

ARTF Strategy Group Meeting

August 23, 2016

Summary of Discussions

An ARTF Strategy Group (SG) Meeting was held on August 23, 2016, and was attended by 14 donor country representatives, the Ministry of Finance (MoF), and the World Bank. The meeting was chaired by Mr. Stephen N. Ndegwa (World Bank Operations Manager). The agenda items were: (i) ARTF Program and Implementation Updates; (ii) ARTF 1395 Financing Strategy Update; (iii) Discussion of the ARTF Flexibility Paper; (iv) ARTF External Review 2016; and (v) AOB.

1. **ARTF Program and Implementation Updates-** The SG was informed of the following:
 - a. *Project Approvals*-the ARTF Administrator informed the SG that 4 investment window projects totalling \$157.25 million were approved by the Management Committee in June 2016. These were: NSP III Additional Financing (AF); NHLP AF; Technical Assistance Facility; Digital CASA project preparation grant (PPG);
 - b. *ARTF Pipeline*-the following projects are under preparation with approvals expected by October, 2016: AREDP AF; HEDP AF; Citizens Charter Afghanistan Project; ARAP AF; and Urban Development PPG;
 - c. *ARTF Cash Position*- A total of \$562 million is expected to be allocated to the newly approved, and pipeline projects by the end of October 2016. The unallocated cash balance in the ARTF parent account meanwhile currently stands at \$392 million; which means unless pledged donor contributions are received within the next month or two there would be a funding gap of \$170 million. SG members were therefore urged to pay in their pledges before October 2016;
 - d. *Recurrent Cost Window (RCW)*-the MoF briefed the SG on a payroll related issue found during the course of routine RCW monitoring by the Monitoring Agent. Specifically that a salary payment received into an employee's bank account was less than the amount expected from the payroll report and contract. Further testing on a larger sample was done by the MA, and additional examples of unauthorized payroll deductions across a number of ministries and locations, as well as missing documentation were found. It was emphasised that the ARTF RCW funds including ad hoc payments are reimbursed to the government only after receipt of verified statement of expenditures including accurate payroll statements. As such, the MoF and the Administrator were confident that no ARTF funds had been misused. The MoF informed the SG of the actions already taken in response including-referral of the matter to the Attorney General's Office; strengthening of the payroll system through automation and use of a web-based Treasury system; and additional reviews by the internal audit departments of the respective line ministries. The MoF expressed commitment to hiring an independent firm to carry out a forensic audit to determine the extent of the unauthorised activities, and how the Treasury systems could be further strengthened. The Administrator would work with the MoF on preparing the appropriate Terms of Reference (ToR) for the audit.

2. **ARTF 1395 Financing Strategy Update**- the pipeline agreed with the government for ARTF financing in 1395 was presented to the SG. It was agreed that the 1395 FS update would be revised to include more written explanation of the tables, and that the numbers would be updated. A revised document would be submitted to the SG before the end of August, prior to being presented for the ARTF Steering Committee's endorsement in September, 2016.
3. **Discussion of the ARTF Flexibility Paper**- the draft note representing existing flexibilities and potential new ways the ARTF could be even more flexible in supporting government demands was discussed. The SG was generally supportive of the ideas outlined in the paper. Issues raised included-better understanding of the government's rationale for seeking greater flexibility as the ARTF mechanisms were already quite flexible; clarity on the flexibility of ARTF investment project once they are approved; and queries on what would be next steps for the new proposed ideas. It was agreed that the flexibility paper would serve as a background paper for the proposed ARTF External Review, to enable the issues to be further examined in-depth.
4. **ARTF External Review**- the first ToR for the fourth external review of the ARTF was discussed. The Administrator acknowledged the UK's pledge of GBP200, 000 to finance the external review. Comments received from the SG on the draft ToR included indicating more concrete milestones and timelines, as well as clarifying the roles and responsibilities for the review process; full involvement of the SG during the review; keeping "making more effective on-budget development financing" as one of the review's thematic areas; adding gender mainstreaming in the results monitoring thematic area of the review; reviewing the adequacy of the ARTF monitoring and supervisory agent reports provided to the SG; and reflecting on the medium and long-term implications of the review recommendations; and retaining the review of progress made since the 2012 external review as part of the Background, Strategy and Performance thematic area. It was agreed that the MoF and the Administrator would revise the ToR within the next week, and aim to circulate it to the SG for final comments by end of August, 2016.
5. **AOB:** (a) World Bank Environmental Safeguards-a brief outlining the World Bank's environmental safeguards policies was shared with the SG. It was agreed that a more in-depth discussion on the matter would be scheduled in the coming months; (b) draft SG meeting plan for August-January to be circulated next week. SG members invited to send topics for possible inclusion in the plan; (c) ARTF 101 Session on Sunday August 28- invitation to be sent by cob on August 24th.