

## ARTF Financing Strategy – Interim Arrangement

March 17, 2015

**Key message:** The Ministry of Finance does not find that the timing is currently right to engage in a detailed discussion of future priorities for ARTF funding. Instead they have requested that an interim solution is found to allow the new government the necessary time to define its key priorities and thereafter agree with the ARTF Administrator and donors on ARTF financing for the coming three years. Ministry of Finance has therefore proposed a bridging arrangement be devised to continue core priorities, while leaving time for reflection and dialogue.

This note outlines a proposal that addresses Government’s concerns, including a medium term proposal. The proposal has been discussed with and endorsed by the ARTF Strategy Group.

### How each ARTF component would proceed without a new Financing Strategy or under an interim arrangement?

ARTF Windows	ARTF Components	How would it proceed without an FS or under an interim arrangement?
Recurrent Cost Window	Baseline financing	Baseline financing will require a new FS or interim arrangement to be in place for new funds to be committed
	The Ongoing Incentive Program	The current IP runs till June 30, 2015. Payments under this phase of the IP do not require a new FS in order to disburse financing earned by Government.
	New Incentive Program, including O&M	The plan is to have a new IP in place to start July 1, 2015 to allow Government to earn funds during the second half of the fiscal year. A new IP will, however, require that a Financing Strategy to be in place as the IP will have to align with government’s overall reform priorities and the financing framework of the ARTF. This will ensure the IP is focused on key reforms.
Investment Window	Tranches of funding for ongoing projects (i.e. SEHAT, CBR, ARAP etc.)	Tranches do not require a new FS to be in place. These projects have been approved by the Management Committee in full under the previous Financing Strategy and as such financing is transferred independent of a new FS.
	New pipeline projects (e.g., next phase of primary education or of NSP)	Financing of new projects would require that a new FS or an interim arrangement be in place.

**Proposal:** In the absence of a new FS a medium-term interim solution is outlined below. This would allow the ARTF to continue financing key priorities, while leaving sufficient time and space for the Government to define its priorities and agree with donors and the Administrator on a robust three-year framework and financing strategy.

### 1. Key principles of the interim arrangement:

- This interim arrangement will cover at its maximum the period up and until June 21, 2015, i.e. half way through the Afghan fiscal year 1394. It will at any time during this period be superseded by a new FS endorsed by the ARTF Steering Committee;
- A new Incentive Program (IP) cannot be agreed or activated without a new Financing Strategy as its guiding framework. The Administrator urges Government and donors to approve a new FS by June 21, 2015, to allow the new IP to start as the current IP expires June 30, 2015;
- The interim arrangement will be reviewed on a regular basis by the ARTF Administrator and the Strategy Group will be updated regularly and included in discussions and key decisions.

### 2. Proposed Financing under the Interim Arrangement:

- **RCW Baseline:** The baseline financing would provide financing continuing at the 1393 level of US\$125 million or US\$31.25 million per quarter;
  - The baseline financing would be disbursed on a quarterly basis in line with previous practice;
  - The amount available per quarter for disbursement would be equivalent of one quarter amount of the baseline amount as outlined in the draft Financing Strategy – US\$125 million of which a quarter is US\$31.25 million. Should this overall amount change in the finalized version of the Financing Strategy, the remainder of the available baseline financing would be split in two parts to be disbursed in Q3 and Q4.
- **Incentive Program:** The current IP continues to disburse funds as earned by Government until June 30, 2015;
- **Tranches for ongoing projects:** Tranches for ongoing projects would continue to be transferred as projects are in need of new financing<sup>1</sup>:
  - **Outstanding tranches** total US\$790M for ongoing projects to be covered by the current available cash balance and incoming donor contributions;
  - **The ARTF Monitoring and Supervisory Agents:** These two programs are a core part of the ARTF Administrator’s fiduciary and quality monitoring framework and as such will have to have sufficient financing to continue.
- **New projects:**
  - Projects must meet the following conditions:
    - MoF must have already requested financing for these projects/covered under the previous FS;
    - The project objectives must be aligned with the *Realizing Self-Reliance* paper;

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<sup>1</sup> This includes Rural Roads, Capacity Building for Results, SEHAT and Justice Services Delivery.

- The project must be in preparation or be ready to immediately start preparation to move towards approval;
- This results in three projects that would move forward under the interim arrangement to be delivered before or immediately after June 21, 2015:
  - Additional financing: The ongoing On Farm Water Management (US\$45 million);
  - Additional financing: The ongoing Irrigation Rehabilitation and Development (US\$70 million);
  - New project: Higher Education (US\$50 million).
- The Administrator would reconfirm MoF's support for this select set of projects and ask, as per normal procedures, that the ARTF Management Committee, where MoF is represented, approves all technical project proposals.
- **Public Financial Management:** The next phase of the Public Financial Management Reform project (PFMR III) -- this serves as a backbone to the ARTF program and the ARTF program cannot run with integrity and accountability in the absence of this critical technical assistance project. Under the interim arrangement, the Administrator would proceed with preparing the new PFM III project with the understanding that this project would be prioritized for financing under the new Financing Strategy. The project would have to be approved by November 2015 at the latest to take over from the current PFMR II that ends December 31, 2015.