



AFGHANISTAN RECONSTRUCTION TRUST FUND  
**Partnership Framework and Financing Program:**  
**FY1397-FY1399 (2018-2020)**

ENDORSED BY THE ARTF STEERING COMMITTEE  
June 25, 2018



## ABBREVIATIONS AND ACRONYMS

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ACReMAP	:	ARTF Anti-Corruption and Results Monitoring Action Plan
AFMIS	:	Afghanistan Financial Management Information System
AHP	:	Ad Hoc Payments window
ANPDF	:	Afghanistan National Peace and Development Framework
ARTF	:	Afghanistan Reconstruction Trust Fund
ASIST	:	Advisory Services Implementation Support and Technical Assistance window
CCAP	:	Citizens' Charter Afghanistan Program
CDC	:	Community Development Councils
CDD	:	Community-driven Development
CPF	:	Country Partnership Framework
CPPR	:	Country Portfolio Performance Review
DLI	:	Disbursement-Linked Indicator
DPF	:	Development Policy Financing
FCS	:	Fragile and Conflict-affected States
FORM	:	World Bank Framework for Operations Risk Management
FPIP	:	Fiscal Performance Improvement Plan
FSF	:	Fiscal Stability Fund
GoIRA	:	Government of the Islamic Republic of Afghanistan
GWG	:	Gender Working Group
IDA	:	International Development Association
IDP	:	Internally Displaced Persons
IP DPG	:	Incentive Program Plus Development Policy Grant
IPF	:	Investment Project Financing
IPP	:	Independent Power Producer
IPWG	:	Incentive Program Working Group
IW	:	Investment Window
MA	:	Monitoring Agent
MAIL	:	Ministry of Agriculture, Irrigation and Livestock
MC	:	Management Committee
MDTF	:	Multi-donor Trust Fund
MEW	:	Ministry of Energy and Water
MIGA	:	Multilateral Investment Guarantee Agency
MOF	:	United Ministry of Finance
MPA	:	Multi-Phase Programmatic Approach
MRRD	:	Ministry of Rural Rehabilitation and Development
NPP	:	National Priority Program
PFFP	:	Partnership Framework and Financing Program
PPP	:	Public-Private Partnership
RAP	:	Research and Analysis Program window
RCW	:	Recurrent Cost Window
SA	:	Supervisory Agent
SCD	:	Systematic Country Diagnostic
SG	:	Strategy Group
SORT	:	Standardized Operations Risk-Rating Tool
SWAP	:	Sector-Wide Approach
WB	:	World Bank
WBG	:	World Bank Group
WDR	:	World Bank Development Report

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## PREFACE

This Partnership Framework and Financing Program: FY1397-FY1399 (2018-2020) (PFFP) is the third in a series of three-year strategies for the Afghanistan Reconstruction Trust Fund (ARTF). First introduced at the 2010 London Conference on Afghanistan, the strategies have become a regular planning tool used by all ARTF partners to identify financing priorities for the Fund. Previous strategies ran from FY1391 to 1393 (2012 to 2014), outlining three-year financing totaling USD 3.6 billion; and from FY1394 to 1396 (2015 to 2017), which outlined priorities for financing totaling USD 2.4 billion. These documents summarize the core areas of ARTF support to the Government of the Islamic Republic of Afghanistan (GoIRA), including civilian recurrent costs, policy reforms and core development, and service provision programs including agriculture, education, governance, health, infrastructure, social and rural development.



**AFGHANISTAN RECONSTRUCTION TRUST FUND**  
**Partnership Framework and Financing Program: FY1397-FY1399 (2018-2020)**

**EXECUTIVE SUMMARY**

This Partnership Framework and Financing Program (PFFP): FY1397-FY1399 (2018-2020) outlines the strategy for the Afghanistan Reconstruction Trust Fund's (ARTF) support over the next three years to the Government of the Islamic Republic of Afghanistan's (GIROA) development and reform priorities articulated in the Afghanistan National Peace and Development Framework, its associated National Priority Programs, and the Fiscal Performance Improvement Plan.

The PFFP is the product of extensive consultations that began in August 2017. In Afghanistan, the process of determining the optimal uses to which scarce public funds should be put is particularly challenging because the gap between the country's financing needs and available resources are large, security expenditures command an inordinately large share of available resources, and available financing comes from multiple sources and is delivered in widely varying forms, requiring planning and budgeting to determine not only how much to allocate to different priorities, but also to consider what mix of financing sources to draw on in each area.

In developing the PFFP, ARTF stakeholders have sought to ensure that the indicative financing program is appropriately synchronized with Afghanistan's multi-year planning and financing framework. The process has been guided by seven principles: 1) ensuring alignment with the ANPDF and GoIRA priorities; 2) shifting towards a more programmatic approach to managing development; 3) reflecting a realistic assessment of the institutional and absorptive capacity of key GoIRA ministries that will implement ARTF-funded programs; 4) ensuring continued emphasis on the ARTF's historic focus on poverty reduction and service delivery; 5) engaging in sectors where the World Bank, as the ARTF trustee and administrator can offer a comparative advantage; 6) crowding in other potential sources of finance where possible; and 7) providing ample discretionary funds by leveraging policy reforms.

The PFFP presents for endorsement of the ARTF Steering Committee an indicative financing program for use of an expected US\$ 2.485 billion in ARTF resources. The PFFP proposes to employ 36 percent of funds for policy-based budget support, divided equally between a fiscal stability fund, incentivized budget support for governance and state effectiveness reforms, and for economic growth and job creation. Sixty-one percent of funds are proposed for support to investment financing, of which the largest portion, 37 percent, will support poverty reduction, service delivery, citizen engagement and social inclusion. Seventeen percent will be directed to economic growth and job creation investments, and six percent will be directed to governance and state effectiveness investments. The PFFP proposes to employ three percent of ARTF resources in new World Bank-executed windows that will provide expanded advisory services and technical assistance in key priority sectors (one percent) and deepen the ARTF's resources for addressing anti-corruption and results monitoring within the ARTF portfolio (two percent).

Because the total of actual paid-in contributions for the previous ARTF Financing Strategy was less than initial pledges, the ARTF parent trust fund entered the new PFFP period under stress, and delays in disbursing full pledges will result in liquidity crisis and the inability to deliver the development outcomes sought under the PFFP. In the event pledges do not materialize as expected, the current balance between long- and short-term building blocks for growth and implementation capacity outlined in the PFFP would be adjusted. Reduced ARTF financing

would be increasingly centered on the historic “core” priorities of poverty reduction and service delivery. The approach will enable approved programs in these sectors to continue, but may necessitate implementation delays or scale reductions in programming in the governance and state effectiveness or economic growth and job creation sectors. In the event contributions exceed pledges, additional funds would be used to support discretionary policy-based budget support to increase incentives for policy reforms in key areas, to support basic education, to advance the roll-out of the Citizens’ Charter program nationally, and to support public administration reform and sub-national governance.

In addition to setting out financing priorities for the coming period, the PFFP also presents a series of six initiatives that respond to recommendations in *Taking Charge: Government Ownership in a Complex Context*, the fourth external review of the ARTF, which was concluded in 2017. These initiatives are focused on: 1) enhancing alignment through a more flexible and adaptable approach to programming; 2) moving towards increased use of incentivized results-based instruments; 3) providing more hands-on extended technical assistance and implementation support; 4) ramping up monitoring and strengthening anti-corruption mechanisms; 5) adopting a more structured, GoIRA-led approach to improving ARTF portfolio performance; and 6) streamlining collaboration and decision-making procedures and strengthening communications and reporting. Only the third and fourth of these initiatives, which will involve establishing new World Bank-executed windows in the ARTF (with indicative funding of three percent of overall resources for the financing period) require the formal approval of the SC. The SC’s endorsement of the direction outlined in the remaining four initiatives is nevertheless sought to ensure the full consensus of the ARTF governance structure as work under the PFFP proceeds with the aim of ensuring more impactful delivery and effective collaboration in the new financing period.

## A. Introduction

1. This Partnership Framework and Financing Program (PFFP) is a joint product of the Afghanistan Reconstruction Trust Fund (ARTF) Strategy Group (SG), comprising the main ARTF partners—the GoIRA, ARTF donors and the World Bank (WB) as the ARTF Administrator/Trustee. The content of the PFFP has been developed through ongoing engagement with GoIRA line ministries, led by the Ministry of Finance (MoF), and through discussion in ARTF governance bodies including the SG, the ARTF Gender Working Group (GWG), and the Incentive Program Working Group (IPWG). The content has also been informed by *Taking Charge: Government Ownership in a Complex Context, External Review of the Afghanistan Reconstruction Trust Fund*, the fourth external review of the ARTF, which was completed in 2017 in line with commitments arising from Self Reliance through Mutual Accountability Framework indicators agreed ahead of the 2016 Brussels Conference on Afghanistan.

2. Preparations began in mid-2017 with a review of the existing ARTF portfolio to identify opportunities for adjusting financing in line with emerging priorities under the Afghanistan National Peace and Development Framework (ANPDF) and GoIRA's 10 National Priority Programs (NPPs). In parallel to the financing and alignment discussions, ARTF stakeholders began considering future operational priorities for the Fund, and the external review also considered the extent to which the ARTF is a fit for purpose mechanism with the capacity to adapt to GoIRA needs, purpose and priorities. Some discussions, including final determination of priority areas for ARTF support, required more time than initially projected. As a result, the PFFP has been presented to the ARTF Steering Committee for consideration in June 2018, six months after the expiration of the previous strategy. In the interim, ARTF partners agreed to enable select programs to proceed with the understanding that the full PFFP would be endorsed later in the year, thus minimizing disruptions to key operations in the first half of 2018.

3. The PFFP begins, in Section B, with a brief overview of the ARTF structure and governance. Sections C and E set out how the ARTF will align with GoIRA priorities and how financing will be allocated to those priorities. In Section D, the PFFP introduces a new feature relative to previous financing strategies by setting out proposed actions in six thematic areas important to ARTF operations, for consideration by the SC:

- enhancing alignment through a more flexible and adaptable programming;
- moving towards increased use of incentivized results-based financing instruments;
- providing more hands-on extended technical assistance and implementation support;
- ramping up monitoring and strengthening anti-corruption mechanisms;
- enhancing arrangements for resolving operational bottlenecks and improving ARTF portfolio performance; and
- improving collaboration, information sharing and decision making in the ARTF partnership.

## B. The ARTF: what it is, how it works and what it has accomplished

### B.1. The ARTF as a platform for pooled on-budget financing

1. The ARTF was established in 2002 as a multi-donor trust fund (MDTF) to support immediate stabilization and reconstruction needs in Afghanistan, to fill the large financing gap in both the operating and development budgets of the GoIRA, and to provide a platform for pooled on-budget financing and coordinated implementation support to the government. The International Development Association (World Bank, or WB) acts as trustee and administrator.

2. Sixteen years after its establishment, the ARTF is Afghanistan's main multi-donor mechanism for on-budget financing of civilian and development expenditures. As of December 31, 2017, 34 donors have contributed USD 10.3 billion to the ARTF to fund Afghanistan's development priorities (see Figure 1).

FIGURE 1: CUMULATIVE CONTRIBUTIONS TO THE ARTF (2002-2017)



### B.2. How the ARTF works: structure and financing modalities

3. Funds contributed to the ARTF to support GoIRA's programs and development priorities flow through three main channels: (i) the Recurrent Cost Window (RCW); (ii) the Investment Window (IW); (iii) and the Research and Analysis Program (RAP) window. The first two windows are government-executed, while the latter is World Bank-executed. The RCW provides financing for GoIRA's recurrent costs through three modalities: baseline support for fiscal stability, policy-based budget support through the Incentive Program (IP), and the Ad Hoc Payments Facility (AHP), which enables donors to channel additional exceptional budget support to GoIRA through the RCW (benefiting from the fiduciary controls and monitoring arrangements in place for the RCW) under terms agreed directly between the bilateral donor and the Ministry of Finance.

4. The IW funds investment projects that are implemented by GoIRA line ministries and agencies. GoIRA is primarily responsible for project design and implementation, including monitoring and updating results frameworks, establishing adequate monitoring and

evaluation arrangement, and reporting progress towards agreed project development objectives and results targets. WB technical teams provide support to implementing ministries and agencies during these processes, and monitor and evaluate projects based on the agreed monitoring and evaluation framework. Annex 1 provides additional details on the RCW and IW.

5. The RAP was introduced as a WB-executed window in the previous FS period, with the aim of undertaking new and innovative ways to generate analysis and new knowledge in partnership with GoIRA and other Afghan stakeholders. The analytic work covers a range of sectors and issues, including transport, education, trade and competitiveness, women's economic empowerment, climate change impacts on agriculture, and forced displacement. Completed studies are available on the ARTF website: <http://www.artf.af/research/artf-research-and-analysis-program>. Several have been completed thus far, with others expected to be completed by early 2019. In the current strategy period, the PFFP proposes to convert the RAP to an Advisory Services, Implementation Support and Technical Assistance (ASIST) Window, with expanded functions. The PFFP also proposes to add a second WB-executed window to support implementation of the Anti-Corruption and Results Monitoring Action Plan (ACReMAP).

### B.3. How the ARTF works: governance arrangements

6. The ARTF has a three-tiered governance framework. At the topmost tier is the **Steering Committee (SC)**, co-chaired by the Minister of Finance of Afghanistan and the World Bank's Afghanistan Country Director, consisting of Ambassadors from ARTF donor countries, with members of the Management Committee as observers. The SC's mandate is to set ARTF policy, endorse the multi-year financing program, and periodically review implementation. The SC is intended to meet quarterly. Proposals for individual projects and programs are presented to the ARTF **Management Committee (MC)**,<sup>1</sup> which is mandated to approve programs and projects, to review ARTF finances, and to make recommendations to the Administrator on ARTF management. The MC meets as required to review proposals.

7. The SC and MC are supported by the ARTF **Strategy Group (SG)**,<sup>2</sup> which develops and reviews the Financing Strategy, provides recommendations to the SC, and analysis and advice on the ARTF as a whole. The SG meets monthly, gathering more frequently as needs arise. In developing its recommendations to the SC, the SG consults with two related working groups. The **Incentive Program Working Group (IPWG)**<sup>3</sup> meets as needed to agree with GoIRA on the policy benchmarks to be tied to releases of funds under the ARTF Incentive Program, and reports on progress and results to the SC and the SG. The **Gender Working Group (GWG)**<sup>4</sup> meets monthly to review gender aspects of ARTF-financed activities, and makes recommendations to the SC and SG on improving gender outcomes, mainstreaming and reporting in ARTF-financed projects.

8. GoIRA, as the main beneficiary and stakeholder of the ARTF, and the WB as the Trustee and Administrator of the fund participate at all levels of the governance framework.

<sup>1</sup> In addition to the Ministry of Finance and WB as administrator, the MC comprises the country directors of the Asian Development Bank, the Islamic Development Bank, and the United Nations Development Programme, together with the United Nations Assistance Mission in Afghanistan as an observer

<sup>2</sup> The Strategy Group comprises Heads of Cooperation from current ARTF donor countries, the MoF and the WB. Donors with contributions below a minimum threshold level hold a joint seat, which is rotated regularly.

<sup>3</sup> The Incentive Program Working Group comprises staff with economics focus from current ARTF donor countries. The MoF and WB co-chair the meetings, and the MoF facilitates other line ministry presence as needed depending on agenda topics to be discussed.

<sup>4</sup> The Gender Working Group comprises staff with gender focus from current ARTF donor countries. The MoF and WB co-chair the meetings, and the MoF facilitates other line ministry presence as needed based on the specifics of agenda topics to be discussed.



GoIRA is responsible for setting development priorities that guide all ARTF initiatives, as well as for project design and implementation. The WB is responsible for ensuring that ARTF-funded initiatives are developed and implemented in a manner consistent with GoIRA guidance and WB policies. It provides co-chairing and secretariat support for the governance bodies, and provides implementation, monitoring and reporting support for ARTF-funded initiatives implemented by GoIRA

#### B.4. What the ARTF has helped Afghanistan accomplish

9. The ARTF has been a significant contributor in supporting results at the country level through the recurrent and investment window financing, through technical assistance and through policy dialogue in the existing governance fora. The WB Independent Evaluation Group has noted the ARTF's successful role in pooling and using resources to deliver development outcomes, and to align government and donor priorities in Afghanistan.<sup>5</sup> The ARTF has had a strong focus on addressing drivers of fragility since inception in 2002. The ARTF structure helps to ensure predictability of aid, and its governance structures convene GoIRA and donor partners around critical development issues, enhancing transparency and ownership of aid. Through on-budget development funding, both the RCW and IW contribute to building strengthened government systems and sustainable implementation capacity in government institutions.

10. The RCW has helped ensure a stable flow of funding for core GoIRA expenditures, including civilian salaries, and a stable macroeconomic framework. Considering the current fiscal gap, this financing will be critical in the coming years to support macroeconomic stability by helping meet non-discretionary expenditures. The RCW has grown from USD 59 million in 2003 to notionally USD 400 million per year between 2015–2017. Results-based disbursements have superseded the baseline financing since 2013. As of December 20, 2017, a total of USD 179.16 million has been disbursed in the second half of FY 1395 (2016) under the RCW, which consists of two quarterly tranches of baseline recurrent cost financing (USD 50 million), bilateral funding delivered through the AHP facility of USD 45.66 million, and USD 83.50 million, following GoIRA achievement of FY1394 and FY1395 IP benchmarks.

11. Through the IW, the ARTF has supported GoIRA development priorities and contributed to achievement of key development outcomes in Afghanistan, benefiting millions of Afghan citizens. Approximately 9.3 million Afghans benefited from ARTF IW-funded initiatives, exclusive of the National Solidarity Program, which reached 27.3 million beneficiaries, of whom 40 percent are female. Despite the challenges of increasing conflict and declining aid, the ARTF has continued to support progress in human development outcomes, among the most important achievements in post-2001 Afghanistan.

#### BOX 1: SOME EXAMPLES OF WHAT THE ARTF HAS HELPED GOIRA ACCOMPLISH

##### RESULTS FROM POLICY-BASED BUDGET SUPPORT THROUGH THE RCW:

- Increased revenue generation;
- Enactment of a Land Acquisition Law in line with good international practice;
- Implementation of a unified business and investment licensing system;
- Automation of the tax administration system; and
- A progressive roll-out of a civil servants e-payment system.

##### SELECTED RESULTS FROM DEVELOPMENT INVESTMENT FINANCING UNDER THE IW:

<sup>5</sup> World Bank Independent Evaluation Group, *Evaluation of the World Bank Group Program in Afghanistan (2002-2011)*.

- An increase in the numbers of children enrolled in school from less than a million boys and fewer than 200,000 girls in 2002 to 9 million children enrolled in school (39% girls) as of 2016;
- A reduction in the under-five mortality rate to 55 per 1,000 live births during the period 2011–2015, from an estimated 191 per 1,000 live births in 2006;
- A drop in the prevalence of stunting (chronic malnutrition) among children 6–59 months to 41 percent in 2013 from 61 percent in 2004; and
- An increase in the proportion of deliveries assisted by skilled providers from 34 percent (2011) to 58 percent (2015).

NOTES: detailed results are available in regular ARTF reporting products, including the annual ARTF Scorecard reports.

## B.5. How the ARTF manages risks and implements fiduciary controls and monitoring arrangements

### Addressing strategic and operational risks

12. The strong record of delivery notwithstanding, the risks to the ARTF, the projects and operations it funds, and their expected outcomes are considered high. Recognizing that Afghanistan presents a high-risk and continuously evolving context, risks are monitored on a continuous basis. In addition, mitigation measures continue to develop in response to the changing context in consultation with GoIRA and donors and within the parameters of the WB Framework for Operations Risk Management (FORM) and Standardized Operations Risk-Rating Tool (SORT). Annex 2 provides a detailed SORT risk framework for the ARTF.

13. The fragile context, including security challenges and limited data availability, imposes challenges for ARTF oversight. GoIRA, donor partners and the WB work jointly to overcome these challenges. The supervision strategy has evolved greatly over the past 16 years. The large portfolio of programming necessitates diversified monitoring mechanisms. As ARTF Administrator, the WB applies the same standard of oversight that it uses for all projects, regardless of financing source(s). These standards include regular biannual implementation status and results reviews, which always include review of applicable social and environment safeguards and fiduciary management issues and result in publicly disclosed reports. In addition, the WB conducts prior and post reviews of procurement transactions based on threshold amounts set for each project, and has established multiple channels for reporting alleged cases of corruption relating to WB-financed programs, including ARTF-financed initiatives.<sup>6</sup> ARTF stakeholders have also developed other innovative approaches that diversify the information available to track and report progress and compliance with operational policies. Methods include community monitoring, grievance redress mechanisms (GRM), information and communication technologies, engaging with diverse stakeholders including civil society and non-governmental organizations.

14. In addition, the WB supplements these methods with third-party monitoring of both the RCW and IW-funded initiatives. The current scope of third-party monitoring is outlined below. As further detailed in [Section D.4](#), the PFFP envisions expanding the scope of this monitoring in connection with the introduction of the WB-executed ACREMAP window in the ARTF.

### Third-party monitoring: the RCW Monitoring Agent

<sup>6</sup> Concerns may be submitted directly to the World Bank's Integrity Vice Presidency via a form on its website, which is accessible at: [https://intlbankforreconanddev.ethicspointvp.com/custom/ibrd/crf/english/form\\_data.asp](https://intlbankforreconanddev.ethicspointvp.com/custom/ibrd/crf/english/form_data.asp). Stakeholders also have the option to write to the World Bank Integrity Vice Presidency Investigations team leader for South Asia at [mkaushal@worldbank.org](mailto:mkaushal@worldbank.org). The Integrity Vice Presidency conducts investigations independently of other World Bank units, including the Afghanistan Country Office. Concerns may also be submitted via email to any member of the World Bank staff in Afghanistan for forwarding on to the Integrity Vice Presidency.

15. As the Administrator of the ARTF, the WB has a responsibility to ensure that an appropriate standard of fiduciary control is applied to GoIRA disbursement processes under the RCW. An international firm of chartered accountants (currently BDO UK) has been appointed as the Monitoring Agent (MA) for the RCW. The MA is tasked with monitoring, supporting, and reporting on the efficient and effective implementation of the RCW. The MA conducts its work in accordance with the Agreed Procedures included in its Terms of Reference and Inception Report, which includes compliance with the International Federation of Accountants Code of Ethics for Professional Accountants and with all relevant international standards applicable to its oversight.

### **Third-party monitoring: the IW Supervisory Agent**

16. Since 2011, the WB has supplemented its regular oversight of IW-funded project implementation with independent third-party monitoring by a Supervisory Agent (SA), currently Management Systems International. The SA program provides critical field data that informs WB implementation support and implementing ministries' own monitoring systems. The SA reports directly to the WB as ARTF Administrator, but works closely with implementing ministries and departments responsible for project implementation at both the national and local level. By providing information such as asset verification and quality assurance data from widely disbursed project sites, the SA expands the reach of oversight nationwide to locations that WB and ministry officials are not always able to visit systematically. The analysis provides an additional layer of assurance to donor partners, and helps to demonstrate to implementing ministries how oversight can improve project performance and results. Specific monitoring exercises vary by project and by ministry, but in general focus mainly on infrastructure, quality assurance, social and environmental safeguards, gender considerations, and select financial and fiduciary issues.

17. Between 2015-2017 the SA monitored seven geographically dispersed IW-funded projects.<sup>7</sup> One of these projects has concluded, and the SA continues to monitor six active projects. In 2018, the SA's scope of work is being expanded to three additional projects, bringing the current total of active projects subject to SA monitoring to nine.<sup>8</sup> [Pipeline and other existing projects are being considered for SA monitoring in connection with planning for the introduction of the WB-executed ACREMAP window in the ARTF.](#)

## **C. Looking ahead: an ARTF program aligned with ANPDF priorities and tailored to the operating context**

### **C.1. The development agenda: ANPDF priorities**

18. The PFFP supports the implementation of the Afghanistan National Peace and Development Framework (ANPDF) 2017-2021, which was presented to the Brussels Conference on Afghanistan in October 2016. The ANPDF built on the strategic vision GoIRA outlined in "Towards Self-Reliance: Commitments to Reform and Renewed

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<sup>7</sup> The seven projects were 1) the Ministry of Education's second basic education program (EQUIP II); 2) Afghanistan Rural Access Project implemented by the Ministry of Rural Rehabilitation and Development (MRRD) and the Ministry of Public Works; 3-4) MRRD's Third National Solidarity Project (now concluded) and its successor program, the Citizen's Charter Afghanistan Project, which is jointly implemented with the Independent Directorate of Local Governance; 5-6) the Irrigation Rehabilitation and Development Project and On-Farm Water Management Project managed respectively by the Ministry of Energy and Water (MEW), and the Ministry of Agriculture, Irrigation and Livestock (MAIL); and 7) the Afghanistan Power System Development Project managed by Da Afghanistan Krishna Sherkat in collaboration with MEW.

<sup>8</sup> The three additional projects benefitting from SA monitoring in 2018 include 1) the National Horticulture and Livestock Project implemented by MAIL; 2) the Afghanistan Agricultural Inputs Project implemented by MAIL; and 3) the System Enhancement for Health Action in Transition Project implemented by the Ministry of Public Health.



Partnership”, which was presented to the London Afghanistan Conference in December 2014.

19. The overall objective of the ANPDF is to achieve self-reliance and improve the welfare of the Afghan people. This objective is to be achieved through building a productive and broad-based economy that creates jobs, puts an end to corruption and violence, and establishes the rule of law. To support this outcome, the strategy proposes selective investments in infrastructure and human capital, including through improvements in public services.

20. The ANPDF notes the vital importance of governance to improved outcomes, emphasizing the need for citizens to be able to exercise their constitutional rights. Development priorities under the strategy are expressed under four pillars:

- improving governance and state effectiveness through public sector reform, rooting out corruption and strengthening subnational governance;
- building social capital and nation building through reforming the justice sector and building national identity;
- economic growth and job creation through a comprehensive agriculture development program, private sector-led development program, mineral and resource development, and energy and infrastructure development as well as promoting regional integration, improving human resource skills, and urban development; and
- poverty reduction and social inclusion through improving the quality of health and education programs, implementing the Citizens’ Charter program, and national gender strategy, including the women’s economic empowerment national program.

21. The ANPDF also recognizes the need to support returnees and the internally displaced through approaches that realize their potential human capital contribution and respect their civil, economic, social, and political rights.

22. The ANPDF emphasizes greater government ownership of the development process, a more equal government-donor partnership, and a greater proportion of aid provided as discretionary budget assistance. The main instruments for implementation of the strategy are the national budget and ten National Priority Programs (NPPs).<sup>9</sup>

23. The Government seeks to implement the ANPDF through an improved budget process. To this end, the ANPDF states that the budget process will be used to fully align Cabinet priorities and multi-year program expenditures. Through this process: i) political leaders will set national goals consistent with the ANPDF; ii) inter-ministerial councils will oversee policy-making; iii) NPPs will guide ministry and sector-level policy under inter-ministerial working groups; iv) the national budget will allocate resources in alignment with priorities and plans; and iv) ministries will execute activities.

24. The ANPDF is frank regarding the continued role of donor financing in delivering government priorities. With continued constraints to the availability of domestic fiscal resources, international assistance will play a key role in ANPDF implementation. The ANPDF outlines a clear strategy for working with donor agencies and the international

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<sup>9</sup> National Priority Programs (NPPs) are outcome-focused thematic programs that guide ministries towards collective problem solving. Most involve more than one ministry. Inter-ministerial working groups will synchronize timetables, budgets, and shared resources. Investments proposed under an NPP umbrella should be national in scope and pay careful attention to ensuring geographic and ethnic balance.

community, with a strong emphasis on mutual accountability. The ANPDF appropriately emphasizes the need to move an increasing share of development partner resources on budget and ensure that delivery is timely, efficient, and aligned with government priorities.

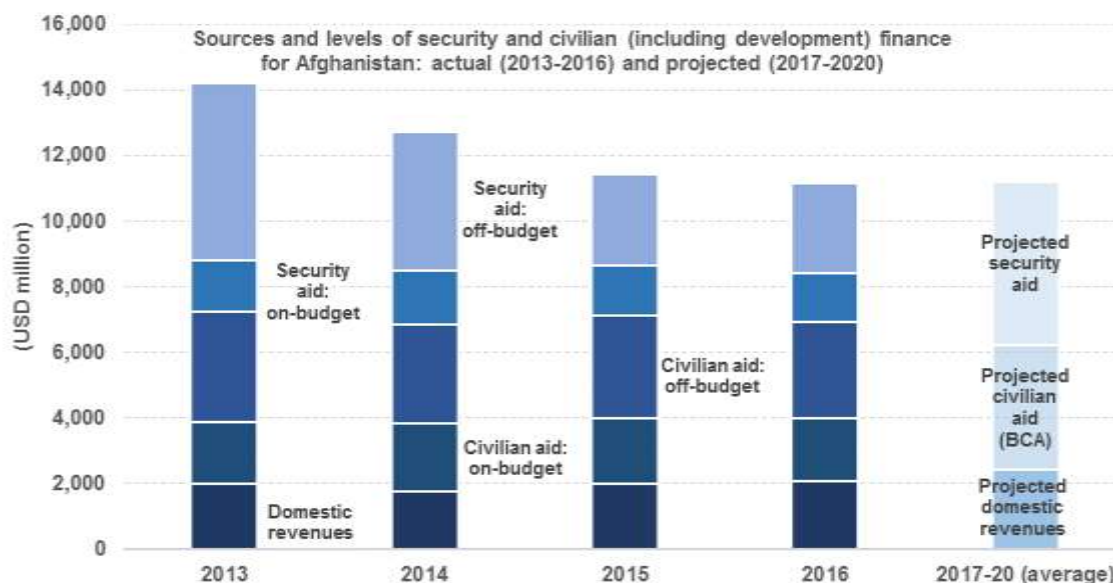
25. Effective implementation of the program remains heavily contingent on security and domestic and international political developments. Political factors have previously constrained the pace of implementation of government programs in Afghanistan and political instability could undermine achievement of the ANPDF objectives. External support will be vital to finance ANPDF priorities, and effective implementation will depend on development partners meeting recent commitments for continued support. The security situation in Afghanistan remains difficult, and it will be challenging to achieve ANPDF outcomes if the security situation does not improve.

### **C.2. The operating context: a constrained financing envelope going forward**

26. GoIRA is increasingly financing developing through the national budget. The public financial management system has undergone a structural transformation which has allowed the budget to grow from USD 346 million in 2002 to USD 5.2 billion in 2016 (25.6 percent of GDP), demonstrating rising absorption capacity for funding channeled through the budget. Security needs absorb about 42 percent of total expenditures and have risen over the past years. Nevertheless—and despite growing civilian operating costs—development expenditures increased nominally from AFN 78.7 billion in 2017 to AFN 93.9 billion in 2016 (USD 1.4 billion). Government expenditures are expected to further increase to 30.1 percent of GDP by 2020, reflecting the maintenance of current service levels to a growing population, essential infrastructure and necessary maintenance of aid-financed assets recently transferred to government ownership (including security). Execution rates of the budget have improved from 73 percent in 2015 to 76 percent in 2016, but mostly because of higher execution of the operating budget. The execution of the development budget remains low at 33 percent.

27. Afghanistan remains heavily aid-dependent. As shown in Figure 2, between 2013 and 2016, donor grants financed, on average, nearly 60 percent of on-budget public spending. Taking into account the off-budget expenditures, which are estimated to be as large as the government's budget, foreign aid finances nearly 80 percent of total on- and off-budget public spending in the country. (See Figure 3.) Domestic revenues, currently at 10.8 percent of GDP (or USD 2.3 billion), are projected to increase to only 12 percent of GDP (or USD 3.1 billion) by 2020. With the absence of other financing possibilities for Afghanistan, aid will remain the primary source of public finances for the foreseeable future.

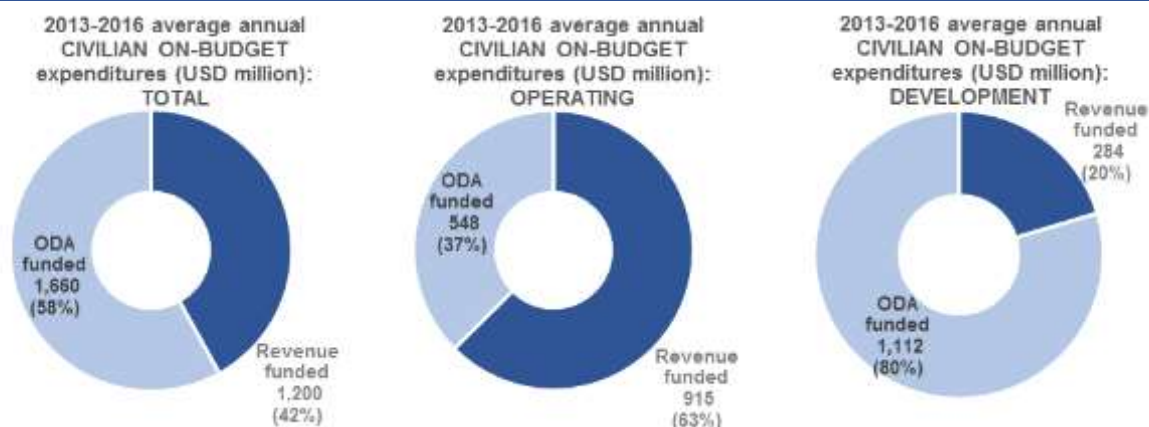
**FIGURE 2: SECURITY AND CIVILIAN FINANCING FOR AFGHANISTAN HAS DECLINED SHARPLY**



NOTES: World Bank estimates based on data from the MoF budget and aid management directorates. Aid projections for 2017-2020 are based on pledges at the Warsaw (security) and Brussels (civilian) conferences.

28. With the withdrawal of most international security forces, overall aid has significantly declined. Total security and civilian aid, including both on- and off-budget grants, have declined from an estimated USD 12 billion over 2009-2013 annually to around USD 9 billion in 2016. Off-budget grants account for most of this decline. On-budget civilian aid has increased over the past years to USD 1.4 billion, but still accounts for less than half of total commitments.

**FIGURE 3: AID COVERS MORE THAN HALF OF AFGHANISTAN'S CIVILIAN BUDGET**



NOTES: World Bank estimates based on data from AFMIS and MoF budget department.

29. The ARTF grants represent nearly 60 percent of on-budget civilian grants to Afghanistan. Disbursements through the ARTF RCW represent 90 percent of civilian discretionary grants, while those of the ARTF IW represent 45 percent of civilian non-discretionary grants. (See Figure 4.) The ARTF RCW remains the primary source of discretionary budget financing to the Government.

30. Going forward, declining aid will pose a risk to preserving development outcomes unless on-budget grants increase. While the outcome of the Brussels Conference on Afghanistan in Fall 2016 secured continued high levels of civilian aid, commitments fall short

of aid disbursements between 2013-2016. Moreover, as GoIRA expenditure needs are expected to increase over the medium-term, it will be essential that the on-budget stream of donor grants is maintained at a level sufficient to meet the basic public services and developmental needs.

FIGURE 4: ARTF-IDA FINANCED A SUBSTANTIAL SHARE OF THE CIVILIAN BUDGET (2013-2016)



31. With a likely more constrained financing envelope going forward, GoIRA and its international partners—in particular, the ARTF—will need to:

- identify the requirements to maintain, or ideally to increase, the volume of on-budget financing. In this context, the ARTF offers a critical platform for coordinating development efforts.
- Be clear about the most essential priorities.
- Do better on maximizing development impact (and value for money) by improving budget execution and the efficiency of development spending, for instance through strengthening our efforts in anti-corruption and public financial management.
- Align to the maximum extent feasible both off-budget and on-budget financing to realizing our shared priorities.
- Recognize that our ability to crowd in private capital—through needed reforms to stimulate private investment and job creation and innovative financial solutions—will be tremendously important.

### C.3. The operating context: a more challenging security situation on the ground

32. **The environment in Afghanistan is increasingly more volatile. Civilian deaths, casualties and forced displacement continue unabated.** Armed conflict in Afghanistan claimed the lives of 26,512 civilians and injured 48,931 others between 1 January 2009 and 30 June 2017, and continues to cause severe harm to civilians across Afghanistan.<sup>10</sup> Afghanistan currently faces a humanitarian crisis arising from large numbers of returning refugees and a large and growing internally displaced population. The security situation is leading to reversals and increasing disparities in access to services.

33. **The insurgency has expanded to encompass much of the country, which raises issues for effective implementation and monitoring of projects.** In 2016, civil servants had access to only about 60 percent of districts, the lowest figure recorded since 2007, when access stood at over 80 percent.<sup>11</sup> In some areas it is possible through local communities to negotiate access. However, in areas of high contestation this becomes more difficult. Increased

<sup>10</sup> Afghanistan Protection of Civilians in Armed Conflict Midyear report 2017, United Nation Human Rights <https://unama.unmissions.org/protection-of-civilians-reports>.

<sup>11</sup> "Civil Servants District Accessibility Report", UNAMA, July 2016.

insecurity in parts of the country will necessitate changes to the way development is delivered. Increasingly, local communities will be the arbiters of their own development. Many of them will need to broker development space with insurgent groups to allow services to be delivered. This will be easier in some areas than others, depending on the level of ongoing violent contestation between diverse groups. Understanding these local conflict dynamics and how local political settlements impact development will become increasingly important for effective service delivery, and even for allowing development to take place at all.<sup>12</sup> Within this new space, as access by civil servants declines, the role of intermediary agents, whether NGOs or private contractors, will become increasingly critical in mobilizing communities, monitoring projects and articulating the needs of communities upwards through different layers of government.

34. **It is critical to stay engaged and committed for the long-term despite the risks.** As the World Development Report (WDR) 2011 points out, countries that move away from fragility and conflict often do so not through one decisive break, but through many transition moments. The slide back to violence may quickly reoccur. Afghanistan's transition is no exception. The path to long-term resilience and stability will include protracted periods of instability and it will be important that the WBG and ARTF partners can stay the course. This will require a willingness to effectively manage the risks, and to build flexible programs capable of responding to pressures and opportunities as they occur. Disengagement would carry higher risks and costs for Afghanistan, the region and beyond. Should security significantly worsen, the WB will be prepared, at the program level, to maintain fiduciary vigilance over ARTF/IDA expenditures, selectively downscale some interventions, while putting others on hold until the situation improves.

#### **C.4. Aligning with the GoIRA strategy: proposed areas of focus**

35. The vision and priorities of GoIRA are outlined in the ANPDF and the associated NPPs, as well as the Fiscal Performance Improvement Plan (FPIP). The documents articulate and support a vision of self-reliance, greater government ownership of the development process, with discretionary budget assistance as the main aid instrument. The ARTF PFFP proposes a calibrated program that is aligned with these priorities. This is also reflective of the focal areas of the Afghanistan Country Partnership Framework (CPF) for 2016-2020. The proposed program strives to assist GoIRA in realizing major development opportunities, while at the same time recognizing several challenges in Afghanistan, from fragility and weak institutions, to low private investor confidence, and an increasingly constrained fiscal environment considering potential declines in donor assistance and the need to fund basic programs. Along with the crosscutting themes of gender, climate change, and conflict sensitivity, the following four focus areas are proposed: (a) reforming and strengthening the public sector; (b) catalyzing private investment and job creation for inclusive growth; (c) supporting citizen engagement and social inclusion; (d) investing in human capital.

#### **Reforming and strengthening the public sector**

36. This focus area responds directly to the government's state-building objectives and underpins the ability of the state to fulfil its core mandate to deliver basic services. State building and promoting trust in the government are long-term agendas, but also address some of the key fragility drivers and sources of the conflict.

37. **Improved public financial management and fiscal self-reliance.** The PFFP will support the GoIRA's Fiscal Performance Improvement Plan (FPIP) in four broad areas: (i) revenue

<sup>12</sup> "Beyond Capacity and Technical Inputs: The Politics of Education and Health Service Delivery in Afghanistan", World Bank/Afghanistan Research and Evaluation Unit, 2016.



and expenditure management, including taxation and domestic revenue mobilization, budget policies, and transition to a medium-term expenditure framework; (ii) public financial management, including budget execution, accounting, transparency, procurement, and development of the Afghanistan Financial Management Information System (AFMIS), which links procurement and other expenditures to treasury functions; (iii) pension management to improve financial sustainability and nationally rollout a pension management information system; and (iv) improved oversight capacity of the auditor general's office, including audit for line ministries and independent agencies.

38. The PFFP will also continue to support Afghanistan's recurrent budget, and a rising proportion of this support will be performance based. ARTF partners will seek to strengthen policy dialogue with GoIRA through the next phase of the ARTF Incentive Program - the Incentive Program Plus, a Development Policy Grant (IP DPG). The PFFP will address longer-term self-reliance issues through work with GoIRA on broad sources of growth, macroeconomic monitoring, public and financial sector management diagnostics, budget prioritization and development planning, and state-owned enterprise governance.

39. **Improved performance of key government ministries and municipalities.** The PFFP will support a follow-on program to the current Capacity Building for Results Plan to provide incentives to help key ministries and agencies build the capacity to serve poor communities. Greater effectiveness and accountability to deliver quality services to clients would result from clarifying mandates, and adopting clear human resource practices, including recruiting staff based on merit. The new program would support GoIRA's efforts to ensure that at least 30 percent of recruits to the civil service are female. It would also assist GoIRA in establishing the foundation of long term fiscal sustainability of Government workforce.

## Catalyzing private investment and job creation for inclusive growth

40. The ARTF will support three critical growth drivers: access to electricity, agricultural productivity (the livelihood of over half the population) and extractive industries, though it is recognized that the latter will have little impact on jobs, and will take time to develop. Crowding in private sector resources through adequate regulations and complementary public goods and investments will be critical. Public-Private Partnerships (PPPs) could potentially provide a pragmatic approach to scale up the private sector while bridging the infrastructure gap, especially when blended with public financing/donor support.

41. **Increased power generation and access to electricity.** The PFFP will help improve access to electricity for households, businesses, and public services through additional power generation (with a focus on renewable energy). Afghan citizens have extremely limited access to electricity, impeding economic and human development. Afghanistan currently has one of the lowest rates of electricity usage in the world (154 kilowatt hours per person). New modalities of finance are being explored, such as independent power producers (IPP) and guarantees, thus demonstrating the potential of successful private investment in the country's power sector. The ARTF will also continue to support capacity improvement of the main electricity utility, Da Afghanistan Breshna Sherkat, in hydropower operations, electricity distribution, investment planning, implementation, and operations and maintenance.

42. **Increased agricultural productivity.** Agriculture provides 25 percent of GDP but 56 percent of employment and is potentially the most important driver of inclusive growth and job creation in the country. Exports and the manufacturing sector are both predominantly agriculture related. The sector is, however, highly vulnerable to weather variations, especially drought. The PFFP will support improved productivity, resilience, and value chains, through continued support to irrigation and community-based small rural enterprise. It will also support agribusiness entrepreneurship development and access to finance and knowledge, through enhanced access to quality agricultural technologies and inputs, including certified seeds, and through productivity and value chain development.

43. **Extractive Industries.** Afghanistan has a large, diverse resource endowment including oil, natural gas, copper, coal, marble, construction materials, iron ore, gold, lithium and other industrial minerals. If properly administered using the principles of good governance to ensure economic / social / environmental performance, the sector represents a source of revenues, exports, economic growth, and opportunities to foster infrastructure and economic linkages. Limited progress has so far been achieved in mobilizing mining investment, due to the government's desire to strengthen regulatory capacity and institutions before allowing largescale mining development. The PFFP will help enhance administration of extractive resource development by strengthening key government institutions, strengthening professional skills, and supporting sector investment opportunities.

## Supporting citizen engagement and social inclusion

44. After nearly 40 years of conflict Afghanistan is a deeply divided society. Providing equitable access to education and health services are important ways to mend the social fabric and support growth and build resilience, especially for vulnerable groups including women, poor and forcibly displaced persons.

45. **Women's economic empowerment.** The PFFP will support the Women's Economic Empowerment NPP, with a focus on women in rural areas. The NPP aims to help Afghan women experience measurable improvement in employment participation, self-employment

and market access, and exercising greater control over productive assets and incomes. Given Afghan women's substantially greater entry points, especially among the poor, to informal employment, self-employment and micro-enterprise relative to formal wage jobs, the priority program relies heavily on actions to boost women's opportunities for income-generation in these areas.

46. **Improved service delivery through enhanced citizens' engagement with the State.** The PFFP will continue to support the Citizens' Charter Afghanistan Program (CCAP). The Government has established the CCAP and intends to make community development councils (CDCs) the platform for whole-of-government development at the community level. The CDCs will also continue to ensure strong representation by women, and the CCAP will undertake specific mapping of women's mobility and socio-economic status. Over the strategy period, one-third of the country, or a total of 8.5 million people, focused on the poorest districts in each province would be targeted.

47. **Reintegrating returnees and bridging humanitarian-development divide.** Planning for the successful return of refugees and migrants, and responding to the needs of IDPs, is first and foremost a humanitarian and constitutional concern, but absorbing large numbers of returnees and internally-displaced persons (IDPs) poses severe economic and political risks. Therefore, longer term development interventions alongside humanitarian efforts are needed to facilitate durable solutions for both returnees and displaced populations. The PFFP will support GoIRA objectives to reintegrate returnees and bridge the humanitarian-development divide by: (a) expanding the geographic coverage of the CCAP to additional areas of high returnee and displaced population density; (b) a new regional program to improve sustainable economic opportunities and integration in Afghan cities that are hosting the largest influx of returnees and internally displaced persons (IDPs).

48. **Investing in human capital Improved human development.** The PFFP will support improved systems and outcomes, and basic education, health and nutritional services. The intended outcomes in education are improved primary school completion rates, a halt to the slide in the ratio of girls to boys attending primary schools, and an improvement in the quality and employability of graduates from higher education and skills training institutes. In health, the outcomes expected are improved skilled birth attendance rates, improved immunization rates, and better access to health services in remote areas, as well as improved nutritional services for under-fives. Most of these outcomes are heavily contingent on a conducive security environment, and will depend on strong community support to negotiate access and/or delivery by non-government entities in areas where government workers cannot access.

49. The PFFP will support a more focused education program of support based on results. In basic education there will be increased emphasis on access through significant investment in rural schools, quality, governance, and improved efficiency, and the need to better support increased access in those parts of the country where attendance rates are slipping. These are also often the most insecure areas. In these areas innovative service delivery approaches, including on-budget community-based education and school grants, will be explored and scaled up if successful.

50. The MoPH will continue to contract NGOs to deliver an agreed package of health services in most provinces, with independent results monitoring and evaluation arrangements. The PFFP through the new Sehatmandi Program will support improving the services delivery model, introducing demand side approaches, and greater service provider accountability, while strengthening health systems and institutions, and sectoral governance.

**Emphasizing gender equality, conflict sensitivity and climate action as cross-cutting areas**



51. Empowering women, tackling climate change, and operating with conflict sensitivity are cross-cutting themes with particular relevance to Afghanistan, and therefore to the ARTF. As Administrator, the WB ensures that ARTF-financed programs comply with institutional policies, and these policies, including the WBG Safeguards Policies,<sup>13</sup> which guide the approach to addressing cross-cutting concerns. This section highlights strategic and operational considerations that will guide ARTF interventions in each area for the duration of the PFFP. In line with the recommendations of the 2017 External Review of the ARTF, the guidance will be used increasingly to define indicators and set monitorable targets for these and other key cross-cutting dimensions of the ARTF portfolio, employing whenever possible relevant data from GoIRA's own statistical resources.

52. **Empowering women.** The WBG Gender Strategy 2016-2023 commits the WBG to working to: (i) close remaining gender gaps in human development (education and health); (ii) remove constraints so that women can access more and better jobs; (iii) improve women's access to, and control of, resources; and, (iv) enhance women's voice and agency and engage men and boys. The Gender Strategy framework guides WB efforts to support the gender mainstreaming agenda of GoIRA and its ARTF partners.

53. WBG Afghanistan country strategic documents<sup>14</sup> provide additional guidance on addressing gender in ARTF-financed initiatives. The documents recognize gender as a cross-cutting issue and confirm that WBG-supported programming, including ARTF programming, will continue to focus on improving the collection of gender-disaggregated data, promoting women's economic empowerment, and ensuring women's access to critical services, including addressing gender gaps in access to education and health services. To support these commitments, the WBG has operationalized the Country Gender Action Brief, which identified key gender gaps and instruments for addressing those gaps, and has established a Gender and Social Inclusion Platform, which operates as a framework for organizing and consolidating gender data collection and analysis, improving monitoring and evaluation of gender-related activities, and supporting targeted operational, analytical, and knowledge work.

54. Operationally, GoIRA ministries and WBG technical teams rely on the guidance to consider gender in the initial stages of project preparation, with a particular focus on identifying gender gaps that an operation can address. Project planning devotes attention to gender across three dimensions: i) analysis – identification of a gender gap; ii) action - including actions and interventions contributing to closing the identified gap, and iii) monitoring and evaluation - including incorporating gender-specific indicators in projects to measure the outcomes of the identified actions. Operations that include all three dimensions are considered “gender-tagged.” Specific measures vary based on the needs of individual operations, but have included targeted gender analyses, consultations, data collection, and specific support to facilitate women's access to services or opportunities that have previously been inaccessible. In the last year of the preceding Financing Strategy, all ARTF-financed operations were gender-tagged. ARTF-financed programs are expected to continue demonstrating a comprehensive attention to gender gaps, with a substantial majority of ARTF-financed programs in the PFFP period continuing to reflect the depth of gender engagement required to be designated as gender-tagged. The ARTF GWG will continue to act as a technical forum enabling GoIRA and donor stakeholders to support sustained attention to gender across the ARTF portfolio.

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<sup>13</sup> The new WBG Environmental and Social Framework will take effect in late 2018 and will replace the Safeguards Policies for purposes of planning new ARTF projects.

<sup>14</sup> See, for example, World Bank Group Afghanistan Systematic Country Diagnostic, February 1, 2016 (SCD) and World Bank Group Country Partnership Framework for Islamic Republic of Afghanistan for the Period FY17 to FY20, 2 October 2016 (CPF).

55. **Climate change.** Afghanistan is highly exposed to shocks, particularly natural disasters and climate-related shocks, as stressed by GoIRA in its September 2015 Intended Nationally Determined Contribution (INDC) submission to the United Nations Framework Convention on Climate Change. Analysis by the WBG also indicates that natural disasters and climate-related shocks affect a far greater share of the population (59 percent), especially in the poorer regions, than do security-related shocks (15 percent).

56. ARTF-financed programs incorporate initiatives that support GoIRA's vision, as set out in the INDC, to enhance the adaptive capacity and resilience of its agriculture, environment, and population to climate change, while developing and implementing a low emissions development strategy. Specific measures include support to climate-smart agriculture and working to improve the governance arrangements and institutional capacity required to move beyond a focus on post-disaster response towards a more programmatic and systematic focus on disaster prevention and planning at the national and sub-national level.

57. Climate co-benefits assessment is performed for all ARTF-funded operations, to determine the portion of financing in the project that delivers positive benefits associated with reduction or sequestration of greenhouse gas emissions (climate change mitigation) and/or enabling project beneficiaries to adapt to negative impacts of climate change (climate change adaptation). ARTF-financed programs are included in country-level monitoring of commitments in the WBG Climate Change Action Plan (2016-2020), which aims to increase the climate-related share programming from 21 to 28 percent by 2020. In addition to screening for climate co-benefits, WBG guidance, including the currently applicable Environmental and Social Safeguard Policies, as well as the Environmental and Social Framework that will become effective for new investment projects in late 2018, require identification and management of environmental risks potentially arising from ARTF-supported initiatives.

58. **Conflict sensitivity.** The WBG 2016 Systematic Country Diagnostic (SCD) employed a conflict and fragility perspective to consider how best to enhance the effectiveness and impact of WB analytic work and operations. The SCD cited fragility and conflict as the most important constraints to efforts to reduce poverty, and identified three broad drivers of that fragility in Afghanistan: (i) weak state and political institutions; (ii) persistent Taliban insurgency bolstered both by external forces as well as internally by poor governance; and (iii) ethnic divisions that have been exacerbated during the past several decades of conflict.

59. Building on these findings, the WBG works with GoIRA to prioritize development interventions (i) with the greatest impact on addressing the principal drivers of conflict; (ii) that help mitigate the immediate consequences of conflict; and (iii) that can help build longer-term stability, and sustained growth and poverty reduction. In working with GoIRA partners to consider these standards, WBG technical teams draw on the expertise of global practices, including the Fragility, Conflict, and Violence Group, which is responsible for providing cross-cutting solutions to global practices as well as providing advisory support to country management teams, and the Social, Urban, and Rural Global Practice, which undertakes country social analysis as well as many operations that address conflict and violence. Other global practices, including Governance, also have programs that are central to state building and provide support to the work supported by the ARTF.

60. The guidance ensures that ARTF program planning, implementation support and monitoring incorporate social and conflict analyses to assess the risk that a project may exacerbate existing tensions and inequality within society, negatively affect stability and human security, or be negatively affected by conflict and instability. These standards will also be systematically incorporated in all new investment projects through the new Environmental and Social Framework that will become effective in late 2018.

61. A key element of ARTF-supported operations planning seeks to ensure that inclusion and citizen engagement are built into program designs. Community-driven development (CDD) programs have long been viewed as particularly relevant development interventions in fragile and conflict-affected situations. Defined as an approach to local development in which control of decision-making and resources for local infrastructure and service delivery is wholly or partly transferred to community groups, the critical advantage of CDD lies in its flexibility to respond to the scale and nature of community needs in diverse local conditions. Effective CDD projects can distribute resources quickly and to remote, rural areas. In devolving decision-making, they can help ensure that resource distribution is fair and popularly accepted, and can operate in areas with security risks. Programs may also support peace-building by providing incentives for collective action that can work across conflict divides, by contributing to local institution building, and by strengthening vertical society-state linkages. Based on the context, CDD operations can also be designed to help target specific vulnerable groups, increase livelihood security of communities, or help improve local shared services. CDD operations can also help to establish a direct link with the central government structure, building government legitimacy and trust at the ground level that has been eroded by conflict.

62. Until its closure in March 2017, Afghanistan's National Solidarity Program was the largest CDD program operating in a fragile context in the WBG's global portfolio. The CDD elements from NSP form the core of the ARTF-supported Citizens' Charter Afghanistan Project (CCAP), which aims to contribute to GoIRA's long-term goals of reducing poverty and deepening the relationship between citizens and the state by providing development services and grants through transparently elected and representative Community Development Councils. CCAP is also developing a high-risk area strategy that will classify communities into distinct levels of security/insecurity and outline the corresponding implementation approach to be used in each, including standard protocols to respond to security incidents. Finally, CCAP will conduct a Conflict and Fragility Study to analyze the conflict and political dynamics in both rural and urban locations and examine the role of CDCs in working with districts and provinces to build social cohesion at the local level. The project hopes to use the information from this study to understand the contextual dynamics of local conflict (especially at the community level) and the relationship between service delivery and state legitimacy, as well to provide operational recommendations to improve the way CCAP works in those areas.

63. While some fragility drivers are outside the development realm, research and policy guidance suggests that other ARTF-supported initiatives beyond CDD can also have positive impacts on conflict drivers, can mitigate the effects of conflict, and can contribute to stability. In ARTF-supported operations, these interventions include 1) revenue mobilization and expenditure prioritization, which are powerful tools for addressing endemic corruption and weak governance and for addressing geographic disparities in resources; 2) agriculture, which is a source of employment and is relatively resilient to conflict, and 3) service delivery, where attention to improving access can help to address poverty and contribute to reducing geographic and ethnic disparities. The integrated management of IDA- and ARTF-supported initiatives has also enabled WBG teams to leverage IDA resources as an additional means of supporting GoIRA priorities linked to conflict and fragility, including with respect to population movements. These priorities will continue to be reflected in ARTF-financed programming throughout the PFFP period.

#### **C.5. Operationalizing the ANPDF: bringing to bear the full mix of instruments**

64. To maximize its flexibility and ensure real-time alignment with GoIRA strategy, including adjusting to changing needs and priorities, the ARTF will deploy a wider set of

instruments beyond traditional investment and recurrent costs financing. Five are key to both the alignment with GoIRA priorities and to accelerating results and reforms.

### **Enhancing the base for evidence-based policy through analytic and advisory work**

65. A major challenge for most reformist governments is to have an evidence base for selecting the right policies and setting appropriate pacing while managing the different constituencies to support important reforms. Often, good ideas need to be tested through evidence, especially in terms of achieving key commitments for instance on growth, institutional strengthening, and self-reliance. In this strategy, the ARTF proposes to set aside Bank-executed analytical and advisory activities to support government and partners develop the evidence for making informed choices on policy reforms and investments.

### **Promoting policy, institutional and regulatory reforms through policy-based budget support**

66. Policy-based budget support has proven to be an effective tool in incentivizing key reforms related to growth, institutional development and service delivery performance in Afghanistan. Dialogue and action on some very important reforms (for example, around land and access to economic opportunities for women) have been driven by budget-support incentive programs such as the ARTF IP, the IDA Budget Support operations, and the EU State-Building Contract. The new ARTF strategy will expand the use of policy-based budget support as a way of promoting government ownership of reforms and enabling GoIRA to undertake reforms at a pace that is sustainable in the context of a sensitive political economy. In the IW, Results-Based Financing (RBF, where funds are released to government for achieving certain results) would be utilized more in all areas, but especially in the service delivery sectors. This will build on recent projects using disbursement linked indicators (e.g. the current Higher Education Project) and lay the ground-work for the even more ambitious Program for Results instrument.

### **Developing and financing investment programs coupled with close implementation support**

67. Recognizing that investment financing will remain the bulk of ARTF-funded programming (even as innovations that put GoIRA firmly in the driver's seat of implementation via RBF instruments increases), the PFFP proposes an additional WB-executed facility to provide just-in-time capacity to support GoIRA in implementing key undertakings. The proposed Public Private Partnership and Public Investment Advisory Project is an example of such support to assist the government to have rapid support to identify and prioritize infrastructure investments, manage feasibility studies, and financial planning to ensure prioritized investments in the most 'bankable' projects with the maximum return on growth, service expansion, and other commitments the government would prioritize.

### **Helping to crowd in private capital**

68. The scale of investment required to meet Afghanistan's needs in the coming four years is massive, yet the financing available is limited even under generous Brussels Conference on Afghanistan commitments. The PFFP therefore aims to maximize financing for development in Afghanistan by leveraging the private sector and optimizing the use of scarce public resources. ARTF stakeholders must aim to deliver the best possible value for money, which will include drawing on other forms of financial leverage within the World Bank Group such as IDA and Multi-lateral Investment Guarantee Agency (MIGA) guarantees and crowding private sector financing through the International Finance Corporation (IFC) and

other actors that can help achieve development goals, and reserving public financing for other sectors and services, where private sector engagement is not optimal nor available.



## Facilitating coordination and alignment amongst ARTF partners

69. As the main source of on-budget development financing for Afghanistan, the ARTF and its governance and strategy making bodies are integral to good coordination among partners and GoIRA. To further the alignment of all development finance to government strategy even while recognizing some resources will continue to be channeled off-budget, the ARTF strategy and tracking mechanisms will provide where possible a platform to coordinate among all government partners.

## D. Looking ahead: ensuring more impactful delivery and more effective collaboration

70. The ARTF has provided a uniquely successful platform for pooling on-budget financing from multiple partners in support of Afghanistan's development priorities, but ARTF partners are committed to continuously seeking to enhance impact and effectiveness. Analysis and discussion by the ARTF SG, the findings of [Taking Charge: Government Ownership in a Complex Context](#), the 2017 External Review of the ARTF, and recommendations from other review and audit procedures,<sup>15</sup> have identified areas where ARTF operations can be enhanced to ensure more impactful delivery and more effective collaboration. Key recommendations have been discussed in depth with GoIRA and ARTF partners. This section details how the recommendations will be implemented over the next three years of this new ARTF PFFP. Implementation of some measures can begin, and in some cases, has already begun, without specific action by the SC, although endorsement of the direction is sought. In other cases, a formal approval of the SC is required before implementation can commence. Following each description, the PFFP outlines the specific decision, endorsement or commitment that ARTF stakeholders are collectively requesting of the SC.

### D.1. Enhancing alignment through a more flexible and adaptable approach to programming

71. ARTF-financed programs are based on GoIRA requests and aligned with GoIRA priorities. However, in many cases programming occurs at the level of individual projects, which can complicate the effort to address evolving GoIRA priorities in a programmatic manner. For example, procedures for scaling projects up or down based on performance or evolving sectoral needs can be cumbersome.<sup>16</sup> Programs are not always well-coordinated with other bilateral and multilateral off-budget activities, and at times, links between diagnostic activities and financing operations in a given sector have been lacking. To deepen the alignment of ARTF-financed programs with GoIRA priorities, and to support GoIRA's intent to take an increasingly programmatic approach to management of its development agenda, GoIRA and the ARTF Administrator will continue to explore options for testing Sector Wide Approaches (SWAPS) in select priority areas, and the WB, as ARTF Administrator, will continue to manage the IDA- and ARTF-financed portfolios in an integrated manner, to promote strengthened links between advisory services and program planning, and to seek opportunities to employ new financing instruments designed to provide adaptive and programmatic financing that would help GoIRA to structure long, large, or

<sup>15</sup> For example, see [Afghanistan Reconstruction Trust Fund: The World Bank Needs to Improve How It Monitors Implementation, Shares Information, and Determines the Impact of Donor Contributions](#), United States Special Inspector General for Afghanistan Reconstruction Audit Report 18-42, April 2018.

<sup>16</sup> Scaling up has been easier when financing has been available (such as the increased support to the Citizens' Charter Afghanistan Program), while scaling down or cancellations to reprogram funds have been often complex, requiring multiple procedures by both GoIRA and WB.

complex engagements. To support these initiatives, the SC is asked to endorse ARTF indicative financing allocations at the program level in the current PFFP.<sup>17</sup>

### **Supporting GoIRA to adopt a more “programmatic” (sector-wide) approach to selected NPPs:**

72. GoIRA is making efforts to adopt a more “programmatic” (sector-wide) approach to selected NPPs, in a bid to align support provided through the ARTF, as well as bilateral and multilateral initiatives behind programming priorities. A programmatic approach has to some extent been adopted for implementation of the government’s Fiscal Performance Improvement Program (FPIP). Support previously implemented through separate investment projects has now been consolidated into one program supported by the new Fiscal Performance Improvement Support Project. Similarly, the Citizens’ Charter Afghanistan Program (CCAP) was from the outset structured in a manner that ensured community-driven development and other related interventions are implemented in a coordinated manner and in alignment with the Citizens’ Charter NPP, by the same implementing agency. The CCAP further serves as a platform for coordinating GoIRA ministries’ service delivery to rural and urban communities. GoIRA and WB have begun discussions to consider how to potentially test this approach in the agriculture and education sectors. These discussions are expected to continue over the first 18 months of the PFFP in the context of the new Agribusiness Initiative and the basic education program.

### **Linking IDA financing with ARTF-financed programs:**

73. The WB Afghanistan country portfolio comprises both IDA- and ARTF-financed projects. The WB has typically managed the Afghanistan country portfolio as a unified program, with little operational distinction between the two sources of financing. Projects financed by IDA and ARTF are subject to the same internal review and assessment from the identification phase through concept design, appraisal, and negotiation, and receive the same post-approval monitoring and implementation support from WB technical teams. Projects differ only at the approval stage. While IDA-financed projects must be approved internally by the Board of Directors, ARTF financing is approved by the MC. Previously, and at request of GoIRA, the MC has considered and approved recipient-executed project preparation grants that have helped to finance critical technical assistance, feasibility studies, and other inputs for the design of larger projects that are later financed by the ARTF, IDA or both. Looking ahead to the period of this PFFP, a considerable number of ARTF programs are expected to be co-financed with IDA 18 funding and policy priorities, which is expected to serve three purposes. First, by frontloading Afghanistan’s IDA country allocation, it has been possible to approve core programs (e.g. Sehatmandi) in the first year of this PFFP, even as the PFFP itself was being finalized. Second, co-financing helps to prevent fragmentation by more strongly focusing IDA and ARTF resources in support of critical NPPs. Finally, co-financing helps to promote visibility of ARTF-financed in WB governance structures, and likewise helps to promote visibility of IDA-financed activities by ARTF governance structures, strengthening coordination. The PFFP envisions continuing to employ co-financing whenever appropriate moving forward.

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<sup>17</sup> The PFFP recognizes that some partners are legally required to preference contributions in favor of specific projects. The request of the Steering Committee neither requires nor asks partners to change legally-mandated preferencing. Rather, it asks partners to support the principles outlined in this section, and to consider adjusting preferencing practices only to the extent legally possible.



## Promoting the Multiphase Programmatic Approach (MPA)<sup>18</sup> where applicable

74. The MPA is a new WB financing tool developed to provide an adaptive and programmatic approach that can enable WB clients to structure a long, large, or complex engagement as a set of smaller linked operations (or phases) with intermediate shorter-term targets.<sup>19</sup> The MPA approach is appropriate only for programs with scalable, modular phases, each of which would have self-standing results.<sup>20</sup> The structure of the MPA conforms to successful cases of adaptiveness – with an initial setting of framework objectives and metrics for gauging their achievement, followed by a period of implementation that allows for technical innovation by project teams subject to their meeting these objectives, and subsequent break-points for evaluation and adjustment. Under the MPA, the program framework, the overall financing envelope, program development objectives, and anticipated scope are presented to the relevant governance bodies for approval, but the legal agreement signed after approval would cover only the first phase, as only that phase would have been appraised and negotiated with the government at the time of approval. Program documents would clearly specify that financing for all future phases is indicative, and would be made available only if implementation progress is satisfactory, and only if sufficient financing is available. Separate legal agreements would be signed for each phase. In line with recommendations in the 2017 External Review of the ARTF, the PFFP will seek to introduce MPA financing where appropriate.

75. Because not all NPPs are fully developed, and because the legacy portfolio continues to be implemented, introduction of MPA financing will necessarily be gradual, but pipeline programs, including for example the Cities Investment Program, will be assessed as candidates for MPA financing.

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### What we are asking of the Steering Committee

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- To ENDORSE the three approaches outlined in this section for promoting flexible and adaptable programming to align with GoIRA priorities; and
  - To RECOGNIZE that the indicative financing allocations of this PFFP for which SC approval is sought are set out at the program, rather than project level, with the aim of underscoring the intent to move towards increasingly programmatic management of the development agenda.<sup>21</sup>
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## D.2. Moving towards increased use of incentivized results-based instruments

76. In the ANPDF, GoIRA encouraged international partners to move towards a more results-based approach to aid delivery, in which GoIRA is held accountable for results but has discretion to determine how results are achieved. The 2017 ARTF External Review recommended that ARTF-financed programs expand the use of incentive-based project

<sup>18</sup> Multiphase Programmatic Approach, Operational Policy and Country Services, World Bank (July 2017).

<sup>19</sup> In this document, “phases” under an MPA Program are standalone IPF/PforR operations for which the financing is committed by the management by signing a legal agreement. Relevant IPF/PforR policies, procedures and directives apply.

<sup>20</sup> For example, a road corridor of 600 kilometers could be split into three smaller projects of 200 kilometers each, whereas a large bridge project cannot be split up into self-standing modules.

<sup>21</sup> The PFFP recognizes that some partners are legally required to preference contributions in favor of specific projects. The request of the Steering Committee neither requires nor asks partners to change legally-mandated preferencing. Rather, it asks partners to support the principles outlined in this section, and to consider adjusting preferencing practices only to the extent legally possible.

disbursements. In line with GoIRA priorities and the recommendations of the External Review, the PFFP therefore proposes to expand the use of results-based financing by broadening the scope of policy-based budget support under the RCW and increasing the use of result-based financing modalities under the IW.

### **Broadening the scope of policy-based budget support under the RCW**

77. After fifteen years of operation, GoIRA and the WB seek to regularize the ARTF RCW into a standard World Bank Development Policy Financing (DPF) operation. Regularization reflects the shared objectives to:

- provide the strong oversight, well-defined processes, transparency, and monitoring arrangements that are associated with standard World Bank program preparation, oversight, and review practices;
- allow IDA and ARTF resources to be mobilized in a linked fashion, consistent with the commitment to enhancing alignment outlined in Section D.1 above; and
- introduce innovations in the use of the DPF instrument that could be a model for other fragile states. Importantly, and consistent with the increasing focus on results-based approaches, this process will involve changing the design of the current IP.

78. The scope of the proposed IP DPG for 2018-20 will extend beyond the primarily fiscal focus of the current IP. The IP DPG aims to support improvements to GoIRA economic and fiscal self-reliance by incentivizing both: (i) select reform areas of the Afghanistan National Peace and Development Framework (ANPDF); and (ii) key public financial management reforms pursued under the Fiscal Performance Improvement Plan (FPIP). By incorporating policy benchmarks and institutional reforms from both the ANPDF and FPIP, the IP DPG will introduce incentives across the entire development agenda—potentially including, for example, benchmarks and reforms linked to gender equality and service delivery.

79. To mitigate risks associated with the move towards increasing emphasis on structural reforms, the PFFP proposes to introduce a Fiscal Stability Fund (FSF) to create a pool of funding the government could access in the event of a liquidity shortage stemming from unexpected economic/political shocks or slower than-expected progress against policy reforms, subject to certain conditions being met. The Ad Hoc Payments facility would also continue to remain open.

### **Increasing the use of results-based financing modalities under the IW**

80. ARTF IW projects are structured as Investment Project Financing instruments (IPFs), which generally support projects with defined development objectives, activities, and results; finance a specific set of expenditure transactions and disburse against eligible expenditures; and employ oversight to ensure that the project is implemented as planned to achieve expected results. Some IW projects have, however, begun to employ a hybrid model, in which IPF initiatives can incorporate disbursement-linked indicators (DLIs)<sup>22</sup> or other mechanisms to incentivize particular priorities. For example, the Higher Education Development Program incorporates DLIs to incentivize priority reforms in higher education. The proposed TAGHIR project aims to employ DLIs to help maintain political support for critical civil service reforms. Similarly, the proposed EQRA Program will employ DLIs to incentivize improvements in education access and quality. Although it does not incorporate formal DLIs, the new Sehatmandi Program combines traditional IPF with tranche release

<sup>22</sup> DLIs are more commonly associated with WB Program for Results (PforR) financing instruments. PforR programs disburse on the basis of the achievement of key results (including prior results), and as such DLIs are central to these operations.

conditions to help incentivize a more efficient and effective primary health service delivery system.

81. Because DLIs require GoIRA to fund program expenditures up front, the option must be introduced carefully to balance other fiscal concerns. DLIs or other incentivized elements incorporated in IW projects thus far have been carefully selected to ensure that they require primarily policy action, with limited associated costs. Determining suitability of a project for DLIs or other incentivized elements requires case-by-case assessment. The PFFP proposes to continue slowly expanding the use of incentivized elements in IW projects where appropriate conditions are in place.

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### **What we are asking of the Steering Committee**

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- To ENDORSE the two approaches outlined in this section for increasing the use of incentivized results-based instruments in ARTF programs.
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#### **D.3. Providing more hands-on extended TA and implementation support**

82. In line with GoIRA preferences, donors have reduced the number of bilaterally-funded technical advisors embedded in line ministries. At the same time, GoIRA is aiming to move towards more programmatic management of development with stronger coordination across multiple instruments, and is working gradually to eliminate PIUs in line ministries. In combination, these efforts present some challenges to project implementation by stretching the capacity of line ministries. Demand for external advisory services, particularly in highly technical areas such as fiscal management, energy, mining, and public-private partnerships, has increased. GoIRA faces difficulty recruiting and managing qualified experts itself, owing in part to security requirements and associated costs, and has requested WB assistance to meet these advisory needs. While the WB has been able to fund additional technical assistance in select priority areas from its own resources, the approach is neither sustainable nor sufficient to meet existing needs with existing resources.

83. To meet the need for specialized technical assistance, the PFFP proposes to replace the existing WB-executed RAP window with an expanded Advisory Services Implementation Support and Technical Assistance (ASIST) facility. ASIST would be established as a separate WB-executed ARTF window that would continue to fund research and advisory services like those currently provided through RAP, but would also enable the WB to respond to GoIRA's need for longer-term, specialized technical expertise in priority sectors that extends beyond the regular program implementation support and technical assistance provided by WB technical teams.

84. If endorsed by the SC, ASIST would be demand-driven. The MC would be asked to approve the transfer of an initial allocation of funds from the ARTF parent fund to ASIST. As with other elements of the ARTF, financial reporting on ASIST funds will be provided regularly to the MC. After the initial allocation of funds, specific requests for research, advisory, or technical assistance support from GoIRA ministries would be presented by MOF to the SG for review and approval prior to initiation. The discussions would enable SG members to ensure that new proposals for technical assistance align with existing and planned assistance provided through bilateral support, and will provide an opportunity to consider the appropriateness of budgetary allocations to the window. The SG could agree to increase the allocation to the ASIST if needed, subject to approval by the MC. ARTF partners would also have the option of providing incremental contributions (beyond current core program pledges) that are preferenced to ASIST to support additional technical assistance, subject to presentation by MOF and approval of the SG. In combination, these

features are expected to enable ASIST to respond effectively to GoIRA priorities in operationalizing the ANPDF and to deepen donor coordination around the provision of technical assistance.

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### **What we are asking of the Steering Committee**

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- To APPROVE the establishment of the WB-executed Advisory Services, Implementation Support and Technical Assistance Facility (ASIST) window of the ARTF to replace the existing WB-executed Research and Advisory Program window of the ARTF;
  - To APPROVE the proposed governance structure for the ARTF ASIST window, whereby the MC will approve transfer(s) of funds from the ARTF parent fund, and thereafter specific proposals for ASIST-supported initiatives will be reviewed and endorsed by the SG upon presentation by MOF; and
  - To ENDORSE the initial allocation of funds to the ARTF ASIST window as set out in [Section E.3](#).
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#### **D.4. Ramping up monitoring and strengthening anti-corruption mechanisms**

85. As discussed in Section B.6, all ARTF-financed initiatives, including the RCW, are subject to multiple layers of fiduciary oversight aimed at ensuring funds are used for the intended purposes and to achieve development objectives. Existing arrangements have worked reasonably well, but in the current PFFP, ARTF stakeholders intend to strengthen results monitoring and anti-corruption measures across the ARTF portfolio. To support this intent, the PFFP proposes to establish a fourth, WB-executed window in the ARTF. The Anti-Corruption and Results Monitoring Action Plan (ACReMAP) window, with a proposed allocation of USD 60 million, would be used to consolidate the management and expand the scope of third-party monitoring of ARTF-financed operations, and would support the costs of conducting periodic in-depth fiduciary reviews of ARTF-financed operations.

#### **Strengthening and expanding third-party monitoring arrangements (TPM)**

86. Third-party monitoring has provided an indispensable tool for ARTF stakeholders. It has enabled direct observations of thousands of ongoing or completed investment projects to ensure ARTF funds are financing socially and economically viable assets, and it has supported the analytical work required to determine eligibility for reimbursement from the RCW. Third-party monitoring has been a dynamic instrument, evolving in response to changing needs and the nature of ARTF projects, as well as consultations with partners. Over time, TPM has expanded to include physical verifications of employees as part of RCW expenditure eligibility analysis, and a focus on non-engineering aspects of IW projects, such as compliance with social and environmental safeguards, aspects of social service delivery, and women's participation. Consolidating the costs of TPM services under the ACReMAP window will enable the WB to enhance the coordination between MA and SA functions, and is also expected to facilitate several additional expansions and improvements in monitoring arrangements. Expected improvements would include expanding the physical verifications of employees in connection with RCW expenditure eligibility, expanding the number of IW-financed projects that benefit from TPM arrangements and the scope of TPM assessments on all projects, technical enhancements of site selection and sampling methodologies, and piloting innovative data collection methods. As with elements of the ARTF, financial reporting on ACReMAP funds will be provided regularly to the MC, and discussions of ACReMAP

progress in the SG will provide donors an opportunity to consider the appropriateness of budgetary allocations to the window.

### In-depth fiduciary reviews

87. To supplement TPM findings with intensified focus on financial accountability, the WB has begun to employ in-depth reviews. Approaches have varied depending on the circumstances of the project. One method is to conduct detailed eligibility reviews of specific transaction types (a current focus is on cash transactions and project hiring) within a given IW project. Transactions that are verified to be ineligible following these reviews could be subject to refund. A second method involves conducting an in-depth fiduciary review of ARTF support to a particular entity or Ministry, and may involve looking at both RCW support (e.g., salary payments) and costs of related IW projects. The fiduciary reviews may consider eligibility of expenditures, whether funds have been used as intended, whether payroll is properly administered, whether existing oversight processes are adequate and properly functioning, and the reason for any inadequacy or lack of functionality. ACREMAP window funding will support the extension of these methods more broadly across the ARTF portfolio when TPM, audit, or other external findings warrant additional scrutiny.

88. The expanded monitoring and more in-depth reviews that the ACREMAP window will enable will support WB efforts, in the capacity as Trustee and Administrator of the ARTF, to ensure “value for money” in ARTF-financed operations. ACREMAP funds will not be used to provide technical assistance on financial controls or anti-corruption measures directly to the GoIRA entities. Given the scale of ARTF financing and ARTF’s reliance on government systems, however, ACREMAP-supported work could identify opportunities for strengthening internal GoIRA systems and procedures, and as such is expected to support overall ARTF efforts to improve GoIRA systems.

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### What we are asking of the Steering Committee

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- To APPROVE the establishment of the WB-executed Anti-Corruption and Results Monitoring Action Plan (ACReMAP) window of the ARTF; and
  - To ENDORSE the initial allocation of funds to the ARTF ACREMAP window as set out in [Section E.3](#).
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### D.5. Adopting a more structured, GoIRA-led approach to improving ARTF portfolio performance

89. The PFFP places a renewed and increased emphasis on monitoring, performance and value-for-money in ARTF programs. Discussions among GoIRA, the WB, and ARTF partners have concluded that enhanced monitoring supported by the new ACREMAP window should be complemented with a more structured and GoIRA-led approach to monitoring and resolving operational bottlenecks in the ARTF portfolio so as to ensure that monitoring findings result in concrete follow-up actions. The same conclusion is supported by the recommendations of the 2017 ARTF External Review. At present, WB technical and country management teams work directly with implementing line ministries to identify and resolve implementation problems through audits and regular and ad-hoc meetings, including biannual implementation support missions that conclude in publicly disclosed Implementation Status Reports. In recent years, GoIRA and the World Bank have also periodically undertaken large-scale country portfolio performance reviews (CPPRs), which have proven useful in addressing portfolio bottlenecks, improving performance, and incentivizing initiative. To achieve the more structured and GoIRA-led approach sought by all ARTF partners, the PFFP proposes to regularize CPPRs as an annual process, and to initiate quarterly Portfolio Operational Status Review meetings.





### **Regularizing annual Country Portfolio Performance reviews (CPPRs)**

90. The PFFP proposes to institutionalize a comprehensive annual CPPR exercise, to be jointly undertaken by the GoIRA and the WB, with participation of ARTF partners. Annual reviews would be timed to coincide with, and inform, GoIRA's budget formulation process. The reviews will focus on the overall status of the ARTF portfolio with a view to assessing the performance of each project within the portfolio, drawing on the Implementation Status Reports prepared by the World Bank teams, as well as progress reports from the implementing agency, and agreeing on the appropriate action given the assessment. The menu of actions would include:

- Continued implementation of the project as planned;
- Restructuring of the project to address identified areas of under-performance or emerging needs;
- Restructuring to reduce the scope and financing levels to mitigate risks and bring the project to a timely and orderly closure;
- Cancellation of particularly poorly performing projects;
- Scaling up and additional financing for particularly successful projects;
- Surfacing any systemic (portfolio-wide) issues that have emerged over the course of the year that are impeding smooth implementation of the projects in the portfolio, identifying the underlying causes and agreeing on potential remedies.

91. Any proposed revisions to the ARTF financing program stemming from the CPPR would then be reported to the SC. Given GoIRA's revised budget cycle, CPPR meetings, which would be expected to occur over one to two weeks, should likely be targeted for August, with any proposed project revisions reported to the SC in September of each year.

92. The reviews will also be an opportunity to confirm the alignment of the ARTF program with the ANPDF and NPPs; review the relevance and development impact of the program; and inform the prioritization of future support (financing, analytic, advisory and convening services). CPPRs will require engagement from all ARTF partners, as outlined in the ARTF Issues Brief on Improving Portfolio Performance discussed with and endorsed by the ARTF Strategy Group.

### **Implementing quarterly Portfolio Operational Status Reviews (POSR)**

93. In addition to the annual CPPRs, the PFFP proposes to initiate quarterly Portfolio Operational Status Review meetings. These quarterly reviews would be jointly undertaken by GoIRA (led by the Ministry of Finance) and the World Bank, with participation by interested ARTF partners, and would take place over the course of one to two days towards the beginning of each quarter—in July, October, January and April. The reviews will:

- Focus on a subset of projects for which project-level operational bottlenecks and fiduciary, safeguards, governance or performance issues have been flagged, during the preceding quarter, by the World Bank technical teams, implementing agencies or the third-party monitoring agents as the causes for implementation delays or sources of operational risks;



- Review, for each of the identified projects, the details of the flagged issues and develop a specific, time-bound remedial action plan, listing the actions to be taken, the entity responsible for taking each action, and the dates by which the actions need to be taken;
- Review, for each of the project-specific remedial action plans developed in earlier quarterly POSR meetings, the progress on individual action points, and for any that are delayed, agree on any adjustments—escalation, reassignment of responsibilities, etc.—that are needed to ensure timely resolution.

94. Like the CPPRs, the quarterly performance operational status reviews will require engagement from all ARTF partners, as outlined in the ARTF Issues Brief on Improving Portfolio Performance.

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### What we are asking of the Steering Committee

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- To ENDORSE the proposed approach; and
  - To COMMIT that relevant staff and officials of all members will fulfill their respective roles and responsibilities in implementing the approach.
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### D.6. Streamlining collaboration and decision-making procedures and strengthening communications and reporting

95. ARTF is a highly visible multi-donor facility due to its volumes, the long history and the substantial number of development partners contributing. It is a complex and constantly evolving body, which requires a strong partner collaboration based on frequent and effective communication by all stakeholders. The 2017 External Review identified opportunities for improving communications and deepening collaboration, which have likewise been discussed in depth in the SG forum. The analysis and discussions have yielded a series of mutual commitments for improving information flow and engagement.

#### Communications and reporting

96. ARTF partners have indicated the programs or sectors to which they can commit to ongoing engagement with GoIRA and WB technical teams. These commitments of interest and engagement will be updated periodically, and will be used to seek opportunities for partners to engage more directly with ARTF project teams and missions, including in annual CPPR and portfolio operational status reviews. To aid these processes, the WB will share advance calendars of mission and project briefings open to ARTF donors. Drafts of project concept notes and project appraisal documents are owned by GoIRA and are not considered public documents, but with GoIRA consent and following interim internal WB approval, drafts will be shared with ARTF partners on a confidential basis to facilitate understanding of project issues. ARTF mission announcement letters, aide memoires and management letters will likewise be shared with ARTF partners once transmitted to GoIRA, and the WB will continue to make detailed third-party monitoring reports available regularly. The ARTF website will be refreshed to ensure that it serves as a useful information hub for public ARTF communications and reporting, and to ensure that it meets the needs of ARTF stakeholders.

97. The 2017 External Review of the ARTF addressed considerable attention to the ARTF Scorecard. Initiated in 2013, the annual Scorecard is a reporting instrument that is used to track the ARTF along several dimensions, linking the organizational effectiveness of the ARTF to its operational performance, how this influences portfolio results, and the impact it has on country-level results. Whilst the Scorecard is valued for its utility as a “one stop shop”

that synthesizes voluminous and complex project-level reporting across the ARTF portfolio, delays in publishing the annual Scorecard and concerns about data quality have emerged as a point of frustration among partners. In response to these concerns, the WB has added staff to work with GoIRA and ARTF stakeholders to improve ARTF reporting broadly, with particular focus on the Scorecard. In the second half of CY 2018, the SG will begin discussions with the aim of reaching consensus on how to refresh the annual ARTF Results Scorecard so as to improve program-level reporting, better reflect the results of policy reform engagement and institutional strengthening support, and more clearly link ARTF milestones and indicators to GoIRA development reform strategy, as reflected in the ANPDF, FPIP and NPPs, and consider impact of ARTF operations and programming. Partner discussions and input will be critical to the process, given that ARTF stakeholders employ the Scorecard to different purposes and thus have a range of needs that need to be addressed either in the Scorecard tool or in other ARTF-supported products. It is expected that the 2018 ARTF Results Scorecard will reflect changes and improvements as agreed in the SG forum, and as with other ARTF tools and products, the Scorecard will continue to evolve in response to stakeholder needs and recommendations during the PFFP period.

### **Collaboration and decision-making**

98. At the working level, the ARTF SG, GWG, and IPWG will continue to meet regularly in Kabul, calendaring agenda topics in advance to the extent possible. As the rotation of ARTF partner staff rotation into and out of Kabul can make complicate the information flow necessary for ARTF governance and working group structures to proceed, the WB and ARTF partners will work to ensure well-structured handover and introductory processes (including regular ARTF introductory briefings) are available to technical teams in Kabul and relevant headquarters staff.

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### **What we are asking of the Steering Committee**

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- To ENDORSE the proposed approach; and
  - To COMMIT that relevant staff and officials of all members will fulfill their respective roles and responsibilities in implementing the approach.
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## **E. Looking ahead: an indicative financing program for FY1397-FY1399 (2018-2020)**

### **E.1. An update on the current financial position of the ARTF**

#### **Current cash balance and commitments carried over**

99. The PFFP establishes a three-year strategy. ARTF commitments are accounted for conservatively, however, on a “cash” basis. Because individual donors’ contribution cycles vary, budgeting and prioritization is updated on an ongoing basis to reflect the status of actual contributions received.<sup>23</sup> This section summarizes the financial position of the ARTF as of December 21, 2017, and provides projections to show how the financial position is expected to evolve as of the end of June 2018.

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<sup>23</sup> In some cases, a donor’s actual contributions might be received in a Financing Strategy/PFFP period following the period in which associated commitments were made. In other cases, initial commitments are changed, which then results in changed contribution levels. For example, some donors make commitments in their own currencies, which are subject to fluctuation against the US dollar, the denomination of ARTF expenditures and accountings. The cash-based accounting procedures of the ARTF mean that commitments of future contributions are not reflected as receivables in ARTF financial reports. Only actual contributions received are reported.

100. Table 1 shows the net and cash positions of the ARTF parent trust fund account at the conclusion of the previous Financing Strategy on December 21, 2017, together with the outstanding commitments from previous years. (Annex 3 provides background on the financial position of the ARTF during the previous Financing Strategy period.) The "cash balance" reflects cash in the ARTF parent fund that could be committed. Outstanding commitments reflect initiatives that the MC had previously approved (e.g., previous approvals of projects set to commence, or of ongoing projects with pending tranches), and the total value of Incentive Program transfers potentially available to GoIRA subject to confirmation by the IPWG. The difference between available cash and the total of these commitments (ignoring "receivables" in the form of pending contribution commitments from donor partners) represents the "net position" as of December 21, 2017.

101. Table 1 shows that the ARTF began FY1397 (2018) with an unallocated cash balance of USD 447 million. Outstanding commitments from the previous years amounted to USD 749 million to be allocated to various child trust fund accounts during the 2018-2020 PFFP period, of which USD 533 million represents outstanding commitments for the IW, and USD 215 million represents potential payments under the RCW for IP benchmarks. These commitments will have to be financed alongside new projects to be endorsed under the new PFFP during 2018-2020. Deducting the outstanding commitments from the unallocated cash balance yields a negative net balance of USD 302 million. The deficit of USD 302 million will need to be covered through new financing, and/or through restructuring of the portfolio if expected funds are not received.

102. Some restructuring has already been performed. At the start of the new PFFP period, the undisbursed balance of commitments under legal agreements was initially USD 793 million. Ongoing projects were assessed and the potential for freeing up funds was analyzed. In addition, the Administrator and GoIRA carried out a detailed portfolio review and identified projects with potential for cancellation of funds in 2016. Funds were cancelled under two projects: Justice Service Delivery and the Capacity Building for Results Projects. As a result of the analyses, the Administrator and GoIRA were confident that the undisbursed balance was sufficient to ensure that active investment projects could continue implementing and delivering services to the people, including in the agriculture, infrastructure, rural roads, health, and education sectors.

**TABLE 1: ARTF 2015-2017 FINANCING STRATEGY: ENDING CASH BALANCE AND NET POSITION**

(USD million, as of December 21, 2017 (end-FY1396))

<b>ARTF PARENT FUND: CASH BALANCE [A]</b>	<b>446.92</b>
<b>ARTF PARENT FUND: OUTSTANDING COMMITMENTS (PENDING TRANSFERS) [B]=[1]+[2]</b>	<b>749.08</b>
...of which:	
Pending transfers to the Recurrent Cost Window [1]	215.58
...of which:	
• Pending payments for 2017 Incentive Program benchmarks	300.00
• Undisbursed balance in the Recurrent Cost Window	(84.42)
Outstanding commitments (pending transfers) to project-CTFs under the Investment Window [2]	533.50
...of which:	
• Citizens' Charter	100.00
• Citizens' Charter (committed in October 2016 from anticipated 2018-2020 PFFP)	200.00
• Capacity Building for Results	50.00
• System Enhancement for Health in Transition (SEHAT)	97.00
• International Labor Migration PPG	5.00
• Mazar Gas to Power Project PPG	6.50
• Fiscal Performance Improvement Support Project (FSP)	75.00

**ARTF PARENT TRUST FUND: NET POSITION [C]=[A]-[B]] (302.16)**

103. Table 2 demonstrates how both the “cash” and “net” positions shown in the preceding table and commitments are projected to have evolved from December 2017 through the end of June 2018. The “expected contributions” reflect new contributions between December and June, and therefore increase the “net” and “cash” total available. The projected commitments and transfers to child trust funds represent projected cash outflows that are the product of existing commitments (e.g., approved transfers following technical review of 2017 IP targets) and new projects or projects ready for approval by end June. These amounts are deducted from the “net” and “cash” totals, as adjusted for new contributions.

104. The total of projected commitments during the first half of 2018 amounts to USD 670 million, which will result in a negative net balance of USD 822 million. The total projected cash outflow amounts to USD 791 million, resulting in a deficit of USD 194 million in the ARTF parent trust fund account by end June 2018.

**TABLE 2: ARTF-PARENT FUND: PROJECTED END-JUNE CASH BALANCE AND NET POSITION**  
(USD million)

	NET POSITION	CASH BALANCE
<b>ACTUAL STARTING VALUES: DECEMBER 21, 2017 [A]</b>	<b>(302.16)</b>	<b>446.92</b>
<b>PROJECTED SOURCES OF FUNDS: DECEMBER 21, 2017 TO JUNE 30, 2018 [B]</b>	<b>150.00</b>	<b>150.00</b>
...of which:		
Expected contributions from ARTF partners	150.00	150.00
<b>PROJECTED USES OF FUNDS: DECEMBER 21, 2017 TO JUNE 30, 2018 [C]=[1]+[2]]</b>	<b>670.00</b>	<b>791.50</b>
...of which:		
Projected commitments and transfers to Recurrent Cost Window [1]	210.00	380.00
...of which:		
• - Anticipated payments for 2017 Incentive Program benchmarks		170.00
• - Projected commitment to 2018 Incentive Program DPG	210.00	210.00
Projected commitments and transfers to project-CTFs under Investment Window [2]	460.00	411.50
...of which:		
• Citizens' Charter <sup>1</sup>		100.00
• System Enhancement for Health in Transition (SEHAT) <sup>1</sup>		60.00
• International Labor Migration--PPG <sup>1</sup>		5.00
• Mazar Gas to Power Project--PPG <sup>1</sup>		6.50
• Fiscal Performance Improvement Support Project (FSP) <sup>1</sup>		75.00
• SEHAT-mand <sup>2</sup>	425.00	130.00
• PPP & Public Investment Advisory Project (PPIAP) <sup>2</sup>	30.00	30.00
• EQRA--PPG <sup>2</sup>	5.00	5.00
<b>PROJECTED END VALUES: JUNE 30, 2018 [D]=[A]+[B]-[C]]</b>	<b>(822.16)</b>	<b>(194.58)</b>

## NOTES:

<sup>1</sup> Pending tranche or anticipated transfer committed under the 2015-2017 Financing Strategy.

<sup>2</sup> Anticipated commitment under 2018-2020 PFFP.

105. In combination, if all of these outflows were to proceed, the trust fund would reflect a negative balance in both the “cash” and “net” balances. To avoid the liquidity problem that this would pose, some of the projects planned to be approved by the MC by June 2018, will be temporarily withheld until sufficient cash is available in the ARTF parent trust fund.

## **E.2. An indicative financing envelope for the core ARTF program**

106. Most of the ARTF partners have so far expressed their indicative pledges for PFFP. A total of USD 2.45 billion has been pledged for the core ARTF program outlined in the new PFFP. This amount is similar to the amount pledged for the previous FS. However, the total actual paid-in contributions for the previous FS amounted to USD 2 billion only, which has led to a negative balance in the ARTF parent account carried over to the new PFFP. The ARTF parent trust fund is therefore under stress, and failure to quickly disburse the full pledges will result in liquidity crisis and the inability to deliver the development outcomes sought under the PFFP. The total financing envelope for the new PFFP will cover the IP DPG and new investment projects, as well as the outstanding commitments carried over from previous years. Table 3 shows how much each ARTF partner has pledged for the new PFFP.



TABLE 3: ARTF 2018-2020 FINANCING PROGRAM: PLEDGES AND CONTRIBUTIONS

(as of March 20, 2018)

ARTF PARTNER	CORE-ARTF <sup>1</sup>									AD HOC PAYMENTS <sup>2</sup>			
	PLEDGES <sup>3</sup> (USD million)				CONTRIBUTIONS (USD million)					(USD million)			
	2018-20	2018	2019	2020	PAID-IN <sup>4</sup>				BALANCE <sup>6</sup>	PLEDGES	PAID-IN		
	2018-20	2018	2019	2020	2018-20	2018	2019	2020	INDICATED <sup>5</sup>	2018-20	2018-20	2018-20	
UNITED STATES	900.0	300.0	300.0	300.0	0.0				0.0	900.0		100.0	100.0
EU-EC	400.0	122.0	148.0	130.0	34.3	34.3			91.4	274.3		169.0	19.7
UNITED KINGDOM	339.0	113.0	113.0	113.0	0.0				67.3	271.7			
GERMANY	184.0	92.0	92.0		0.0				0.0	184.0			
SWEDEN	168.0	56.0	56.0	56.0	0.0				0.0	168.0			
CANADA	130.3	36.3	43.1	51.0	36.3	36.3			0.0	94.1			
NORWAY	73.2	24.4	24.4	24.4	0.0				0.0	73.2			
AUSTRALIA	61.2	19.2	21.0	21.0	19.2	19.2			0.0	42.0			
NETHERLANDS	60.0	20.0	20.0	20.0	0.0				0.0	60.0			
DENMARK	46.0	36.2	4.9	4.9	4.8	4.8			31.4	9.8		1.2	
ITALY	38.0	15.0	11.5	11.5	0.0				3.1	34.9			
FINLAND	35.5	12.5	11.5	11.5	0.0				0.0	35.5			
SWITZERLAND	9.0	2.4	3.3	3.3	2.4	2.4			0.0	6.6			
REPUBLIC OF KOREA	5.0	5.0			0.0				5.0	0.0			
JAPAN	2.3	2.3			0.0				2.3	0.0			
ESTONIA	0.9	0.3	0.3	0.3	0.0				0.0	0.9			
CZECH REPUBLIC	0.0				0.0				0.0	0.0			
POLAND	0.0				0.0				0.0	0.0			
LUXEMBOURG	0.0				0.0				0.0	0.0			
<b>TOTAL</b>	<b>2,452.4</b>	<b>856.6</b>	<b>849.0</b>	<b>746.9</b>	<b>97.0</b>	<b>97.0</b>	<b>0.0</b>	<b>0.0</b>	<b>200.5</b>	<b>2,154.9</b>		<b>270.2</b>	<b>119.7</b>

## NOTES:

<sup>1</sup>CORE-ARTF refers to the pool of funds available for programming by the ARTF (as a multi-donor trust fund), for which the World Bank assumes a trustee responsibility.

<sup>2</sup>AD HOC PAYMENTS refer to the funding mechanism (under the ARTF) through which partners may channel on-budget funds to GoIRA as part of a bilateral agreement.

<sup>3</sup>Indicative PLEDGES made at the time the 2018-2020 Financing Program is finalized, updated in some instances based on more recent communications.

<sup>4</sup>Contributions are recorded as PAID-IN when the funds have been transferred to the ARTF, converted into USD from original currency.

<sup>5</sup>Contributions are recorded as INDICATED when written notification is received from the ARTF partner indicating intent to contribute a specified amount.

<sup>6</sup>The BALANCE remaining from the initial indicative pledge, after the paid-in and indicated contributions are taken into account.

<sup>7</sup>For some donors, the difference between the USD equivalent amount pledged and the actual paid-in contribution is due to the exchange rate fluctuation.



### E.3. An indicative financing program

107. This section presents the indicative ARTF financing program for the period 2018-2020 for endorsement by the SC. It begins by laying out the process through which the program was developed, and then describes the principles and criteria that informed the prioritization exercise. The proposed financing program is then presented, with a summary of its main features, and the rationale behind the choices made. Lastly, the section elaborates on how the financing program would be adjusted if the financing that is actually available is either more or less than the envelope envisioned in the base case (which reflects the volume of pledges currently indicated by ARTF partners).

#### The process through which the program was developed

108. The indicative ARTF 2018-2020 financing program proposed for endorsement by the SC was developed through an iterative process over the course of several months starting in August 2017. Multiple meetings were held between the core team from GoIRA, consisting of the Deputy Ministers for Finance and for Policy from the Ministry of Finance, their DGs and Directors, and the WB country management team. These meetings involved:

- A stock-taking of the gap between the anticipated financing envelope and the articulated financing needs. When the process began in August 2017, the expected ARTF financing envelope was anticipated to be around USD 1.5 billion. Since August, additional pledges have been indicated, and the anticipated available financing now stands around USD 2.45 billion, as shown in Table 3. Even combined with available and potentially expected IDA funds, the pipeline of requests from GoIRA for more than USD 4.0 billion in financing significantly exceeded available resources.
- Discussion of the principles that would underpin the prioritization exercise;
- A combination of a top-down (attention to the headline priorities as articulated in the ANPDF and subsequent High-Council and cabinet-level discussions) and a bottom-up approach (a review of the existing pipeline of specific projects or programs for which requests had been received from GoIRA);
- A review of the existing portfolio to identify opportunities for restructuring and for freeing up additional resources on the margin;
- Consultations, as appropriate with the relevant WB teams and implementing line ministries;
- Consideration of alternative scenarios for the available financing envelope, and discussions of what would be prioritized under each of three scenarios: a low-case, a base-case and a high-case scenario.

109. The process took longer than initially anticipated, in part because of the need to ensure that relevant stakeholders within government were appropriately consulted and that the choices made were based on the best available and up-to-date information. By February 2018 an indicative program had been developed at the technical level, which was then shared with the highest levels of government for review and endorsement. That endorsement was received in April 2018.

## The principles and criteria underpinning the program

110. Determining the optimal uses to which scarce public funds should be put—the essence of planning and budgeting by governments—is difficult everywhere, given the tradeoffs that must necessarily be made and the institutional capacity and evidence base needed to arrive at informed decisions, which is often weak.

111. In Afghanistan, the task is particularly challenging for at least two reasons:

- The gap between Afghanistan’s financing needs and available resources the across development agenda is much larger than in most countries, even accounting for both on-budget and off-budget aid, and private as well as public funding. That is because Afghanistan is having to rebuild its human and physical capital from very low levels, and because security expenditures, which add up to around 26 percent of GDP (on-budget and off-budget combined), still command an inordinately large share of the available resources. The tradeoffs that must be made are therefore particularly stark.
- Unlike most countries, for which the multi-year planning and budgeting exercise primarily involves resources that are directly under the government’s control, in the case of Afghanistan, the available financing comes from multiple sources and is delivered in widely varying forms—the government’s own revenues, on-budget discretionary (i.e., not earmarked) budget support, on-budget projectized (i.e., earmarked) grant support, off-budget aid programs, and private capital crowded in through public private partnerships. The planning and budgeting task must therefore be undertaken in two parts: determining not only how much to allocate to different priorities, but also considering what mix of financing sources to draw on in each area.

112. This broader task of operationalizing the ANPDF, developing and costing realistic implementation plans for the NPPs, and determining the associated financing priorities and sources of finance is complex, and GoIRA is still in the process of completing it. Because of the size of the ARTF and its importance in financing the budget, the narrower task of developing an indicative financing program for the ARTF, which is nested within this broader task, has proceeded in parallel, with an effort made to ensure that the ARTF financing program is appropriately synchronized with the broader multi-year planning and financing framework.

113. A number of basic principles and criteria informed the prioritization exercise and the iterative process pursued in arriving at an indicative financing program:

- **Alignment with the ANPDF and government priorities.** The framing principle was that the ARTF financing program should be fully aligned with the ANPDF and government priorities. Hence the exercise was framed around arriving at indicative allocations for each of the priorities outlined under the NPPs and pillars of the ANPDF.
- **Shift towards a more programmatic approach anchored in the pillars, NPPs and priorities under each NPP.** To reinforce the alignment with the ANPDF and the move towards a more programmatic (in essence a sector-wide approach to programming), the development of the ARTF financing program was embedded, to the extent possible, in the broader exercise of operationalizing the ANPDF and aligning ALL sources of financing for the government’s priorities. The extent to which this was possible varied from priority to priority.

- **Institutional and absorptive capacity.** The decision regarding how much indicatively to allocate to a particular program or priority was based not only on the relative importance of that program in the overall development agenda, but also on a realistic assessment of the institutional and absorptive capacity of the main government agencies that would be implementing the program.
- **Continuity in terms of the ARTF's historical focus on poverty reduction and service delivery.** As an underpinning principle of the prioritization exercise, it was agreed that use of ARTF funds would be targeted in the first instance towards continuing to support programming in the core functional areas of poverty reduction and service-delivery.
- **Comparative advantage of the World Bank as the ARTF trustee and administrator.** As noted above, both the sources and forms of potentially available financing are varied. Initial assessment of financing proposals for initiatives in sectors currently not funded by the ARTF were reviewed first to assess whether the World Bank could offer a comparative advantage relative to other development partners/sources of finance that were potentially available.
- **Crowding in other potential sources of finance.** The prioritization exercise considered the "cascade" of available financing, considering first whether other sources of financing might be available as alternatives to the ARTF, or in the alternative whether some ARTF financing could be employed to attract or support suitable investments from other sources, including in particular through private sector funding/public-private partnership mechanism.
- **Providing ample discretionary funds, leveraging policy reforms.** Responding to GoIRA's call for increasingly incentivized aid led to development of the IP DPG discussed earlier. The initiative will aim to strengthen the ARTF portfolio's alignment with ANPDF priorities by catalyzing reforms that are central to core elements of the development agenda, while ensuring an appropriate mix between fiscal space and fiscal stability.

114. Applying these principles to allocate available financing, to different priorities inevitably involved judgment. There is no formula or algorithm for determining the relative weights to be attached to the competing principles, nor for precisely estimating how an additional dollar allocated to a particular priority would translate into development impact on the ground. And even if there were, the information base needed to apply such an approach is lacking.

### **The proposed ARTF 2018-2020 financing program**

115. Table 4 presents the proposed ARTF 2018-2020 financing program. (Table 11 in Annex 4 provides details of the indicative pipeline for ARTF and IDA funding during the period.) It is anchored around 4 pillars of the ANPDF, which lays out the government's vision and priorities for the period 2017-2021. These are:

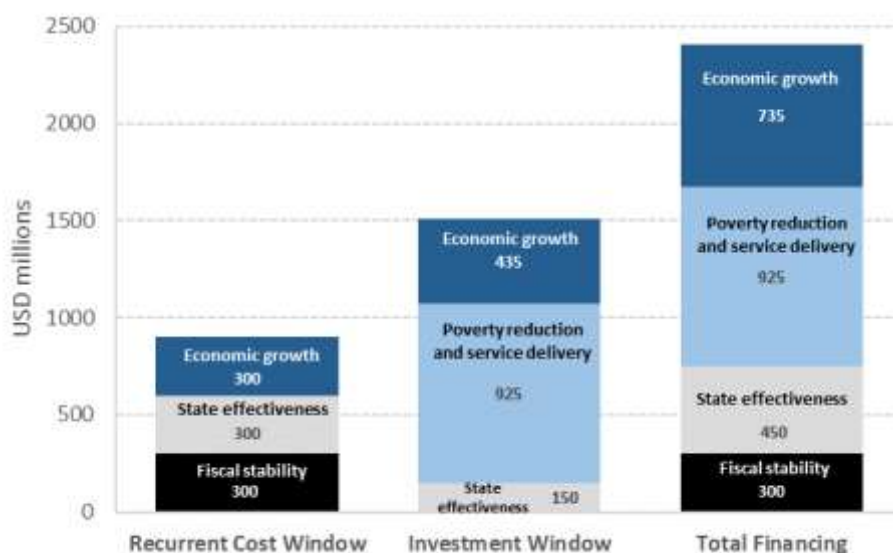
- Fiscal Stability;
- Governance and State Effectiveness
- Poverty Reduction, Service Delivery, Citizens' Engagement and Social Inclusion
- Economic Growth and Job Creation

116. The table displays the high-level breakdown of the anticipated available financing—roughly USD 2.5 billion—amongst the three main proposed uses:

- Policy-based budget support through the Recurrent Cost Window (36 percent). The main instruments of support envisioned under the Recurrent Cost Window are a Fiscal Stability Facility and the ARTF Incentive Program.
- Development investment financing through the Investment Window (61 percent).
- World Bank executed monitoring and hands-on advisory and implementation support through two new windows: the Advisory Services, Implementation Support and TA (ASIST) window and the Anti-Corruption and Results Monitoring Action Plan (ACReMAP) window (representing 3 percent together).

117. For both the RCW and the IW, the graph in Figure 5 displays the proposed allocation for each of the pillars.

FIGURE 5: BREAKDOWN OF ARTF 2018-2020 FINANCING PROGRAM BY ANPDF PILLARS



118. In the case of the Recurrent Cost Window, the allocation is purely a notional one in the sense that the amounts reflect the planned disbursements associated with policy and institutional reforms in a particular area. In the case of the Investment Window, the totals under each pillar reflect the aggregate of the proposed allocations under each of the NPPs and associated priorities.

**TABLE 4: PROPOSED ARTF 2018-2020 FINANCING PROGRAM AND IDA CO-FINANCING**  
(USD MILLION)

ANPDF PILLARS, NATIONAL PRIORITY PROGRAMS AND ASSOCIATED PRIORITIES <sup>1</sup>	ARTF 2018-2020 FINANCING PROGRAM	IDA 2018-2020 FINANCING	OTHER IDA-MANAGED FINANCING	ARTF 2015-2017 FINANCING PROGRAM <sup>2</sup>
<b>TOTAL</b>	<b>2,485 (100%)</b>	<b>1,380</b>	<b>135</b>	<b>2,431 (100%)</b>
<b>POLICY-BASED BUDGET SUPPORT (RECURRENT COST WINDOW)</b>	<b>900 (36%)</b>	<b>300</b>	<b>-</b>	<b>1,200 (49%)</b>
FISCAL STABILITY	300 (12%)	-	-	300 (12%)
GOVERNANCE AND STATE EFFECTIVENESS	300 (12%)	150	-	900 (37%)
ECONOMIC GROWTH AND JOB CREATION	300 (12%)	150	-	(0%)
<b>DEVELOPMENT INVESTMENT FINANCING (INVESTMENT WINDOW)</b>	<b>1,510 (61%)</b>	<b>1,085</b>	<b>135</b>	<b>1,189 (49%)</b>
<b>GOVERNANCE AND STATE EFFECTIVENESS</b>	<b>150 (6%)</b>	<b>65</b>	<b>-</b>	<b>182 (7%)</b>
Effective governance NPP	140 (5%)	65	-	177 (7%)
Improving fiscal performance	30 (1%)	20	-	122 (5%)
Reforming the public sector	70 (2%)	35	-	50 (2%)
Strengthening sub-national governance	40 (2%)	10	-	(0%)
Justice and Legal Sector Reform NPP	40 (2%)	15	-	5 (0%)
Reforming land administration	10 (0.4%)	15	-	5 (0%)
Strengthening rule of law	-	-	-	
Rooting out corruption	-	-	-	
<b>POVERTY REDUCTION, SERVICE DELIVERY, CITIZENS' ENGAGEMENT AND SOCIAL INCLUSION</b>	<b>925 (37%)</b>	<b>395</b>	<b>135</b>	<b>571 (23%)</b>
Human capital development NPP	595 (24%)	225	135	255 (10%)
Primary healthcare	425 (17%)	140	35	200 (8%)
Basic education	130 (5%)	75	100	(0%)
Youth engagement and skills	40 (2%)	10	-	55 (2%)
Social protection	-	-	-	
Women's Economic Empowerment NPP	80 (3%)	20	-	15 (1%)
Women's economic empowerment	80 (3%)	20	-	15 (1%)
Building national identity and social cohesion	50 (2%)	150	-	44 (2%)
Returnee-IDP reintegration	50 (2%)	150	-	44 (2%)
Building national identity: culture and heritage	-	-	-	
Citizens Charter NPP	200 (8%)	-	-	257 (11%)
Citizen engagement	200 (8%)	-	-	257 (11%)
<b>ECONOMIC GROWTH AND JOB CREATION</b>	<b>435 (17%)</b>	<b>610</b>	<b>-</b>	<b>436 (18%)</b>
Comprehensive Agricultural Development NPP	150 (6%)	25	-	135 (6%)
Increasing agricultural productivity and reserves	-	-	-	45 (2%)
Strengthening agricultural value chains	150 (6%)	25	-	90 (4%)
National Mineral and Resource Development NPP	-	25	-	-
Promoting extractives for development	-	25	-	
Infrastructure and connectivity NPP	110 (4%)	445	-	298 (12%)
Transport connectivity	-	300	-	105 (4%)
ICT connectivity	-	50	-	5 (0%)
Energy	25 (1%)	80	-	118 (5%)
Water	85 (3%)	15	-	70 (3%)
Urban Development NPP	175 (7%)	75	-	3 (0%)
Urban services and infrastructure	175 (7%)	75	-	
Urban planning and municipal administration	-	-	-	3 (0%)
Private Sector Development Program (PSD NPP)	- (0%)	40	-	- (0%)
Financial stability and deepening	- (0%)	40	-	(0%)
Trade facilitation and logistics	- (0%)	-	-	(0%)
SME support and business enabling environment	- (0%)	-	-	(0%)
<b>WORLD BANK EXECUTED ACTIVITIES</b>	<b>75 (3%)</b>	<b>-</b>	<b>-</b>	<b>48 (2%)</b>
ASIST WINDOW (Advisory services and implementation support)	15 (1%)			6 (0%)
ACREMAP WINDOW (Anti-corruption and results monitoring)	60 (2%)			42 (2%)

## NOTES:

<sup>1</sup>The table lists several priorities for which no ARTF financing is anticipated. In some cases, IDA funds will support the sector; in other cases, neither IDA nor ARTF resources are expected in the sector e.g. justice. The priorities are nevertheless included in the table to reflect the full range of government initiatives, and to illustrate the areas where the World Bank is not presently engaged as result of the factors assessed and outlined in paragraph 116.

<sup>2</sup>Because the ARTF 2015-2017 Financing Strategy pre-dated the finalization of the ANPDF and was based largely on the earlier ANDS, the numbers shown above are only an indicative mapping of the earlier Financing Strategy to the ANPDF pillars, NPPs

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and priorities.

119. The figures presented in the table are indicative, and may change during the PFFP period due to absorptive capacity considerations and phasing of activities and financing for specific programs as described in the multiphase programmatic approach. The main elements of the program, and the underlying justification for each, are described below:

- *Policy Based Budget Support (RCW)*: At least a third of the resources allocated for the RCW to ensure funding predictability for the government's recurrent operating costs. Emphasis is placed on budget support for policy and institutional reforms as the main vehicle for supporting state effectiveness and private sector development. Tackling the underlying drivers of fragility by strengthening the institutional and regulatory framework for service delivery, strengthening planning, and fiscal and public financial management are key elements for government achievement of its' long term goals of state building and self-reliance.
- *Effective Governance*: The ARTF continues to provide support in technical areas related to strengthening of governance and public sector institutions through several investment projects. For instance, the Fiscal Performance Improvement Support Project will support implementation of the government's PFM roadmap-the Fiscal Performance Improvement Plan, and the proposed TAGHIR project aims to support professionalization of the civil service. These programs are intended to complement and support efforts to achieve the benchmarks set under the policy based budget support program.
- *Justice and Legal Sector Reform*: While strengthening the rule of law and rooting out corruption are critical aspects of improved governance, the PFFP does not currently propose an investment project in this sector owing to the existence of other funding sources (including bilateral and multilateral programming) to support the sector and the WB's lack of comparative advantage in this area.
- *Human Capital Development*: The program reflects a continued and greater emphasis on the delivery of basic services in health and education. This is in recognition of the significant role human capital development could play as a driver of economic growth, and also to ensure that gains made in these areas over the past 15 years are not eroded.
- *Women's Economic Empowerment*: Scaling up support for women's economic empowerment is an important aspect in putting Afghanistan on the path to sustained and inclusive growth, which is critical to poverty reduction and thus a core element of alignment with ANPDF priorities. In addition to programming specifically targeting women's economic empowerment, with an emphasis on women in rural areas, the portfolio as a whole will continue to devote attention to ensuring that all ARTF-financed programming addresses gender considerations.
- *Building National Identity and Social Cohesion/ Citizens' Charter*: Ensuring greater social cohesion is a priority in addressing the root causes of conflict. As such, the program takes into consideration emerging priorities, in particular returnee reintegration through the ongoing Citizens' Charter Afghanistan Program, as well as the proposed Economic Response to Regional Displacement in Afghanistan. It also includes support for improved livelihoods at the local level, including in urban areas to reduce the vulnerability of the poorest members of society.
- *Agriculture*: In view of the potential for job creation, as well as inclusive economic growth, this ARTF financing program aims to continue the push on agri-business,



and the agriculture sector more broadly. The proposed projects are expected to contribute to improved productivity and resilience in the agricultural sector by encouraging the development of prioritized value chains and rural enterprises adapted to local geography and marketing potential in both rain-fed and irrigated farm systems, and supporting provision of improved agricultural inputs and technologies.

- *Mineral and Resource Development:* Although the extractive sector is recognized to be a potential future driver of broader development and growth, no ARTF investment financing is foreseen for this sector at present. This is partly because financing is being provided in the form of two project preparation grants under the previous ARTF program, but also in recognition of the limited absorptive capacity of the sector. However, highly specialized technical assistance to further support the development of policy frameworks, and regulatory capacity in the sector is very likely to be provided through the proposed ASIST Window.
- *Infrastructure and Connectivity:* The proposed energy and water projects are intended to contribute to more widespread and reliable access to energy, and water supplies for households, businesses and public services. Improved access to these services can contribute to business development as well as improved human capital outcomes. An increased reliance on PPPs to crowd in financing for certain categories of infrastructure is foreseen.
- *Urban Development:* Urbanization is acknowledged as having the potential to be a driver of economic growth, but this is incumbent on the presence of strong accountable institutions with the ability to deliver adequate services to the population. The settlement of returnees from Pakistan in urban areas across the country further highlights the importance of ensuring well-functioning urban and municipal institutions, and the PFFP envisions that the ARTF will contribute to a proposed program of support to the five main cities in Afghanistan through the Cities Investment Program.
- *Private Sector Development:* ARTF support to this area is largely through the budget support program, which includes benchmarks on improving the business regulatory environment with the aim of facilitating private sector development. Interventions under the proposed PPP and Public Investment Advisory Project to streamline the public investment and PPP institutional framework and undertake robust pre-feasibility and feasibility studies are also expected to stimulate private sector development for higher economic growth and better service delivery.

### **Adapting the program to the available financing, evolving circumstances and emerging needs**

120. The indicative financing program laid out above is tailored to the financing envelope currently anticipated, as well as the situation on the ground today. Both may change going forward:

- The actual financing that becomes available may be less than anticipated—the contributions made by ARTF partners may turn out to be less than the pledges currently indicated—as was the case in the 2015-2017 period—or the contributions may exceed the current pledges as the partners respond to emerging needs—as was the case in the 2012-2014 period.
- The circumstances and realities on the ground may change, and emerging needs may arise. With parliamentary and presidential elections planned in the coming year,

government priorities may evolve. The operational performance of programs should also guide the redirection of resources from programs that are underperforming to those that are working well.

121. The latter reality calls for a recognition of the need for a flexible and adaptive approach as the program is implemented. At this point, the main commitment that can be made is to undertake thorough annual portfolio reviews and to make the needed adjustments.

122. With respect to the possibility that financing delivered will differ from current pledges, the financing program would necessarily have to be adjusted. Subject to evolving circumstances and realities on the ground, which may reveal emerging needs or evolving priorities, at present the approach for addressing financing availability variations is as follows:

123. Should MORE financing be forthcoming, the incremental resources would be directed towards:

- Discretionary policy-based budget support to increase incentives for policy reforms in key areas;
- Basic education, in particular expanded construction of rural schools to address access gaps that are understood to be having a material effect on school attendance;
- Advancing the roll-out of the Citizens' Charter program nationally;
- Public administration reform;
- Sub-national governance, with particular attention to infrastructure, especially for justice-related functions

124. If on the other hand, available financing is LESS than the pledges indicated thus far, spending would either need to be reduced or postponed. In those circumstances:

- The current balance between long- and short-term building blocks for growth and implementation capacity will be adjusted. Reduced ARTF financing will be increasingly centered on the ARTF's historic "core" priorities of poverty reduction and service delivery. The approach has the benefit of supporting operational continuity because it will enable approved programs in these sectors to continue, but may necessitate implementation delays or scale reductions in programming in the governance and state effectiveness or economic growth and job creation sectors.

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### What we are asking of the Steering Committee

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- To ENDORSE the proposed financing program, articulated in terms of allocations to priorities under the NPPs and pillars of the ANPDF.
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## F. Conclusion

125. This Partnership Framework and Financing Program for FY1397-FY1399 (2018-2020) has outlined the proposed program of ARTF support for GoIRA's ambitious reform and national development agenda, including civilian recurrent costs, policy reforms, and service provision programs in agriculture, education, governance, health, infrastructure, social and rural development. With endorsement by the Steering Committee, the PFFP will provide a framework for using the expected ARTF resources of USD 2.485 billion to advance the

priorities of that agenda. Recognizing that the increasingly challenging environment could potentially lead to shifts in GoIRA priorities or raise challenges to effective implementation of the proposed program the PFFP identifies measures to enhance the flexibility and responsiveness of ARTF-financed programming with the aim of enabling the ARTF partnership comprising GoIRA, ARTF donors, and the WB to effectively respond to needs and manage the risks of the operating context.

126. “Taking Charge: Government Ownership in a Complex Context”, the report of the 2017 external review of the ARTF, concluded that “in a challenging and rapidly changing context, the ARTF remains a critical arena for joint analysis, discussion and decision; a mechanism for directive, prioritized collective action; a cost-efficient tool for channeling financial and technical support to the Government’s priorities; and an enduring commitment and partnership with Afghanistan’s future that allows and invites critical assessments of choices ahead”. The six initiatives proposed for Steering Committee approval or endorsement in the PFFP respond to a series of recommendations in the report that will (and for the initiatives that do not require prior approval, in some cases already are) strengthen the ARTF as a platform for GoIRA and its partners not only to advance the development agenda, but also to move towards more sustainable and programmatic approaches to development and, importantly, to look beyond the end of the current financing strategy to consider long-term issues of fiscal sustainability, including after the expected end date of the ARTF on December 31, 2025.

## ANNEX 1: THE ARTF RECURRENT COST AND INVESTMENT WINDOWS

1. This Annex includes background briefs that describe the ARTF Recurrent Cost Window and Investment Window, and provide details on how they are monitored.

## The ARTF Recurrent Cost Window

### *What it is and how it is monitored*

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#### Introduction

##### What this section is about

1. This section describes the ARTF’s Recurrent Cost Window: what it is and how it works, elaborating on the arrangements in place for monitoring the eligibility and uses of the operating expenditures that are reimbursed by the RCW.

##### The ARTF Recurrent Cost Window: what it is and how it works

2. The RCW is a Child Trust Fund under the parent-ARTF. It was set up in 2002, at the same time that the parent-ARTF was established, to provide financing—on a reimbursement basis—to help GoIRA meet its recurrent (operating) budget needs, including expenditures on wages, benefits, and other payments for (civilian) government employees as well as operations and maintenance and interest payments.

##### How the RCW works: on a reimbursement basis

3. The RCW operates on a reimbursement basis, reimbursing to GoIRA those expenditures that are considered “eligible”—i.e., those that are effected in accordance with the procedures agreed upon between GoIRA and the World Bank. The process works as follows on an annual basis:

- The Ministry of Finance (MoF) submits detailed records of civilian recurrent cost expenditures for which it seeks reimbursement from the RCW
- An internationally accredited accounting firm recruited by the World Bank—the RCW Monitoring Agent (MA) whose terms of reference and methods are described in the next section—determines the fraction of these expenditures—the eligibility rate—that is eligible for reimbursement from the RCW
- The amount that is reimbursed to GoIRA from the RCW is the minimum of either the agreed upon cap for RCW financing for the year (determined at the time the ARTF Financing Program is approved by the Steering Committee) or the volume of expenditures that was deemed to be eligible. For instance, in FY1393 (2014), MoF submitted a total of USD 1,252 million worth of expenditures to the MA, of which USD 318 million (26%) were declared ineligible, leaving a total of USD 934 million (74%) as eligible expenditures. Based on the RCW cap for that year, USD 419 million was reimbursed from the RCW to GoIRA. Had the volume of eligible expenditures been lower than the cap, only the amount that was eligible would have been reimbursed.

4. To be eligible for reimbursement from the RCW, civilian recurrent expenditures must be made in a manner consistent with Afghan legislation and related regulations. The applicable Afghan laws and regulations include (but are not limited to):

- Annual Budget Decree
- Public Finance and Expenditure Management Law (PFEML)
- Civil servants law
- Law on procurement and related regulations and circulars

- Circulars issued by the Ministry of Finance (MoF)

5. A set of Fiduciary Standards were also agreed to between the Management Committee of the ARTF and GoIRA to provide a basis for GoIRA to demonstrate commitment to improving fiduciary performance with respect to government expenditures.

6. Expenditures made that are not consistent with the procedures agreed upon are considered “ineligible” and are not reimbursed. Ineligibilities can be broken down into two main categories:

- **Avoidable ineligibilities:** the expenditure could have been eligible, but the process followed was not consistent with the agreement between the World Bank and GoIRA. For example, procurement procedures were not followed or documentation was not complete
- **Unavoidable ineligibilities:** the expenditure is ineligible by nature, usually because of an ARTF limitation (e.g. the ARTF cannot finance military expenditures)

### How the RCW works: through three modalities

7. The RCW provides financing for GoIRA’s recurrent costs through three modalities (or channels), each governed by its own set of terms and conditions under which disbursements are made from the RCW to GoIRA:

- Baseline support
- Incentive Program
- Ad Hoc Payment Facility

8. **Baseline Support:** In 2002, when the ARTF and the RCW were first established, the only financing modality under the RCW was the provision of baseline support intended to help the government start functioning. The baseline support was provided annually, with few conditions attached. Table 5 shows that over the years, as the government’s own revenue generation capacity has been built up, the baseline support has declined.

9. **Incentive Program:** In response to the recommendations of the 2008 external independent evaluation of the ARTF, the ARTF put in place the Incentive Program (IP) as an additional mechanism for budget support under the RCW, to support government reforms through a series of annual incentive payments in exchange for completion of agreed reforms, coupled with a reduction in baseline support over time. The IP aligns the interests of donors and GoIRA in priority areas including: revenue matching, economic governance (such as tax policy), public sector reform (pay & grade), private sector development (corporatization & mining regulatory environment) and more transparent government. In 2013, a benchmark and incentive for operations and maintenance (O&M) expenditures was added to the IP.

TABLE 5: RCW FINANCING (USD MILLIONS) THROUGH THE BASELINE AND INCENTIVE PROGRAM (FY1394-1396)

	FY1394	FY1395	FY1396	Total
Baseline support	125	100	75	300
Incentive Program	275	300	325	900
Total	400	400	400	1,200

10. **Ad Hoc Payment Facility:** In 2013, the GoIRA was faced with a fiscal crisis and the “Ad Hoc Bilateral TMAF Payments (ATP)” was introduced to provide additional exceptional



budget support to the GoIRA. The ARTF Strategy Group in September 2014 agreed to change the name of the new scheme to allow donors to channel funds through the ARTF without necessarily linking those funds to the Tokyo Mutual Accountability Framework (TMAF) and its progress. This line of ad hoc donor contributions has since been referred to as “ARTF Ad Hoc Payments Facility” (AHP).

- The agreements reached at that time and that still govern the AHP are as follows: These additional ad hoc contributions arise from agreements between the respective bilateral donor and Ministry of Finance, to which the Administrator is not privy. The bilateral agreement between the respective donor and Ministry of Finance is therefore not subject to oversight or due diligence of the World Bank as ARTF Administrator.
- Pledges already made by donors in the ARTF Financing Strategy cannot be switched to AHP. Should a donor nonetheless, elect to preference funds from an existing pledge for the AHP, this will count towards the overall preferencing of the contribution, i.e. a maximum 50% of the annual contribution can be preferenced.
- The Administrator, Government and Donors agreed that AHP is entirely separate from the ARTF Incentive Program, which will continue uninterrupted regardless of the status of the AHP.
- AHP contributions are disbursed through the ARTF Recurrent Cost Window (RCW), and as such are subject to the same fiduciary controls and monitoring arrangements as the ARTF RCW.

### **ARTF-RCW fiduciary controls and monitoring arrangements**

11. As the Administrator of the ARTF, the World Bank has a responsibility to ensure that an appropriate standard of fiduciary control is applied to GoIRA disbursement processes. As an integral aspect of this fiduciary responsibility, an international firm of chartered accountants (currently BDO) has been appointed as the Monitoring Agent (MA) for the RCW. The MA has a central office located in the Treasury department of the MoF and six regional offices in different provincial capitals. The regional offices cover all 34 provinces of the country.

### **The terms of reference of the RCW Monitoring Agent: an overview**

12. The overall objective of the MA assignment is to monitor, support, and report on the efficient and effective implementation of the RCW. The Monitoring Agent carries out its work in accordance with the Agreed Procedures included in its Terms of Reference and Inception Report. The audit firm must comply with the Code of Ethics for Professional Accountants, issued by the International Federation of Accounts, and conduct the agreed upon engagement in accordance with relevant International Standards relating to such services.

13. At a high level, the role of the MA can be summarized as follows:

- Providing independent monitoring and scrutiny of the government budget
- Verification of payroll and O&M expenditure incurred by most ministries
- Maintaining civil service headcount database with data entry and consistency checks
- Monitoring withdrawal applications and disbursements between the government and World Bank
- Providing information to the Ministry of Finance (MoF) regarding high value ineligible items and detailed results of testing

- Keeping the MoF and World Bank informed on emerging issues and progress. For instance, when the MA detected certain discrepancies in the payroll process that led to government employees not receiving the full salaries that were due to them, the MA flagged this to the World Bank, which in turn raised it with MoF. In response, the MoF is recruiting an accounting firm to undertake a forensic audit of the payroll process.
- Working with MoF to improve compliance with the eligibility criteria and strengthen its capacity

14. Because the RCW operates on a reimbursement basis, the core function of the MA is to determine eligibility for RCW financing of the civilian recurrent expenditures that GoIRA submits for reimbursement. To do this, the MA tests, on a statistically representative sample basis, the entire population of potentially eligible expenditures (transactions)—i.e., the entire civilian recurrent budget—and reviews these transactions for compliance with the GoIRA's own policies, laws and procedures as noted above, and with the Fiduciary Standards agreed to with the World Bank and the eligibility criteria set out in the RCW Operational Manual. It then reports to the World Bank on the outcomes of this testing with headline eligibility rates plus additional data on eligibility by category, location and type of expenditure.

15. Where the MA identifies areas of improvement, these are conveyed to GoIRA, and follow-up activities are undertaken. These may include:

- Working closely with the Ministry of Finance and other agencies to ensure that the rules for eligibility of expenditures are widely understood.
- Providing required on the job support to the Ministry of Finance in preparing replenishment applications.
- Meeting periodically with Ministry of Finance officials to address issues of concern to the ARTF stakeholders and discuss solutions.
- Providing technical assistance to Ministry of Finance and in line with the training and capacity building plan, organize workshops and training seminars for Government agencies to improve their ability to comply with the required eligibility rules and submit correct documentation.
- Intensive on the job capacity building on the RCW Operational Manual on eligibility with an expected result of significant reduction in ineligible expenditure claims.

### **Details of the methodology and approach for sampling and testing eligibility**

16. The process of sample-based testing of eligibility of GoIRA's civilian recurrent expenditures begins with the MA collecting, classifying and summarizing financial information from GoIRA's accounting records. It then selects test samples for determining eligibility based on the agreed upon procedures and an assessment of the control framework relating to the recurrent cost expenditure payments made both in Kabul and the provinces. It then carries out verification of expenditures based on this assessment in proportion to the expenditures incurred in those locations and the assessment of control risk and reporting. The sampling, testing and reporting process, which covers at least 10 percent of the value of the total expenditure in each category of expenditure, entails the following:

- Targeted testing of all Operations and Maintenance (O&M) expenditure transactions over USD 50,000
- Applying statistical sampling techniques to select a random sample of transactions across the remaining balance of O&M expenditures and all payroll expenditures. The

size of the sample is set to ensure that transactions totaling at least 10 percent of the value of expenditures in a category are selected for testing

- Site visits by the MA team to provincial capitals and district centers to check the documentation and carry out the testing, with follow-up visits undertaken later in the year
- Site visits across the country by the MA team for physical verification of a sample of government employees for payroll validation
- Monthly reporting of large ineligible expenditures to MoF and the World Bank for follow-up

### **The process of payroll testing and physical verification of government employees**

17. As a part of payroll verification, the MA team conducts physical verification (PV) of a sample of GoIRA employees. During the provincial and district visits for payroll expenditure testing, physical verification is also undertaken. This testing was introduced in FY1393 (2014) in response to concerns about the risk of ghost employees raised by ARTF partners. In 2018, the World Bank began expanding the reach of the physical verification processes by engaging the Investment Window Supervisory Agent (SA) to supplement the work of the MA in select areas.

18. The payroll process and accompanying documentation are shown in Table 6:

**TABLE 6: OVERVIEW OF THE PAYROLL PROCESS AND ASSOCIATED DOCUMENTATION**

Payroll process step	Accompanying documentation
Hiring	Appointment letter-contract-tashkeel
Attendance	Attendance book and report
Gross pay to net pay	Payroll form (M41)
Check issued	Form M16 and check
Payment	Signatures on M41

19. Payroll and staff physical verifications for the selected GoIRA employees are performed using the following procedures:

- The lists of employees are provided to the Ministry or Department.
- Once approval is obtained, the MA meets with the employee (either at provincial office, district office or ministry).
- Payrolls and staff physical verifications for the selected employees are performed through checking:
  1. the presence of the staff member;
  2. the name of employee;
  3. employment contract or engagement form;
  4. grade and position;
  5. ID card details;
  6. the means of payment (e.g. Cash by bonded trustee or bank transfer);
  7. bank account details in case of bank payment;
  8. employees' signatures for the receipt in case of bonded trustee;
  9. amounts paid to employees; and
  10. attendance sheets / books.

- For payments, employees are asked about the amount they have received and this is cross checked to ensure that it matches with the payroll forms and any variances are documented.
- For payment in cash, a sample of the employee's signature is taken during their physical verification and cross checked if it matches with the signature made on M41 while receiving money
- Other evidence (e.g. leave or mission forms, etc.) are used for cross-checking in case any of the above evidence is not available or the employees are not present during PV.

### **Challenges faced in the monitoring effort and what is being done to address them**

20. Afghanistan's public financial management system, which had to be built from scratch starting in 2002, has developed tremendously in the last 15 years. Public Expenditure and Fiduciary Assessments (PEFA) over the years—one is currently underway to update progress since the last PEFA in 2013—indicate that Afghanistan's PFM system compares favorably to other low-income countries, even those without Afghanistan's history of fragility and conflict. Nevertheless, there understandably remains much work to be done in further strengthening fiduciary control and PFM processes, and implementing the monitoring arrangements and fiduciary oversight of civilian recurrent expenditures in the context of a still deeply fragile and poor economy has posed challenges:

- With the deteriorating security context nationally in the last few years, travel by the MA to districts—needed for physical verification of government employees and transmission of documents to provincial capitals—is proving increasingly challenging. As noted above, in 2018 the WB has begun working with the MA and SA to expand the reach of physical verification procedures in select areas.
- The Procurement Law has changed, working papers have been updated but training of procurement officers by the GoIRA has been limited, especially for procurements that fall under the threshold of USD 500,000
- Missing documentation remains an ongoing challenge

21. The MA, with guidance from the World Bank, and in close collaboration with the MoF, has taken steps to address some of these challenges. For instance:

- The MA conducts regular workshops with government line ministries on various issues that affect eligibility rates such as the new procurement law
- The MA developed checklists for government procurement staff to help improve documentation
- The MA established a Helpdesk email address in 2016
- A Task force was established within MoF to support improvement with compliance rates
- Outside of the MA work, the MoF is implementing several initiatives to enhance the control environment. These include, but are not limited to:
  - issuance of government circulars clarifying the payroll process for cash payments
  - initiatives to pay a higher proportion of employees' salaries into their bank accounts directly
  - encourage availability of documents and staff to facilitate MA testing

- working with Line Ministries to review and update Delegations of Authority
- share procurement checklists with expenditure officers

22. The main text of the Partnership Framework and Financing Program for FY1397-1399 (2018-2020) describes the additional measures that are being contemplated in the new financing period to strengthen these procedures.



- **Community Monitoring.** To ensure ownership and live feedback to the Government/line ministries, several projects have made use of community monitoring (National Solidarity Program (NSP), Citizens Charter, and Education Quality Improvement [EQUIP]), to monitor project implementation and report on project progress.
- **Grievance Redress Mechanisms.** Since 2014, all World Bank financed projects are mandated to include grievance redress mechanisms as part of the M&E system to ensure concerns on fraud and corruption, safeguards and other project related issues are communicated to the relevant authorities in a timely manner.
- **Use of Information and Communication Technologies (ICT).** Several projects have been piloting the use of ICT to strengthen data collection and improve project progress reporting. Approaches vary in terms of the means of data collection (voice, SMS, electronic forms) and server-side components (databases, data reporting, and management interfaces). These choices relate to budget & resources, socioeconomic context (e.g. literacy, ability of users), and available technology services and infrastructure. One example is a pilot in the education sector, which tested the effectiveness of mobile telephones to enable the creation of citizen-feedback loops and to build the accountability of service delivery in education.
- **Working with Partners.** The Bank continues to engage with partners, including NGOs, to ensure exposure to innovative approaches to remote monitoring in challenging environments and to build on potential for cooperation on data collection, monitoring and reporting project results.
- **Third Party Monitoring (TPM).** Third Party Monitoring (TPM) is an additional layer added to the standard World Bank monitoring framework. The ARTF TPM agents are contracted directly by the World Bank, as the ARTF Administrator, and ensure independent verification of the quality of infrastructure financed by the ARTF Investment Window under select projects.

## **A closer look at third-party monitoring: The Investment Window Supervisory Agent**

### **Purpose of third-party monitoring**

6. World Bank investment project implementation support has been supplemented since 2011 by an independent third-party monitoring firm known as the Supervisory Agent (SA). The program was put in place to meet these objectives:

- First, given an increasingly challenging security environment, the program provides critical data from the field as input to the WB's implementation support and the line ministries' own monitoring systems. The program helps provide data on nationwide small-scale infrastructure project sites, including asset verification and quality assurance, where World Bank staff are not always able to systematically visit the sites of geographically widely disbursed projects.
- Second, a third-party monitor provides a level of additional evidence that programs are being implemented correctly, providing assurance to donors, focusing mainly on infrastructure quality assurance and social and environmental safeguards, gender issues and select financial/fiduciary aspects.



- Finally, the third-party monitoring agent provides line ministries with an example of project monitoring and data collection and showcases how such practices could improve project performance and results. This has helped strengthen line ministries' own monitoring programs. The SA reports directly to the World Bank, but works closely with the line ministries and line departments responsible for project implementation at both local and central level. The exact work of the SA depends on the specific ministry, its needs, systems and monitoring capacity.
- Management Systems International (MSI) is the firm currently contracted by the Bank as the SA until October 2018.

### **ARTF projects currently monitored by the Supervisory Agent**

7. The SA currently monitors six key government programs, all widely dispersed geographically. These include:

- The Ministry of Education's (MoEd's) basic education program (EQUIP);
- The Afghanistan Rural Access Project (ARAP) implemented by the Ministry of Rural Rehabilitation and Development (MRRD), and the Ministry of Public Works (MPW);
- The Citizens' Charter Afghanistan Project (CCAP), which is jointly implemented by the Ministry of Rural Rehabilitation and Development and the Independent Directorate of Local Governance (IDLG). (The SA also monitored MRRD's Third National Solidarity Project (NSP III), which is now closed);
- The Irrigation Rehabilitation and Development Project (IRDP) and On-Farm Water Management Project (OFWMP) managed respectively by the Ministry of Energy and Water (MEW), and the Ministry of Agriculture, Irrigation and Livestock (MAIL).
- The Afghanistan Power System Development Project managed by Da Afghanistan Krishna Sherkat (DABS) in collaboration with MEW.

8. In 2018, the SA's scope of work is being expanded to three additional projects, bringing the current total of active projects subject to SA monitoring to nine. The additional projects are:

- The Ministry of Agriculture, Irrigation and Livestock's (MAIL) National Horticulture and Livestock Project;
- The Afghanistan Agricultural Inputs Project, also implemented by MAIL; and
- The Ministry of Public Health's System Enhancement for Health Action in Transition Project.

### **The staffing structure of the Supervisory Agent**

9. SA personnel are organized into six teams responsible for specific tasks within the workflow:

10. **Data Collection Team:** This team consists of local national engineers and field surveyors. By the end of the first year of the current SA's contract (November 2016), this team had conducted over 1,900 ARTF subproject site visits. The Data Collection team liaises with regional GoIRA ministry offices and staff to coordinate joint site visits where possible. Within the scope of their work, this team also meets with Provincial Management Units (PMUs), Community

Development Councils (CDCs), Shuras and other members of the community (i.e. Citizen Monitors) recruited to monitor World Bank subprojects.

11. **Knowledge Management Team:** This team is the program's 'knowledge hub' responsible for drafting and refining data collection tools (i.e. data collection forms, key informant surveys, etc.), along with developing monthly subproject site visit mission plans in coordination with the five GoIRA line ministries. This team also reviews subproject Site Visit Reports with their GoIRA ministry counterparts and facilitates the development of corrective action plans. They track GoIRA ministry utilization of data collected by the SA and reports these findings to the World Bank.

12. **M&E Technology Team:** This team ensures the non-stop functioning of hardware and software technology underpinning all monitoring and verification activities, from mission planning and data collection to data processing and reporting.

13. **Program Compliance Team:** This team is responsible for ensuring the accuracy and quality of all collected data and resulting subproject Site Visit Reports and project Summary Reports.

14. **Program Management Team:** This team provides program oversight and management at all levels, as well as liaises with the World Bank Project Task Teams, Country Management Unit and other program-related staff in Kabul and Washington, DC. This team also drafts all periodic and ad hoc reports based on the Data Collection and Knowledge Management Teams' findings.

15. **Program Support Team:** This team ensures the security of all program facilities and day-to-day operations, per MSI and World Bank requirements.

### **Monitoring approaches and tools used by the Supervisory Agent**

16. Within the scope of the current ARTF TPM program, the SA is contracted to annually conduct 1,900 unique monitoring and verification missions to ARTF subproject sites distributed across all 34 Afghanistan provinces (covers all the 9 projects above), a target that is set for expansion as the Anti-Corruption and Results Monitoring Action Plan continues to be implemented. The Supervisory Agent (SA) includes a substantial number of qualified engineers and social scientists in all the provinces of Afghanistan (currently 26), a central office in Kabul, and a comprehensive data base management system based on use of smart phones, and GPS which identifies project sites, uploads field reports from project site visits, and monitors security threats.

17. The SA utilizes multiple approaches to achieve this goal:

- TPM conducted by experienced local national and expatriate male and female subject matter experts (engineers and social scientists)
- Participatory Monitoring conducted by trained male and female Citizen Monitors (CMs) living near subproject sites
- Remote Monitoring using available technologies, including crowdsourcing, satellite imagery and low cost, programmable sensors

18. The SA uses commercially available mobile and web-based software for data collection in the field. SA staff outfitted with the Fulcrum mobile app collect data at ARTF subproject sites using locally available smart-phones. In the post-processing workflow, each resulting subproject

Site Visit Report is reviewed and quality controlled to ensure data accuracy, completeness, and integrity before submission to the World Bank. Raw data in the form of PDFs and MS Excel spreadsheets, as well as geo-tagged and date-stamped photos taken in the field, are transferred to the five GoIRA ministries responsible for the projects monitored by the SA.

### **What the Supervisory Agent monitors – project examples**

19. Primary monitoring objectives for individual ARTF-financed projects will vary according to the specific needs of the program. Selected examples of monitoring objectives from projects across several sectors are provided below:

#### **AFGHANISTAN RURAL ACCESS PROJECT**

- Construction, operation and maintenance (O&M) quality
- Contractor capacity and management efficiency
- Environmental and Social Management Plan (ESMP) compliance
- Land tenure issues along road alignments

#### **EDUCATION QUALITY IMPROVEMENT PROGRAM**

- Construction and O&M quality
- Availability and use of school materials and equipment
- Teacher and student attendance
- Contractor capability and performance
- Payroll data verification
- ESMP compliance

#### **IRRIGATION RESTORATION AND DEVELOPMENT PROJECT**

- Meteorological and hydrological station sustainability
- Canal construction and O&M quality
- Environmental awareness

#### **ON-FARM WATER MANAGEMENT PROJECT**

- Construction and O&M quality
- ESMP compliance
- Functionality and effectiveness of Irrigation Associations (IAs) and Mirabs relating to water distribution end users and beneficiaries.

20. In addition to conducting TPM with qualified engineers and social scientists, the SA was also tasked by the World Bank to identify and utilize Community Monitors on select ARAP, EQUIP, IRDP and OFWMP subprojects to complement and verify field engineer findings with follow up observations.

### **Data collected by the Supervisory Agent**

21. While the primary focus of the program was initially on the quality of the construction of physical assets, it has adapted over time to the different project needs and now monitors some additional areas. In 2016 the SA collected infrastructure and non-infrastructure (environmental and social safeguards and gender) data from the sites and submitted observations, deviations and good practices to the ministries, so that the ministries could take corrective actions on the deviations and replicate the good practices. The SA's deliverables included:

- Collecting infrastructure, environmental, gender and social safeguard data at sites
- Observe and record (with geo-tagged photos) deviations and good practices

- Aggregate data by project, province, etc. and analyse results
- Report findings weekly, monthly and annually to the World Bank and GoIRA
- Monthly meetings with the GoIRA implementation teams to: (a). Determine possible root causes for both deviations and good practices; (b) Determine possible corrective actions and estimate cost (for deviations)

22. The SA provides monthly reports with the Government implementing agencies and the Bank, and discusses findings with them. The findings from the monthly reports are summarized and presented in quarterly, and annual reports that are shared with ARTF donors ~~the~~ through the ARTF website ( <http://www.artf.af/external-reviews/artf-supervisory-agent>)

### Challenges faced by the Supervisory Agent in its monitoring work

23. The SA has encountered expected and unexpected challenges in implementing its oversight objectives, including:

- The ability to reach all corners of Afghanistan remains one of the most challenging issues. The SA encountered several challenges in accessing remote and insecure areas. On one occasion, an SA engineer was stuck for eight days in a location because all means of exit were sealed off by the Taliban, and no flights were available. In another case, an SA engineer had to escape from a site at night because the Taliban had received information about the engineer's location.
- GoIRA ministry utilization of data collected by the SA and the associated rectification of identified deviations has also presented challenges. The degree to which data are utilized varies between ministries for numerous reasons. The correction of deviations also depended on several factors that were sometimes beyond the immediate control of the ministries. These include a lack of O&M funds, contractor unavailability after a subproject's completion, and the deteriorating security situation.
- Requests for discussion and coordination meetings with project stakeholders in ministries can challenge time availability on the SA staff. WB task teams have worked to provide additional platforms to discuss the findings submitted by the SA and ensured follow-up actions by the ministries.

### Ongoing enhancements to the SA program

24. The SA in coordination with the WB is continually exploring ways to enhance the monitoring efforts. New initiatives in 2017 included:

- **Participatory Monitoring.** Expanding the Participatory Monitoring crowdsourcing to additional provinces to engage more citizen monitors. In 2016, the SA had citizen monitors in 20 provinces
- **Remote Monitoring.** In coordination with ARTF implementation teams and GoIRA ministries, conduct field testing of aerial and sensor-based remote monitoring systems at select ARAP, IRDP and OFWMP subprojects.
- **Capacity Development.** (a) Conduct mobile data collection and data management training at all GoIRA ministries; (b) GoIRA ministry representatives will be trained in Kabul and in the field on how to operate and maintain the remote monitoring systems developed by the SA.

- **Material Testing.** The SA is working on conducting fifty material tests at select ARTF subproject sites and at the SA material testing lab in Kabul. The SA has also started inspecting and reporting on GoIRA ministry material testing labs funded by the World Bank.
- **Female Enumerators.** The SA has so far hired 6 regional female enumerators in Bamyan, Mazar and Kandahar to collect gender data, and plans to increase the number by the end of 2017.

23. The main text of the Partnership Framework and Financing Program for FY1397-1399 (2018-2020) describes the additional measures that are being contemplated in the new financing period to enhance monitoring efforts.

## ANNEX 2: DETAILED ARTF FRAMEWORK FOR RISK MANAGEMENT

1. Overall, the risks to the ARTF, the projects and operations it funds, and their expected outcomes are considered high. The security situation has deteriorated over the past several years and continues to be challenging. The ARTF Administrator acknowledges these risks and attempts to the extent possible to mitigate some of the identified stresses. However, a majority of political and security risks cannot be mitigated easily.

1. This section outlines the key principles of ARTF risk management and the most important risk areas and mitigation measures. Recognizing that Afghanistan presents a high-risk and continuously evolving context, risks are being monitored on a continual basis. While the broad parameters are outlined, mitigation measures continue to evolve in response to a changing context.

2. The ARTF's approach to risk management builds on the World Bank's Framework for Operations Risk Management (FORM). The Framework for Management of Risk in Operations promotes higher development impact for the World Bank's client countries through better risk assessment and management for results, empowering clients to assess and mitigate risks more effectively. The Framework also facilitates the systematic analysis of risks trends for all World Bank programs and operations. The ARTF Risk Management Framework is structured along similar lines to the ARTF monitoring framework with risk mitigation and monitoring structured in accordance with key risks at two levels—trust fund and project.

### The World Bank's Operations Risk Management

3. In the World Bank risk framework, risks are defined as "*risks to the client's achieving the expected results of the project, program, or strategy; and the risks of unintended impacts.*" The World Bank's FORM rests on three pillars: (i) standardized systems and tools; (ii) an institutional structure and policies that support proactive risk management; and (iii) a culture of informed risk-taking.

4. The standardized systems and tools establish a unified and standardized risk-rating tool, the Standardized Operations Risk-Rating Tool (SORT), that integrates information systems and links results to risks. The SORT contains a risk category matrix, rates risks at the country and project levels, and assesses risk throughout the life of a project (see Annex V).

5. The SORT helps the Bank as the ARTF Administrator assess and monitor risks consistently both at the trust fund and project levels. At the portfolio level, the data collected through the SORT are used to create portfolio reports that help the Bank define its tolerance and appetite for various risks. Thus, the SORT provides the project-level foundation for portfolio-level risk management.

### Risk Management at the Trust Fund Level

6. While Annex V outlines the ARTF SORT, including specific risks and risk management approaches at the trust fund level, the following outlines three main principles for how the World Bank, as the ARTF Administrator, manages risks:

- **Partnership and communication:** ARTF risk management is primarily carried out by the World Bank as the ARTF Administrator, but is done in close collaboration with the

government and donors through the ARTF governance structure. The institutional mechanisms provided by the ARTF governance structure allow for candid and open dialogue on risks to the ARTF and on mitigation measures.

- **Flexible approach:** Due to the relative volatility of the context in which the ARTF operates, the risk mitigation framework cannot be overly prescriptive. Instead, it outlines through the SORT the broad principles and the main measures to mitigate risk along several critical parameters while leaving room for adaptation in response to a changing environment.
- **Continuous monitoring:** Continuous monitoring of risks includes collecting information, making assessments, and rendering judgments on both new and ongoing risks. The ARTF Administrator works with its technical teams, and the government and its development partners to understand the risks of the environment in which ARTF programs operate in.

### **Risk Management at the Project Level**

7. ARTF risk management at the project level is based on the World Bank's FORM and makes use of the SORT to carry out risk analysis linked to results management. Also, it is organized around the ARTF monitoring framework to ensure weaknesses, highlighted in the risk assessment, are addressed and mitigated to the extent possible in the monitoring framework. The SORT looks at and rates the risk for the following areas, after which an overall project risk rating is then generated: political and governance; macroeconomics; sector strategies and policies; technical design of project/program; institutional capacity for implementation and sustainability; fiduciary; environment and social; stakeholders; and others.

8. The SORT is initiated during the design process of each individual ARTF/World Bank financed project and updated throughout the implementation process. Risk ratings of individual ARTF projects are made available to the government and donors in the biannual implementation status and results reports that are published for each project in the portfolio, and in the project aide memoires following implementation support visits by World Bank technical teams.

9. Fiduciary risks are monitored and carefully managed for all ARTF projects. ARTF investment projects are subject to the same fiduciary arrangements as all IDA-financed projects in Afghanistan. The World Bank requires that each project maintains financial management and procurement systems capable of accurately reporting on use of funds, linking funds flow to project activities, ensuring compliance with agreed procurement procedures and providing timely and reliable financial and procurement progress reports. These systems (encompassing budgeting, procurement, accounting, internal control, funds flow, financial reporting, and auditing arrangements) are assessed during the design phase of each new project and are reviewed as part of formal and ongoing project implementation support. A comprehensive fiduciary risk assessment is likewise conducted for each new investment.





## FIGURE 6 ARTF SORT FRAMEWORK FOR RISK MANAGEMENT

SORT is applied to the ARTF at the trust fund level, which includes an assessment of risks in eight categories<sup>24</sup>.

### 1. Political and Governance

Risk Area	Risk	Risk Rating <sup>25</sup>	Mitigation Measures
Political and Governance	The political situation remains fragile and violence pervasive. Power-sharing arrangements under the National Unity Government are a continued source of tension and potential future instability. Election outcomes, and potential political instability associated with the forthcoming parliamentary elections in late 2018, and presidential election in 2019 present important risks to the overall ARTF program. Potential increase in conflict and continued violence around the country adversely affects the ability to operate and implement projects.	H	The World Bank as the ARTF Administrator continues to monitor the potential impact of changes to the political economy on ARTF financing. This risk is directly addressed by the strong ARTF fiduciary framework and will be mitigated to the extent possible through close cooperation with key government counterparts in the Ministry of Finance.  ARTF-financed projects are implemented by the government. While violence and conflict also affects government staff and is a constant challenge, line ministries and national staff have so far maintained the ability to reach most areas in the country to ensure project implementation and service delivery. This is also helped by project designs that take into consideration the difficult operating environment and make use of design models that rely on community involvement for implementation.
	While the National Unity Government was negotiated to prevent political crisis, some level of volatility continues. This has affected the pace of certain reforms as well as the implementation progress of some ARTF-financed development programs.	H	The ARTF Administrator continuously monitors the situation closely and, through ongoing policy and technical dialogue with key counterparts in the Ministry of Finance and the line ministries, can minimize adverse impacts on the ARTF program to the extent possible. The Administrator has worked to ensure that financing has been/will be allocated to all major service delivery programs in the portfolio so that delivery of health, education, community development, and other critical services can continue without interruption. The Bank's technical teams continue to work closely with the relevant government agencies and development partners to address factors that might impede basic services reaching people. Apart from this the Administrator will maintain a flexible approach, adjusting the level of its ambition to address short-term service delivery if necessary, and downscaling engagement in reform areas where the political will or ability to move forward is lacking.

<sup>24</sup> 1. Political and governance; 2. Macroeconomics; 3. Technical design of a project; 4. Institutional capacity for implementation and sustainability; 5. Fiduciary; 6. Environment and social; 7. Stakeholders; and 8. Others. The ninth category that is part of SORT, Sector Strategies and Policies, is not included at the program level.

<sup>25</sup> H=High, S=Substantial, M=Moderate, L=Low.



## 2. Macroeconomics

Risk Area	Risk	Risk Rating	Mitigation Measures
<b>Economic risks</b>	Afghanistan's macroeconomic outlook is subject to substantial downside risks given the uncertain and limited nature of both domestic and external fiscal resources, and the likely continued high-level of security expenditures. Previous experience suggests that elections and associated political instability can have major negative impacts on growth, investment, and revenues: Revenues fell from 11.6 percent of GDP in 2013 to 8.4 percent of GDP in 2014 due to the combined impacts of withdrawal of international security forces and political instability following the elections.	H	Funds through the Recurrent Cost Window will help mitigate the risk of a potentially increasing fiscal gap. It cannot, however, cover the growing government expenditures and further revenue increases will be required. In this regard, the Government through its Fiscal Performance Improvement Plan (FPIP) and supported through continued policy dialogue under the World Bank Incentive Program, has embarked on ambitious revenue mobilization and expenditure management reforms.
<b>Fiscal sustainability</b>	Increasing public expenditures and simultaneous reductions in the government's revenues impact fiscal sustainability negatively. The government not meeting its basic operating expenditures, salaries, could have severe effects on the stability of the country.	H	The ARTF continues to support the government's operating budget with annual disbursements through the Recurrent Cost Window, including the Incentive Program. This allows government to finance (civilian) salaries and operations and maintenance expenditures. While stronger coordination through a single platform for incentivized budget support is ideal, donors can also provide financing directly to government based on bilateral agreements and channel the funds through the ARTF ad hoc payment modality. The ad hoc payment modality allows donors to support government in addressing fiscal gaps. Risks are also partly mitigated by Government's previously demonstrated capacity to maintain overall macroeconomic stability in the context of revenue declines, through effective expenditure control and maintenance of a sound monetary policy framework. ARTF financed programs including the Incentive Program, and the recently approved Fiscal Performance Support Improvement Project continue to support the government in strengthening revenue collection with a specific focus on customs.

## 3. Technical design of a project



Risk Area	Risk	Risk Rating	Mitigation Measures
<b>Project design</b>	Project performance is easily affected by the challenging context, which risks impacting results.	M	<p>Project design should take into consideration the low capacity and challenging operating environment including security constraints. This requires use of flexible modalities and innovative project design, weighing long-term sustainability gains against short/medium-term service delivery:</p> <ul style="list-style-type: none"> <li>• Outsourcing service delivery: SEHAT and proposed Sehatmandi: Using NGOs to deliver a basic health package across the country; contracts managed by the Ministry of Public Health.</li> <li>• An in-between model: NSP and CCAP: Using facilitating partners to work with communities in the field, but general operations maintained by the government implementing agencies.</li> <li>• Using country systems: FSP: fully integrated into the ministry systems, no Project Implementation Units.</li> </ul>
<b>Portfolio performance</b>	The overall ARTF program portfolio performance is impacted by the high-risk environment, coupled with weak institutional capacity for implementation and sustainability.	M	<p>Portfolio management requires an integrated approach with regular troubleshooting:</p> <ul style="list-style-type: none"> <li>• Careful and continuous monitoring at several levels: (i) Operational- through bi-weekly discussions of the World Bank technical teams on various program implementation issues; (ii) Quarterly Portfolio Operational Status Reviews to be introduced in the FY1397-FY1399 financing period that will focus on a subset of projects for which project-level operational bottlenecks and fiduciary, safeguards, governance or performance issues have been flagged, during the preceding quarter; (iii) Annual Portfolio Performance Reviews focusing on identifying key bottlenecks to portfolio performance.</li> <li>• Proactive approach to restructuring non-performing projects.</li> <li>• Introduction of enhanced mechanisms to ensure quicker identification and resolution of program implementation bottlenecks through regular Afghanistan country management unit check-ins with Bank technical teams, and the Ministry of Finance and other government to ensure ownership and a proactive approach.</li> </ul>

#### 4. Institutional capacity for implementation and sustainability

Risk Area	Risk	Risk Rating	Mitigation Measures
<b>Implementation capacity</b>	The absorptive and implementation	S	Implementation risks are mitigated through careful project design, capacity building



Risk Area	Risk	Risk Rating	Mitigation Measures
	<p>capacity of line ministries is a key factor in how projects perform and how funds can be allocated and disbursed. While the ARTF portfolio is generally performing well with high disbursement rates on average, implementation continues to face a number of challenges affected by the implementation capacity in line ministries and agencies.</p>		<p>supported by ARTF programs such as Capacity Building for Results and its planned successor, TAGHIR, and ongoing close implementation support by Bank technical teams to government agencies implementing projects. The proposed TAGHIR program aims to further support the professionalization of the Afghan Civil Service through support to human resource management and institutional reform. It also aims to support improved structures and strengthened capacity of priority line ministries and independent agencies.</p> <p>Under the FY1397-FY1399 PFFP, the ARTF proposes to add a new Bank-executed window to be known as the Advisory Services, Implementation Support and Technical Assistance (ASIST). The ASIST window will enable the Bank to respond to GoIRA requests for external advisory services in high-priority and highly technical sectors, such as fiscal management, energy, mining and public-private partners.</p>
<p><b>World Bank resources</b></p>	<p>The Bank's capacity to support line ministries in project preparation and implementation, and to provide implementation support is critical to the quality and effectiveness of the portfolio.</p>	<p>L</p>	<p>With some Bank staff based in the Dubai office, more visiting missions now take place, allowing the Bank to move in skills as needed for the program. Almost all ARTF programs either have a task team leader who is a national staff and based in Kabul, or is co-led by a national staff based in country. The capacity of national staff is continuously being improved to ensure they can increasingly take on more responsibility for technical support to the client. The total number of Bank staff based in Kabul is 93, with a steady increase in the number of national staff at technical analyst level and higher from 24 in 2011 to 43 in 2018.</p> <p>In terms of facetime<sup>26</sup>, the World Bank in Afghanistan continues to be at the forefront in the World Bank with about 20,003 days annually, compared to the average for fragile states (3,000 days) or IDA countries (7,500). As a result, Afghanistan leads within the World Bank for hands-on support to and engagement with the client.</p> <p>To continue supporting the large ARTF program, the World Bank has included an internationally recruited Operations Officer position to the ARTF program management team to focus on results monitoring and reporting of the ARTF. The Program Leader for the human development and governance programs is also now based in Kabul since mid-2017.</p>

## 5. Fiduciary

<sup>26</sup> Facetime is a measure of the Bank's engagement with client countries that aggregates in a single scale multiple forms of engagement, including field staff (both national and international) and mission travel (from both headquarters and nearby offices).



Risk Area	Risk	Risk Rating	Mitigation Measures
<p><b>Fiduciary risks</b></p>	<p>Fiduciary risks are significant despite good progress made with establishing and strengthening public financial management systems. ARTF financed investment operations (e.g., Public Financial Management Reform Project I and II) have helped to put in place adequate processes and practices for financial management, procurement, and control.</p>	<p>H</p>	<p>Safeguarding funds is a multifaceted approach taking place through four complementary modalities:</p> <ul style="list-style-type: none"> <li>• Technical assistance through individual investment projects.</li> <li>• Capacity building: through the Capacity Building for Results Facility, PFMR, and the Fiscal Performance Improvement Support Project (FSP) and other investment projects. The ARTF-financed PFMR II focused on technical assistance to further strengthen government control systems.</li> <li>• Policy reform work: supported through the Incentive Program. The next phase of the IP and the successor to the PFMR II project, the FSP continue to support implementation of reforms and the building systems and capacity in government.</li> <li>• The IP focuses on the timely implementation of PFM measures, which include better internal and external budget controls, greater budget transparency, procurement certification, deep customs reforms aimed at improving efficiency, enhancing controls, and reducing rent-seeking opportunities, and incentives for domestic revenue growth and improved budgetary spending.</li> <li>• A robust and comprehensive fiduciary framework to safeguard ARTF funds channeled through the budget along four lines: (i) Strong community ownership and monitoring; (ii) Government-wide controls; (iii) World Bank technical assistance and implementation support; and (iv) Additional controls: the third-party monitors-Monitoring and Supervisory Agents.</li> </ul> <p>The National Unity Government has emphasized its strong stance against corruption and highlighted its intention to root out such practices. In support of the government’s strategy, the ARTF Administrator will work with the government and donors to assess potential additional anti-corruption measures.</p>
<p><b>Controls</b></p>	<p>Strong controls are needed to mitigate fiduciary risks, including independent verification, to ensure donor confidence in ARTF systems and fiduciary controls, and to allow donors to continue providing financing on budget.</p>	<p>H</p>	<p>Third Party Monitoring agents address the specific weaknesses of the operating environment and provide an additional layer of control:</p> <ul style="list-style-type: none"> <li>• <b>ARTF Monitoring Agent</b> (accounting firm): Monitors the entire civilian operating budget for eligibility: <ul style="list-style-type: none"> <li>○ performs automated desk review of 100 percent of recurrent cost expenditures; and</li> </ul> </li> </ul>



Risk Area	Risk	Risk Rating	Mitigation Measures
			<ul style="list-style-type: none"> <li>○ performs risk-based review of expenditures, including visits to provinces.</li> <li>● <b>ARTF Supervisory Agent:</b> Carries out asset verification, quality assurance, and data mapping of national infrastructure projects (NSP/CCAP, rural roads, education, on-farm water management, and irrigation): <ul style="list-style-type: none"> <li>○ Provides the Bank with strengthened outreach to all 34 provinces of Afghanistan, including highly insecure areas, to obtain data from key national programs.</li> </ul> </li> </ul> <p>In addition to the above the World Bank with the agreement of the government and ARTF donors in late 2017 developed the Anti-Corruption and Results Monitoring Action Plan (ACReMAP) a proposal to enhance the overall ARTF results monitoring and anti-corruption efforts. The ACReMAP proposed as a fourth window under the ARTF would be used to consolidate the management and expand the scope of third-party monitoring of ARTF-financed operations, and would support the costs of conducting periodic in-depth fiduciary reviews of ARTF-financed operations.</p>

## 6. Environment and social

Risk Area	Risk	Risk Rating	Mitigation Measures
Environment	Lack of implementation and monitoring capacity of the national environmental law.	S	Environment risks are analyzed on a project-by-project basis. All projects and operations financed under the ARTF follow World Bank policies and procedures for environmental safeguards, including the World Bank Group's new Environmental and Social Framework (ESF) which will apply to projects to be prepared from October 1, 2018. The ESF offers a broad and systematic coverage of environmental and social risks. The ESF makes important advances in areas such as transparency, non-discrimination, public participation, and accountability – including expanded roles for grievance mechanisms. Each investment project is required to develop environmental and social management plans.
Social	Tenure insecurity and land conflicts plus multiple, inconsistent, and overlapping legal framework.	S	Social risks are analyzed on a project-by-project basis. All projects and operations financed under the ARTF follow World Bank policies and procedures for social safeguards. Projects are required to develop environment and social management plans and resettlement action plans in case of land acquisition.
Implementation and Monitoring	Weak implementation and monitoring capacity in implementing ministries.	H	Assessed during design phase and identified weaknesses addressed through project design, implementation arrangements, and ongoing World Bank technical assistance and implementation support.



Risk Area	Risk	Risk Rating	Mitigation Measures
Disasters	Natural disaster risks, including flooding, droughts, earthquakes, locusts.	H	The World Bank focuses on disaster risk management at the project level, where appropriate response mechanisms are incorporated into the project design to be activated in an emergency. Also, infrastructure quality specifications consider potential disaster risks.
Gender	Marginalization of women in the economy and broader development.	H	The World Bank follows a mainstreaming approach to ensure gender issues are addressed as a crosscutting issue in the ARTF portfolio. This includes careful attention to gender issues at the project level, where project designs and implementation take into consideration the relevant challenges and opportunities. The World Bank gender specialists works closely with line ministries to provide input and guidance to ensure gender inclusion and equity. Policy dialogue with line ministries, as well as MoF, to emphasize the importance of increased gender equity.





## 7. Stakeholders

Risk Area	Risk	Risk Rating	Mitigation Measures
Stakeholder risks	<p>Considering Afghanistan's aid dependency, continued donor support will be crucial for balancing the budget. At the 2016 Brussels Conference on Afghanistan, international partners committed to providing military and civilian support to Afghanistan through 2020. In return, the Afghan government committed to key deliverables outlined in the Self-Reliance through Mutual Accountability Framework. Predictability of donor contributions is highly dependent on developments that are outside the immediate control of the ARTF.</p> <p>While donor financing has remained stable around \$800 million over the last few years, a trend continuing with pledges for the Partnership Framework and Financing Program for 2018-2020, it not yet clear if donor contributions to the ARTF will remain at this high level.</p> <p>Engagement with the population at large as beneficiaries of ARTF programs, and NGOs is important.</p>	M	<p>The performance of the portfolio and the delivery of the new ARTF Partnership Framework and Financing Program (PFFP) is likely to influence donors' willingness to continue high levels of contributions to the ARTF. The ARTF therefore needs to ensure a continued focus on effectiveness and delivering results. To allow substantive discussions on effectiveness, the Administrator has strengthened the focus on results reporting. The ARTF Scorecard is published annually and feeds into a dialogue with the government and donors on results, effectiveness, and funding priorities. In the first year of the PFFP, the Administrator will engage stakeholders in discussions focused at enhancing the Scorecard as a tool for supporting these dialogues.</p> <p>The Administrator manages the cash balance as well as supply and demand of funds very carefully, structured in the ARTF PFFP (former Financing Strategy), which is updated annually. This helps mitigate the risk of a deficit of funds.</p> <p>The Administrator works closely with the ARTF donors to regularly update their estimated contributions to allow for more accuracy in the planning of the ARTF programs.</p> <p>Consultations were held with various stakeholders during the development of the WBG Country Partnership Framework for Afghanistan. Periodic WBG client surveys indicate overall strong support for the ARTF/WBG-financed program in Afghanistan.</p>
Security	<p>General security levels may impact the ARTF's ability to support the government and people of Afghanistan. The insurgency has expanded to encompass much of the country, which raises issues for effective implementation and monitoring of projects. In some areas</p>	H	<p>Due to the World Bank mandate, the ARTF does not have any dealings on security and relies entirely on the Afghan authorities and the international community and their mitigation measures.</p> <p>Video conferencing technology has been provided in most of the government agencies that implement ARTF/Bank financed programs to ensure continued connectivity between the government and Bank technical teams.</p> <p>At a program level, new or restructured programs will need to be designed to: (i)</p>



Risk Area	Risk	Risk Rating	Mitigation Measures
	<p>it is possible through local communities to negotiate access. However, in areas of high contestation this becomes more difficult. There are higher risks to NGO and government project staff, who have already suffered frequently from instability and violence.</p>		<p>ensure they can respond flexibly to rapidly evolving circumstances; (ii) build in the increased costs of supervision through third party monitoring as well as citizen feedback and community monitoring; and (iii) reflect on how to reach end users in areas that may be conflict affected and where government civil servants are unable to access.</p>
<p><b>Beneficiaries</b></p>	<p>Increased tension between different social and/or regional groups.</p> <p>Tension between centralization and devolution to the regional and provincial levels.</p>	<p>M</p>	<p>The World Bank social safeguard policies apply to ARTF projects to ensure social inclusion irrespective of gender, ethnic, and religious affiliation in ARTF-financed projects.</p> <p>The ARTF adheres to the policies of the Afghan government, but within ARTF-financed projects the World Bank strives to ensure a balanced regional spread of resources.</p>
<p><b>Managing expectations</b></p>	<p>There is growing pressure on the ARTF to take on an increasingly larger share of the development assistance for Afghanistan (i.e., accept responsibility for the funding of still more National Priority Programs). The demand for ARTF resources has to match the supply of funding from donors, as well as the available implementation capacity and Bank resources to ensure the program is realistic and can meet expectations.</p>	<p>S</p>	<p>It is critical that expectations are managed in terms of the ARTF’s capacity to continue scaling up its program. This requires careful and ongoing dialogue with the government and donors on ARTF capacity. The ARTF Administrator manages this by ensuring frank and transparent information and continuous updates to the government and donors through discussions held through the ARTF governance structure.</p>



## 8. Others

Risk Area	Risk	Risk Rating	Mitigation Measures
Supervision/Access to field	<p>The World Bank's ability to supervise the portfolio, and particularly the project sites located in high-risk and/or remote areas, is affected by the general security situation in the 34 provinces of the country. Access to project sites in the provinces is crucial to allow monitoring by line ministries, and implementation support and supervision by the World Bank. The worsening security situation in recent times, has affected the extent to which Bank technical teams can conduct field visits.</p>	H	<p>Access to the field happens in the following ways:</p> <ul style="list-style-type: none"> <li>• Implementing agencies: <ul style="list-style-type: none"> <li>○ Working through the government ensures access to the field, using community monitoring, grievance redress mechanisms, information communication technology (ICT), and partners.</li> <li>○ Projects have been able to adapt to a changing operating environment and government staff are so far still able to access most projects.</li> <li>○ A limited number of field visits are still done by World Bank teams, factoring in security considerations on the ground.</li> </ul> </li> <li>• Making use of ICT and third party monitoring agents to obtain data: <ul style="list-style-type: none"> <li>○ The ARTF Supervisory Agent ensures constant monitoring of ARTF projects, even in conflict-affected areas, and a steady flow of verified data to feed into and enhance the ongoing dialogue with the implementing line ministries.</li> <li>○ Individualized innovative approaches to use ICT in project implementation support are being developed and built into the project design to ensure access to data and establish beneficiary feedback mechanisms in communities.</li> </ul> </li> </ul>

## ANNEX 3: REVIEW OF ARTF FY1394-1396 USE OF FUNDS

25. This Annex outlines the financial status of the ARTF during the 2015-2017 Financing Strategy (FS) period, providing an overview of the funds available at the start of the financing strategy, donor contributions received, funds committed during the three-year period, and the closing cash and net balances carried over to the 2018-2020 Partnership Framework and Financing Program (PFFP).

26. **ARTF Cash and Net Balance:** Table 7 shows the net and cash positions of the ARTF parent trust fund account as of December 21, 2014, at the beginning of the 2015-2017 FS, and the outstanding commitments from previous years.

TABLE 7: ENDING CASH BALANCE AND NET POSITION AS OF DECEMBER 21, 2014  
(USD MILLION)

ARTF PARENT TRUST FUND CASH & NET POSITIONS AS OF DECEMBER 21, 2014	
<b>ARTF PARENT FUND: CASH BALANCE [A]</b>	<b>525.39</b>
<b>ARTF PARENT FUND: OUTSTANDING COMMITMENTS (PENDING TRANSFERS) [B= [1]</b>	<b>420.00</b>
<b>Outstanding commitments (pending transfers) to project-CTFs under Investment Window [1]</b>	<b>420.00</b>
- System Enhancement for Health in Transition (SEHAT)	170.00
- Capacity Building for Results	50.00
- National Solidarity Program III	100.00
- Afghanistan Rural Access Project	100.00
<b>ARTF PARENT TRUST FUND: NET POSITION [C=[A]-[B]]</b>	<b>105.39</b>

27. **2015-2017 Financing Strategy ARTF Cash and Net Balances:** The ARTF entered the 2015-2017 FS period with an unallocated cash balance of US\$525 million and a net balance of US\$105 million carried over from FY1393 (2014). At the end of the 2015-2017 FS, the ARTF parent fund had an unallocated cash balance of US\$447 million and a negative net balance of US\$302 million. Table 8 shows the net position of the ARTF parent fund at the start of the 2015-2017 FS, the commitments approved during the period, and the closing net balance. Table 9 shows the unallocated cash balance at the start of the FS, donor contributions received during the period, and the closing unallocated cash balance in the ARTF parent fund.

TABLE 8: ARTF NET BALANCES DURING 2015-2017 FINANCING STRATEGY PERIOD  
(USD MILLION)

ARTF PARENT FUND: YEAR END NET POSITIONS DURING 2015-2017 (FY1394-96) FINANCING STRATEGY PERIOD			
	FY1394	FY1395	FY1396
<b>ACTUAL STARTING VALUES: [A]</b>	<b>105.39</b>	<b>(35.51)</b>	<b>(441.65)</b>
<b>SOURCES OF FUNDS: [B]</b>	<b>643.27</b>	<b>906.53</b>	<b>840.44</b>
- Donors' contribution for Ad Hoc Payment Facility under RCW	142.24	180.66	100.43
- Donors' contribution for core ARTF	509.26	737.26	752.62
- ARTF Investment Income net of Administration fees	(8.23)	(11.39)	(12.61)
<b>OUTSTANDING COMMITMENTS (PENDING TRANSFERS) [C=[1]+[2]+[3]</b>	<b>784.17</b>	<b>1,312.67</b>	<b>700.95</b>
<b>Pending transfers to the Recurrent Cost Window [1]</b>	<b>351.65</b>	<b>580.66</b>	<b>437.18</b>
- Ceiling for the year (baseline +IP)	400.00	400.00	400.00
- Undisbursed balance in RCW Trust Fund	(265.44)	0.00	(63.25)
- AHP Contributions	142.24	180.66	100.43
- AHP Payments for previous year's contributions	41.25	0.00	0.00
- Payments for previous year's IP benchmarks	33.60	0.00	0.00

<b>Outstanding commitments to project-CTFs under the Investment Window [2]</b>	<b>398.02</b>	<b>728.81</b>	<b>253.60</b>
- Commitments approved by MC*	398.02	728.81	253.60
<b>World Bank Executed Activities [3]</b>	<b>34.50</b>	<b>3.20</b>	<b>10.17</b>
- Monitoring & Supervisory Agents	28.50	3.20	10.17
- Research & Analysis Program	6.00	0.00	0.00
<b>ARTF PARENT TRUST FUND: NET POSITION [D]=[A]+[B]-[C]</b>	<b>(35.51)</b>	<b>(441.65)</b>	<b>(302.16)</b>

TABLE 9: ARTF CASH BALANCES DURING 2015-2017 FINANCING STRATEGY PERIOD  
(USD MILLION)

<b>ARTF PARENT FUND: YEAR END CASH POSITIONS DURING 2015-2017 FINANCING STRATEGY PERIOD</b>			
	<b>FY1394</b>	<b>FY1395</b>	<b>FY1396</b>
<b>ACTUAL STARTING VALUES: [A]</b>	<b>525.39</b>	<b>353.01</b>	<b>486.91</b>
<b>SOURCES OF FUNDS: [B]</b>	<b>643.27</b>	<b>906.53</b>	<b>840.44</b>
- Donors' contribution for Ad Hoc Payment Facility under RCW	142.24	180.66	100.43
- Donors' contribution for core ARTF	509.26	737.26	752.62
- ARTF Investment Income net of Administration fees	(8.23)	(11.39)	(12.61)
<b>ARTF PARENT FUND: TOTAL ACTUAL TRANSFERS [C]=[1]+[2]+[3]</b>	<b>815.65</b>	<b>772.63</b>	<b>880.43</b>
<b>Cash Transfers to Recurrent Cost Window [1]</b>	<b>322.00</b>	<b>370.00</b>	<b>490.01</b>
- Baseline disbursements	125.00	100.00	75.00
- Incentive Program disbursements	127.20	244.20	235.69
- AHP Payments	142.24	125.66	146.78
- AHP Payments for previous year's contributions	41.25	0.00	0.00
- Change in balance in RCW	(113.69)	(99.86)	32.54
<b>Cash Transfers to Investment Window [2]</b>	<b>465.00</b>	<b>394.69</b>	<b>379.43</b>
<b>World Bank Executed Activities [3]</b>	<b>28.65</b>	<b>7.94</b>	<b>10.99</b>
- Monitoring & Supervisory Agents	28.50	3.20	10.17
- Research & Analysis Program	0.15	4.74	0.82
<b>ARTF PARENT TRUST FUND: CASH POSITION D=[A]+[B]-[C]</b>	<b>353.01</b>	<b>486.91</b>	<b>446.92</b>

28. Table 10 on the next page displays the ARTF 2015-2017 financing program and how it evolved from May 2015 when it was initially formulated till December 2017.

29. **ARTF 2015-2017 Financing Program: Pledges and Contributions:** For the 2015-2017 ARTF Financing Strategy, ARTF donors had pledged a total of US\$2.4 billion for the core ARTF program, of which the total actual paid-in contributions during the three-year period amounted to US\$2.0 billion. The total indicative financing program outlined in the 2015-2017 FS was based on the donor pledges for that period. Therefore, the reduced level of actual paid-in contributions for the core ARTF programming resulted in a negative net balance carry over to the 2018-2020 PFFP. Table 11 shows the total pledges for the 2015-2017 FS and the total actual paid-in contributions during these three years, as of December 21, 2017.



**TABLE 10: ARTF 2015-2017 FINANCING PROGRAM AND HOW IT EVOLVED**  
(USD MILLION)

SECTOR	PROJECT	INITIAL: 2015-05			UPDATED: 2016-09			UPDATED: 2017-12			ARTF 2018-2020	MC approval
		2015	2016	2017	2015	2016	2017	2015	2016	2017		
<b>INVESTMENT WINDOW</b>		<b>1,168.00</b>			<b>1,263.43</b>			<b>1,183.53</b>				
Governance	PFMR II - AF				<b>41.12</b>			<b>41.12</b>				10-Feb-16
	FPII Support Project (PFMR III)	75.00					50.00			<b>75.00</b>		13-Dec-17
	Technical Assistance Facility (TAF) Project	2.00	4.00	4.00		<b>5.00</b>	5.00		<b>5.00</b>			29-Jun-16
	Capacity Building for Results: tranche			50.00			50.00			<b>50.00</b>		13-Dec-11
Human development	Basic Education (EQRA)		100.00				100.00				100.00	
	Higher Education	50.00			<b>50.00</b>			<b>50.00</b>				07-Jul-15
	SEHAT (pending tranche)		100.00	100.00			100.00			<b>200.00</b>	<b>16.90</b>	17-Jun-13
	Labor Contracting PPG (Labor Migration)						2.00			<b>5.00</b>		30-Jan-17
	NATEJA AF						10.00					
Agriculture	Irrigation Rehabilitation and Development - AF	70.00				<b>70.00</b>			<b>70.00</b>			15-May-16
	On Farm Water Management - AF	45.00			<b>45.00</b>			<b>45.00</b>				14-Dec-15
	Agriculture program and grain reserves			100.00								
	NHLP - AF					<b>90.00</b>			<b>90.00</b>			29-Jun-16
Rural development	NSP III - AF					<b>57.26</b>			<b>57.26</b>			29-Jun-16
	Citizen's Charter (originally NSP IV)		<b>200.00</b>			<b>100.00</b>	<b>100.00</b>		<b>100.00</b>	<b>100.00</b>	<b>200.00</b>	21-Sep-16
	Citizen's Charter - AF									<b>44.30</b>		10-Jul-17
	Rural Access Roads (ARAP) - AF			100.00		100.00				<b>105.00</b>		10-Jul-17
	Women's Economic Empowerment-RDP		50.00								100.00	
	Rural Enterprises Development - AF					<b>4.70</b>			<b>4.70</b>			03-Oct-16
	Rural Enterprises Development - 2nd-AF									<b>5.00</b>		23-Oct-17
Social	Land Management Support	30.00				<b>4.95</b>			<b>4.95</b>			15-May-16
	Women Economic Empowerment						15.00			<b>5.00</b>		10-Jul-17
Infrastructure	DABS TA		5.00			<b>6.00</b>			<b>6.00</b>			10-Feb-16
	Power System Development - AF	13.00			<b>15.00</b>			<b>15.00</b>				07-Jul-15
	Naghlu Hydropower Rehabilitation		70.00			<b>83.00</b>			<b>83.00</b>			14-Dec-15
	Resource Corridors Project (PPP project)						35.00				30.00	
	Resource Corridors Project PPG									<b>0.50</b>		30-Jan-17
	E-Governance PPG - Digital CASA					<b>5.00</b>			<b>5.00</b>			29-Jun-16
	Urban NPP PPG					<b>2.90</b>			<b>2.90</b>			21-Sep-16
	Mazar-e-Sharif Gas-to-Power PPG									<b>6.50</b>		20-Jun-17
Afghanistan Extractives for Development PPG									<b>7.30</b>		28-Mar-17	
<b>RECURRENT COST WINDOW</b>		<b>1,200.00</b>			<b>1,383.49</b>			<b>1,655.93</b>				
	RCW-baseline support	125.00	100.00	75.00	125.00	100.00	75.00	125.00	100.00	75.00		
	RCW-Incentives Program	275.00	300.00	325.00	127.20	244.20	528.60	93.60	244.20	562.20		
	RCW-Ad Hoc Payments				183.49			183.49	125.66	146.78		
<b>WORLD-BANK EXECUTED ACTIVITIES</b>		<b>36.00</b>			<b>36.00</b>			<b>47.87</b>				
	Monitoring agents: RCW and IW	10.00	10.00	10.00	10.00	10.00	10.00	28.50	3.20	10.17		
	Research and Analysis Program	0.15	4.38	1.47	0.15	4.38	1.47	0.15	4.74	1.11		
<b>ARTF: ALL WINDOWS</b>		<b>2,404.00</b>			<b>2,682.92</b>			<b>2,887.33</b>				



TABLE 11: ARTF 2015-2017 FINANCING PROGRAM: PLEDGES AND CONTRIBUTIONS

ARTF PARTNER	CORE-ARTF <sup>1</sup>									AD HOC PAYMENTS <sup>2</sup>		
	PLEDGES <sup>3</sup> (USD million)				CONTRIBUTIONS (USD million)					(USD million)		
	2015-17	2015	2016	2017	PAID-IN <sup>4</sup>			INDICATED <sup>5</sup>	BALANCE <sup>6</sup>	PLEDGES	PAID-IN	
	2015-17	2015	2016	2017	2015-17 <sup>7</sup>	2015	2016	2017		2015-17	2015-2017	2015-2017
UNITED STATES-USAID	716.7	310.5	224.7	181.5	407.5	148.0	80.4	179.2	0.0	309.2	600.0	314.9
EU-EC	380.0	80.0	166.0	134.0	232.2	12.3	139.4	80.5	37.7	110.1	227.0	92.6
UNITED KINGDOM-DFID	381.8	127.8	127.0	127.0	401.9	127.8	149.9	124.2	0.0			0.0
GERMANY	226.4	76.4	75.0	75.0	243.9	0.0	76.4	167.5	0.0			0.0
SWEDEN	98.5	33.0	32.5	33.0	107.2	0.0	65.5	41.6	0.0			0.0
JAPAN	136.0	60.1	63.7	12.2	136.0	60.1	63.7	12.2	0.0			0.0
DENMARK	95.2	33.4	33.4	28.4	76.8	12.7	41.4	22.7	4.7	13.7		0.0
CANADA	140.2	66.2	42.0	32.0	106.6	66.2	29.9	10.5	0.0	33.6		8.1
NETHERLANDS	66.4	22.2	22.2	22.0	67.9	22.2	22.2	23.5	0.0			0.0
AUSTRALIA	58.7	16.7	20.0	22.0	66.6	13.3	18.9	34.4	0.0			1.6
NORWAY	57.6	22.9	19.2	15.5	69.0	22.9	19.2	26.9	0.0			4.9
ITALY	31.5	9.5	11.0	11.0	33.4	7.6	14.0	11.8	3.0			1.2
FINLAND	33.3	10.0	11.3	12.0	34.3	10.0	11.3	13.0	0.0			0.0
SWITZERLAND	9.5	3.9	2.5	3.1	9.5	3.9	2.5	3.1	0.0	0.0		0.0
CZECH REPUBLIC	2.6	0.9	0.9	0.9	3.4	0.9	1.6	0.9	0.0			0.0
POLAND	1.6	0.6	0.5	0.5	1.4	0.6	0.5	0.3	0.0	0.2		0.0
ESTONIA	1.5	0.5	0.4	0.5	1.3	0.5	0.4	0.3	0.0	0.2		0.0
LUXEMBOURG	0.9	0.3	0.3	0.3	0.3	0.3	0.0		0.0	0.6		0.0
<b>TOTAL</b>	<b>2,438.3</b>	<b>874.9</b>	<b>852.6</b>	<b>710.9</b>	<b>1,999.1</b>	<b>509.3</b>	<b>737.3</b>	<b>752.6</b>	<b>45.4</b>	<b>393.8</b>	<b>827.0</b>	<b>423.3</b>

## NOTES:

<sup>1</sup>CORE-ARTF refers to the pool of funds available for programming by the ARTF (as a multi-donor trust fund), for which the World Bank assumes a trustee responsibility.

<sup>2</sup>AD HOC PAYMENTS refer to the funding mechanism (under the ARTF) through which partners may channel on-budget funds to GoIRA as part of a bilateral agreement.

<sup>3</sup>Indicative PLEDGES made at the time the 2015-2017 Financing Program was finalized, updated in some instances based on more recent communications.

<sup>4</sup>Contributions are recorded as PAID-IN when the funds have been transferred to the ARTF, converted into USD from original currency.

<sup>5</sup>Contributions are recorded as INDICATED when written notification is received from the ARTF partner indicating intent to contribute a specified amount.

<sup>6</sup>The BALANCE remaining from the initial indicative pledge, after the paid-in and indicated contributions are taken into account.

<sup>7</sup>For some donors, the difference between the USD equivalent amount pledged at the start of the FS and the actual paid-in contribution is due to the exchange rate fluctuation.



#### ANNEX 4: THE INDICATIVE ARTF-IDA PIPELINE FOR 2018-2020

10. Table 112 on the next page presents the indicative ARTF and IDA pipeline underpinning the 2018-2020 ARTF financing program presented in Table 4.



**TABLE 112: ARTF-IDA INDICATIVE 2018-2020 PIPELINE**

(as of March 20, 2018)

ANPDF PILLAR, NPP, AND PRIORITY	PROJECT NAME	BASIC IDEA	GOIRA AGENCY	YEAR <sup>27</sup>	ARTF	IDA	OTH
<b>POLICY-BASED BUDGET SUPPORT (IDA-DPG and ARTF-RCW)</b>					900	300	
Fiscal stability	ARTF-Fiscal Stability Facility	To help fund essential recurrent expenditures, including expenditures on wages, benefits, and other payments for government employees as well as operations and maintenance and interest payments.	MoF	2018	300		
Governance and state effectiveness	AFG Incentive Program DPG	Proposed new vehicle for RCW-IP benchmarks. More visibility and alignment with WBG policies.	MoF	2018	300	150	
Economic growth and job creation					300	150	
<b>INVESTMENT PROJECT FINANCING (IDA-IPF and ARTF-IW)</b>					<b>1,510</b>	<b>1,029</b>	<b>135</b>
<b>GOVERNANCE AND STATE EFFECTIVENESS</b>							
Effective governance NPP					140	65	0
Improving fiscal performance	PIM-PPP Support Facility	Establish fund to support upstream development of infrastructure and PPP pipeline and strengthening of PIM and PPP framework.	MoF	2018	30	20	
Reforming the public sector	Digital Salary Payments	Introduce unique ID based on biometrics to process digital salary payments for civil servants and set up platform for digital finance.	TBD	2019	40	10	
Reforming the public sector	TAGHIR	Redesigned next phase of CBR program to tackle core challenge of professionalizing the civil service in a fiscally sustainable manner.	IARCSC	2018	30	25	
Strengthening sub-national governance	TBD	Support first phase of SNG-NPP. Potential overlap with Cities Investment Program.	TBD	2019	40	10	
Justice and Legal Sector Reform NPP					10	15	0
Reforming land administration	AFG Land Administration System Project	Support institutional strengthening of land administration system (and ARAZI), aligned with IDPL.	ARAZI	2018	10	15	
<b>POVERTY REDUCTION, SERVICE DELIVERY, CITIZENS' ENGAGEMENT AND SOCIAL INCLUSION</b>							
Human capital development NPP					595	225	135
Primary healthcare	Afghanistan Sehatmandi Project	Continue support for provision of primary health care but with greater emphasis on performance management.	MoPH	2018	425	140	35
Basic education	EQRA	Continue support for access to quality basic education but with greater emphasis on governance dimensions of service delivery.	MoEd	2018	125	75	100
Basic education	EQRA (PPG)	PPG to "support" preparation of EQRA.	MoEd	2018	5		
Youth engagement & skills	Afghanistan Placing Labor Abroad and Connecting to Employment Domestically (PLACED) Program	Support pilot and potential scale-up of programs to facilitate international labor migration and domestic job-matching. Concept could be expanded to broader program for youth engagement and skills.	MoLSAMD	2019	40	10	
Women's Economic Empowerment NPP					80	20	0
Women's economic empowerment	Women's Economic Empowerment Rural Development Project	Anchor for WEE-NPP, designed to promote economic empowerment for poor women through creation of Self-Help Groups and enterprise development assistance.	MoRRD	2018	80	20	0
Social cohesion					50	150	0
Returnee-IDP reintegration	Economic response to regional displacement in	Implementation of National Action Plan for reintegration of returnees-IDPs targeted primarily at enhancing economic opportunities in urban areas with high numbers of	MoEc, IDLG, MoF	2018	50	150	0

<sup>27</sup> Refers to the Afghan fiscal year



ANPDF PILLAR, NPP, AND PRIORITY	PROJECT NAME	BASIC IDEA	GOIRA AGENCY	YEAR <sup>27</sup>	ARTF	IDA	OTH
	Afghanistan	returnees-IDPs.					
Citizens' Charter NPP					200	0	0
Citizen engagement	Citizens' Charter Afghanistan Project	Continuing support for flagship Citizens' Charter NPP.	MoRRD-IDLG	2016	200	0	0
<b>ECONOMIC GROWTH AND JOB CREATION</b>							
Comprehensive Agricultural Development NPP					150	25	
Strengthening agricultural value chains	Agribusiness Charter	Strengthen agricultural value chains in selected regional centers through provision of entire range of services needed for agribusinesses to grow, and the job-creation and income-generating potential of agriculture to be realized.	MoCI, MoAIL, MoF		150	25	
National Mineral and Resource Development NPP						25	
Promoting extractives for development	Afghanistan: Extractives for Development	Support implementation of roadmap for responsible development of Afghanistan's natural mineral and hydrocarbon resources.	MoMP	2018		25	
Infrastructure and connectivity NPP					110	404	0
Transport connectivity	Mazar-Herat Railway	Potentially transformative investment for regional economic integration, linking China and Central Asia to the Middle East and South Asia. Part of the CAREC master plan. Will require consortium approach to financing.	MoPW			300	
ICT connectivity	AF: Digital CASA	Provide complementary publicly-financed investment to crowd in private capital in optical fibre networks and promote regional digital connectivity.	MoCIT	2018		50	
Energy	Mazar-e-Sharif Gas-to-Power Project	Provide IDA Partial Risk Guarantee (PRG) for pioneer proof-of-concept power generation PPP.	MoEW-MoMP	2019		6.5	
Energy	Bayat Mobile Gas Plant PRG	Provide IDA Partial Risk Guarantee (PRG) for pioneer proof-of-concept power generation PPP.	MoEW-MoMP	2018		3.75	
Energy	Kajaki Dam 2nd Phase PRG	Provide IDA Partial Risk Guarantee (PRG) for PPP to complete 2nd phase of Kajaki Dam project, which should have significant development impact.	MoEW	2019		3.75	
Energy	Kajaki Electrification and Benefit Sharing Support	Ensure that additional power from Kajaki 2nd Phase benefits the communities in the area.	MoEW-DABS	2018	25	25	
Water	Agro-Water Management and Climate Resilience	Strengthen agro-water management and climate resilience.	MoAIL		85	15	
Urban Development NPP					175	75	0
Urban services and infrastructure	Kabul Water Supply Improvement Project	Increase water supply for Kabul through construction of conveyance from Shatoot Dam, water treatment plant and distribution network in southern part of Kabul.	MoEW-AUWSSC	2019	150	50	
Urban services and infrastructure	Cities Investment Program	Support strengthening of municipal planning and administration and implementation of high-priority public investments in selected cities.	IDLG-MoUD	2018	25	25	
Private Sector Development Program (PSD NPP)						40	
Financial stability and deepening	Modernizing Afghan State-Owned Banks	Support the implementation of strategy for modernizing Afghanistan's State-Owned-Banks once strategy is approved by HEC. Approval of strategy is a benchmark under the IMF-ECF.	MoF	2018		40	

