

**Proposal for Modifying ARTF Guidelines for Donor Expression of Preference for the
Remainder of 1386
Afghanistan Reconstruction Trust Fund (ARTF)
October 31, 2007**

1. This note proposes a modification to the ARTF's preferencing guidelines to provide additional flexibility to those ARTF Donors who wish to express preference. If agreed, the modification would be applicable only to agreements signed by the Administrator through the remainder of SY1386.
2. In the upcoming external evaluation of the ARTF, the consultants will examine the preferencing guidelines currently in effect, explore alternative models, and make recommendations for the ARTF to consider.

Background

3. ARTF Donors may express a preference for a national priority program which (a) is in the national budget; (b) has an identified funding gap; and (c) has been satisfactorily appraised by the Administrator. Expression of preference may be made for contributions in addition to the normal level of ARTF contribution and may not exceed 50% of the Donor's total contribution for that solar year.
4. Last year, once certainty was established regarding sufficiency of unpreferred funds to meet the recurrent cost financing requested by Government, the Administrator temporarily waived the 50% ceiling for Donor expression of preference. Several Donors have asked that the Administrator extend similar flexibility in 1386.
5. Based on signed agreements thus far in 1386 and taking into account imminent signing of pledge agreements with Germany, Spain and Italy and the unsigned pledges from the US and the EC, the Administrator is very confident that the ARTF will have sufficient unpreferred cash for the required recurrent cost financing of \$276 million.

Guiding Principles

6. *Burden Sharing.* As a pooled funding mechanism, the ARTF can best provide predictable recurrent and investment financing when Donors make unpreferred contributions. The Administrator's guidelines on expression of preference aim toward ensuring that all ARTF Donors fund a share of Government's recurrent costs and that predictability on this financing is given to Government early in each fiscal year.
7. *Budget Alignment.* In determining the national priority projects and programs for which preference is expressed, Donors must confer closely with the Ministry of Finance, preferably early in the budget cycle and at the mid-term review, to ensure that the Donor's funding preferences address government's priority funding gaps; that Donors be made aware of other under-funded national programs that they may wish to consider; and that contributions are aligned with absorptive capacity. The Donor Coordination standing meetings may also be a useful venue for cross-Donor coordination to reduce issues of over-funding on programs of limited absorptive capacity.
8. *Regional Designation.* The Bank's Articles of Agreement prohibit political interference in a member country. On these grounds, the Administrator will not record a Donor's regional or provincial interests or designation. Donors and Government may separately sign a Memorandum of Understanding or enter into other bi-lateral arrangements recognizing such regional

designations. The Administrator is not a party to these arrangements and is not bound by the decisions reached. The Administrator does not however interfere in these bi-lateral arrangements. At the Donor's request, a side letter confirming these points will be issued by the Administrator.

Proposed Modification to Guidelines for Remainder of 1386

9. Bearing in mind the above-mentioned guiding principles, the Administrator proposes allowing ARTF Donors to express preference for more than 50% of 1386 cumulative contributions, provided that either (a) the Donor has already signed an agreement(s) for their pledged unpreferenced amount for 1386 or (b) signs an agreement(s) for the pledged unpreferenced amount previously communicated to the Administrator. For Donors who have not made a pledge for 1386, provided the unpreferenced amount paid in 1385 (or the most recent prior year in which the Donor made an ARTF contribution) is maintained or exceeded in 1386, the Donor may express preference for more than 50% of the total contribution. For all other cases, the 50% ceiling on preferences would be maintained.

10. Any material downward change in the level of unpreferenced pledges would require this modification to be revisited. In other words, in the event that unpreferenced pledges recorded do not materialize, the Administrator may reconsider the agreed modification.

11. The Administrator may decline a Donor expression of preference when funds will not be promptly utilized by Government or where the project for which preference is expressed is unlikely to be satisfactorily appraised.

12. If agreed, the Minutes of this ARTF Donor Meeting shall record the agreement of the Donors to the proposed modification (and applicability) to the ARTF Guidelines on Donor Expression of Preference stated in paragraph 9 and indicate that this flexibility extends only to those agreements signed by the Administrator in 1386.