

**ARTF Annual Donor Meeting**  
**March 25, 2008**  
**The World Bank, Kabul Afghanistan**

**Note: all presentations and background documentation is available on the ARTF Website:**  
[www.worldbank.org/artf](http://www.worldbank.org/artf)

**Agenda:**

1. Opening Remarks
  - Ms. Mariam Sherman, Country Manager
  - H. E. Anwar-ul Haq Ahady, Minister of Finance
2. The ARTF in SY 1386
  - Hugh Riddell, ARTF Coordinator
  - World Bank Sector Teams
3. Presentation of SY 1387 Budget
  - Director General of Budget, Dr Mustafa Mastoor
4. Performance Assessment Matrix
  - William Byrd, Economic Adviser, World Bank
  - Paul Sisk, Financial Management Specialist, World Bank
5. Other Items and general discussion

**1. Opening Remarks**

*Ms Sherman* welcomed the donors and Government to the meeting. She thanked everyone for donors spending time and effort with the ARTF Evaluation team mission. She noted that the team's report would be shared with donors in April/May. The following points were made:

- The ARTF had grown significantly in the 1386 solar year with a 40 percent increase in contributions. This had meant a significant increase in investment allocations.
- This growth had been consistent; thanks in part to important progress on PFM reforms made by the GoA and commitment to principles of aid effectiveness.
- Results monitoring would be a key focus of the ARTF reporting going forward.
- The fund would seek to align with ANDS priorities once finalized.

*H. E. Minister Ahady* thanked the Donors for their generous contribution to the government's core development budget and announced the recent approval of the 1387 budget by parliament. The following points were made:

- Budget implementation was improving. The 1386 operating budget had been 98 percent executed. On the development budget side there had been a 33 percent increase in development expenditures.
- Revenue was short of the 1386 target by Afs 2.5 billion.
- Revenue shortfall was a result of (a) heavy snow in Herat, (b) political issues in Pakistan affecting Jalalabad and neighboring provinces, (c) security situation in Waziristan that affected Khost province, and (d) failure of Ariana and other airlines to pay tax.
- Revenue measures had been planned including the increase in passport and visa prices – but this had been delayed. Next solar year, the revenue situation would be monitored on a month by month basis.

- There were plans to increase capacity in the tax administration. Revenue measures included a 2 percent construction tax and increased fuel customs fees.

The Minister concluded by noting the resilience of strong macro-conditions and by encouraging donors to continue their support through ARTF to the core development priorities of government.

## **2. The ARTF in 1386**

- **Financial Status of ARTF and Outlook**

The ARTF Coordinator presented the financial status of the ARTF as at February 19, 2008 (see website). The presentation made the following points:

- The ARTF was continuing to evolve into the major source of predictable, pooled financing for the government.
- Donors had contributed significantly more in 1386 – an increase primarily driven by relaxing the rules on preferences.
- While the recurrent window financing remained at a stable dollar value level, its share in the operating budget was decreasing. The investment portfolio is increasing in size and in weight in the overall fund value.
- The investment portfolio is weighted towards rural development but with growing investments in infrastructure and capacity building. The portfolio had disbursed 83 percent of total commitments made to date.
- Year end unallocated cash balance is expected to be \$155m. Of this balance, pending transfers remain of \$44m for three programs approved by the MC March 18, 2008.

- **Outlook for 1387**

- Donors have pledged a total of \$494m to date for 1387 (see annex). We are assuming a total of \$700 million in contributions, which will allow for continued increases in the allocations made by the Management Committee.

- **Sector Teams Result Presentations:**

The sector teams reported on results achieved with ARTF funding. Going forward, results reporting will be a regular feature of the ARTF Annual Report. These minutes record the discussion amongst ARTF donors and government. Full results presentations are available on the website.

H.E. the Minister of Finance noted recent concerns expressed by Parliamentarians on NSP. This year, there had been less support in the budget for NSP. The particular concerns he noted was the high cost of NSP that was being spent on NGO facilitating partners.

With regards, the National Rural Access Program, the Minister expressed his support, noting that he would like to be able to allocate more funding towards this project.

With regards the Management Capacity Program, the Minister expressed strong support, noting the need to scale up the program as well as specify clear qualifications across ministries. USAID representatives requested clarification on the number of slots that the MCP would be able to fund. Mr Coulson responded that the project was designed to be demand driven and therefore could

expand beyond the current 240. USAID also asked whether the program extended to adviser positions – the Minister responded that the priority at the moment was management capacity in line positions. It was further noted that the program offers one way to phase out unsustainable donor ‘top-ups’ for civil servants. There was also a discussion of why the project had had a slow start up phase.

### *Questions & comments*

ARTF donors asked:

- what the implication was for the PRGF of the missed revenue targets.
- whether ARTF tracked provincial allocations?
- what kinds of programs would be developed for ARTF financing following the Paris meeting in June.
- whether a phase out was considered of the recurrent cost financing
- The UN also noted that most ARTF programs were co-financing IDA programs and asked whether other actors would be able to bring projects forward for financing.

On the IMF program, the Minister went over the reasons for the revenue shortfall, noting that he hoped a pragmatic way forward could be found. The IMF representative noted that the targets were set as a percentage of GDP rather than as an absolute target. On this, the Minister noted that this year had seen GDP grow more than expected which had meant the targets were harder to achieve. The next IMF mission is due to come in April.

On provincial allocations, the ARTF team noted that most of the investments were in fact national, including the NSP, EQUIP, NRAP, Microfinance in particular. Further, the ARTF did not accept provincial earmarking but rather relied on the equity in the budget system. The Minister also noted that equity of provincial allocations was important but that major urban centres were important for economic development and would need larger allocations to meet the demand for infrastructure.

Regarding the roll-out of programs in the future, ARTF team and the government both noted that this depended on the finalisation of the ANDS and the results of the Paris conference.

On the phase-out of the recurrent window, the government noted that upwards pressure remained on the operating budget in particular due to the high costs of insecurity and the pressure to hire more teachers. Also, the Minister emphasized the importance of donors providing more information on the recurrent costs that were being financed through the external and even development budget. These costs were a kind of unrealized liability for the operating budget.

### **3. Presentation of SY 1387 Budget**

Director General of Budget, Dr. Mastoor, presented the 1387 budget which had now been completed and approved.<sup>1</sup> This year’s approval process had been much smoother than last year’s due to the early presentation of the budget (earlier than the PFM law required). No major changes had been recommended by the parliament.

---

<sup>1</sup> The full version of the presentation is available on the ARTF website at [www.worldbank.org/artf](http://www.worldbank.org/artf).

He noted that 1386 improved budget execution performance was consistent year on year (increasing by 38, 55 and 38 percent in 1384/5/6 respectively), despite that over-ambitious development budgeting, and further that the budget department's own 'plan' was an accurate measure of the budget performance for the year. The main reasons for the over-budgeting were: the inclusion of un-ready projects, the late approval of the budget by parliament, and the late contribution of funds by donors.

The key features of the 1387 budget were:

- target revenues 24 percent higher than 1385, with an overall operating budget 19 percent higher than last year. Domestic revenue is budgeted to cover 68 percent of the operating budget (vs 65 percent in 1386).
- Almost half of the operating budget is allocated to the security sector due to 22,000 increase in ANA, 8,800 in ANP and 12,500 new teachers. Pay & Grading (US\$46 million) and the fuel subsidy (US\$40 million) were also major factors.
- Dr Mastoor noted that the unspent part of 1386 budget (c. US\$750 million) would be added to the budget as a supplemental later in the year.
- The largest spending ministries would be MoD/MoI in the operating budget, MRRD in the development budget and MoD in the external budget.

Dr Mastoor further noted that the funding for the program budgeting exercise had been withdrawn which would mean that this exercise would have to end if no funding could be found to fill the gap.

Dr Mastoor explained the lead-up to the Paris conference in June, 2008. The centerpiece of the process would be a pledging strategy prepared by the MoF on the basis of the sector strategies. The MoF would also be working on the medium-term budget ceilings and a macro-costing. A medium-term budget exercise would then follow the Paris meeting.

#### *Questions & comments*

- Clarification on the difference between "approved funding" vs "prioritization".
- Whether elections were part of the 1387 budget?
- How GoA will interact with the donors on the pledging strategy?
- How the ARTF will align with the ANDS?
- How was IDLG budgeting proceeding?

On the difference between approved and prioritized funding, Dr Mastoor responded that the reason was that donor funding had not materialized.

On the elections, Dr Mastoor responded that \$70m had been budgeted for elections in 1388.

On the pledging strategy, Dr Mastoor responded that this would be based on the Donor Financial Review that was underway.

On the IDLG budgeting, Dr Mastoor noted that the directorate had access to bilateral donor support that was not being allocated through the government's budget. Donors discussed whether this was constitutional and requested clarification from government on this question.

#### **4. The Performance Assessment Matrix (PAM)**

William Byrd presented the results of the updated Pam. He noted that the Pam was at an early stage, this presentation being only the second in its short lifetime, but that it represented an important stock of data that would be an increasingly important monitoring tool for the effectiveness of core budget expenditures.

The three thematic areas covered in the PAM highlights were:

- **PFM & PAR**

- Despite the revenue shortfall, PFM performance continues to improve.
- The results of Afghanistan's second PEFA exercise were presented to ARTF donors.
- 18 indicators had increased over the 2005 PEFA exercise and only 4 indicators had worsened (primarily relating to the realism of the budget).
- On an international scale, Afghanistan outperforms the average of low income countries on the policy-based budgeting, predictability and control in the budget execution exercise, and accounting, reporting and auditing indicators. It was noted that Afghanistan received considerable external supports in these areas.
- Public administration reforms continue although PAM indicators are behind targets

- **Basic Public Services**

- Access to education is on target. Quality still lags the targets but is improving based on the numbers of teachers now in in-service training
- Access to health services has also improved and is on target. Quality indicators now available through third party monitoring – quality of care indicator improving on track.

- **Aid Effectiveness**

- Increasing share of recurrent window needs covered earlier in the financial year - allows for greater cash flexibility, however, preferences and discretionary funds are increasing as a share of the total contributed
- The PAM shows that the share of unpreferenced ARTF pledges decreased from 73% in SY1384 to 54% in SY1386.
- The question donors and government need to answer is: what would have to happen to encourage un-preferenced contributions?

In addition, Paul Sisk presented the note on:

- **Fiduciary oversight of Recurrent Window:**

- The note was intended to update the donors on the fiduciary oversight provided by the Monitoring Agent of the financing of recurrent expenditures in the operating budget.
- The note was prompted by the US Army finding that 20 percent of ANP payroll were estimated as ghost workers.
- Key risk was non-performance. This has to be addressed by line ministries
- 75 percent of provincial payroll was Ministry of Education. This ministry undertook a census in 2005 and was rolling out the Verified Payroll Process through all employees.
- For this 1386 solar year, the Monitoring Agent would increase its provincial site visits.
  - Monitoring is dynamic not static and needs to adapt to the context.

**List of Participants at the ARTF Donors Meeting March 25, 2008**

<b>No.</b>	<b>Name</b>	<b>Title</b>	<b>Country/Organization</b>	<b>Email Address</b>
1	H. E. Anwar-ul Haq Ahady	Minister of Finance	MOF	<a href="mailto:ahadymof@yahoo.com">ahadymof@yahoo.com</a>
2	Dr. Mustafa Mastoor	Head Budget Department	MOF	<a href="mailto:mmmastoor@yahoo.com">mmmastoor@yahoo.com</a>
3	Mr. Martin Kipping	First Secretary	German Embassy	<a href="mailto:wz-1@kabu.auswaertiges-amt.de">wz-1@kabu.auswaertiges-amt.de</a>
2	Ms. Anita Nirody	Country Director	UNDP	<a href="mailto:anita.nirody@undp.org">anita.nirody@undp.org</a>
3	Mr. George Saibel	Minister (Development)	Canadian Embassy	<a href="mailto:George.Saibel@international.gc.ca">George.Saibel@international.gc.ca</a>
4	Ms. Georgina Wigley	Dev. Officer	CIDA, Kabul	<a href="mailto:georgina.wigly@international.gc.ca">georgina.wigly@international.gc.ca</a>
5	Mr. Craig Stefensen	Country Director	ADB	<a href="mailto:stefensen@adb.org">stefensen@adb.org</a>
6	Ms. Sara Rezoagli		Italian Embassy	<a href="mailto:Sara.rezoagli@esteri.it">Sara.rezoagli@esteri.it</a>
7	Ms. Tia Raappana	Advisor to MOF	MOF	<a href="mailto:Tia.raappana@googlemail.com">Tia.raappana@googlemail.com</a>
8	Mr. Marshall Elliott	Head DFID	UK	<a href="mailto:marshall_elliott@dfid.gov.uk">marshall_elliott@dfid.gov.uk</a>
9	Mr. Erwan Marteil	EC Deputy	EC	<a href="mailto:Erwan.MARTEIL@ec.europa.eu">Erwan.MARTEIL@ec.europa.eu</a>
10	Mr. Shakti Sinha	OIC	UNAMA	<a href="mailto:sinha2s@un.org">sinha2s@un.org</a>
11	Mr. Christopher Becker	Program Officer	USAID	<a href="mailto:chbecker@usaid.gov">chbecker@usaid.gov</a>
12	Mr. Paul Koets		PWC	<a href="mailto:Paul.koets@nl.pwc.com">Paul.koets@nl.pwc.com</a>
13	Mr. Jashua Charap	Resident Representative	IMF	<a href="mailto:jcharap@imf.org">jcharap@imf.org</a>
14	Ms. Barbara Krell		USAID	<a href="mailto:BKRELL@usaid.org">BKRELL@usaid.org</a>
15	Mr. Stefan Lutz		KFW	<a href="mailto:Stefan.lutz@kfw.de">Stefan.lutz@kfw.de</a>
16	Mr. Bo Asplund		UNAMA	<a href="mailto:basplund@un.org">basplund@un.org</a>
17	Mr. Freddy Bob Jones	Economic Advisor	DFID	<a href="mailto:f.bobjones@dfid.gov.uk">f.bobjones@dfid.gov.uk</a>
20	Mr. Michal Hirson	Treasury Attache	US Embassy	<a href="mailto:hirsonml@state.gov">hirsonml@state.gov</a>
21	Ms. Mariam Sherman	Country Manager	WB	<a href="mailto:msherman@worldbank.org">msherman@worldbank.org</a>
22	Ms. Ludmilla Butenko	Operations Advisor	WB	<a href="mailto:lbutenko@worldbank.org">lbutenko@worldbank.org</a>
23	Mr. Hugh Riddell	Operations Officer	WB	<a href="mailto:hriddell@worldbank.org">hriddell@worldbank.org</a>
24	Mr. Paul Edwin Sisk	Sr. FM Specialist	WB	<a href="mailto:psisk@worldbank.org">psisk@worldbank.org</a>
25	Mr. William Byrd	Sr. Economic Advisor	WB	<a href="mailto:wbyrd@worldbank.org">wbyrd@worldbank.org</a>
26	Mr. Khalid Payenda	Operations Analyst	WB	<a href="mailto:mpayenda@worldbank.org">mpayenda@worldbank.org</a>
27	Mr. Nigel Coulson	Sr. Public Sector Specialist	WB	<a href="mailto:ncoulson@worldbank.org">ncoulson@worldbank.org</a>
28	Ms. Susanne Holste	Sr. Transport Specialist	WB	<a href="mailto:sholste@worldbank.org">sholste@worldbank.org</a>
29	Ms. Karine Fourmond	WSS Specialist	WB	<a href="mailto:kfourmond@worldbank.org">kfourmond@worldbank.org</a>
30	Mr. Sunil Khosla	Sr. Energy Specialist	WB	<a href="mailto:skhosla@worldbank.org">skhosla@worldbank.org</a>
31	Mr. Venkatesh Sundaraman	Economist	WB	<a href="mailto:vsundaraman@worldbank.org">vsundaraman@worldbank.org</a>
32	Shekeba Muheb	Program Assistant	WB	<a href="mailto:smuheb@worldbank.org">smuheb@worldbank.org</a>