



AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)

Steering Committee Meeting

Monday, June 25, 2018

Summary of Discussions

An ARTF Steering Committee (SC) Meeting was held in Kabul on June 25, 2018 and was attended by 16 donor representatives¹, the Ministry of Finance (MOF), 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 2017 ARTF External Review Report; and the (ii) the 1397-1399 (2018-2020) ARTF Partnership and Financing Framework (PFFP). Both issues put forward for the ARTF Steering Committee's endorsement were discussed and supported by the ARTF Strategy Working Group (SG) during meetings held in May and June 2018.

Summary of Discussion

1) 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. The Minister noted that the ARTF is a very effective tool for supporting the Government of the Islamic Republic of Afghanistan (GoIRA)'s development priorities and budget. Despite challenges, the GoIRA has made progress in implementing the main aspects of the Afghanistan National Peace and Development Framework (ANPDF)-enhancing the rule of law, developing human capital, and improving strategic infrastructure. Of the GoIRA's 10 national priority programs (NPPs), 7 have been developed and are at various stages of implementation. 3 NPPs including the Effective Governance NPP are in various stages of development and are expected to be ready by the Ministerial conference. The Private Sector Development NPP and the sub-national governance NPP have been drafted and are pending approval. Most importantly the Human Capital Development NPP is near finalization and should be ready by the Ministerial Conference in November. The ARTF financed Sehatmandi and EQRA programs are expected to contribute towards implementation of this NPP. The MOF aims to have all NPPs costed and having realistic implementation plans before the end of the year.

The MOF expects a 3.2% and 4.4% growth rate by the end of 2018 and 2019 respectively, and have set an ambitious target of increasing economic growth by 6% by 2024. Raising Afghan citizens out of poverty will require increased investment in various areas including critical infrastructure. 5 public private partnership (PPPs) arrangements have been initiated to crowd in private sector financing. The Minister asked for the international community's support in developing the private sector. He further noted that macroeconomic stability reforms have been a key part of the GoIRA's strategy. The MOF has been working closely with the International

¹Australia, Canada, Czech Republic, Denmark, European Union, Finland, Germany, Iran, Italy, Japan, Norway, Russia, Sweden, Turkey, United Kingdom, United States. UNAMA attended as an observer.



Monetary Fund (IMF) and is committed to meeting the remaining benchmarks of the Extended Credit Facility (ECF). The MOF expects to develop a new post ECF program with the IMF in September 2019. Most targets to date have been met, notably the domestic revenue generation has been above the IMF target for the past 3 years. Both qualitative and quantitative targets have been met including those related to actions to improve the financial and banking sector; new criminal code to penalize bribery, and strengthening anti-corruption measures including declaration of assets by high level public officials.

Due to the GoIRA's meeting of agreed benchmarks of the ARTF Incentive Program (IP) it has earned US\$799 million out of US\$900 million RCW financing outlined in the 2015-2017 ARTF program. An additional US \$44 million is expected to be earned this year after the remaining targets are met. The IP is being followed by the new IP plus program, which is anchored in the government's core public financial management (PFM) reform program. The GoIRA aims to expand PFM reforms further to additional line agencies. The GoIRA is committed to ensuring the agreed benchmarks are met on time. A key area of focus of the GoIRA's is on budget reforms to create fiscal space. The MOF has started working closely with government agencies to improve budget execution. Despite the somewhat slow start of the budget year, the budget execution rate for this year is at the moment well ahead of projections, and is far ahead of what was achieved at this same time last year. The Minister noted the importance of the ARTF as a reliable mechanism for predictable, on budget financing for the government. It has been a key platform for coordinating development support, reducing fragmentation of the program, and increasing government ownership.

The GoIRA has demonstrated ownership of the ARTF by fully participating in the development of the 2018-2020 ARTF financing program to ensure that the programs were fully aligned with the Government priorities. It will be important to ensure that the portfolio performs well, and as such regular portfolio reviews will be done with the WB to ensure effective functioning and delivery of programs. The Minister thanked the ARTF partners for their support, and encouraged other donors to use the ARTF as a mechanism to support the governments development agenda. Committed to ensuring that recommendations of external reviews of the ARTF are implemented by all the partners to ensure an even stronger ARTF. He also noted the importance of moving away from the project mode of delivery and use of project implementation units, to more programmatic/sector wide approaches. He also thanked the development partners for their active participation in the High Economic Development Council and the Heads of Agencies meetings.

2) Afghanistan to 2020 and Beyond: The Role of the ARTF.

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 made the following points: Noted the huge efforts by the MOF team to work with the WB and the ARTF partners in formulating the new ARTF PFFP. He also appreciated the role of the ARTF donors in providing inputs and ideas that fed into the development of the PFFP. Emphasized the importance of the ARTF platform, which over the years has contributed on average about a third of Afghanistan's civilian budget (approximately US\$800-900 million a year). However, he also noted the challenge of determining the optimal uses to which scarce public funds should be put given the difficult tradeoffs that must be made.



This is particularly challenging in Afghanistan as the gap between Afghanistan's financing needs and available resources across the development agenda is much larger than in most countries, even accounting for both on-budget and off-budget aid, and private as well as public funding. Further the GoIRA's financing comes from various sources and is delivered in widely varying forms—the government's own revenues, on-budget discretionary (i.e., not earmarked) budget support, on-budget projectized (i.e., earmarked) grant support, off-budget aid programs, and private capital crowded in through public private partnerships- making multi-year budget planning especially challenging. Because of this the process of developing the new ARTF financing program was done in parallel with the government process of developing its budget.

He highlighted 4 things that will be critical for the GoIRA and development partners to keep in mind: (i) be clear about the most essential priorities; (ii) do better on maximizing development impact (and value for money) by improving the efficiency of development spending, and strengthening our anti-corruption efforts; (iii) align to the maximum extent feasible both off-budget and on-budget financing to realizing our shared priorities; (iv) recognize that our ability to crowd in private capital—through needed reforms to stimulate private investment and job creation and innovative financial solutions—will be tremendously important. Finally, he reiterated the importance of the ARTF as a platform for coordinating on these issues, given that it is main source of on-budget financing for Afghanistan's development.

3) Administrator's Report.

The World Bank highlighted that the Administrator's Report on the ARTF was included in the meeting information packages. The report provides a summary of ARTF financial status and implementation of the main aspects of the 2015-2017 financing program. These details are also included in the PFFP.

4) Administrator's Response to the 2017 ARTF External Review.

The World Bank noted that the 2017 External Review was completed in December 2017 following a consultative process with the GoIRA, ARTF donors and the ARTF Administrator. The report makes several recommendations to further strengthen the ARTF. The final report is in the information packages. Also presented in the package is the Administrator's Management Response to the External Review. This document outlines the actions the World Bank, GoIRA and donors have already started taking in response to the review recommendations, as well as those that require formal endorsement by the ARTF partners before implementation. The key recommendations of the review have been captured in the PFFP and have been discussed on many occasions over the last several months with the GoIRA and ARTF partners. These recommendations are further detailed in a series of 6 background notes that were shared and discussed during 5 SG meetings held in May 2018.

5) 2018-2020 ARTF PFFP.

The Deputy Minister of Policy (MOF) Ms. Naheed Sarabi introduced the 2018-2020 ARTF PFFP, noting that it was fully aligned with the government's priorities. The Director General for Policy Analysis & Program Implementation (MOF) Mr. Aman Farahi presented the main aspects of the PFFP and the main areas for the SC's endorsement.



The proposed US\$2.48 billion financing program is allocated to 4 windows as follows: 61% to the investment window supporting key human capital and service delivery programs - health, education, Citizens' Charter and agriculture; (ii) 36% to policy based budget support (recurrent cost window); and (iii) 3% to two new World Bank-executed windows to fund advisory and technical assistance, and enhanced monitoring and anti-corruption efforts.

The SC was requested to endorse the proposed allocations across the windows.

The DG noted the importance of partner pledges materialising on time to ensure funding availability for the key government programs outlined in the PFFP. During the 2015-2017 period, actual donor contributions to the ARTF fell short of pledges. As a result, the ARTF entered the PFFP period under stress, with a negative net balance of US\$302 million.

To ensure impactful delivery and effective program implementation, the PFFP outlines six proposals: (i) Enhancing alignment through flexible and adaptable approach to programming; (ii) Moving towards increased use of incentivized results-based instruments; (iii) More structured, GoIRA-led approach to improving ARTF portfolio performance; (iv) Streamlined collaboration, decision-making; (v) Strengthened communications, reporting; (vi) creation of two new ARTF windows expand advisory support and anti-corruption work

Steering Committee endorsement was requested for the first 4 proposals, and approval requested for the last 2: (i) the ASIST Window; and the (ii) ACREMAP Window which responds to joint desire of the GoIRA and partners for strengthened monitoring and focus on anti-corruption measures.

The DG noted that endorsement of the PFFP would set the framework for decisions of ARTF stakeholders in the next three years, and help the GoIRA to move towards more sustainable and programmatic approaches to development. Further that ARTF partners must now begin to use the ARTF platforms to look beyond the period of the PFFP, and to consider longer-term issues of fiscal sustainability, including after the expected end date of the ARTF on December 31, 2025.

SC Member Statements

- (i) USA- supports the broad objectives and priorities identified in the PFFP; and the efforts to improve service delivery and to continue to build soft and hard infrastructure. Also note the importance of continued support to strengthening the GoIRA's ability to execute the programs. Also pointed out the issue the gap between the demands and the availability of donor resources, and that there is increasing demand globally for the same resources. For the US and other donors to continue providing support to the GoIRA ability to execute the programs, and deliver services with demonstrable results to citizens will be crucial. Noted that they have an interest in the ACREMAP, and will remain engaged in this area to ensure it is implemented effectively. Mentioned the issue of corruption and misuse of public resources, and appreciated the efforts of the GoIRA over the past year to increase transparency in hiring and procurement. It will be important for GoIRA to hold accountable people for past corruption/past corrupt activities. Moving on this area will be crucial for



continued US support to the GoIRA. Finally requested GoIRA to connect the various initiatives such as public declaration of assets with other actions e.g. referrals to the AGO's to further strengthen the culture of good governance and delivering results to the Afghan people.

MOF: The Minister noted that the GoIRA has discussed putting in place a comprehensive mechanism for referrals to the AGO.

- (ii) EU- the EU endorsed the 2017 ARTF External Review and the PFFP. Commended the GoIRAs progress with domestic revenue mobilisation. Noted that the ARTF will continue to be a valuable tool for the EU throughout the transformation decade. But also expressed concern over the increasing poverty levels in the country, violence, and lack of jobs. Also new challenges related to climate change and the measures the GoIRA and others must take to mitigate these impacts. Noted that they would like to see visible indicators with tangible signs of progress in anti-corruption e.g. increase in the number of prosecutions for corruption cases. Referred to the elections, and how the ARTF could be a tool in the peace process- (i) reintegration especially through health, education addressing the needs of the returnees/refugees and potentially even post-combatants; (ii) private sector development and creation of jobs; (iii) connectivity and regional economic integration. The EU is engaged in all these areas and as such endorses the associated ARTF programs. Mentioned the importance of the EU's SBC to help drive state reforms, and the complementarity between this and the ARTF's programs for service delivery, agribusiness and regional connectivity.

MOF: In response the Minister noted that the efforts of government agencies to address corruption, and noted progress being made in the elections preparations with 7 million citizens already registered to vote. He expressed appreciation for donor support in peace building efforts and regional connectivity. Appreciated importance of the EU support through the SBC and the US's NDP.

- (iii) UNAMA- reiterated the issue of resource scarcity globally. Noted that all UN agency country programs are fully aligned with the ANPDF and this is enshrined in the One UN Framework (available online), with 84% of expenditures for direct program implementation. Encouraged development partners not to give any funds to any UN agency unless they are operating under the One UN Framework, to ensure alignment of off-budget programs with the government's programs and with what donors are supporting through the ARTF.
- (iv) Germany: supports the overall orientation of the PFFP and endorses it. Noted the importance of the elections and peace, and the need for prioritising among the priorities. Strongly support incentive based policy programs, and supports continuation of the IP plus. The ARTF IP benchmarks should be aligned with the SMAF where possible, and for the importance of bilateral donor support programs to be closely aligned. Supports the ACRMAP, and noted the importance of supporting the GoIRA in strengthening the national M&E programs. Welcomes the increasing



the use of results based instruments in both the RCW and the investment programs. Will be vital for the line ministries to play a role in delivering of the programs. May only provide their full ARTF contribution conditional on delivery of the SMAF indicators.

MOF: The Minister noted that the GoIRA has already achieved 19 of the 24 indicators that it was responsible for, and look forward to working with donors for them to achieve the remaining 9 indicators. Appreciated budget support programs.

- (v) Japan: echoed the point on resource competition globally, and statements made on the importance of strengthening anti-corruption measures and transparency. Noted Japan's US\$6.6 billion contribution since 2001 to the stabilisation of Afghanistan, including supporting the ARTF from its inception to date. Japan supports the approaches for promoting flexible and adaptable programming to align with the GoIRA's development priorities outlined in the PFFP. Noted the establishment of the 2 windows and expressed support for these, and hoped they would serve as examples for other developing countries.
- (vi) Sweden: echoed sentiments of others. Noted that the focus on the 4 ANPDF areas is sound. Importance of putting in place a flexible and programmatic approach. Focus efforts on inclusive development to address rising poverty levels.
The Minister noted importance of attracting private sector resources particularly in housing development
- (vii) UK: Echoed previous sentiments. Appreciated the collective efforts to produce the PFFP and supports it. The UK remains a strong supporter of the ARTF which is its key delivery mechanism in Afghanistan. It will likely maintain its current levels of support through the end of the new PFFP period. Noted the importance of the ARTF external review and the reflection of its elements in the PFFP. Welcomes the MOF's drive to improve aid coordination and alignment, and the proposed efforts to improve monitoring and delivering of results. Would like to see regular stocktaking of how the PFFP implementation is going and the results being achieved.
Gender and disability- welcomes references to gender in the PFFP and would like to see delivery on gender aspects. Also noted the importance of disability and is ready to work with the GoIRA to bring more attention to this area. Endorsed the PFFP and the External Review Report and its findings.
- (viii) Canada: commended the MoF and the World Bank for the efforts to prepare the PFFP. Endorses the 2018-2020 PFFP, and appreciates the consultative way it was developed. Noted the external review as well as the SIGAR audit of the ARTF. Welcome the emphasis on service delivery, poverty reduction in the program. Highlighted the importance of the GoIRA and WB to ensure gender and women's' and girls' rights are included in programs as they are developed and approved, as this is a priority area for Canada. Endorses the EU's suggestion for ARTF programs to find ways to support peace and reintegration efforts, and encouraged other donors to also support these efforts through bilateral means.
- (ix) Australia: appreciated the efforts of the ARTF partnership in preparing the PFFP. Endorses the PFFP, the 6 reform areas, and the financing allocation to the ARTF program; as well as the External Review report and findings. Noted that SIGAR audit



- findings, and Australia's own assessments point to the importance of improving monitoring and results reporting in the ARTF, and welcomes the initiatives outlined in the PFFP. Gender is an area of importance for Australia, and noted the importance of the GWG as a forum for engaging in this area. Improvement of the ARTF Scorecard, and website will be important for better communication. Noted the negative net balance of the ARTF this year, and encourages the WB to work with donor capitals to ensure the ARTF continues to operate effectively.
- (x) Denmark: Reiterated the point on resource competition globally, and importance of focusing on results in poverty reduction, etc. Denmark committed to supporting Afghanistan at least until 2024, and to supporting the ARTF. Endorses the PFFP and noted that the implementation of the PFFP requires same level of collaboration as in the development of the PFFP. Endorses the External Review. Raised issue of the sustainability of the current ARTF monitoring arrangements, and to work to transfer capacity for monitoring to government agencies both at the central and provincial levels.
 - (xi) Norway: echoed statements made by others on anti-corruption, results achievement, limited resources, and gender. Endorsed the PFFP and the External Review.
 - (xii) Italy: committed to supporting Afghanistan and its reconstruction efforts. Echoed statements on peace and the recent ceasefire, monitoring and anti-corruption efforts. Noted importance of continued support to the public service through involvement of women and youth, and the use of results based approaches. Endorsed the PFFP and the External Review.
 - (xiii) Finland: Noted the gender achievements of the government programs supported through the ARTF and would like to see gender being mainstreamed throughout. Expressed concerns on the increasing poverty levels, and the importance of allocating more resources to poverty reduction programs. Echoed sentiments on anti-corruption. Endorsed the PFFP and the External Review.
 - (xiv) Czech Republic: Endorsed the PFFP and the External Review, and emphasized the importance of working with civil society and donor cooperation.
 - (xv) Spain: reiterated their continued support and presence in Afghanistan. Echoed their support for gender issues.
 - (xvi) Turkey: commends the efforts of the GoIRA in achievements in macroeconomic areas and revenue generation. Afghanistan remains at top of Turkey's development agenda especially in youth employment, job creation, gender, and private sector development. Will continue to work to encourage PPP's with Turkish businesses. Minister appreciated Turkey's support and looked forward for their support on VAT.
 - (xvii) Iran: mentioned role of Iran in supporting reconstruction of Afghanistan. Look forward to the construction of the Herat railway, and ready to support the GoIRA in the humanitarian arena.

MOF: Minister noted the GoIRA looks forward to establishing effective cooperation on customs issues with Iran. He agreed that gender should be one of the major focus of the government, and gave an example of the proportion of female employees at the MOF from 6% to 12%.

6) Alignment of Development Programs with Government Priorities



DM Sarabi highlighted the importance of improved coordination and alignment of financing from partners especially for the off-budget programs. Critical to do this to ensure maximum use of resources considering the competing demands, and rising poverty levels.

The MOF has developed a tentative roadmap for sector based discussions in the different donor forums over the remainder of the year. Priority sectors for discussion (according to NPP clusters) on alignment include women's economic empowerment, health, education, and agriculture. The second cluster includes those NPPs that require more resources for implementation (national infrastructure plan, extractives); the third cluster consists of NPPs still under development including the Human Capital NPP and agribusiness; and the fourth of the NPPs which are expected to have concept notes developed by the November 28, Geneva Conference (effective governance, and private sector development).

The DM noted the MOF's plans to continue discussions on this issue over the next few months in various forums including at the ARTF SG.

7) ARTF Alignment with the Afghanistan National Peace and Development Framework

EU highlighted a few points that would be critical to achieve better alignment: better coordination, programmatic approaches, and private sector development. Also noted the importance of continuing efforts to build the civil service, and have better hiring processes; and strengthening of the Supreme Audit Office and internal government controls.

The UK echoed the points highlighted by the EU. Noted the importance of moving from donor led to government led programs during the transformation decade, and for the GoIRA to lead the efforts to ensure programs even those that are delivered off-budget are well aligned. Important for government to deliver results, improve PFM and other systems, and development partners stand ready to support the GoIRA in these areas. Noted importance of close coordination between the ARTF and UNAMA.

Agreed that discussion on this issue would be continued in the ARTF SG and other meetings.

WB Director ended by thanking the partners for their collaboration, support and endorsement of the PFFP, and noted that the call for achievement of results has been noted.

The Minister closed the meeting and expressed appreciation for all the support provided by the ARTF partners, and reiterated the GoIRA's commitment to deliver on results.