA's PACT mechanism. (Originally established to help coordinate the IP, the EU-SBC, and USAID's former New Development Partnership, the PACT has been beneficial in coordinating policy dialogues, in particular because under PACT all government interlocutors for these vehicles have been consolidated. The Ministry of Finance explained that while the SMAF/GMAF does not currently fall within the scope of the PACT, it has the same internal government interlocutors as the PACT mechanism.) UNDP observed that national Sustainable Development Goal indicators could be aligned with existing agreed benchmarks in PACT-facilitated mechanisms, and the MOF concurred, observing that discussions are ongoing within government to discuss the possibility, and also to encourage that SDG indicators be pulled from National Priority Programmes, which are well-aligned with the global Sustainable Development Goals.

Decision: The Management Committee approved US\$210 million financing for the Afghanistan IPDPG.

4. REQUEST FOR APPROVAL: Initial Allocation to the ASIST Window (US\$2 million)

The ARTF Administrator requested the MC to approve an initial allocation of US\$2 million for the newly created Advisory Services Implementation Support and Technical Assistance (ASIST) window. The establishment of the window was approved by the ARTF Steering Committee as part of the new ARTF PFFP for 2018-2020.

The Administrator reviewed the genesis of the ASIST facility, as outlined in the PFFP, and discussions within the Strategy Group prior to presentation to the Management Committee. In response to a query, the Administrator confirmed that ASIST will replace and modify the existing RAP window. RAP supported only analytic work, whilst ASIST will continue to support analytic work, but will also broaden to include longer term technical assistance and /implementation support. Will also provide a mechanism for bilateral partners to pool (additional) funds in support of joint support initiatives.

Decision: The Management Committee approved the first allocation of US\$2 million financing for the ASIST Window.



5. Virtual MC Approvals- Replenishment of the RCW Child Trust Fund and EQRA Project Preparation Grant (PPG)

These minutes document two virtual approvals by the MC of replenishment of the RCW child trust fund in the amount of US\$170 million on May 12, 2018, and approval of the EQRA PPG effective June 12, 2018 in the amount of US\$3.43 million.

6. AOB.

PFFP: The Administrator informed the MC of the June 25, 2018 endorsement by the ARTF Steering Committee of the 2018-2020 ARTF PFFP.

Appendix: Administrator's Report on Financial Status of the ARTF

ARTF Management Committee Meeting (July 9, 2018) – ARTF Finances – Cash Position and Net Balance	
TABLE 1: ARTF PARENT TRUST FUND CASH & NET POSITIONS AT END OF 2015-2017 FINANCING STRATEGY PERIOD AS OF DECEMBER 21, 2017 (USD million)	
ARTF PARENT FUND: CASH BALANCE [A]	446.92
ARTF PARENT FUND: OUTSTANDING COMMITMENTS (PENDING TRANSFERS) [B]	749.08
Pending transfers to the Recurrent Cost Window [1]	215.58
- Pending Payments for previous year's IP benchmarks	300.00
- Undisbursed balance in RCW Trust Fund	(84.42)
Outstanding commitments (pending transfers) to project-CTFs¹ under Investment Window [2]	533.50
- Citizens' charter	100.00
- Citizens' charter (committed in October 2016 from anticipated 2018-2020 PFFP)	200.00
- Capacity Building for Results	50.00
- System Enhancement for Health in Transition (SEHAT)	97.00
- International Labor Migration - PPG	5.00
- Mazar Gas to Power Project - PPG	6.50
- Fiscal Performance Improvement Support Project (FSP)	75.00
ARTF PARENT TRUST FUND: NET POSITION [C]=[A]-[B]	(302.16)

TABLE 2: ARTF PARENT FUND: PROJECTED END-JULY 2018 CASH BALANCE AND NET POSITION (USD million)		
	Net Position	Cash Position
ACTUAL STARTING VALUES: DECEMBER 21, 2017 [A]	(302.16)	446.92
PROJECTED SOURCES OF FUNDS: DECEMBER 21, 2017 TO JULY 31, 2018 [B]	170.00	170.00
PROJECTED USES OF FUNDS: DECEMBER 21, 2017 TO JULY 31, 2018 [C]=[1]+[2]	670.50	792.00
Projected commitments and transfers to Recurrent Cost Window [1]	210.00	380.00
- Anticipated payments for 2017 Incentive Program benchmarks		170.00
- Projected commitments to 2018 Incentive Program DPG	210.00	210.00
Projected commitments and transfers to project-CTFs under Investment Window [2]	460.50	412.00
- Citizens' charter ²		100.00
- System Enhancement for Health in Transition (SEHAT) ²		60.00
- International Labor Migration - PPG ²		5.00
- Mazar Gas to Power Project - PPG ²		6.50
- Fiscal Performance Improvement Support Project (FSP) ²		75.00
- SEHAT-mand ³	425.00	130.00
- PPP & Public Investment Advisory Project (PPIAP) ³	30.00	30.00
- Education Quality Reform in Afghanistan (EQRA) - Project Preparation Grant (PPG) ³	3.50	3.50
- Advisory Services, Implementation Support and TA (ASIST) Facility ³	2.00	2.00
PROJECTED END VALUE: JULY 31, 2018 [D]=[A]+[B]-[C]	(802.66)	(175.08)

NOTES:

¹CTF stands for "Child Trust Fund" - There is a designated CTF for each project funded by ARTF

²Pending tranche or anticipated transfer committed under the 2015-2017 Financing Strategy

³Anticipated commitments under 2018-2020 Partnership Framework and Financing Program (PFFP)