



AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)

Strategy Group

Wednesday, February 19, 2020

Meeting Summary

The ARTF Strategy Group (SG) met Wednesday, February 19. Representatives of 13 donor partners,¹ the Ministry of Finance (MOF) and the ARTF Administrator (World Bank) attended. Deputy Minister of Finance [REDACTED] and the World Bank Country Director chaired the meeting.

Summary

The SG 1) endorsed a proposal considered by the Incentive Program Working Group to allocate an additional US\$ 50 million in IDA resources to the 2020 Incentive Program Development Policy Grant and reduce the ARTF allocation to the program, so as to maximize Afghanistan's use of available IDA resources in 2020; 2) approved a proposal to use the ARTF ASIST window to finance the next phase of Afghanistan's energy study; 3) deferred decision on a proposal to use the ARTF ASIST window to finance a transactions advisor for the Ministry of Finance; and 4) commended MOF Aid Management Director [REDACTED] [REDACTED] for her active leadership of the annual Country Portfolio Performance Review and discussed next steps. The SG also received six operational updates from the WB and congratulated Amy Williams (Australia) and Jee Won Park (Republic of Korea) on the conclusion of their service in Afghanistan and thanked them for their valuable contributions to the ARTF partnerships during their tenures.

1: Proposal to adjust IDA/ARTF allocations for the 2020 IP - DPG.

- US\$ 212 million in Afghanistan's IDA resources remains available to be committed before the end of June, and was expected to be allocated among three operations: the 2020 Incentive Program Development Policy Grant, Opportunities for Maximizing Agribusiness Investments and Development (OMAID), and the Afghanistan Water Supply and Sanitation Services Institutional Support (AWSSIS) programs. OMAID and AWSSIS have encountered preparation delays. The World Bank assesses there is risk that these projects may not be ready for presentation to the World Bank Board of Executive Directors by the end of June, which could result in the loss to Afghanistan of US\$ 102 million in IDA resources. To reduce the risk, the World Bank proposes to increase the IDA allocation planned for the 2020 iteration of the Incentive Program Development Policy Grant, reduce the ARTF's contribution to the program by the same amount, and expedite preparation of other IDA-financed investments to maximize use of available resources.
- The Steering Committee-endorsed ARTF pipeline allocated US\$ 290 million in ARTF resources to the 2020 IPDPG, to be complemented by US\$ 110 million in IDA resources. These financing allocations were expected to result in a 2020 program design comprising 3 prior actions valued at approximately US\$ 36 million each (to be financed from IDA resources),

¹ Australia, Canada, European Union, Finland, Germany/BMZ, Germany/KfW, Italy, Japan, the Netherlands, Sweden, Switzerland, United Kingdom, United States.

and ten tranche release conditions valued at US\$ 29 million each (to be financed from ARTF). The proposal to adjust the relative contributions of IDA and ARTF funds would maintain the overall value of the 2020 IP DPG at US\$ 400 million but would increase the IDA contribution by US\$ 50 million and reduce the ARTF contribution by the same amount. The shift would require an increase in the number and value of IDA-financed prior actions and reduce the number and value of ARTF-financed tranche release conditions. The World Bank expects the resulting program would comprise four IDA-financed prior actions valued at US\$ 40 million each and nine tranche release conditions valued at approximately US\$ 27 million.

- If adopted, the shift would require an acceleration of government reform work. The World Bank has discussed these shifts extensively with Government, and the Incentive Program Working Group has discussed and recommended that the proposal be adopted. However, because the ARTF Strategy Group is mandated to advise on the oversight of the overall ARTF program, the shift requires endorsement by the SG.
- If adopted, the proposal will leave US\$ 50 million in ARTF resources unallocated. Use of these sums does not require an immediate decision and can be discussed by the SG in the coming months. (Options include increasing the allocation of ARTF funds to OMAID or to AWSSIS or the High Poverty Council-endorsed Early Warning/Early Finance initiative aimed at a coordinated humanitarian-development response for addressing chronic water shortage. The latter project is not currently in the endorsed ARTF pipeline but has been discussed in the SG, including in December 2019.)
- DM ██████ noted that there has been substantial discussion of the benchmarks and GoIRA, the World Bank and members of the IPWG are close to agreement. He stressed that the IPDPG is a major source of finance for GoIRA's budget and a key priority. MOF has commitments on timely delivery from each line ministry and is committed to pushing for timely delivery of reforms and related project work. MOF plans to report progress quarterly to senior GoIRA leadership, which should help to generate support from senior levels to drive reform progress.
- Comments expressed support for increasing the IDA allocation to the 2020 IPDPG, and appreciated the MOF's commitment to advancing expedited reforms. Close involvement by the World Bank and the IPWG will be needed and will require coordinated engagement from all parties.
- A question asked if there were lessons learned that would enable the World Bank and GoIRA to avoid a recurrence in the future. The World Bank explained that typically in pipeline management, and particularly as the end of an IDA cycle approaches, it is important to have multiple options in the pipeline to manage risks of delay. That was the case in Afghanistan, where three projects were under active preparation and a fourth (a financial sector project planned to receive IDA-only support had begun preparation) was capable of being expedited. OMAID and AWSSIS each had elements of complexity and OMAID in particular encountered significant delays in receiving data about industrial parks that is critical to project planning. The SG's support for shifting IDA resources to the IPDPG will ensure that Afghanistan benefits from the flexibility built into the pipeline.
- Two comments observed that the US\$50 million remaining once the change is adopted should be used to support portfolio simplification and/or to sustain the ARTF into the next financing period with consideration as to what is essential and what non-priority activities should be eliminated following the CPPR. A third comment suggested that the focus should not be exclusively on portfolio simplification but could consider how best the ARTF could support

post-settlement needs and opportunities, noting that the Government of Pakistan currently states that it expects up to three million refugees to return to Afghanistan as implementation of the political settlement progresses.

The Strategy Group endorsed the proposal to increase the IDA allocation to the 2020 IPDPG by US\$ 50 million and reduce the ARTF allocation to the program by the same amount. Recommendations for use of the now-unprogrammed US\$ 50 million in ARTF resources will be considered in the coming months.

2. Proposals for use of ARTF ASIST resources

- The PFFP established the ASIST World Bank-executed window in the ARTF to provide coordinated, long-term technical assistance in strategically important sectors. The ARTF Steering Committee allocated US\$ 15 million, one percent of PFFP resources, to ASIST. In 2018, the ARTF Strategy Group endorsed guidelines for use of the facility and approved three proposals (a total value of US\$ 5.3 million) for support to public financial management, national statistics, and extractives. The ASIST guidelines call for the SG to consider new proposals quarterly, although the facility is designed to be demand-driven; the SG does not solicit proposals but rather reviews them when presented. No new requests for use of the facility were presented at the quarterly opportunities since the first three were approved. In January, the SG noted some increase in interest and discussed that two proposals were under preparation but required some additional time before they could be presented. The SG agreed to allow preparation to proceed and to consider the proposals in February instead of at the regularly scheduled presentation in January.² Accordingly, two proposals were presented in February.
- Mr. [REDACTED], DABS Chief Operations Officer and Mr [REDACTED], Chief Advisor to the DABS CEO joined a presentation seeking an allocation of US\$ 2,402,700 for technical support to the second phase of the Afghanistan Energy Study. The Afghanistan Energy Study 2.0 is intended provide longer-term analytical support assessing challenges and opportunities in the energy sector, informing policy and investments in support of the Government of Afghanistan's efforts to improve access to affordable, reliable and sustainable energy for all (SDG 7.1). The proposal would support the study from March 2020 through March 2023. Earlier phases of the work are publicly available on the Energypedia website at this link: https://energypedia.info/wiki/Afghanistan_Energy_Study.
- Comments noted that the study is likely to help fill existing knowledge gaps and expressed particular interest in seeking clarity from GoIRA on its perspective regarding small-scale off-grid activities. Australia, which supported the first stage of the study, endorsed its continuation and noted the importance of finding solutions for individuals and communities that are likely to remain unconnected to the grid for some time. Comments also noted that there is a need for improved coordination across the large and complex energy portfolio, and requested World Bank personnel to engage in existing coordination fora. The World Bank team affirmed its commitment to do so. DABS intends to convene quarterly meetings of stakeholders in the energy study, and has indicated it is open to involving donors in these discussions. MOF concurred that the energy portfolio is large but stressed that the study would not duplicate

² Review of the proposals was originally third on the meeting agenda. The agenda was shifted to discuss the ASIST proposals second to ensure that World Bank task team leaders who were connecting to the meeting remotely did not lose access to the pre-scheduled VC connection.

existing efforts. It would, rather, be designed to focus on the energy framework and to look at challenges and factors contributing to success; as such it has the potential to benefit projects across the portfolio.

The Strategy Group endorsed the proposal to support the Afghanistan Energy Study 2.0 from March 2020 through March 2023 with ASIST resources of US\$ 2,402,700. The ARTF Management Committee will be asked to endorse a transfer of the funds.

- DM of Finance ██████ and Mr. ██████ ██████ Director of MOF's Public Private Partnership unit – PPP Unit Mr. ██████ ██████ joined a presentation seeking an allocation of US\$ 800,000 to finance a transactions advisor from June 2020 through December 2021. The transactions advisor would contribute to establishment of an Afghanistan Project Development Facility and lay groundwork for establishment of an Afghanistan Infrastructure and Growth Fund. The work would aim to address constraints to private sector financing for infrastructure projects in Afghanistan: (1) the lack of a pipeline of “shovel-ready” well-structured infrastructure projects and (2) the limited availability of both local and international long-term finance.
- MOF stressed that engaging alternative sources of financing is critical to Afghanistan's self-reliance agenda, and GOIRA is working to establish a better enabling environment for the private sector. The transactions advisor would provide needed expertise and support as the Ministry advances these priorities under the leadership of HE the Minister of Finance.
- A question noted that dialogue in the Country Portfolio and Performance Review had consistently shown that Afghanistan struggles to attract international bidders for complex procurement activities. The question indicated support for the aim of the portfolio but queried whether the timing is right, or whether other, more fundamental, reforms should be addressed first. A comment observed that while the proposal entails risk it could offer a creative way forward to addressing the challenges. Two commenters indicated tentative support for the proposal but sought additional discussion on the links between the activities outlined, ongoing work supported by the Public Private Partnership and Public Investment Advisory Project and the ADB-managed Afghanistan Infrastructure Trust Fund before reaching a decision. Additional comments requested more detailed discussion on the feasibility of the proposal and on lessons learned arising from the PPIAP initiative.

The Strategy deferred a decision on the transactions advisor proposal pending additional discussion with the World Bank and Ministry of Finance.

3. Discussion of Country Portfolio Performance Review to date and next steps in planning Partnership Framework and Financing Program

- The in-process Country Portfolio Performance Review is one step towards preparation of the next ARTF PFFP, which will also include discussions of World Bank draft Policy Notes and sectoral discussions. The CPPR is being conducted for the second time in 2020. While still an evolving process, the World Bank and MOF noted improvements in the structure and consistency of project presentations and efficiency of discussions relative to the first round of CPPR held in 2019. The process is one that improves with repetition.
- MOF thanked ARTF donors for their participation in CPPR discussions, which had highlighted challenges and systemic issues that require ongoing discussion within the Strategy Group,

particularly in relation to procurement, safeguards, and project readiness and implementation pace. It is important that the reviews contribute to a portfolio and pipeline that are realistic and represent top priorities that consider the capacity of implementing ministries, and to that end MOF proposed that the CPPR wrap-up meeting discuss both recommendations from the portfolio review and initial policy recommendations.

- The Ministry solicited donors' input on whether Ambassadors should be invited to the wrap-up meeting of the CPPR, as they had been in 2019. While Ministers and Deputy Ministers will be invited because they need to be informed of decisions, MOF recognizes that the discussion is fairly technical and would welcome Heads of Cooperation to participate. Strategy Group members suggested that Ambassadors be invited to attend with "plus one" and that MOF be prepared for some embassies to be represented by their Heads of Cooperation.
- USAID thanked the World Bank and MOF for the transparent approach to the CPPR dialogue and encouraged that the process be used to make difficult decisions regarding termination of projects that do not support basic necessities in health, education and community development/peace planning. The comment commended Aid Management Director Ms. [REDACTED] [REDACTED] in particular for her efficient and transparent management of the CPPR meetings. Other comments confirmed that project and ministry teams had indeed been better prepared in the 2020 CPPR than in 2019 and appreciated the effort that had gone into preparing the meetings, echoing thanks to Ms. Alokzai.
- Netherlands observed that moving forward, discussion of the CPPR and cross-cutting issues should incorporate lessons learned from the in-depth fiduciary reviews, including the report of the EQUIP II review disseminated ahead of the meeting. Issues of management and project oversight are equally important to discussions of how to allocate resources within the portfolio. The World Bank concurred and noted that both the findings and the follow-up from the EQUIP in-depth fiduciary review had been actively discussed in the Strategy Group. While the February agenda had not reserved time for additional discussion of the report itself, partners are encouraged to direct questions on the document to the ARTF team for response.

The Strategy Group commended MOF Aid Management Director [REDACTED] [REDACTED] for her leadership of the CPPR and looked forward to continuing joint dialogue in support of PFFP planning.

4. Updates

The World Bank provided operational updates to the ARTF SG.

- The ARTF Management Committee met Sunday, February 16. The MC approved the transfer of US\$ 23.365 million to the ARTF ACREMAP window to finance the Afghanistan Phase Three Third Party Monitoring contract award discussed in December. The MC also approved release of the second tranche (US\$ 160 million) of financing for the basic health service delivery program Sehatmandi. The MC discussed conflict-related challenges in the health sector and reviewed steps being taken by the Ministry of Public Health to ensure that project funds are not diverted.
- The final report of the EQUIP II in-depth fiduciary review was disseminated to donors ahead of the meeting. As noted earlier, the SG had discussed findings and follow-up steps from the review in earlier meetings and there was insufficient time on the February agenda for further discussion, but donors are welcome to direct follow-up questions to the ARTF team.

- Standing periodic updates were distributed to donors ahead of the meeting. These included 1) semi-annual updates on three previously approved ASIST proposals (support for public financial management, national statistics, and the extractives sector); 2) the quarterly update on implementation of the ARTF Anti-Corruption and Results Monitoring Action Program; and the 3) monthly update on ARTF finances. As with the EQUIP in-depth fiduciary review report, donors are encouraged to direct questions on the updates to the ARTF team following the meeting.
- The ARTF Gender Working Group held its regular monthly meeting on February 4. GWG members discussed the outcomes and next steps of the recent WB GBV mission focused on the Ministry of Education, continued an ongoing discussion of gender reporting resources in the ARTF Scorecard and other World Bank reporting products, and agreed on its forward agenda items for the next six months. The GWG also thanked the European Union's Grazia Redolfi and Wahida Omari for co-chairing the group over the last eight months, and for their readiness to continue as co-chair given the unavailability of the previous volunteer for the next six-month period. Australia announced its readiness to take on the co-chairmanship, and the GWG endorsed this proposal. The GWG looks forward to working with Australia's Rose Roxburgh as the co-chair of the group.

5. AOB

- Italy noted that it would be useful for the World Bank to disseminate a letter for donor capitals regarding the process for ARTF replenishment. The World Bank confirmed that a communication is planned in March.
- The SG congratulated Amy Williams (Australia) and Jee Won Park (Republic of Korea, not in attendance) on the conclusions of their service in Afghanistan and thanked them for their valuable contributions to the ARTF partnerships during their tenures. Ms. Williams expressed appreciation to the donor community for frank and realistic dialogue around complex issues and commended the SG for its accomplishments.