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**ARTF**  
**Financing Strategy**  
**SY1391-1393**



## ARTF Financing Strategy: SY1391-1393

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### Introduction

1. This paper sets out a three-year Financing Strategy<sup>1</sup> for ARTF, covering the period SY1391-1393 (2012-2014). A Financing Strategy for the ARTF was first introduced at the London 2010 Conference, with the objective of strengthening the fund's predictability, transparency and ownership by setting out a three-year rolling allocation plan per solar year. Since then the implementation of the Financing Strategy has been reviewed in regular meetings of the ARTF Strategy Group and endorsed annually by the Steering Committee.

2. In 2010, the Government and donors initiated a transition process whereby leadership in security and development choices would move from the international community to the Government of Afghanistan by the end of 2014. On the development side, the Government has set out 22 National Priority Programs (NPPs) and reached agreement with donors that at least 80% of assistance would be in line with these priorities even while accepting that not all the NPPs, or all components of NPPs, would be fully financed. Even so, the economic picture over these next three years contains significant uncertainties as Afghanistan will need both high levels of international assistance and to create new domestic sources of revenue and growth. At the same time, the size and shape of international military and development assistance during this period, and commitments beyond, will strongly influence the political and economic outcomes over the next 10-15 years.

3. The ARTF is one of the important mechanisms by which the international community can support the Government of Afghanistan in achieving the longer term objectives of transition and during the following "transformation decade" by providing on-budget financing for the implementation of some key development priorities. In particular, the ARTF provides:

- a mechanism for predictable on-budget financing of elements of national priority programs (NPPs) within a robust fiduciary and monitoring framework;
- a platform for policy dialogue on key reforms with the Government; and
- a means to coordinate donor support in line with an agreed Financing Strategy.

4. The ARTF Financing Strategy sets the overarching strategic allocation of the fund, for recurrent cost expenditure (including the IP), investment financing, and monitoring and results reporting. The framework covers five priority sectors which correspond to the Government's development clusters: Agriculture, Rural Development, Infrastructure, Human Development and Governance/Public Sector Capacity. Implementation of the Financing Strategy depends on donor contributions as well as capacity in the line ministries to implement approved projects developed with the World Bank.

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<sup>1</sup>As agreed with donors and Government the Financing Strategy puts forward a proposal for rolling allocations to sectors for the coming three years.

5. The Financing Strategy is not a fixed allocation but rather a tool to provide better predictability in sector allocations and amounts on the basis of expected donor contributions and readiness of projects. The Strategy Group reviews the Financing Strategy with the World Bank and Ministry of Finance after which it is presented to the ARTF Steering Committee annually for endorsement.

### **Introducing the SY1391-1393 strategy**

6. This document covers the three year period SY1391-1393, or March 2012 through December 2014 (Government has adjusted its fiscal year from a solar to a calendar year to improve its budget process). The Strategy is based on new donor financing of around \$3bn over the three year period, representing a substantial increase over the \$1.8bn received from donors during the three year period SY1387-1389. Estimates of contributions are based on donor consultations as well as an assumption of increased funding coming “on-budget” as donors look to fulfill the 50% target agreed at the 2010 Kabul Conference.

7. In line with previous strategies, an increasingly greater share of ARTF’s resources will be devoted to investments rather than to recurrent costs. Over 70% of funds will go to projects during the period compared to 54% in the previous three year period. This shift is in line with long-run expectations of donors and Government. While ARTF recurrent cost financing continues to decline as a share of total ARTF resources, in absolute terms, the total recurrent cost window will increase somewhat over this period thanks to the expected scaling up of the ARTF Incentive Program. Further scaling up could come about if a mechanism to improve government operations and maintenance (O&M) funding were to be developed and agreed during the three-year period.

8. The ARTF Investment Window is based around investments that support core national priorities for delivering essential services, better governance and infrastructure. During the Financing Strategy period a total funding envelope of \$2bn would be required to meet the allocations, half of which would finance ongoing programs including: rural access, NSP, basic education, health and government administrative reform (CBR). These core programs are set to deliver key ARTF results through 2014, including:

- construction of around 3,000kms of rural access roads and maintenance of further 10,000kms;
- roll-out of NSP across an additional 17,000 communities, and delivery of second round block grants to 12,000 communities;
- expansion of school enrollment, including continued increase in girls enrollment, as well as the increased competency of teaching staff, with associated improvements in literacy;
- increases in a range of health services indicators (increase in ante-natal care to 50%, increase in skilled birth attendance to 28%, increase in DPT3 coverage to 60% etc) with associated improvements in mortality;
- Increased effectiveness of public service delivery including budget execution through deployment of around 750 senior management positions including at provincial level.

9. Women face particular cultural and social difficulties in accessing services and in participating in the work force in Afghanistan. However, it is not just a question of fairness. Experience in other countries has shown that the economic empowerment of women can have a powerful impact on building a sustainable society. Development gains for women have come gradually at best. Transition poses particular risks for women and girls. Therefore, an awareness of the gender aspects, already an important part of the ARTF supported programs, will continue to be critical in the period ahead.

10. The Strategy reflects estimated 'commitments' made from the ARTF towards projects and programs prepared and implemented by the Government. The delivery of projects is determined by the World Bank, as the ARTF Administrator, and the Government on the basis of project readiness. Typically, projects have a life-cycle of three to five years. To ensure smooth implementation over the project period, the ARTF finances the full project cost up front except in cases where necessary funds are unavailable. This ensures that projects do not run out of funding mid-project which would undermine project performance and results. However, for very large programmatic investments (such as Capacity Building for Results or NSP III) allocations are tranching over time using the projections of project commitments and taking into account availability of donor financing. ARTF also provides "additional financing" to scale up or finance "repeater" projects. This approach has worked well with many projects becoming more programmatic as they develop.

11. Donor preferences are carefully managed and can only be honoured if they do not surpass project allocations that have already been approved or soon planned. While the Administrator does its utmost to meet expressed preferences, ultimately it is the Administrator, with approval from the Management Committee, that makes allocations guided by the Financing Strategy.

12. Allocations and projections in the strategy will need to be aligned with the actual appraised value of projects— in other words , the precise allocations to projects will be determined and agreed upon by the World Bank and Government of Afghanistan in the specific grant financing agreements. Generally, for projects in the first years of the strategy, the actual amounts will be closely aligned to those presented here. For projects in the outer year pipeline, changes in amounts and dates of delivery can be expected. Projects shown in italics are "placeholders" recognizing areas where Government would like ARTF support but where no project or project scale-up is yet agreed with the World Bank.

Sector	Project	Implementing Agency	Actual 1390	Financing Strategy Period			ARTF Sector totals	Sector total with IDA	Sector shares
				1391	1392	1393			
				2012	2013	2014			
Agriculture	On-farm Water Management	MAIL	\$41						
	Irrigation Rehabilitation and Development*	MEW		\$48	\$50	\$50			
	Inputs Supply	MAIL	\$2	\$20					
	Horticulture & Livestock	MAIL	\$15		\$35	\$35			
	Strategic Grain Reserves	MAIL		\$12			\$250	\$377	15%
Rural Development	NSP III**	MRRD	\$250	\$250	\$150	\$150			
	Rural Enterprise Development	MRRD		\$16			\$566	\$566	22%
Infrastructure	Power sector	MEW		\$20	\$60	\$100			
	Rural Access Roads	MRRD/MPW		\$125		\$100			
	Urban Sector	MoUD/Muni.	\$3	\$130		\$50	\$585	\$745	30%
Human Development	Basic Education	MoE	\$73	\$75	\$50	\$50			
	Higher Education	MoHE		\$10	\$20	\$20			
	Skills & TVET	MoE/MOLSA	\$12		\$10	\$20			
	Health	MoPH	\$24		\$125		\$380	\$470	19%
Governance	Capacity Building for Results***	MoF/CSC	\$100		\$80	\$80			
	Justice	JIs	\$3	\$30		\$35			
	Public Finance Management	MoF	\$60	\$13		\$26	\$264	\$364	14%
	Provincial budgeting/O&M pilot****	MAIL/MRRD/MoPH/MoE		\$20	TBD	TBD	\$20		
	<b>Total Investment Window Financing Need</b>		<b>\$583</b>	<b>\$769</b>	<b>\$580</b>	<b>\$716</b>	<b>\$2,065</b>	<b>\$2,522</b>	<b>100%</b>
	Recurrent Cost Base		\$200	\$175	\$150	\$125			
	Incentive Program		\$0	\$50	\$150	\$175			
	<b>Total Recurrent Cost Financing Need</b>		<b>\$200</b>	<b>\$225</b>	<b>\$300</b>	<b>\$300</b>	<b>\$825</b>		
	<b>Monitoring Agents - IW and RC</b>		<b>\$4</b>	<b>\$14</b>	<b>\$14</b>	<b>\$14</b>	<b>\$42</b>		
	<b>Total ARTF Financing Need</b>		<b>\$783</b>	<b>\$1,008</b>	<b>\$894</b>	<b>\$1,030</b>	<b>\$2,932</b>		

Notes: (i) All amounts and delivery dates listed in the draft Financing Strategy are indicative and will depend on capacity in line ministries as well as donor contributions; and (ii) Marked blue cells indicate priority scale up areas identified by the Ministry of Finance if suitable projects/programs can be identified and agreed with the World Bank and if there is line ministry capacity to successfully implement.

\*IDA Financing of \$97 million for IRDP is in the process of disbursing.

\*\*\$150 million in SY1392 and 1393 would be the minimum amount for NSP on the basis of current MoF projections for NSP budget execution. If NSP roll-out remains on track, US200 million would be necessary and would be allocated in both SY1392 and 1393.

\*\*\*\$80 million for CBR in SY1392 and 1393 would be the minimum scenario. In a more optimistic scenario regarding CBR roll-out, US100 million would be needed in both SY1392 and 1393.

\*\*\*\*MoF, the Bank and donors are discussing modalities for a pilot program to increase the flow of resources/implementation authority to provincial levels. An indicative amount of \$20 million has been put into the strategy for 1391. Depending on the outcome, additional allocations would be made in 1392 and 1393.

Project summaries as well as more detailed information on projects, which are already active, are available on the ARTF website<sup>2</sup>.

13. In summary, in order to implement the Financing Strategy the following three aspects are required:

- i. Availability of sufficient donor financing;
- ii. Adequate capacity in the respective line ministries for project implementation; and
- iii. Ability of the Administrator to prepare and supervise high quality projects in line with the World Bank's procedures and policies in close cooperation with the GoA.

<sup>2</sup> Link to ARTF Results Website:

<http://www.worldbank.org.af/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/AFGHANISTANEXTN/0,,contentMDK:22984033~pagePK:141137~piPK:141127~theSitePK:305985,00.html>

### **The ARTF Recurrent Cost Window:**

14. ARTF is expected to remain the main source of on-budget civilian recurrent cost financing for the Government during this period. The Strategy sets out recurrent cost financing of \$825m over the three year period. Of this, \$450m over three years is for the ARTF recurrent cost window baseline, which will decline by \$25m per annum in line with the agreement made in December 2008. The Incentive Program (IP) is a three year program of around \$375m, conditioned on the ability of the GoA and the IP Working Group to develop agreed benchmarks and for GoA to subsequently meet the indicators. The value of the IP could increase or decrease depending on the strength of the benchmarks. Over the course of the Financing Strategy period, the IP is set to rise above the level of the recurrent cost baseline reflecting the maturity of the program and GoA's ability to implement reform.

15. Selected results for the Recurrent Cost Window:

- **Policy reforms in the areas of PFM (quantitative benchmarks for the implementation of internal and external audits), civil service reforms (e.g. civil service legal framework), anti-money laundering (implementation of action plan), customs (enabling reforms to strengthen the enforcement authority of customs) amongst others. Improvement in the ARTF eligibility ratios.**

### **The ARTF Investment Window**

16. The ARTF supports elements of a core set of NPPs focused on delivering essential services, strengthening local institutions, agriculture and building infrastructure nationally. The following sections lay out in more detail the planned allocations for each of the sectors and outline the alignment between the ARTF and the NPPs:

17. **Agriculture:** The Strategy envisages \$250m in new funding for the agriculture sector. Four projects would fulfill this. Two of the investments are under preparation (Strategic Grain Reserve and Agricultural Inputs Delivery). The Horticulture and Livestock project (HLP) is an ongoing project for which the Bank and the Ministry of Agriculture are discussing a scaled-up investment in line with the new agriculture NPP. The HLP numbers could increase as preparation proceeds. In the irrigation sector, the ARTF will finance the Government's national Irrigation Restoration and Development Project (IRDP) which is also financed by IDA. There remains a considerable need for investment in irrigation, as identified in the National Water and Natural Resource Development NPP. As the NPPs are more fully developed, donors may seek to place a larger emphasis on investments in agriculture through the ARTF dependent on government capacity.

18. Selected results in agriculture:

- **3,500 ha of new orchards established with associated 15 percent increase in productivity.**
- **Rehabilitation of irrigation schemes covering around 300,000ha with associated increases crop yields of around 20%.**
- **Piloting of on-farm water management schemes covering 50,000ha**

NPP	NPP 13: Water & Natural Resources	NPP 14: Comprehensive Agriculture Development
ARTF Projects	Irrigation Restoration & Development	Agricultural Inputs Delivery
	On-Farm Water Management	Strategic Grain Reserve HLP II

19. **Rural Development:** The Strategy envisages \$666m in new funding over the three year period in the rural development sector. The majority of funds is for NSP in accordance with the 5-year NSP program agreed by the World Bank and GoA in June 2010 and incorporated in the NPP. To date \$390m has been provided by IDA and ARTF. The program absorbs \$150-250m per annum. This, however, represents a minimum scenario. If a more optimistic scenario unfolds, and the program can commit more than the \$150m currently allocated for SY1392 and 1393 funds will be made available. The Ministry of Finance has indicated it would like to review the costing and sustainability of NSP III at the Program’s mid-term review in 2012/13. The second program in this sector is Afghanistan Rural Enterprise Development Program (AREDP). This pilot activity is a key component of NPP 2 (National Comprehensive Agriculture Production and Market Development Program). It is due to receive \$41m from ARTF, of which \$16m has already been committed and another allocation of \$16m is planned for SY1391. AREDP has significant potential for scale-up depending on implementation progress.

20. Selected results in rural development:

- **Roll out of NSP across an additional 17,000 communities, and delivery of second round block grants to 12,000 communities – helping ensure the sustainability of Community Development Councils as village level governance bodies. The program’s impact on the rural economy as well as on governance will continue to be closely evaluated by the ongoing impact evaluation.**
- **AREDP will, in its first phase, support approximately 6,500 Enterprise Groups, comprising approximately 52,000 people, of whom at least 18,000 are women. The project will also be working to support around 750 rural SMEs. There is potential to scale up after this initial phase.**

NPP	NPP 14: Comprehensive Agriculture Development	NPP 16: Strengthening Local Institutions
ARTF Projects	AREDP	NSP III

21. **Infrastructure:** The Strategy includes \$585m in new funding over the three year period in the infrastructure sector. Delivery of this ambitious target is heavily dependent on the capacity in line

ministries as well as the availability of donor funding and coordination across the sectors. The main areas of ongoing work in infrastructure are in rural access, the power sector and urban. The Afghanistan Rural Access Project (ARAP) is a follow-on project to the ongoing National Emergency Rural Access Program (NERAP). The project is expected to cost around \$325m over four years, with \$100m in financing provided by IDA. ARAP is currently in the preparation phase. Within the power sector, there would be further investment in the second phase of rehabilitation of Naghlu power station as well as in power distribution systems in Afghanistan’s major cities. These projects are still in the early phases of development and financing requirements will be firmed up during project appraisal. The Administrator is also in the early stages of preparing new urban projects with the relevant line ministry and municipality, which would build on the ongoing Kabul Urban Reconstruction Project (KURP), and the Kabul Urban Roads Improvement Project (KURIP) (currently also financed by IDA). With the exception of ARAP, the financing is still notional pending further project preparation and additional discussion with MoF on priorities in this sector.

22. Selected results in infrastructure:
- **Further improvements in rural access nationally through the completion of about 3,000kms of rural road construction and routine maintenance on 10,000kms of rural roads over 6 years. The program is also subject to an evaluation looking at the program’s impact on travel times, and access to services in rural areas.**
  - **Increase in access to grid-based power.**
  - **Increased access to basic urban services and infrastructure.**

NPP	NPP 15: : National Rural Access	NPP 17: Regional Resource Corridors	NPP 18: Extractive Industries	NPP 19: Energy Supply	NPP 20: Urban Planning
ARTF Projects	NERAP /ARAP	[IDA is facilitating resource corridors TA]  ARTF Incentive Program benchmarks	[IDA supports mining TA]  ARTF Incentive Program benchmarks	Charika Power - <i>under preparation</i>  DABS TA - <i>under preparation</i>  Naghlu II – <i>under preparation</i>  Power Distribution Expansion – <i>under preparation</i>	Urban Water II – <i>under preparation</i>  Kabul Urban Services – <i>under preparation</i>  Kabul Urban Roads Improvements – <i>additional financing</i>

23. **Human Development:** The Strategy includes \$380m in new funding over the three year period in the human development sector. The core of the human development program is the basic education

program (EQUIP) and the basic package of health services/emergency package of hospital services (SHARP), both of which are ongoing programs and core components of the relevant NPPs. In education additional financing for EQUIP II and a follow-on project are to begin during this period. Currently the Strategy estimates allocating \$75m in SY1391 for this program and thereafter \$50m per annum. A hallmark of the next phase of the health program (SEHAT) is the continuity of EU and Bank financed programs under a single program as well as the program taking on the formerly separate HIV/AIDS Prevention Project.

24. The Government has requested additional scale up in higher education and skills development. These have been reflected in the Strategy, but will require increased government capacity in order to deliver. Additional financing is already envisaged for the Skills Development Program in SY1390, but the Administrator is working in parallel to seek options for scaling up this program in line with the new NPP.

25. Selected results in human development:

- **Increase in school enrollment to around 10m, and increase in total schools to reach 16,500 nationally.**
- **Increase in trained teachers – 80% of teachers to pass national competency test.**
- **The number of students in technical and vocational education will increase to 150,000 with 30 % female students nationally.**
- **Increase in a range of health services indicators (increase in ante-natal care to 50% of births, increase in skilled birth attendance to 28% of births, increase in DPT3 coverage to 60% etc).**

NPP	NPP 8: “Decent work” & skills development	NPP 9: Education for All	NPP 10: Expanding opportunities for higher education	NPP 12: Health for all Afghans
ARTF Projects	National Skills Development	EQUIP II	SHEP	SHARP/SEHAT

26. **Governance:** \$264m would be allocated in new funding over the three year period in the governance sector. The three programs of the ARTF in governance are components in three of the NPPs under discussion in the Governance Cluster: Financial and Economic Reforms, Efficient and Effective Government, Law and Justice for All. The ARTF Public Financial Management (PFM) project is a core part of the PFM Roadmap which was approved at the Kabul Conference in 2010 and is a critical part of the Financial and Economics Reforms NPP. The PFM project started in SY1390, but a final portion of the financing, \$13m, is pending approval. Ministry of Finance has requested additional financing for further work on PFM, which has notionally been costed at \$26m for SY1393. The Capacity Building for Results (CBR) was approved in December 2011. The full value of the program is \$350m. \$100m was approved in December 2011, and the program is therefore expected to come back for more financing of about \$80m in both SY1392 and SY1393 depending on progress. The Justice Sector Delivery Project II is under preparation, but the financing appraisal is well-advanced and is reflected accurately in the Financing Strategy.

27. In addition, and as a sub-sector of governance, we have included a possible provincial budgeting pilot for SY1391. Currently this allocation is notional and an agreed program is not in place. A possible pilot Operations and Maintenance (O&M) project with MoF could also fall under this allocation.

28. Selected results in governance:

- **Deployment of around 750 senior management positions across key spending ministries to drive increased effectiveness of public service delivery and budget execution.**
- **14 % of the CBR senior management group deployed to the sub-national level (for Tier 1 ministries) and 88 female senior management positions in Government.**
- **Improvement in the PEFA indicators for internal and external audit; increases in stand-alone procurements by line ministries and increase in number of functions carried out by regular ministry staff.**
- **Increased scope of dispute resolution and legal representation provided by state justice institutions measured by number of service providers, number of cases decided and/or processed by justice institutions.**

NPP	NPP 2: Financial & Economic Reforms	NPP 4: Efficient & Effective Government	NPP 6: National Law & Justice	NPP 3: Transparency/Local Governance/ Human Rights
ARTF Projects	PFM II – ongoing and additional financing	Capacity Building for Results	Justice Sector Delivery Project II	[ ]

29. **Gender:** While gender is not a sector in itself, it is an important cross-cutting theme and of particular interest to ARTF donors and the World Bank’s policy globally. In Afghanistan the Bank has applied this approach since the start of its engagement and gender is therefore an integral part of many ARTF projects.<sup>3</sup>

30. Selected results in gender:

- **Approximately 35 percent of NSP CDC members are female.**
- **Increase to 119,000 women receive antenatal care during visit to health provider.**
- **Increase in girls’ school enrollment to 3 million.**
- **Increase in number of female scholarship recipients in Teacher Training Colleges to 5000.**

### Financing Requirements

31. The new Financing Strategy presents an ambitious total financing envelope of \$3.3 billion. Financing needs in early years are more certain than those towards the end of the three-year cycle. The

<sup>3</sup> The latest report on results on gender under the ARTF is available on the ARTF website in the ARTF Quarterly Report SY1390 Q3.

implementation of the plan is dependent upon project readiness, the capacity in the respective line ministries as well as sufficient donor contributions to finance the various projects and programs. Financing is approved only on the basis of received funds. The following table outlines the funding sources as well as funding requirements and the outstanding accumulative funding needs.<sup>4</sup>

Consolidated Estimated Cash Flow for ARTF Parent Account for 3 yrs (1391 to 1393)				
Sources of Funds	1391	1392	1393	Total
Opening Unallocated Cash Balance	552.00	278.63	(64.31)	
Total Donor Contributions	734.63	551.06	449.53	1,735.22
<b>Sources of funds</b>	<b>1,286.63</b>	<b>829.69</b>	<b>385.22</b>	<b>1,735.22</b>
Less : Uses of Funds: (allocations made by the MC)				
Investment Window Allocations	769.00	580.00	716.00	2,065.00
Recurrent Cost Financing	225.00	300.00	300.00	825.00
Monitoring Agent	14.00	14.00	14.00	42.00
<b>Total allocations out of parent account*</b>	<b>1,008.00</b>	<b>894.00</b>	<b>1,030.00</b>	<b>2,932.00</b>
<b>Surplus/ (Deficit) at end of the year</b>	<b>278.63</b>	<b>(64.31)</b>	<b>(644.78)</b>	

\*The numbers included here are based on a low-case scenario. Should NSP, CBR and the Provincial Budgeting/O&M Pilot roll out in full the total allocations could increase by up to \$300 million and thereby the deficit in donor contributions would increase by a similar amount.

Note: An administration fee of 2 % is charged at the time donor contributions are received by the Bank and released into the Bank's budget only based on project disbursements.

## ARTF Fiduciary and Technical Monitoring

### 32. General principles:

- The Bank applies its full fiduciary framework to the entire ARTF - including the ARTF recurrent and investment windows. The framework ensures adequate oversight to facilitate on-budget financing in Afghanistan. All on-budget payments are subject to Afghanistan's Public Financial Management Law, are processed through the Government financial management information systems (AFMIS) and all civilian procurement over a certain threshold is reviewed for compliance with the Public Procurement Law by a centralized procurement oversight unit (ARDS). All of these functions are supported and monitored through World Bank and other donors' technical assistance.
- The ARTF framework is subject to the review and audit of the World Bank's external auditors as part of the annual "Single Audit".
- The Auditor General conducts annual financial statement audits of all the ARTF projects to international auditing standards with the support of an international firm of public accountants.

<sup>4</sup> The "total donor contributions" consist of signed and unsigned pledges for each of the three solar years. The "opening unallocated cash balance" is the amount carried over from the previous solar year, based on expected donor contributions and planned allocations in accordance with the Financing Strategy. The "surplus/Deficit at the end of the year" therefore represents tentative projections for outstanding funding needs.

### 33. **Recurrent Cost Window:**

An annual ceiling for allocations through the ARTF recurrent cost window is recommended by the Administrator and approved by the Management Committee. It is comprised of a baseline amount given in the Financing Strategy and an amount determined by the Government's successful completion of agreed benchmarks under the Incentive Program. Transfers under this ceiling are made at quarterly intervals.

Disbursements to the Government under the Recurrent Cost Window are made for eligible, civilian operating expenditures of the Government. The Government first incurs these expenditures and then submits statements of expenditure (SOE) as part of a Withdrawal Application to the Bank. As per the original board document and legal agreements, the Bank has hired a Monitoring Agent (MA) to review recurrent cost expenditures. The purpose of the MA is to ensure all expenditures financed from the RC window are eligible – and to deduct ineligible expenditure from future Withdrawal Applications. The MA's monitoring is undertaken in two stages: a desk review of SOEs followed by selective site visits to ensure supporting documentation is in place.<sup>5</sup> The MA arrangement is supervised by the Bank's financial management team based in Kabul. Since 2003, PWC has been the MA – PWC concluded its contract with the finalisation of the SY1389 monitoring and the procurement of the new Monitoring Agent is well advanced.

The IP payments are made in accordance with the meeting of agreed indicators. Disbursements will be made on a rolling basis in line with the more ambitious multi-year framework.

### 34. **Investment Window:**

ARTF investment projects are subject to the same technical and 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 before each new project and are reviewed as part of formal and ongoing project supervision. A comprehensive fiduciary risk assessment is likewise conducted for each new investment. Only projects that can meet these standards will be considered by the World Bank for ARTF financing.

35. Implementation is the responsibility of the GoA. During implementation, the World Bank ensures that the systems are maintained and continue to produce reliable information. Financial management and procurement missions are scheduled as part of regular project supervision during which quarterly interim unaudited financial reports, annual audited financial statements and auditors' management letters, and financial management and disbursement arrangements are all reviewed to

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<sup>5</sup> A full description of MA activities can be found in the quarterly ARTF reporting.

ensure compliance with the World Bank's requirements. Large-value procurements (above an agreed threshold set for each project) require World Bank "No Objection Letters" ex ante. Smaller-value procurements are subject to post-review by the World Bank. Key donors, with technical expertise in country, can join in Bank supervision missions. Bank supervision missions also often hold end-of-mission meetings with all interested donors usually led by the relevant line ministry.

36. **Investment Window Supervisory Agent:** In addition to these regular procedures, the Administrator has hired a Supervisory Agent for the Investment Window to assist the Bank to strengthen technical supervision of the ARTF investment portfolio given its wide dispersion across the country and the uncertain security situation. In its first year the agent will carry out 1500 site visits across all 34 provinces concentrating on three national programs: EQUIP, NSP and NRAP. The agent works with a team of trained Afghan engineers who review physical progress, quality of construction and usage of physical investments. The agent is also responsible for registering and mapping all assets financed by the ARTF (see example map below). The agent reports directly to the World Bank as Administrator and the Bank makes the information available to the responsible line ministries as well as the Ministry of Finance to ensure any problems are addressed. The Bank has already arranged several presentations of the work of the Supervisory Agent to interested ARTF donors.

# EQUIP, NERAP & NSP in Parwan Province

– an example of the mapping capability of the Supervisory Agent

