



AFGHANISTAN RECONSTRUCTION TRUST FUND (ARTF)
Strategy Group Meeting September 2019

Monday, September 16, 2019
3:30-5:30 PM

Hindukush Meeting Room, new World Bank office, Kabul

MEETING SUMMARY

The ARTF Strategy Group (SG) met Monday, September 16, 2019.¹ Representatives of 13 donor partners,² the Ministry of Finance (MOF) and the ARTF Administrator (World Bank) attended. The World Bank Country Director and Deputy Minister of Finance for Policy co-chaired the meeting.

Summary

SG members discussed a comprehensive overview of the fiduciary controls for ARTF-financed initiatives with WB Governance, Financial Management, Procurement and Integrity teams, including three presentations covering an overview of the WBGs' fiduciary control framework, the WB's Integrity Vice Presidency investigative and sanctions processes, and the project-by-project internal control reviews currently being conducted by the ARTF Monitoring Agent.

The SG also discussed an upcoming restructuring of the Naghlu Hydropower Rehabilitation Project to incorporate additional work, in line with Country Portfolio and Performance Review (CPPR) recommendations. Although the CPPR did not address a project extension, the SG concluded that, subject to approval by the Ministry of Finance, extending the project in connection with the upcoming restructuring would facilitate implementation of other CPPR recommendations.

The co-chairs welcomed several donor representatives who had newly arrived in Kabul before turning to the substantive agenda.

1. Overview of Fiduciary Control Framework for WB-financed Projects

On September 2, the WB distributed a draft overview of the fiduciary control framework for WB-financed projects, and invited SG members to provide comments, inputs and questions on the draft the following week. The WB distributed a matrix summarizing comments received from Australia, Canada, the European Union and Germany, and WB responses, which will be used to update and finalize the overview report in the coming month.

The WB also delivered a presentation summarizing the four layers of fiduciary control for ARTF-financed initiatives: 1) standard WBG fiduciary and oversight measures; 2) Supplemental oversight by the Monitoring Agent and Supervisory Agent financed by the ARTF; 3) Ramped-up ARTF-supported measures (e.g., fiduciary reviews, enhanced third-party monitoring) introduced under the ACRMAP umbrella in the 2018-2020 Partnership Framework and Financing Program; together with 4) programmatic support to enhance GoIRA fiduciary and public financial management capacity through the ARTF-supported Incentive Program Development Policy

¹ The ARTF Strategy Group typically meets on the third Wednesday of the month. The regular meeting was shifted to accommodate scheduling conflicts and enable multiple World Bank teams to join the discussion.

² Australia, Canada, Czech Republic, Denmark, Germany, Italy, Japan, Republic of Korea, Norway, Sweden, United Kingdom, United States.



Grant, Fiscal Performance Improvement Plan Support Project (FSP), and Fiscal Performance Improvement Plan Advisory Facility (FAF).

The WB also updated partners on the follow-up to the education fiduciary review. The WB has formally requested GoIRA to refund to the ARTF US\$ 2.2 million in identified ineligible expenditures by October 15. The fiduciary review also noted inadequate documentation to support US\$ 28.9 million in EQUIP expenditures. The Ministry of Education has undertaken a review of its records to supplement additional documentation, and thus far has provided additional documents that it believes cover US\$ 22 million of this amount. The WB has begun reviewing these materials to assess their completeness, and will update donors on its progress. The Ministry of Education continues to search for supplemental documentation; the WB will also review additional materials received by the agreed deadline of October 24.

Comments appreciated the WB's transparency in discussing and explaining its overall approach, decisive follow-up on the recent fiduciary review, and the WB's responsiveness in expanding monitoring in line with donor suggestions.

Noting that GoIRA is the first line of defense with respect to on-budget expenditures, a member stressed the importance of addressing systemic issues identified in the Country Portfolio and Performance Review that relate to GoIRA's own fiduciary controls, including with respect to procurement and external audit. The Ministry of Finance stressed its commitment to exercising budget control, noting that it does not release funds in the absence of a required no objection letter from the WB. WB teams also observed that ongoing work to help GoIRA introduce e-procurement systems will enhance the government's ability to track and produce key documents in the future. In 2016, the WB also introduced the online Systematic Tracking of Exchanges in Procurement (STEP) system. The system automatically files key procurement documents that had previously been exchanged by email, and will enable the WB to better support the government in tracking key documents in the future. The Supreme Audit Office had historically relied on accounting firms to support its annual reviews of ARTF-financed projects; with closure of some private firms' offices and uneven capacity in the local market, the WB has supported the option of recruiting individual expert auditors to help build SAO staff capacity, and will be focusing on additional measures to strengthen audit assurance capacity. With respect to individual projects, staff turnover and a lack of clarity regarding project manuals can be risk factors; EQRA has learned from EQUIP in this regard, with enhanced detail in its project manuals.

A comment observed that follow-up on the fiduciary review could affect contributions against current pledges. This might generate a needed conversation around prioritization in the portfolio. It could be helpful in this regard to develop contingency planning around how funding flows could affect programming choices. The WB noted that consistent follow-up on recommendations of the CPPR will be an important step in portfolio consolidation, and agreed that a discussion of funding scenarios before the end of the year would be a useful exercise. In response to a request, the WB said it would discuss sharing the initial report prepared by Ernst & Young in support of the fiduciary review with ARTF partners.



2. Presentation by Integrity Vice Presidency³

Representatives of the WB Integrity Vice Presidency (INT) joined the meeting to provide one of their periodic updates to the SG on their work overall and recent Afghanistan-specific cases. (See January 2019 for previous update.) They offered a presentation on INT's administrative (not criminal) anti-corruption system, which applies a "more likely than not" evidentiary standard. The presentation covered the five sanctionable practices defined in the World Bank Guidelines on Preventing and Combatting Fraud and Corruption in Projects,⁴ the three stages of the WBG sanctions system,⁵ and the five types of sanctions.⁶ The WBG has harmonized definitions of sanctionable practices with four other multilateral development banks (including the Asian Development Bank and Islamic Development Bank, which are both active in Afghanistan), and automatic cross-debarment arrangements.

INT called donors' attention to the online form available at www.worldbank.org/integrity for reporting potential concerns about corrupt practices, and provided an updated list of closed Afghanistan cases, including two closed in 2019 since the January 2019 update to the SG, for which sanctions cases are now ongoing. SG members also discussed the history of a case closed in 2018 and related matters. The Ministry of Finance updated SG members on additional measures GoIRA is taking to address findings of the EQUIP fiduciary review, and affirmed the government's intent to address gaps in its current systems for detecting and preventing potential problems. Comments noted the importance of strong signals from GoIRA to address accountability following the review.

In response to a query about INT capacity to handle Afghanistan cases, the WB provided an update on plans to supplement staffing with a senior investigative consultant and another staff member with local language skills.

3. Monitoring Agent's Internal Control Reviews of Investment Window Projects

As part of its ramped-up support for anti-corruption measures under ACReMAP, the WB has begun working with the ARTF Monitoring Agent and task teams to identify opportunities for improving risk management and control processes in ARTF Investment Window projects, as well as to better assess the contract value of implementation deviations identified by the Supervisory Agent during site reviews. Assessments have been completed for four projects, and the reports were shared with ARTF donors in August.⁷ Reports for an additional four projects are in draft form and being reviewed by task teams, and field work for five more is currently underway. The WB stressed that by design, the reports only note deficiencies and suggested remedial measures, not controls that are working properly.

³ The presentation was originally scheduled to be the third item on the agenda, but was adjusted during the meeting to accommodate other staff commitments.

⁴ Fraud, corruption, coercion, collusion, and (more recently) obstruction.

⁵ Investigative, adjudicative, and compliance.

⁶ Debarment with conditional release (the baseline, or default, sanction), indefinite/ or fixed-term debarment (without conditions), conditional non-debarment, letter of reprimand, restitution or other remedy.

⁷ Six reports were shared, as two of the projects reviewed span two ministries each.



The initiative started with the biggest sectors and is progressing systematically across the portfolio. Once recommendations and remedial measures are agreed, projects are providing regular updates on progress, with follow-up from WB task teams. Findings thus far have identified several common issues across projects, some of which—e.g., regularity of, and follow-up on, internal audits—are structural rather than project-specific, and linked to progress on PFM reforms. Intensified coordination has been helpful on some of these issues. For example, USAID is currently supporting internal audit in the Ministry of Education.

The WB will update donors as the reviews progress, and would welcome comments on the report template. As there will be a number of reports, the WB is working with the MA to ensure a reasonably streamlined format. In response to a suggestion, the WB agreed that it would be a good idea to consider cross-learning among projects, encouraging ministries that have designed a good control framework, or effectively addressed a gap, to discuss what measures have worked effectively and might be considered by other ministries.

4. Updates

- a. **Naghlu Hydropower Rehabilitation Project.** The WB disseminated a short brief on the status of NHRP with the invitation to the SG meeting. The Country Portfolio Performance Review (CPPR) had agreed to restructure the project to use some savings in support of the Darunta Dam rehabilitation, and agreed on measures to address procurement challenges associated with efforts to procure a dam safety audit of Naghlu Dam. The CPPR did not address the project closure date of September 2022, but it has since become apparent that to complete the dam safety work now being procured, an 18 to 24 month extension may be necessary. While the SG members are not required to endorse an extension, the WB elected to update the SG to keep them apprised. SG members concurred with the need for extension. The MOF noted that the request to restructure the project to incorporate the Darunta Dam work had not included the request to extend, as had originally been thought, and so the extension will also require a formal endorsement from MOF.
- b. **Third Party Monitoring Phase III procurement.** The WB has received four proposals for the competitive re-procurement of third-party monitoring arrangements, which are now being reviewed. The WB will continue to update the SG as the procurement progresses.
- c. **ARTF Pipeline.** On July 25, the WB held an internal Regional Operations Committee meeting on the pipeline Afghanistan Extractives Sector Development initiative. The meeting decided that the proposed project would be separated into two separate sector specific projects (gas and mining). The team would proceed to create a new project comprising only the Gas Infrastructure and related Technical Assistance component. The Mining and related Technical Assistance Project would proceed to a new ROC once GoIRA decides on the mining contract. The WB will continue to update partners as preparations advance.
- d. **Gender Working Group.** In its September meeting, the GWG discussed gender-related updates from the Fiscal Performance Improvement Support Project (FSP); and the Public-Private Partnership and Public Investment Advisory Project (PPIAP). The WB, in coordination with project implementing teams, agreed to prepare a brief summary of the current status and challenges of project Gender Units to discuss how the units can be better supported to function well and narrow identified gender gaps.



- e. **ARTF Financials.** The WB disseminated the monthly financial update of the ARTF.