



ARTF Strategy Group Meeting

July 19, 2017

Summary of Discussions

An ARTF Strategy Group (SG) Meeting was held on July 19, 2017, and was attended by 13 donor country representatives¹, the Ministry of Finance (MoF), and the ARTF Administrator (the World Bank). The meeting was chaired by Mr. Stephen Ndegwa (World Bank Operations Manager). The Administrator also introduced the incoming World Bank Operations Manager, Mr Abdoulaye Seck. The agenda items were: (i) ARTF External Review Update; and (ii) ARTF Financing Strategy Development; and (iii) AOB.

1. **ARTF External Review Update:** *ARTF External Review Update*- the Administrator informed the SG that the ARTF External Review firm- Scanteam with PRTO have been contracted and have started their initial phase of their work. The draft inception report was shared with the SG, and any comments will be discussed at a meeting planned with the firm for Monday, July 24 at 2 PM at the World Bank Office with a VC connection to the firm. Contact Advisory Group brief terms of reference has been shared with the SG, the Administrator informed the SG that it had started contacting possible candidates to be nominated by the Administrator. Expectation was that the CAG would be contracted for 5 days of their time with no travel foreseen, and that the process of nominating CAG members would be completed by July 31st. They are expected to be senior luminaries, knowledgeable on Afghanistan, MDTFs, FCV, and how MDBs work in FCV and with respect to TFs, and who can provide an independent view on the External Review. The Administrator informed the SG of its intent to nominate the former UN SRSR for Afghanistan Mr. Mark Bowden, and Dr Joel Hellman, Dean of International Studies at the Georgetown University (Bank retiree, Governance Manager for SAR, and Director for Bank FCV Hub in Nairobi). It was suggested that SG should also have a third nominee as a backup. The Administrator offered to facilitate the process for SG members to nominate their 2 CAG members if needed. The SG will have a separate discussion and come up with possible names and inform the Administrator.

Agreed Actions: (i) The Administrator would send out a fuller ToR for the CAG to guide the SG in their discussions by July 22nd, 2017; (ii) The CAG would be contracted by the Bank, and compensated according to its guidelines for the time spent on the Review, provided they were not sitting members of any government; (iii) The Administrator would send the profiles for their proposed CAG nominees to the SG; (iv) The Administrator would have an initial

¹ Australia, Canada, Denmark, European Union (by VC), Finland, Germany (by VC), Italy, Japan, Netherlands, Norway, Sweden, United Kingdom, US.



discussion with the firm on July 20th, and would also share a document indicating the updated approach of work from the firm ahead of the planned July 24th meeting.

2. **ARTF Financing Strategy Update**- the Administrator outlined 3 main areas for the SG's discussion:

i. *Firming up the financing envelope*- the Administrator shared the preliminary pipeline based on Government's requests, noting that there were some programs for which preparation by the Bank teams and Government were already underway (e.g. EQRA). Also that it would be important to have a clear sense of the indicative donor pledges for the next FS period. The pipeline was subject to re-confirmation by the Government as its core priorities are clarified in the next few months.

ii.

The Administrator explained the expected allocation for Afghanistan for IDA 18 (which was firm)- would be roughly \$667-\$750 million from the core country performance based allocation depending on SDR-USD fluctuations, with an additional \$300 million possible from special IDA windows including a regional window. The pipeline assumes an ARTF financing envelope of \$2 billion. The Administrator also noted that for most of the projects in the pipeline some IDA co-financing to the proposed ARTF financing was also being envisioned. The reason for this was to cushion some of the uncertainty related to the next phase of ARTF funding by frontloading Afghanistan's IDA 18 allocation in the next year or so. The Administrator highlighted that the reason some projects were already advancing in preparation was to avoid gaps in service delivery in some key areas, and to ensure programs were ready to continue while the ARTF FS was being prepared. There are some programs that could potentially be financed in the next 2 years based on early discussions with the government, but these were very early and were to be confirmed.

Table 2 of the updated ARTF FS document (shared with the SG) indicates an ARTF financing envelope based: (i) on actual initial donor pledge information of \$846 million, and (ii) a second estimate of \$2 billion that includes the actual initial pledge information as well as estimates by the Administrator based on historical donor contributions. The Administrator noted that these pledges were not firm or legally binding but were important in order to plan what the ARTF would be able to support in the next 3 years.

The Administrator also noted that under this last year of the current FS (2017) nearly \$1.1 billion remains to be paid in by ARTF donors. Of this amount close to \$800 million is expected to be paid in, which would still leave a financing gap of roughly \$300 million at the end of 1396 compared to what was foreseen at the approval of the current ARTF FS. This would mean that this gap would be carried over into the next FS, or would have to be covered through other



means including potentially IDA 18 financing. The Administrator and MoF also noted that an in-depth portfolio review would be done during the first week of August, 2017 with the MoF to review execution of funds under ongoing programs and to see where any changes/restructuring etc. could be done to free up funds for other priorities, with the caveat that this might not yield a lot of extra funds since most of the ARTF finances go towards service delivery programs which tend to disburse quicker as compared to infrastructure programs. The Administrator also highlighted how it uses tranches to manage the ARTF finances with respect to some of the larger programs it supports. The SG asked the Administrator to include the ARTF cash management strategies such as tranching in the next FS.

The SG raised the issue of greater government contributions towards service delivery for e.g. in SEHAT and not only to have the programs financed through donor contributions. The Administrator noted the legitimate point and suggested to share fiscal tables integrating external and domestic resources across broad categories of public spending. This may indicate that fiscal space is still limited and most of the public infrastructure programs are actually financed by external funding. The point was also made by the EU that their future support may provide more incentive based financing through the Recurrent Cost Ad Hoc Window, which would mean less funding available for ARTF investment financing. However, this would mean more direct budget support to the government which it could then direct towards increased public sector spending on the service delivery and other priorities.

The Administrator urged the SG to send their best estimates of pledges for the next 3 years by early August (in advance of the tentative August 14, SC Meeting), to aid in the planning and prioritisation of the ARTF program.

- iii. Reaching consensus on the content*-the Administrator also noted the updated FS draft includes several areas that would likely be highlighted in the FS document, and sought feedback from the SG on whether these were adequate or if others should be highlighted. These included: (a) whether the FS should be for a 3-year period or longer to match for instance the 4-year period of most of the government NPPs; (b) expanded results/third party monitoring; (c) split between the RCW and IW, including the Ad Hoc Payment window- the Administrator noted that it would be preferable for the ARTF donors to channel budget support through the RCW against the policy and budget reforms outlined in the Incentive Program; (d) How to build in flexibility and adaptable programming in the next FS to respond to emerging government needs and priorities; (e) approach to preferencing of donor contributions.
- iv. Process and timeline*- the revised timeline for the next steps in developing the FS including an interim Steering Committee meeting in mid-August to discuss the draft areas of the FS. The Administrator proposed 2 options: (a) preparation of a zero draft of the FS outlining the



thinking on each of the above issues which would then be discussed within the SG; or (b) some of the SG members take on some of the areas and have separate discussions and prepare draft inputs towards the FS. The EU and the SG in general was in favour of the first option. It was therefore agreed that the Administrator would work on a first complete draft of the FS reflecting the above issues. The Administrator encouraged the SG members to send any inputs they may have on any of the areas for the Bank to take into account in the next expanded draft of the FS.

Discussion: The US highlighted the importance of also considering: (i) phasing out of the baseline support under the Recurrent Cost Window in the next phase of the Incentive Program support to the government, and (ii) the need for strengthening the role of the Supervisory Agent. A question was raised on whether the FS would address the issue of better bridging humanitarian and development needs and financing such as by having some donor humanitarian funding channelled either through incentivised funding or preferences to some projects. The Administrator welcomed efforts in this direction and noted that this in fact had already been done through the recently approved additional financing to the Citizens Charter Project in support of returnees with preferenced funds from the EU and Sweden. SG requested the issue of integration of interventions for returnees/IDPs to be integrated into existing programs instead of the creation of stand-alone programs. Netherlands requested that the point be included in the FS of how the Bank takes on the fiduciary risk for funds provided to the government through the ARTF.

3. AOB

- Scorecard was being sent for editing
- Next Steering Committee meeting to be held on August 14th
- Next ARTF SG meeting to be held on second Wednesday of August (August 7th) instead of the 3rd to plan for the SC meeting.