

ARTF Steering Committee Meeting Minutes

March 6, 2017

Summary of Discussions

An ARTF Steering Committee (SC) Meeting was held in Kabul on March 6, 2017 and was attended by 16 donor representatives¹, the Ministry of Finance (MoF), the Attorney General, and the ARTF Administrator (the World Bank). UNAMA attended as an observer. The meeting was co-chaired by the Minister of Finance, His Excellency Mr. Eklil Hakimi, and Mr. Shubham Chaudhuri (World Bank Country Director [WB CD]). The meeting endorsed: (i) the 1395 Update to the ARTF Financing Strategy (FS); and the (ii) the plans to begin preparations of the next ARTF Financing Strategy for 1397-1399 (2018-2020) as part of the process of supporting the operationalization of the Afghanistan National Peace and Development Framework (ANPDF). Both issues put forward for the ARTF Steering Committee's endorsement were discussed and supported by the ARTF Strategy Working Group during meetings held in late 2016, and February, 2017.

Summary of Discussion

Opening Remarks: The Minister of Finance, His Excellency Mr. Hakimi, opened the meeting by thanking the donors and ARTF Administrator for their continued support during a key transition period for Afghanistan. He emphasized the importance of continued ARTF support to respond to the needs of the Afghan people. The World Bank Country Director, Mr. Chaudhuri, thanked the Minister, the Government of Afghanistan, and the ARTF donors for their participation at the meeting, and their collaboration as key ARTF stakeholders. He outlined 5 key facts (see below) to set the context for the discussions on the ARTF.

Attorney General's Briefing: The Attorney General (AG) His Excellency Mr. Hamidi, and the Executive Director of the Anti-corruption and Justice Center (ACJC) provided a summary of the activities of the ACJC to date including cases investigated, and challenges faced. The AG responded to several questions from the donors, and also re-affirmed the Government of Afghanistan's (GoA's) commitment at the highest level to addressing corruption and the culture of impunity. He informed the SC that the AGO had that week opened an investigation into the alleged corruption at the Ministry of Education with respect to an audio recording that had recently surfaced. The AG committed to keeping the donors informed as the investigation progressed.

Economic Update from Minister of Finance: H.E. Mr. Hakimi presented updates to the SC on key economic and other developments including: (i) the International Monetary Fund (IMF)'s recent Extended Credit Facility (ECF) Program Review, and the GoA's progress towards achieving agreed reforms; (ii) operationalization of the ANPDF and the importance of donors aligning their support with the ANPDF; (iii) the MoF's current efforts to improve the budget execution rates- with current average at 72%; (iv) preparations for JCMB in June, and the Senior Officials Meeting in October, 2017; and (v) the endorsement of the women's economic empowerment and Citizens' Charter national priority programs (NPPs) by the High Economic Council and the Cabinet.

Setting the Stage for the Next ARTF Financing Strategy: The WB CD then went on to present the following 5 facts to set the stage for the preparation of the next ARTF FS: (i) declining security and

¹Canada, Czech Republic, Denmark, European Union, Finland, Germany, Japan, Italy, Netherlands, Norway, Sweden, Switzerland, Turkey, United Kingdom, United States, and the UNDP; and UNAMA as observer.

civilian financing -- off-budget, on-budget, and domestic revenues; (ii) civilian aid flows likely to drop; (iii) nearly half of civilian aid is provided through on-budget mechanisms; (iv) Aid covers almost 60% of civilian expenditures, and 80% of on-budget development expenses; and (v) almost two-thirds of the on-budget development financing is channelled through the ARTF and the International Development Association (IDA). Implications of these facts are: (i) clarity on the most essential priorities for the next 3 years is critical; (ii) important to maximize the development impact; (iii) the need for crowding in private sector development; and (iv) the key role of the ARTF as a coordination platform.

Administrator's Report: The Administrator provided a brief update on the financial status of the ARTF. It was noted that the current Financing Strategy (1394-96/2015-2017) faces a significant shortfall of paid-in contributions compared to pledges that underpin the programming defined for the strategy period. With 10 months to go in this three-year FS, only US\$1.3 billion of the US\$ 2.4 billion pledged by donors has actually been paid into the ARTF. Reduced donor contributions have been observed in this current FS from an average of almost \$900mn per year in the previous FS, to the current average of around \$600mn. The Administrator noted that if contributions continued at the current pace, we will be unable to meet all investment and recurrent cost commitments under the current FS.

1395 Update to the 1394-1396 ARTF Financing Strategy: The SC endorsed the 1395 Update to the current ARTF FS as recommended by the ARTF SG. The ARTF pipeline for 1395 and 1396 was updated in early 2015 following extensive discussions with the government, and the ARTF SG. This was done to better reflect the government's priorities. A total of 25 investment projects were agreed on -- 16 of which have been approved by the ARTF Management Committee to date.

ANPDF Operationalization: The MoF Policy Department outlined the process for operationalizing the ANPDF. This will include setting of development priorities by the inter-ministerial Councils overseeing policymaking; and working closely with line ministries to accurately cost the various priorities. MoF will have consultations with partners on the detailed priorities, and will aim to submit the 2018 priorities to the Budget Committee by September 2017, and to finalize the priorities by October 2017.

Preparation of new ARTF FS: The WB CD emphasized the importance of aligning the next ARTF FS for 1397-1399 with the government priorities, and that the preparation of the FS will run in parallel with the ANPDF operationalization. It would also be important to have indicative commitments from ARTF donors by July, 2017 at the latest in order to guide the development of the FS outline. The preliminary timeline for preparing the new FS was outlined with the following key milestones: first draft by September 2017; with SC endorsement of the new FS in October, 2017.

The SC generally endorsed the process of aligning the next ARTF FS with the ANPDF process, but requested time to review the details with agreement that detailed feedback would be provided at the SG meetings.

AOB: (i) the SC members supported the resumption of quarterly SC meetings, and it was agreed that the next meeting would be held in July, 2017; (ii) the WB CD briefed the SC on the plans to provide additional IDA 17 financing through the Citizens' Charter Afghanistan Project to support communities with a high number of returnees. Additional funding for longer-term support may be provided under IDA 18 if feasible.