



AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)

Steering Committee Meeting

Wednesday, September 2, 2020

Summary of Discussions

The Afghanistan Reconstruction Trust Fund (ARTF) Steering Committee (SC) met September 2, 2020 in a virtual format to accommodate COVID-19 related remote work arrangements. Fifteen ARTF donors attended¹. They were joined by observers from the ARTF Management Committee, including the Asian Development Bank, Islamic Development Bank and the United Nations Assistance Mission in Afghanistan. Former donors with embassies in Afghanistan were invited to join the meeting; none participated. H.E. [REDACTED], Acting Minister of Finance and Mr. Henry Kerali, World Bank (WB) Country Director, co-chaired the meeting.

Summary

The SC endorsed the FY 1399 (2020) Update to the ARTF Partnership and Financing Framework Program: FY1397-FY1399 (2018-2020) (the PFFP update), making three sets of adjustments to the ARTF portfolio and adopting three findings from ARTF governance bodies. The SC also endorsed a proposal, presented by Sweden on behalf of the Nordic+ group² of donors, for the WB to present a refreshed ARTF administration agreement to current and former donors for signature. Members discussed planning for the post-2020 Partnership Framework and Financing Program, endorsing the scenario-based outline presented, discussing the need for a prioritized portfolio in light of likely reduced resources and outlining key priority themes including anti-corruption, gender, climate and full, transparent implementation of the COVID-19 response programs.

1. Setting the Context

The *Acting Minister of Finance, his Excellency* [REDACTED], welcomed participants and expressed appreciation for donors' support through the ARTF, an essential instrument for ensuring predictable aid financing. The overall status of the ARTF portfolio remains satisfactory. The Ministry of Finance (MOF) is committed to increasing prioritization of the portfolio and addressing implementation bottlenecks. GoIRA has been grateful for the two in-depth fiduciary reviews conducted during the PFFP period. The Cabinet has discussed the review findings and the Minister assured donors of GoIRA's commitment to timely, thorough follow-up.

MOF estimates COVID-19 will continue to affect the Afghan economy for two to three years. The Minister appreciated the ARTF's rapid response to help GoIRA address the challenges of COVID-19. He asked the donor community to sustain strong support for the target of delivering 50 percent

¹ Fifteen current donors joined the meeting: Australia, Canada, Denmark, European Union, Finland, Germany, Italy, Japan, Netherlands, Norway, Republic of Korea, Sweden, Switzerland, United Kingdom and United States.

² Denmark, Finland, Netherlands, Norway, Sweden.



of their assistance on-budget, including through the ARTF. The Minister challenged partners to increase contributions through the ARTF to US\$ 1 billion annually in the next financing period.

World Bank Country Director, Mr. Henry Kerali described the SC's role in setting ARTF strategy and updating it annually based on advice from ARTF governance bodies. In 2020, the SC is asked to endorse portfolio changes that have been made and are proposed to support the COVID-19 response. The response aligns with GoIRA's paper outlining eight priorities for combatting COVID-19 and with the WB's global framework for a three-phased relief, restructuring and resilient recovery response. Between the IDA and ARTF responses, collectively the WB and donors will provide US \$1.4 billion in new and re-purposed programming to support Afghanistan's health system and to address fiscal, economic and social impacts of COVID-19. In addition to considering the 2020 PFFP Update, Mr. Kerali noted that the meeting would discuss a proposal from the Nordic+ group regarding the ARTF administration agreement between donors and the WB and priorities for the next PFFP financing cycle. These discussions will be critical as the WB and GoIRA work with partners to replenish the ARTF for the post-2020 period.

2. The ARTF Today: FY 1397-FY1399 (2018-2020) Partnership Framework and Financing Program

Deputy Minister of Finance [REDACTED] presented the 2020 PFFP Update; a detailed report of which had been disseminated ahead of the meeting. The 2020 PFFP Update is the product of ARTF working discussions over the course of the year in the Strategy Group, Incentive Program Working Group, Gender Working Group and other bodies. The Deputy Minister noted that the PFFP describes 1) the resources made available through donors' contributions, setting out what the ARTF *has*; 2) the portfolio of current and planned ARTF programs, setting out what the ARTF *does*; and 3) joint commitments among the GoIRA, the WB and donor partners, describing *how* the ARTF will work. He provided highlights of these three elements from the PFFP Update.

ARTF finances are on track, but there are risks. The Deputy Minister thanked donors for their support. Donor pledges in 2019 were consistent with 2018 levels. However, funding predictability, the percentage of pledges timely fulfilled in a given calendar year, dropped from 99 percent in 2018 to 87 percent in 2019 because some contributions planned in 2019 were not received until early 2020; these slight delays did not seriously affect GoIRA finances. However, given the importance of the ARTF to GoIRA operations, funding predictability will continue to be tracked.

Looking ahead, if all 2020 pledges are fulfilled in the next four months, the ARTF will end this year – and the PFFP financing period – with an approximate cash balance of US\$ 440 million. However, the WB and GoIRA project that US\$ 380 million of this sum will be needed in the first six months of 2021 to support known priorities. Thus, the actual contingency carried into the next financing period totals US\$ 60 million, which, requires careful management of ARTF resources.

There has been progress on streamlining the portfolio, even as new projects were added to support the COVID-19 response. The Deputy Minister noted that the PFFP originally committed ARTF to support ANPDF priorities through 20 new projects to be developed through the end of 2020. At the same time, ARTF partners (including MOF) remain interested in streamlining the ARTF portfolio, requiring a balancing of priorities. When the SC met in May 2019, the ARTF was supporting 27 projects, a mix of projects approved in earlier financing periods and new projects developed and approved under the PFFP. Today, that number is 25, even with three



new projects added to support the COVID-19 response. Maintaining discipline around project closures has been key to this progress. It is common for projects to extend past their end date and in some cases this is necessary and sensible. But if extensions become the regular or default option, the portfolio size can quickly expand. The Deputy Minister observed that MOF is committed to maintaining discipline around project closures.

The six ARTF thematic priorities outlined in the PFFP and in Geneva Mutual Accountability Framework deliverable 16 made steady progress in 2019. The Deputy Minister reviewed highlights from the ARTF's thematic operating priorities. He called the SC's attention to the ARTF's flexibility in aligning itself quickly with GoIRA's COVID-19 priorities, which also required challenging decisions to re-direct funding from existing portfolio programs and rapid development of new projects. He commended the ARTF's robust governance, which continued to operate even as GoIRA officials and international counterparts began working remotely, even in different time zones, as COVID-19 emerged. He noted that the redirection of some financing from the Fiscal Performance Improvement Support Project (FSP) to the COVID-19 response will prevent MOF from implementing the SC's May 2019 decision to consolidate the Women's Economic Empowerment National Priority Program (WEE-NPP) project preparation initiative into FSP. The WEE-NPP preparation grant would instead be extended through June 2021 with the aim of developing a more fully-fledged WEE-NPP initiative during that extension period.

The Deputy Minister observed that COVID-19 response planning was aided in part by the extensive Country Portfolio Performance Review (CPPR) completed just as COVID-19 was beginning to emerge in Afghanistan. He noted, however, that the original PFFP commitment to hold three Portfolio Operational Status Reviews (POSR) each year as a complement to the annual CPPR has proven impractical and recommended adjusting the frequency to once per year.

The Deputy Minister noted that the Anti-Corruption and Results Monitoring Action Program remained a key priority in 2019. Findings of the two in-depth fiduciary reviews (of EQUIP II, the basic education program and of the National Horticulture and Livestock Program) had generated useful and challenging discussions. Each review also generated sector-specific and portfolio-wide recommendations that are now being implemented with MOF support. MOF remains committed as well to refunding expenditures deemed ineligible in the course of the in-depth fiduciary reviews.

The Deputy Minister referred SC members to the PFFP Update and reviewed three portfolio adjustments and three findings from ARTF governance bodies recommended to the SC's attention. He noted that the PFFP Update also presents a fourth recommendation related to the legal agreement between the WB and ARTF donors. The Deputy Minister handed over to the Swedish representative to describe this proposal.

The Swedish Deputy Head of Mission/Head of Cooperation, Ms. Christina Dahlman, speaking on behalf of the Nordic+ group, asked the SC to support proposed updates to the ARTF administration agreement annex of standard terms and conditions governing contributions to the ARTF that had been disseminated to donors ahead of the meeting. Amendments would incorporate updated language on results reporting, actions in case of failure to comply with elements of the agreement, anti-corruption and confidentiality. Ms. Dahlman observed that the amendments include no controversial language. All of the proposed changes align with elements of the 2016 agreement for newly established trust funds that was negotiated and agreed between the WB and donor capitals at the global level and so the language has



already been approved by donor capitals. The proposed changes will simply align the ARTF agreement more closely with the latest endorsed model form of agreement. While the new language was designed to apply only to new trust funds, the unique importance of ARTF, its longevity and sheer size merit bringing it up to the latest standard. Ms. Dahlman noted that the proposal before the SC does not ask members to adopt the new agreement, but rather to endorse a further process whereby the WB will approach each current and former donor for signatures. **The Nordic+ group recommends the amendment process as a step that will valuably strengthen the legal framework for this important trust fund.**

3. The ARTF After 2020: Planning the next Partnership Framework and Financing Program

World Bank Country Director Kerali noted that current ARTF programs are fully financed through the end of their approved project periods.³ However, the ARTF has no confirmed pledges after CY 2020. New commitments are required to continue financing for GoIRA's recurrent civilian operating costs through the Incentive Program and to finance new programs under the Investment Window. The next PFFP will be finalized once donors formalize their financial commitments to the ARTF for the next financing cycle, but work is ongoing to develop a document that sets out programming priorities and thematic operating priorities. This work began in January 2020 with the CPPR's detailed review of the current portfolio. It continued with discussion of sectoral policy notes in March 2020 and with a review of indicative scenarios and costings in May 2020.

The indicative outline was further refined based on the May discussions, a review of the ANPDF2 draft and technical discussions with the ARTF SG in August. *World Bank Lead Country Economist Tobias Haque* reviewed key features of the updated PFFP outline, highlighting Afghanistan's significant development gains and continuing need for development support. In the next PFFP cycle, the WB will work closely with GoIRA with the aim of ensuring sectoral continuity and portfolio prioritization. Applying filters for engagement and mainstreaming the COVID-19 response throughout the next phase of programming, planning will consider financing and security scenarios to determine the focus of ARTF programming. If security declines, the core focus of the ARTF will be on "protecting core services," maintaining gains in health, education, community development and agriculture and continuing the ARTF focus on governance, institutions and anti-corruption. If security remains stable but pledges decline, the ARTF will focus on "maintaining key gains", retaining the core service programming outlined above but increasing attention to the thematic priorities of gender, climate, inclusion and conflict sensitivity and continuing to build on the humanitarian-development nexus. A "maintaining progress" scenario would apply in a stable security environment with increased financing, or in an improved security environment with reduced financing. This scenario would retain the previous priorities but expand programming to include broader geographic coverage of core service delivery and continuity of priority engagements focused on economic growth (e.g., extractives, energy, water and sanitation), as well as support for strengthened social inclusion. If commitments increase in a context of improved security, the ARTF would aim to focus on a "consolidating peace" scenario, with added focus on private sector opportunities arising from peace and analytical work to support peace

³ Some larger projects are structured in "tranches" of financing to avoid unnecessarily tying up ARTF resources over long periods. Tranche financing commitments are subject to availability of ARTF financing at the time the tranche becomes eligible for commitment. These tranche commitments are detailed in the PFFP and the PFFP Update.



planning. Each scenario would be guided by Afghanistan's development priorities. *Acting Deputy Minister of Finance for Policy* [REDACTED] provided an update and overview of GoIRA's planning for the Afghanistan National Peace and Development Framework II (ANPDF II) and discussed its focus on state building, market building and peace building.

4. Discussion

The *United States of America (US)* recognized the important role of the ARTF and progress in the last year and thanked Mr. Kerali and the ARTF team for continuing to revive and strengthen donor-World Bank collaboration. Reiterating the importance of the ARTF as a mechanism for coordination, the US noted it has contributed over US\$3.9 billion to the fund since 2002. As US foreign assistance is likely to decline, increased fiscal self-reliance will be important and the US also encourages other ARTF donors and regional partners to consider increasing their assistance. Turning to the PFFP Update, the US expressed support for the proposals presented to the SC highlighting the need for transparent and effective management of COVID-19 resources and the importance of the ARTF's enhanced fiduciary control framework, including refunds of ineligible expenditures identified in in-depth fiduciary reviews. Appreciating the WB's efforts to deepen fiduciary controls, the US stressed that donors and the WB have committed significant resources to technical solutions, but consistent GoIRA ownership and leadership of anti-corruption measures must be prioritized. The US supported the proposal to adjust the frequency of POSRs and encouraged that the reviews increasingly focus on development impact and outcomes, not merely operational issues. The US thanked MOF and the WB for outlining a vision for the next PFFP and highlighted the importance of a prioritized portfolio focused on areas of comparative advantage and attentive to safeguards considerations. In particular, the US highlighted the severe implications of Afghanistan's tier III ranking on the State Department Trafficking in Persons report and called for collective action to tackle trafficking against persons, end the practices of *bacha bazi* and end recruitment of child soldiers. Continuing to advance women's rights and their role as leaders in government and in society, as well as supporting Afghanistan's business enabling environment, should likewise be priorities.

The *United Kingdom (UK)* noted its pleasure at joining the SC on the day when its newly merged foreign affairs and development ministry officially came into being. The UK commended the COVID-19 response and urged continuing attention to ensuring that hard-to-reach areas are covered by COVID-19 programs. The UK indicated its support for the proposals made to the SC, including the Nordic+ proposal. Turning to the future of the ARTF, the UK commended the insightful approach to planning presented in the ARTF outline and looked forward to continuing the joint work relying on an evidence-based approach. Gender, climate and private sector business will be key priorities for the UK moving ahead and the UK encourages alignment between the ANPDF2, the MAF and the PFFP to ensure collective work towards shared priorities. The UK strongly welcomed the comments by HE the Minister and the Deputy Ministers regarding GoIRA's commitment to anti-corruption and accountability and stressed the importance of complementing the robust ARTF enhanced fiduciary control framework with work outside the trust fund to ensure that people responsible for diverting Afghanistan's resources do not escape justice.

The *European Union (EU)* observed that ARTF is a very powerful vehicle in which it is pleased to participate. The EU supports the proposals to the SC (with one reservation) and supports in principle the Nordic+ proposal to refresh the ARTF administration agreement. The proposed changes align with the EU's strategy and framework agreement with the WB; the EU will, however,



require time to receive formal approval from its HQ for the changes. With respect to the current portfolio adjustments, the EU expressed support for the COVID-19 response planning and interest in seeing key programs, in particular REACH, begin implementation. Given the importance of market-building to the ANPDF-2 and the critical importance of agri-business to Afghanistan's future development, the EU expressed a reservation regarding the decision to delay planning for the OMAID agri-business project. The EU also agreed with Deputy Minister Zadran's recommendation that the WEE-NPP project preparation grant should be followed by more full-fledged implementation, in particular with GoIRA contributing financial support. Looking ahead, the EU thanked GoIRA for its work on ANPDF2. ARTF implementation in line with ANPDF2 should continue to mainstream gender and climate commitments, as well as social protection mechanisms. Extractives as well as other measures to boost revenue generation and IDPs/returnees will remain important areas for investment. The EU looks forward to working with other partners to develop the next PFFP and urges prioritization of the portfolio. The EU called partners' attentions to the importance of NGOs in program delivery and expressed concern about the current discussion of the revisions/amendments to the NGO law, whilst also recognizing that GoIRA deliberations continue.

Germany expressed appreciation for the well-prepared SC meeting, including comprehensive documentation and excellent presentations. Germany stressed its commitment to channeling ARTF resources to areas of need and on that basis endorsed the proposed updates to the current PFFP. Germany also took note of the proposal to amend the administration agreement. Regarding the current portfolio, Germany expressed regret that REACH was not used to strengthen the humanitarian-development nexus; leaving no one behind is a critical principle. The ARTF remains the key instrument for Germany's cooperation in Afghanistan and Germany expects to contribute up to EUR 100 million to the fund in 2020 subject to GoIRA performance on GMAF indicators. Sustained efforts in support of value for money are critical, including third-party monitoring and targeted technical assistance. Germany supports the PFFP's full incentivization of Recurrent Cost Window funding and encourages GoIRA and the WB to ensure an appropriate level of ambition in the selection of policy commitments. Looking ahead, Afghan peace negotiations are expected to commence soon, increasing hopes of a ceasefire and a possible peace agreement. The international community will continue to support Afghanistan, but support cannot be sustained indefinitely. It is of utmost importance that planning continue to engage both civilian and security stakeholders and that on-budget civilian financing provided through the ARTF be complemented by strengthened national contributions. Further program consolidation is needed as the next PFFP is developed, with a particular focus on planning for peace. Germany is prepared to consider future support at significant levels if conditions, including human rights particularly for women, girls and minorities, are suitable.

Canada endorsed the recommendations presented to the SC, noting the importance of engagement through the ARTF processes given COVID-19's devastating effect on human lives. The prospect of a 72 percent poverty rate fundamentally changed the context, requiring a similar change of the ARTF. The fund's ability to provide much needed relief and recovery is a testament to the purpose, design and necessity of the ARTF as a comprehensive socioeconomic investment vehicle. Canada thanked Mr. Kerali and the whole WB team for the work. Given the larger context of ongoing insurgency, implementation of programs such as REACH and EATS will require close monitoring and oversight; results should be commensurate with the scale of the investments. The ARTF partnership has held substantial discussions of internal and fiduciary controls. Canada appreciates the measures the WB has adopted in response to findings of in-depth fiduciary reviews and expects to see them proactively applied throughout the COVID-19 response. Canada



will remain vigilant. Noting that the hardest impacts of the pandemic have been felt by women and girls, Canada applauded the WB's commitment to gender mainstreaming in key sectors and the portfolio more broadly. Looking ahead, Canada appreciates the scenarios developed for the next PFFP and considers that in light of the considerable uncertainties at play the "building blocks" model is a sound approach to preparing. Canada looks forward to continued work with the ARTF partnership on this planning.

Australia expressed appreciation for the 2020 PFFP Update and the post-2020 PFFP outline. Australia endorsed the proposals presented to the SC and consents to the revised administration agreement being sent to donors for consideration and signature, thanking the Nordic+ group for the initiative. Proposed reporting changes align with Australia's longstanding observation on the need for timely outcome reporting to build on current improvements to the ARTF Scorecard, which is critical to Australia's ability to sustain support to the ARTF. Australia would be willing to provide direct support for such improvements. Australia stressed the importance of REACH and EATS support and encouraged resolution of the issues preventing delivery in hard to reach areas. International support must be met with significant and credible efforts to address corruption. Afghanistan should be recognized for progress towards a transparent national budget process, but findings of ineligible expenditures in the in-depth fiduciary reviews indicate areas where improvement is required to strengthen confidence in Afghan government systems, particularly procurement. Looking ahead, Australia notes that the outline of the next PFFP reflects a needed but difficult emphasis on prioritization and observed that sectors flagged for reduced support will require joint attention to sustain gains. Strengthening gender strategies and reducing instances of gender-based violence is key for the next PFFP and the Gender Working Group, which Australia co-chairs. Australia is pleased to fund the "lessons for peace" initiative that is helping to inform PFFP planning for a possible peace scenario. Australia encouraged the WB to continue outreach to potential donors and to seek pledges from former ARTF donors as well as from new and emerging donors ahead of the 2020 pledging conference.

Japan expressed appreciation to the co-chairs for the SC preparations and the good cooperation and indicated it did not intend to further comment.

Norway thanked the SC and co-chairs for the presentations. ARTF is an important partner for Norwegian cooperation in Afghanistan and is important for coordination of assistance more broadly. Norway commended the 2020 PFFP Update. Looking ahead, Norway acknowledged the difficulties of planning for multiple scenarios, but stressed that the approach helps to add clarity in a period of much uncertainty. Prioritization and consolidation will in all likelihood be necessary in the upcoming period. In light of the grave economic circumstances, emphasis on corruption will be important to ensure appropriate use of ARTF resources. Norway associated itself with the UK's observations in this regard. Likewise, equality and women's rights are essential. Partners should continue asking what can be done differently to translate efforts into gender results, particularly beyond the focus areas of health, education and women's economic empowerment; this is needed for Afghanistan's political, social and economic development.

Sweden noted its longstanding partnership with Afghanistan and observed that the country is one the largest recipients of Swedish development cooperation, with ARTF remaining an important instrument. Sweden remains committed to Afghanistan and the ARTF. Sweden thanked the WB team for the extensive work required to adjust the financing program to respond to COVID-19. As others observed, the fund is not just financing programs but remains a crucial instrument for convening donors and leveraging joint response to unforeseen challenges. Sweden supports all of the proposals presented to the SC and echoes previous speakers on the point that addressing



corruption will be absolutely crucial going forward. Sweden also welcome emphasis on gender, not only through mainstreaming but also through direct support. It is important to ensure that the resources provided through the ARTF benefit the whole population; requiring constant monitoring and analysis. Sweden thanked SC members for supporting its proposal to amend the ARTF administration agreement annex on standard terms and conditions governing ARTF contributions.

Italy considers the SC as an integral part of the Geneva conference preparations given that ARTF is fundamental in supporting basic services, community development and public administration. The COVID-19 emergency has shown the effective and flexible ARTF mechanism and the partnership's capacity to handle difficult circumstances. Hard and rapid choices were made that now require further enhancement of ARTF transparency and monitoring systems, as well as fraud prevention. Appreciating the work to help structure a framework to guide strategic decisions going forward, Italy suggests incorporating a realistic appraisal of middle-term impact of COVID-19 on economic and peace scenarios and suggested defining the specific sectors where ARTF has a comparative advantage and limited resources can be concentrated. In these sectors the ARTF should play a key role in ensuring that gender remains at the same security, equity, basic services job opportunities will be key in ensuring resources are targeted to key sectors and the communities and groups most in need.

Netherlands thanked the WB and MOF for the SC preparations and work of the past year. Netherlands endorses the proposals presented to the SC without objections. ARTF is the biggest vehicle for Dutch donor money and is recognized as the most important instrument for coordination, it will remain a priority in the current year. Netherlands calls for continued work on gender mainstreaming throughout the portfolio and commended Australia for its effective co-chairing of the Gender Working Group. Looking ahead, a focus on anti-corruption is crucial, in particular going forward to the Geneva conference. Netherlands associates itself with UK comments on anti-corruption and other partners' comments on prioritization in the portfolio.

The *Islamic Development Bank*, an observer from the Management Committee committed to continue supporting the ARTF and Afghanistan and committed to sharing the outcomes of the meeting with its headquarters.

5. Decision

The SC endorsed the proposals and recommendations set out in the FY1399 (2020) PFFP Update in the absence of objection.

6. Closing

HE Minister ██████████ thanked partners for their positive support and discussion. He committed MOF to sustained work on anti-corruption and assured partners that the Ministry is doing its best. Minister expressed that war was a source of corruption expressed hope that prospects for peace. Recalling that the Afghan people have overcome great challenges previously, he expressed the view that achieving peace is a key to eliminating corruption and hope that peace is possible. bring prospects for reduced corruption. He thanked Mr. Kerali and the WB team for their sincere engagement and positive support.

WB Country Director Mr. Kerali reiterated the commitment of the entire WB team to support Afghanistan. The meeting discussion reiterated that ARTF is an essential tool, but this is true because of the contributions of all partners and their teams; he thanked donors for their work over



the last years. Implementation of the COVID-19 response is essential and the WB will continue carefully to monitor for the benefit of Afghanistan. Similarly, there has been progress in implementing the ARTF Enhanced Fiduciary Control Framework and this will remain a priority, with the WB remaining vigilant to signs of corruption. To this end, Mr. Kerali warmly welcomed MOF's assurance that its commitment remains strong both at a technical and policy level. Regarding emerging themes, Mr. Kerali affirmed the WB's commitment to ensure that gender and climate change are fully mainstreamed into the portfolio and complemented with programming that targets gender and resilience from a climate change perspective. Prioritization and impact on people as the core of what ARTF should be doing are clear messages. There is still much to be done in the next months and we very much welcome inputs from MOF and GoIRA as a whole.

The WB remains attuned to the possibility of peace and extends best wishes for the commencement of successful Afghanistan peace negotiations. The WB recognizes the challenge donors face determining contribution levels in an uncertain environment, but the strong appeal of the Afghan government is important and particularly with respect to prospects of peace. He concluded by thanking all participants and all ARTF partners, current and former. As partners have encouraged, the WB will reach out to previous donors to encourage their participation in future events and in the fund. Mr. Kerali extended thanks to MOF for the cooperation and assured partners that the WB team looks forward to working with them in the coming year.