

Afghanistan Reconstruction Trust Fund: External Evaluation

Final Report



1 Executive Summary

The Afghanistan Reconstruction Trust Fund (ARTF) is a multi-donor trust fund administered by the World Bank and funded by 27 donors, mobilizing over USD 2.4 billion as of end SY 1386 (March 2008). During the six years since it was established in 2002, the ARTF has been the main source of pooled financing for the Government of Afghanistan's (GoA) recurrent budget, but has increasingly also supported priority investments in the Government's reconstruction program. As of SY 1386, projects covering infrastructure, rural development, technical assistance (TA), capacity development, and education have a total commitment of over USD 750 million.

Scanteam was contracted to carry out an external evaluation of the ARTF. The objective is to provide recommendations on: (i) how ARTF should adapt to the changing demands of political actors, economic circumstances and rising insecurity yet prepare the ARTF for its future role of channeling resources towards Afghanistan National Development Strategy (ANDS) priorities; (ii) provide a more strategic vision of sector prioritization for funding; and (iii) how the ARTF can contribute to reducing GoA's reliance on donors to fund recurrent expenditures and the transition in ARTF priorities towards investment and sectoral/programmatic expenditure.

1.1 National Framework Conditions

The ARTF was set up in the context of a temporary National Development Framework. As the country's vision evolved through an Interim ANDS to the complete ANDS, the ARTF remained fairly constant in its structure. This has largely been because there has been little discretionary funding available for new programming. With the recent rise in donor commitments, this funding constraint no longer exists.

The ANDS and the Afghanistan Compact provide a government-led mutual commitment to improve effectiveness and results from government and donor funding. The ANDS, as a strategic vision based on the three broad pillars of Security; Governance, Rule of Law and Human Rights; and Economic Growth and Poverty Reduction, operationalized through sector-strategies and costed programs, provides a comprehensive framework for better results focus. The ANDS is an important step towards more realistic and better prioritized national agenda, but is still weak as a planning instrument. The public sector also has limited capacity for implementing, monitoring and controlling its realization.

The security pillar presents a challenge for the ARTF since it cannot finance activities linked to security services. Yet addressing insecurity is important as a *worsening* security situation may undermine other ARTF achievements. Of equal importance is that development activities in security-affected areas, well conceived and implemented, will support stabilization and thus long-term socio-economic and institutional development.

Some donors want the ARTF to support stabilization and development in conflict-affected areas while others do not believe the ARTF is suitable for what must be locally adapted yet quickly approved and implemented small-scale activities. There is, however, a need to ensure that stabilization interventions are appropriate over the medium term for addressing local development needs while building longer-term sustainable service delivery capacity. ARTF partners must decide if the ARTF is a relevant forum for assessing alternative political and delivery partnerships that can link development financing with security needs.

ten-year NSP and NRAP, for example), but in particular focus on ensuring that the longer-term objectives, coherence and linkages between components are in place;

11. The ARTF should take it upon itself to become the main channel for predictable funding for CBD activities;
12. The ARTF should in particular, in consultation with GoA and dialogue with PRTs, explore possibilities for ensuring funding for fast-response CBD-activities in conflict-affected areas and areas where security improvements permit introducing CBD activities;
13. The ARTF should ensure that adequate funding will be available to track performance concerning gender equity, environmental impact, conflict consequences, as well as general livelihoods and participation, and that this information will be made available on a continuous and open basis.

ADTF Program Area III: Capacity Development:

14. ARTF donors should consider enabling the ARTF/ADTF into the primary funding vehicle for TA and other forms of CD assistance to Afghanistan;
15. The ADTF should become "best practice" funding source for CD, and establish and promote "good donorship" principles for CD financing based on reducing labor market distortions through improving transparency and fair competition for scarce skills;
16. ADTF resources should be made available to the authorities to design and making CD programs more operational and fundable, whether for ADTF financing or bilateral funding, including ensuring strengthened government ownership and leadership.
17. Priority for CD should be to the MoF and its needs (see 8.3.1 above), but could expand to cover PFM in general across the public sector and across PFM functions: revenue raising, budgeting and expenditures, procurement, and internal controls;
18. If other CD areas are to be supported, the focus should be on ensuring alignment, harmonization and coordination, where a key success criterion is reduction in transaction costs to the government in the first instance, but also to the donors (moving CD from TA projects to larger programs).

ADTF Program Area IV: Infrastructure Development:

19. ARTF donors should discuss the degree to which the ARTF ought to provide funding for capital intensive infrastructure investments since the external evaluation team is of the opinion that the ARTF's comparative advantage lies elsewhere.

ADTF Program Area V: Natural Resource Revenue Management:

20. ARTF donors should explore with the authorities the idea of having ARTF finance a separate program for managing natural resources revenue (economic rent);
21. If this is agreed to, the ARTF should provide the funds necessary for the design of a comprehensive capacity development program involving all the relevant actors for a comprehensive and quality- and control-focused natural resource revenue system;
22. The ARTF should then take it upon itself to become the main channel for predictable funding for setting up and running this system for the next five to ten years;

- Priority given to poverty-reduction (MDGs) relevant activities and public goods in general;
- Grants funds should not substitute for credits and private sector funding options such as for large-scale infrastructure investments where service provision has large private benefits and thus should be paid for by the beneficiaries, who often are urban middle-class groups rather than the poor;
- General donor commitments such as those in the *Afghanistan Compact* should be prioritized by the ARTF: gender and geographic equity, conflict reduction/reconciliation and environmental sustainability, corruption studies, among other things through better baseline and consequence/tracking/performance studies;
- MDTFs have comparative advantages in reducing transaction costs for CD and information provision and should finance these areas;
- Because of size and scope of the ARTF, it can contribute to creating and capturing synergies across activities, so priority should also be given to those activities where current or future synergies are likely (in waiting for a more coherent, comprehensive and quality ANDS and executive which in principle should be responsible for ensuring such societal gains);
- Finally, the ARTF is sufficiently large to generate economies of scale, especially in fields of quality assurance and information. These should be exploited by investing more in these value-adding components. The ARTF overhead (SY 1386: about USD 10 million) should allow for a sizeable increase in these areas.

ADTF Program Area I: MoF Capacity Development:

4. ARTF donors should explore with the authorities the idea of having MoF capacity development as a priority area;
5. If this is agreed to, the ARTF should be willing to provide the funds necessary for the MoF to develop a comprehensive five-to-ten year CD program, covering the entire MoF range of responsibilities, with a focus on sustainable capacity improvements at central and provincial levels;
6. The ARTF should then take it upon itself to become the main channel for predictable funding for MoF capacity development for the next five to ten years;
7. The ARTF will in particular ensure that the MoF will have sufficient funds to acquire the additional management capacity necessary to acquire and manage the necessary external TA for the CD activities;
8. The ARTF should fund a external Quality Assurance Agent that will have as its role to continue overseeing the fiduciary quality of the MoF, and in particular work with, strengthen and quality assure the MoF's Internal Audit staff.

ADTF Program Area II: Community Based Development:

9. ARTF donors should discuss the option of designating Community Based Development as a priority for ARTF funding;
10. If CBD is accepted as a priority area, the ARTF should make funds available to the authorities to develop well-designed and fully costed medium-term programs (such as a

These projects have not been well coordinated with other CD activities. The different pay scales caused some frictions and supposedly interference in some of the recruitments. As gap-filling measures they were never intended to be sustainable but the MCP is now restructuring and unifying the approach to align with general public policies.

The ARTF contribution to CD has been marginal in terms of immediate outputs but even less visible with regards to policies, principles and systems. While the 2005 review argued that the ARTF has some important comparative advantages in the field of CD, this avenue has not really been pursued.

The Urban Water Supply and Sanitation (UWSS) program is to cover Kabul and 13 other towns, with co-financing from Germany's KfW. The project has taken three years to begin implementation, in part due to the decision to use the national systems and procedures rather than establish a PIU. But weak political support, poor capacity to implement, and major delays in procurement and land acquisition are further explanatory factors. Implementing through sector institutions is expected to produce longer-term capacity improvements, and the strengthening of transparent and competitive procedures and markets. The short-term effect is serious delays in providing drinking water and sanitation services to the public. It is not clear that this was a carefully considered trade-off, but this merits analysis as the longer-term effects may turn out to justify the approach taken. Right now this must remain an open question.

EQUIP has in a short period of time become an important national program, active in all 34 provinces, supporting local-level grants for improving educational quality, increasing girls' attendance rates, building schools, strengthening the Ministry's monitoring and quality assurance capacities. It has produced a menu of standard school designs that other donors find are efficient and effective. They are therefore redirecting their school building resources to EQUIP, strengthening the coherence and management of this important part of the Ministry's sector development plans.

Finally, the ARTF is not paying sufficient attention to overall performance tracking above the Outputs level, and cross-cutting concerns, in particular gender, conflict sensitivity and distributional outcomes. These are skills and time intensive issues, however, where the donors and authorities also need to contribute to the burden sharing and learning, though the ARTF can play an important role as knowledge manager and institutional memory.

1.5 Recommendations

The team would make the following Recommendations regarding the future of the ARTF:

Transition from ARTF to ADTF:

1. ARTF donors should agree to move from today's two-window model to integrated ("one window") on-budget program-funding whereby the modified ADTF would transfer funds to the MoF for identified programs/ANDS components.
2. ARTF parties should agree on a step-wise transition over the next three years to a program-based ADTF funding structure.
3. ARTF donors should agree to developing a *financing strategy* for the ARTF as an interim measure till the ANDS is seen as a fully satisfactory programming instrument for general budget support. Criteria that should be considered are:

While the first dimension is easy to measure and report on, it is the latter two that may be the real value-added of the programs and that may justify continued funding and expansion. This is because the latter functions are important in three critical areas of Afghanistan's current development.

- The first is the contribution to "nation building" and building a service-oriented and accountable state. Getting resources down to community level and ensuring a continued flow of services and support is going to be important for unifying and solidifying Afghanistan as a nation.
- The second is building local governance and empowering local communities to take responsibility for own development. This is also going to be a slow and step-by-step process that will require continued external support and pressure while building local capacity along a number of dimensions.
- The third is the contributions the two above processes will make towards local ability and willingness to promote local stability, reconciliation and peace. This is the most difficult, unpredictable and thus risky part of CBD – but perhaps also the one with potentially the highest pay-off.

The projects need to address questions of governance, including corruption and the equity of distribution of gains, more aggressively, requiring better monitoring and evaluation. By the end of SY 1386 (March 2008), CBD projects received over two-thirds of the USD 752 million allocated over the ARTF investment window.

The question of the legitimacy of local governance bodies also should be looked at. There are an increasing number of initiatives that wish to reach down to community or village level, and somewhat different approaches are being taken. The NSP has supported the establishment of Community Development Committees (CDCs), yet NRAP believes CDCs cannot be a direct party to a binding contract. The Education Quality Improvement Program (EQUIP) is setting up community-based School Management Committees, while the Ministry of Agriculture seems uncertain which local body to use for its National Program for Food Security. Proposals for using local *shuras* or *maliks* in various roles exist as well, creating uncertainty as to the institutional stability and future of various bodies

The ARTF has funded public sector capacity development (CD) in the form of senior level managers on short- to medium-term contracts. This was done through the Afghan Expatriate Program (AEP) and Lateral Entry Program (LEP), later merged in the Civil Service Capacity Building (CSCB) and now to be followed by the Management Capacity Program (MCP). The projects have successfully recruited qualified Afghans to take on policy advisory and senior decision-making responsibilities (AEP) and management and senior technical posts (LEP) in key institutions in Kabul. These staff contributed to improved performance of the public sector during these difficult years of transition, have reportedly helped develop better instruments and processes, introduced more modern approaches to public sector management, and been key supporters of public administration reform measures such as merit-based recruitment and advancement, and priority reform and restructuring. Most of these contributions are stated as observations and anecdotal evidence as there has been no results reporting or systematic mapping of such outputs or outcomes.

Revenue has been growing even faster than the economy, and the MTFP foresees the recurrent budget covered by own revenues by SY 1391. Revenues will still only be 11% of GDP, but Afghanistan will still have performed admirably: as a post-conflict country it has been able to reach self-financing of the operating budget in only ten years. Donor concerns about lack of commitment to raising own revenues may therefore be somewhat misplaced. If revenues keep rising as foreseen, there will be no need for ARTF support to the operating budget as of SY 1390-1391. GoA is at the same time moving towards program budgeting, so this represents an opportunity to the ARTF to move from a mix of operating budget support and project funding to financing larger programs with clearer results focus.

The Monitoring Agent has provided valuable training and verification services, but these are less needed as GoA own funding increases and MoF systems and skills are put in place. The MA's document-based verification also cannot uncover more sophisticated ways of defrauding the Treasury. As the MoF has now established its Internal Audit department, the ARTF could restructure the MA contract to focus on support to Internal Audit with tougher audit controls, including perhaps a direct concern for addressing corruption.

The Performance Assessment Matrix (PAM) has helped focus on actual results, with two rounds of reviews presented so far. Both the instrument as such and the documented achievements are seen as positive. A recent Public Expenditure and Financial Accountability review strengthens the positive picture as Afghanistan scores equal to or better than even middle income countries on most dimensions, pointing to high efficiency, effectiveness and expected impact from recurrent cost funding. The relevance is quickly decreasing as own revenues go up.

The ARTF has continued to be a flexible instrument in terms responding quickly to GoA requests. But its decision making is unusual compared with other MDTFs, since donors have limited voice. As long as fund allocations were largely rules-based – most financing was for the recurrent budget – this was not a problem. Now that financing is moving towards more discretionary financing, towards projects and programs, this is not a tenable model. But more voice for the donors requires that the donors themselves invest more of their senior management time in contributing to the ARTF.

1.4 ARTF Investment Window

The three CBD programs NSP, NRAP and MISFA can all point to impressive results in terms of Outputs achievements, and have laid strong foundations for further improvements. They are having positive impacts in particular in three fields:

- They provide critical inputs for local development in the form of small-scale finance and infrastructure investments;
- They provide capacity building but also political mobilization and participation and thus organizational development, strengthening voice and empowerment of social groups that often are not heard – women in particular. This is carried over into concrete results in the form of real resource access as well as allocation decisions by the population;
- They strengthen the links to and legitimacy of national authorities at local level, which is important in a country coming out of conflict and with a central administration that is still fragile yet having to address fissures and distrust across the nation-state.

1.2 The Afghanistan Reconstruction Trust Fund

The ARTF was originally to close in June 2006, but is now extended till June 2020. ARTF funding is increasing, and while funding for the recurrent budget has stabilized and is foreseen in the Medium Term Fiscal Framework (MTFF) to continue at around USD 270 million in the years to come, funding for projects has increased, particularly in the last SY.

Funding for the ARTF is largely coming from the Western donors that are also supporting the ISAF force. This dependence on Western donors may be a political vulnerability, and the members of the Management Committee should work on expanding the funding partners, not least of all among those Muslim states that have financial possibilities to contribute.

The ARTF remains a "best practice" actor when it comes to disseminating information on its activities – and particularly in the Afghanistan context there are no other donors that provide anywhere close to the same level of detail. Project funding has been heavily concentrated in community-based development (CBD) activities, which have so far received two thirds of ARTF project funding.

The increased role and engagement of the MoF in ARTF's Management Committee (MC) and Donor Committee (DC) is seen as highly positive. Some donors have noted, however, that much of ARTF project financing acts as topping-up to projects receiving IDA funding. This is, however, largely a result of the fact that the ARTF is administered by the Bank and thus must adhere to Bank standards with regards to project preparations and approval. This gives incentives to the authorities to identify activities in the ANDS that have already been reviewed by the Bank. However, there is scope for more transparency on project selection processes if this is seen as desirable by the partners to the ARTF.

Because of the issues raised on the project selection side, some donors are asking for more discussion of the ARTF's *funding priorities*. This becomes more important as an increasing share of ARTF funds are allocated to particular projects or programs.

The increasing share of donor funds that are preferenced undermines the basic principle of a trust fund. While some preferencing is due to political decisions at head offices, others are a function of agency concerns of visibility and accountability. The result is a danger of rigidity in resource allocations, potential divergence with government priorities, and a "squeezing out" of other donors from feeling an ownership and partnership with the popular projects that are becoming funded largely through preferenced funds.

Donors need to engage more by providing more intellectual and technical inputs to the ARTF. The lack of donor involvement is troubling, especially given the decision to extend the ARTF to the year 2020. The donors seem to let go of their policy and oversight functions which is both pushing too much responsibility onto the World Bank but may influence the value of the ARTF as a consensus-building instrument for major funding decisions.

1.3 Support to the Recurrent Budget

The economy has been growing 10% a year the last five years, and the government expects it to continue growing at high rates. Serious challenges exist, however: insurgency, drugs, crime and corruption. These weaken the credibility of government and its ability to impose the rule of law across the nation, undermining private investment and sustainable growth.

23. The ARTF should fund an external Monitoring and Quality Assurance Agent that will have as its role to oversee the fiduciary quality of the system, and in particular work with, strengthen and quality assure the various control agencies: the Parliamentary oversight committees, the Control and Audit Office, and the MoF's Internal Audit unit.

Improved Performance Management and Donor Engagement:

24. An ADTF needs to agree with the GoA a Fund-wide performance system that tracks results from activity through Outcome levels. This M&E system should include cross-cutting dimensions (gender, environment, conflict-impact, corruption), and include local knowledge centers supplemented with international skills for monitoring/reporting.
25. The ADTF may wish to increase its own staff with an M&E expert, and a coordination and communications expert. Other value-added services can largely be contracted out;
26. Donors need to assume their policy and fiduciary oversight functions as funding moves towards program financing. This requires more and higher-level time commitments;
27. The MC should perhaps be expanded to include two donor representatives, voted on an annual basis by eligible donors. Donor Meetings should, however, be the forum for deciding ADTF priorities and funding decisions;
28. Greater donor participation should be facilitated through greater use of technology and holding some ADTF meetings in the region.