Afghanistan Reconstruction Trust Fund

Rebuilding Together

THE WORLD BANK

ARTF as a Delivery Mechanism

BACKGROUND:

1. ARTF Donor Contributions:

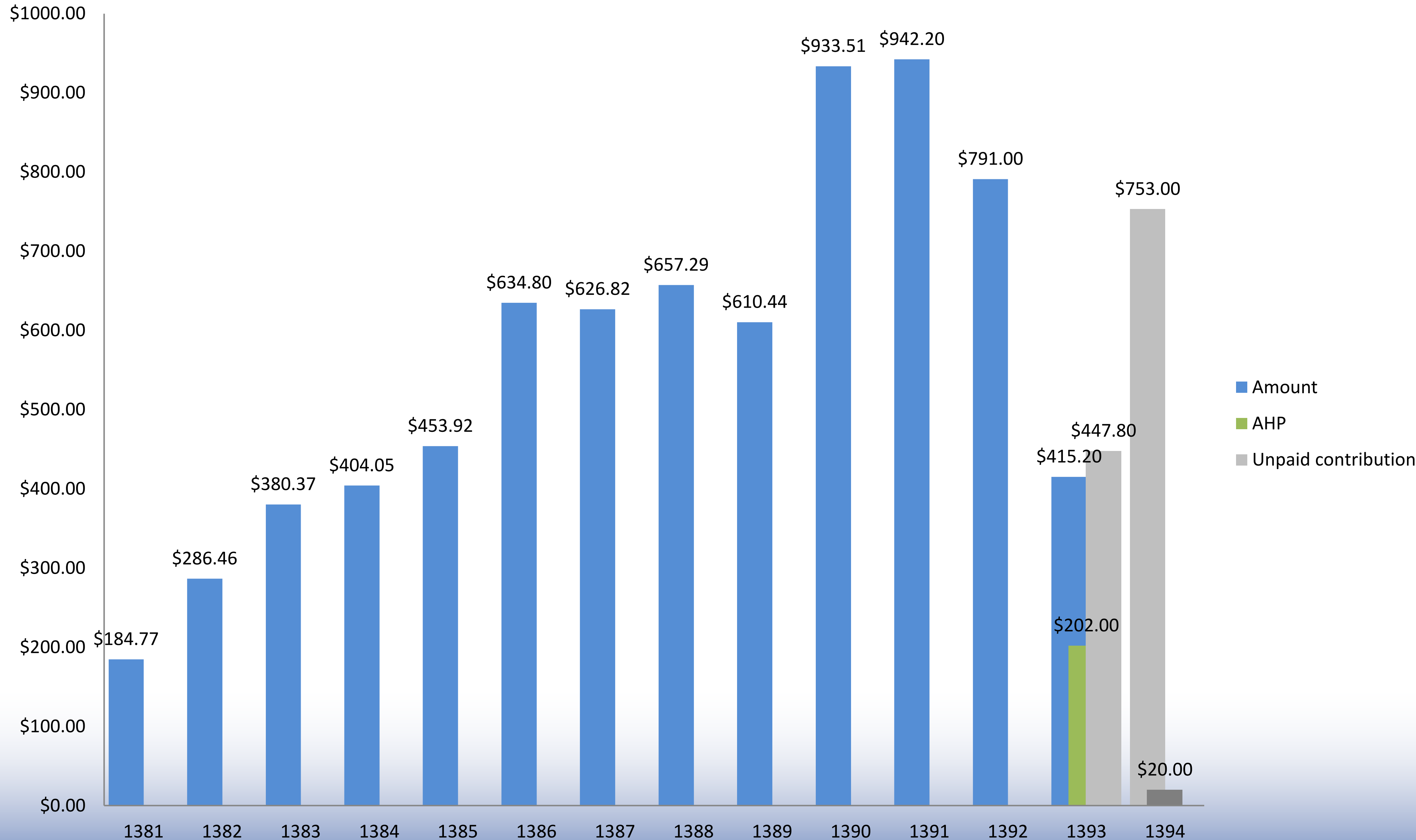
- ARTF donor contributions: increased over time to ~$950 m per year, now down again to ~$800 m per year.
- Tokyo commitments, $4 bn annually, 50% on budget;

  → several donors indicated that ARTF contributions would increase.

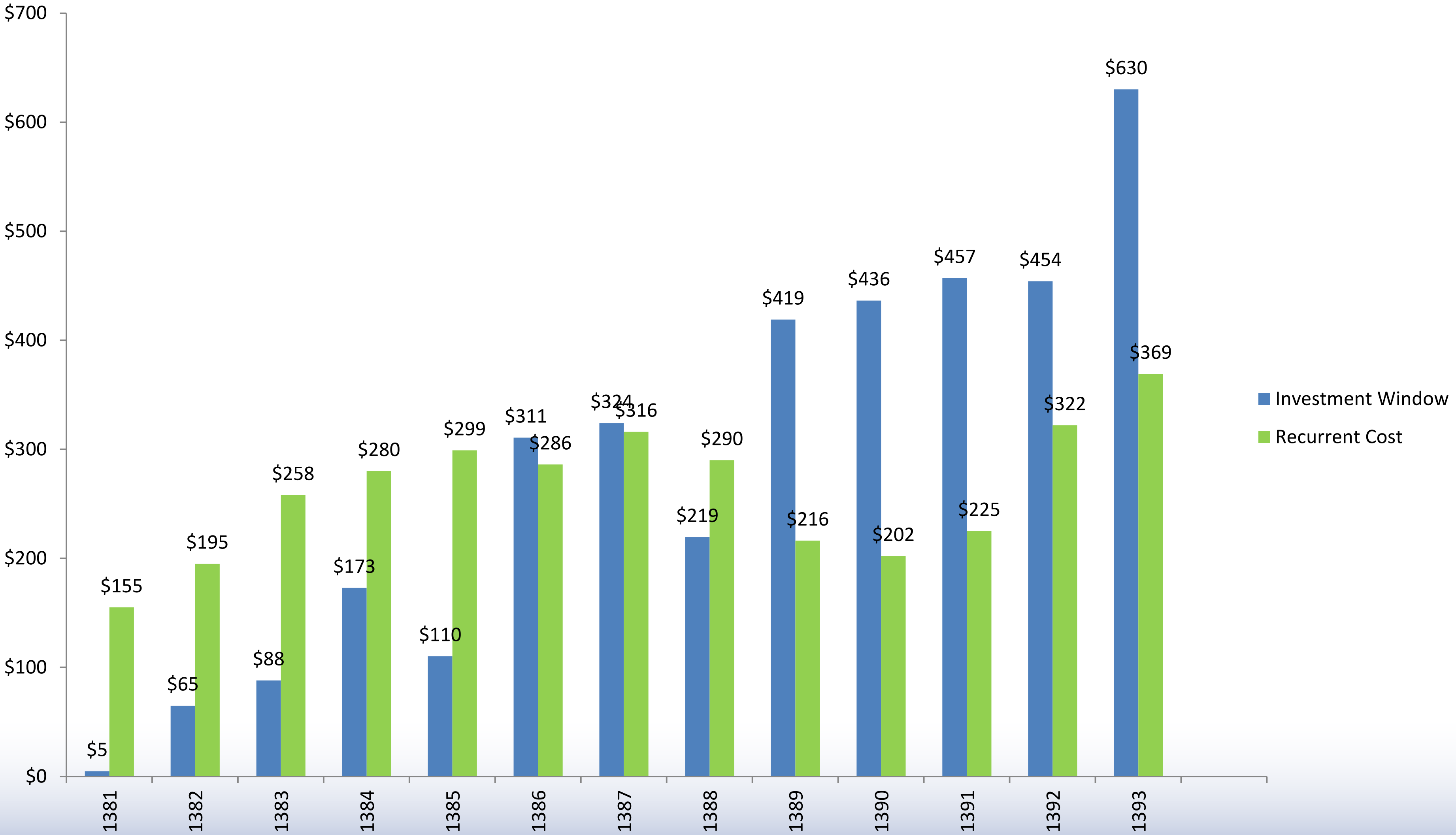
2. ARTF Directions

- The ARTF Board paper establishes the intention to continue scaling down recurrent cost support over time to ensure sustainable trajectory and incentive for government to increase its revenues;
- Agreement to support an increasing Incentive Program + add the O&M Facility, requested by donors to address gov needs as donor financed infrastructure came on budget;
- With the introduction of the IP and O&M the scale down was postponed and expectation that donor financed remained at similar levels (~$950 m per year);

ARTF Donor Contributions



RCW-IW Commitments over Time



ARTF Current Situation

- Government is facing a significant fiscal gap that may carry over into coming years;
- Post-Tokyo donor contributions have reduced from ~$950 m:
  - Agreements on increased IP and new O&M Facility were made while funding levels were high;
  - Funds in 1393 and 1394 projections point to ~$800 m per year;
  - Significant funds redirected towards the AHP.
- Assuming a financing envelope around $800 m, significant trade-offs to be made between recurrent cost, policy reforms and development financing;
- There is a need to revise previous agreements on ARTF principles (downward trajectory for recurrent cost financing) and the IP/O&M Facility.

How to support Afghanistan's Development and Recurrent Cost Needs? – Scenario I

Support Government's Development Needs:

- Assuming a financing envelope of ~$800 m per year;
- Continue ~$600 m per year for Investment Window/Recurrent Cost support to $200 m per year.

ARTF Window	1394 (m$)	1395 (m$)	1396 (m$)
Investment Window	600	600	600
Recurrent Cost	200	200	200
Total	**$800 million**	**$800 million**	**$800 million**

- This would allow the ARTF to support Government's development priorities;
- This would result in reduction in RCW support of ~$200 m and bring it in line with support provided before scale up in IP and introduction of O&M Facility;
- The O&M Facility could be discontinued to bring the RCW back to previous levels;
- It would not meet the current recurrent cost needs of Government, particularly considering the current fiscal crisis.

How to support Afghanistan's Development and Recurrent Cost Needs? – Scenario II

Balancing IW and RCW Financing:

- $400 m per year for Investment Window/Recurrent Cost support to $400 m per year.
- This would mean a continuation of RCW support from previous year but in effect a reduction in IW;
- Significant trade-off: Since IW assistance is tied to development projects and critical service delivery, this option could seriously compromise development outcomes.
- If insufficient funding is available for investment financing, Afghanistan will lack:
  - Economic growth and poverty reduction (infrastructure, agriculture, energy, mining, education etc.);
  - Service delivery (health, education etc.);
  - Capacity and institution building (civil service reform, public financial management etc.);

ARTF Window	1394 (m$)	1395 (m$)	1396 (m$)
Investment Financing	400	400	400
Recurrent Cost	400	400	400
Total	**$800 million**	**$800 million**	**$800 million**

Impact on Development

- Results that would NOT be met should investment financing be further reduced:
  - **NSP:** Block grants for 5000 communities or 5.6 million Afghan would not be paid out;
  - **Health**: contracts with service delivering NGOs would have to be downsized with repercussions for the Basic Package for Health Services (BPHS). Positive trends in health indicators would stall or even go down;
  - **Rural Roads**: 1550 KM of rural access roads would not be (re)constructed with impact on community access to health care, education and markets;
  - **Continued PFM**: Continued strengthening/safeguarding of on-budget funds would stall and significant gains in public financial management would be at risk;
  - **Higher education:** Short term adverse impact on youth due to the absence of an increase in scarce enrollment capacity. Female students in particular will lose out. Long-term negative impact on economic development as the public and private sector would lack access to pool of professional, managerial, technical and administrative human capital;
  - **Electricity:** Grid will not expand and existing electricity services will deteriorate since system rehabilitation will not be done. Corresponding increase in imports of electricity and liquid fuels to supply self-generators, at substantial cost to the private sector and gov.
  - **Irrigation:** Irrigation critical factor for agriculture production and economic development and rural poverty alleviation (i.e. food and nutrition security). Some 80 percent of the economy depends on the agriculture, and approximately 85 percent of the agriculture production is irrigated. Support for infrastructure, modernizing institutional arrangement and increase technical capacity of farmers critical.

How to support Afghanistan's Development and Recurrent Cost Needs? – Scenario III

Increase in ARTF Donor Financing:

- Allows the ARTF to support Government meet its development priorities;
- Ensures development financing is not crowded out in an austerity budget;
- Allows increased support for recurrent cost and ensures Gov space to focus on reforms and increase revenues;
- Increased RCW baseline and AHP may reduce incentive for reform;
- Continues reduction in RCW baseline financing from 1395 and onwards to ensure incentive for Government to increase revenues during 1394;

ARTF Window	1394 (m$)	1395 (m$)	1396 (m$)
Investment Window	600	600	600
Recurrent Cost	600	400	400
Total	**$1.2 billion**	**$1 billion**	**$1 billion**

Issues for Discussion

1. Securing adequate on-budget (recurrent and investment) financing to support Afghanistan's development needs;

2. Possible trade-offs to be made between recurrent cost baseline and policy reforms) and development financing;

3. Revisiting previous agreements on ARTF principles:
   – Downward trajectory for recurrent cost financing; and
   – The IP/O&M Facility.

Annexes

Government's Fiscal Gap – 1393-1394

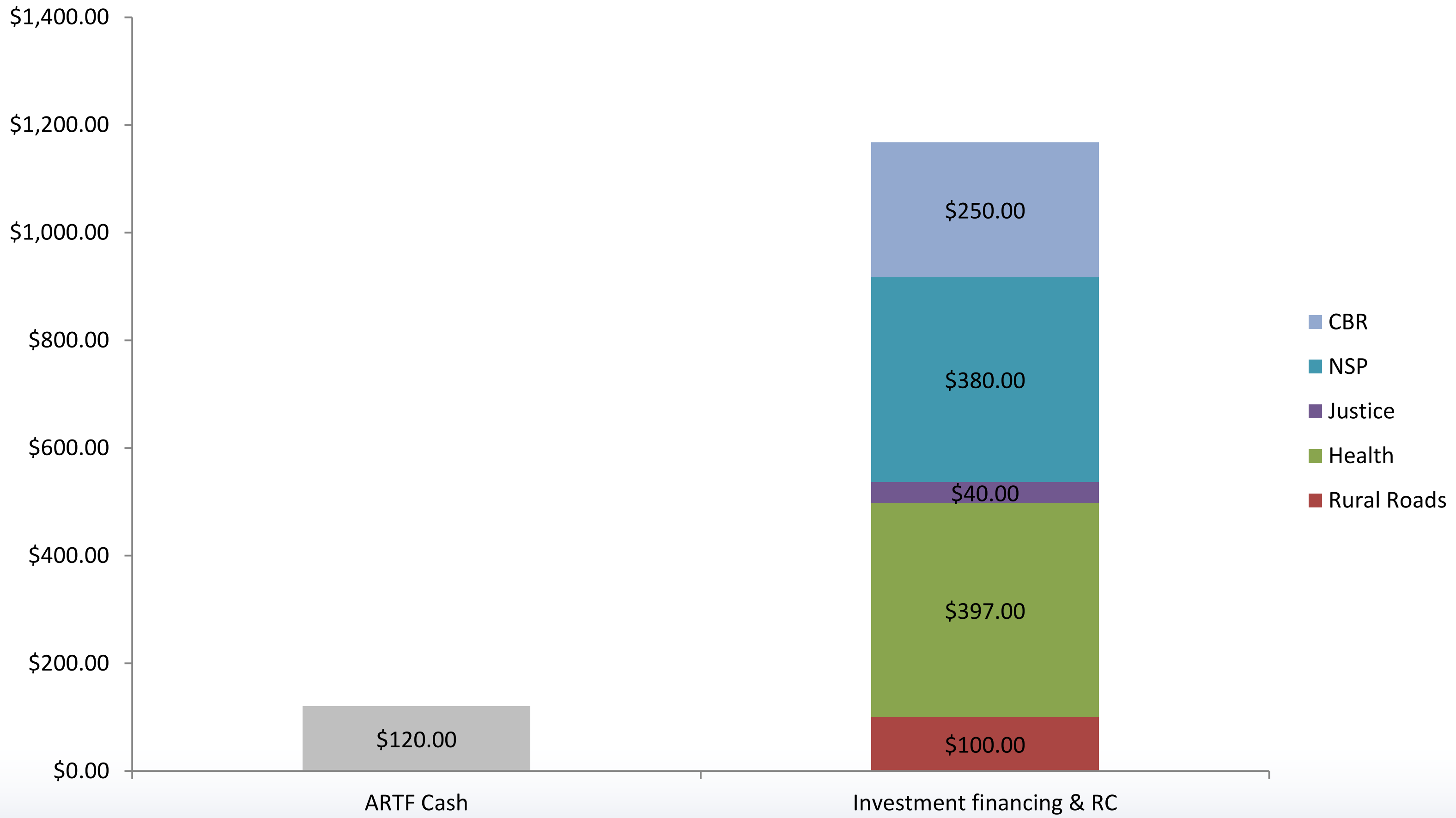
	1393	1394 projections
Government discretionary resources: revenues and grants	~$3,900 m	~$4,600 m
Fiscal Gap	~$500 - $900 m	~$500 - $1,000 m
RCW Financing (already accounted in gov. discretionary resources)	$209-300 m	~$200-400 m

- Financing is not the only recourse available to respond to the fiscal gap – reforms etc. are critical for long term fiscal sustainability.
- Even a significant increase in ARTF RCW support, assuming a stagnant financing envelope, cannot address the fiscal gap. Ensure therefore a more limited objective; to support salary payments
- ARTF is available to facilitate but has to be from new resources.
- Government's expected reaction is austerity measures and reduction in development budget with significant impact on development support and critical service delivery.
- ARTF should help Government safeguard development spending.

ARTF's Financial Situation

1. Funds (US$968 million) are committed under legal agreements between the ARTF and the Government;
2. ARTF currently has a **cash-balance of US$120 million;**
3. But, **outstanding commitments amount to US$1.16 billion** for ongoing IW projects.
4. Remaining ARTF financing need **of US$1,04 billion** to be covered by new contributions

Cash vs. Outstanding Commitments



Pipeline

	1393	1394	1395	1396	Total
1. PFM III		70			70
1. Primary education			150		150
1. Higher Education		50		50	100
1. Irrigation Rehabilitation and Development		70			70
1. On Farm Water Management		40			40
1. Rural Water and Sanitation		50		50	100
1. Naghlu Hydropower Rehabilitation		80			80
1. DABS TA	5				
1. Resource Corridors		74			74
1. Rural Access Roads additional finance		130			130
1. Rural Livelihoods			50		50
1. Power Distribution Expansion				150	150
Total per Year	5	564	200	250	1014