

# FY1393 UPDATE TO THE ARTF FINANCING STRATEGY

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The ARTF Financing Strategy 1391-1393 was endorsed by the ARTF Steering Committee on April 1, 2012 and a 1392 Update to the Financing strategy was approved on April 6, 2013. This FY1393 Update to the ARTF Financing Strategy (U2FS) reviews the evolving context, use of funds in SY1392 and outlines FY1393 activities, including the pipeline and allocations. The Update will cover the final year of the current Financing Strategy. During FY1393 preparations will be initiated to start working on the new three-year Financing Strategy 1394-1396.

## I. FY1392 RESULTS HIGHLIGHTS

This section outlines key results from FY1392:

- **Commitments and disbursements:** During FY1392, total new commitments for the ARTF reached US\$761 million, including both the Recurrent Cost and Investment Windows<sup>1</sup>, and a total of US\$667 million was disbursed:
  - **Recurrent Cost Window:** A total of US\$332 million was committed under the Recurrent Cost Window for baseline recurrent cost financing (US\$150 million), the Incentive Program (US\$150 million) and the O&M Facility (US\$32 million). While US\$256 million was disbursed for the baseline, O&M and the IP, another US\$125 million under the Incentive Program is yet to be disbursed, subject to Incentive Program technical reviews;
  - **Investment Window:** Over the course of the fiscal year, 5 new projects and preparation grants were approved along with new allocations to ongoing projects resulting in a net commitment to investment projects of US\$425 million. As of November 28, 2013<sup>2</sup>, US\$411 million had been disbursed under the Investment Window.
- **Operations and Maintenance:** The O&M Facility was initiated with the beginning of FY1392 to support government financing as they take over responsibility of previously externally funded assets. The O&M Facility will, as it proceeds, support the development of a provincial budgeting framework and improve the management of O&M in provinces, thereby encouraging a strengthened O&M culture in line ministries. In addition to the O&M Facility costs, planning for O&M will be reflected in individual ARTF financed projects to ensure sustainability. An initial allocation of US\$32 million was made for the O&M Facility in FY1392, specifically targeting two key ministries; Ministry of Education and Ministry of Public Health. It is yet to be determined if Ministry of Public Works will be ready to enter the scheme in FY1393 and how much financing Government can absorb under the O&M Facility in the next fiscal year.
- **Alignments with National Priority Programs:** 100% of ARTF financing is aligned with the National Priority Programs (NPPs) at the both the strategic and programmatic level. At the project level, the ARTF is 80 % aligned with the NPPs. This lower percentage is mainly due to projects still under implementation, which were designed before the NPPs were drafted. The percentage is therefore expected to increase as older projects close and new projects come on stream.
- **Research and Analysis:** The Research and Analysis Program (RAP) was set up and initiated. The objective of the endorsed RAP is to facilitate and promote evidence-based policy-research and

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<sup>1</sup> The US\$761 million also includes US\$4 million for the ARTF Monitoring Agent.

<sup>2</sup> The disbursement amount for the Investment Window will be updated as we close the fiscal year.

knowledge consolidation through project-based and selected sector-wide/thematic research and impact evaluations. The first activity of the RAP was the Higher Education Sector Review released during the late summer 2013. Other activities include the Agriculture Sector Review, the Sub-National studies focusing on constraints to service delivery, and the initial findings from the ongoing impact evaluation of the Rural Roads project. A highly anticipated Urban Sector Review has also been initiated. Financing is, however, needed to implement the RAP, which will be further discussed with donors in the coming month. Please find more information on the RAP in annex 3;

- **Results Reporting and Communications:** The ARTF Scorecard was launched and the follow-up ARTF Results Workshop was held on September 24, 2013 to facilitate a dialogue among Government, Donors and the ARTF Administrator on the overall performance and results achieved by the ARTF-financed programs and projects. Additionally, the workshop also served as an opportunity to discuss priorities with a view of informing this U2FS. Please find additional information on the results reporting and communications agenda in annex 2;
- **Gender Working Group:** The ARTF Gender Working Group, set up in FY1391, began its work in FY1392. The aim is to have a minimum of two meetings per quarter. Consistent participation from donor representatives is strongly encouraged to ensure technical discussions and high quality collaboration;
- **Risk:** Risks to the ARTF remain high and are therefore continuously monitored and assessed. As risks develop, the ARTF Administrator proposes mitigation actions to Government and donors for further discussion;
- **Ministry of Finance:** Work to strengthen Ministry of Finance's role in the administration of the ARTF has commenced and will progress in the coming year;
- **Facetime:** The ARTF Administrator, the World Bank, has increased its support to the Government of Afghanistan with more than 13,000 aggregate days of staff time spent in Afghanistan engaging with Government and partners during FY13;
- **Monitoring:** The ARTF Monitoring Agent continued its work during FY1392. The Supervisory Agent continued to increase program efficiency with the number of project inspections rising to 3,238 for their second year of operation, which exceeded the program target by over 15%. All four programs included (NSP, Rural Roads, Education and Irrigation) continued to show signs of improvement both in terms of the quality of infrastructure and the strength of the implementing ministries in tracking and rectifying deviations.

## II. IDENTIFYING PRIORITIES FOR ARTF FINANCING

Ministry of Finance (MoF), representing the Government, is the primary interlocutor for the ARTF Administrator, the World Bank.

MoF works with line ministries to agree on financing priorities. This dialogue is ongoing throughout the year but is focused around the annual budget process and is based on the ANDS and the framework of the National Priority Programs (NPPs). Requests for financing are submitted by MoF directly to the World Bank, The World Bank then assesses implementation capacity of the respective ministry/agency, its technical expertise and comparative advantage, and linkages/alignment with the ARTF portfolio, the ARTF Financing Strategy and the World Bank's Interim Strategy Note for Afghanistan.

While MoF and the World Bank engage in a continuous dialogue throughout the year on potential priorities for financing, the discussion is formalized during the annual Financing Strategy process. Based on this engagement the World Bank drafts a funding pipeline that is presented to MoF and donors within the context of the Strategy Group for discussion. When the Strategy Group agrees on the draft

Financing Strategy, it goes to the ARTF Steering Committee for final endorsement in time for the new fiscal year during which Government and the World Bank work on implementing the financing priorities.

Please find in Annex 5 a figure overview outlining points of engagement for donors in the design and implementation process of projects and in Annex 6 of points of engagement during the Financing Strategy process.

### III. REVIEW OF FY1392 ALLOCATIONS AND PLANNED USE FOR FY1393

**FY1392 Use of Funds:** The pipeline demand for FY1392 was US\$1.3 billion. At the end of FY1392 a total of US\$761 million had been allocated from the ARTF to recurrent costs as well as new and ongoing projects. The difference was primarily caused by delays in delivery of projects in FY1392.

#### i. Allocations - Investment Window

While a total of US\$958 million was planned in allocations for the Investment Window (IW) in FY1392, the actual allocations totalled US\$425. This amount, however, includes cancellations from two projects totaling US\$18 million (please see more detail in annex 1).

A Portfolio Performance Review was carried out in early 2013 by the World Bank and Ministry of Finance. A clear lesson coming out of this review was the need for enhanced project readiness at the time of approval as projects otherwise risk facing significant delays in the implementation phase. The delivery of several projects was therefore postponed from FY1392 to FY1393 (see annex 1 for details). Furthermore, there is always an element of over-programming in the Financing Strategy to ensure room for delays and cancellations, consequently approximately 30% over programming is planned for. Differences between projections and actuals are therefore to be expected.

#### ii. Allocations - Recurrent Cost Window

Under the Recurrent Cost Window (RCW) a total allocation of US\$332 million was planned, including baseline financing (US\$150 million), the Incentive Program (US\$150 million) and the O&M Facility (US\$32 million). While the baseline and O&M financing have been disbursed in full, the Incentive Program is still subject to technical review and the final amount disbursed is therefore unknown.

It is important to note that the Financing Strategy is not a fixed allocation but rather a tool to provide better predictability in sector allocations and amounts. The actual implementation of the Financing Strategy depends entirely on the capacity within ministries to absorb and implement projects, readiness of projects, donor contributions, as well as other externalities outside the control of Government. As can be seen elsewhere, the total pledges are lower at the beginning of the FY as only some donors provide upfront pledges before the beginning of the FY.

#### iii. Disbursements

A total of US\$667 million was disbursed under the Investment Window (US\$411.59 million) and the Recurrent Cost Window (US\$256.10 million), including US\$150 million in baseline financing, US\$32 million in O&M financing and US\$73.8 million in IP funding. Project disbursements happen at the project level, independently of new allocations. While an ongoing project might not receive an allocation during

a given fiscal year, it continues to disburse.<sup>3</sup> Please find in table 1 below a full outline of disbursements made during 1392 broken down by window and project.

**Table 1: ARTF Disbursements 1392**

<b>Window</b>	<b>Project Name</b>	<b>FY1392 (As of Nov 28,2013)- US\$</b>
Investment Window	Second Public Financial Management Reform Project	17,844,365.43
	Capacity Building for Results Facility	3,782,167.94
	Irrigation Restoration and Development	3,735,618.00
	Afghanistan Justice Service Delivery Project	1,684,627.94
	Afghanistan Second Skills Development Project (PPG)	407,137.99
	National Horticulture and Livestock Productivity Project	9,619,024.46
	Kabul Municipal Development Program	2,856,136.15
	Afghanistan Resource Corridor Project	300,000.00
	Afghanistan Agricultural Inputs Project	5,126,344.17
	System Enhancement for Health in Transition Project (SEHAT)	15,000,000.00
	Higher Education System Improvement Project (PPG)	1,000,000.00
	Rehabilitation of Naghlu Hydropower Plant	2,818,574.75
	Kabul-Aybak/Mazar-e-Sharif Power Project	1,922,169.74
	Horticulture and Livestock Program	4,615,862.70
	Power System Development Project	12,372,798.20
	Water Resources Development Technical Assistance Project	1,226,903.05
	Skills Development Project	5,099,053.69
	Second Education Quality Improvement Program	60,712,405.13
	National Emergency Rural Access Project	8,412,494.72
	Strengthening Health Activities for the Rural Poor (SHARP)	13,858,632.46
Afghanistan Rural Enterprise Development Project (AREDP)	3,541,489.93	
Third Emergency National Solidarity Project	229,303,800.35	
On Farm Water Management project	5,611,241.15	
Improving Agricultural Inputs Delivery	748,482.88	
<b>Investment Window Total</b>		<b>411,599,330.83</b>
Recurrent cost Window	Recurrent & Capital Costs Component	256,100,000.00
<b>Recurrent Cost total</b>		<b>256,100,000.00</b>
<b>Grand Total</b>		<b>667,699,330.83</b>

iv. Cash Flow

The ARTF cash flow budget in Table 2 outlines the actual cash balance development in the Parent Trust Fund during FY1392 and the projections for FY1393. Pledged funds for FY1393 total US\$821 million, but most of these are not yet legally committed or disbursed from donors into the ARTF account. The

<sup>3</sup> The term “allocation” refers to the transfer of new funds from the ARTF to ongoing or new projects committed in legal agreements between the World Bank and the Government. The term differs from disbursements, which happen at the project level, independently of new allocations. While an ongoing project therefore might not receive an allocation during a given fiscal year, it can still continue disbursing from allocations made during previous fiscal year(s).

projected level of total contributions will therefore depend entirely on these donor contributions actually coming through during 1393.

**Table 2: ARTF Parent Trust Fund Cash Flow Budget**

Sources of Funds	End of FY1392 (Actual + Estimated million)	Projected End of FY1393 (million)
Carry-over from previous year	\$656.00	\$796.38
Donor Contributions	\$901.38	\$821.25
<b>Total Sources of funds</b>	<b>\$1,557.38</b>	<b>\$1,617.63</b>
<u>Uses of Funds (new allocations)</u>		
Recurrent Cost Window	\$332.00	\$400.00
Investment Window	\$425.00	\$1,100.00
Monitoring Agent	\$4.00	\$12.00
<b>Total allocations out of parent account</b>	<b>\$761.00</b>	<b>\$1,512.00</b>
<b>Surplus/(Deficit) balance:</b>	<b>\$796.38</b>	<b>\$105.63</b>

**FY1393 Planned Use of Funds:** The financing planned for FY1393, as outlined in this U2FS, has increased when compared to previous projections<sup>4</sup>. For the overall ARTF financing planned for 1393, including both Investment Window and Recurrent Cost Window, the total projected for 1393 amounts to US\$1.5 billion, which is an increase of US\$400 million over the amount projected in last year’s Update to the Financing Strategy. For the Investment Window the projection has increased from US\$733 million to US\$1.1 billion. The increase is mostly caused by the delay of some projects from 1392 to 1393. The Investment Window projections include funding for 5 new projects and 6 ongoing.

While the increase in the demand for financing for the coming FY seems significant, it is important to note that the overall fluctuations between projections and actuals from one year to the next all happen within the broader framework of the three-year Financing Strategy FY1391-1393. The total amount outlined for this three-year strategy was US\$2.9 billion. FY1391-1392 totalled US\$1.5 billion. The additional US\$1.5 billion planned for FY1393 will therefore take the full Financing Strategy period to a total of US\$3 billion, which is less than 5% more than initial projections.

Please find in Table 3 an outline of the allocations projected for FY1393, organized by window, project and sector. Annex 1 presents a complete review of allocations by sector providing more detailed explanations on the amounts outlined in the table.

- i. Ad Hoc TMAF Payments

<sup>4</sup> Previous projections were outlined in the 1392 U2FS.

In FY1393 individual donors<sup>5</sup>, may decide to make contributions on a pilot basis, in addition to their annual pledge already made for the ARTF. This line of ad hoc donor contributions will be denoted as “Ad hoc Bilateral TMAF Payments (ATP)” in the Financing Strategy, see Table 3 below. 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 U2FS cannot be switched to ATP. The Administrator, Government and Donors agreed that ATP is entirely separate from the ARTF Incentive Program, which will continue uninterrupted regardless of the status of the ATP.

ATP contributions will be subject to the same fiduciary controls and monitoring arrangements as the ARTF Recurrent Cost Window.

The new arrangement will run on a pilot-basis starting with a first disbursement of US\$15 million in December 2013. It will be reviewed and discussed in advance of the new FY1394-1396 Financing Strategy.

#### ii. Risks

Risks remain significant and are consequently under constant scrutiny by the ARTF Administrator and continuous discussion with Government and donors. Risks and risk mitigation measures were outlined in the ARTF Scorecard and remain unchanged.

One risk worth highlighting is the financing available for implementation of the Financing Strategy in FY1393. As of now table 2 outlines a projected surplus at the end of FY1393 of US\$105 million. A couple of critical points to note: First, the “uses of funds” includes a normal over programming of an estimated 30%. The current surplus is relatively minor and the delivery of the outlined priorities for financing in 1393 will therefore be entirely dependent on the pledged donor contributions coming through.

Second, the FY1393 “donor contributions” does not include the full pledges from all donors. The Administrator has repeatedly requested donors to provide up front pledges for upcoming contributions to strengthen the planning process under the Financing Strategy. Not all donors have yet provided pledges for FY1393.

#### iii. Managing Uncertainties

Risks identified in the ARTF Scorecard remain valid for this Update period, and key ones are summarized below. The World Bank will keep Government and donors continuously informed:

- **Security Situation:** Considering the continued uncertainty concerning the security situation and how it will evolve, the Administrator will closely monitor deteriorating security and its potential impact on project implementation and supervision. All ARTF projects are implemented by Government agencies and their ability to access the provincial, district and community level will therefore greatly impact project achievements. The World Bank’s ability to supervise is already affected by challenges to access. This is somewhat mitigated by third party monitoring arrangements, community monitoring and enhanced use of mobile technology for supervision.

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<sup>5</sup> The Ministry of Finance and US Government requested the ARTF Administrator to consider an adhoc arrangement that will enable the latter to transfer funds to the former in recognition of TMAF achievements.

- **Elections:** Considering that elections are scheduled for April 2014, the ARTF Administrator is aiming to deliver the full FY1392 pipeline by January 2014, while FY1393 deliverables will be scheduled for processing between July and December 2014 to allow the new government sufficient time to establish itself and refocus on the development agenda. The Administrator is expecting a reduction in disbursements during 1393 as the country is focusing on election preparations and in advance of a new Government coming into place.
- **Managing the pipeline:** The Administrator's ability to deliver on the outlined pipeline is affected by a number of factors: Varying capacity in implementing line ministries affects the ability to prepare and implement projects in accordance with agreed timelines. The exact timing of project delivery is therefore often challenging to predict and some variance from projected delivery times is to be expected. This affects the overall delivery of the pipeline as projected in the Financing Strategy and as a result the Administrator projects for around 30 % in **overprogramming** on an annual basis. This is a normal approach adopted within the World Bank, where overprogramming usually averages 25-35 %. An ARTF projection of 30 % was therefore decided.

**Table 3: Projected, Actual and Planned Allocations FY1392 to FY1393**

Table 2 outlines projected and actual allocations for FY1392 and planned allocations for FY1393. The term “allocation” refers to the transfer of new funds from the ARTF to ongoing or new projects committed in legal agreements between the World Bank and the Government. The term differs from disbursements, which happen at the project level, independently of new allocations. While an ongoing project therefore might not receive an allocation during a given fiscal year, it can still continue disbursing from allocations made during previous fiscal year(s). Please see table 1 on page 4 for full overview of project disbursements up and until November 19, 2013.

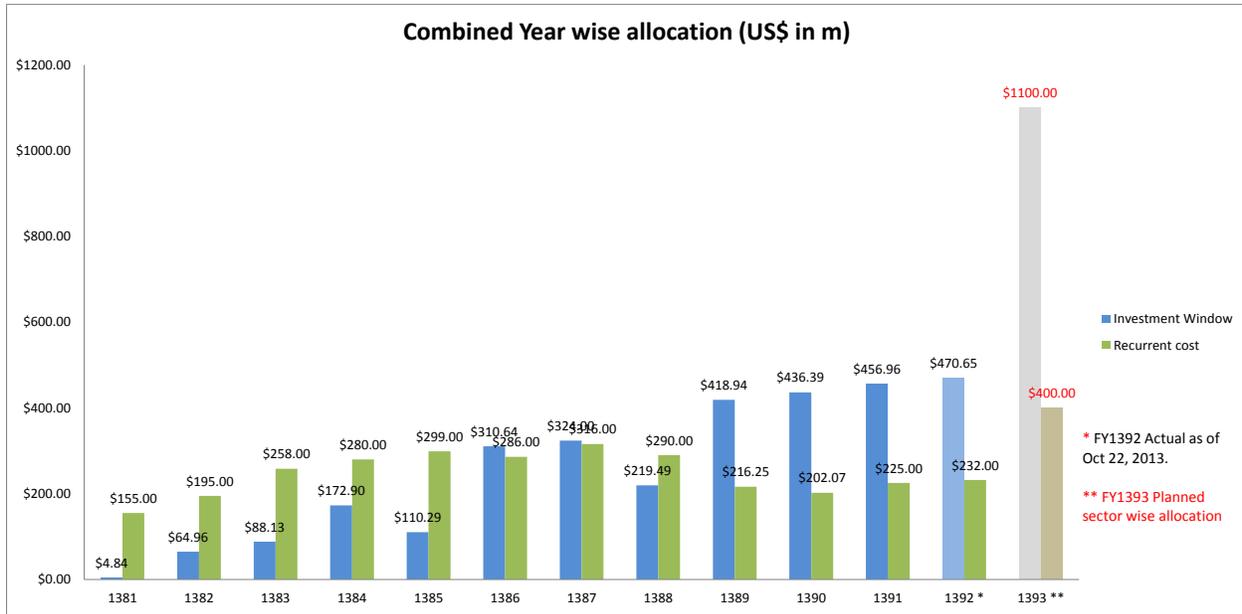
Sector	Project	1392 - Projected	1392 - Actuals	1393 - Planned
Agriculture	Irrigation Rehabilitation and Development			\$30
	Inputs Supply	\$75	\$75	
	Horticulture & Livestock			\$50
	On Farm Water Management	-\$16	-\$16	
	Strategic Grain Reserves	\$18	\$0	\$18
Rural Development	NSP III*	\$300	\$250	\$200
	Rural Access Roads	\$50	\$0	\$188
	Rural Enterprise Development	\$0	-\$2	
	Rural Water and Sanitation			\$50
	Rural Livelihoods			
Infrastructure	Power sector	\$40	\$5	\$80
	CASA 1000 Community Benefit Sharing			\$30
	Resource Corridors	\$70	\$3	\$74
	Kabul Municipal development	\$5	\$5	\$80
	Kabul Urban Transport	\$90	\$0	\$80
Human Development	Basic Education	\$125	\$0	\$125
	Higher Education	\$50	\$5	\$50
	Skills & TVET (includes prep grant)	\$30	\$0	\$15
	Health	\$120	\$100	
Governance	Capacity Building for Results			
	Justice			
	Public Finance Management			\$30
	<b>Total Investment Window Financing Need</b>	<b>\$958</b>	<b>\$425</b>	<b>\$1,100</b>
Recurrent Cost	Recurrent Cost Base	\$150	\$150	\$125
	Incentive Program	\$150	\$150	\$175
	O&M Facility	\$32	\$32	\$100
	<b>Total Recurrent Cost Financing Need</b>	<b>\$332</b>	<b>\$332</b>	<b>\$400</b>
Bilateral Premiums	Ad-hoc Bilateral TMAF Premium Payments			TBD
Monitoring	Monitoring Agents - IW and RC	\$4	\$4	\$12
	<b>Total ARTF Financing Need</b>	<b>\$1,294</b>	<b>\$761</b>	<b>\$1,512</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; (ii) Marked blue cells indicate priority scale up areas identified by the Ministry of Finance; and (iii) The 1393 allocation for the Incentive Program will include also the carry-over from the 1392 allocation that had not been disbursed by December 20, 2013; and (iv) 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 disbursement.

## Annex 1: Allocations for FY1392 and FY1393

Figure 1 below shows how the relative allocations to the IW and RCW have changed over time. The IW has grown in scope and is now much larger than the RCW, a trend that continues. Moreover, the balance within the Recurrent Cost Window is also shifting in favor of incentive-tied funds like the Incentive Program and the O&M Facility in line with one of the objectives outlined in the Tokyo Mutual Accountability Framework.

**Figure 1: Annual Allocations for the IW versus the RCW**



### Agriculture

**FY1392:** One project was delivered during 1392: The Inputs Supply Development Project for US\$75 million. The Strategic Grain Reserves Project was planned for 1392 but is now on stand-by for 1393 due to remaining questions on institutional arrangements. These issues are currently under discussion with Ministry of Agriculture, Irrigation and Livestock (MAIL) to find a solution and proceed on project approval and implementation.

The On-Farm Water Management Project (OFWM) was approved for US\$41 million in SY1390 (March 2011). Disbursements for OFWM were low and progress very slow. A mid-term review was carried out in 1392 and based on the findings, it was agreed to restructure the project. US\$16 million was canceled and project objectives were revised to reflect a more realistic scenario. The project is set to close on time in June 2014.

**FY1393:** A total allocation of US\$98 million is projected for Agriculture in 1393. The Strategic Grain Reserves Project is on stand-by for 1393 for a total of US\$18 million. Another tranche of US\$50 million is planned for the National Horticulture and Livestock Project (NHLP). NHLP was approved in December 2012, but will by the end of 1392 already have disbursed most of its first tranche of US\$50 million. Additional Financing of US\$30 million is tentatively planned for the ongoing Irrigation Restoration and

Development Program (IRDP), subject to strong disbursements over the coming 6 to 12 months. Finally, a comprehensive Agriculture Sector Review is ongoing to inform future priorities in the agriculture sector. When finalized the findings might inform new priorities as well as potential restructurings of ongoing projects.

## **Rural Development**

**FY1392:** US\$250 million was allocated to Rural Development in 1392, all of which went to the National Solidarity Program III (NSP). Under the Rural Enterprise Development Project (AREDP) US\$2 million was cancelled. AREDP was approved in October 2010 and financed by ARTF for US\$8 million, and US\$30 million by IDA. While very good results were achieved under the Saving Groups sub-component, the SME Development component was not performing well. Disbursements remained low and very little progress was made. The project was therefore restructured (downward revision) to rationalize the targets and financing from the ARTF was cancelled. The project will close on time in January 2015.

A tentative allocation of US\$50 million was included in the 1393 U2FS for Rural Roads, subject to strong project disbursements. However, it is projected that the project will have disbursed 10 % of its overall financing envelope by the end of 1392 and additional financing therefore seemed premature.

**FY1393:** A total of US\$438 million is planned for Rural Development in 1393. A total of US\$1.1 billion in ARTF financing for NSP was agreed between the Government and the World Bank in the NSP Project Paper of 2010 of which a total of US\$750 million has already been allocated, leaving a financing gap of US\$350 million to be financed before the project closing in September 2015. 1393 includes a tranche of US\$200 million for NSP. NSP is in its peak disbursement period with high disbursement rates and will need new financing to meet its commitments to the communities.

An allocation of US\$188 million is included for 1393 for Rural Roads. The original full financing envelope of the Rural Roads project was US\$332 million of which US\$120 million was contributed from IDA and a first tranche of US\$107 million was allocated from the ARTF in early 1391. A year and a half into implementation the overall financing envelope is currently being reassessed and will likely increase both to accommodate a cost increase in the planned roads (more roads than originally envisaged are in remote and mountainous areas, which has increased their cost) and a request for MoF for additional financing for rural roads as a priority area of the Government. While disbursements are still relatively slow, the project will already need additional financing in 1393 to continue committing new contracts and cover the cost overrun caused by the more expensive roads. A second tranche of US\$100 million was planned last year for 1393. However, this will now increase to US\$188 million. As the full cost review is still ongoing, the revised total project financing envelope is yet to be determined.

Finally, a new project, Rural Water and Sanitation, is proposed for US\$50 million during 1393.

## **Infrastructure**

**FY1392:** As part of a significant overhaul of the Afghanistan power portfolio, two projects closed in March 2013 - Kabul-Aybak Mazar-e-Sharif Power project (the ARTF-financed) and the Emergency Power Rehabilitation Project (the ARTF and IDA financed), while the Power Systems Development project will be restructured and the closing date extended till July 31, 2014. The rehabilitation of the Naghlu and Mahipar hydro power plant switchyards component of this project did not contribute to the project's development objective and has experienced significant delays. It will therefore be cancelled under this

project (to be picked up by a new power project—see more below) and funds will go into additional supply work to enable the project to meet its development objective. Preparation of a new project to support further rehabilitation and implementing urgently needed safety measures for Afghanistan’s largest hydropower plant at Naghlu, is underway. A preparation grant was approved in 1392 for US\$4.97 million. The full Naghlu Hydropower Rehabilitation Project was planned for delivery in 1392, but has been delayed and will now be delivered during 1393.

In urban, two projects were planned for 1392 delivery: The Kabul Municipal Development Project (US\$100 million)<sup>6</sup> and the Kabul Urban Roads Improvement II (US\$60 million). While the two projects are on track for approval, they might be slightly delayed and are currently projected for delivery early in 1393.

The project Water Resource Development TA, implemented through Ministry of Energy and Water, closed as expected on March 31, 2013.

Finally, the Resource Corridors Project (ARCP) was planned for US\$70 million for delivery in 1392. A project preparation grant was approved in May 2013 for US\$2.7 million and is currently on track. However, the ARCP has been slightly delayed and will be delivered in 1393.

**FY1393:** The total projected allocation for Infrastructure in 1393 is US\$344 million. Following the recent assessment of the power portfolio, two projects are proposed for financing during 1393: 1) Naghlu Hydropower Rehabilitation Project II (US\$75 million); and 2) Technical Assistance for Da Afghanistan Breshna Sherkat (DABS) (US\$5 million). The two urban projects are scheduled for delivery early in 1393 for a total of US\$160 million. The Resource Corridors project is planned for delivery in 1393 at an estimated cost of \$74 million.

Finally, a new project is proposed in the infrastructure sector: CASA-1000 Community Benefits Sharing for US\$30 million. In Afghanistan, the CASA-1000 corridor is over 560 km long and traverses sparsely populated and largely agricultural areas. The CASA-1000 transmission line, to be financed by an IDA grant, will pass through over 600 communities of 23 districts in 6 provinces, where an estimated 152,000 families reside. The proposed community program aims to maximize the socioeconomic benefits of this energy investment by assisting the Government’s poverty alleviation efforts among poor and vulnerable communities along the corridor. Based on discussions held in communities, local level projects were prioritized in terms of small hydropower or solar for off-grid electricity and productive community infrastructure projects. The project will be implemented through NSP utilizing the existing implementation arrangements.

## Human Development

**FY1392:** Three projects received financing in the Human Development sector during 1392 for a total of \$104.9 million, including the new System Enhancement for Health Action in Transition (SEHAT) (US\$100 million), and a preparation grant for the Higher Education System Improvement Project (US\$4.9 million). The ARTF 1392 contribution for SEHAT was planned for US\$120 million, but since an IDA grant was signed around the same time, the first tranche was reduced to US\$100 million. Another ARTF tranche is planned for 1394. ~~NATEJA was initially planned for US\$30 million, but was reduced to US\$15 million during the review phase of the project preparation.~~ Subject to implementation progress and disbursement another US\$15 million could be allocated in additional financing at a later stage.

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<sup>6</sup> The total project value is US\$100 million. A second tranche of US\$50 million will be allocated subject to progress and disbursement rates.

**FY1393:** The total projected allocation for Human Development in 1393 is US\$190 million. Another tranche of US\$125 million was planned for 1392 for the Education Quality Improvement Project II (EQUIP II). Due to lower than projected disbursement rates, however, the US\$125 million has been delayed till 1393. The full Higher Education System Improvement Project was planned for 1392 for a total value of US\$50 million. It has, however, also been delayed till 1393. The preparation grant is on track and implementation will proceed up and until the full project is ready. Finally, the new Non-Formal Approach to Training Education and Jobs in Afghanistan (NATEJA) (US\$15 million) was planned for 1392 but was postponed till 1393 to ensure readiness.

## **Governance**

**FY1392:** In 1392 no project in the Governance sector received new financing.

**FY1393:** US\$30 million is projected for financing for the Governance sector during 1393. The US\$30 million will go towards additional financing for the Public Financial Management Reform Program II (PFM II). The future financing for Capacity Building for Results Program (CBR) is currently under assessment.

## **Recurrent Cost Financing**

**FY1392:** A total allocation of US\$300 million for FY1392 was outlined in the 1391-1393 Financing Strategy for the RCW, including (i) US\$150 million for baseline financing; (ii) US\$150 million for the Incentive Program (IP); and (iii) US\$32 million for the new O&M Facility introduced in 1392. The baseline and O&M financing was disbursed in full (US\$182 million). Under the IP a total of US\$29.3 million<sup>7</sup> was disbursed, following technical reviews. The remainder of the IP funds will carry-over to 1393.

**FY1393:** A total ceiling of US\$400 million is projected for the Recurrent Cost Window in 1393. This includes: (i) US\$125 million in baseline financing; (ii) US\$175 million for the Incentive Program; and (iii) US\$100 million for the O&M Facility. In addition to the new 1393 allocation of US\$175 million for the Incentive Program, the carry-over from the 1392 allocation will be available for Government to earn based on performance under the agreed benchmarks and subject to technical reviews. The exact amount available for carry-over is not yet clear as it depends on technical reviews planned for November/December 2013.

A new category has been added in the Financing Strategy project allocations (see table 2) to accommodate potential ad hoc donor contributions for the recurrent cost baseline financing. It is not yet known how much money would be channeled through this category during 1393.

## **Monitoring and Supervisory Agent**

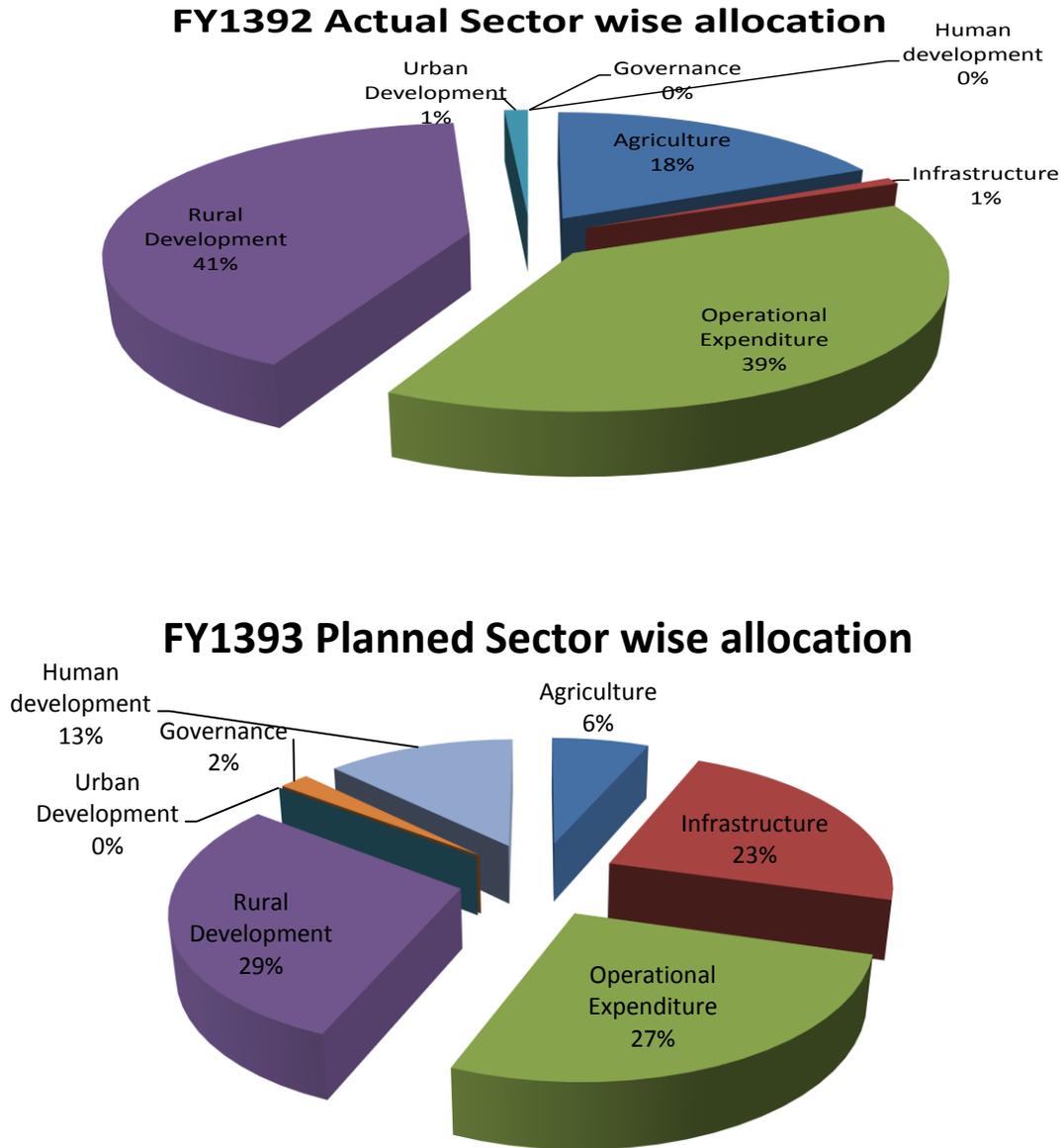
**FY1392/FY1393:** In 1392 an allocation of US\$4 million was planned for the Recurrent Cost Monitoring Agent this was slightly revised and ended up at US\$3.5 million. During 1393 the contract for the Supervisory Agent will come to an end and a new contract is therefore necessary. While the previous 3-

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<sup>7</sup> This amount is likely to increase further before the end of the fiscal year as additional technical reviews are planned.

year contract averages around US\$10 million per year, cost efficiencies will be explored for a next phase and an average cost of US\$7 million per year is projected.

Figure 2: Allocations by Sector



## ANNEX 2: NEW INITIATIVES TO ENSURE A CONTINUOUSLY STRONG ARTF

In response to the 2012 ARTF External Review several new initiatives were introduced during FY1392, especially on the communications and results agenda and operations and maintenance support. By the end of June 2013, only 9 months after the launch of the review, all deliverables agreed had been met by the ARTF Administrator.

**The ARTF Scorecard:** A Results Management Framework was agreed with donors and based on this a Communications Toolbox was introduced, outlining the various parts of ARTF communications and results reporting. Within this toolbox the new ARTF Scorecard was launched. The ARTF Scorecard is a comprehensive performance and results reporting tool informing on ARTF achievements in the context of Afghanistan. The ARTF Scorecard was first published in September 2013 to provide Government, donors and other stakeholders with a detailed outline of progress and results achieved by Afghanistan through ARTF-financed projects and programs to inform future discussions on critical development issues.

The ARTF Results Workshop was held on September 24, 2013 to facilitate a discussion between Government, Donors and the ARTF Administrator on the new ARTF Scorecard with the objective of informing future discussions on development issues as well as prioritization of ARTF funds within the framework of the Financing Strategy. Seven key issues were raised for discussion during the workshop and for final decision at the Steering Committee:

1. Focus on poverty reduction and boosting shared prosperity;
2. Prioritization of funding;
3. Alignment with National Priority Programs and use of country systems;
4. Portfolio performance;
5. Donor predictability and engagement;
6. Results monitoring;
7. Risk and risk mitigation.

For each of those issues several deliverables and actions were agreed to further strengthen the ARTF. Each issue will be further explored within the context of the ARTF working Groups, both in the short term in preparation of the 1393 Update to the ARTF Financing Strategy (to be finalized by December 2013), and in the medium term to prepare the new ARTF Financing Strategy 1393-1396 (to be finalized by December 2014). The agreed actions and deliverables are listed in further detail below.

### 1. FOCUS ON POVERTY

#### *Decisions:*

- Staying focused on the overarching goal of poverty eradication is critical as poverty levels remain high;
- The World Bank will provide and share analytical work including poverty assessment results with Strategy Group in 3 months;
- The World Bank will identify forum for sharing and discussing development issues with a wider audience, not restricted to the ARTF governance structure.

## **2. PRIORITIZATION OF FUNDING**

### *Decisions:*

- Drivers of conflict – a discussion to be facilitated on how ARTF can better address these;
- Government is preparing fragility/conflict assessment;
- Explore sector approaches, informed by experiences from education, health etc. – possible next step agriculture;
- Outline prioritization process for the Financing Strategy to identify points of engagement/influence for stakeholders.

## **3. ALIGNMENT WITH NPPS AND USE OF COUNTRY SYSTEMS**

### *Decisions:*

- Based on the ARTF NPP Alignment Index, the Bank will share experiences on alignment and NPP mapping;
- A gradual hand-over of select responsibilities to MoF will be explored, ensuring a careful alignment of capacity with donor expectations.

## **4. PORTFOLIO PERFORMANCE**

### *Decisions:*

- Bank to brief donors following Portfolio Performance Review in November-January;
- Identify high performers and positive lessons to replicate in other projects/sectors;
- The World Bank will continue sharing results from analytical work with donors, specifically on service delivery binding constraints;
- Focus on supervision challenges and how to further strengthen this area, including sustainability in use of third party monitoring agents.

## **5. DONOR PREDICTABILITY AND ENGAGEMENT**

### *Decisions:*

#### Funding Predictability:

- Donors are potentially using ARTF as leverage for government performance;
- Donors to prepare thoughts on ARTF resilience, and the World Bank to provide analytics, to ensure the strengths of the ARTF are not at risk as a result of being used as leverage.

#### Donor engagement:

- The World Bank will draft a guidance note on donor engagement under the ARTF to share with the Strategy Group for discussion, including donor participation in the project design phase and implementation support missions;
- The World Bank is to disseminate more information on lessons learned from projects;
- The Strategy Group will review project level reporting from line ministries to make recommendations on the types of reporting;
- The World Bank will share experiences on monitoring and supervision approaches;
- The agendas for the Steering Committee and the Strategy Group will be discussed to ensure a focus on substantive development issues;
- The meeting details and agenda for the Gender Working Group will be circulated quarterly to provide upfront planning and include HQ participation.

## **6. RESULTS MONITORING**

### *Decision:*

- The World Bank will do further work to aggregate data at thematic level and across portfolio;
- Gender results monitoring will be scaled up to include more disaggregate data and categorization of projects, establishing what project should/should not be required to develop gender disaggregated data;
- The World Bank will continue working on outcome level data and explore in particularly impact under the Incentive Program;
- A summary of the ARTF Scorecard will be translated into Dari and Pashto and shared with stakeholders, including civil society representatives.

## **7. RISK AND RISK MITIGATION**

### *Decision:*

- Based on the ARTF Risk Matrix presented in the ARTF Scorecard, the World Bank will continue to focus on risks and opportunities.

### **ANNEX 3: THE ARTF RESEARCH AND ANALYSIS PROGRAM – AN UPADTE**

The Steering Committee approved the establishment of the ARTF Research and Analysis Program (RAP) on April 6, 2013. The objective of the RAP is to facilitate and promote evidence-based policy-research and knowledge consolidation through project-based and selected sector-wide/thematic research.

The Steering Committee agreed that the RAP would draw from three existing funding sources: (i) ARTF fee income; (ii) a multi-donor trust fund (evolving from the existing AusAID supported MDTF “Afghanistan Technical Assistance to Strengthen Service Delivery at Community Level); and (iii) analytic work funded through individual ARTF-financed projects. With the restructuring under way and the Trust Fund soon open for new contributions, financing of the ARTF’s research and analysis program has begun with ARTF Fee income and project related funds. The RAP’s current work program includes the Afghanistan Agriculture Sector Review, the Afghanistan Urbanization Review, Governance Studies, Poverty Analysis, and support to project Impact Evaluations across the ARTF portfolio.

The first results from the RAP will be available with the release of the Agriculture Sector Review, and the Sub-National studies, focusing on constraints to service delivery, in the spring 2014.

The RAP is expected to be of instrumental importance in assisting Afghanistan throughout the transformation decade. Whether it is through just-in-time products or multi-year sector reviews, the ARTF’s RAP will be of significant importance in shaping ARTF projects and ARTF related policy decisions. The shortage of reliable data and of technical analytical capacity increases the need for international engagement in this area. The RAP will allow the scaling up of donor financed research to be applied, monitored and utilized more systematically. The RAP will have a particular focus on multi-year project impact evaluations to increase the body of evidence based knowledge and inform policy decisions and project designs.

Analytical work in Afghanistan is time and resource intensive. Only with sufficient donor support will the ARTF RAP be able to scale up applied research systematically and help the Government and donors improve the delivery of assistance and services to the citizens of Afghanistan.

The RAP will be managed within the existing ARTF governance structure and priorities for funding discussed within the broader framework of the ARTF Financing Strategy to ensure alignment.

As outlined in the RAP paper, endorsed by donors in April 2013, there will be three financing sources for the RAP: (i) ARTF fee income; (ii) a multi-donor trust fund (evolving from the existing AusAID supported MDTF “Afghanistan Technical Assistance to Strengthen Service Delivery at Community Level: Post-Conflict Development in Afghanistan); and (iii) analytic work funded through individual ARTF-financed projects. The Administrator proposes that the World Bank from ARTF fee income increases its analytic budget for project, sector and thematic studies to the order of US\$2-3 million per annum. Meanwhile donors contribute through the Afghanistan Technical Assistance to Strengthen Service Delivery at Community Level: Post-Conflict Development in Afghanistan around the same level, e.g. totaling US\$2-3 million per annum from donor contributions (amounting to about 0.2-0.3% of their ARTF contributions).

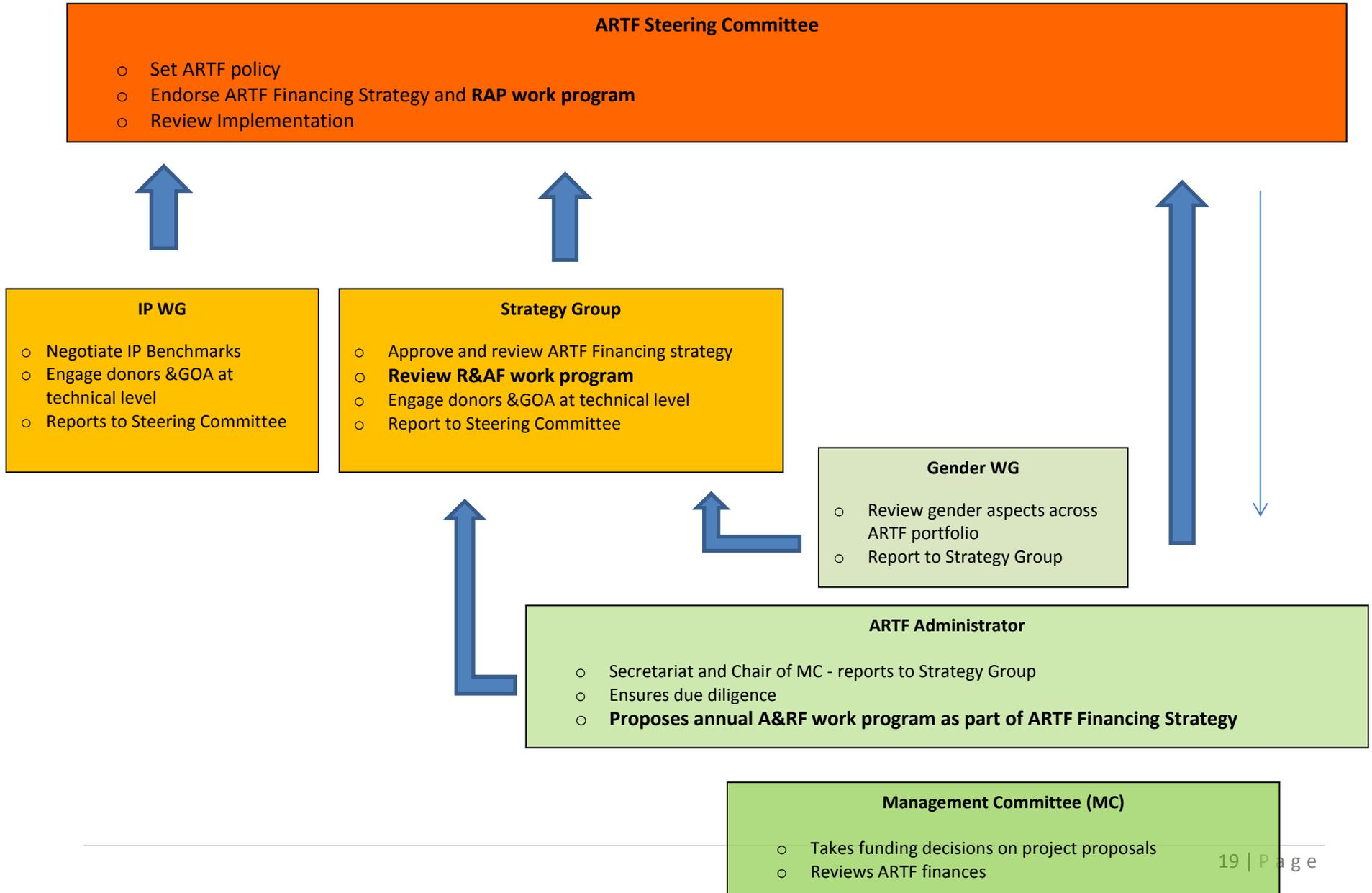
Analytical activities carried out by the World Bank cannot be funded directly from the ARTF due to the way the trust fund was initially set up. The cost structure of the ARTF does not allow for “Bank executed” activities – a rule that cannot easily be amended. Thus, other possible funding sources have been identified. In advance of the new Financing Strategy to cover 1394 to 1396, the possibility of

amending the set-up of the ARTF to allow for financing of Bank executed analytical activities will be explored.

**Table 1: RAP PIPELINE**

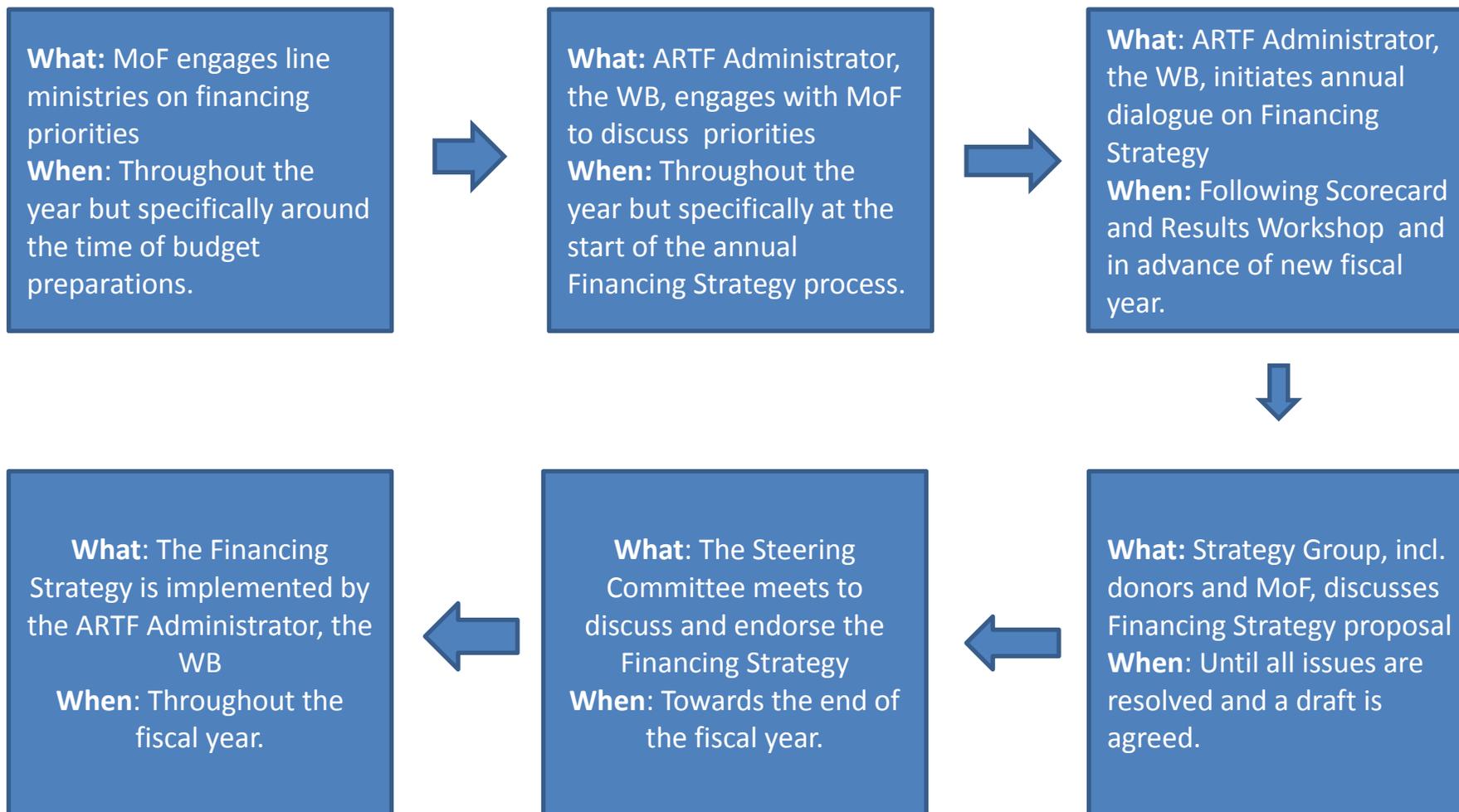
	FY14	FY15	FY 16
<b>Sectoral Studies</b>			
<b>Agricultural Sector Review</b>	400.000		
<b>Sub-National Governance and Service Delivery</b>	400.000		
<b>Poverty, Policy &amp; Evidence</b>	200.000	200.000	
<b>Urban Study</b>	300.000	200.000	200.000
<b>Project Evaluations</b>			
<b>NSP</b>	300.000	300.000	
<b>Project A2F</b>	200.000	300.000	300.000
<b>NATEJA</b>	200.000	300.000	300.000
<b>Additional project</b>		200.000	300.000
<b>Additional project</b>		200.000	300.000
<b>Additional project</b>			200.000
<b>Total</b>			

## ANNEX 4: ARTF Governance Structure



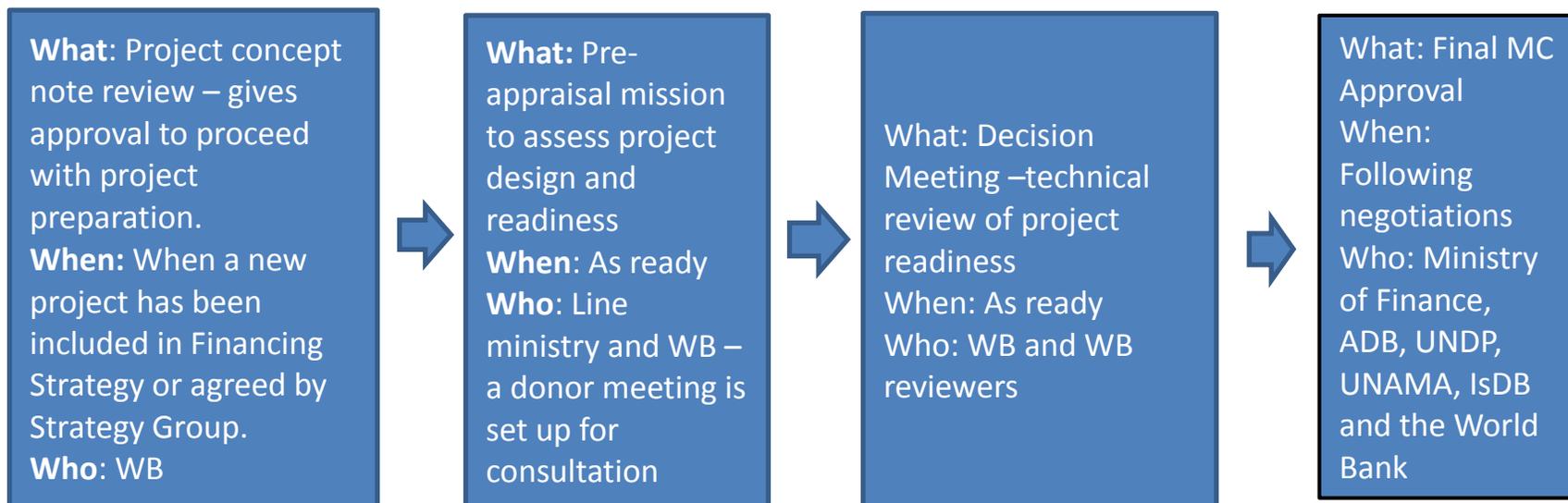
ANNEX 5: POINTS OF DONOR ENGAGEMENT – ARTF FINANCING STRATEGY

Process



**ANNEX 6: POINT SOF DONOR ENGAGEMENT – PROJECT DESIGN AND APPROVAL AND IMPLEMENTATION**

**Project Approval Process –  
Points of Engagement**



**Implementation – Points of  
Engagement**



\* Projects of high interest to donors are included in a special project category, which results in additional technical meetings with donor participation.