

**AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)**

**MANAGEMENT COMMITTEE (MC) MEETING  
THURSDAY, OCTOBER 4, 2007 – 8:30 A.M. WASHINGTON D.C. (6:00 P.M. KABUL)**

**DRAFT MINUTES OF MEETING**

**MEETING PARTICIPANTS**

<b>MC MEMBERS</b>	<b>WORLD BANK</b>
<b>ASIAN DEVELOPMENT BANK</b>	➤ Mr Alastair J. McKechnie (Kabul)
➤ Mr. Brian Fawcett	➤ Ms. Nargis Yousaf (Kabul)
	➤ Mr. Hugh Riddell (Washington)
	➤ Mr. Sunil Kumar Khosla (Kabul)
<b>UNITED NATIONS DEVELOPMENT PROGRAM</b>	➤ Mr. Francisco Javier Vergara (Washington)
➤ Ms. Akiko Suzuki (New York)	➤ Ms. Sheila Braka Musiime (Washington)
➤ Mr. Bo Asplund, Kabul	➤ Mr. Hugh Riddell (Washington)
<b>UNAMA</b>	➤ Ms. Karlene Phillips (Washington)
➤ Mr. Shakti Sinah	➤ Ms. Marcia Whiskey (Washington)
	➤ Mr. Mr. Wali Ibrahimi (Kabul)
	➤ Mr. Zabiullah Ahrary (Kabul)
<b>OBSERVERS</b>	
➤ Mr. Waheedullah Shahrani, Deputy Minister of Finance	

**AGENDA**

1. Approval of draft Minutes of Management Committee meeting held on September 11, 2007
2. Administrator's Report on ARTF Financial Status as of September 22, 2007
3. Update on ARTF Evaluation
4. Draft Discussion Papers for the upcoming ARTF Donor Meeting
5. Mazar-e-Sharif and Kabul/Aybak Power Project proposal for US\$57 million
6. Proposed Meeting Schedule for the coming three months  
Tuesday, November 13, 2007  
Tuesday, December 11, 2007  
Tuesday, January 8, 2008
7. Any Other Business – proposal to amend the ARTF investment strategy

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## **1. APPROVAL OF MINUTES**

The MC approved the draft Minutes of the meeting of September 11, 2007.

## **2. FINANCIAL STATUS OF ARTF AS OF SEPTEMBER 22, 2007**

**Contributions:** As of September 22, 2007 total pledges was US\$657 million of which US\$374 million was without preference and US\$283 was with preference. Of this amount, US\$331 million had been paid in, or 50 percent of the total pledged.

**Sources and Uses of Funds:** Paid in contributions of US\$331 million, with net income of US\$5 million (investment income less IDA fees) provides sources of funds of US\$336 million for SY1386. With cash carried forward of US\$294 million, the total consolidated source of funds available is US\$630 million.

As of September 22, 2007 actual disbursements for SY1386 were US\$152 million including US\$73 million for recurrent cost financing, US\$76 million for investment financing and US\$1.8 million in fees to the monitoring agent. The cash balance at the end of the reporting period was US\$478 million, comprising US\$193 million committed to recurrent cost financing; US\$166 million undisbursed and committed to investment financing and US\$9 million set aside to pay the Monitoring Agent's fees, leaving an unallocated cash balance of US\$110 million.

## **3. UPDATE ON ARTF EVALUATION**

The draft terms of reference incorporating the comments received was circulated to the MC ahead of the meeting. The draft incorporating two suggested changes<sup>1</sup> will be sent to all ARTF donors ahead of the October Donors Meeting in parallel to bringing the evaluation team on board.

## **4. DRAFT DISCUSSION PAPER FOR NEXT DONORS' MEETING**

Two draft proposals to be presented to the October Donor Meeting were discussed by the MC. Mr McKechnie summarized the proposals: to extend the termination date of the ARTF from June 30, 2010 to June 30, 2020 and to modify the ARTF guidelines for donor expression of preference for the remainder of SY1386. If approved, the minutes of the donors' meeting should record the agreement of the donors to the extension and the amendment process.

## **5. MAZAR-E-SHARIF AND KABUL/AYBAK POWER PROJECT**

The task team presented the project package to the MC. The project is targeting investments in the low voltage distribution network in Kabul, the construction of a sub-station in Aybak and the rehabilitation of transmission systems in Mazar. The MC approved the transfer of US\$57 million from the ARTF to finance this project.

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<sup>1</sup> Suggested changes included one broadening the strategic sector focus of ARTF investments and the other regarding the evaluation's focus on ARTF support for more coherent and effective sub-national development assistance.

Following this approval the MC discussed the possible future allocations of unallocated cash balance and the MC noted the Government's request for financing the higher education sector.

## **6. PROPOSED MEETING SCHEDULE FOR COMING THREE MONTHS**

The next ARTF MC meeting is scheduled for Tuesday, November 13, 2007.

## **7. ANY OTHER BUSINESS**

### **Investment Income of ARTF**

Mr. Francisco Vergara, a Financial Officer with the World Bank, provided the MC with an outline of a proposal to invest the US\$70 million "cushion" from the ARTF in Tranche 2 of the trust funds investment portfolio. Mr. Vergara indicated that the Bank maintains an investment portfolio (the "pool") for all the trust funds administered by the World Bank Group. The pool is currently divided into two sub-portfolios: Tranche 1 comprises all funds with a one-year investment horizon and Tranche 2 comprises all funds with a three-year investment horizon and a commensurately larger risk tolerance. The probabilities of losses for both tranches are approximately 1% over the respective investment horizons. To date, the ARTF has been invested solely in tranche 1.

The reasoning for this recommendation is that the \$70 million "cushion" is actively held by management to cover potential shortfalls for recurring expenditures. Between this "cushion" and the undisbursed balance on investment activities, ARTF balance has always exceeded that amount in the last three years suggesting that \$70 million could be considered longer term.

Mr. Vergara explained that investing those funds in Tranche 2 should potentially result in higher investment returns over the investment horizon but is subject to higher short-term volatility with respect to Tranche 1. Actual returns were provided for FY06, FY07, FY08 to date to illustrate the volatility of the returns for each tranche. In addition, it was pointed out that historic simulations indicate that Tranche 2 would have delivered approximately 100 basis points (bp) additional annual return with respect to Tranche 1 during 1990 and 2004. Emphasis was given to the fact that the MC should decide to invest the "cushion" in Tranche 2 solely if it is believed that the funds can be maintained undisbursed for at least three years. It was also pointed out that short-term liquidity shortfalls could be managed by borrowing from the co-mingled pool of trust funds (up to the amount invested by ARTF in Tranche 1 and Tranche 2) as long as the funds are quickly replenished by donors.

The MC agreed that this topic should be discussed further after clarifying whether the "cushion" has ever gone below US\$70 million and additional information is provided on the rates of returns.

*PREPARED BY:  
AFGHANISTAN COUNTRY MANAGEMENT UNIT*