

**AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)
MANAGEMENT COMMITTEE (MC) MEETING**

TUESDAY, JULY 15, 2008 – 8:30 A.M. WASHINGTON D.C. (5:00 P.M. KABUL)

**DRAFT MINUTES OF MEETING
MEETING PARTICIPANTS**

MC MEMBERS

ASIAN DEVELOPMENT BANK

- Mr. Grant Curtis (Kabul)

UNDP

- Ms. Anita Nirody (Kabul)

UNAMA

- Mr. Shakti Sinha (Kabul)

ISLAMIC DEVELOPMENT BANK

- Mr. Kunrat Wirasub

MINISTRY OF FINANCE (OBSERVER)

- H. E. Anwar-ul Haq Ahady (Minister)
- Mr. Waheedullah Shahrani (Deputy Minister)
- Dr. Mustafa Mastoor (DG. Budget)
- Ms. Gretchen M. Biery (Advisor)

WORLD BANK (ADMINISTRATOR)

- Ms. Mariam Sherman (Kabul)
- Ms. Ludmilla Butenko (Kabul)
- Mr. Susanne Holste (Kabul)
- Mr. Qazi Azmat Isa (Kabul)
- Mr. Yoichiro Ishihara (Kabul)
- Mr. Hugh Riddell (Kabul)
- Mr. N.K. Thondaiman (Kabul)
- Mr. Muhammad Wali Ahmadzai (Kabul)
- Mr. Zabiullah Ahrary (Kabul)
- Mr. Birgit Hansl (Washington)
- Ms. Sheila Braka Musiime (Washington)

BY PHONE:

- Mr Niraj Verma (Delhi)
- Mr Stephen Rasmussen (NWFP, Pakistan)

1. APPROVAL OF MINUTES

The MC approved the minutes of the last meeting of June 17, 2008.

2. ADMINISTRATOR'S REPORT ON FINANCIAL STATUS OF ARTF AS OF JUNE 20, 2008

The ARTF Coordinator updated the MC on the status of Canada's ARTF pledge for SY1387. The pledge had been reduced from US\$106 million to US\$37 million due to the decision to finance projects in Kandahar. The key impact of this adjustment will be the reduction in discretionary funds available to the government through ARTF investment window.

Taking this into account, the Coordinator presented the financial status report as of June 20, 2008. Highlights of the summary included:

- Total contributions for the first quarter of SY1387 totaled just under US\$170 million. The total pledge for the year, after Canada's adjusted pledge, stands at \$639 million, of which 54 percent was preferenced.
- Disbursements on ARTF projects had been slow thus far, totaling only US\$21 million in the first quarter. This is expected to pick up substantially in the second quarter.

The Minister of Finance requested confirmation that all requests submitted to the MC for allocation were in line with the Government of Afghanistan budget. This was confirmed. In addition, the Minister questioned the Administrator with regards the levels of unallocated cash available for other activities. He

noted that the possible reduction in the World Bank's development policy operation (PSIB) would create funding gaps in certain key activities this year. The Administrator explained that the unallocated cash balance was fully programmed for this Solar Year, in accordance with the priorities in the Budget. Full information on the solar year investment plan is contained in Table 4 of the Administrator's Report and the pipeline table that is circulated monthly. A follow-up meeting with the DG Budget was requested.

3. REQUEST FOR APPROVAL OF US\$60 MILLION FOR THE NATIONAL SOLIDARITY PROGRAM II

This proposal was the second of the NSP series to be presented for approval this year, following the May approval by the MC of the blanket NSPII US\$178 million in line with the SY1387 budget. The team made a presentation to update the MC on program implementation, which continues to be satisfactory. The team noted that the results of the Mid-Term Review of NSP, carried out in April and May 2008, would be circulated shortly.

Members of the MC queried the team on the implementation strategy adopted in high risk areas and requested the Administrator to circulate the high risk strategy document. This strategy is being piloted in Kandahar and is expected to provide an innovative and effective approach to implementation in the most volatile areas of the country. The MC suggested that the team record and share the results of the high risk strategy.

Members of the MC also noted the improved situation regarding funds flow, as compared to the problems facing the program during SY1386. This is due mainly to donors paying in contributions earlier as well as some improvement in financial management systems of the Government.

The MC approved a transfer of US\$60 million to the National Solidarity Program II

4. REQUEST FOR APPROVAL OF US\$50 MILLION FOR THE MICROFINANCE SUPPORT FOR POVERTY REDUCTION PROGRAM

The ARTF MC was requested to approve the provision of an additional US\$50 million to the ongoing Microfinance Support for Poverty Reduction Project in accordance with the approved Government budget for SY1387. The team updated the MC on the implementation of the program.

The Minister of Finance asked whether this allocation, if approved, would result in total financing for the program in excess of the ceiling agreed some years ago. Ministry of Finance officials gave the updated total disbursements for microfinance and noted that the allocation was in line with the government's SY1387 budget. The Minister requested data on total microfinance investments. He also requested to review quantitative indicators for the impact of microfinance operations on poverty reduction in Afghanistan. He stressed that his concern was that allocations proceeded without on impact. The task team noted that the baseline survey undertaken in September 2007 would be used for an impact evaluation in years to come and that the baseline already gave good indicators for the impact of the program. **It was agreed to share the baseline study including full quantitative data with the MC and also with the ARTF donor committee.**

Members of the MC, including the Minister of Finance, requested information about the administrative costs associated with Microfinance Institutions (MFIs). In particular, the MC asked whether new MFIs joining the program would increase the overall cost. The task team noted that the newest MFI in the program was the First Microfinance Bank which joined a year ago – and before that no new MFI had joined for three years. In addition, First Microfinance Bank utilizes loan funds only. The team noted that overheads and total operating cost ratios were reducing in line with the plan and that eight to ten MFIs would achieve sustainability over the next two years.

Other members of the MC highlighted the wheat deficit and associated food price crisis in Afghanistan. The MC discussed whether microfinance would be an appropriate mechanism to help mitigate the crisis. It was decided that other means were being pursued to deliver relief to the vulnerable.

The MC approved a transfer of US\$50 million to the Microfinance Support for Poverty Reduction.

5. UPDATE ON THE ARTF EVALUATION REPORT

The ARTF coordinator briefed the MC that the draft evaluation report was received on the 2nd of July and has been circulated to the MC and Bank team for comments. Once the comments are incorporated he expects to send the report to the evaluation team before the end of week. The final report is likely to be received at the end of this month which will be circulated to all the donors.

6. MC MEETINGS Schedule

Changes were made in the proposed schedule. The new meeting dates are as follows:

MC meeting August:	Tuesday, August 26, 2008
MC meeting September:	Tuesday, September 16, 2008
MC meeting October:	Tuesday, October 14, 2008

Prepared by N.K. Thondaiman
World Bank, Kabul Office