# Evaluation of the Afghanistan Reconstruction Trust Fund

## Recurrent and Capital Cost Operation

**Acknowledgements**
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# Executive Summary

## What was the Recurrent and Capital Cost Operation?

**The Recurrent and Capital Cost Operation ("the Operation") was the core program delivering recurrent cost support to the Government of the Islamic Republic of Afghanistan ("the government") under the Afghanistan Reconstruction Trust Fund (ARTF).** The Operation was established in 2002 to help finance the newly established government as it struggled to establish state functionality and service provision in the absence of basic revenue systems. Between 2002 and 2018, the Operation disbursed more than US$5 billion, financing an annual average of 36 percent of government's civilian recurrent costs.

**The Operation was intended to achieve two central objectives.** The Operation was prepared amid challenging and fluid circumstances during the early stages of reconstruction efforts and was used to respond flexibly to a range of evolving needs. In broad terms, the Operation was intended to: i) support the development of core state functions in the immediate post-conflict context, leading not only to improved service delivery, but also to the establishment of state legitimacy; and ii) support progress towards fiscal sustainability, allowing government to escape reliance on recurrent cost support from international partners.

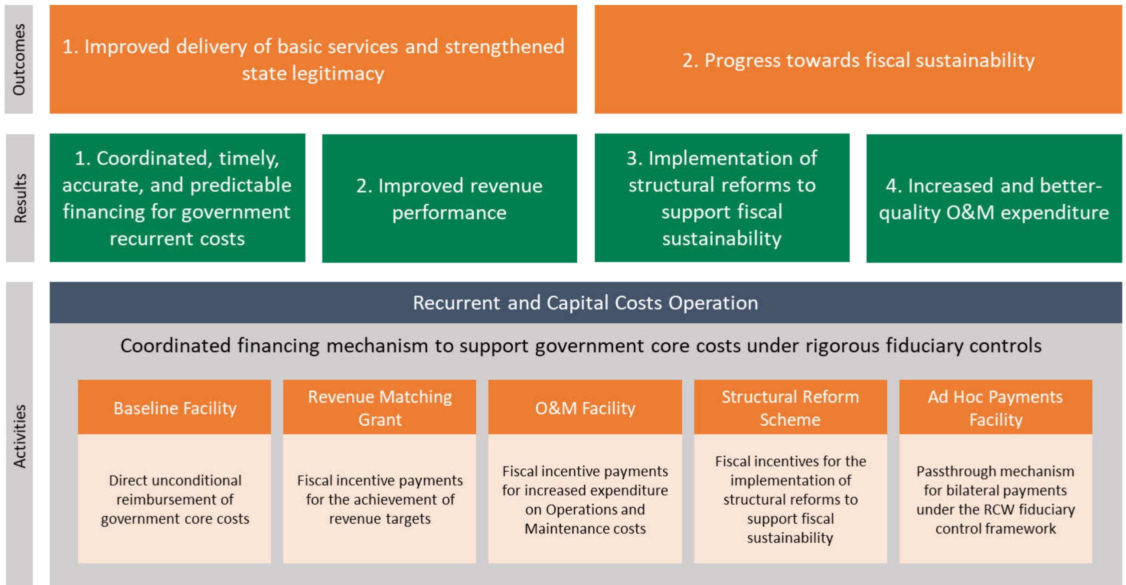
**Outcomes were to be achieved through a range of activities under different components and mechanisms.** Through establishing a financing window under the ARTF multi-donor trust fund with strong fiduciary safeguards in place (including sophisticated third-party monitoring arrangements), the World Bank intended to allow donors to provide coordinated support to government recurrent costs. Under this overarching framework, the design of the Operation evolved over time and in response to rapidly changing country circumstances and development needs. The Operation was extended several times, reflecting the need for continued recurrent cost support in the context of a continued gap between expenditure needs and revenue collections, largely reflecting high security sector expenditures. The Operation moved progressively from providing core recurrent cost support with minimal conditionalities towards incentivization of policy and institutional reforms for fiscal sustainability.

- **The Baseline Facility operated through the duration of the Operation and was intended to provide predictable and timely financing support to the government budget.** Recurrent cost support under this mechanism was not subject to any policy or results-based conditionality, with the intention of providing a secure source of funds through which to meet basic operating expenses.

- **The Incentive Program was intended to incentivize action on behalf of government in pursuit of fiscal sustainability goals.** Introduced from 2009, the three mechanisms of the Incentive Program (the Revenue Matching Grant, O&M Facility, and Structural Reform Scheme) were intended to both: i) accelerate progress towards fiscal sustainability by strengthening incentives facing government for the implementation of key reforms; and ii) provide assurance to partners that aid resources were being used to drive sustainable change with a clear exit strategy.

- **The Ad Hoc Payments Facility was intended to accommodate partners' needs for a flexible funding mechanism, while still providing a basic coordination function.** Introduced in 2014, the Ad Hoc Payments Facility was essentially a pass-through mechanism. It allowed partners to channel their resources through government systems and under the Operation's fiduciary safeguard systems even when making their own disbursement decisions and designing and implementing their own policy-based programs.

**Figure: Operation Objectives and Intervention Logic**




*Source: Evaluation Team*

**From 2017, the World Bank moved to close the Operation and replace it with a range of new projects using standard World Bank instruments.**[1] The Baseline Facility and Incentive Program were closed in 2018, followed by the closure of the Ad Hoc Payments Facility in 2019. This allowed for the closure of the Operation, which made its last disbursement in June 2020. With the closure of the Operation, this evaluation is intended to assess its impacts and present lessons for the design of similar Operations in Afghanistan and internationally.

**The evaluation is structured around an ex-post intervention logic and utilizes a range of data sources.** The evaluation does not follow the standard structure for a World Bank Implementation Completion and Results Report. This reflects the unique structure of the operation and the absence of an ex ante results framework. Rather, the evaluation is based on an ex post intervention logic developed by the evaluation team and presented above. Not all aspects of this ex post framework applied throughout the life of the operation, with different objectives given different weights at various times in response to changing country circumstances. The evaluation was undertaken throughout 2020, and drew on: i) interviews with relevant staff of the World Bank, government, and development partners; ii) a range of program documentation, including Board documents, ARTF strategy documents, meeting minutes, and Implementation Status Reports (ISRs); and iii) a broad range of data collected from the World Bank, Ministry of Finance, and various publicly available databases.

[1] While using innovative designs reflecting lessons learned from the experience of the Operation, the current series of Incentive Program Development Policy Grants are fully consistent with World Bank policy for Development Policy Financing and can therefore be considered a 'standard instrument'.

## Were the objectives and design appropriate?

**The objective of providing a mechanism for coordinated aid financing in support of core government functions was highly appropriate.** The objective reflected the need to avoid common problems of aid coordination and fragmentation observed in fragile state settings. These risks could be mitigated by allowing coordinated on-budget support through a single mechanism with strong fiduciary safeguards in place.

**The objective of supporting progress towards fiscal sustainability over time was also appropriate.** The fiscal sustainability objective was highly relevant given: i) risks that continued provision of high levels of unconditional grant support would mute or soften incentives for government to develop its own revenue-generation capacities; and ii) service delivery and institutional strengthening gains would not be sustainable if government operations continued to be entirely reliant on international grant support.

**The use of a flexible and evolving combination of unconditional baseline support and incentivized mechanisms was appropriate.** The Operation design utilized an innovative range of mechanisms that balanced: i) the need for predictable and timely recurrent cost support; and ii) the need for rapid progress with reforms towards fiscal sustainability. The use of a variety of mechanisms, specific features of those mechanisms, and the capacity for available resources under the Operation to be moved between mechanisms provided strong incentives for accelerated reform while not exposing government to excessive fiscal risks in the event that conditionalities could not be met.

**Policy actions supported under the Structural Reform Scheme were mostly relevant to country challenges and objectives of the Operation.** Supporting a broad range of reforms under the Structural Reform Scheme was generally appropriate, given the breadth of challenges to achieving fiscal sustainability over the period of the Operation. However, some reforms were only tenuously linked to fiscal sustainability objectives. A slightly narrower and less-ambitious program of policy actions may have been warranted.

**The Ad Hoc Payment Facility was a pragmatic but partial solution to coordination challenges.** To the extent that funding through the Ad Hoc Payments Facility was channeled through the ARTF and provided on-budget, the mechanism supported the objective of coordinated financing for government core costs. However, because conditionalities and disbursement decisions were managed separately by individual partners, the AHP facility weakened the capacity of the World Bank to ensure predictability and timeliness in recurrent cost payments.

## Did the Operation deliver expected results?

**The Operation was broadly successful in providing coordinated, timely, accurate, and predictable financing for government recurrent costs.** The Operation was highly successful in providing a source of coordinated financing, with a substantial proportion of total civilian aid provided through a single project. Financing was provided in a timely and predictable manner, with disbursements generally stable across years, and reaching or exceeding government budgeted levels. Due to the use of the sophisticated fiduciary control systems, assurance could be provided to partners that fiduciary risks were being managed and expenditures financed through the Operation met World Bank eligibility criteria.

**The Revenue Matching Grant helped incentivize strong revenue performance.** The Revenue Matching Grant provided strong incentives for improved revenue performance. Rapid revenue growth over the period of the

Operation years triggered large disbursements in some years. The Revenue Matching Grant led to intensive policy dialogue between government, the World Bank, and Partners on revenue performance and reform priorities. While attribution is difficult to confirm, it is likely that the Revenue Matching Grant had a positive impact on revenue performance.

**The O&M Facility did not incentivize increased or better-quality O&M expenditure.** The O&M Facility was intended to incentivize increased O&M expenditure through reimbursing government O&M expenditure above a specified target. The mechanism was not successful, with Government O&M spending declining over the period of the Operation. Planned improvements in O&M quality and monitoring were not delivered, partly due to the absence of planned technical assistance support.

**The Structural Reform Scheme drove a range of critical reforms that supported fiscal sustainability.** The Structural Reform Scheme provided incentive payments to Government against the completion of critical reforms related to fiscal sustainability. The scheme was generally successful, with only two of 83 policy action never completed. Most supported policy actions had tangible on-the-ground impacts, reflecting the inclusion of critical implementation steps and the presence of accompanying technical assistance support. Only one supported policy action has been reversed. Examples of successful reform processes supported by the Structural Reform Scheme and with World Bank technical assistance through project engagements included:

- **Development and implementation of the customs reform plan**. As a result of supported reforms, a preventive and enforcement wing was established, with a clearly defined mandate and appropriate structure and training. Critical HR reforms were pushed through expanding the use of competitive appointments, increasing training, and curtailing corrupt lateral entry practices.

- **Simplification of business licensing.** As a result of supported reforms, the business licensing system was unified. Fees for business licenses were reduced very significantly, while the period of validity was extended from one year to three years. Digitization and simplification of procedures further eased the administrative burden on businesses.

**The Ad Hoc Payments Facility, on balance, likely contributed to aid coordination objectives.** Payments through the Ad Hoc Payments Facility were less predictable, less timely, and weakly coordinated with overall Operation objectives. In the absence of the Ad Hoc Facility, however, partners may have channeled increased resources to off-budget projects, exacerbating coordination challenges further, while rendering those resources unavailable for the support of core on-budget programming. Alternatively, partners may have established entirely new on-budget modalities, with their own fiduciary controls and monitoring frameworks, leading to duplication and an increased compliance burden for government.

## Was governance and supervision adequate?

**Supervision by the World Bank and ARTF partners was adequate.** Governance and supervision of the Operation was tightly integrated with overall ARTF governance structures. Strong fiduciary oversight was a critical success factor in attracting partner resources. The Incentive Program Working Group became a critical joint oversight mechanism between government, donors, and the World Bank, while also serving as a valuable forum for policy dialogue around economic reform issues. The World Bank maintained strong continuity in management of the operation despite a difficult security situation and generally high staff turnover. From 2013, however, important mismatches emerged between the complexity and ambition of the operation and the capacity of the World Bank to ensure adequate in-country oversight presence, in the context of a deteriorating security environment. Supervision may have been strengthened by moderating the complexity of the operation to better fit the security context.

**Government exhibited strong ownership of the Operation, but the quality of supervision varied over time.** Government ownership was demonstrated by: i) active use of the Operation to drive complex and ambitious reforms; ii) very limited evidence of policy reversals; and iii) strong willingness of government officials to participate in the program. Despite this, the Ministry of Finance struggled at times to monitor program implementation and coordinate the effective and timely completion of policy actions. This reflected: i) frequent turnover of leadership staff within the Ministry of Finance; ii) internal conflicts over program responsibilities; and iii) the introduction of parallel policy-based support programs by other partners, which magnified coordination and implementation challenges.

## Did the Operation achieve expected outcomes?

**The Operation made a critical contribution to rapid expansions in service delivery over 2002-2018.** Especially during early years, the Operation played a central role in channeling partner aid flows to establish basic government functionality, with disbursement in some years financing up to 75 percent of civilian recurrent costs. Fiduciary safeguards ensured that resources were used for intended purposes and provided necessary assurance to sustain very high levels of partner support. The establishment of basic government functions underpinned some of the fastest improvements in social outcomes observed across low-income countries.

**Figure: Service delivery outcomes**

| | 2003 | 2007 | 2017 |
|---|---|---|---|
| Life expectancy at birth, total (years) | 56.0 | | 64.0 |
| Births attended by skilled staff (% of total) | 12.0 | | 52.0 |
| Mortality rate, under-5 (per 1,000 live births) | 129.0 | | 63.0 |
| Access to prenatal care (%) | | 32.8 | 80.0 |
| Full Immunization rate (% of children ages 12-23 months) | 27.0 | | 60.0 |
| Literacy rate, age 15yrs and above | | 25.0 | 43.8 |
| Net attendance ratio in primary education (%) | 43.3 | | 76.0 |
| Girls to boys, age 6-12 years, enrollment ratio (%) | | 0.7 | 0.7 |
| Access to improved drinking water (% of households) | | 27.2 | 36.9 |
| Access to improved sanitation (% of households) | | 5.2 | 41.1 |
| Access to electricity (% of households) | | 41.1 | 97.7 |

*Source: World Bank Development Indicators and NRVA, 2007-8 and 2016-17*

**Success in supporting the delivery of services and improving social outcomes did not translate into strengthened state legitimacy.** Despite gains in service delivery, Afghanistan remains a fragile state. According to most available indicators, Afghanistan has made little progress in building state legitimacy over the period of the Operation. Conflict intensity remains at record levels. Given the importance of broader political, structural, social, and regional drivers of contestation and conflict in Afghanistan, it would not be realistic to expect that the Operation could have significantly impacted overall state legitimacy. In the absence of a counterfactual scenario in which the Operation was not implemented and service delivery expansions did not occur, it is difficult to assess whether the Operation made any positive contribution to state legitimacy. Some positive contribution is certainly possible given the breadth of coverage and very tangible local impacts of the national on-budget programs that the Operation helped to finance.

**The Operation contributed significantly to improved fiscal sustainability.** Partly due to reforms supported by the Operation, Domestic revenues grew significantly from 3.4 to 12.4 percent over the program period, reaching a new high of 14.1 percent in 2019 (close to average revenue-to-GDP ratio for low-income countries). As government revenues have increased, reliance on external aid has decreased from an all-time high of 96% of GDP in 2012 to 42% in 2019. With rapid growth in government revenues, fiscal deficits have remained tightly contained, avoiding significant accumulation of public debt.

**Overall, however, fiscal sustainability is yet to be fully achieved.** Government continues to rely on grants to finance 50 percent of the budget. Grants finance 75 percent of total public expenditure, including 90 percent of security expenditure. In this context, overall fiscal sustainability remains heavily dependent on grant support. It should be noted, however, that this is largely due to the high costs of the security sector, with revenues exceeding recurrent civilian expenditures since 2009. Full fiscal sustainability is unlikely to have ever been achievable in a context where security costs remain uniquely high and disproportionate to the size of the economy.

## What lessons were learned?

**Recurrent Cost Support:**

- **Coordinated provision of unconditional budget support can be of critical importance in immediate post-conflict contexts.** Provision of coordinated recurrent cost support provided a valuable alternative to fragmented budget-support programming or individually managed investment projects. In the absence of the Operation, uncoordinated aid flows would have been likely to overwhelm scarce government capacity and contribute further to daunting aid coordination problems.

- **Third-party monitoring can provide vital safeguards in weak-governance environments.** Third-party monitoring arrangements facilitated contributions of recurrent cost financing by ARTF partners by providing necessary assurance that fiduciary risks were being adequately managed. Providing such assurance would not have been possible using only core government fiduciary control and expenditure management frameworks, given the nascent state of relevant institutions in the immediate post-conflict context.

**Incentivization of Policy Reforms:**

- **Utilization of partial, time-based disbursement mechanisms can help to incentivize reform while managing fiscal risks.** Disbursing against completion of individual reform actions rather than completion of the overall reform program helped manage fiscal risks in a context where government was heavily dependent on disbursements under the Operation, but also faced constraints to timely completion of reforms typical of fragile, low capacity, and politically volatile environments. The discounting mechanism further helped manage risks by expanding opportunities for government to access at least some proportion of allocated funds even when facing implementation delays.

- **Taking a medium-term programmatic approach and incentivizing a combination of policy reforms and implementation measures can help avoid superficial or 'paper based' reforms.** The Structural Reform Scheme incentivized a combination of upstream policy and legal reforms (framed as policy actions) and concrete implementation measures over a medium-term horizon. This approach was extremely helpful ensuring that upstream policy and institutional reforms were enacted on the ground, in a context where substantial gaps between policies and laws and actual practices are often wide.

- **Monitoring progress against previously incentivized reforms should be a critical element of program management.** It may be useful to establish and maintain a unified database of reforms supported under policy-based programs managed by all partners. Regular monitoring of continued effective implementation of previously supported policy reforms by technical teams may help mitigate risks of policy reversal or repeated incentivization of the same reform actions.

- **Policy reform implementation is best supervised by a dedicated government team**. Implementation of reforms supported by the operation was most effective when managed by a Ministry of Finance team with adequate capacity and clear responsibilities. There may be value in government re-establishing a dedicated unit to take responsibility for coordination of policy actions across government agencies and across multiple budget support and other donor incentive programs, facilitating donor coordination and harmonization of conditionalities.

**General:**

- **Establishing a clear development objective, intervention logic, and results framework may have helped with assessing progress and recalibrating assumptions over time.** Flexibility and responsiveness to country circumstances was a critical success factor for the Operation. In some respects, however, implementation and evaluation were negatively impacted by the absence of a clear ex ante results framework and intervention logic. A clear intervention logic and results framework would have: i) helped ensure that all instruments and supported policy reforms were closely aligned to operational objectives; ii) allowed for periodic tracking of progress and course correction; iii) allowed for a more comprehensive and systematic evaluation of a major program; and iv) allowed the team to resist pressures from various stakeholders to add program instruments and policy reforms that were not aligned with project objectives. Utilization of an adaptive programming approach with a well-documented but regularly revised results framework and intervention logic may have achieved these objectives without unduly constraining flexibility and responsiveness.

- **Realism is required regarding the achievability of state-building objectives.** Various documentation reflected an assumed direct and unproblematic relationship between financing service delivery and increased state legitimacy. Future operations may benefit from a clearly articulated, more sophisticated, and empirically verified intervention logic between service delivery and state-building goals. Operation design and the specification of objectives should reflect a more-realistic assessment of the likely limited impact of service delivery and policy reforms on overall governance outcomes and private sector investment in very fragile environments.

- **Realism is required regarding fragility risks to program objectives.** The complexity and ambition of the Operation design and supported reforms was not always well-matched to the security and governance context. The Operation may have been strengthened through: i) explicitly articulating assumptions regarding future political and security conditions; ii) reflecting these assumptions in a clear intervention logic; and iii) periodically testing these assumptions against actual developments and revising program design and intervention logic accordingly.

# 1. Introduction

## 1.1. Purpose of the evaluation

**The international community established the multi-donor Afghanistan Reconstruction Trust Fund (ARTF) in 2002 to support the emergence of a functional Afghan state.** The ARTF quickly grew into the largest multi-donor trust funds administered by the World Bank. By early 2020 donor contributions to the ARTF had reached more than $12 billion.

**The ARTF provided on-budget financial support through two main windows.** The Investment Window (IW) financed discrete investment projects, with each project prepared and implemented in accordance with the World Bank's standard operational and fiduciary guidelines. The Recurrent Cost Window (RCW) provided a funding mechanism through which ARTF partners could help finance core operating costs of government under a single, unique and flexible project: The Recurrent and Capital Costs Operation ("the Operation"). A range of unique financing instruments were utilized under the Operation, providing an evolving combination of unconditional and 'incentivized' support to the government budget through a specifically designed system of fiduciary controls. Between 2002 and 2019, more than US$5 billion was disbursed, with disbursements under the Operation financing a significant share of government's total civilian costs.

**This report evaluates activities under the Operation from its establishment in 2002 to its phase-out from 2018.** This evaluation covers all instruments utilized under the Operation and discusses its design, implementation, and results. The evaluation presents key lessons for World Bank and partner engagement in Afghanistan and other fragile states.

## 1.2. Evaluation approach

**The evaluation is strategic and broad-brush, given the scope and duration of the Operation**. The evaluation focusses on assessing the program's design, outputs, management, and outcomes (Figure 1). The evaluation provides an overall assessment of the incentive-based mechanisms utilized under the RCW, including high-level assessment of the impact and sustainability of supported reforms. Due to space and time constraints, the evaluation does not provide a detailed assessment of the impacts of all reform processes supported under the Operation.

**In order to facilitate the assessment, a logical intervention framework was retrospectively developed**.[2] The program was established under a World Bank Board document which outlined the

[2] Following trust fund reforms in 2008, which subjected the Operation to the same oversight and monitoring requirements as regular bank operations, the team was required to prepare regular Implementation Status Reports (ISRs). To comply with system requirements and templates for ISRs, a PDO was retrospectively specified and a basic set of results indicators were identified and reported against in internal Bank systems. The results framework, however, was not subsequently updated to reflect changes in operation design, and the full breadth of operational objectives were not reflected in the PDO included in the ISRs.

rationale for engagement, the institutional set-up of the ARTF including the RCW, and its purpose. The Board document, however, did not articulate a full results framework. This reflected the explicitly adaptive and responsive intended nature of the ARTF in a dynamic and rapidly changing circumstance. To provide a framework for this evaluation, a basic intervention logic has been retrospectively developed drawing from a range of program documents, which is presented in section three.

**The analysis draws heavily from existing program documentation and stakeholder interviews**. The evaluation draws on Board documents, Interim Status Reports (ISRs), memorandums of understanding signed between government and the World Bank, minutes of meetings, technical verification reports, regular reports submitted to the ARTF governance bodies, and ARTF strategy documents. The evaluation also draws on interviews with World Bank staff, government officials, and representatives of ARTF donor agencies who worked on the RCW over different periods. The analysis of outputs and outcomes builds on data collected from the World Bank, the Ministry of Finance, and various additional publicly available databases and surveys. Information presented in previous evaluations of the ARTF (including the 2005, 2008, 2012 and 2017 external reviews) has also been utilized. Dates reference the Gregorian calendar and the quantitative analysis is conducted predominantly in US dollars using current prices.

## 1.3. Report structure

**This report is divided into eight sections.**

- **Section two of this report provides a brief overview of the context in which the RCW was implemented.** The section describes major political, economic, and security developments that impacted design and implementation. The section also discusses relevant developments in World Bank approaches to engagement in fragile states and management of trust funds.

- **Section three presents the objectives and design of the RCW.** The section also presents a basic inferred intervention logic for the Operation, which is used to structure the evaluation.

- **Section four assesses the relevance of the Operation's objectives and design to the country context and development challenges.** The section discusses: i) relevance of objectives; ii) relevance and appropriateness of the various instruments employed under the Operation; and iii) relevance of policy actions that were supported under the Structural Reform Scheme of the Operation.

- **Section five assesses whether instruments under the Operation delivered expected intermediate results.** The section assesses whether the Operation: i) provided coordinated, timely, accurate, and predictable financing for government recurrent costs; ii) drove improved revenue performance; iii) drove implementation of PFM and private sector reforms; and iv) drove increased and better-quality O&M allocations and expenditures.

- **Section six assesses program governance and supervision.** The section discusses the adequacy of governance and supervision of the Operation on behalf of the World Bank in its capacity as ARTF administrator. The section also assesses government performance in supporting program implementation.

- **Section seven assesses whether the Operation achieved its overall outcome objectives.** The section assesses the contribution of the Operation towards: i) improved delivery of basic services and state legitimacy; and ii) fiscal sustainability. The section also discusses whether the Operation had additional positive or negative outcome-level impacts.

- **Section eight presents lessons learned.** The section presents lessons both for the design and implementation of similar future operations in Afghanistan and in other similar contexts.

# 2. Context

*This section outlines: i) the most salient aspects of the evolving country context over the period of the Operation; and ii) relevant changes in the World Bank institutional context that drove programming decisions over the period.*

## 2.1. Country context

Afghanistan's country context during the implementation of the ARTF Operation can be divided into four distinct phases:

**2002-2003: Emergence from Conflict and Establishment of ARTF**

- **Absence of basic state institutions:** Protracted conflict had exacted an enormous human toll in terms of deaths, injuries, displacement, and disability. Most of the population was illiterate, untrained, and lived in abject poverty. Key physical infrastructure was largely destroyed, due to both conflict and inadequate maintenance. The Afghan economy was reeling amid severe drought, with economic activity dominated by the informal and illicit sectors.

- **Lack of service delivery systems and critically low revenue**: Civil service structures and government bureaucracy were virtually non-existent, with only a small body of inadequately trained and equipped public service staff. The international community quickly recognized that state building objectives could only be achieved through supporting the capacity of the state to directly pay civil service staff, implement public infrastructure projects, and provide basic service delivery. With eroded state institutions and a decimated economy, immediate options for revenue generation were tightly constrained. Direct provision of budget support assistance to the government was similarly constrained by the absence of basic financial management systems and controls, including a budget process. In response to this situation, the international community established the Afghanistan Reconstruction Trust Fund (ARTF) in 2002 to provide a coordinated mechanism for financing core government activities under appropriate financial controls and oversight mechanisms.

**2004-2009: Post-Conflict Reconstruction**

- **Substantial political and economic progress:** Following the ratification of a new Constitution in 2004 the government made significant headway in strengthening public administration and rebuilding service delivery systems. GDP growth reached an average of 9.2 percent between 2003 and 2009. GDP per capita increased significantly from US$186 in 2002 to US$460 in 2009. Growth was primarily driven by foreign civilian and military aid which steadily increased from US$1.9 billion in 2003 to US$11.2 billion by 2009 (roughly 90% of GDP), felling public and private consumption. Rapidly increasing aid resources were used to establish functional service delivery systems, driving rapid improvement in social indicators such as life expectancy, maternal mortality, and school enrollment.

- **Impressive transformation of pubic financial management systems**: Budget expenditures grew from US$310 million in 2003 to US$2.6 billion in 2009 as systems for expenditure management were progressively strengthened. Domestic revenue increased from 3.3 percent to 10.4 percent of GDP during the same period, reflecting progress with rehabilitation of tax and customs administrations.

- **Emergence of critical development challenges - insecurity and corruption**: In 2005 Taliban factions regrouped and started localized guerrilla warfare against the NATO-led International Security Assistant Force (ISAF) and the Afghan government, increasingly gaining control of southern parts of the country. At the same time corruption, propelled by an increasing influx of military and civilian aid, became increasingly entrenched within the public administration but particularly within the sub-national administrative offices, the national police, the judiciary, and in land administration.

**2010-2014: Taliban insurgency and Transition Process**

- **Deteriorating security environment and peak levels of external support:** By 2010, Afghanistan was facing a full-fledged insurgency. Civilian casualties rose to a new high of 2,800 as the Taliban strengthened their military operations and expanded their geographical reach. More than 100,000 NATO troops were stationed in Afghanistan, supporting the fight against the on-going insurgency and assisting in building and training a national defense force. Security and civilian aid peaked in 2010/11 at approximately US$15.7 billion, equivalent to 97% percent of GDP, making Afghanistan one of the most aid-dependent countries in the world.

- **Kabul Bank Crisis:** in 2010, Afghanistan's largest private bank – the Kabul Bank – collapsed after losing the bulk of its deposits to theft and fraudulent lending—all of the latter directly or indirectly to insiders and political beneficiaries. The crisis entailed losses of around US$1 billion, which had to be absorbed by the Afghan government. The crisis strained relationships between government and development partners and led to increased emphasis on anti-corruption efforts.

- **Beginning of transition process**: In order to ensure a path toward self-reliance, the government of Afghanistan, and NATO partners agreed on a gradual handover of security responsibilities to be completed by end-2014. Transfer of security responsibilities was expected to coincide with anticipated presidential elections in 2014, with most commentators expecting a change in administration to lead to reduced corruption and an acceleration of reform progress.

- **Rising uncertainty and economic decline:** Disruptions during the lead-up to elections (which were delayed several times) led to near paralysis of the executive during 2013 and 2014, resulting in a large backlog of reforms which undermined private sector confidence. Meanwhile the security situation in Afghanistan continued to worsen and new security threats (such as Daesh) emerged. As a result, economic growth declined significantly to 3.7 and 2.0 percent in 2013 and 2014. Weak growth and lack of investment fed into higher unemployment and poverty.

- **Fiscal Crisis**: Revenues declined drastically from 11.7 percent of GDP in 2011 to 8.5 percent in 2014, partially due to the weakening economy but also due to increasing governance vulnerabilities in revenue agencies. At the same time expenditures increased, reflecting higher security spending and a near doubling of social transfers. By 2014 the situation had become unsustainable, with arrears reaching $500 million. In order to manage fiscal pressures government implemented expenditure controls, drew down cash reserves, and mobilized exceptional donor assistance.

**2015-2019: Troop Drawdown and Political Reorientation**

- **Political instability and worsening security:** The outcome of the 2014 elections were contested, leading to an extended period of administrative disruption as a power sharing agreement between the leading presidential candidates was negotiated. The existence of parallel bureaucracies under both leaders exacerbated coordination problems, with appointment and policy decisions at every level subject to contestation and bargaining. Abrupt, unpredictable, and sometimes drastic changes in policy directions over the following years weakened confidence and private investment, especially in Afghanistan's emerging mining industry. Meanwhile civilian casualties increased to more than 10,000 in 2018.

- **Further economic decline:** With further reductions in the number of international troops, grant flows decreased to 45 percent of GDP in 2018. Reduced aid and a smaller international security presence led to a rapid weakening of demand, especially in construction and other service sectors, with flow-on impacts across the economy. Economic growth averaged 2.4 percent between 2014-2019. With economic growth lagging population growth, poverty significantly increased.

## 2.2. Institutional context

The internal institutional context also changed significantly over the course of the Operation, impacting various aspects of program implementation. The following changes are of particular importance:

- **Evolving understanding of and engagement in fragile states.** Establishment of the ARTF coincided with increased emphasis on engagement in fragile states by the World Bank and other development agencies. Over the period of the Operation, increasing prominence has been given to analytical and operational work in FCV contexts. Understanding of operational constraints and priorities in fragile states has been substantially improved drawing from research and programming experience.

- **Evolving World Bank instruments.** Since the ARTF was established, the World Bank has introduced new financing instruments, including Development Policy Financing and Program for Results. The current range of instruments was not available when the Operation was initially designed, necessitating improvisation and flexibility.

- **Changes in Trust Fund policy.** At the time the ARTF was approved, World Bank managed trust funds were highly heterogenous in terms of design, processes, oversight arrangements, fiduciary policies, and the application of results frameworks. From 2008, the World Bank progressively aligned all trust funds with policies and processes applicable to IBRD/IDA lending operations. From

2008, the Operation was recorded in World Bank systems as a standard World Bank Investment Project. In practice, the Operation maintained unique design elements and was never fully redesigned to comply with standard bank policies and processes for Investment Policy Financing.

- **Changes in the operating environment for the World Bank Kabul office.** The number of and operating environment for World Bank staff based in Kabul varied substantially over the duration of the Operation. World Bank staff numbers scaled up rapidly following the re-opening of the World Bank office in 2002. As the security situation deteriorated from 2012, ability of staff to travel internally to project sites was increasingly restricted, while the number of full-time international staff based in Kabul was sharply reduced after 2014.

# 3. Program Objectives, Design, and Intervention Logic

*This section describes: i) the objectives of the Operation; ii) main features of the Operation design; and iii) the Operation's implicit intervention logic.*

## 3.1. Objectives of the Operation

**The main development objectives of the Operation remained relatively consistent over time.** According to the original Board paper, the RCW was intended "to serve as a vehicle for coordinated aid financing to ensure that the government of Afghanistan can pay its recurrent cost obligations" and "support the political process and respond to the legitimate demand of the Afghan people for quick results while at the same time building the institutional and human capacity for economic recovery and sustainable growth and poverty reduction". The RCW was further intended to "support broad development objectives and priorities of the Government of Afghanistan (GoA)". RCW contributions were "expected to decline over time in line with the narrowing external financing gap in GoA's recurrent budget", with the expectation that the RCW would "cease to operate when the situation in Afghanistan approaches fiscal normality / domestic revenues largely cover core operational expenditure".

**Further articulation of these broad objectives was provided in post-2008 Implementation Status and Results Reports for the Operation, submitted by World Bank teams, which cited the following development objective:** "The development objective of the recurrent cost component of the ARTF is to provide a coordinated financing mechanism so that the Government of Afghanistan can make predictable, timely, and accurate payments for approved recurrent costs related to: i) salaries and wages of civil servants; and ii) government operating and maintenance expenditures, except security".[3]

**The evaluation team drew these objectives together into a high-level objective against which to assess the Operation:**

> *The objective of the Recurrent and Capital Costs Operation is to provide a vehicle for coordinated aid financing to build state capacity for the delivery of basic public services and to strengthen the legitimacy of the state, in line with the development priorities of the GoA. This will be achieved by: i) providing a recurrent cost financing mechanism so that the GoA can make predictable, timely, and accurate payments for salaries and wages of civil servants as well as civilian operating and maintenance expenditures; and ii) promoting fiscal sustainability over time.*

[3] Paragraph two of the ARTF Administration Agreement Annex on Standard Terms and Conditions Governing Contributions to the ARTF defines the legal purpose of the trust fund in similar terms: "The objective of the Trust Fund is to provide a vehicle for Donors to pool resources and coordinate their support to the program of the Government of the Islamic Republic of Afghanistan for the reconstruction of Afghanistan."

## 3.2. Program design

**The Recurrent Cost Window (RCW) was established as one of two financing windows under the ARTF.** The ARTF was established with two main windows: i) the Investment Window to finance discrete investment projects, prepared in accordance with World Bank policies and procedures and approved by the ARTF Management Committee; and ii) the Recurrent Cost Window, to finance the core operating costs of government during the initial reconstruction period.

**The Operation was established as the only project under the ARTF RCW, intended to provide a baseline level of financial resources to government against a very limited set of operational conditionalities.** The Operation reimbursed government recurrent expenditure costs including government salaries, operations & maintenance (O&M) and other expenditures within the civilian operating budget.

**All financing provided under the RCW was subject to unique and rigorous fiduciary safeguards.** Prior to any disbursement under the RCW, the Afghan government submitted evidence of civilian recurrent expenditures to a contracted third-party Monitoring Agent for review against a range of fiduciary and eligibility standards (Box 1). Expenses that were deemed eligible could be reimbursed through the RCW. Ineligible expenditures were excluded from those submitted to the World Bank for reimbursement through the RCW. The reimbursement mechanisms as well as the Monitoring Agent review process have been progressively strengthened over time and remain an integral part of the RCW**.**

**Box 1: Monitoring Agent's Process and Eligibility Criteria**

The Monitoring Agent reviewed all civilian recurrent expenditures for compliance with eligibility criteria for the RCW. This comprised assessing the controls applicable to expenditures being reimbursed and, thereafter, a two-step review: (1) desk review of all expenditures aiming to identify those not covered by the ARTF (non-civilian and expenditures charged to suspense accounts and advances); and (2) site visits to test expenditure samples against supporting documentation (included in statements of expenditures) at locations where the expenditures were paid. RCW eligibility criteria were based on three sets of standards:

1. **Afghan government regulations and internal controls**—Expenditures must be included in the annual budget, and all goods and services must be procured and accounted for in accordance with applicable laws and regulations;
2. **The requirements of the ARTF Grant Agreement**—Security-related expenditures are ineligible, and capitalized goods and works must be procured in accordance with World Bank guidelines; and
3. **Fiduciary standards and efficiency**—In addition to Afghan government laws and regulations, additional requirements (issued by the Bank as ARTF Administrator) have been agreed as regards the timeliness of reporting and efficiency of cash management for eligible expenditures.

*Source: 2012 ARTF Fiduciary Framework*

**The Operation grew in size and complexity over time.** The initial intention, as laid out it in the ARTF Board document, was to close the RCW and the Operation once the government's domestic revenue base had recovered to the point where the costs of basic operational expenditures could be met without grant support. This was expected by 2006. With rising and unsustainably high security costs, newly emerging fiscal vulnerabilities, and an increase in aid contributions to the ARTF, the Operation was repeatedly extended and expanded to respond to needs expressed by ARTF partners, government, and World Bank management.

**From 2009, the Operation focused increasingly on incentivization of reform.** The design of the Operation was altered to focus more on fiscal sustainability considerations, including through the introduction of mechanisms to incentivize revenue growth, structural reforms, and improvements in the level and quality of O&M spending. The simple 'baseline' unconditional reimbursement component was retained for a proportion of allocated funds. The Incentive Program component was added in 2009, with an accompanying new ARTF governance mechanism (the ARTF Incentive Program Working Group) which included the World Bank, government, and selected ARTF partners. The Incentive Program included three mechanisms:

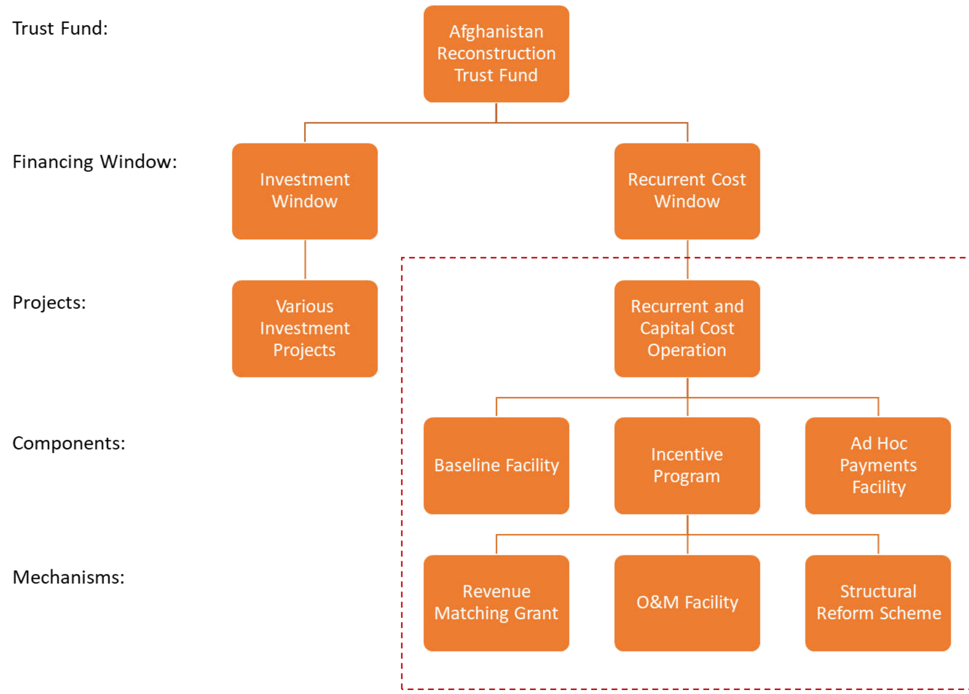
- The **Revenue Matching Grant** directly incentivized increased government efforts towards improved revenue performance. The Revenue Matching Grant rewarded revenue performance in relation to the government's revenue target as agreed with the IMF. Disbursements were discounted or increased depending on whether actual collections fell short of or exceeded the target.

- The **Structural Reform Scheme** disbursed against the achievement of agreed reform actions. During the initial years of the program an annual program of policy reforms was agreed between the government, World Bank, and ARTF partners. The full annual program of reform actions had to be implemented before disbursement could take place. The design was subsequently modified to allow for disbursement of set amounts against individual reform actions, with delays in implementation leading to a reduction in the disbursement amounts against delayed reforms. Longer delays would lead to greater discounts, with the full disbursement amount lost if reforms were not completed one year past the deadline.

- The **O&M Facility** was introduced in 2013 in order to directly incentivize increased government spending on O&M costs. With inadequate O&M allocation generating long-term fiscal liabilities and undermining fiscal sustainability, the O&M Facility provided incentive funds for O&M expenditures above a designated target – for total O&M spending and, in some years, for O&M spending on selected sectors. Expenditures on O&M above the target were reimbursed at a rate of 150 percent (i.e. government was reimbursed US$1.5 dollars for every dollar spent above the designated target).

**The Ad Hoc Payments (AHP) facility was introduced as a new component of the Operation in 2014, alongside the Baseline component and the Incentive Program component.** The AHP facility was initiated at the request of a small number of ARTF donors and served as a pass-through mechanism for funding which they wished to provide to the Afghan government budget based on their own programming considerations and conditionalities. Payments under the AHP facility were subject to the same fiduciary control mechanisms as the broader RCW, based on the reimbursement of eligible expenditures as assessed by the third-party Monitoring Agent. The World Bank, however, was not otherwise involved in approving or allocating disbursements under the AHP.

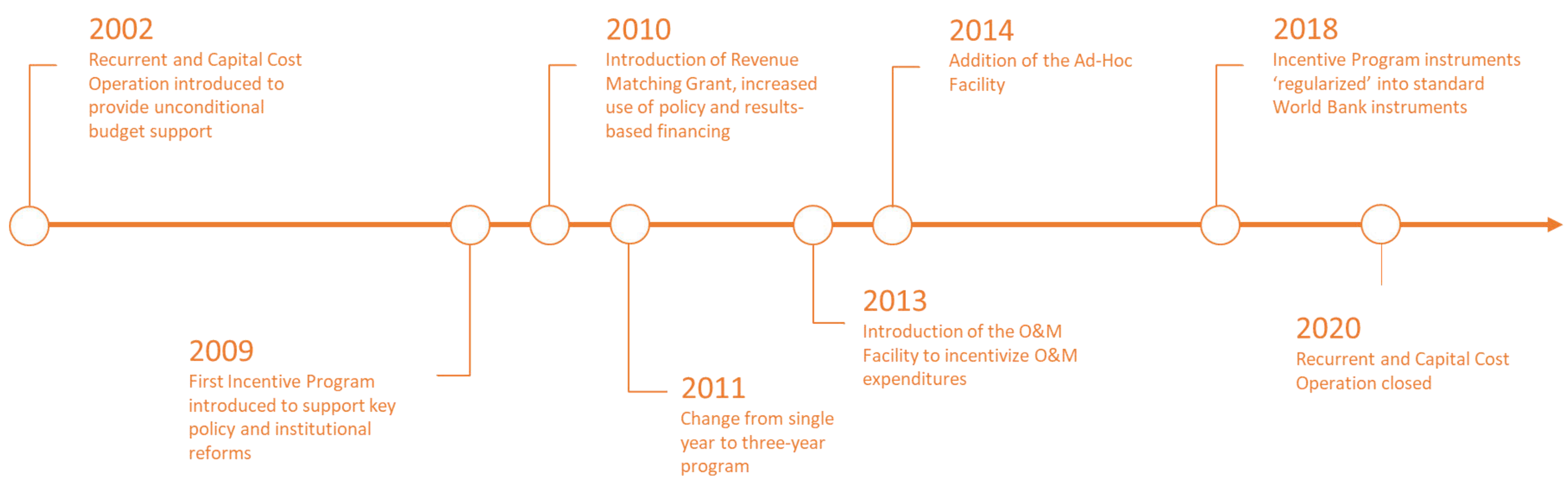
**Figure 1: Structure of the Recurrent Cost Window and the Recurrent and Capital Cost Operation**




*Source: Evaluation Team*

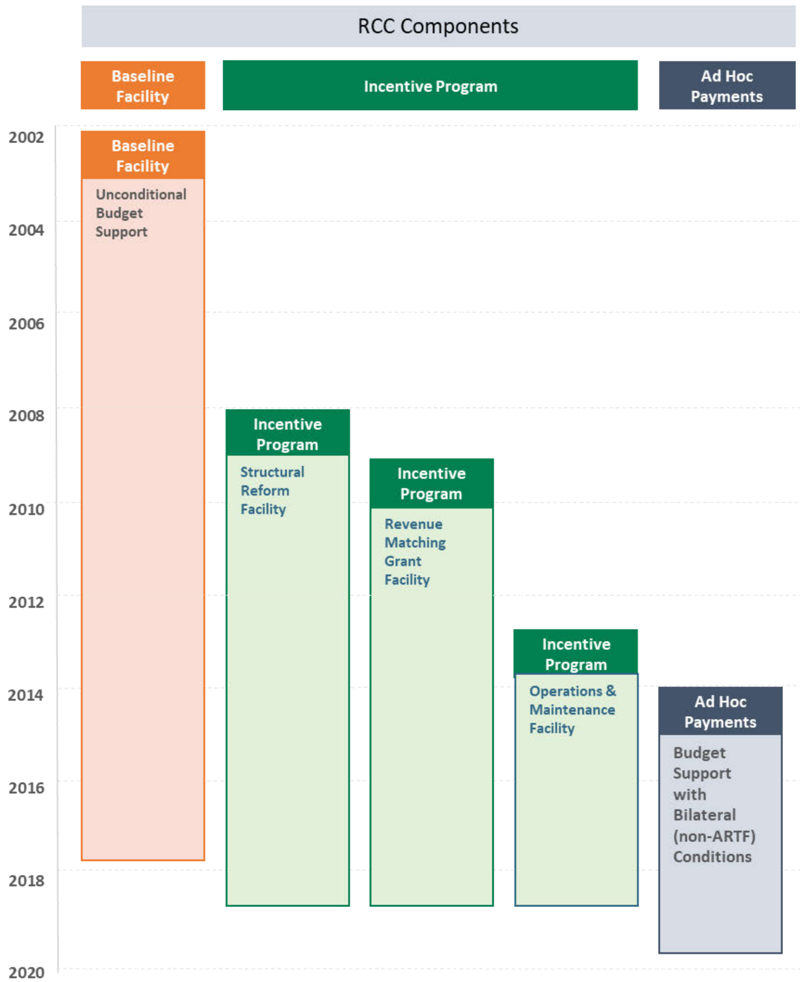
**From 2017, the World Bank moved to close the Operation and replace it with a range of new projects under the RCW using standard World Bank instruments.** This change reflected: i) shared desire by both government and ARTF partners to provide all support under the RCW on an incentivized basis; ii) shared perceptions that government capacity had reached a sufficient level to allow for the provision of essential recurrent cost support through standard Development Policy Financing instruments; iii) government's desire for ARTF and World Bank IDA budget support to be provided through a single Operation and against a single program of reforms, necessitating the use of standard World Bank instruments; and iv) perceived benefits from increased transparency, oversight, and monitoring associated with the use of standard World Bank instruments. The Baseline Facility and Incentive Program were closed in 2018, followed by the closure of the Ad Hoc Payments Facility in 2019. This allowed for the closure of the Operation, which made its last disbursement in June 2020.

**Figure 2: Timeline of Operation evolution**




*Source: Evaluation Team*

**Figure 3: Timeline of Operation and disbursements**



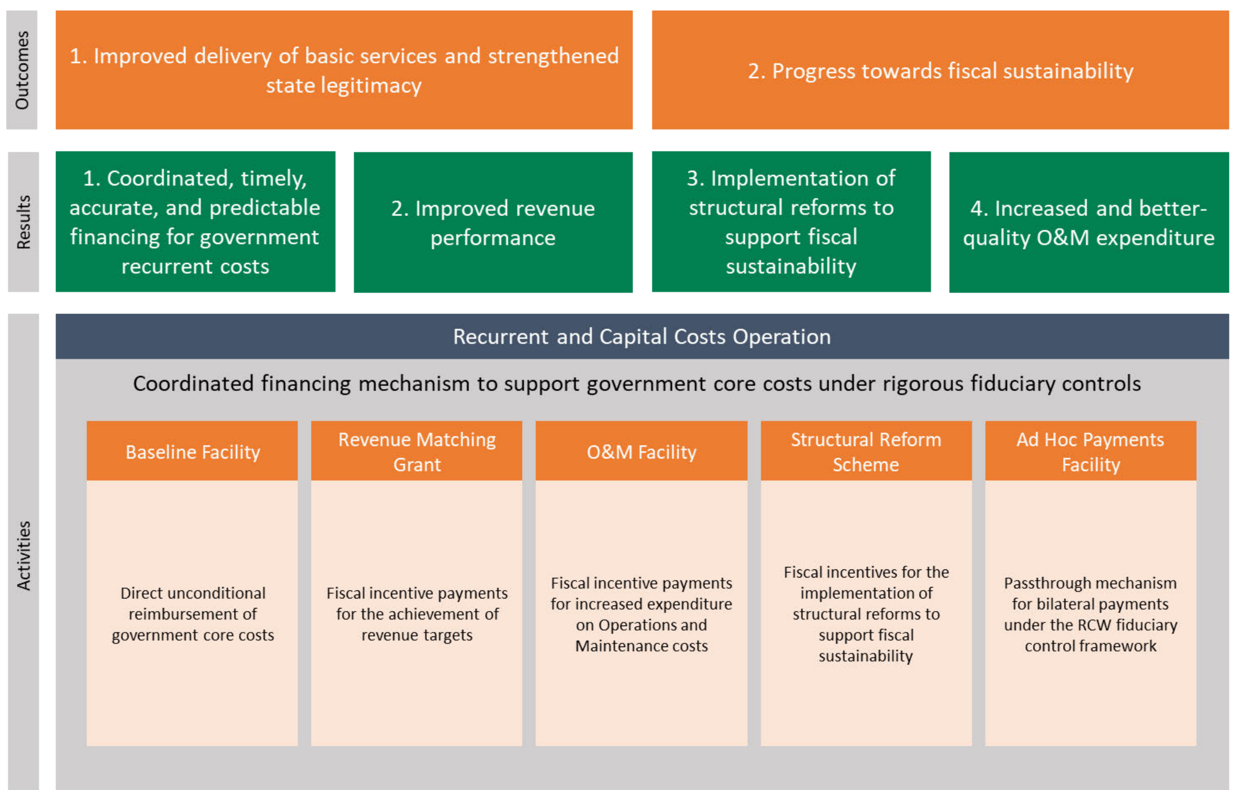

| RCC Disbursements | | | |
|---|---|---|---|
| Baseline Facility | Incentive Program | Ad Hoc Payments | Total |
| 59 | | | 59 |
| 214 | | | 273 |
| 235 | | | 509 |
| 253 | | | 762 |
| 300 | | | 1062 |
| 291 | | | 1,353 |
| 310 | | | 1,663 |
| 181 | 40 | | 1,884 |
| 273 | 64 | | 2,221 |
| 177 | 0 | | 2,397 |
| 175 | 50 | | 2,622 |
| 150 | 106 | | 2,878 |
| 125 | 148 | 147 | 3,298 |
| 125 | 127 | 183 | 3,734 |
| 100 | 244 | 126 | 4,204 |
| 75 | 236 | 147 | 4,661 |
| | 226 | 159 | 5,046 |
| | | 10 | 5,056 |

*Source: Evaluation Team*

## 3.3. Intervention logic

**As noted above, a results framework and intervention logic were not developed during preparation of the Operation.** The evaluation team has retrospectively constructed a basic intervention logic based on available documentation and program design. This basic intervention logic is presented below (Figure 4). It is important to note that the assumptions and causal links presented in the ex post framework were not consistently applied by the team during implementation, and weight given to different objectives was altered over time in response to changing country circumstances. Activities under the Operation lasted for different periods of time and with very different levels of resourcing.

**Figure 4: Operation Intervention Logic**




*Source: Evaluation Team*

**The Operation pursued two simple outcomes.** Firstly, the Operation was intended to support the development of core state functions in the immediate post-conflict context, leading not only to improved service delivery, but also to the establishment of state legitimacy. Secondly, the Operation was intended to support progress towards fiscal sustainability, allowing government to escape reliance on recurrent cost support from international partners.

**These high-level outcomes were to be supported through the achievement of four key results.** Firstly, the Operation was intended to allow timely, accurate, and predictable financing for government recurrent costs. This was to be achieved through providing an effective and trusted mechanism through which donors would be willing to channel their support. Secondly, the Operation was intended to generate incentive for government to improve revenue performance, supporting both service delivery and fiscal sustainability. Thirdly, the Operation was intended to incentivize the implementation of structural reforms in areas related to fiscal sustainability, reflecting the importance of an adequate policy and institutional framework for revenue performance and adequate expenditure management. Finally, the Operation was expected to incentivize increased and better-quality O&M expenditures, reflecting that inadequate and poorly targeted O&M spending was a major threat to fiscal sustainability, due to deterioration of assets and unaffordable replacement and maintenance costs.

**Results were to be achieved through a range of activities under various components and mechanisms of the Operation.**

- **The establishment of the ARTF RCW was intended to provide a coordinated financing mechanism for donor support.** Through establishing a financing window under the ARTF multi-donor trust fund with strong fiduciary safeguards in place, the World Bank intended to allow donors to provide coordinated support to government recurrent costs.

- **The Baseline Facility was intended to provide predictable and timely support while generating incentives for fiscal self-sufficiency over time.** Recurrent cost support under this mechanism was not subject to any policy or results-based conditionality, with the intention of providing a secure source of funds through which to meet basic operating expenses. Funds under the Baseline Facility were expected to decline gradually over time, generating incentives for government to mobilize increasing tax revenues with which to replace declining baseline support.

- **The Revenue Matching Grant, O&M Facility, and Structural Reform Scheme were intended to incentivize action on behalf of government in pursuit of fiscal sustainability goals.**[4] These mechanisms were intended to both: i) accelerate progress towards fiscal sustainability by strengthening incentives facing government for the implementation of key reforms; and ii) provide assurance to partners that their resources were being used to drive sustainable change.

- **The Ad Hoc Payments Facility was intended to accommodate donor needs for a flexible funding mechanism, while still providing a basic coordination function.** This pass-through mechanism allowed partners full flexibility to set their own conditions and make their own disbursement decisions when providing on-budget recurrent cost support through the Operation. This was intended to encourage use of the RCW as a single financing channel, allowing some level of coordination and use of government systems, even when partners wished to design and implement their own policy-based programs.

**The intervention logic specified above relied on a range of critical assumptions.** These assumptions included:

[4] The treatment of private sector development as a goal of the Incentive Program evolved over time. Private sector development was explicitly subsumed under the broader objective of fiscal sustainability only from 2012. In the 2008 Memorandum of Understanding, private sector development was identified as a specific objective in its own right.

- **Fiscal sustainability could be achievable with adequate progress in revenue mobilization and expenditure management.** Fiscal sustainability objectives were predicated on an assumption that Afghanistan's financing gap could be closed through a standard range of revenue policy and administration reforms and careful management of civilian expenditure. Afghanistan's fiscal challenges were perceived as likely to be similar to those faced by other low-income countries.

- **Structural reforms could mobilize private sector investment, generating new revenue opportunities.** Support to private sector enabling reforms were expected to lead to private sector investment and revenue generation. In short, business regulatory constraints were assumed to be and remain the binding constraint to private sector development.

- **State legitimacy could be generated through the establishment of core state functions and delivery of basic social services.** Several documents, including the original Board document, reflect an assumed simple and mechanical transmission mechanism between financing government recurrent costs, delivery of basic social services, and increased state legitimacy. At least within these foundational documents, and as reflected in various other stages of program implementation, success in delivery of services was assumed to be sufficient to establish state legitimacy, and therefore contribute to the broader state-building project.

# 4. Relevance of Program Objectives and Design

*This section assesses the relevance of the Operation's objectives and design to country development challenges and priorities. The section assesses whether:*

- *Objectives of the Operation remained relevant to country context and main development challenges;*
- *The design of the Operation's components and mechanisms remained appropriate and relevant to the achievement of specified objectives; and*
- *Policy actions supported under the Structural Reform Scheme mechanism were relevant to the country context and development challenges.*

## 4.1. Relevance of Operation objectives

**The coordination objectives of the program reflected legitimate concerns regarding aid fragmentation**. In emphasizing the importance of coordinated financing, specified objectives reflected the reality that foreign aid in itself could have presented a source of dysfunction and fragility. Creating an instrument to channel financing from a large number of donors with varying national aid policies (that in most cases did not favor fungible, policy-based budget support) helped avoid common problems of aid coordination and fragmentation observed in fragile state settings. Specified objectives reflected the need to avoid either: i) a proliferation of separate budget support operations attached to different conditionalities and objectives and with varying reporting timelines and standards, which could have easily exhausted the government's limited capacity; or ii) delivery of aid through a large number of off-budget projects leading to fragmentation and projectization without building up core country systems and capacity.

**The institutional-strengthening objectives of the program reflected the importance of service delivery to the broader state-building project.** The goals of the international community in Afghanistan were expansive, including the establishment of a legitimate and responsive state as a means of preventing further violence and fragility. The program therefore aimed to strengthen the delivery capacity of government systems and institutions. This objective reflected: i) prevailing assumptions that effective delivery of services by the state would, in itself, enhance state legitimacy and help address conflict and fragility; and ii) the international community's desire for a program that would support the emergence of stronger state institutions as a means to achieve broader shared state-building goals. Recent empirical evidence gives cause to question any mechanical or direct relationship between service provision and state legitimacy, but this evidence was not available at the time initial objectives were established.

**Emphasis on timeliness and predictability of disbursements was also appropriate.** International evidence is clear that post-conflict countries often experience aid volatility, undermining predictability, and that this can have important negative consequences for economic growth and development. government remained heavily dependent on ARTF resources to finance core government expenditure items, including civil service salaries, throughout the period of the Operation. Delays and lack of predictability in recurrent cost support would have presented difficult challenges to budget management. Predictably and timely provision of international grant support was particularly important in the post-conflict Afghanistan context given the potentially negative impacts of government payment delays on state legitimacy and the nascent private sector, which remained heavily dependent on public sector supply and contacting opportunities.

**The fiscal sustainability objectives of the Operation reflected recognition that grant support was likely to decline over time.** The World Bank and the international community remained acutely aware that government would ultimately need to raise sufficient revenues to finance its activities without depending on international support. The fiscal sustainability objective was highly relevant given: i) risks that continued provision of high levels of unconditional grant support would mute or soften incentives for government to develop its own revenue-generation capacities; and ii) service delivery and institutional strengthening gains would not be sustainable if government operations continued to be entirely reliant on international grant support. The fiscal sustainability objective was a primary consideration in the introduction of the Incentive Program component of the Operation from 2008, as discussed above.

**The objectives of the Operation remained aligned with national development strategies**. Throughout its existence, the objectives of and policy actions supported by the Operation were aligned with successive government development strategies. Throughout the period, government strategy documents heavily emphasized the importance of aid coordination and the need for progress towards fiscal sustainability (often expressed as ‘self-reliance’. These strategies included: i) the National Development Framework (2002); ii) Securing Afghanistan’s Future (2004); iii) the Interim Afghanistan National Development Strategy (2006); iv) the full Afghanistan National Development Strategy (2008); v) government documents for donor meetings in Tokyo in 2011 and London in 2014; and vi) the Afghanistan National Peace and Development Framework (2016). In this respect, the Operation responded to government priorities, in accordance with the principles laid out in the ARTF board document.

## 4.2. Relevance of instrument design

**This section assesses the extent to which the design of the Operation remained relevant to the objectives outlined above.** The Baseline Facility, Incentive Program mechanisms, and the Ad Hoc Payment facility are discussed in turn.

**The use of an unconditional budget support instrument was appropriate during the early years of the Operation**. In 2003 government’s own revenue covered only 33% of its expenditures (most of which were operational in nature), leaving no fiscal space to guarantee payments to its civil servants, let alone fund any public investment. In this situation, the government required predictable financial resources to support key government functions. Moreover, international partners recognized that budget support was critical to the broader state-building process: core financing was critical to allow government to take responsibility for the delivery of services, helping to strengthen state legitimacy and citizen-state accountability relationships.

**The use of incentive-based support during the early stages of the Operation would have imposed an unrealistic burden on government and undermined predictability of payments.** The decision to provide unconditional 'baseline' budget support during the early years of the Operation reflected country circumstances. Provision of support against a program of policy or institutional reforms was not considered viable given: i) emerging and untested government administrative systems; ii) very weak government capacity; iii) continuing political uncertainty as government moved from a transitional administration towards appointment of an elected government. Provision of conditional support may have incentivized a faster pace of reform in some areas. The risks of this approach would have been extremely high, however, given that government relied on timely payment of recurrent cost support to finance basic government functions including civil service salaries. Imposition of conditionalities during the early stages of the program would have been inconsistent with the overall objective of providing predictable support to core state functions in a way that supported institutional development and state-building objectives.

**Once sufficient capacity had developed, introduction of the Incentive Program allowed the Operation to directly pursue fiscal sustainability objectives without excessively weakening predictability.** Afghanistan had achieved major progress in increasing revenue performance by 2008 but remained heavily reliant on grant support. Major progress had also been achieved in strengthening government institutions and capacity. The World Bank and ARTF partners introduced the Incentive Program in 2008 as a component of the Operation under which a gradually increasing proportion of overall payments were made conditional on government progress towards fiscal sustainability. The Incentive Program complemented rather than fully replaced ongoing baseline support which was expected to decline over time as government reliance on external grant support was further reduced. The introduction of an incentive-based mechanism responded to partners' wishes to see accelerated progress towards fiscal sustainability, with responsiveness to these demands encouraging donors to maintain contributions and supporting continued coordinated, on-budget provision of recurrent cost support.

**The ability to move resources between facilities helped maintain predictability.** Amounts disbursed under each sub-component of the Incentive Program were intended to vary according to government progress in implementing reforms or achieving progress against specified indicators. In order to mitigate corresponding risks of procyclicality and unpredictability of disbursement under each sub-component, the Incentive Program was designed to allow for fungibility of resources between components. Expectations that government would not meet all targets were built into the design. With government taking a prudent approach and never budgeting for full disbursement under all sub-components, under-disbursement under one sub-component due to the missing of targets could be counteracted by strong performance under another sub-component.

**Overall, the design of the Operation was responsive to the country context and the program's objectives.** The design of the Operation brought a high level of predictability and timeliness to on-budget financing in a context characterized by a high level of uncertainty. High levels of baseline financing were required to provide this predictability during the early years of the Operation. As government institutions and capacity developed, the introduction of incentive mechanisms was used to pursue fiscal sustainability objectives and represented a viable exit strategy from high levels of reliance on baseline support. The change towards incentive-based support in pursuit of fiscal sustainability reforms was carefully pursued in a way that maintained a high level of predictability through: i) fungibility of resources between sub-components; and ii) the use of the action-by-action disbursements and discounting mechanisms under the Structural Reform Scheme, rather than requiring full completion of all actions prior to any disbursement.

**The Ad-Hoc Payment Facility (AHP) did not fit well within the broader logic of the Operation**. The Ad-Hoc Payment Facility allowed ARTF partners to provide funding in accordance with their own programming decisions through RCW systems. To the extent that this funding was channeled through the ARTF and provided on-budget, design of the Ad Hoc Payment Facility supported objectives providing a coordinated financing mechanism to support government core costs. Although AHP payments followed the eligibility review process and fiduciary standards used for the broader Operation, however, AHP payments were not incorporated in the annual planning, nor were any programing considerations for AHP payments shared or coordinated with the Operation's governance body. The AHP weakened the capacity of the Operation to provide a coordinated financing mechanism insofar as that conditionalities were managed separately by individual partners. Because disbursement decisions were made by individual ARTF partners, the AHP facility also weakened the capacity of the World Bank (as ARTF administrator) to ensure predictability and timeliness in payments.

**Box 2: Lapse of the Incentive Program and implications for instrument design**

Government achieved all but one policy action under the Incentive Program in 2010. The incomplete action was cabinet approval of amendments to the audit law. A World Bank review found that despite lengthy discussions during the amendment process, the audit law did not conform with international good practice and undermined the independence of the Supreme Audit Office. Following difficult discussions between the President's office, Ministry of Finance, and the World Bank, a new draft was submitted for approval to cabinet. However, due to the rushed process, the changes were introduced to an outdated draft. This meant that the Ministry of Finance had to re-submit the draft for approval a third time.

Even with the final action complete, however, ARTF donors did not approve the disbursements under the 2010 program. This reflected their dissatisfaction with government's response to Kabul Bank crisis. As a result of the crisis, Afghanistan was considered off-track under its IMF program, and partners argued that the precondition of a sound macro-fiscal framework had not been met. The Ministry of Finance, on the other hand, argued that the Kabul Bank crisis was beyond the purview of the Incentive Program. Failure to disburse Incentive Program payments led to cash flow problems and an outright refusal by the government to continue a reform dialogue within the framework of the Incentive Program.

By 2012, government and partners agreed to resume use of the program subject to several important changes to the design of the mechanism. First, the Structural Reform Scheme was reconfigured to allow for disbursement against individual policy action (rather than disbursement against completion of a full program of reforms). This was intended to avoid a situation where failure to complete a single action led to destabilizing cashflow disruptions. Secondly, a three-year policy action framework was introduced. This was intended to allow a longer-term strategic focus. Finally, the Incentive Program was formally de-linked from performance against the IMF program. This was intended to affirm the centrality of dialogue between government and ARTF partners, rather than subjecting decisions under the program to the views of a third-party.

*Source: Evaluation Team*

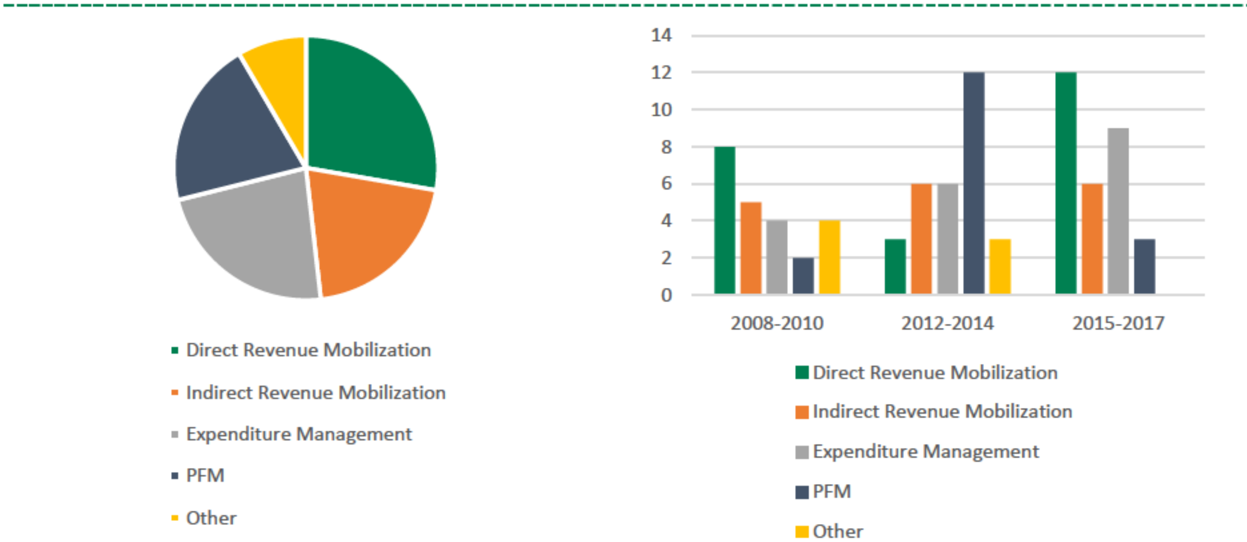
## 4.3. Relevance of program design

**This section assesses the relevance to program objectives and country context of the reform actions supported under the Structural Reform Scheme.** This assessment is based on a detailed review of actions included under the Structural Reform Scheme over its lifetime (2008-2017).

**Overall, policy actions supported under the Structural Reform Scheme were relevant to the achievement of program objectives.** The Structural Reform Scheme covered a broad spectrum of legal and institutional reforms with direct relevance to achieving fiscal sustainability. In nearly all cases, policy reforms were relevant to pressing country challenges, and aligned ARTF or other donors' sectoral engagements. Of 83 reforms supported under the Structural Reform Scheme between 2008 and 2017:

- **28 percent of actions supported direct revenue mobilization through tax policy or administration reforms.** Especially during the early years of the program, reforms were targeted towards establishing the basic legal and institutional framework for core revenue functions. Reforms in these areas were critical to building basic revenue collection capacity.
- **20 percent of actions supported indirect revenue mobilization through addressing business enabling constraints to private sector growth and investment.** Emphasis in this area reflected the need to expand the revenue base to significantly increase revenues in the context of a small and undiversified economy.
- **23 percent of actions supported expenditure management reforms.** These reforms reflected the dependence of fiscal sustainability on efficiency and effectiveness in public expenditures, with a particular focus on civil service wage bill management, establishment of electronic payment systems, and aligning budget allocations with policy priorities.
- **20 percent of actions supported other kinds of PFM reform.** These reforms were also targeted towards improving the efficiency and effectiveness of expenditure and included: i) strengthening of audit functions; ii) improving procurement processes; and iii) strengthening budget transparency.

**Figure 5: Composition of Structural Reform Scheme actions – total and by year**




*Source: Evaluation Team*

**Relevance of supported actions and viability under a challenging country context was supported in almost all cases by linkages to sectoral project engagements.** Alignment between Structural Reform Scheme policy actions and donor investment projects ensured both that: i) supported policy reforms were relevant to specific sectoral challenges; and ii) adequate technical assistance could be provided to implementation agencies to achieve targeted reforms. Inadequate implementation support was provided in some areas. Reforms addressing Afghanistan's WTO accession (2008) and fiscal de-concentration and provincial budgeting (2012-2017) were incentivized under the Structural Reform Scheme but did not receive adequate implementation support.

**A small number of policy actions were only tenuously related to fiscal sustainability objectives of the program.** Throughout the later years of the Operation, repeated discussions were held between the Bank and ARTF partners on extending its objectives to include promotion of economic growth and poverty reduction. The World Bank team resisted proposals to formally expand the scope on the basis that an objective of 'fiscal sustainability' was sufficiently broad while helping to keep the program focused and manageable. However, a relatively broad definition of fiscal sustainability was increasingly applied under the Structural Reform Scheme. Policy actions reflected that, taking account of country context, fiscal sustainability itself would depend on greater progress towards reducing corruption and improving transparency in the use of public resources, and accelerated private sector investment in key revenue-generating sectors of the economy. However, some policy actions included under the Structural Reform Scheme had only a very tenuous link to fiscal sustainability objectives. Weak links to fiscal sustainability objectives were apparent in relation to seven of 83 reforms. Policy actions introducing asset declaration for senior officials (IP 2008-2009) and strengthening Anti-Money Laundering and Combating Financing of Terrorism mechanisms (2012-2014) could only have impacted fiscal sustainability very indirectly and in the long-term through reducing opportunities for corruption and strengthening overall governance. Reforms to improve land governance (IP 2015-2017) could only have impacted fiscal sustainability indirectly and in the long-term by improving security of land tenure and thereby encouraging private investment.

**The program of reforms supported under the Structural Reform Scheme were sometimes excessively ambitious for the country context.** In addition to the Revenue Matching Grant scheme and the O&M Facility, the program included an average of ten reform actions each year. Particularly complex and challenging reforms were pursued in the areas of: i) customs enforcement; ii) land governance; iii) civil service reform; and iv) pension reform. The high level of ambition reflected the strategic use of the program by government, with the Ministry of Finance and the Presidents' Office often requesting the inclusion of more-ambitious reforms under the Structure Reform scheme in order to mobilize political support and resolve internal government coordination issues. ARTF donors also advocated for a broader and more ambitious reform program to justify increasing contributions. The ambitiousness of supported reforms did not necessarily undermine the achievement of program objectives. Because government could recover funds lost due to weak performance in some areas by over-performing in others, the impacts of weak performance against some reforms on overall predictability and timeliness of disbursement were moderated. Because supported reforms were generally within a manageable range of policy areas and expectations regarding verification processes and consequences of non-fulfillment were clearly established, excessive ambition did not typically undermine the quality of policy dialogue.

# 5. Achievement of Results

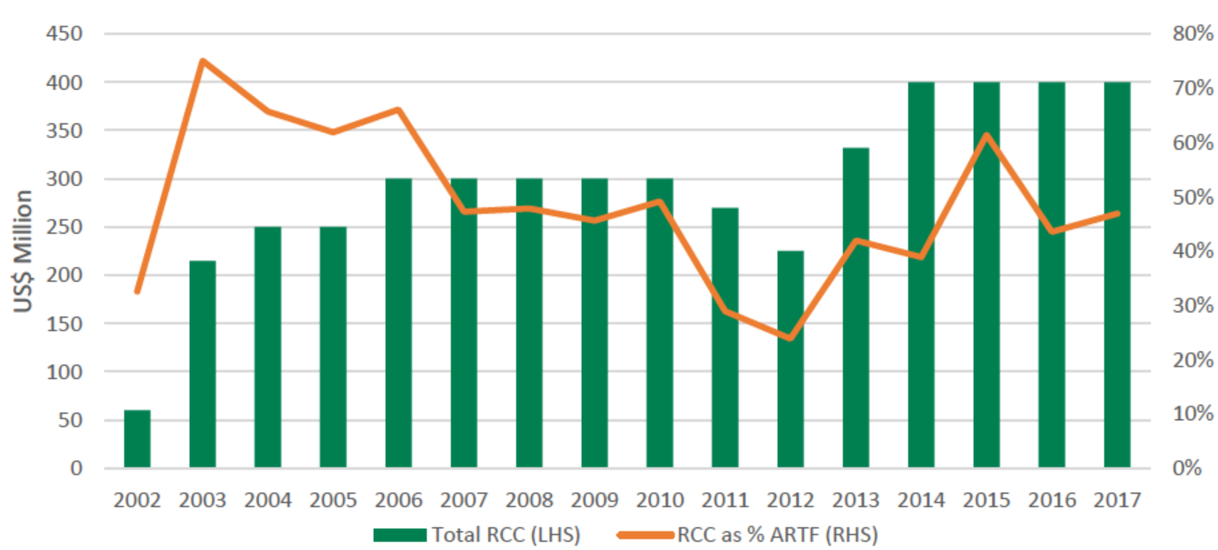
*This section moves beyond objectives and design to focus results. The section assesses whether the various components and mechanisms of the Operation functioned to support achievement of expected results. The following questions are addressed in turn:*

- *Did the Operation, overall, provide coordinated, timely, accurate, and predictable financing for government recurrent costs?*
- *Did the Revenue Matching Grant effectively incentivize stronger revenue performance?*
- *Did the Structural Reform Scheme drive reforms that supported long-term fiscal sustainability?*
- *Did the O&M Facility effectively incentivize increased and better-quality O&M allocations and expenditures?*
- *Did the Ad Hoc Payment facility contribute to overall objectives of coordinated partner financing of government recurrent costs?*

## 5.1. Coordinated, timely, accurate, and predictable financing for recurrent costs

**The Operation was successful in coordinating substantial aid flows.** Starting from a low base of US$60 million in 2002, annual contributions to the Operation increased to US$400 million by 2018. This equated to a substantial proportion of total civilian aid flows to Afghanistan (around 11 percent in 2018) being channeled through a single Operation. The Operation also accounted for a substantial share of total ARTF contributions (60% on average until 2006, around 45% between 2007 and 2010, and around 55% from 2011 to 2018).

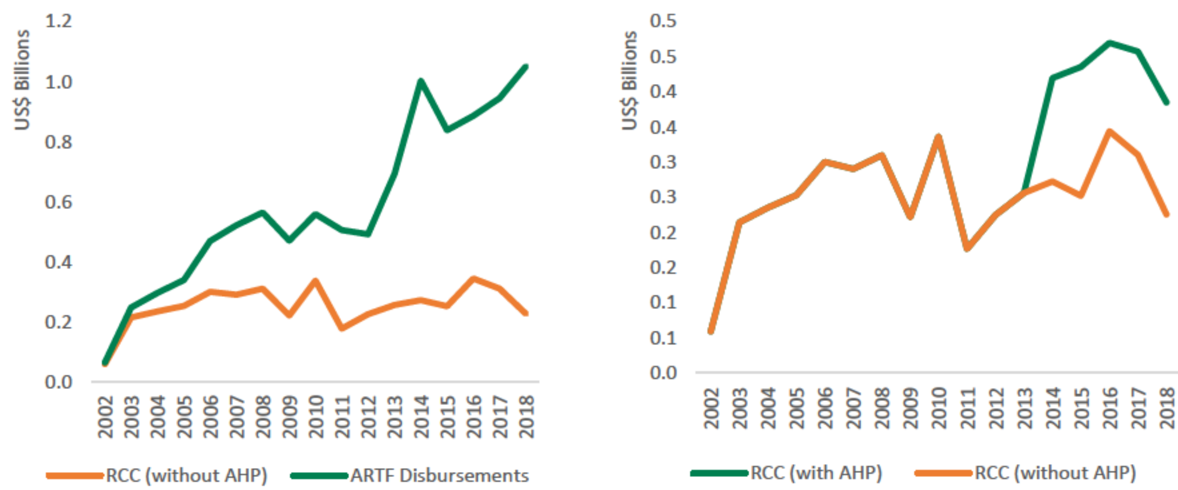
**Figure 6: RCC planned disbursements**




*Source: ARTF Administrator's Financial Report*

**Overall disbursements under the Operation remained fairly stable prior to the introduction of the AHP**. After the expected steep increase during the early years of the Operation, disbursements typically averaged around US$250 million each year, even after the Incentive Program was introduced and baseline financing began to be phased out (Figure 7). Disbursements declined sharply over 2011 and 2012 due to the lapse of the IP following the Kabul bank crisis but recovered quickly. Generally speaking, Operation disbursement showed significantly less variability in disbursement than overall ARTF contributions and aggregate aid flows to Afghanistan. In the final years of the program the AHP became the major source of variation in total Operation disbursement, ratcheting up substantially during 2014-2017.

**Figure 7: ARTF and RCC Operation Disbursements (US$ Billions)**




*Source: ARTF Administrator's Financial Report*

**Disbursements under the Operation were reasonably predictable and timely.** Baseline disbursements under the Operation equaled or exceeded the planned amount in all years. As would be expected, IP disbursements fell short of the allocated funds from 2012, with an average disbursement rate of around 65% (Figure 8), due to non-completion of some incentivized reforms and results. Predictability, however, was retained to a large extent. IP allocations were always treated and communicated as targets and the Ministry of Finance never budgeted for or expected full disbursement. Instead, government budgeted on the basis of a disbursement ratio derived from past trends. Disbursements therefore consistently exceeded expectations as reflected in the budget, with all disbursements in excess of budgeted amounts treated as windfalls that could be allocated through new in-year expenditures under the contingency budget.

**Figure 8: RCC Operation planned and actual disbursements (US$ Millions)**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Planned Disbursements** | | | | | | | | | | | | | | | | | | |
| Total RCC (not including AHP) | **60** | **215** | **235** | **250** | **300** | **300** | **300** | **300** | **300** | **270** | **225** | **332** | **400** | **400** | **400** | **400** | | **4,702** |
| o/w: Baseline RCC | 60 | 215 | 235 | 250 | 300 | 300 | 300 | 250 | 225 | 200 | 175 | 150 | 125 | 125 | 100 | 75 | | 3,100 |
| o/w: IP | | | | | | | | 40 | 70 | 70 | 50 | 182 | 275 | 275 | 300 | 325 | | 1,577 |
| **Actual Disbursements** | | | | | | | | | | | | | | | | | | |
| **Total RCC (not including AHP)** | **59** | **214** | **235** | **253** | **300** | **291** | **310** | **221** | **337** | **177** | **225** | **256** | **273** | **252** | **344** | **311** | **226** | **3,534** |
| o/w: Baseline RCC | 59 | 214 | 235 | 253 | 300 | 291 | 310 | 181 | 273 | 177 | 175 | 150 | 125 | 125 | 100 | 75 | 0 | 2,294 |
| o/w: IP | | | | | | | | 40 | 64 | 0 | 50 | 106 | 148 | 127 | 244 | 236 | 226 | 1,240 |
| Structural Reform Scheme | | | | | | | | 40 | 60 | 0 | 50 | 74 | 91 | 61 | 101 | 88 | 76 | 641 |
| Revenue Matching Grant | | | | | | | | | 4 | 0 | 0 | 0 | 22 | 33 | 83 | 139 | 127 | 404 |
| O&M Facility | | | | | | | | | | | | 32 | 34 | 34 | 60 | 9 | 24 | 192 |
| **Actual as Percent Planned** | 99% | 100% | 100% | 101% | 100% | 97% | 103% | 74% | 112% | 65% | 100% | 77% | 68% | 63% | 86% | 78% | | 89% |
| **Total RCC (including AHP)** | | | | | | | | | | | | | **420** | **436** | **470** | **457** | **385** | **4,296** |
| AHP | | | | | | | | | | | | | 147 | 183 | 126 | 147 | 159 | 762 |

*Source: ARTF Administrator's Financial Report*

**The accuracy of disbursements was assured through the use of stringent eligibility criteria and rigorous Monitoring Agent reviews**. Ensuring that Operation funds were disbursed in accordance with sound fiduciary standards and within the limits of eligibility was a bedrock goal. It was clearly understood that the Operation carried significant fiduciary risks, which needed to be managed and mitigated. The reimbursement mechanism and rigorous Monitoring Agent reviews effectively ensured that only a negligible proportion of Operation reimbursements – 0.01 percent – were ineligible over the life of the program. All ineligible expenditures were returned to the ARTF by the government.

**Data collected for the purposes of Implementation Status and Results reporting during the period of the operation demonstrates success in ensuring the accuracy of payments through extensive involvement of the Monitoring Agent in verifying payments.** These reports note that by 2018: i) 100 percent of goods and services procured under the Operation had been used exclusively for authorized purposes, based on Monitoring Agent eligibility requirements; ii) 95 percent of eligible payroll expenditures under the operation had been reviewed by the Monitoring Agent; iii) 100 percent of withdrawal applications financed by the Operation had been reviewed by the Monitoring Agent; iv) 98 percent of O&M expenditure financed by the Operation had been reviewed by the Monitoring Agent.

**The Monitoring Agent promoted fiduciary compliance well beyond the scope of the program**. In the early years, disbursements under the Operation financed 75 percent of the government's civilian recurrent budget. This meant that a very large portion of the civilian recurrent budget was subject to review by the Monitoring Agent. As the operating budget increased, the government continued to voluntarily submit the entire civilian recurrent budget for fiduciary review (Box 3). The primary motivation on the side of government was to overcome real and perceived capacity weaknesses of the national audit institutions and to signal its commitment to transparency and anti-corruption. Considering other ARTF contributions to the budget, this meant that a very large portion of the national budget was subjected to fiduciary safeguards and standards, either by the Monitoring Agent or under the World Bank's investment operations.

**Figure 9: ARTF and RCC Operation disbursements as share of budget**

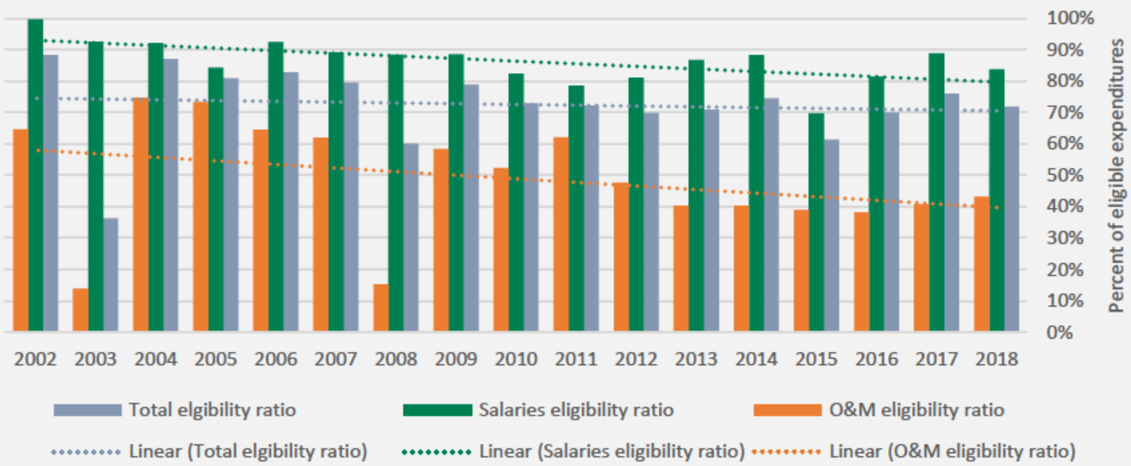

*Source: ARTF Administrator's Financial Report, World Bank data*

**Box 3: Fiduciary Compliance within the Civilian Recurrent Budget**

The core function of the Monitoring Agent was to determine the eligibility for RCW financing of the civilian recurrent expenditures that GoIRA submitted for reimbursement. To do this, the Monitoring Agent tested, on a statistically representative sample basis, the entire population of transactions within the entire civilian recurrent budget and reviewed these transactions for compliance with the government's own policies, laws and procedures as well as with the Fiduciary Standards and the eligibility criteria as set out by the World Bank. Where the Monitoring Agent identified potential areas of improvement, oversight was intensified and follow-up technical assistance was provided to address identified weaknesses.

The presence of ineligible expenditures did not – in itself – constitute evidence of corruption. Rather, ineligibility suggested vulnerability to corruption due to failure to adhere to specified processes and procedures. The results of the Monitoring Agent reviews suggested that civilian expenditures of the national budget were reasonably well protected: in all but a few years, eligibility ratios were above 70 percent. As civilian expenditures increased, eligibility ratios experienced a slight downward trend, but this downward trend has reversed since 2015. O&M expenditures showed significantly lower eligibility than other expenditure categories.

**Figure 10: Ratio of Eligible Expenditures Submitted to Monitoring Agent**




The largest source of ineligibility during 2011-2018 was non-compliance with procurement procedures (39 percent of total ineligible expenditures), which could be related to corruption, inadequacies in documenting procedures, or both. Specific grounds for ineligibility include: missing documents (9 percent); non-availability of approvals (13 percent) and other documents (12 percent); or inadvertent submission of military expenditures (7%).

**Figure 11: Ratio of Eligible Expenditures Submitted to Monitoring Agent**

| Reason for Ineligibility | Ineligible during 2011-2018 (USSM) | Percent of total ineligible |
|---|---|---|
| Non-Compliance with Procurement Procedure | 1,071.03 | **39%** |
| Authorized Approval of Document Not Available | 360.44 | **13%** |
| Documents Not Made Available for Monitoring Agent Review | 346.46 | **12%** |
| Missing Documents, Bank transfer Reports or Payment Receipts | 253.65 | **9%** |
| Non-Valid Expenditure-Assistance Payments, Advances etc. | 212.87 | **8%** |
| Military Related Payments | 198.18 | **7%** |
| Delay in Booking of Expenditures | 102.92 | **4%** |
| Incorrect or late AFMIS Coding | 92.21 | **3%** |
| Other Reasons (Invoice Not Available, Tax Not Deducted, etc.) | 80.17 | **3%** |
| Payment Not Matching with Supporting Documents | 31.63 | **1%** |
| Other | 24.19 | **1%** |
| Total ineligible expenditures 2011-2018 | 2,773.73 | **100%** |

Gradually declining eligibility ratios suggest an opportunity may have been lost to utilize the Monitoring Agent review process to incentivize improvements in eligibility across the recurrent budget. In the early years, the RCW accounted for a large share of recurrent expenditures creating a strong incentive to maintain high eligibility ratios (lower eligibility rates would have adversely affected reimbursements). This incentive dissipated, however, as the share of the RCW in the recurrent budget declined with the growth of domestic revenue. No actions were taken to maintain incentives for high eligibility rates.

*Source: Evaluation team, ARTF Administrator data*

## 5.2. Revenue matching grant

**The Revenue Matching Grant rewarded performance against quantitative revenue targets.** From 2009 to 2014 disbursement under the matching grant were triggered at the minimum level if revenue reached 90 percent of the IMF target. Disbursements increased on a sliding scale, reaching their maximum level when revenue reached 105 percent of the IMF target.[5] From 2015 to 2017 disbursement of incentive funds under the matching grant was triggered as soon as revenue exceeded the previous year's level, with the full amount made available when revenue equaled the IMF target.[6]

**Performance against the Revenue Matching Grant component was mixed**. The revenue target was exceeded in four out of eight years. In other years revenue performance exceeded the floor (90% of the target), resulting in partial disbursement. In 2012 and 2014 revenue performance fell well below the target (Figure 12).

**Figure 12: Revenue Matching Grant disbursements**

| Program Year | Performance | Disbursement Amount |
|---|---|---|
| **2009** | 91 percent of target | $3.8 million |
| **2010** | Exceeded target | None, due to program lapse |
| **2012** | <90 percent of target | None |
| **2013** | 95.6 percent of target | $22.4 million |
| **2014** | 78 percent of target | None |
| **2015** | Exceeded target | $116.2 million |
| **2016** | Exceeded target | $138.9 million |
| **2017** | Exceeded target | $126.8 million |

*Source: IP Technical Reviews.*

*Note: Divergence between tables is explained by advances and delays in disbursement*

**Afghanistan experienced robust revenue growth over the lifetime of the Operation**. Both revenue and the revenue-to-GDP ratio in Afghanistan increased substantially during the lifetime of the Operation (Figure 13). Average annual revenue growth in US dollar terms during 2002-2017 was more than 20 percent, and the revenue-to-GDP ratio more than tripled (from 3.4 percent to 12.3 percent). This performance—an average improvement in the revenue-to-GDP ratio of 0.6 percentage points per year over a decade and a half—compares favorably with international experience.

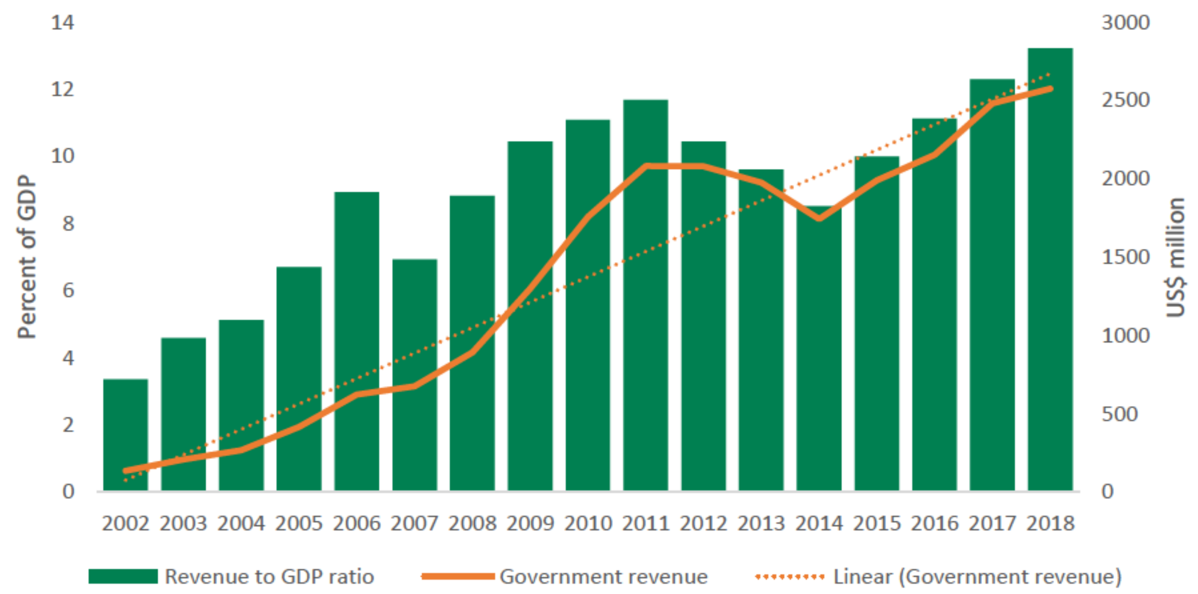
**Revenue collections fell between 2011 and 2014 for reasons beyond the influence of the Operation.** The revenue-to-GDP ratio fell by more than three percentage points from 11.7 percent to 8.5 percent during this period. Revenue decline over this period was driven by: i) a weakening economy due to international troop drawdown and the associated sharp reduction in international military

[5] See IP MoUs for 1388 (p. 2), 1389 (p. 2), 2011 (p. 2), and 2012-2014 (p. 10).

[6] IP MoU for 2015-2017 (p. 9). The new formula intended to incentivize year-on-year revenue growth, whereas under previous IP iterations, a payment occurred even when revenue fell below the previous year's level.

expenditures; and ii) weakening revenue compliance, particularly in customs, reflecting a weakened overall governance environment and political contestation in the context of the 2014 presidential elections. Without this setback, overall revenue growth could have been even faster on average, and the revenue-to-GDP ratio in 2018 might well have exceeded 16 percent.

**Figure 13: Government domestic revenue trends**




*Source: World Bank*

**It is difficult to assess the extent to which improved revenue performance was driven by the Revenue Matching Grant, but an overall positive impact is likely**. The Revenue Matching Grant provided strong incentives for improved revenue performance. Rapid revenue growth in certain years triggered large disbursements under the Revenue Matching Grant scheme. But the existence of strong incentives could not prevent revenue deterioration during 2012-2014. It is also difficult to entangle the effects of the Revenue Matching Grant scheme from other contributing factors such as the IMF programs, technical assistance programs provided to the customs and revenue departments, or revenue related structural reforms that were also supported under the Structural Reform Scheme of the Operation. Both government officials and ARTF stakeholders agree, however, that the strong emphasis on revenue mobilization helped maintain policy focus and dialogue on revenue outcomes, which is likely to have had some positive effect.

**By the end of the life of the operation, some team members were concerned that the Revenue Matching Grant had created excessive incentives to achieve revenue targets, at the expense of broader objectives.** While difficult to assess, the narrow focus on quantitative targets may have encouraged policy and operational decisions that led revenue authorities to pursue aggressive approaches to tax collection at the expense of private sector development. The scheme may also have encouraged expanded use of fees and charges in ways that were inconsistent with ensuring equitable and affordable access to government services. These concerns were an important consideration in the decision not to maintain results-based incentives against revenue targets after the closure of the Operation.

## 5.3. Structural reform scheme

**The Structural Reform Scheme was the largest and most complex component of the Incentive Program.** Disbursements under the Structural Reform Scheme totaled US$640 million of the total US$1.2 billion disbursed through the IP. Over its life, the Structural Reform Scheme supported 83 reform actions. Supported reforms focused tightly on the Operation's fiscal sustainability objectives. Around half of supported reforms (40) directly or indirectly supported revenue mobilization. 23 reforms directly focused on strengthening of revenue collection policies, processes, and systems. 17 reforms focused indirectly improving revenue performance through enabling private sector development and mobilization of investment in key revenue-generating sectors of the economy. Around a quarter of reforms (19) were targeted towards expenditure management, while another 17 reforms targeted improved public financial management. Only seven reform actions covered broader governance reforms with a looser connection to fiscal sustainability objectives.

**The Structural Reform Scheme supported both upstream policy and institutional reforms (formulated as actions) and downstream implementation measures (sometimes formulated as actions and sometimes as quantitative targets or results).** This was highly appropriate to Afghanistan's fragile context, where wide gaps between formal policies and rules and actual practices are frequently observed. Flexible incentivization of both policy actions and results allowed the program to provide support throughout the reform process. Upstream policy reforms (such as approval of policies or laws) were supported in one year, followed by concrete implementation of those policies (such as roll-out of new systems to a specified number of service delivery units, completion of institutional reorganizations) in subsequent years.

**The discounting mechanism balanced timeliness of reforms against quality and sustainability considerations.** The design of the Structural Reform Scheme meant that disbursements associated with specific reforms would be discounted, rather than lost entirely, if reforms were not completed by the specified deadline. In several instances, government chose to delay reforms in order to ensure quality and avoid the need for future amendment or correction, accepting the reduced disbursement associated with that delay. If full disbursement amounts had been lost if reforms were not completed by the specified deadline, incentives to rush through flawed reforms simply to 'tick the box' and mobilize disbursements would have been much stronger, likely leading to lower quality and less sustainable reform actions.

**Due to the lack of a comprehensive results framework, assessing impacts beyond the completion of incentivized reforms is difficult.** No complete results framework was prepared for the Structural Reform Scheme. An intervention logic and results indicators against which to assess impact of supported reforms was never developed. Many policy actions supported by the Structural Reform Scheme captured immediate results or outputs (for example "ACD completes three rounds of customs exams for grade five and six customs officers" or "CAO carries out and published external audits that represent at least 25 percent of total expenditures"). Other policy actions, however, were specified as inputs (for example, "Ministry of Commerce and Industry abolishes the requirement for criminal record checks in the issuance of business licenses") with no information recorded regarding even short-term impacts of those reforms and actions. This was an important shortcoming and complicates any assessment of whether supported reforms contributed to expected long-term outcomes.

**Assessment of impacts is further complicated by the fact that many reforms were also supported through technical assistance or incentive mechanisms.** Reforms supported by the Structural Reform Scheme overlapped significantly with parallel reform efforts driven through: i) technical assistance provision by the World Bank or other donors; ii) parallel World Bank development policy financing operations; iii) IMF programs; and iv) other donor budget support programs. It is therefore difficult to isolate the marginal impact of the Structural Reform Scheme in driving reforms.

**Based on an assessment of whether supported reforms were implemented and sustained, the Structural Reform Scheme was a qualified success.** 53 IP benchmarks (64 percent) were implemented within the prescribed time frame with completion triggering the full amount of the incentive payments. Seven (8 percent) benchmarks were implemented with some delay and triggered discounted incentive payments. 23 were not implemented within prescribed timeframes and triggered no incentive payments (28 percent). However, of the 23 reforms that triggered no incentive payment due to delays, 21 were still implemented. Implementation of reforms even after the period for triggering an incentive payment had passed reflected the strong government ownership of reforms under the Structural Reform Scheme.

**Figure 14: Structural Reform Scheme policy actions by area**

| Year(s) | Status of Actions | Number of Policy Actions | | | | | |
|---|---|---|---|---|---|---|---|
| | | Revenue Mobilization (Direct) | Revenue Mobilization (Indirect) | Expenditure Management | PFM | Other Governance | Total |
| 2008-10 (annual programs) | Total | 8 | 5 | 4 | 2 | 4 | 23 |
| | Achieved | 8 | 5 | 4 | 2 | 4 | 23 |
| | Undisbursed | 0 | 0 | 0 | 0 | 0 | 0 |
| 2012-2014 | Total | 3 | 6 | 6 | 12 | 3 | 30 |
| | Achieved | 0 | 3 | 3 | 10 | 1 | 17 |
| | Disbursed wi h Delay | 0 | 1 | 1 | 0 | 1 | 3 |
| | Undisbursed | 3 | 2 | 2 | 2 | 1 | 10 |
| 2015 - 2017 | Total | 12 | 6 | 9 | 3 | 0 | 30 |
| | Achieved | 5 | 2 | 4 | 2 | 0 | 13 |
| | Disbursed wi h Delay | 2 | 1 | 1 | 0 | 0 | 4 |
| | Undisbursed | 5 | 3 | 4 | 1 | 0 | 13 |
| **Total** | **Total** | **23** | **17** | **19** | **17** | **7** | **83** |
| | **Achieved** | **13** | **10** | **11** | **14** | **5** | **53** |
| | **Disbursed with Delay** | **2** | **2** | **2** | **0** | **1** | **7** |
| | **Undisbursed** | **8** | **5** | **6** | **3** | **1** | **23** |

*Source: Evaluation Team*

**Government success in completing policy actions to specified deadlines varied over the duration of the scheme and with the ambition of reforms.** Over 2008-201, during which policy actions were specified as an annual program, all of the 23 actions were achieved by the specified completion date. Reforms were completed in a period of 6-8 months (agreement on specified reform actions would not be reached until well into the year, because preparation of new could only begin after the previous annual program was completed). Successful completion of all specified reforms under compressed timelines reflects limited ambition under an experimental new program design. Two of 23 policy actions were legal reforms. The rest were operational steps towards the implementation of existing policies.

**The movement to a three-year programmatic framework of policy actions allowed for the selection of more-ambitious reforms**. From 2012-2017, the Structural Reform Scheme utilized three-year matrices of programmatic reforms. Over the two three-year programs, the Structural Reform Scheme focused increasingly on significant upstream policy reforms rather than the implementation of existing policy.  The 2012-2014 and 2015-2017 programs introduced four and nine entirely new reform processes respectively.

**The Structural Reform Scheme was frequently used by government to overcome inter-agency coordination problems.** Reforms supported by the Structural Reform Scheme were skewed towards reforms involving multiple government agencies. The Structural Reform Scheme was used by both the World Bank and government to incentivize reforms that may otherwise have been impossible due to difficult coordination problems. Inter-agency reforms, however, were not always implemented smoothly. Almost every reform that involved more than one agency experienced delays. These delays were sometimes significant, with reforms to customs and business licensing delayed by more than a year. In contrast, reforms involving only a single ministry were typically completed on time (for example, PFM reforms that could be effectively implemented solely by the Ministry of Finance).

**Greater selectivity in choice of policy actions may have allowed timely completion of challenging reforms**. If the Structural Reform Scheme had targeted a smaller number of challenging inter-agency reforms, it may have been possible to maximize impact without sacrificing timeliness. The delays in customs and business licensing reforms could have been potentially be minimized if policy attention and dialogue had been more narrowly focused in these areas.

**Reforms supported by World Bank teams based in Kabul were more likely to be completed on time.** Policy actions that were supported by World Bank teams based in Kabul were subject to fewer delays. This dynamic can be illustrated by comparing reforms to customs and revenue administration between 2015 and 2017. Both reform processes had a slow start. But revenue management reforms were implemented faster once the initial constraints were removed, largely due to close supervision and the provision of technical assistance by World Bank staff on the ground. Without specialized World Bank staff based in Kabul and working on customs reforms, customs policy actions were delayed, despite the existence of a large World Bank investment project focused on ACD.

**There is little evidence of policy reversals, with reforms sustained over time.** The evaluation team looked for evidence that reforms supported by the Structural Reform Scheme had been reversed or had been implemented only ‘on paper’ with limited tangible impact on the ground. Interviews with World Bank technical experts, discussions with government officials, and reviews of available documentation show that nearly all reforms supported by the Structural Reform Scheme: i) have had a direct impact on the ground, leading to tangible changes in policies, systems, and processes; and ii) have been sustained over time.

**There is clear evidence that the Structural Reform Scheme generated reform momentum that has been sustained since the closure of the program**. The Structural Reform Scheme ended officially in mid-2018 with five policy actions left incomplete. All but one of the policy actions (the 2017 tax policy action related to property taxation) were eventually implemented without the support of the Structural Reform Scheme. Further, some reform processes that were initiated under the Structural Reform Scheme but not completed have progressed since the closure of the scheme without incentivized support (for instance, reforms to the pension and social benefit systems).

**Policy actions to establish an independent land administration agency have been reversed.** The Structural Reform Scheme supported several legal and institutional reforms to modernize Afghanistan's land administration. Supported policy actions included reforms to establish an independent land authority (ARAZI) with a governance structure intended to insulate the agency from executive interference. For unknown reasons, ARAZI has since been absorbed by the Ministry of Urban Development and Housing. While broader efforts towards the establishment of an administrative land system have progressed, the absorption of ARAZI within a government ministry represents the only clear reversal of reforms supported under the Structural Reform Scheme.

**A small number of policy actions had limited tangible impact.** The 2010 Structural Reform Scheme supported the introduction of asset declaration and verification requirements for government officials as part of the government's effort to reduce corruption within the civil service. The government met the benchmark, but during the review process it became evident that the High Office of Oversight lacked both the capacity to properly analyze the declarations as well the power to enforce any punitive measures. The 2015 Structural Reform Scheme supported the establishment of a tax reform coordination task force within Ministry of Finance which has never been operational. Neither of these reforms was supported by an accompanying technical assistance engagement.

**Box 3: Case studies of structural reform processes**

**Customs reforms (2012-2014 and 2015-2017)**:

Up until 2011, reforms in the Afghanistan Customs Department (ACD) had been progressing well with a focus on tariff re-classifications, capacity building, and the modernization of the customs IT systems. Institutional weaknesses, however, produced large vulnerabilities to corruption. Recruitment and promotions were dominated by nepotism. Officers were stationed at border posts for long periods, allowing the entrenchment of corrupt practices. Overlapping mandates between the ACD and other Ministries, particularly the Ministry of Interior and the Ministry of Commerce, prevented the customs department from exercising effective investigation and enforcement functions. The Afghan National Police would patrol the border and frequently engage in irregular revenue collection without mandate. Custom officers, on the other hand, had no right to bear arms and were therefore unduly exposed to physical danger. They faced frequent threats from armed smugglers or paramilitary forces, impeding revenue collection efforts.

Despite obvious dysfunctions with institutional and human resource arrangements, the Ministry of Finance leadership faced challenges in introducing reform due to the presence of powerful vested interests, including within ACDs management. From 2012, the Ministry of Finance attempted to leverage the Incentive Program's Structural Reform Scheme to drive a renewed and more expansive reform agenda. Through inclusion of critical reforms under the Structural Reform Scheme, Ministry of Finance staff believed they would be able to overcome vested interests and build political support for required changes.

This process began in 2012, with the Structural Reform Scheme supporting the preparation of comprehensive customs action plan This plan was aimed at turning ACD into a modern and effective customs agency with: i) a clear mandate that it could effectively enforce; ii) competitive and merit-based HR management; and iii) efficient border management practices (including e.g. mobile inspections). Between 2013 and 2016, several policy actions were supported under the Structural Reform Scheme to support implementation of the reform plan.

Supported HR reforms related to recruitment, promotion, mobility, remuneration and restrictions on lateral entry. Additional actions focused on ensuring adequate training for customs officers, ensuring competitive appointment processes, and ensuring compliance with established procedures for lateral entries. Another critical element of the reform program related to the establishment of a preventive and enforcement wing, with specialist functions and adequate legal powers for enhanced compliance enforcement.

Progress was neither smooth nor immediate. The implementation of the reforms – initially planned to begin in 2013 - was rolled over into the 2015-2017 program. Several reform actions were not completed in time to qualify for any disbursement. This partly reflected the continued presence of political resistance and vested interests, but also setbacks due to a lack of or delayed technical support during implementation. Eventually, however, substantial progress with the customs reform plan was achieved. A preventive and enforcement wing was established, with a clearly defined mandate and appropriate structure and training, and critical HR reforms were pushed through expanding the use of competitive appointments, increasing training, and curtailing corrupt lateral entry practices. While many important challenges remain to be addressed in customs administration, actions supported under the Structural Reform Scheme drove institutional improvements that would otherwise have remained politically impossible.

**Revenue administration (2010-2017):**

Afghanistan achieved rapid initial progress with establishing a tax administration, quickly transforming a moribund, paper-based system and moving to capture rapidly increasing revenues from a fast-growing tax base. Supported primarily by a DFID-financed program, ARD formulated a comprehensive tax policy, consolidated the legal regime to reflect that policy, introduced a unified electronic tax system (SIGTAS), and established a new institutional structure. The Structural Reform Scheme was used to help drive a small number of critical reforms during this period, including the establishment of a post-audit unit.

The next wave of reforms focused on re-organizing and re-structuring of ARD in order to: i) provide more autonomy to ARD in decision making; ii) reduce the fragmentation of ARD functions across tax offices; and iii) strengthen relevant reporting lines. These reforms initially proved more challenging. Cabinet approval of the new plan was included as a policy action under the 2015 Structural Reform Scheme program. However, ARD – lacking donor support after the DFID program expired in 2014 – had difficulties finalizing the new reform plan and getting buy-in from Ministry of Finance leadership who felt that the planned reforms were too ambitious. The policy action was not achieved by the deadline, and no funds were disbursed.

At the same time, major issues began to emerge with the SIGTAS system. System continuity risks emerged due to the absence of donor support, and a lack of resources and technical capacities. The World Bank, which had little involvement with ARD prior to 2014, took over a leadership role in the provision of technical assistance, but without staff resources on the ground was unable to substantially accelerate the pace of reforms or fully address growing system risks.

From 2016, however, the World Bank stationed a tax administration expert in Kabul. The World Bank was able to work in close cooperation with ARD to access emergency technical assistance, revise the reform plan, and establish a new program of Structural Reform policy actions aligned with this plan and focusing on improving ARD's tax audit capacity and mechanisms as well as streamlining tax administration processes. Due to the World Bank's ability to provide close supervision, the 2016 and 2017 Structural Reform Scheme policy actions were fully achieved, and full funds disbursed. Reform within ARD continue to follow revised reform roadmap and have been sustained through to 2020.

**Business Licensing Reforms (2012-2017):**

In most countries new businesses register for a permit once for legal and tax purposes. Licenses are typically issued to businesses which are active in specific markets as a means of ensuring compliance with sector specific rules and regulations (for example, consumer safety or consumer protection). But in Afghanistan licensing has also been a means of tax enforcement. Businesses were required to renew their licenses annually after proving that their tax liabilities were cleared and paid. Moreover, licensing responsibilities were divided between AISA – Afghanistan's investment promotion agency - and MOCI. This fragmentation was intended to overcome capacity constraints within MoF in the early years of reconstruction. AISA – due its legal status of a limited liability company – was considered better placed to hire qualified staff and manage the investment licensing system effectively.

Over time, this licensing practice evolved into a convoluted and cumbersome process, presenting serious obstacles to those wishing to operate a business. Businesses frequently lost their licenses due to delays in issuing tax clearance certificates. The process of obtaining both a tax clearance certificate and a business license renewal was subject to corrupt practices and arbitrary decisions. Firms had little bargaining power and few possibilities of recourse. Moreover, fees charged to businesses for the renewal of licenses kept increasing over time, reflecting AISA's heavy reliance on fee income to finance its operations.

Government recognized that the licensing system needed to be reformed and – from 2013 – used the Structural Reform Scheme to drive critical changes. This process began with the Structural Reform Scheme supporting the issuance of a decree by the Ministry of Commerce extending the validity period of the licenses from one to three years. While the decree was issued, however, AISA did not adhere to the prescribed new practice, continuing to issue orders with single-year validity. Over following years reforms stalled with disagreements between the Ministry of Commerce and Industry and AISA continuing to disrupt progress.

Licensing reforms gathered new momentum under President Ghani's new administration. AISA was repeatedly challenged by the new government to propose a reform program to address common complaints raised by the private sector. After failing to provide a reform vision that aligned with the views of the new government, AISA was dismantled and merged with MoCI. From 2016, reform progress again gained pace. Supported by the 2016 Structural Reform Scheme, the licensing system was unified and the costs of obtaining licenses were reduced. Fees for business licenses were reduced very significantly, while the period of validity was extended from one year to three years. Digitization and simplification of procedures, including those supported under the 2017 Structural Reform Scheme, further eased the administrative burden on businesses.

*Source: Evaluation Team*

## 5.4. O&M Facility

**O&M in Afghanistan was severely underfunded at the time the O&M Facility was introduced**. According to a World Bank study in 2011[7], the government spent around one percent of GDP on O&M while the actual needs were closer to four percent of GDP. In addition, future pension and social protection liabilities – estimated at two percent of GDP – were expected to further increase pressure on the budget, potentially squeezing out required O&M spending,

**The O&M Facility was designed to incentivize increased O&M expenditures.** The facility provided incentive payments for overall and (in some years) sectoral O&M expenditures above a designated baseline. The baseline increased in line with revenue growth each year. Expenditure above the baseline

[7] The World Bank (2012): Afghanistan in Transition. Washington, DC.

was reimbursed at a rate of 150 percent, generating a strong incentive for O&M expenditure in excess of the baseline level. government committed to: i) enhanced monitoring of O&M expenditures; ii) preparation of regular O&M reports to be presented to ARTF donors; and iii) introduction of norm-based formulas for the allocation of O&M (supported as policy actions under the Structural Reform Scheme).

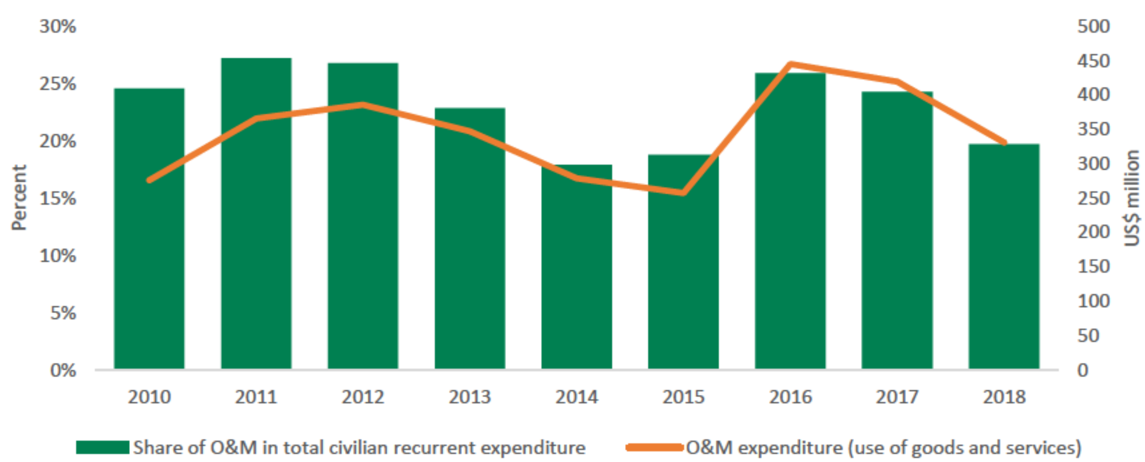
**The O&M Facility did not achieve its intended objectives**. The O&M Facility disbursed funds in all five years, with very significant disbursements in some years (Figure 15). Disbursements in 2013 and 2014 were triggered by increased O&M spending in a few key sectors, even as overall O&M expenditure dropped. This raised concerns that the O&M Facility was leading to the diversion of O&M spending rather than increased overall O&M spending levels. In 2015, the mechanism was adjusted to incentivize only increased spending at the aggregate. Aggregate O&M expenditure targets were reached in each subsequent year.  Despite this, O&M expenditures fell in the first two years after introducing the O&M Facility, rebounded 2016 but continued to fall thereafter (Figure 15). O&M expenditure declined relative to revenue growth, suggesting that declines in O&M expenditure were not driven by unavoidable pressures on available fiscal space.

**Figure 15: Performance of O&M Facility 2013-2018**

| | O&M Expenditure Compared to Target | Disbursement |
|---|---|---|
| **2013** | Total O&M fell short of target, but exceeded target in selected sectors | $32 million |
| **2014** | Total O&M fell short of target, but exceeded target in selected sectors | $33.9 million |
| **2015** | Exceeded target by 16 percent, and 9.3 percent increase over 2014 | $33.6 million |
| **2016** | Exceeded target by 2.2 percent, and 7.5 percent increase over 2015 | $59.7 million |
| **2017** | Exceeded target by 5.0 percent, and 18.8 percent increase over 2016 | $8.9 million |
| **2018** | Exceeded target, and increased over 2017 | $23.5 million |

*Source: ARTF Administrator's Financial Report*

**Figure 16: O&M Expenditure Trends 2010-2018**




*Source: ARTF Administrator's Financial Report*

**Monitoring and reporting on O&M expenditures was inadequate.** O&M reporting by the Ministry of Finance was infrequent and irregular, and planned improvements captured in discussions around the O&M Facility never materialized. Inadequate information was provided regarding the quality of O&M expenditure or the factors driving expenditure trends. Reporting requirements were not sustained beyond the lifetime of the program.

**Overall, the O&M Facility can be considered a failure.** The mechanism failed to drive a sustainable increase in O&M expenditures despite the fact that additional O&M expenditures would have paid for themselves (with 150 percent reimbursement of funds through the facility). Three factors might have contributed to this disappointing result:

- **Short-termism.** Reimbursement only occurred several months into the subsequent fiscal years. In the context of high fiscal pressures, government may have discounted consideration of the fiscal benefits of future reimbursement when struggling to manage short-term political pressures within the current budget year.
- **Lack of technical assistance.** The O&M Facility as well as the O&M related structural benchmarks were meant to be supported by a new technical assistance program which never materialized. Even if technical assistance provision did not lead to increased overall O&M spending it is likely to have supported improved policy dialogue and strengthened analysis and reporting.
- **Lack of ambition in setting of targets.** Targets were met even as aggregate O&M expenditures declined. Setting more-ambitious targets under the O&M Facility may have been able to incentivize increased (or at least sustained) O&M spending.

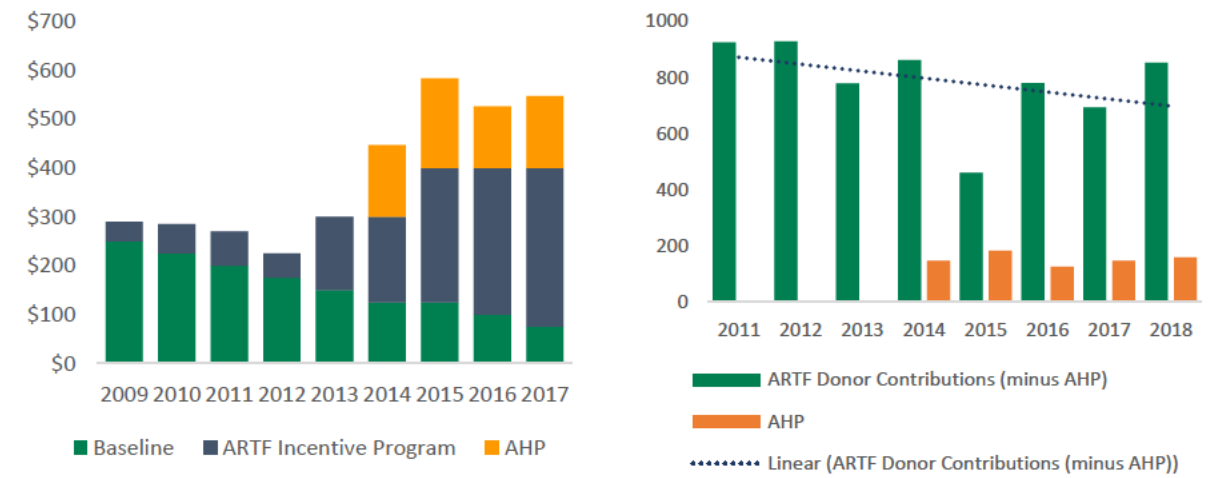
## 5.5. Ad-hoc payment facility

**The AHP was established as a pure pass-through mechanism**. The AHP was initiated in 2014 at the request of ARTF donors to serve as a pass-through mechanism for funding they wished to provide to the Afghan government budget as incentive payments for the achievement of Tokyo Mutual Accountability Framework indicators. Initially conceived as a minor program component to allow pass-through of resources on an exceptional basis, use of the AHP grew rapidly. Partners quickly began using the mechanism to incentivize a broader range of bilaterally agreed policy conditions, agreed without the involvement of the World Bank. By 2020, the AHP had disbursed $772 million. Although AHP payments followed the eligibility review process and fiduciary standards used for the RCW, AHP disbursement were not incorporated in annual planning for the Operation, nor were the policy conditions for AHP payments shared or coordinated with the IP.

**The AHP was not well aligned with objectives of predictability and coordination in recurrent cost support.** Bilateral programs that utilized the AHP facility may well have had some beneficial impacts. However, the introduction of the AHP was in some respects inconsistent with overall objectives of the Operation. The AHP facilitated the proliferation of conditionality-based payments to government, weakening coordination. Further, because disbursement decisions were made by individual ARTF partners without any requirement for coordination and scheduling of payments, significant volatility was introduced, and predictability suffered (Figure 17).

**The overall impacts of the Ad Hoc Facility, however, are difficult to determine**. Coordination, predictability, and timeliness objectives are likely to have been better served if resources channeled through the Ad Hoc Payment Facility had been utilized under other components of the Operation. However, this was not the appropriate counterfactual. In the absence of the Ad Hoc Facility, partners may have channeled these resources towards off-budget projects. This would have exacerbated coordination challenges further, while rendering those resources unavailable for the support of core on-budget programming. Alternatively, partners may have established entirely new on-budget modalities, with their own fiduciary controls and monitoring frameworks, leading to duplication and an increased compliance burden for government. Overall, the Ad Hoc Payment Facility may have made a greater contribution to the objectives of the Operation than viable alternatives.

**Figure 17: Ad Hoc Payments Facility Disbursements (US$ Millions)**




*Source: ARTF Administrator's Financial Report*

# 6. Program Governance and Supervision

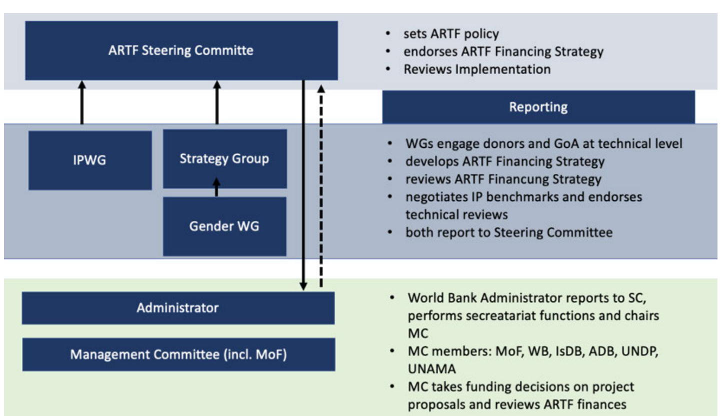
*This section reviews governance and supervision of the Operation. The adequacy of governance and supervision on behalf of the World Bank and ARTF partners is discussed, before turning to adequacy of supervision by government.*

## 6.1. World Bank and ARTF program governance and supervision

**Governance of the Operation was embedded within overall governance of the ARTF**. The ARTF was established with a fairly simple tripartite governance structure involving: i) a Donors' Committee; ii) a Management Committee (MC); and iii) the World Bank as administrator. The Donors' Committee discussed ARTF developments and made policy decisions. The Management Committee, consisting of multilateral agencies with no major own interest in the ARTF, made funding decisions. The Bank as administrator provided administrative and fiduciary services, including the provision of the Monitoring Agent, through an ARTF secretariat that was an integral part of the Bank's office in Kabul and which reported to the donor committee.

**The ARTF's governance structure has evolved over time.** An early change in the governance structure was giving GoA a formal seat in both the Donors' Committee and Management Committee. The Donors' Committee was transformed into a Steering Committee (SC). Given the increasing size and complexity of the ARTF, and consistent with the recommendations of the 2008 external evaluation of the ARTF, a number of working groups with technical staff were established to analyze and advice the Steering Committee on key matters: The Strategy Group, the Gender Working Group and the Incentive Program Working Group (IPWG) (Figure 18). With this change the IPWG became an important governance body for the Operation, as discussed below.

**Figure 18: ARTF governance structure**




*Source: ARTF Administrator*

**Eligibility of recurrent cost support was closely monitored.** Throughout the implementation of the Operation, recurrent cost eligibility was monitored by a third-party Monitoring Agent, physically present in Afghanistan and located within the Ministry of Finance. On the World Bank side, senior task team leaders were also based in Kabul, providing just-in-time support to the government and interfacing with, and guiding the Monitoring Agent regularly. With long-term staff located in Kabul, supervision and fiduciary control was fully integrated into project implementation. The Monitoring Agent prepared reports on a quarterly basis. Reports were subject to review by the World Bank. Summary findings were shared with ARTF Donors on a regular basis but were not published due the sensitivity of some financial data. Full Monitoring Agent reports have been shared with ARTF donors since 2016. Findings and recommendations by the of the Monitoring Agent were discussed by the ARTF SC and the IPWG.

**The IPWG provided a joint mechanism for establishing policy reform targets, monitoring progress, and verifying the completion of policy actions.** The IPWG was established in 2009 and was a Kabul-based body. The IPWG was co-chaired by the World Bank (represented by a Kabul-based senior task team leader) and the Ministry of Finance and included representatives of the largest donors of the ARTF as well as the IMF as an observing member. The formal role of the IPWG included: i) negotiating and agreeing the program of policy reforms; ii) monitoring progress in the implementation of reforms and coordinating associated technical assistance needs between partners; and iii) discussing and endorsing technical reviews including disbursement recommendations. The IPWG met once every four to six weeks, or more frequently during program preparation. Discussion at all IPWG meetings was captured in comprehensive minutes, which were shared with ARTF partners, and technical reviews were published on the ARTF website.

**The IPWG evolved into an important and effective instrument for policy dialogue and donor coordination.** Both the minutes of IPWG meetings and technical review documents reflect substantive and technically informed discussions around policy reforms. Discussions at IPWG meetings often extended beyond purely operational issues, providing a forum for discussion between partners and government on broader economic governance issues and the coordination of technical assistance. Donor engagement was generally active and constructive. Several external reviews of the ARTF indicate high donor and government satisfaction with the IPWG.

**Program governance and supervision was frequently affected by the security situation, staff rotations, and the complexity of the program:**

- There was extraordinary continuity in managing the Operation, with several World Bank team leaders remaining in country for much longer than the average term. However, the Operation's complexity and the fact that its design differed from standard World Bank instruments also meant that task handovers were more challenging and required more time.

- From 2013, the Operation increased both in complexity and ambition even as the security situation became more volatile and the Bank's staff footprint in Kabul decreased significantly. Increased reliance on experts based outside of Kabul, combined with security-related disruptions to mission travel, led to frequent delays in the resolution of operational challenges and the completion of technical reviews.

- Rapid rotation of ARTF partner members of the Incentive Program Working Group sometimes impeded policy dialogue. New partner representatives sometimes brought their own priorities, uneven technical knowledge, and uneven institutional memory of past program and instrument design decisions. This sometimes led to repeated discussions around program design and posed challenges for World Bank and government members attempting to ensure medium-term consistency in reform priorities.

## 6.2. Government Supervision

**Responsibilities for government supervision were well-established.** For almost the entire duration of the Operation, the office of the Deputy Minister of Finance held overall responsibility for oversight, with operational support from the Budget Department. In the last cycle of the IP (2015-2017), responsibilities of the program were divided between the Finance and Policy Departments of the Ministry of Finance. The Deputy Minister held monthly to bi-monthly meetings with all participating stakeholders on the government side to discuss any issues during the implementation of the program.

**Government demonstrated strong ownership of the Operation throughout implementation.** Ownership was demonstrated by:

- Government's decision to voluntarily submit the entire civilian operating budget for review to the Monitoring Agent, even though this risked exposing budget vulnerabilities and leakages to donors and the general public. Government viewed the Monitoring Agent mechanism as providing an opportunity to: i) signal strong commitment towards transparency; and ii) access additional information on the strengths and weaknesses of fiduciary system to complemented still nascent government-managed audit efforts. The Monitoring Agent was regarded by government as an extension of its own audit systems.

- Strategic use of the Structural Reform Scheme to advance difficult and high-priority reforms. Some of the most complex and difficult reforms supported under the Structural Reform Scheme were included at the request of government. Government counterparts realized that the high visibility and the scale of resources provided under the Operation could be used to drive reforms that would otherwise not be feasible, including reforms requiring action by multiple agencies.

- Strong willingness of government officials to be involved in the process. Government would typically propose many more reforms for inclusion under the Structural Reform Scheme than could be supported. This reflected strong incentives for program participation facing government staff, including: i) access to additional government budget allocations to implement supported reforms; ii) access to increased budgetary resources to units that were able to successfully implement reforms; and iii) personal recognition, opportunities for career advancement, and increased profile with senior government officials, including the Minister of Finance.

- Wide publication of the results of verification reports and technical reviews. the results of the technical reviews, including to local media. Approval of disbursements following successful implementation of reforms was typically accompanied by a press conference led by either the Minister or the Deputy Minister of Finance.

**Despite strong ownership, supervision of the program had some significant shortcomings**. As discussed above, implementation problems have occurred frequently in relation to policy actions requiring coordinated action across government agencies. The Ministry of Finance struggled at times to monitor program implementation and coordinate the effective and timely completion of policy actions. The quality of monitoring varied greatly during program implementation. It was the strongest between 2009 and 2010 when the program was directly supervised by the office of the Minister, and then again between 2012-2013 under the direct supervision of the DG Budget who assigned a dedicated team to follow-up on the program implementation. However, staff changes as well internal conflicts over program responsibilities in the wake of institutional reforms affected the quality of supervision. Compounding factors were the increasing complexity of the Incentive Program and the growing profusion of conditionalities, including under the Tokyo Mutual Accountability Framework (TMAF), the Self-Reliance through Mutual Accountability Framework (SMAF), the State Building Contract (SBC) with the European Commission, or the New Development Partnership (NDP) with USAID which increased the demands on MoF’s limited capacity. An attempt to better organize the supervision of these programs through a new governance structure within the Ministry was never implemented in the context of frequent leadership changes and increasing uncertainty over the course of reforms.

# 7. Achievement of Outcomes

*This section assesses whether the outputs of the Operation have contributed to the achievements of the high-level objectives of the program. The analysis presented in this section answers the following questions:*

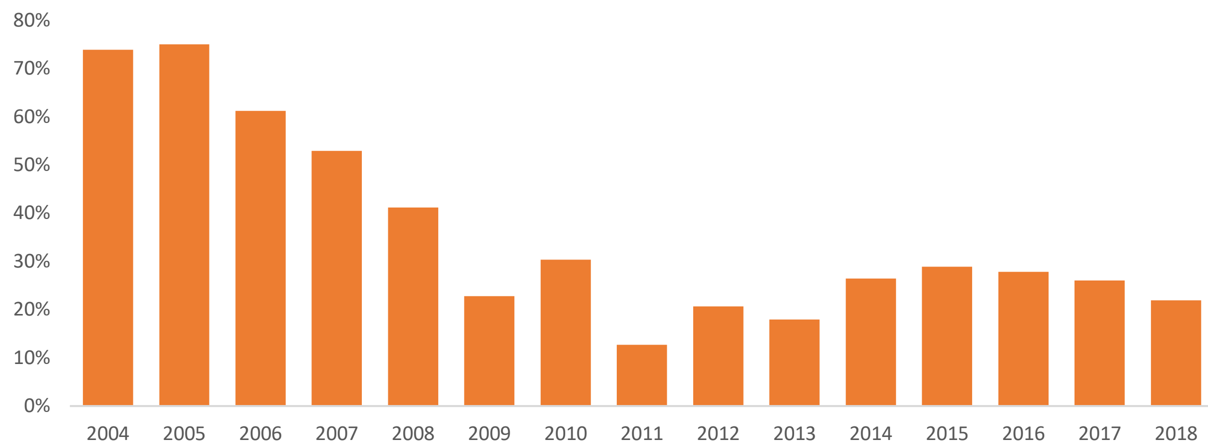
- *Did the Operation contribute to improved delivery of basic services and strengthened state legitimacy?*
- *Did the Operation contribute to progress towards fiscal sustainability over time?*
- *Did the Operation contribute to additional positive outcomes?*
- *Did the Operation have unforeseen negative outcomes?*

## 7.1. Improved Service Delivery and Strengthened State Legitimacy

**Coordinated door support was provided though the Operation in order to help build state capacity for the delivery of basic public services.** The Operation contributed to delivery of services in two main ways. Firstly, the Operation provided financing for the delivery of services directly through government systems and agencies, meeting the costs of critical recurrent items and supporting the sustainable development of government's institutional capacity. In addition, between 2010 and 2018 the Structural Reform Scheme of the Operation supported institutional reforms which were intended to improve the capacity of the state to sustainably deliver services including through improved public financial management and revenue systems.

**The financial contribution of the Operation to public service delivery was significant**. Afghanistan saw huge improvements in the reach and quality of public services over the period of the Operation. This improvement was driven by rapid increases in outlays to basic civil services. Civilian budget expenditures grew from $250 million in 2002 to over $3.2 billion in 2018, while the civil service expanded from 270,000 in 2004 to over 400,000 in 2018. This expansion would not have been possible without the effective coordination of donor financing through the Operation. In the early years the Operation financed between 40 -75% of civilian recurrent expenditure. In later years this contribution declined, but remained significant, at around 20-30% (Figure 19).

**Figure 19: RCC disbursements as a share of the civilian recurrent budget**




*Source: ARTF Administrator*

**Public finance, civil service, and revenue reforms supported under the Structural Reform Scheme are also very likely to have contributed to expanded service delivery.** A series of supported civil service reforms are likely to have helped ensure a sustainable wage bill while allowing government to retain required expertise and skills. Reforms to audit and treasury systems are likely to have helped ensure fiduciary control over government resources, limiting wastage and leakage. Revenue and customs reforms, as described below, are likely to have increased government capacity to raise revenues and finance service delivery expansions. Previous external reviews of the ARTF have noted the direct contribution of the Operation to expansions in service delivery.

**Partly as a result of funding provided through the Operation and partly as a result of supported reforms, service delivery outcomes improved dramatically over its lifetime** (Figure 20)**.** As has been exhaustively documented elsewhere, Afghanistan saw some of the fastest improvements in social indicators in the world during the period of the Operation. The number of births attended by a skilled medical professional increased from 12 percent in 2003 to 52 percent in 2018. Access to vaccinations and immunizations was substantially expanded. Maternal mortality rates declined from 1,100 per 100,000 live births in 2000 to 396 per 100,000 live births in 2015. The under-five child mortality rate declined from 129 per 1,000 live births in 2003 to 63 per 1,000 live births in 2017. The proportion of secondary-age children enrolled in secondary school increased from 13 percent in 2003 to 54 percent today. The proportion of secondary-age children attending school increased from 26 percent to 35 percent. The proportion of Afghans with access to an electricity grid connection increased from eight percent to more than 30 percent.

**Figure 20: Service delivery outcomes**

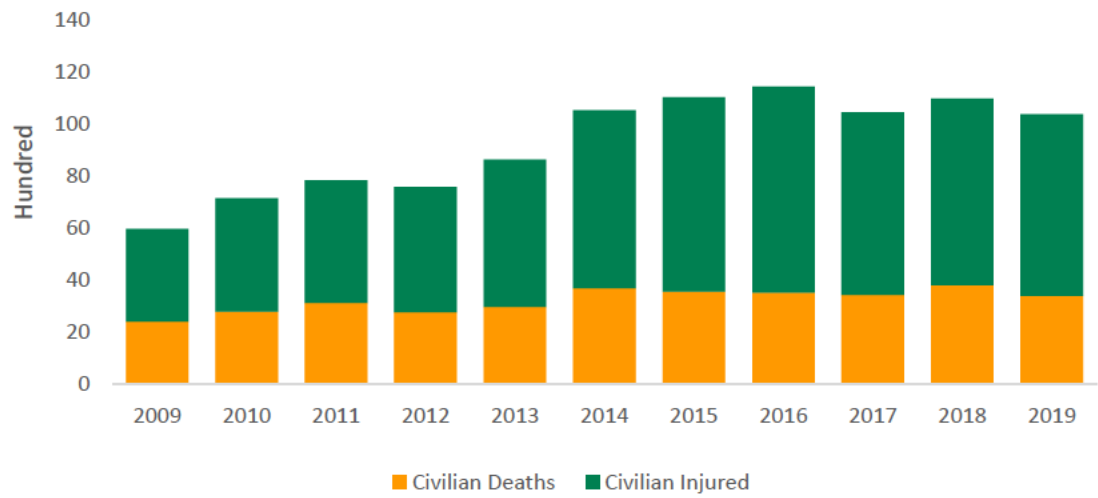
| | 2003 | 2007 | 2017 |
|---|---|---|---|
| Life expectancy at birth, total (years) | 56.0 | | 64.0 |
| Births attended by skilled staff (% of total) | 12.0 | | 52.0 |
| Mortality rate, under-5 (per 1,000 live births) | 129.0 | | 63.0 |
| Access to prenatal care (%) | | 32.8 | 80.0 |
| Full Immunization rate (% of children ages 12-23 months) | 27.0 | | 60.0 |
| Literacy rate, age 15yrs and above | | 25.0 | 43.8 |
| Net attendance ratio in primary education (%) | 43.3 | | 76.0 |
| Girls to boys, age 6-12 years, enrollment ratio (%) | | 0.7 | 0.7 |
| Access to improved drinking water (% of households) | | 27.2 | 36.9 |
| Access to improved sanitation (% of households) | | 5.2 | 41.1 |
| Access to electricity (% of households) | | 41.1 | 97.7 |

*Source: World Bank Development Indicators and NRVA, 2007-8 and 2016-17*

**Afghanistan faces multiple, complex challenges to state legitimacy that could not realistically be addressed solely through improvements in service delivery.** Recent research illustrates that linkages between service delivery, state legitimacy, and fragility are complex and mediated by many additional factors, including the mechanisms through which services are delivered at the local level. Given the importance of broader political, structural, social, and regional drivers of contestation and conflict in Afghanistan, it would not be realistic to expect that the Operation could have significantly impacted overall state legitimacy. In the absence of a counterfactual scenario in which the Operation was not implemented and service delivery expansions did not occur, it is difficult to assess whether the Operation made any positive contribution to state legitimacy. Some positive contribution is certainly possible given the breadth of coverage and very tangible local impacts of the national on-budget programs that the Operation helped to finance. Early external reviews of the ARTF found that the ARTF was contributing to state legitimacy through expanded delivery of services. Overall, however, the linkage between “sector wide programs, investment projects, and other development activities” and state legitimacy asserted in the formal objectives of the Operation (including in the ARTF Board document) was not supported by any clearly articulated intervention logic and cannot be subject to empirical verification.

**Improvements in state effectiveness and legitimacy were limited over the duration of the operation.** As discussed above, important gains have been achieved in service delivery, and a basic state infrastructure for effective delivery of services has been established. Afghanistan remains a fragile state, however. Conflict intensity remains at record levels. Outcomes of recent elections have been contested amid implicit threats of violence. The World Bank’s worldwide governance indicators (Figure 22) compile information from 32 perception-based survey and sources across 47 variables ranging from quality of bureaucracy to distribution infrastructure of goods and services. While subject to important data limitations, this index suggests that governance perceptions only improved along two aspects since 2003, namely voice and accountability as well as regulatory quality. In all other areas, including on political stability, government effectiveness, rule of law and control of corruption, the indicators suggest no improvement. Similar conclusions can be reached from other data sources. The fragility index (which scores countries based on software-driven content analysis of online publications, quantitative data, and a range of qualitative assessments) also shows increasing fragility over the period of the Operation.

**Figure 21: Civilian casualties**




*Source: UNAMA*

**Figure 22: World Governance Indicators - Afghanistan**

| | 2003 | 2009 | 2014 | 2018 |
|---|---|---|---|---|
| Voice and Accountability | -1.18 | -1.38 | -2.14 | -0.99 |
| Political Stability and Absence of Violence | -2.2 | -2.71 | -2.41 | -2.75 |
| Government Effectiveness | -1.08 | -1.48 | -1.33 | -1.46 |
| Regulatory Quality | -1.43 | -1.67 | -1.12 | -1.13 |
| Rule of Law | -1.55 | -1.85 | -1.45 | -1.67 |
| Control of Corruption | -1.35 | -1.53 | -1.35 | -1.5 |

*Source: World Bank, World Governance Indicators*

*Note: Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance*

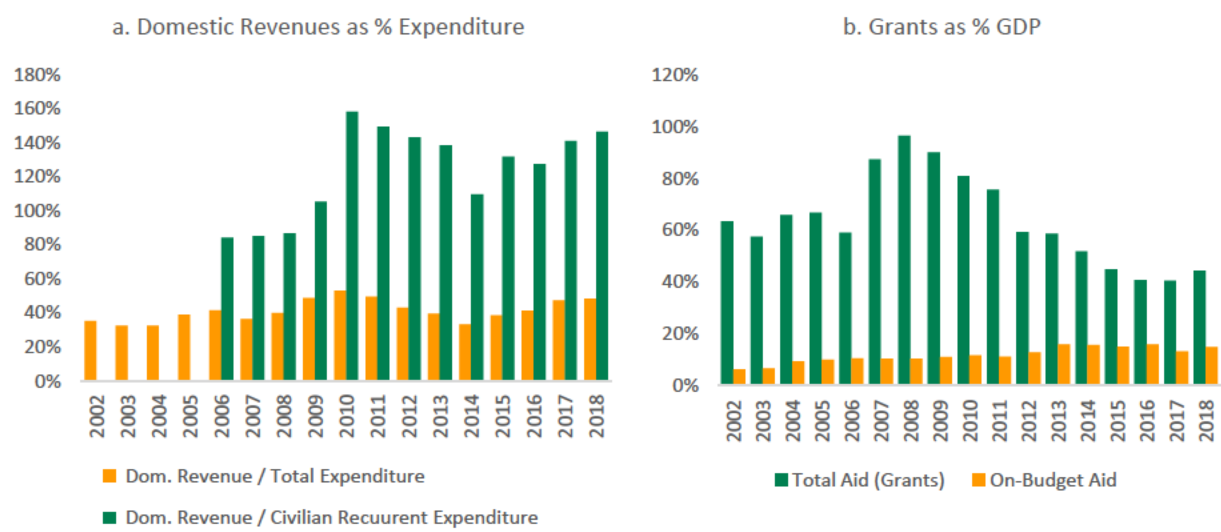
## 7.2. Improved fiscal sustainability

**Supporting fiscal sustainability was a key focus of the Operation, especially following the introduction of the Incentive Program in 2008.** A large proportion of the reforms included under the Structural Reform Scheme explicitly targeted improved revenue performance. Additional reforms under the Structural Reform Scheme were intended to support effective expenditure management, contributing to fiscal sustainability on the expenditure side. The Revenue Matching Grant was intended to directly incentivize improved revenue collections. Most of the key revenue reforms implemented by government over the 2008-2017 period were supported under the Structural Reform Scheme.

**Substantial progress was made towards fiscal sustainability over the period of the Operation:**

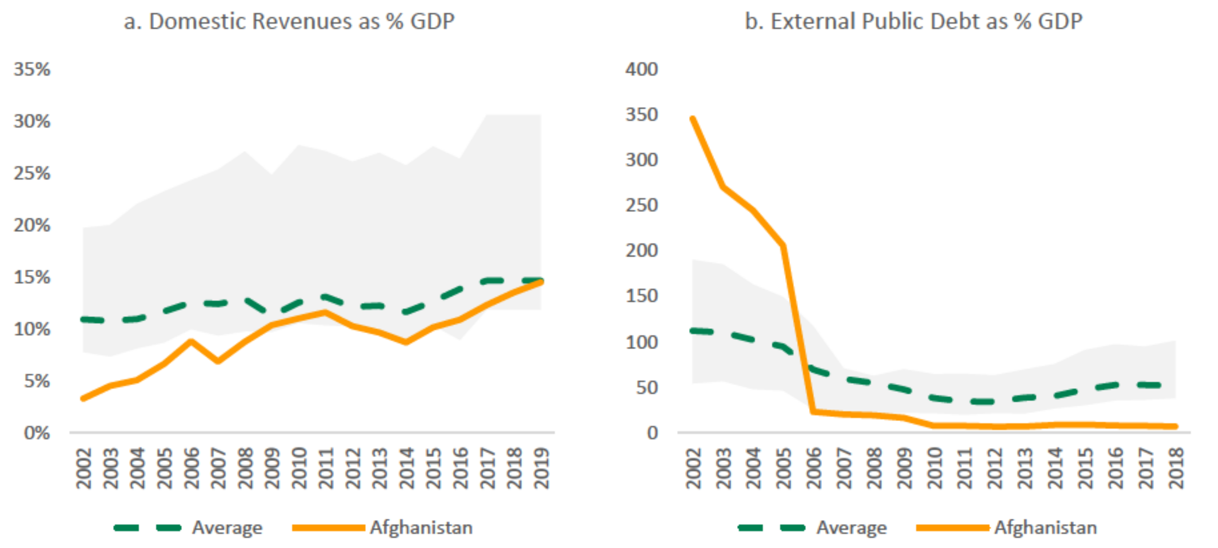
- Fiscal deficits remained tightly contained, avoiding the need for new borrowing. Government maintained aggregate expenditure control and balanced its budget. Following various debt relief initiatives and the cancellation of disputed debts to Russia, debt levels remained among the lowest across all low-income countries.
- Domestic revenues grew significantly from 3.4 to 12.4 percent over the program period, reaching a new high of 14.1 percent in 2019 (close to average revenue-to-GDP ratio for low-income countries). The rate of revenue growth was the fastest of all low-income countries over the period. Domestic revenue as a share of recurrent spending increased from 33 percent in 2003 to 76 percent in 2019.
- Reliance on external aid decreased from an all-time high of 96% of GDP in 2012 to 42% in 2019 (Figure 23).
- Disbursements through the Operation as a ratio of domestic revenues consistently declined over the Operation's life, from around 100 percent in 2003 to around nine percent in 2018. Government's overall dependence on resources provided through the Operation – while remaining significant – has declined drastically and consistently over time.
- While the government budget remains heavily reliant on external grants, this is entirely due to the high costs of the security sector (security sector costs account for around 40 percent of budget expenditure). Government revenues have exceeded recurrent civilian expenditures since 2009.

**Figure 23: Fiscal sustainability metrics**




*Source: World Bank, Ministry of Finance data*

**Figure 24: Fiscal sustainability metrics relative to Low Income Countries**




*Source: World Bank, Ministry of Finance, UNWIDER*

**Fiscal sustainability remains to be fully achieved.** Afghanistan continued to rely on international grants to finance 75 percent of public expenditure, around 50 percent of the annual budget, and 90 percent of security expenditures. With international security and civilian grants expected to decline over coming years, there are risks that fiscal constraints will lead to reversals against many of the gains in social and economic outcomes achieved over the period of the Operation. Nonetheless, Afghanistan's revenue performance remains impressive by any standard, and reflects the maximum of what could realistically be achieved in any similar context.

## 7.3. Other outcomes - transparency and private sector development

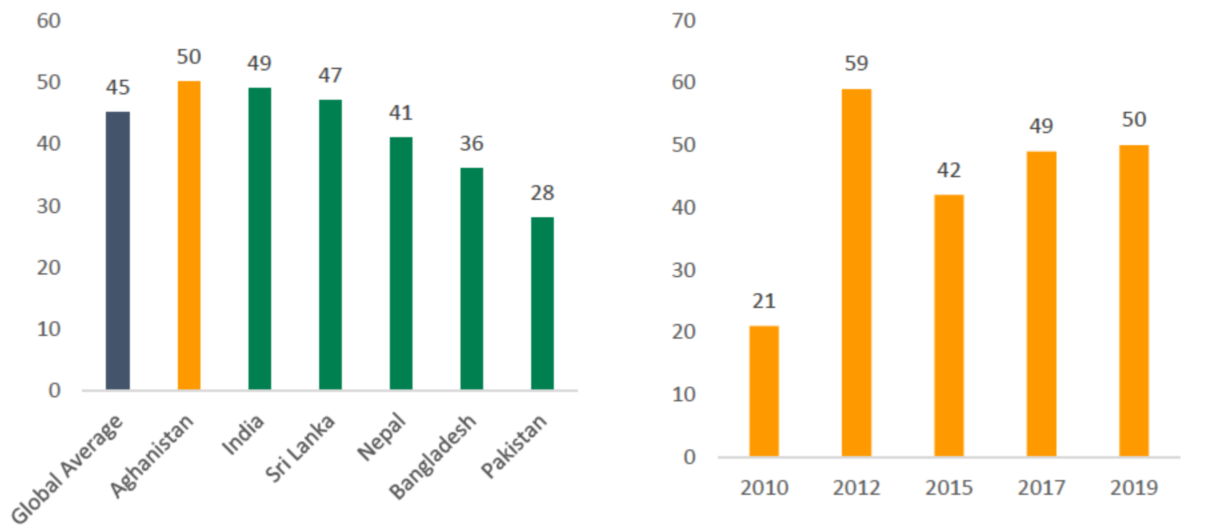
**Policy actions under the Structural Reform Scheme frequently targeted transparency and private sector development as means to achieving overarching fiscal sustainability objectives.** This section assesses the extent of progress towards these secondary objectives of fiscal transparency and private sector development.

**There is some evidence of improved transparency**. According to the Open Budget Initiative which surveys and evaluates public budgets in 117 countries regularly, Afghanistan's budget transparency has improved significantly since 2012. Afghanistan is currently ranked 50th in the world, ahead of India, Sri-Lanka, and Pakistan. Improved fiscal transparency is also reflected in the results of the 2018 PEFA, in which Afghanistan scored above the global average for PEFA dimensions on "comprehensiveness and transparency".

**Corruption, however, is perceived to have become an increasingly severe problem in Afghanistan over recent years, suggesting that transparency reforms had limited overall impacts.** Afghanistan is ranked consistently as among the ten most corrupt countries in the world in Transparency

International's Perceptions of Corruption Index. The World Bank World Governance Indicators show that "control of corruption" has deteriorated consistently since 2013. According to the Asia Foundation's Survey of the Afghan People, 77 percent of citizens feel that corruption is either a very or somewhat serious problem, and around the same number believe that corruption has become a more significant problem over the past two years.

**Figure 25: Budget transparency scores and rankings**




*Source: Open Budget Initiative*

*Note: Changes in score from 2012 to 2015 reflect methodological adjustments*

**Private sector reforms supported by the Structural Reform Scheme appear to have had some impact.** The Structural Reform Scheme supported 17 policy actions to improve the business environment, including through business registration and licensing, paying taxes, easing processes to obtain electricity connections, and trading across borders. Data from the World Bank's Doing Business Survey shows some positive results arising from these reform efforts. Between 2008 and 2017, the time taken to start a business declined from 10 days to eight days, the number of procedures was reduced from five to four, while the cost of starting a business declined from 85 percent of income per capita to just 20 percent. The time taken to obtain a construction permit declined from 358 days to 199 days over the same period, while associated costs were reduced by more than half. The cost of obtaining an electricity connection declined from more than 60 times income per capita in 2011 to around 20 times income per capita in 2017, while the time taken to obtain a connection was reduced from more than 400 days in 2010 to around 114 days in 2017.

**More generally, however, the business environment remains extremely difficult and private sector confidence deteriorated significantly over the period of the Operation.** While frequent changes in methodology mean it is impossible to identify an overall trend, Afghanistan was still ranked 172nd of 190 countries in the global Doing Business Survey in 2017. A difficult business regulatory environment continued to be commonly cited as a constraint to investment by firms. Confidence and investment were further and more deeply undermined by continuing conflict, weak governance, and political instability. (In the 2014 Business Enterprise Survey firms cited political instability and corruption as the primary constraints to investment). While detailed investment data are not available, all indicators suggest declining investment over the later years of the Operation, reflected in stagnating economic growth, increasing unemployment, and higher rates of poverty.

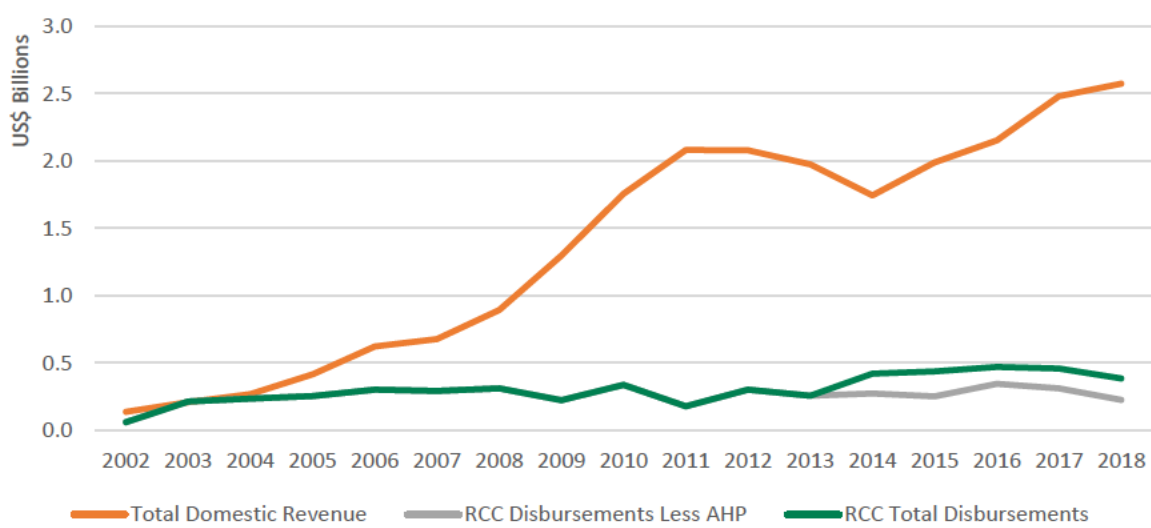
**Overall, the Operation is likely to have had marginal positive impacts on the business regulatory environment and public sector transparency.** The impacts of structural reforms supported by the Operation, however, did not lead to increased rates of investment or reduced corruption due to the overwhelming impact of broader governance, conflict, and political constraints.

## 7.4. Negative impacts and perverse incentives

**This section explores whether the Operation inadvertently generated negative impacts.** The section assesses whether the Operation: i) disincentivized revenue collection; ii) disincentivized prudent expenditure management; or iii) exacerbated corruption risks.

**There is no sign that the Operation inadvertently contributed to setbacks in Afghanistan's revenue growth**. Given the sizable recurrent budget funding available from the Operation, stakeholders had serious concerns about inadvertently providing a disincentive to revenue growth. However, as discussed elsewhere in the report, revenues consistently increased over the course of the program (with the exception of the period around the 2014 elections, where revenue declines were clearly driven by specific political conditions and a slowing economy). Further, there does not appear to be a negative correlation between disbursements under the Operation and revenue growth.

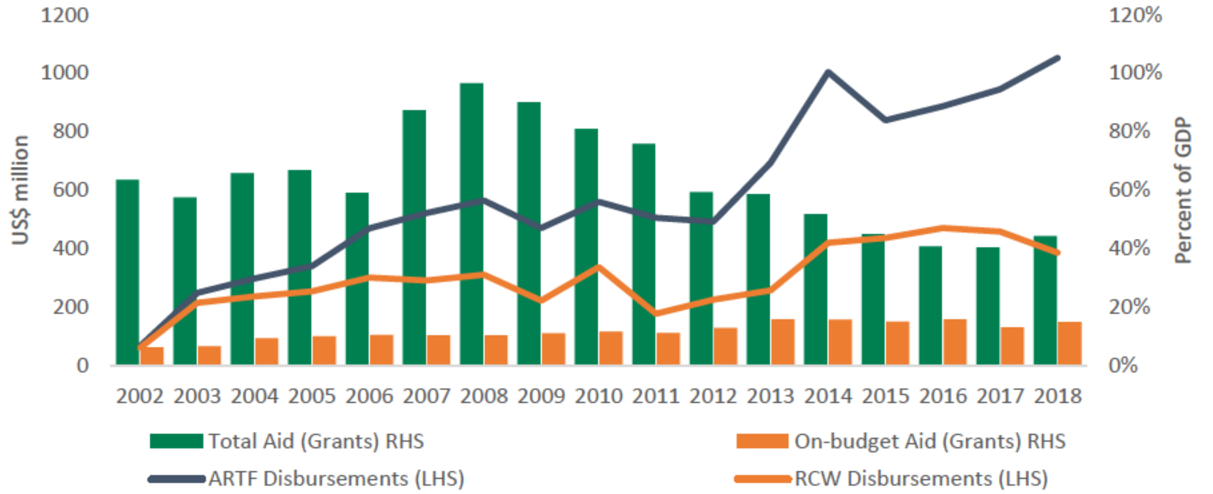
**Figure 26: Trends in Revenues and RCC Disbursements**




*Source: World Bank*

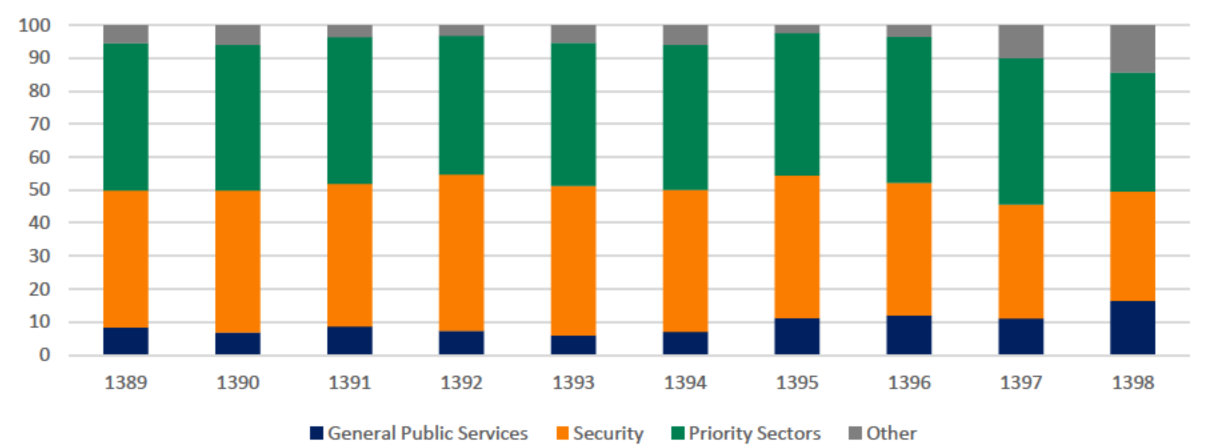
**There is no sign that the Operation inadvertently weakened government incentives to maintain control over and optimize recurrent expenditures.** Disbursements under the Operation remained relatively stable from 2003 until its closure. There is no evidence that the Operation spurred unduly rapid or excessive growth in government spending. While disbursements under the Operation increased significantly in 2013, this occurred during a period of overall rapid declines in aid inflows, and increased disbursements were not associated with any significant increase in overall government spending (Figure 27).[8] Expenditure trends over most of the lifetime of the operation show positive trends. The share of development spending was maintained despite pressure from the security sector and weak revenue during 2012-2014. Development expenditure rose as a share of GDP over most of the life of the operation. Priority sectors—defined by the Afghan government as including education, health, social protection, and economic affairs—maintained their percentage in total expenditures in the lower-mid 40s from 2010 to 2017 (Figure 28).

**Figure 27: Trends in aid support and RCC disbursements**




*Source: World Bank*

**Figure 28: Trends in aid support and RCC disbursements**




*Source: World Bank*

[8] The increase in disbursements under the Operation, as well as for the ARTF as a whole, largely reflect the AHP facility which started to disburse in 2014.

**There is no sign that the Operation inadvertently exacerbated corruption risks.** Provision of very high levels of grant support is often argued to have exacerbated corruption in Afghanistan, in the context of weak accountability and inadequate control systems. Three main factors suggest that the Operation is unlikely to have contributed to corruption. Firstly, the Operation provided financing to meet the existing recurrent costs under the government budget, rather than generating new procurement or payment opportunities. Secondly, disbursements under the Operation were subject to rigorous fiduciary control arrangements, including third-party monitoring of payment records. Only payments on a narrow range of basic government expenditure items were reimbursed, and only through systems where adequate controls had been established.

# 8. Lessons Learned

*This section presents lessons learned through experience of the Operation. Lessons may be relevant to both future operations in Afghanistan and internationally.*

## 8.1. Recurrent cost support

**Coordinated provision of unconditional budget support can be of critical importance in immediate post-conflict contexts.** Afghanistan achieved impressive progress in developing core government programs to deliver crucial services to citizens, leading to some of the fastest progress against social indicators in the world. The rapid emergence of functional government systems would not have been possible without the provision of substantial, predictable, and coordinated recurrent cost support. Observed strengthening of core government systems depended heavily on financial support to basic recurrent expenditure items, including civil service salaries. While incentivization was progressively built into project design, it would have been unrealistic to expect a newly established government (facing important capacity gaps in the context of substantial political uncertainty) to have successfully negotiated and implemented a program of policy actions during the early post-conflict period. Provision of coordinated recurrent cost support provided a valuable alternative to fragmented budget-support programming or individually managed investment projects, which would have been likely to overwhelm scarce government capacity and contribute further to daunting aid coordination problems.

**Third-party monitoring can provide vital safeguards in weak-governance environments, but an exit strategy is needed.** Third-party monitoring arrangements facilitated contributions of recurrent cost financing by ARTF partners by providing necessary assurance that fiduciary risks were being adequately managed. Providing such assurance would not have been possible using only core government fiduciary control and expenditure management frameworks, given the nascent state of relevant institutions in the immediate post-conflict context. To this extent, third-party monitoring arrangements were a crucial component of success in providing substantial coordinated recurrent cost support. Recent efforts to strengthen and expand third-party monitoring arrangements have been appropriate in the context of weakening governance and increased partner concerns regarding fiduciary risks. Third-party monitoring under the Operation always included a technical assistance and capacity building component, which was intended to support the strengthening of government systems over time. As has been indicated in previous external evaluations of the ARTF, a clear strategy and timeline for phasing out third-party monitoring systems might usefully be developed as government capacity is built over time. Establishment of clear milestones for phasing out third-party monitoring systems might strengthen incentives on behalf of both government and partners to ensure that effective government fiduciary control systems are established. Such phase out would need to be carefully calibrated to broader country circumstances and implemented only as government demonstrates required risk-management capacities.

## 8.2. Incentivization of policy reforms

**Utilization of partial, time-based disbursement mechanisms can help to incentivize reform while managing fiscal risks.** The Operation included innovative elements in the use of incentive mechanisms. While not all experiments succeeded (the O&M Facility, for example, was a clear failure), the use of partial, time-based disbursements against policy reforms was extremely effective. The Operation explicitly priced individual reforms and also priced delays in implementing reforms. Establishing an explicit cost of delays helped to motivate timely government actions. Disbursing against completion of individual reform actions rather than completion of the overall reform program helped manage fiscal risks in a context where government was heavily dependent on disbursements under the Operation, but also faced constraints to timely completion of reforms typical of fragile, low capacity, and politically volatile environments. Non-completion of some reforms did not mean that all disbursements were delayed. The discounting mechanism further helped manage risks by expanding opportunities for government to access at least some proportion of allocated funds even when facing implementation delays. A further benefit of the discounting mechanism was that – because the value of disbursements against policy actions declined only gradually over time – potentially perverse incentives to meet completion deadlines even at the cost of quality were moderated.

**Taking a medium-term programmatic approach and incentivizing a combination of policy reforms and implementation measures can help avoid superficial or 'paper based' reforms.** The Operation was able to support successful implementation of complex reforms involving multiple agencies through the adoption of a medium-term approach. Upstream policy and legal reforms (framed as policy actions) were supported in early years, with concrete implementation measures supported during subsequent years (framed as either technical implementation actions or results). This approach was extremely helpful in a context where substantial gaps between policies and laws and actual practices are often wide. Incentivization of upstream policy and legal reforms was often necessary in a context where legal and policy frameworks remained undeveloped. But focusing only on upstream policy actions may have simply led to the adoption of new policies and laws that remained unimplemented in practice.

**Successful reform requires the provision of technical assistance support, ideally from field-based teams.** Unsurprisingly, provision of technical assistance to the implementation of supported policy actions was closely associated with timely completion. In the context of weak capacity and complex political dynamics, technical assistance provided from teams based on the ground and in regular contact with government proved most effective. Incentivization of policy reforms for which adequate technical assistance was not provided (O&M Facility, AML/CFT reforms) led to delays and implementation failures, imposing fiscal risks on government and undermining the achievement of intended outcomes.

**Monitoring progress against previously incentivized reforms should be a critical element of program management**. The Operation supported implementation of 83 policy actions over its lifetime. With support to such a broad program of reforms over several years and with significant turnover in program management, risks of policy reversal were pronounced. While this evaluation finds limited evidence of significant policy reversals, systems could have been strengthened to help mitigate this risk. Maintaining a unified database of reforms supported over the lifetime of the program and ensuring regular monitoring of continued effective implementation of previously supported policy reforms by technical teams may have been useful.

**Policy reform implementation is best supervised by a dedicated government team**. Implementation of reforms supported by the operation was most effective when managed by a Ministry of Finance team with adequate capacity and clear responsibilities. It may be useful for government to establish a dedicated unit within the Ministry of Finance that could take responsibility for coordination of policy actions across government agencies, and across different budget support and other incentive programs, facilitating donor coordination and harmonization of conditionalities. This is likely to prove most effective if the unit has a clear cross-government mandate and is able to assign responsibility for specific actions and monitor progress across agencies.

## 8.3. General lessons

**Establishing a clear development objective, intervention logic, and results framework may have helped with assessing progress and recalibrating assumptions over time.** The Operation pursued a fairly narrow and consistent range of objectives over its lifetime, while using a variety of instruments and supporting an expansive program of policy reforms. While the Operation benefitted substantially from flexibility and responsiveness to changing country circumstances, not all of the instruments under the Operation were successful or fully aligned with project outcomes, notably including the O&M Facility and the AHP facility. A clear intervention logic and results framework would have: i) helped ensure that all instruments and supported policy reforms were closely aligned to operational objectives; ii) allowed for periodic tracking of progress and course correction; iii) allowed for a more comprehensive and systematic evaluation of a major program; and iv) allowed the team to resist pressures from various stakeholders to add program instruments and policy reforms that were not aligned with project objectives. Utilization of an adaptive programming approach with a well-documented but regularly revised results framework and intervention logic may have achieved these objectives without unduly constraining flexibility and responsiveness.

**Realism is required regarding the achievability of state-building objectives**. Various documentation reflected an assumed direct and unproblematic relationship between financing service delivery and increased state legitimacy. At least to some extent, and during some stages of its lifetime, the Operation was presented as contributing to broader conflict mitigation and state-building goals. The assumed linkage between service delivery and state legitimacy was widely reflected in development thinking during much of the life of the Operation. The assumption, however, has since been extensively challenged in academic and policy research. Future operations may benefit from a clearly articulated, more sophisticated, and empirically verified intervention logic between service delivery and state-building goals. Operation design and the specification of objectives could also have reflected greater realism regarding the limited possible impact of service delivery and policy reforms on overall governance outcomes and private sector investment. The Operation had limited potential to impact overall governance and private sector investment outcomes in the context of broader binding constraints, including continued political instability and worsening conflict.

**Realism is required regarding fragility risks to program objectives.** The complexity and ambition of the Operation design and supported reforms increased over time, even as the security and governance context deteriorated. Decision-making seems to have been repeatedly driven by optimistic expectations regarding future political and security developments. The Operation may have been strengthened through: i) explicitly articulating assumptions regarding future political and security conditions; ii) reflecting these assumptions in a clear intervention logic; and iii) periodically testing these assumptions against actual developments and revising program design and intervention logic accordingly.

# Annex: Assessment of Structural Reforms

| Year | Technical Review Date | Reforms Areas | Other Objectives | Benchmarks | Achieved |
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| 2008 | 5-May-09 | Revenue Mobilization (direct) | | Enactment of the amendment to tax legislation to introduce business receipt tax on imports. | **Achieved, fully disbursed** |
| 2008 | 5-May-09 | Revenue Mobilization (direct) | | Ensuring increased resourcing of the Revenue & Customs departments in the Ministry of Finance.<br><br>(a)Increase in the approved SY1388 Tashkeel over SY1387 for Revenue and Customs departments in MoF. The schedule below sets out the proposed increases in Tashkeel in the SY1388 budget (see annex).<br><br>(b)Approved (by DM Administration) Procurement Plans from Revenue and Customs Departments including the Original Procurement List communicated by respective Departments.<br><br>(c)Guidelines for internal MoF Budgeting Process: A Report outlining the steps, tools, and documentation required for budget formulation and execution prepared and disseminated to Revenue and Customs Departments. | **Achieved, fully disbursed** |
| 2008 | 5-May-09 | Revenue Mobilization (direct) | | Verification that the memorandum of understanding between Ministry of Finance and Ministry of Commerce and Industry has been implemented, with regards the access of customs officials to the Fuel and Liquid Gas Enterprise (FLGE). | **Achieved, fully disbursed** |
| 2008 | 5-May-09 | Other Governance Reforms | Social | Documented policy established on teacher competencies and agreed to by Minister of Education. | **Achieved, fully disbursed** |
| 2008 | 5-May-09 | Other Governance Reforms | Transparency | Initiate the Asset Registration process.<br><br>a) Asset declaration form completed and sent out by the High Office of Oversight & Anti-Corruption. | **Achieved, fully disbursed** |

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| | | | | b) Guidelines developed by the High Office of Oversight & Anti-Corruption for filling in the asset declaration forms.<br><br>c)Technical note setting out the future direction for a fully 'operationalized' asset registration system, i.e. what the Government commits to doing in the coming year. To be prepared by the High Office of Oversight & Anti-Corruption. d)Completion of asset registration by at least four ministers (target pilot group will include the HOO, MoF, MoI, and the Supreme Court) | |
| 2008 | 5-May-09 | Revenue Mobilization (indirect) | Private Sector | Submit Memorandum of Trade Regime (MTFR) in draft to World Trade Organization for official review. | Achieved, fully disbursed |
| 2008 | 5-May-09 | Expenditure Management | Transparency | Submission of DABM/S audited financial statements for 2006/07–07/08 | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | Revenue Mobilization (direct) | Transparency | Customs reforms<br><br>(i)The customs department at MOF reports quarterly on an agreed set of key out put indicators, which will allow better assessment of general progress made with in customs administration and<br><br>(ii)ASYCUDA roll - out to Sher Kahn Bandar. | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | Revenue Mobilization (direct) | Transparency | Tax and Non-tax revenue transparency<br><br>(i)A MOU on revenue collection is signed between MOF and Ministry of Transport and Civil Aviation (MOTCA);<br><br>(ii) Publication and posting on the MOF/ACD web page of all fees and processing charges at the Revenue and Customs Offices;<br><br>(iii) Monthly posting of detail ed customs collection data (by customs station c )on the MOF / ACD web - page. | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | Revenue Mobilization (direct) | | Improving tax compliance<br><br>The number of companies that are non - compliant with the Business Receipt Tax (BRT) or Income Tax at the start of SY 1388 is reduced by 10 percent by the third quarter of SY 1388 | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | Other Governance Reforms | Transparency | Asset declaration<br><br>(i)Asset declaration rol l- out (with no less than 60 percent of the current Cabinet Ministers submitting their asset declarations), and<br><br>(ii) A draft implementation strategy for asset declarations (including verification procedures) is developed for Cabinet approval and shared with donors. | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | PFM | Transparency | Strengthening GOA's Internal Audit function | |

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| | | | | Reinstatement of Article 61 of the Public Expenditure and Financial Management (PEFM) Law regarding MOF's government - wide purview ove Internal Audit through a Presidential Decree. | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | Expenditure Management | | Progress in P&G implementation<br><br>A progress report of P&G implementation is prepared covering MOF, Ministry of Rural Rehabilitation and Development (MRRD), Ministry of Education (MoE) (including teachers) , Ministry of Justice (MoJ) and Ministry of Agriculture ,Irrigation and Livestock(MAIL), featuring :<br><br>(a) progress of P&G by line ministry as of October 31,2009, including analysis on regrading;<br><br>(b) comparison with the timetable for that ministry set earlier ;and<br><br>(c) action plan for each ministry implementing P&G for the remainder of the year 1388. | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | Expenditure Management | | Progress in DABS corporatization and governance reforms<br><br>The DABS Board approves a plan to reduce commercial and technical losses with in the next two years; including a timetable and action plan for the establishment of commercial activities and better customer services, including the Kabul region, previously known as the Kabul Electricity Directorate ,KED. | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | Revenue Mobilization (indirect) | Private Sector<br><br>Transparency | Roll - out of the Central Business Registry to provinces<br><br>A pilot Central Business Registry will be launched in Jalalabad. | Achieved, fully disbursed |
| 2009 | 23-Dec-09 | Revenue Mobilization (indirect) | Private Sector<br><br>Transparency | Improvement of the regulatory framework and transparency in the mining sector<br><br>(i)The Minerals Law and the revised Hydro carbon Law(Petroleum Law) are enacted through gazetting ;and<br><br>(ii)A fully costed and time action plan for EITI implementation is endorsed by a multi - stakeholder working group and submitted to the EITI secretariat. | Achieved, fully disbursed |
| 2010 | 16-Jun-11 | Revenue Mobilization (direct) | Transparency | Customs reforms:<br><br>(i) implementation of a pilot ASYCUDA valuation module for 200 revenue earning commodities, and<br><br>(ii.) establishing automation of the Exemption Process in the Afghan Customs Department (ACD) Head Quarters | Achieved, fully disbursed |
| 2010 | 16-Jun-11 | Revenue Mobilization (direct) | Transparency | Improving governance in revenue administration:<br><br>(i) establishing a functional Post Audit Unit in the Afghan Revenue Department (ARD) legal office to improve | Achieved, fully disbursed |

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| 2010 | 16-Jun-11 | PFM | Transparency | Improving Public Financial Management and Fiduciary Standards:<br><br>(i) Cabinet approval of an Audit Law in line with international auditing standards (and consistent with Article 61 of the PFEM Law that gives MoF purview over Internal Audit) clarifying the role of CAO as an independent external audit agency both in mandate and reporting, and<br><br>(ii) start implementing the Internal Audit Action plan by providing inception reports for an audit in 4 line ministries, on the basis of a risk analysis across Government. | **Achieved, fully disbursed** |
| 2010 | 16-Jun-11 | Other Governance | Transparency | Progress in asset declaration implementation:<br><br>(i) roll-out of asset declarations with at least 20 (out of the total 34) provincial governors submitting their asset declarations to the HOO; and<br><br>(ii) the implementation of the first phase of the verification process, i.e. the administrative review (also referred to as the preliminary verification of in-country assets) of the asset declaration of 5 Cabinet ministers and 12 senior officials. | **Achieved, fully disbursed** |
| 2010 | 16-Jun-11 | Expenditure Management | Transparency | Implementing the P&G reform and improving merit-based appointments:<br><br>(i) completion of the re-grading phase in 5 ministries/agencies: Ministry of Labor, Social Affairs, Martyrs and Disabled; Ministry of Parliamentary Affairs; IDLG, Ministry of Higher Education; Ministry of Transport and Civil Aviation,<br><br>(ii) develop and approve simplified procedure for the recruitment of senior civil servants (i.e. grades 1 and 2) that increase transparency, fairness and openness in the appointment process (including vetting, short-listing, interviewing and selection procedures), and<br><br>(iii) develop and pilot a mechanism to observe and provide external scrutiny to senior appointment panels by having an independent resource person from universities and civil society sit on as ample of 20 senior appointments during the reporting period and a final approval of the mechanism by the Chairman of the Commission. | **Achieved, fully disbursed** |
| 2010 | 16-Jun-11 | Revenue Mobilization (indirect) | Private Sector | Progress towards establishing DABS as a functioning and efficient power utility:<br><br>(i) improving customer care by (a) establishing 3 fully functional Customer Care Centers (CCCs) (from baseline 1), and (b) shifting 180,000 Kabul Electricity Directorate (KED)customers from manual to a computerized billing system (from baseline 41,500 at end of billing cycle 4 in 1388), and | **Achieved, fully disbursed** |

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| | | | | (ii) improving key indicators for measuring loss reduction and revenue generation: (a) revenue from billed energy in Afs (from baseline ofa cumulative total of Afs 1.504 billion for the first six months of the year 1388 to target 1.15 *baseline for the first 6 months of year 1389), and (b) cash realized per kWh energy supplied (i.e., cash collected/total energy input to the system) (from a baseline 2.557Afs/kWh using cumulative data for the first six months of the year 1388 to target: 1.10*baseline using cumulative data for the first six months of 1389. | |
| 2010 | 16-Jun-11 | Revenue Mobilization (indirect) | Transparency<br>Private Sector | Increasing transparency in the mining industry:<br>(i)publishing the executive summary of the Aynak contract and the public announcement to commit to publish at least the executive summary for the forthcoming Hajigak contract, and<br>(ii) publishing the results of the review of 8 existing small-to-medium scale mining contracts | **Achieved, fully disbursed** |
| 2012 | 27-May-13 | PFM | Transparency | External Audit: The Control and Audit Office (CAO) carries out and publishes at least one external audit done to acceptable standard of the central government entities that represent 5 percent of total expenditures. | **Completed after deadline, not disbursed** |
| 2012 | 27-May-13 | PFM | Transparency | Internal Audit: Five ministries undertake internal audits which substantially meet professional standards set by the Internal Audit Department of the Ministry of Finance (MoF) based on the IIA standards. | **Achieved, fully disbursed** |
| 2012 | 27-May-13 | PFM | Transparency | Procurement Performance: Three line ministries implement institutional arrangements and develop capacity to meet the stand-alone procurement criteria set by the Procurement and Policy Unit (PPU) of MoF. | **Achieved, fully disbursed** |
| 2012 | 27-May-13 | PFM | Transparency | Budget Transparency: MoF implements at least three recommendations of the FY1391 Open Budget Assessment for Afghanistan by the International Budget Partnership Initiative. These could include: · Publishing the FY1392 budget planner on the MoF website · Publishing a pre-budget statement for the FY1392 budget on the MoF website · Organizing consultation workshops with CSOs and media on the FY1392 budget and publishing proceedings on the MoF website. | **Achieved, fully disbursed** |
| 2012 | 27-May-13 | Expenditure Management | | EFS Guidelines: MoF and the IARCSC issue guidelines with recommendations on EFS salaries & allowances to the donors. As part of the benchmark, MoF and IARCSC establish a monitoring and reporting mechanism for EFS salaries and allowances in consultation with the ARTF administrator. | **Delayed, partially disbursed** |

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| 2012 | 27-May-13 | Other Governance | Transparency | AML/CFT: Da Afghanistan Bank (DAB) develops a comprehensive action plans on Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) to address the most significant deficiencies identified in the AML/CFT assessment of Afghanistan (2011) agreed with the Financial Action Task Force (FATF) and establishes mechanisms for policy and operational-level coordination on AML/CFT. | **Achieved, fully disbursed** |
| 2012 | 27-May-13 | Revenue Mobilization (indirect) | Private Sector | Business Licensing: Ministry of Commerce and Industry (MoCI) abolishes the need for criminal record checks for licensing of businesses. | **Achieved, fully disbursed** |
| 2012 | 27-May-13 | Revenue Mobilization (indirect) | Private Sector | Trading across borders: MoCI produces conclusive inventory as the official reference point to clarify documentation and pay fees required to trade cross borders. MoCI will publish the inventory online and at all clearance points. MoCI will begin with a public-private sector dialogue and training of traders, agents, freight forwarders and officials on trade related requirements and trade facilitation issues. Outreach activities should be extended to regional customs houses. | **Delayed, partially disbursed** |
| 2012 | 27-May-13 | Revenue Mobilization (direct) | Transparency | Customs: Customs' action plan has been prepared and relevant parts have been agreed with MoF, MoCI and MoI. | **Completed after deadline, not disbursed** |
| 2012 | 27-May-13 | Expenditure Management | | Norm-based budget allocation: MoF and MoE agree to include, on a pilot basis, norm-based approach to the formulation of MoE's operating budget for FY1392. Expansion to be formally announced by end-August 2012. | **Achieved, fully disbursed** |
| 2013 | 26-May-14 | PFM | Transparency | External Audit Performance: CAO carries out and publishes external audits done to acceptable standard of central government entities that represent at least 20% of total expenditures. | **Achieved, fully disbursed** |
| 2013 | 26-May-14 | PFM | Transparency | Internal Audit: Five (5) ministries undertake internal audits which substantially meet professional standards set by the Internal Audit (IA) Dept. of the Ministry of Finance (MoF) based on IIA Standards. | **Completed after deadline, not disbursed** |
| 2013 | 27-Nov-13 | PFM | Transparency | Procurement Performance: An additional three (3) Line Ministries will implement institutional arrangements and develop capacity sufficient to meet the stand alone procurement criteria set by PPU. | **Achieved, fully disbursed** |
| 2013 | 27-Nov-13 | PFM | Transparency | Budget Transparency: MoF implements at least 4 (four) recommendations from the 2011 Open Budget assessment for Afghanistan by the International Budget Partnership (IBP) initiative. This could include: - MoF publishes the 1393 budget planner on MoF website - MoF prepares and publishes a 1392 Citizen Budget on the MoF website - MoF publishes a pre-budget statement for the 1393 budget on the MoF website - MoF organizes consultation workshops with CSO's and media on 1393 budget and publishes proceedings on the MoF website | **Achieved, fully disbursed** |
| 2013 | 26-May-14 | Expenditure Management | | Civil Service Reform: The Council of Ministers approves amendments to the civil servants law. | **Completed after deadline,** |

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| 2013 | 26-May-14 | Other Governance | Transparency | AML/CFT: The Council of Ministers approve the amendment of the law No. 840 of October 2004 on "Anti-Money Laundering and Proceeds of Crime" and the law No. 830 of October 2004 on "Combating the Financing of Terrorism" to align with international standards (FATF Recommendations on AML/CFT) and submit to parliament. | Delayed, partially disbursed |
| 2013 | 26-May-14 | Revenue Mobilization (indirect) | Private Sector, Transparency | Business Licensing: MoF and MoCI take necessary action to streamline the renewal for trade and investment licenses (including tax clearance). | Achieved, fully disbursed |
| 2013 | 27-Nov-13 | Revenue Mobilization (indirect) | Private Sector, Transparency | Trading across borders: MoCI makes verification of the commercial invoices and the certificate of origin voluntary for exporters and enforce the elimination of mandatory export quality certificates. | Achieved, fully disbursed |
| 2013 | | Revenue Mobilization (direct) | Transparency | Customs: Government of Afghanistan makes satisfactory progress in the implementation of the customs action plan in 1392 (as agreed at first technical review in 1391) | Completed after deadline, not disbursed |
| 2013 | 27-Nov-13 | Expenditure Management | | Norm-based budget allocation: MoF applies the norm-based formula for the operating budget to further 2 key ministries. Identity of the ministries to be announced by last quarter of 2012 | Achieved, fully disbursed |
| 2014 | 15-Dec-14 | PFM | Transparency | External Audit Performance:<br><br>CAO carried out in the year and publishes external audits done to acceptable standard of central government entities that represent at least 25 % of total expenditures (Audits covering 50% of the average annual total expenditures in the life of the IP) | Achieved, fully disbursed |
| 2014 | 15-Dec-14 | PFM | Transparency | Internal Audit:<br><br>Additional five (5) ministries undertake internal audits which substantially meet professional standards set by MoF IA based on IIA Standards (15 audits of different Ministries in the life of the IP and after the date of signing the IP). | Achieved, fully disbursed |
| 2014 | 15-Dec-14 | PFM | Transparency | Procurement Performance:<br><br>An additional three (3) Line Ministries will implement institutional arrangements and develop capacity sufficient to meet the stand alone procurement criteria set by PPU (at least 9 over the life of the IP). | Achieved, fully disbursed |

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| 2014 | 15-Dec-14 | PFM | Transparency | Budget Transparency: MoF implements at least 4 (four) recommendations from the 2012 Open Budget assessment for Afghanistan by the International Budget Partnership (IBP) initiative. This could include:-MoF publishes the 1394 budget planner on MoF website-MoF prepares and publishes a 1393 Citizen Budget on the MoF website-MoF publishes a pre-budget statement for the 1394 budget on the MoF website-MoF organizes consultation workshops with CSO's and media on 1393 budget and publishes proceedings on the MoF website | **Achieved, fully disbursed** |
| 2014 | 15-Dec-14 | Expenditure Management | Transparency | Civil Service Reform:<br><br>The authorities issue relevant regulatory instruments which enable the recruitment of professional staff. | **Completed after deadline, not disbursed** |
| 2014 | 15-Dec-14 | Other Governance | Transparency | AML/CFT:<br><br>DAB amends the following regulation to address deficiencies identified in the AML/CFT Assessment of Afghanistan (2011), taking into account the suggested amendments of the AML/CFT laws as above and the revised FATF standards (February 2012):-Responsibilities of Financial Institutions in the Fight Against Money Laundering and Terrorist Financing issued by DAB in March 2006; -Money Service Providers issued by DAB in March 2008; and -Foreign Exchange Dealers issued by DAB in July 2008. | **Completed after deadline, not disbursed** |
| 2014 | 15-Dec-14 | Revenue Mobilization (indirect) | Private Sector | Business Licensing:<br><br>The Council of Ministers issues a road map which includes a description of all required institutional and regulatory changes for the establishment of a unified business registration system within 18 months which provides the right to invest, trade and conduct usual business activities. | **Completed after deadline, not disbursed** |
| 2014 | 15-Dec-14 | Revenue Mobilization (indirect) | Private Sector | Trading across borders:<br><br>MoCI in collaboration with MoF reduces the number of required documents for trading across borders and align process with international good practice, including the elimination of product specific export permits other than negative list. | **Completed after deadline, not disbursed** |
| 2014 | 15-Dec-14 | Revenue Mobilization (direct) | Transparency | Customs:<br><br>Government of Afghanistan makes satisfactory progress in the implementation of the customs action plan in 1393 (as agreed at first technical review in 1392) | **Completed after deadline, not disbursed** |

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| 2014 | 15-Dec-14 | Expenditure Management | | Norm-based budget allocation:<br><br>MoF applies the norm-based formula for the operating budget to further 4 key ministries. Identity of the ministries to be announced by last quarter 2013 | **Achieved, fully disbursed** |
| 2015 | Nov-15 | Revenue Mobilization (direct) | Transparency | Customs HR Reforms:<br><br>The Cabinet approves a comprehensive a HR reform policy for ACD. The policy will allow ACD to develop a roadmap for the establishment of a new HR platform and will provide authority to ACD to conduct an HR review, take HR actions on existing customs staff, introduce a transparent and competitive recruitment process, determine hiring and commissioning requirements as well as to deploy performance management and related remuneration packages. | **Achieved, fully disbursed** |
| 2015 | Nov-15 | Revenue Mobilization (direct) | | Customs Enforcement:<br><br>The Cabinet approves the establishment of a Preventive and Enforcement wing within ACD with powers of search, investigation and arrest throughout Customs territory. | **Achieved, fully disbursed** |
| 2015 | Nov-15 | Revenue Mobilization (direct) | Transparency | Tax Administration: Re-Organization and Modernization:<br><br>(i.) ARD fully rolls-out SIGTAS to the five most populated province, and introduces risk-based compliance audits in all tax payer's offices in Kabul.<br><br>(ii.) The Cabinet approves a plan for the re-organization and re-structuring of ARD, including the proposal, policy procedures and a new organization structure. The reorganization aims at providing the ARD with more autonomy in decision making, reducing the fragmentation of ARD functions across ARD HQ and provincial tax offices, and at strengthening relevant reporting lines. | **Completed after deadline, not disbursed** |
| 2015 | Nov-15 | Revenue Mobilization (direct) | | Tax Policy:<br><br>(i.) As part of the revenue measures agreed with the IMF under the SMP, MoF decrees the introduction of a mobile telecommunication top-up fee, an increase in the Business Receipt Tax and an increase in the fuel and toll fees.<br><br>(ii.) MoF establishes and the cabinet authorizes an inter-Ministerial and inter-departmental committee for tax policy. The main function of the committee, which may have a flex ble structure, should review, discuss and advise on all major tax policy proposals in a time-bound manner prior to approval by cabinet and ensure that all relevant stakeholders are consulted. | **Delayed, partially disbursed** |

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| 2015 | Nov-15 | Revenue Mobilization (indirect) | Transparency<br><br>Social | Land Administration and Management:<br><br>The Cabinet approves the new land management law. The new law will include provisions that moves land titling from a court-based to an administrative system, improves security of tenure for various land users (incl. communities, women and private investors), as well as strengthens rights and mechanisms for the restitution of public and private land | **Completed after deadline, not disbursed** |
| 2015 | Nov-15 | Revenue Mobilization (indirect) | Private Sector | Doing Business Reforms:<br><br>The Cabinet approves a road map which includes a description of all required institutional and regulatory changes for the establishment of a unified business registration system which provides the right to invest, trade and conduct usual business activities to the license holders as well delineates the roles, ownership and management responsibilities of MOCI and AISA in relation to business registration and licensing. | **Delayed, partially disbursed** |
| 2015 | Nov-15 | Expenditure Management | | Sustainability of Pension and Social Benefits:<br><br>i) MoF and MoLSAMD conduct a review of the pension and social benefits system which lays out the fiscal implications of the current pension schemes (Civil Servants, Security, Martyrs & Disabled) with recommendations on how to ensure that pensions and social transfers remain fiscally sustainable in the future. The findings of the review will be presented to the President, the Council of Ministers as well as the Cabinet.<br><br>ii) MOLSAMD has introduced biometric verification / proof of life for the public pension beneficiaries registered in the PMIS. | **Delayed, partially disbursed** |
| 2015 | Nov-15 | Expenditure Management | Transparency | Electronic Payment Systems:<br><br>DAB issues a clear and transparent regulatory framework for payment system providers and payment system operators and issues an appropriate license to the Afghanistan Payments System (APS) | **Completed after deadline, not disbursed** |
| 2015 | Nov-15 | Expenditure Mangement | | Fiscal De-concentration and Provincial Budgeting:<br><br>(i.) The Cabinet approves the Provincial Budgeting Policy, allowing budget allocation of discretionary resources to provinces, based on clearly defined norms (developed by central line ministries) and in consideration of the capacity of the receiving Ministries as well as overall fiscal space.<br><br>(ii.) MoF establishes a Fiscal De-concentration Working Group that oversees the implementation of the provincial budgeting policy. | **Achieved, fully disbursed** |

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| 2015 | Nov-15 | PFM | Transparency | External Audit:<br>(i) The Supreme Audit Office (SAO) develops and agrees on a framework and methodology for Performance Audits in line with INTOSAI Auditing Standards.<br>(ii.) SAO prepares and presents a report to Parliament and President on the status of outstanding audit observations and compliance with the audit recommendations of the least three years by each line ministry and government department. With assistance of the Ministry of Finance, SAO notifies an audit follow-up mechanism requiring the line ministries to implement the agreed audit recommendations. | Achieved, fully disbursed |
| 2016 | 15-Dec-16 | Revenue Mobilization (direct) | Transparency | Customs HR Reforms:<br>ACD begins implementing the HR reforms in line with the approved HR policy including changes to recruitment, promotion, mobility, remuneration and provisions on restrictions and exemptions to lateral entry. ACD ensures that 25% of existing grade 2,3 and 4 customs officers will have passed the Customs Academy and qualify to remain in ACD, that all new recruitments will be subjected to competitive process and that any lateral entries follow the procedures laid down in the new HR Policy. | Never completed, not disbursed |
| 2016 | 15-Dec-16 | Revenue Mobilization (direct) | Transparency | Customs Enforcement:<br>(i.) The Cabinet approves amendments to the Customs law. The amendments will include provisions that regularize ACD's new enforcement wing, in particular regarding the power for Customs to exercise their powers on the Afghan customs territory.<br>(ii.) The Civil Service Commission approves the new Tashkeel for the ACD Preventive and Enforcement Wing.<br>(iii.) ACD prepares and begins implementing the Preventive and Enforcement Plan which will cover provisions on organizational structure, training and deployment of staff. | Never completed, not disbursed |
| 2016 | 15-Dec-16 | Revenue Mobilization (direct) | Transparency | Tax Administration: Re-Organization and Modernization:<br>(i.) ARD fully roll-outs SIGTA and risk-based compliance audits, to at least five additional (key) provinces; | Achieved, fully disbursed |

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| | | | | (ii.) ARD streamlines tax payment and reporting procedures to remove obstacles to taxpayer compliance. This includes the issuance of tax clearance certificates irrespective of planned or active audits and reducing the number of administrative steps to pay taxes by cash and by wire transfer | |
| 2016 | 15-Dec-16 | Revenue Mobilization (direct) | Transparency | Tax Policy:<br><br>The Cabinet approves amendments to the Corporate and Personal Income Law. The amendments, based on recommendations from a detailed review, will address current weaknesses with respect to tax efficiency, equity, and incentives for compliance. | **Delayed, partially disbursed** |
| 2016 | 15-Dec-16 | Revenue Mobilization (indirect) | Transparency & Social & Private Sector Development | Land Administration and Management:<br><br>(i.) The cabinet approves the new land acquisition law. The new law will include a resettlement and compensation framework in accordance with international good practice.<br><br>(ii.) ARAZI establishes a fully operational complaints and grievance redress unit, including an anti-corruption and complaint hotline. | **Completed after deadline, not disbursed** |
| 2016 | 15-Dec-16 | Revenue Mobilization (indirect) | Private Sector | Doing Business Reforms:<br><br>The Government unifies and implements the business and investment licensing and registration systems under the Afghanistan Central Business Registry (ACBR) across the country | **Achieved, fully disbursed** |
| 2016 | 15-Dec-16 | Expenditure Management | Transparency | Sustainability of Pension and Social Benefits:<br><br>(i) The Cabinet approves amendments to the pension related laws in line with recommendations from the pension review<br><br>(ii) MoLSAMD has introduced biometric verification / proof of life for the M&D beneficiaries registered in the MDMIS | **Completed after deadline, not disbursed** |
| 2016 | 15-Dec-16 | Expenditure Management | Transparency | Electronic Payment Systems:<br><br>(i.) Dab finalizes the functional specifications of ATS and policy framework for operation of ATS.<br><br>(ii.) DAB and MoF transfer 20% of central ministries public salary by existing electronic means | **Achieved, fully disbursed** |

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| 2016 | 15-Dec-16 | Expenditure Management | | Fiscal De-concentration and Provincial Budgeting:<br><br>MoF shifts the delegation of budget authority from central Ministries to provincial directorates for four ministries, in line with the budget policy and financial regulations. | **Achieved, fully disbursed** |
| 2016 | 15-Dec-16 | PFM | Transparency | External Audit:<br><br>(i.) The Supreme Audit Office (SAO) carries out Performance audits of core functions of two ministries in line with INTOSAI standards. As part of the audit process, SAO develops mechanism for citizen participation in audits and issues a policy governing citizen participation in public oversight of public funds.<br><br>(ii.) In line with the notification letter, four key Government ministries implement at least 40% of the agreed audit recommendations in FY15 Audit reports. | **Achieved, fully disbursed** |
| 2017 | 17-Dec-17 | Revenue Mobilization (direct) | Transparency | Customs HR Reforms:<br><br>(i.) ACD completes 3 rounds of customs exams for 5 and 6 customs officers and ensures that all custom officers have attended Customs Academy and cleared appropriate exams to qualify to remain in ACD.<br><br>(ii.) ACD introduces a performance management system and conducts a review of HR reforms.cy. | **Completed after deadline, not disbursed** |
| 2017 | 17-Dec-17 | Revenue Mobilization (direct) | Transparency | Customs Enforcement:<br><br>ACD ensures that the new prevention and enforcement wing is operational with appropriately competent staff recruited or transferred from other duties and deployed. | **Completed after deadline, not disbursed** |
| 2017 | 17-Dec-17 | Revenue Mobilization (direct) | Transparency | Tax Administration: Re-Organization and Modernization:<br><br>(i.) ARD roll-outs SIGTAS and risk-based compliance audit to at least five additional (key)provinces<br><br>i(i.) ARD reduces the administrative burden for tax payers through removingrigidrestrictionsandintroducesmoreflexibilityf ortaxfiling. | **Achieved, fully disbursed** |
| 2017 | 17-Dec-17 | Revenue Mobilization (direct) | Private Sector<br><br>Transparency | Tax Policy:<br><br>(i.) Establish the Tax Disputes Resolution Board and approving its legal procedures to provide an additional appeals mechanism to taxpayers. | **Achieved, fully disbursed** |

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| | | | | (ii.) Cabinet approves amendment of the Tax Administration Law to address private sector concerns around tax filing & payment and bring related provisions in line with international good practice. Amendments will at minimum include a) reduction of penalties and b) introduction of a cap on late filing penalties | |
| 2017 | 17-Dec-17 | Revenue Mobilization (indirect) | Social | Land Administration and Management: | Completed after deadline, not disbursed |
| | | | Transparency | (i) The cabinet approves a new national land and resettlement/land allocation policy, which will reflect the governance values and principles for land management and administration; | |
| | | | Private Sector | (ii) The cabinet approves new regulations on community-based and participatory land dispute resolution. | |
| 2017 | 17-Dec-17 | Revenue Mobilization (indirect) | Private Sector | Doing Business Reforms: | Achieved, fully disbursed |
| | | | | MoCI/AISA, MoF/ARD, MoI and Passport Office create an electronic interface for unified business services (registration, licensing, tax clearance and business visa application) for Kabul and in at least 3 regional business hubs, in order to reduce process steps, time and costs to customers, while increasing the availability of accurate and consistent business data | |
| 2017 | 17-Dec-17 | Expenditure Management | Transparency | Sustainability of Pension and Social Benefits: | Completed after deadline, not disbursed |
| | | | | (i)The Cabinet approves amendments to the pension related regulations to implement the new pension scheme. | |
| | | | | (ii) MoLSAMD has completed the transition from paper based to technology based administration of the Public Pension Scheme(Civil Servants and Security). All Public Pension (Civil service and security sector) beneficiaries are registered in the Pensions MIS and are paid through Bank accounts. | |
| | | | | (iii) MoLSAMD has completed the transition from paper based to technology based administration of the Martyrs and Disabled Benefit scheme. All Martyrs and Disabled Benefit scheme beneficiaries areregistered in the M&D MIS and are paid through Bank accounts | |
| 2017 | 17-Dec-17 | Expenditure Management | Transparency | Electronic Payment Systems: | Completed after deadline, not disbursed |
| | | | | (i.) Develop a comprehensive process and roadmap for complete migration of public sector salary payments to the new e-payment systems. | |

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| 2017 | 17-Dec-17 | Expenditure Management | | Fiscal De-concentration and Provincial Budgeting:<br>(i) MoF shifts the delegation of budget authority from central Ministries to provincial directorates for additional 6 Ministries, in line with the budget policy and financial regulations<br>(ii.) Cabinet approves amendments to all relevant laws governing PFM and subnational bodies to ensure that the policy can be implemented | **Achieved, fully disbursed** |
| 2017 | 17-Dec-17 | PFM | Transparency | External Audit:<br>(i.) The Supreme Audit Office (SAO) carries out Performance audits of core functions of five ministries in line with INTOSAI standards, including pilot instruments for citizen participation.<br>(ii.) In line with the notification letter, four additional key Government ministries implement at least 60% of the agreed audit recommendations in FY16 Audit reports. | **Completed after deadline, not disbursed** |