

ARTF Donor Committee
February 26th, 2007
World Bank, Kabul

Agenda:

1. Recurrent Window Requirement for SY 1386 and beyond, including update on draft budget for SY 1386 (MOF)
2. ARTF Financial Situation (SY 1385 Highlights) and Pledges for SY 1386 (World Bank)
3. Donor Preferences/Alignment with Government Priorities for SY 1386 (MoF and World Bank)
4. Improving Predictability of Cash Flows; Schedule for Donors to Pay Funds (World Bank)
5. Performance Assessment Matrix (DfID)
6. Other items of business

1. Recurrent Window Requirement for SY 1386 and beyond, including update on draft budget for SY 1386 (MOF)

- The Government of Afghanistan (GoA) will obtain US\$ 270 million in ARTF financial support for their 1386 recurrent expenditures.
- The SY 1386 budget has been approved by the cabinet and is pending Parliamentary approval. This budget reflects ARTF support of US\$ 270 million for the recurrent budget.
- Revenues have increased 450% over 4 years (since 1381) and may eventually exceed US\$ 1 billion, however, self-sufficiency (defined as domestic revenue generation sufficient to cover recurrent expenditure) will not be achieved for some time to come for two reasons:
 - Transfer of expenditures from the external budget to the core recurrent budget
 - Unexpected increase in security /defense and an increase in the number of teachers (to meet the MDG and London Compact benchmarks on education).
- If the increase in the recurrent budget is only allowed to grow commensurate with increases in domestic revenues, the Government is concerned that Millenium Development Goals (MDGs) may not be achieved.

- The budget has more expenditures than set out in the previous version of the Medium Term Fiscal Framework (MTFF) as the MTFF did not include security expenditures.
- The Government strongly endorsed fiscal discipline and lean budgets, but pointed out that this goal may not be conducive to social development objectives. Hence the Government argued that an assured annual level of funding of \$270 million for 1386 – 88 would provide predictability and facilitates planning.
- The Government noted that a flat-line request for \$270 million for 1386, 1387 and 1388 does not reduce the pressing need to increase revenues. The Government is making every effort to increase revenue collections with targets of US\$ 715 m for 1386; and US\$ 880 m for 1387.
- The easy revenue gains have largely been realized; future gains will be harder to achieve as pressure groups will urge for reductions in taxes and will resist paying more. Moreover, further tax increases would be resisted by the Parliament and media.
- Government emphasized that the additional expenditures required in security and education are critical for the country.
- PAR linkages to the recurrent budget were discussed.
- Government signaled that there is not unanimity within the high levels of Government that all civil service positions should be competitively recruited and promoted.
- The overarching role of the CSC in operationalizing public administration reform and the need for donor technical inputs and support for PAR implementation was highlighted.
- The World Bank will prepare a note on the 1386 budget after reliable data on the 1385 budget outcome are available.
- Donors congratulated the Government on its satisfactory and improving revenue collection and acknowledged that achieving the MDGs in the social sectors has implications for the recurrent budget; moreover, a strong link between fiscal sustainability, social development, and security exists.
- Donors cautioned against backtracking on MDGs due to the increase in security expenditures.
- Donors strongly support a level of ARTF recurrent cost financial support of US\$ 270 million for SY 1386 with a note of caution that the budget is constrained, prioritization is necessary, and competing objectives of security and the MDGs must be balanced.

2. ARTF Financial Situation (SY 1385 Highlights) and Pledges for SY 1386 (World Bank)

- In 1385, there were 18 contributing ARTF donors (including two new donors: Poland and New Zealand).
- ARTF contributions to date total US\$ 1.72 billion, of which US\$ 468.35 million in SY 1385 (14% increase over previous year).
- In 1385, US\$ 129.6 million was committed to investments (representing 27.7% of all ARTF contributions in SY 1385); Recurrent Cost financing of US\$ 299 million.

- ARTF should end the year with US\$ 45 – 50 million in available, uncommitted cash – largely all without Donor of expression of preference, an improvement over 1384.
- Estimated end-of-year project disbursements of US\$ 150 million
- A summary of the 1384 audit reports findings and observations was provided. Clarifications were provided on the US\$ 26.5 million of unsubstantiated expenditures on the MISFA financial statements, emphasizing that this amount was not ineligible for financing by the ARTF.
- A summary of the recent procurement post review was provided, indicating that the results are largely satisfactory with problems noted in the selection of individual consultants.

3. Donor Preferences/Alignment with Government Priorities for SY 1386 (MoF and World Bank)

- The Administrator noted that Preferences do not constitute earmarking, and reiterated that the flexibility to allow ARTF Donors to express preference is conditional upon those preferences being for national programs that have funding gaps. Preferences must be aligned with the budget; must be for a national project/program and must address a funding gap.
- The Government's position is that expressions of preference should be minimized, as expression of preference reduce the efficiency of resource utilization by reducing choices, as funds cannot be allocated freely. Government would like to see a decrease in Donor expression of preference.
- The Government mentioned the National Rural Access Program (NRAP) as a national program needing additional funds and which is strongly supported by Parliament because it delivers visible results.
- In 1386, the budget adjustment process will be made more flexible so that Donor funds received beyond initially budgeted amounts will be able to flow through the budget.

4. Improving Predictability of Cash Flows; Schedule for Donors to Pay Funds (World Bank)

- A graph highlighting irregularity of 1385 contributions was discussed.
- In 1385, very low early first quarter and third quarter contributions contributed to implementation delays on the National Solidarity Program.

- Donors were asked to endeavor to ensure that 1386 contributions are paid in the first quarter. So far, the UK, Canada, Denmark and Luxembourg are accelerating preparation of their 1386 agreements toward this objective.
- DfID and Denmark have already undertaken steps to adjust their payment schedules to render ARTF cash management (and transfers to investments) more predictable.
- The Administrator will prepare a rough schedule of anticipated Donor receipts and MC approvals (allocations) to identify any deficit periods in 1386. To do so, we need better information on timing of Donor payments and some indication of what amounts over the course of the year, the Government is likely to request of the ARTF MC.

5. Performance Assessment Matrix (DFID)

The purpose of the Performance Assessment Matrix was reiterated. For Government and Donors, the PAM is a strategic dialogue process to assess the importance and contribution of the ARTF via setting out benchmarks in key policy areas, reporting on progress, and highlighting issues on which support and dialogue is required.

- A copy of the updated PAM matrix was circulated to Donors. All Donors will have a one-week comment period to channel further inputs to DFID and the World Bank.
- In one week's time, the PAM will be considered final. [Attached to these minutes is the PAM, finalized for its initial launch.]
- At the next ARTF Donors meeting, the PAM policy dialogue will focus on Public Financial Management and Health sectors.
- Future ARTF Donor meetings will include sector specialists and representatives, who may be asked to submit 'sector issue summaries' for the Donors to consider. These meetings would discuss outputs at the sectoral level.
- At two of each year's quarterly ARTF Donor meetings, cross-cutting issues will be discussed.
- The PAM should feed into the ANDS process and structure while avoiding duplication.
- The PAM matrices, while not making explicit mention of anti-corruption includes indicators commonly used to track and monitor progress in this area. It was agreed that Donors wanting to make more explicit reference to anti-corruption in the PAM matrices, should send suggested language to DfID/World Bank during the week comment period.

6. Any Other Business

- The German delegation highlighted two strategic problems: (1) development coordination and (2) increasing contributions to the Government's budget. On the first issue, a discussion of priorities at mid-year is needed. The German delegation will draft and circulate a note with suggestions to be considered by the ARTF donor committee.
- It was suggested that a mid-term meeting of ARTF Donors (in September or October) be a full-day meeting, devoted to discussing sectoral and policy issues and involve representatives from Donor capitols. A deeper discussion of issues will strengthen ARTF as a budget support mechanism as it evolves over the medium-term.
- The last independent review of the ARTF was in early 2005. It was suggested that the ARTF contemplate a follow-up review, building upon the findings of the first review.
- On the National Education Program, the Government is mobilizing resources and some Donors, to support this Program through the ARTF would want a deeper sector dialogue.